Discovery Global Value Equity Feeder Fund

Market background

Global equities gained in Q2, with the MSCI ACWI rising 3.3% in GBP. The gains came despite further stresses in the US banking system early in the period, hawkish moves later in the quarter by central banks to tackle persistent inflation, and indications that China's 're-opening' economic surge may be fading. The latter prompted Chinese authorities to announce stimulus measures.

The equity rally was narrow, with technology stocks accounting for much of the index increase on excitement over artificial intelligence. Commodity-linked equities were among the weakest parts of the stock market, partly on expectations of lower Chinese demand. Value equities generally underperformed. This was mostly a reflection of the strength of a small number of large-cap technology stocks, which are not typically held in value strategies and which have dominated market performance this year.

Performance review

For the quarter, the Fund delivered a strong absolute return but slightly lagged the benchmark.

The primary contributors to relative returns included Brazilian financial services platform XP, whose share price nearly doubled over the three months, on the back of encouraging quarterly results, and following its share price having fallen to all-time lows in the prior quarter, when we added to our position. Meta Platforms also contributed positively, continuing its strong recent run (its share price had more than trebled from last year's lows at the time of writing). One of our larger and more defensive positions, drug distributor McKesson, was also strong on the back of quarterly results, gaining about 20% in the quarter, and having more than trebled since we initiated the position back in

2018. Some of our travel-related stocks (TAV, AerCap and Southwest Airlines) and automotive-related holdings (Vitesco, Carmax and TI Fluids) also positively contributed in the quarter.

The primary detractors from relative returns included energy services company NOV, which fell after posting disappointing quarterly results, and on the back of weaker energy prices. Discount retailer Big Lots also posted very weak results. Agricultural/ pharmaceutical conglomerate Bayer and British American Tobacco also detracted. BAT’s underperformance partly reflected market reaction to a disappointing US sales update, while Bayer underperformed after posting weaker-than-expected quarterly results. Finally, not holding some of the big US technology stocks, which had a very strong quarter due to market excitement about artificial intelligence, also weighed on relative returns; zero weights in NVIDIA, Apple and Microsoft were all among the top 10 detractors from relative returns.

Outlook and strategy

At the start of a new quarter, our outlook is little changed. Value stocks remain very cheap relative to growth stocks and relative to history. At the same time, market correlations have fallen, both between stocks and between factors (value, growth, quality and momentum), which should be a good environment for stock pickers. Our portfolios, meanwhile, remain very cheap with above-average levels of upside potential, in our view.

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