

# Discovery Global Value Equity Feeder Fund

Quarter ending 30 June 2024

## Market background

It was a mixed second quarter (Q2) for global capital markets. In the US, the S&P 500 reached another all-time high, fuelled by big-tech euphoria and growing optimism over the possibility of a rate cut later this year. In Europe, gains for far-right parties in the European Parliamentary elections led French president Emmanuel Macron to call a snap election, putting equities under pressure. In Asia, Hong Kong and Chinese mainland stocks fell for the second consecutive month in June, with markets lethargic ahead of the July meeting of China's top leaders. Turning to South Africa, the national elections took centre stage as the prospect of a market-friendly outcome gained momentum, lifting domestic equities higher.

## Performance review

The portfolio delivered a negative absolute return for the quarter, underperforming the benchmark. This was in keeping with the performance of value stocks generally, which lagged the average return across major developed markets, particularly during the second half of the quarter.

At the stock level, the main detractors from relative returns included two Brazilian holdings, investment manager XP and wholesaler Assaí Atacadista (Sendas Distribuidora). Their underperformance reflected a weaker period for Brazilian stocks generally on fears of 'higher for longer' interest rates. Other detractors included dental-equipment supplier Dentsply Sirona, on disappointing results; and autoparts business Continental, which was downgraded by brokers who fear it will take more time than expected to turn the business around. Relative performance was also negatively impacted by the continued outperformance of the 'big-tech' stocks, with zero weights in NVIDIA and Apple among the most significant detractors from relative returns in the quarter.

Our air-travel holdings featured among the primary contributors to relative returns. Turkish airports operator TAV Havalimanlari continued its strong run this year as passenger numbers continue to grow, with aircraft lessor AerCap and jet-engine maker Rolls-Royce also contributing. Continued positive operating results and supportive market commentary as COVID headwinds fade supported these stocks. Other contributors included John Wood Group, which received another takeover offer, in this instance from Sidara. Having rebuffed other approaches in the past couple of years, the board has opted to engage with the bidder this time. Finally, UK bank NatWest contributed, after accelerating its share buyback programme and acquiring Sainsbury's bank on attractive terms.

## Outlook and strategy

Value stocks continue to trade at extreme levels of cheapness vs. growth stocks and the broader market, with this phenomenon particularly stretched in the US. It is stretched even further when comparing the valuation of US small caps (Russell 2000 Index) and US large caps (S&P 500 Index). Not surprisingly, our US holdings and opportunity set continue to be focused on the smaller end of the market-cap spectrum, while the US is our most significant underweight region vs. the global benchmark. Europe and the UK are our largest regional overweights, given the extreme valuation dislocations.



Regarding the latter, we are often asked what the catalyst will be to turn the UK market around, but with M&A deal volumes increasing and UK companies taking advantage of their low valuations via best-in-class share buyback activity, maybe corporate actors are the collective catalyst that everyone has been waiting for. We currently see an above-average level of upside across our global portfolio, based on conservative assumptions, which we believe have the potential to provide investors with attractive returns, catalyst or no catalyst.

- Sector bias: Overweight industrials and consumer discretionary.
- We continue to find a lot of opportunities in:
  - Travel-exposed sectors and stocks, relating to tourism, aerospace industrials and air travel generally.
  - Auto suppliers exposed to a transition to electric vehicles (EVs) and hybrids.
  - Idiosyncratic stories across many other economic sectors, from cyclical sectors such as financials and materials to more defensive sectors such as healthcare and staples.
- Country: Overweight UK, Europe; underweight US and Japan