Discovery Global Value Equity Feeder Fund

Market background

Global equities had another strong quarter, with several markets reaching all-time highs. The MSCI All Countries World Index gained more than 9% (in GBP) over the three months.

The upbeat mood in risk-asset markets was driven by broadly positive economic data as well as continued optimism around artificial intelligence (AI). From a regional perspective, US equities were notably strong, with the S&P 500 Index recording another double-digit gain, again led by the large technology stocks. Chinese equities declined over the quarter overall, but momentum turned sharply positive in February, when the Chinese authorities intervened to stabilise sentiment. By sector, IT and communication services led the way, with energy and financials not far behind. Sectors hampered by the prospect of interest rates being higher for longer – namely real estate and utilities – were notable laggards.

Performance review

The Fund delivered a positive absolute return for the quarter, outperforming the benchmark.

The primary contributors to relative returns in the quarter were diverse and included Rolls-Royce, which continued its strong recent run, up over 40% in the quarter on the back of more than trebling in 2023. Factors behind the latest rise included results reported in February well ahead of estimates, combined with strong guidance for the year ahead, followed by upgrades from credit-rating agencies, which increase the likelihood of cash returns to shareholders in the not-too-distant future. Kaspi also contributed: the Kazakh fintech firm's recent US listing appears to have galvanised investor interest in the company, sending its shares up by nearly a quarter in March alone. Other contributors included TAV Havalimanlari, after the Turkey-based airports operator rebounded following a weak end to 2023, posting strong passenger growth numbers. Meta Platforms was another contributor; it was up around 40% in the quarter, including a 20% jump on a single day in February when it reported quarterly results.

The main detractors from relative returns included autoparts business Continental, after the market reacted negatively to news that the company's CFO will be stepping down by the end of the year. John

Wood also detracted, after the engineering group's full-year results disappointed the market, pointing towards higher debt levels and more restructuring costs than had been expected. NOV was another detractor; the oilfield services company was weaker on the back of Saudi Arabia's decision to rein in its oil-production capacity expansion plans. XP also detracted: Brazilian stocks had a weak start to the year in general, but the investment manager remains a strong performer over the past year. The largest single detractor was a zero weight in NVIDIA, which continued its extraordinary run.

Outlook and strategy

The Financial Times joked last quarter that it rarely takes long after the Christmas break for commentators to suggest that this will be a 'stockpicker's year', a quip swifty accompanied by a flurry of brokers proclaiming precisely that. But if correlations between stocks and sectors are finally starting to decline after some of the extreme thematic concentration seen in the past couple of years, they could actually be right this time.

Despite recent outperformance by our global value strategy, our portfolio remains cheap, with a discount to fair value in line with the historical average, thanks to a combination of our trading activity and the intrinsic growth and cash returns delivered by the stocks that we continue to hold. And despite the worries that some investors have around potential 'value traps', we believe that the value that we estimate can be realised by investors. Our current portfolio positioning.

- 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 most 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.

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