

Discovery Equity Fund

Market background

Global equity markets enjoyed a rebound in October, rallying from third-quarter lows to deliver a return of 7.2% for the MSCI All Countries World Index, led by developed markets and in particular, the US benchmark S&P500 Index, which had its seventh-best month since the Global Financial Crisis, rising by 8%. Unfortunately for emerging markets, returns over the month remained negative. The MSCI EM index declined 3.1%, dragged lower by Chinese equities which suffered a dramatic sell-off in the wake of the Communist Party's 20th National Congress, where China's President Xi Jinping consolidated his power, while key market-friendly members will be replaced in the coming months. Hong Kong's Hang Seng Index ended the month down 14.7% and year to date has declined 35.2%, a reflection of the increased regulatory risks and the economically restrictive 'zero-COVID' policy. All returns are quoted in US dollars.

South Africa provided a bright spot against the Asian emerging market equity malaise. The capped SWIX Index delivered a total return of 5.3% over the month, led higher by the financials complex, with the banks rising 13.3%. Resources were also supportive, with the super sector rising 3.7% while industrials (+1.7%) were weighed down by Naspers and Prosus, which declined by 15.8% and 16.2%, respectively, tracking Tencent's 22.8% decline in Hong Kong.

Performance review

For the quarter, the Fund outperformed the benchmark.

The local equity component detracted from performance overall. At a stock level, the overweight allocation to British American Tobacco was a key contributor to relative performance. Being underweight Naspers helped performance from a relative perspective. Chinese technology stocks came under pressure, particularly following the Communist Party Congress. Tencent's sell off in October was the key driver to the Naspers underperformance over the month.



On the other hand, being underweight Standard Bank Group weighed on relative returns as the share rallied following a positive earnings update. The underweight in Impala Platinum also detracted from relative performance.

The offshore component of the Fund contributed positively to performance overall, and the weaker local currency provided additional tailwinds to these offshore earnings.

Significant purchases over the period included FirstRand Bank and ABSA Group, while significant sales included Nedbank and Richemont.

Outlook and strategy

The portfolio's investment philosophy and process aim to deliver consistent returns for investors. We follow a multi-style investment approach which is dynamically adjusted to ensure that relative risk is actively managed throughout the business cycle. We prefer shares that are trading at a discount relative to the market.

Some of the portfolio's largest overweight positions include Exxaro Resources and MultiChoice Group, while its significant underweight holdings include Standard Bank and Anglo American. Exxaro displays strong relative earnings revisions, while MultiChoice exhibits strong relative quality attributes. In contrast, Standard Bank is showing weak relative quality, while Anglo American displays weak relative earnings revisions.