

# Discovery Equity Fund

## Market background

Global financial markets were broadly negative in August, driven lower by the possibility of further interest rate hikes in the US and continued signs of sluggish economic growth out of China. Developed markets outperformed emerging markets for the month, with the MSCI World Index delivering -2.4% and the MSCI Emerging Markets Index producing -6.2%.

In terms of key global events, the US Treasury announced that it would increase the size of its quarterly bond sales to help finance its growing budget deficit, triggering a global sell-off across bond and equity markets. Further weighing on market sentiment was the prospect of more interest-rate hikes, after minutes from the US Federal Reserve's (Fed's) July meeting highlighted the potential need for further policy tightening to curb inflationary pressure. Towards the end of the month, softer US economic growth and labour-market data raised hopes that the Fed could pause its rate-hiking cycle for the remainder of the year. However, the bounce in sentiment was insufficient to offset losses from earlier in the month. Turning to China, further signs of a slowdown in economic activity weighed on investor sentiment. The government offered some reprieve over the month in the form of various support measures, aimed at lifting investor confidence and boosting economic growth.

In South Africa, domestic equities tracked their international peers lower to close the month in the red, with a weaker rand further weighing on investor sentiment. Economic data over the period was mixed: retail sales fell below consensus forecasts, headline inflation eased further within the South African Reserve Bank's (SARB's) 3-6% target range, while mining production rose well above market forecasts. It was a tough month for miners, however, as lower commodity prices and concerns over slower growth in China weighed on the sector.

## Performance review

The portfolio outperformed the benchmark for the month.

The portfolio's overweight position in Nvidia was among the largest contributors to relative performance over the month. Nvidia's share price was largely driven by better-than-expected earnings for the second quarter of 2023, in addition to estimate upgrades following the strength of the new Hopper product cycle. Also contributing to relative performance in August was the portfolio's underweight position in MTN. The mobile operator's businesses in Nigeria and Ghana have come under pressure recently on the back of currency devaluations and regulatory hurdles.

Among the largest detractors from relative performance were overweight positions in AngloGold Ashanti, African Rainbow Minerals and Anglo American. Miners were broadly negative in August, weighed down by weaker commodity prices and signs of slower economic growth out of China.

Significant purchases over the period included Old Mutual and Reinet Investments, while significant sales included British American Tobacco and Investec Plc.

## 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 British American Tobacco and Old Mutual, while significant underweights include FirstRand Bank and Naspers. British American Tobacco displays strong relative quality attributes, while Old Mutual displays strong relative earnings momentum. In contrast, FirstRand displays weak relative quality attributes, while Naspers displays weak relative value.

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