

# Discovery Equity Fund

30 September 2024

## Market context

The third quarter (Q3) of 2024 proved to be a strong one for global equity markets. This was primarily driven by several central banks, including the US Federal Reserve (Fed) and the European Central Bank, cutting interest rates, while US economic data proved to be more resilient than initially feared.

Emerging markets outperformed developed markets, supported by China unveiling its most substantial stimulus package since the pandemic to boost its ailing economy. This helped the country post its best quarterly equity performance since 2009. US, European and UK equities also advanced.

South African equities also had a strong run, closing Q3 firmly in positive territory. Key drivers included the prospect — and subsequent realisation — of policy easing in both the US and South Africa, as well as progress towards the implementation of market-friendly reforms in South Africa. Further tailwinds came towards the end of September in the form of China's stimulus programme, prompting renewed impetus towards risk assets globally.

On the currency front, the rand continued its momentum over the quarter, supported by a combination of a weaker US dollar and a positive shift in sentiment towards the South African economy.

## Performance

For the quarter, the portfolio outperformed the benchmark.

Among the largest contributors to relative performance was the portfolio's overweight position in **Mr Price Group**. Our overweight exposure to the retailer was based on strong signals in the earnings expectations and quality categories. Within the quality category, the main positive characteristics included capital utilisation, revenue growth and low volatility.

Also adding to relative performance over the period was the portfolio's overweight position in **Momentum Group**. Our overweight exposure to the Group was largely driven by strong signals in the value and quality categories. Within the value category, the company's earnings yield, dividend yield and book yield stood out as the main positive characteristics. While in the quality category, capital utilisation, low volatility and profitability were the main contributing factors.

Detracting from relative performance was the portfolio's underweight position in **Discovery**. Our decision to hold an underweight position was influenced by poor earnings expectations, in addition to negative momentum, quality, and valuation signals. Weak cash flow and dividend yields were the main drawbacks in terms of value factors, while poor revenue growth and profitability reflected negatively in the quality category.



Also weighing on relative performance was the portfolio's overweight exposure to **Sasol**. Our overweight allocation was influenced by attractive valuations, with cash flow yield, dividend yield, and earnings yield as the key contributors within the value category.

## Outlook

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, with positive momentum, positive earnings expectations and low downside risk.

Some of the portfolio's largest overweight positions include **Momentum Group** and **Sasol**, while significant underweights include **Richemont** and **Bidcorp**.

Our overweight position in the Momentum Group is largely driven by strong positive earnings expectations, attractive valuation and strong quality. In terms of Sasol, our overweight position is driven by attractive valuation, positive momentum, and strong quality.

Positive quality refers to good financial health, low volatility and downside risk, while positive value indicates that the stock is trading at an attractive value.

In terms of the portfolio's underweights, in our view, Richemont displays negative momentum, poor valuation, and weak earnings expectations, while Bidcorp displays weak quality, poor earnings expectations, and unfavourable valuation signals.