

The Balanced Investor

Edition 5 - October 2024



How 12 months can change everything

View from the Discovery Balanced Fund Team

Over the last year, conditions have changed significantly

In just a year, the world of investments can change dramatically. Markets shift, industries fluctuate, and economic conditions evolve — sometimes at lightning speed. These changes can quickly open up new growth opportunities, making a huge difference in returns, showing just how valuable patience and a long-term view are.

Last year September 2023	Today
We were pushing stage 7 loadshedding and Eskom warned of another 52 weeks of heavy load shedding as they forecasted dark days ahead	We are celebrating 214 consecutive days of no loadshedding, as at 27 October 2024,
Eskom was struggling to produce 22GW of power per day	Private power generation is at 26%, up from 5% two years ago. We have 13GW of private generation renewable energy on the grid every day
A company like Shoprite was paying R18 million a month in diesel costs to keep electricity on – affecting the earnings potential	Shoprite no longer has diesel costs to keep the electricity going on its balance sheets
Transnet's infrastructure was coming under severe strain and had reported close to R5.7 billion of losses. Their tonnage saw 6 years of decline	Transnet's backlog has reduced and has seen increased tonnage to levels last seen in 2018 - they have stabilised and moved from crisis to momentum
The rand was pushing R19.50/dollar and we were of the weakest EM currencies	The rand is now one of the strongest EM currencies, strengthening 8.5% over the 12 months to end September, due to evidence of the GNU working and private and public participation proving effective
Inflation was a major concern across the world. US Headline CPI was running at 8.2% and in SA, our CPI number at 7.5% was well ahead of the Reserve Bank's target range. This resulted in a 'cost of living' crisis across the world	Inflation levels have dramatically come down across the world. US inflation is currently at 2.4% and in SA it is at 4.4% with potentially further downside on the cards



To combat high inflation, central banks had to get tough. In the US, the Fed pushed interest rates up to 5.5%, the highest level since 2001. Locally, our repo rate went up to 8.25%, the highest level since 2009.	As inflation eased, central banks started to cut short-term interest rates , and we saw both in the US and in SA the respective Reserve Banks embark on a rate-cutting cycle in September this year. This should support growth expectations into next year.
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Against this backdrop, the one-year return on SA equities* moved from 3% on 31 October 2023 to 25% by the end of September 2024. The one-year return on SA bonds improved from 8% to 26% in the same period, while cash returns remained muted between 7.9% and 8.6%. The moral of the story? Once again, we see that while economic and market fluctuations can be unsettling in the short term, the growth potential of stocks and other risky assets leave cash returns behind time and again.

In the right hands, staying invested through the ups and downs allows your portfolio to capture that long-term growth and make your money work harder. The Discovery Balanced Fund continues to be managed by an experienced team, boasting a long-term track record of delivering consistent returns and limited withdrawals, and ultimately can be summarised as a well-constructed balanced portfolio of our best ideas.

Over the last year, the offshore allocation in the Discovery Balanced Fund was as high as 44% on the back of weakening local fundamentals. This was reduced by almost 10% to 35%, as we saw opportunities in local assets (equities and bonds). These decisions have paid off. As at 30 September 2024, the Discovery Balanced Fund is ahead of its peer group over most periods. The Fund's year-to-date return is 12.1% and it is the only large Balanced Fund** that has outperformed its sector average.

“History doesn't repeat itself, but it often rhymes” – Mark Twain

*Equities = Capped Swix and Bonds = ALBI.

** Competitors are the largest funds in the (ASISA) SA MA High-Equity Sector by AUM. The top 10 funds by AUM make up 80% of the sector. Discovery Balanced Fund is the 4th largest fund. AUM as at 30 September 2024. Excluding FoFs.

Source: Morningstar year to date and 1--year return figures as at 30 September 2024, extracted 8 October 2024

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