

Discovery Equity Fund

Market background

The first quarter (Q1) of 2024 was marked by continued strength for risk assets, with a number of global equity indices extending their record highs.

In the US, better-than-expected economic data raised hopes of a 'soft landing', with sentiment further supported by continued optimism towards AI-related stocks. In China, authorities introduced new measures to help stabilise equity flows after the market declined to a five-year low during the quarter. Meanwhile in South Africa, declines in the first two months of the year saw domestic equities close Q1 in negative territory, despite March being a much stronger month on the back of firmer gold and PGM prices.

On the fixed-income side, sharp upward moves in US Treasury yields weighed on global bond markets. While on the local front, higher inflation prints reduced support for local fixed income markets, with election uncertainty further weighing on the asset class.

Performance review

For the quarter the Fund outperformed its benchmark.

Among the largest contributors to relative performance was the Fund's overweight position in Multichoice. Our decision to hold an overweight position in the stock was based on strong signals in both the value and quality categories. In terms of value, the stock's positive earnings

yield and dividend yield stood out as attractive characteristics. While in the quality category, low volatility and positive asset growth factors were among the main drawbacks.

Also adding to relative performance over the period was the Fund's overweight position in Sappi. Our overweight decision was informed by strong signals in terms of earnings expectations and value. Within the value category, positive cash flow yield and earnings yield were among the standout features.

Over the quarter, among the largest detractors from relative performance was the Fund's underweight exposure to AngloGold Ashanti. Our underweight position was influenced by poor earnings expectations, negative momentum indicators, and weak quality signals. Specifically, capital utilisation was the major negative factor within the quality category.

Also weighing in performance was the Fund's overweight position in Sasol. Our decision to hold an overweight position was influenced by strong signals in both the quality and value categories. Within the value category, positive cash flow yield and earnings yield were standout features. Within the quality category, noteworthy characteristics included positive profitability and low volatility.

Outlook and strategy

The Fund'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 Fund's key overweight positions include Sappi and AVI. In our opinion, Sappi displays positive value (indicating the stock is trading at an attractive price) and positive earnings expectations, while AVI displays positive momentum, strong quality, and positive earnings expectations.

In contrast, key underweight positions in the Fund include Anglo American and Richemont. We believe Anglo American displays negative earnings revisions and momentum, while Richemont displays both negative momentum and value.

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