

Discovery Equity Fund

30 April 2025

Market context

April was dominated by volatility after the US announced sweeping trade tariffs, triggering a sharp sell-off across global equities and bonds. Markets steadied by mid-month after the US delayed some retaliatory measures by 90 days, President Trump softened his tone, and policymakers reaffirmed their commitment to institutional stability. US macro data held up relatively well – jobless claims and PMIs remained solid, helping to ease recession fears.

Growth assets posted mixed returns over the month. US stocks tumbled over 10% in two days before rebounding strongly to end just 0.7% lower. European equities held up better, buoyed by exporters and banks. EM equities gained slightly, helped by selective tariff exemptions and dollar weakness. South African equities rebounded strongly to close April firmly in positive territory.

Domestically, gold miners were among the standout performers as safe-haven demand continued to drive gold prices higher. On the political front, the ongoing budget dispute between the ANC and DA culminated in the Western Cape High Court ordering the suspension of National Treasury's proposed VAT hike. Finance Minister Enoch Godongwana is expected to present a revised fiscal framework towards the end of May, in which he'll outline Treasury's new plan to cover the R75 billion shortfall brought on by the VAT hike reversal.

Performance

For the month, the portfolio outperformed the benchmark.

Among the largest contributors to relative performance over the period were overweight positions in AngloGold Ashanti and Capitec Bank. Our decision to hold an overweight position in AngloGold was influenced by strong signals in earnings expectations, momentum and quality, with historic profitability and low volatility the primary quality drivers. Our positioning in Capitec, meanwhile, was influenced by strong signals in earnings expectations, momentum and quality, where forecasted and historic growth stood out as the key contributors within the quality category.

Among the largest detractors from relative performance were the portfolio's overweight positions in Sasol and South 32. Our overweight exposure to Sasol was driven by strong signals in quality and valuation, driven primarily by strong cash-flow and book yields on the valuation side and robust historical profitability on the quality side. Our positioning in South 32 was driven by strong signals in quality and value. Key contributors in the quality category were revenue growth, earnings growth and low volatility, while cash-flow yield and dividend yield were prominent within the value factors.



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.

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.

Some of the portfolio's largest overweight positions include Capitec and British American Tobacco, while significant underweights include Anglo American and Richemont.

Our overweight position in Capitec is largely driven by positive earnings expectations, momentum and strong quality indicators. In terms of British American Tobacco, our overweight position is largely driven by positive earnings expectations, positive momentum, and attractive valuations. In terms of the portfolio's underweights, in our view, Anglo American displays poor value and negative earnings expectations, while Richemont reflects weak quality and poor value.