

Discovery Equity Fund

Market background

Although the local market closed the year on a weaker footing (the Capped SWIX returned -2.8% for December, heavily influenced by local political events), from a global perspective, South Africa performed relatively well in the face of rising global uncertainty and volatility. In rand terms, the Capped SWIX delivered a total return of +4.4% for 2022, while in US dollar terms, the South Africa MSCI SA Index declined -4.3%, significantly outperforming the MSCI ACWI (-18.4%) and MSCI EM Index (-20.1%) over the same period.

There's no doubt that 2022 proved to be a difficult year for investors worldwide. It was the first time in 150 years that US stocks and US long-term bonds both declined by over 10%, although in hindsight it's unsurprising given what transpired over the course of the year. Russia's invasion of Ukraine, inflation at 40-year highs, central bank monetary policy and interest rate changes to post-GFC highs, and a wide range of political developments and policy changes (across the US, China, Italy, Brazil and the UK to mention a few) all contributed to negative investor sentiment, and consequently, asset class returns over the year.

For South African equity investors, it was the broader resources sector that, although volatile, drove the Capped SWIX higher with a return of +9.5% for the year. Coal producers led the energy sector's gain of +104% for the year, despite being a relatively small weighting in the index. The banking sector was the other standout sub-sector for the year, rallying +17.7% and helping to boost the broader financials sector return of +6.9%.

Performance review

The Fund underperformed the benchmark for the quarter.

Both the local and offshore components of the Fund detracted from performance overall. Additionally, the stronger rand over the period was a headwind for offshore earnings.



At a stock level, among the largest contributors to relative performance were underweight positions in Standard Bank Group and Sanlam. Detracting from relative performance over the period were underweight positions in Naspers and AngloGold Ashanti, both of whom benefitted from the easing of China's COVID policy and the subsequent reopening of the economy.

Significant purchases over the period included Foschini Group and Sanlam, while significant sales included British American Tobacco and FirstRand Bank.

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.

Some of the portfolio's largest overweight positions include Exxaro Resources and MultiChoice Group, while its significant underweight holdings include Standard Bank Group and Anglo American. Exxaro displays strong relative earnings revisions, while MultiChoice exhibits strong relative value attributes. In contrast, Standard Bank is showing weak relative quality attributes, while Anglo American displays weak relative earnings revisions.