

# Discovery Equity Fund

31 December 2024

## Market context

Robust US economic data and concerns over higher inflation made for a volatile end to the year for bond markets, pushing up yields and strengthening the US dollar. A more hawkish tone from the US Federal Reserve (Fed) further dented optimism around the path of interest rate cuts, resulting in a more subdued end to an otherwise strong year for equity markets.

In South Africa, financial markets came under pressure over the quarter, with December marking the third consecutive month of equity declines. Global headwinds were among the main drivers behind risk-off sentiment, particularly in the US, where uncertainty over monetary policy and the possibility of a Federal Government shutdown gained momentum. Also weighing on investor sentiment were concerns over South Africa's inclusion in the AGOA trade programme after reports emerged that South Africa's participation could come under review.

Turning to Europe, equity markets had a weak quarter as concerns over trade tensions in the export-dependent region weighed on sentiment following the US election. In particular, automakers came under pressure, although concerns were broad-based after US President-elect Donald Trump warned the EU would face trade tariffs on its exports to the US unless its member states increased their purchases of American oil and gas.

In China, after the excitement of September's policy announcements, October was a much quieter month as investors digested the stimulus measures, which were interpreted as being more 'risk mitigation' than 'growth stimulation'. December saw the market recover some ground, however, largely in anticipation of the annual Central Economic Work Conference and the Politburo meeting for indications of policy stimulus in the coming year.

## Performance

For the quarter, the portfolio outperformed the benchmark.

Among the largest contributors to relative performance over the period were the portfolio's overweight positions in **Telkom** and **Mr Price**. Our overweight position in Telkom was driven by strong signals in the valuation and momentum categories, with book yield, cash flow yield and earnings yield among the key contributors within the value segment. Our decision to hold an overweight position in Mr Price was influenced by strong signals in the earnings expectations, momentum and quality categories. Within the quality category, key contributors included revenue growth, profitability and low volatility.

Detracting from relative performance over the period were the portfolio's overweight positions in **BHP** and **Sasol**. Our overweight exposure to BHP was largely driven by strong signals in earnings expectations, quality and value, with cash flow yield and dividend yield key contributors within the value category, while profitability and low volatility were prominent quality factors.



Our positioning in Sasol, meanwhile, was driven by strong signals in the value and quality categories. Within the value category, the company's cash flow and earnings yields stood out as the main positive characteristics. While in the quality category, low volatility and profitability were the main standout 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 **ABSA** and **MTN**.

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 attractive valuations and strong quality factors.

In terms of the portfolio's underweights, in our view, both ABSA and MTN display negative momentum and weak quality factors.