

Discovery Equity Fund

Market background

The fourth quarter (Q4) of 2023 was a strong period for financial markets, buoyed by the prospect that the US Federal Reserve (Fed) could begin cutting rates in 2024. In the UK, inflation continued to show signs of moderating, while GDP growth edged lower, sparking concerns of a potential recession. Turning to China, sentiment fell on the back of mixed economic data, despite the government announcing various policy support measures to help spur the economy. On the local front, positive global sentiment helped lift South African assets, with additional support coming in the form of Eskom scaling back its loadshedding schedule. Commodity markets were broadly mixed over the quarter. Oil closed lower after OPEC+ production cuts failed to offset stronger-than-expected output from the US, while metal prices rallied on the back of increased demand out of China. Meanwhile gold closed higher, supported by safe-haven demand, a weaker dollar, and the prospect of the Fed commencing its rate-cutting cycle in 2024.

Performance review

For the quarter the Fund outperformed its benchmark.

Among the largest contributors to relative performance over the period was the Fund's overweight exposure to Harmony Gold, with Gold Fields contributing at the margin. The gold price rallied 11.60% for the quarter (in US dollars), supported by forecasts of a Fed pivot in 2024. Also adding value over the period was the Fund's underweight position in Sasol. Brent crude and WTI oil fell 19.2% and 21.1% respectively (both in US dollars) after OPEC+ members failed to sufficiently reduce output in line with demand. Turning to detractors, the Fund's underweight positions in both FirstRand and Capitec weighed on relative returns, after the

banking sector rallied over the quarter. Also detracting from returns were overweight positions in British American Tobacco, as well as offshore counters NetEase Inc. and Igo.

Significant purchases over the period included Sanlam and Gold Fields, while significant sales included Exxaro and Harmony Gold.

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 Fund's largest overweight positions include Old Mutual and British American Tobacco, while significant underweights include FirstRand and Capitec. In our opinion, Old Mutual displays strong relative earnings momentum, while British American Tobacco displays strong relative quality. In contrast, both FirstRand and Capitec display weak relative value.

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