

Discovery Equity Fund

Market background

Financial markets endured extreme volatility in the first quarter (Q1,) notably from late February after Russia initiated military action against Ukraine. Western governments responded with sanctions on the Russian state and some businesses and individuals linked to it. Prior to this, the market had been focused on the potential for central banks in Europe and the US to act more aggressively to address high inflation. Developed market stocks (MSCI World Index) recouped some losses in March but still ended the quarter down 3.0%, while emerging market stocks (MSCI Emerging Markets Index) extended losses, down 5.0% over the period

Meanwhile, South Africa's equity markets had a notably strong start to the year. The benchmark FTSE/JSE All Share Index (ALSI) rose 4.6% over Q1, while the Capped SWIX fared better, up 6.7%. Relative to global markets, South Africa has been one of the best performing markets year to date, particularly when accounting for the rand strengthening 9.2% against the US dollar, thus boosting returns in dollar terms. At a super-sector level, it was a consistent theme of resources (+19.0%) and financials (+16.7%) driving performance, while industrials struggled throughout, declining -3.1%, weighed down by the Naspers-Prosus stable underperforming.

Performance review

For the quarter, the portfolio underperformed the benchmark.

The offshore component of the portfolio dragged on performance over the period amid broad-based weakness in global equity markets, where the MSCI All Countries World Index (ACWI) declined 5.4% over Q1, while these earnings were further negatively impacted by a strong rand over the period.

In the local equity component, overweight positions in diversified miners (i.e., Exxaro Resources and BHP Group) contributed positively to performance, supported by robust commodity prices on the back of the Russo-Ukrainian conflict. The underweight allocation to Prosus helped relative performance. The stock underperformed the broader market due to the weaker operating outlook and regulatory



concerns for its Chinese associate, Tencent, compounded by pressure in the food delivery market in Europe.

Offsetting some of these gains was an underweight position in diversified miner, Anglo American, alongside underweight allocations to some of the local banks, including FirstRand, as the financial sector produced strong financial results for the 2021 calendar year, and the operating outlook remains positive.

Significant purchases over the period included Shoprite Holdings and Capitec Bank, while significant sales included BHP Group and Anglo American Platinum.

Outlook and strategy

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.

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