

## *Discovery Equity Fund*

### Market background

October saw emerging markets underperform developed markets. The MSCI Emerging Markets increased by 0.9% in the month, compared to a rise of 5.7% for the MSCI World index. This was a continuation from what we have seen year-to-date (YtD), with the MSCI EM down 0.3%, compared to an increase of 19.4% for MSCI World Index. EM equities are on course for their worst year versus their DM peers since 2013. At a regional level, the S&P 500 index erased the 5% loss from September by rising 6.9% in October, driven by continued strong performance in the FANG+ index. It is worth noting that a lot of the EM underperformance has been driven by the growth concerns and headwinds emanating from China. All returns are quoted in US dollars.

The slowdown in China has negatively impacted the broader global growth narrative as China's GDP growth forecasts continue to be revised lower. Much of the support from Beijing expected by some market participants has not come through as quickly as anticipated. Global Economic Surprise Indices remained below zero throughout October, even though they looked to be stabilizing and halting the decline. Global PMI data remained below the expansionary 50 level, which is a negative for the growth outlook, but on a positive view, there seems to be an indication that the worst of the supply chain disruptions may be behind us. Oil continued to trend higher, which added fuel to the non-transitory inflation narrative. While the US 10-year inflation breakeven rate rose by 21 basis points (bps) to 2.59%, the US 10-year yield only rose by 7bps to 1.56%. Putting the rising yield environment in the context of the FANG+ Index continuing to move higher speaks to a market that has continued to see growth outperform value in recent months.

Locally, equity markets had a strong month with the FTSE/JSE All Share Index and the Capped Swix rising by 5.2% and 2.7%, respectively. The forestry & paper sector had a strong month on the back of Sappi, while the gold miners also enjoyed a good month, with AngloGold Ashanti up 20% on the back of the rising gold price. On the other hand, pharmaceuticals had a tough month. Aspen Pharmacare came under pressure as the share price cooled off after market expectations ran too far ahead of the fundamentals. That said, the outlook remains positive for the company, as recent news of the potential disposal of the API business bodes well for the deleveraging of its balance sheet. Resources companies dominated on the mergers and acquisitions (M&A) front, with Impala Platinum releasing a cautionary that they were in talks with Royal Bafokeng Platinum to acquire 100% of the company. Sibanye-Stillwater also announced a US\$1 billion acquisition of Serrote and Santa Rita mines in Brazil.

On the macro front, South Africa looked forward to local government elections on 1 November, with the first indications suggesting that the African National Congress would have less than 50% of the national vote for the first time in the ruling party's history.

## Performance review

For the month, the portfolio outperformed the benchmark.

The offshore component of the portfolio contributed to performance and earnings were further enhanced by a weaker local unit.

The weaker rand also benefitted the overweight position in the global cyclical counter, Richemont. Overweight positions in Royal Bafokeng Platinum and Anglo American Platinum also buttressed performance as the rand PGM basket moved higher. More negatively, being underweight Anglo American and Sibanye-Stillwater detracted from relative performance, with the latter especially outperforming following the M&A news.

Significant purchases over the period included Mondi and BHP Group, while significant sales included Impala Platinum and Spar Group.

## 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 Anglo American Platinum, while its significant underweight holdings include Anglo American and Naspers. Both Clicks and Anglo American Platinum display strong relative quality attributes. In contrast, both Naspers and Anglo American display weak relative price momentum.

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