

Discovery Equity Fund

31 October 2024

Market context

October was a volatile month for global markets, primarily driven by geopolitical tensions in the Middle East and uncertainty surrounding the upcoming US election. Sentiment towards risk assets turned more cautious as a result, with further headwinds coming in the form of a relatively subdued earnings season. October was also a much quieter month for Asian markets, where investors are still waiting for clarity following China's policy announcements last month. In South Africa, October marked the first month of negative performance for domestic equities since the formation of the Government of National Unity (GNU), with global dynamics contributing to investor caution. Turning to commodity markets, the price of Brent crude rallied in October following Iran's missile strike on Israel, as did the price of gold as demand for safe-haven assets gained traction.

Performance

For the month, the portfolio underperformed the benchmark.

Weighing on relative performance over the period was the portfolio's overweight position in Sasol. Our overweight exposure was largely 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 contributing factors. Also detracting from relative performance was the portfolio's overweight position in BHP. Our decision to hold an overweight position was influenced by positive earnings expectations, quality, and valuation signals. Strong cash flow and dividend yields were the main drawcards in terms of value factors, while strong profitability and low volatility reflected positively in the quality category.

Adding to relative performance over the period was the portfolio's underweight position in Richemont. Our decision to hold an underweight position was influenced by poor earnings expectations as well as negative momentum and valuation signals. At the same time, weak cash flow and dividend yields were the main drawbacks in terms of value factors. Also adding value over the period was the portfolio's overweight position in Harmony Gold. Our overweight exposure was based on strong signals in the earnings expectations and momentum categories.

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.



Some of the portfolio's largest overweight positions include Momentum Group and BHP, while significant underweights include Anglo American and ABSA.

Our overweight position in the Momentum Group is largely driven by strong positive earnings expectations and attractive valuations. In terms of BHP, our overweight position is driven by attractive valuation and robust quality indicators.

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.

In terms of the portfolio's underweights, in our view, Anglo American displays poor valuation, low quality, and weak earnings expectations. ABSA, meanwhile, displays negative momentum, poor earnings, and weak quality, expectations.