Discovery Global Value Equity Feeder Fund

30 June 2026

Performance review

The Fund underperformed the benchmark for the quarter. The major detractors from performance were a continued muted performance by our alcohol stocks, with most of our holdings treading water, and the Fund's lack of semiconductor exposure (both Micron Technology and SK Hynix rose more than 220% over the quarter).

Outlook and strategy

Portfolio changes made over the quarter included re-entering the gold market via the purchase of Harmony Gold, Barrick Mining and Newmont and new holdings in Adobe and Rathbones. These purchases were funded via the sale of two UK stocks, which were buy-outs (Spire Healthcare and Tate & Lyle), in addition to profit-taking in Sirius XM Holdings and Nestlé.

Global stocks and especially US stocks continue to be buoyed by the combination of excess global liquidity (the Federal Reserve is once again expanding its balance sheet) as well as continually rising developed bond yields, resulting in an 'anything but bonds' flow into equities. While the US equity market has staged a comeback relative to global equities in 2026, over the last two years, international stocks have continued to outperform. We continue to see no value in large-cap US stocks: a 26x price-earnings ratio on the S&P 500 Index makes no sense when viewed against a 5% 30-year bond yield. We continue to see better value in emerging markets, with South Africa, China, and South American equity markets remaining attractive to us.

The headlong rush into stocks that will benefit from AI – first the hyperscalers and, more recently, chip stocks – needs to be funded from somewhere, and this selling has presented us with an opportunity to buy better-quality stocks that have been discarded by the market.

The AI boom feels very much like the 2000 tech-media-telecoms boom, when the money went into optic fibre and router roll-outs. We think it will end the same way, though the current AI capital-expenditure cycle feels even more vulnerable than the 2000 cycle, as AI capex faces higher obsolescence risk – at least the 2000 overinvestment was eventually used once demand caught up with the oversupply. Today's hyperscaler capex runs the risk of becoming obsolete before demand catches up.

Our offshore exposure is thus increasingly looking like a quality fund of 10 years ago, with increasing amounts of staples, alcohol and even software stocks finding their way into the portfolio. It is interesting to note that 'quality' has been the worst-performing style over the last few years in the tech-driven market; value investing, while not keeping up with the index, has outperformed quality. We attribute this to two factors. First, quality stocks became fundamentally overvalued five years ago, around the time of zero interest rates, with the market using an unsustainably low discount rate to value steady long-duration cash flows. The normalisation of rates has unwound this overvaluation and helped value stocks, while their shorter-duration cash-flow characteristics mean a smaller effect on valuation than for quality. Secondly, quality stocks make up a substantially larger part of the index, and these stocks have thus been used to fund the tech buying.

Which brings us to gold stocks. The Fund has benefited materially over the years from a high exposure to gold. However, by the first quarter of 2026, we held no exposure to gold as we believed the sector was over-owned and that the US dollar gold price, at over US$5,000 per ounce, was overbought. We have begun to slowly increase our exposure to gold as we believe both the gold price (down 25% from its high) and gold stocks (down 35-40% from their highs) have experienced a much-needed washout. The fundamental reasons we were in gold in the first place remain: the US, Europe, and Japan are essentially bankrupt, and the level of debt-to-GDP means the only way out is to inflate away the debt over decades of negative real interest rates. The implication of this is that developed government bonds are uninvestable, that Western currencies will continue to be debased, and that central banks and investors will continue to increase their gold holdings as a store of value for their reserves (central banks) and as a replacement for government bonds as a lower-risk investment (investors). We have thus bought a large position in Harmony Gold and smaller positions in Barrick Mining and Newmont.

The Fund also bought its first-ever holding in a tech stock over the quarter, acquiring a substantial holding in Adobe at US$200 a share. The upheaval in the technology industry caused by unprecedented AI spending has led to massive sell-offs of software companies, which are perceived as out of business as AI adoption increases. While we acknowledge the paradigm shift, Adobe has fallen from US$700 to US$200, and we believe that, at the current low valuation (12x price-to-earnings and 8x EV/EBITDA), the market has discounted Adobe's business model as broken. We are not so sure. Last quarter's results showed no slowdown in revenue growth (still running at an impressive 11%), and the company is aggressively adopting AI across its business.

While the AI bubble has hurt our relative performance over the last few quarters, we have seen this movie before and are grateful for the opportunities in the rest of the market as investors throw away good businesses at discounted prices to chase the current winners.