

Discovery Equity Fund

31 January 2025

Market context

It was a dramatic start to the year as Donald Trump's inauguration was swiftly followed by a record number of executive orders reinforcing his "America First" agenda. Despite rising trade tensions, financial markets navigated a volatile month to end broadly higher, with gains across gold, government bonds, and global equities.

Global equities started strong, though leadership shifted, with Europe outperforming the US. However, the month was punctuated by three distinct bouts of volatility, reflecting the caution that tempers optimism. Inflation concerns resurfaced early on, casting doubt on the number of rate cuts the US Federal Reserve will deliver this year. Sector performance was largely positive, with communication services and health care leading gains, while technology lagged. In South Africa, the FTSE/JSE ALSI delivered a positive return, driven by a significantly stronger resources sector. Gold benefitted from heightened geopolitical uncertainty, while China's latest round of economic stimulus provided additional support for commodities, lifting South Africa's resources sector to an impressive 16.1% return. The South African Reserve Bank continued its rate-cutting cycle, lowering the repo rate to 7.50%.

Performance

For the month, the portfolio underperformed the benchmark.

Detracting from relative performance over the period were the portfolio's underweight positions in **Richemont** and **MTN**. Our underweight exposure to Richemont was largely driven by negative signals in earnings expectations, momentum and value, with cash flow yield and dividend yield key factors within the value category. Our positioning in MTN, meanwhile, was driven by negative signals in the quality and momentum categories, where capital utilisation, growth and volatility stood out as the key factors within the quality category.

Among the largest contributors to relative performance over the period were the portfolio's overweight positions in **AngloGold Ashanti** and **British American Tobacco**. Our overweight position in AngloGold was driven by strong signals in quality, earnings expectations and momentum, with revenue growth and profitability key contributors in the quality category. Our decision to hold an overweight position in British American Tobacco was influenced by strong signals in the valuation and momentum categories. Key contributors in the value category included cash flow yield, earnings yield and dividend yield.

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.

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.

Some of the portfolio's largest overweight positions include **British American Tobacco** and **Capitec**, while significant underweights include **MTN** and **Richemont**.

Our overweight position in Capitec is largely driven by positive earnings expectations, momentum and strong quality indicators. In terms of British American Tobacco, our overweight position is largely driven by attractive valuations and positive earnings expectations. In terms of the portfolio's underweights, in our view, MTN displays poor value and weak quality, while Richemont reflects weak quality and negative momentum.