

Discovery Equity Fund

31 July 2024

Market background

July started on a positive note but lost some momentum towards the end of the month. Sentiment towards risk assets gained traction on the back of growing expectations that the US Federal Reserve (Fed) could begin cutting interest rates in September. However, investor optimism began to wane midway through the month, weighed down by underwhelming earnings from certain mega-cap tech stocks and weaker economic data coming out of China. In South Africa, domestic assets continued their upward trajectory, buoyed by the prospect of positive economic reforms under President Ramaphosa's newly formed Government of National Unity.

Performance review

For the month, the portfolio outperformed the benchmark.

Contributing to relative performance over the period was the portfolio's overweight exposure to Momentum Group Limited. Our overweight decision was based on strong signals in the quality and value categories. Within the value category, dividend yield, book yield, and price to sales stood out as the main positive characteristics. While in the quality category, capital utilisation and profitability factors were the biggest drawcards. Also contributing to performance was the portfolio's overweight position in Investec. Our overweight decision was largely based on strong signals in the earnings expectations, quality, and value categories. Within the value category, positive book yield and dividend yield stood out as the main contributors. In the quality category, low volatility and capital utilisation were the standout features.

Among the largest detractors from relative performance for the month was the portfolio's underweight position in AngloGold Ashanti. Our decision to hold an underweight position in the mining company was influenced by negative quality and value signals, specifically the company's cash flow yield, dividend yield and earnings yield. In the quality category, low volatility and capital utilisation were the main drawbacks. Also weighing on returns was the portfolio's underweight exposure to British American Tobacco. Our underweight decision was based on negative signals in the earnings expectations, quality and momentum categories. Within the quality category, poor growth factors stood out as the main detracting feature.

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, with positive momentum, positive earnings expectations and low downside risk.



Some of the portfolio's largest overweight positions include Investec and Momentum Group Limited, while significant underweights include Bidcorp and Shoprite Holdings. In our view, Investec displays strong positive earnings expectations and attractive value, while Momentum Group Limited displays positive earnings expectations, strong quality, and attractive value. 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, Bidcorp displays negative earnings expectations, momentum, quality, and value. Meanwhile, Shoprite Holdings displays negative momentum and poor value.