

Discovery Equity Fund

31 May 2024

Market background

May was a more upbeat month for capital markets, with most asset classes recovering from the losses of April. Although markets were more challenged towards the end of the month as global inflation data proved stickier than expected, overall investors grew more confident that rate cuts would still happen this year.

In emerging markets, performance was influenced by various factors, including negative economic indicators from China, which weighed on the overall performance of the EM index. Elections in key EM markets, including India, Mexico and South Africa, kept markets somewhat subdued.

South African equities closed the month broadly firmer, supported by hopes that the US Federal Reserve could begin cutting rates this year, a viewpoint that subsequently lost momentum towards month-end. On the political front, sentiment turned somewhat cautious ahead of the national elections.

Commodities had a strong month in May, with energy stocks the exception as the price of crude oil weakened. Gold continued its upward march, touching new highs as investors sought perceived safe havens.

Performance review

For the month, the portfolio underperformed the benchmark.

Among the largest detractors from relative performance was the portfolio's underweight position in Richemont. Our decision to hold an underweight position in the luxury goods company was influenced by negative momentum and value signals, specifically the company's cash flow yield, dividend yield and earnings yield.

Also weighing on returns was the portfolio's underweight exposure to Impala Platinum. Our underweight decision was based on negative signals in the momentum and quality categories. Within the quality category, growth and profitability factors stood out as the main drawbacks.

Contributing to relative performance over the period was the portfolio's overweight exposure to Exxaro Resources. Our overweight decision was based on strong signals in terms of earnings expectations, quality and value categories. Within the value category, earnings yield, dividend yield and book yield stood out as the main positive characteristic. While in the quality category, low volatility and profitability factors were the main drawcards.

Also adding to performance was the portfolio's position in BHP Group. Our overweight decision was largely based on strong signals in the quality, momentum and value categories. Within the value category, positive cash flow yield, earnings yield and dividend yield stood out as the key contributors. While in the quality category, low volatility and profitability factors were the standout features.

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 Mr Price Group and AVI, while significant underweights include Richemont and Bidcorp.

In our view, Mr Price Group displays strong positive earnings expectations and quality, while AVI displays positive earnings expectations, strong quality, positive momentum and attractive valuation.

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, Richemont displays negative momentum and value signals, while Bidcorp displays negative value and quality.