

Discovery Equity Fund

30 November 2024

Market context

It was a mixed month for global capital markets. In the US, President-elect Donald Trump's decisive victory at the polls propelled US equities to new highs. In China, capital markets faced downward pressure due to concerns over the possibility of trade tariffs under the new Trump administration. Sentiment towards South African equities also declined, given the strong trade relations between the two economies, which was further compounded by weaker-than-expected domestic indicators. Other noteworthy events in South Africa included the SARB cutting its key interest rate by 25 basis points and S&P Global upgrading the country's credit rating outlook to 'positive'. In commodity markets, gold declined on the prospect that Trump's policies could re-stoke inflationary pressures and cause US interest rates to remain higher for longer. In energy markets, OPEC+ members postponed their plan to increase oil production until the end of the year. Despite the conflict in the Middle East threatening supply, oil has declined in recent months on the back of lingering macro concerns, specifically over the outlook for Chinese demand.

Performance

For the month, the portfolio marginally underperformed the benchmark.

Among the largest detractors from relative performance over the period was the portfolio's overweight positions in Harmony Gold and Sasol. Our overweight exposure to Harmony Gold was largely driven by strong signals in earnings expectation and momentum. Our positioning in Sasol, meanwhile, was 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 standout factors.

Among the largest contributors to relative performance over the period was the portfolio's overweight positions in Telkom and Mr Price. Our overweight position in Telkom was driven by strong signals in the valuation and momentum categories, with book yield, cash flow yield and earnings yield among the key contributors within the value segment. Our decision to hold an overweight position in Mr Price was influenced by strong signals in the earnings expectations, momentum and quality categories. Within the quality category, key contributors included low volatility, revenue growth and sales growth.

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 Capitec and British American Tobacco, while significant underweights include ABSA and MTN.

Our overweight position in Capitec is largely driven by positive earnings expectations, strong quality indicators and favourable momentum. In terms of British American Tobacco, our overweight position is largely driven by attractive valuations and strong quality factors.

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, ABSA displays negative momentum, poor earnings, and weak quality, while MTN displays weak quality.