

Discovery Equity Fund

Market background

July saw emerging markets (MSCI EM Index, -6.7%) underperform their developed market (DM) peers (MSCI World index), which rose 1.8%. Over recent months, we have seen an increase in outflows from EM to DM as the broader global growth narrative has come under pressure. A considerable driver of July's poor performance for EM equities was the pronounced weakness in China, stemming from Beijing's regulatory crackdown, which expanded to education firms during the month, with the tech space remaining under pressure.

Locally, the stock market enjoyed a strong rebound with the benchmark FTSE/JSE All Share Index and the Capped Swix rising by 4.2% and 2.6%, respectively. Resources companies bucked the trend of declining commodity prices to deliver robust returns in the month. Notable mentions in this space include Anglo American and Anglo American Platinum, which were up 14.8% and 16.2%, respectively. Both companies reported results which were ahead of market expectations and announced capital returns to shareholders through share buybacks and dividends which beat even the most bullish expectations. Sectors that came under pressure included technology (-5.9%) and diversified financials (-4.8%). The technology sector was negatively impacted by developments in China which brought significant pressure on the index heavyweight staple that is Naspers and its Prosus subsidiary.

The month of July 2021 will remain a dark period in the history of South Africa as we saw deadly riots in Kwazulu-Natal and small parts of Gauteng following the arrest of former President Jacob Zuma. Economists estimate that the riots will negatively impact South Africa's GDP growth rate by approximately 50 bps this year.

Performance review

For the month, the portfolio outperformed the benchmark.

The offshore component of the portfolio enhanced gains over the period on the back of a weaker rand.

In the local component, the portfolio's overweight positions in select resources names including, diversified miner BHP Group and platinum-group metals miners Impala Platinum and Anglo American Platinum, contributed positively to performance. This was further enhanced by being underweight index bellwether Naspers, as its Chinese associate Tencent detracted from performance amid concerns of increased tech regulation in China.

More negatively, the underweight holding in diversified miner Anglo American was the biggest drag on relative performance. Anglo American's outperformance was driven by strong results which showed a substantial increase in profits from last year, combined with an announcement of shareholder capital returns of approximately US\$4 billion. Being underweight Gold Fields and AngloGold Ashanti further weighed on performance, as gold prices rose amid increased volatility during the month.

Significant purchases over the period included FirstRand Bank and ABSA Group, while significant sales included Anglo American and Sanlam.

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.

Some of the portfolio's largest overweight positions include Clicks Group and BHP Group, while its significant underweight holdings include Anglo American and Naspers. Clicks displays strong relative quality attributes, while BHP is showing strong relative earnings revisions. In contrast, Naspers displays weak relative price momentum, while Anglo American exhibits weak relative value.

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