

Discovery Equity Fund

Market background

Market returns in August 2022 were negative in most geographies and volatility increased as the risk-off sentiment returned. In the US, the impact of the aggressive tightening by the Fed is yet to be felt, while President Biden signed the Inflation Reduction Act (IRA), focusing on taxation, healthcare and climate. In Europe, the energy crisis continues to dominate, with Russia tuning off the gas supply once again, prompting further concerns. The pandemic lockdowns in China remain unpredictable, prompting the return of concerns about supply chain stability.

Higher interest rates exacerbate worries about recessions, keeping markets jittery. Russia's continued war on Ukraine continues to keep energy prices elevated, although food prices have eased from the March peak. The release of the FOMC minutes reiterated the US Federal Reserve's commitment to fight inflation, and a hawkish speech by Chair Jerome Powell in Jackson Hole acknowledged that reducing inflation will require "some pain" with slower economic growth and softening labour market.

According to Bloomberg data, after the R23.9 billion outflow in July, non-residents remained net sellers of SA equities in August, but at a much lower pace with R7.6 billion outflows recorded. The cumulative market outflow for the last 12 months is R108.2 billion. The FTSE/JSE All Share Index generated a return of -1.8% m/m, bringing the total YTD return to -6.2%.

Performance review

For the month, the Fund outperformed the benchmark.

The local equity component contributed positively to performance over the period. At a stock level, overweight allocations to diversified miner Exxaro Resources and British American Tobacco were among the top contributors.



Offsetting some of these gains, were underweight positions global rand-hedge defensives, namely, Naspers and Bid Corp.

The offshore component of the Fund detracted from performance in line with the global selloff.

Significant purchases over the period included MultiChoice Group and Naspers, while significant sales included Shoprite and MTN Group.

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 Exxaro Resources and MultiChoice Group, while its significant underweight holdings include Naspers and Prosus. Exxaro displays strong relative earnings revisions, while MultiChoice exhibits strong relative quality attributes. In contrast, Naspers is showing weak relative value, while Prosus displays weak relative earnings revisions.