

# Discovery Equity Fund

## Market background

Emerging markets (EM) continued to underperform their developed world peers in November. The MSCI EM Index declined by 4.1%, while the MSCI World declined by 2.3%. The underperformance of EM is more pronounced on a year-to-date (YtD) view, with MSCI World up 16.8% while the MSCI EM is down 4.3%. However, it is worth mentioning that the slowdown in China's economic growth has been a major drag on emerging markets over this period.

US equities reached new highs in November, with company earnings and sales data for Q3 exceeding consensus estimates, helping the US market to outperform over the month. However, data by Factset revealed that the number of companies mentioning "supply chain" and "inflation" on earnings calls was the highest in over a decade, led by the industrials, information technology and consumer discretionary sectors. Against the backdrop of core inflation that in October rose to its highest annual rate since 1991, the appointment of Jerome Powell for a second term as chair of the US central bank reaffirmed expectations of a US rate rise in 2022. Investor sentiment weakened at month-end on reports of a new and apparently highly contagious COVID variant identified in South Africa, leading to a sell-off for global markets and the re-introduction of some travel restrictions. Energy prices experienced a double-digit percentage decline in November as markets feared widening pandemic-induced lockdowns, although energy remained the strongest performing sector in the MSCI ACWI YtD. The expected, but largely symbolic, move by the US and other countries to release a portion of its strategic oil reserves to counter the surge in energy prices during the year was the largest such move undertaken by the US, and the first time it was coordinated with China and India.

Locally, equity markets had a strong month, with the FTSE/JSE All Share Index and the Capped Swix rising by 4.5% and 0.9%, respectively. The gold miners had a good month, with Gold Fields up 31.4%. In contrast, general retailers and life insurance companies had a weak month. Life insurance companies were negatively impacted by the Omicron news, given the implication that they would have to increase their COVID-19 provisions, which would impact profitability. Similarly, hotel companies came under significant pressure from the Omicron news, as countries announced travel bans for South Africans and the broader Southern Africa region. On the monetary policy front, the South African Reserve Bank (SARB) policy committee hiked the main lending rate by 25 basis points (bps) to 3.75% in a three vs two split decision at its 18 November Monetary Policy Committee (MPC) meeting. At the time of writing, the market expects the MPC to continue raising rates in 2022, but the magnitude of this rate-hiking cycle is not expected to fully reverse the cumulative 300bps of cuts since the start of the pandemic.

## Performance review

For the month, the portfolio outperformed the benchmark.

The offshore component of the portfolio contributed to performance and earnings were further enhanced by a weaker local unit.

The portfolio's overweight position in Richemont contributed positively to relative performance. Richemont reported consensus-beating results, which led to significant upgrades to its earnings forecasts and its share price reaching all-time highs. After a few months of underperformance, the platinum companies finally posted a stronger month, which led to the portfolio's overweight position in Anglo American Platinum contributing positively to performance. More negatively, underweight positions in gold counters AngloGold Ashanti and Gold Fields weighed on performance over the period as the gold price rallied as investors dashed to 'safe haven' assets.

Significant purchases over the period included Gold Fields and ABSA Group, while significant sales Mr Price Group and FirstRand.

## 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 Anglo American Platinum, while its significant underweight holdings include Anglo American and Naspers. Both Clicks and Anglo American Platinum display strong relative quality attributes. In contrast, both Naspers and Anglo American display weak relative price momentum.

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