Discovery Equity Fund

Market background

The second quarter (Q2) began on a positive note as risks facing the global banking sector began to dissipate. Subsequently, the political debate around raising the US debt ceiling drove uncertainty, but the deal eventually passed, much to the relief of market participants. Investors' focus then shifted to global growth dynamics and signals of further rate hikes from key central banks.

In the US, the Federal Reserve hiked its key interest rate in May and then paused in June, later signalling that two further hikes are likely to be needed this year. This, combined with data evidencing US economic resilience, caused yields to rise meaningfully across the US Treasury curve. Within the equity market, the big focus on Artificial Intelligence (AI) and its productivity-boosting potential drove gains in tech sector stocks. Elsewhere, economic data suggested a tailing off of China's recovery momentum from the first quarter, ultimately prompting the People's Bank of China (PBoC) to cut two key benchmark interest rates. In South Africa, loadshedding continued to mire the economic outlook, although growth indicators surprised to the upside later in the quarter. Geopolitical tensions weighed on the rand and a combination of this and stubborn inflation saw a hawkish shift at the South African Reserve Bank (SARB).

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Performance review

The Fund delivered a positive absolute return for the quarter, however, underperformed its benchmark over the period.

In terms of the Fund's offshore component, exposure to US technology stocks such as Nvidia, Microsoft and Broadcom were among the largest contributors to performance. These returns were further supported by a weaker rand.

On the local side, the Fund's underweight position in resources, especially platinum counters such as Sibanye Stillwater and Impala Platinum, were key contributors to relative performance. Other contributors to relative returns included overweight positions in Old Mutual and Mediclinic International.

The largest detractor from performance over the quarter was the Fund's overweight position in MultiChoice, as market participants questioned the costs associated with the company's rollout of Showmax into Africa.

Outlook and strategy

The Fund'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 Fund's largest overweight positions include global defensive businesses such as British American Tobacco, which is offering exceptional value and trading at an attractive dividend yield. In addition, the Fund also has an overweight position in BHP Group, which should continue to benefit from rising commodity prices as earnings expectations improve on the back of steady Chinese economic demand. Conversely, shares with high earnings variability, such as Sasol, remain significant underweights within the Fund.

The Fund maintains a relatively high allocation to offshore assets as we continue to believe in the increased global opportunity set and diversification benefits that these markets offer. Some of our key offshore holdings include Nvidia, Microsoft, Ferrari and Mastercard.

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