Discovery Equity Fund

31 March 2026

Market background

South African equity markets entered 2026 on a strong footing, extending the positive momentum from the previous year. This strength was underpinned by a supportive global backdrop, improving sentiment toward emerging markets, and robust earnings delivery across several sectors. As a result, South African equities were among the better-performing markets globally on a trailing 12-month basis, reflecting both cyclical tailwinds and stock-specific drivers.

However, this constructive start was abruptly disrupted in March by a sharp escalation in geopolitical tensions, most notably the outbreak of conflict involving Iran, the United States and Israel. The event marked a clear inflexion point for markets, shifting the focus from growth and policy support toward uncertainty, risk aversion and the potential for broader macroeconomic disruption.

The impact on South African assets was both swift and pronounced. Over the course of the month, equities experienced a sharp drawdown, with the All Share Index declining materially, while the All Bond Index also weakened in response to rising global risk premia. The rand depreciated meaningfully, reflecting both its sensitivity to global risk sentiment and its role as a liquid proxy for emerging market exposure. These moves were not unique to South Africa but were broadly consistent with trends observed across emerging markets, particularly within EMEA and parts of Asia, where risk assets came under similar pressure.

From a market dynamics perspective, the sell-off was characterised by a rapid rotation in investor positioning. Assets and sectors perceived to be most exposed to global growth or geopolitical risk saw the sharpest declines, while areas linked to energy and supply disruption experienced relative resilience. Liquidity conditions also tightened, exacerbating price moves and contributing to the magnitude of the drawdown.

Despite the severity of the near-term correction, it is important to retain a longer-term perspective. Over a 12-month horizon, South African equities continue to rank among the stronger-performing markets globally, with returns remaining robust despite recent volatility. This reflects the underlying resilience of corporate earnings, as well as the benefits of exposure to globally relevant sectors such as resources and financials.

In this context, the recent weakness should not be viewed as a structural deterioration in the investment case, but rather as a repricing of risk in response to heightened uncertainty. While the outlook has become more complex, the underlying drivers of performance remain broadly intact, providing a foundation for markets to stabilise as conditions evolve.

Performance review

For the quarter, the portfolio underperformed the benchmark.

Among the largest detractors from relative performance were underweight positions in Sappi and Booking Holdings. Our exposure to Sappi was driven by strong signals in value, earnings expectations and momentum, with earnings yield, cash flow yield and book yield among the key contributors in the value category. Our overweight position in Booking Holdings, meanwhile, was mostly driven by quality factors, where low volatility, historic growth and historic profitability were the standout features.

Adding to relative performance were overweight positions in Sasol and Exxaro Resources. Our decision to hold an overweight position in Sasol was driven by strong signals in earnings expectations, value, and momentum. The key contributors in the value category were earnings yield, cash flow yield and book yield. Our decision to hold an overweight position in Exxaro Resources was driven by strong signals in value, quality, earnings expectations and momentum. In terms of value, key contributors included price-to-earnings yield, dividend yield, and book yield, while historic growth and capital utilisation were prominent in the quality category.

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, with positive momentum, positive earnings expectations and low downside risk.

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.

Some of the portfolio's largest overweight positions include Mastercard and Astral Foods, while significant underweights include Valterra Platinum and FirstRand.

Our overweight position in Mastercard is largely driven by positive earnings expectations and strong quality. In terms of quality, the key contributors include low volatility, historical growth, and historical profitability. Our positioning in Astral Foods, meanwhile, is driven by attractive value, positive earnings expectations and positive momentum. The key contributors in the value category include earnings yield, cash flow yield and dividend yield.

In terms of the portfolio's underweights, in our view, Valterra displays poor value, with earnings yield and cash flow among the key contributors in the value category. FirstRand reflects poor value, negative earnings and negative momentum. The key contributors in the value category include earnings yield and cash-flow yield.