

## Discovery Equity Fund

### Market background

Global equities started the new year on a high, carrying momentum from a remarkable finish to what was a testing year for markets and a traumatic humanitarian crisis. The commencement of vaccination programmes, expectations of further monetary accommodation and fiscal stimulus following Biden's 'Blue Wave' enabled markets to take a more forward-looking view, despite the reintroduction of lockdowns across regions. This buoyant mood, however, ran out of steam, as markets pared back all gains made earlier in the month as volatility reared its head. Wall Street's fear gauge (CBOE Volatility Index) shot up to levels last seen in the March 2020 crash, as a group of retail traders inspired by Reddit posters drove up the share prices of the most heavily shorted stocks (such as GameStop and AMC Entertainment), causing some hedge funds to incur billions of dollars in losses as they were forced to unwind their positions. In the end, global equities (MSCI ACWI) ended the month a flat -0.5%. Emerging market stocks (MSCI Emerging Markets Index, +3.1%), however, significantly outperformed their developed market (MSCI World Index, -1.0%) peers, led by the Asia ex-Japan region, while the latter were led down by European markets.

South Africa found favour from positive investor sentiment toward emerging markets, as foreign capital continued to flow into South African stocks and bonds, lifting both indices over the period. The SA stock market (FTSE/JSE All Share Index, 5.2%) was led higher by cyclical sectors benefitting from the economic recovery both abroad and importantly, at home. Resources continued their rally, with the sector rising 5.1%, as industrials, which rose 8.3%, led by the Naspers/Prosus stable. Financials were the laggards, falling 2.7% over the same period. Listed property (FTSE/JSE All Property Index -3.2%) gave up some gains made towards the end of 2020. Local bonds (FTSE/JSE All Bond Index +0.8%) delivered a modest return, on the back of much improved fiscal revenues from higher-than-expected corporate taxes. The rand retreated against the US dollar, euro and pound sterling.

## Performance review

For the month, the portfolio slightly underperformed the benchmark.

The local equity component of the portfolio underperformed. Underweight exposure to global cyclical companies benefitting from economies reopening and the broad economic recovery, proved to be a drag on relative performance. In particular, underweight positions in pulp and paper company Sappi, luxury goods maker Richemont and the Naspers/Prosus stable, were leading detractors from relative performance.

Offsetting some of these losses was the offshore leg of the portfolio. Despite the pause for breath in the global equity rally during the month, our offshore holdings contributed positively to relative performance and earnings were further enhanced by the weaker local currency. Underweight exposure to some of the local banks (FirstRand, ABSA Group, Nedbank) added to relative gains as financials ran out of steam in January, following a remarkable run in the final quarter of 2020.

Significant purchases over the period included Standard Bank Group and Impala Platinum, while significant sales included Sanlam and Mondi.

## 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 Capitec Bank and Clicks Group, while its significant underweight holdings include FirstRand Bank and British American Tobacco. Both Capitec and Clicks display strong relative quality attributes. In contrast, FirstRand displays weak relative quality, while British American Tobacco exhibits weak relative price momentum.

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