

Discovery Equity Fund

Market background

The first month of the year was a mixed one for global markets, as uncertainty surrounding the timing of rate cuts from the US Federal Reserve (Fed) cooled investor expectations. In the euro area, equities experienced a positive start to the year, while in the UK, sentiment declined after December's inflation print rose above expectations. The Chinese stock market struggled to gain momentum, as concerns over tighter regulations in the gaming industry lingered through the market. The government introduced measures to limit short selling on Chinese equities, although this did little to ease market concerns. South Africa's resources sector declined on the back of weaker Chinese sentiment, highlighting the strong correlation between the two economies. In more positive news, monthly retail figures for November showed the local consumer environment to be more resilient than expected, while lower levels of load shedding provided some comfort to investors.

Performance review

For the month, the portfolio marginally outperformed the benchmark.

Adding to relative value over the month was the portfolio's underweight position in MTN. The telecommunications company struggled in January, largely due to structural issues facing its key African operations (excluding South Africa). These include concerns over currency and policy reforms, which in turn placed pressure on company earnings expectations and valuation multiples.

MultiChoice was another company weighed down by the challenges facing its African operations, particularly in Nigeria. This resulted in a significant overhang on the company's profitability, and consequently, its share price. The portfolio's overweight position in the counter was among the largest detractors from relative performance

Further weighing on performance over the month was the portfolio's underweight position in Bidcorp. The international food service group has been consolidating market share within the geographies in which it operates, lifting investor sentiment towards the counter.

The portfolio's overweight exposure to Sasol was another material detractor, after the chemicals and energy company released poor production numbers with negative earnings revisions, placing pressure on the stock.

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.

Some of the portfolio's largest overweight positions include AVI and Momentum, while significant underweights include Richemont and Anglo American. In our view, AVI displays strong positive quality and momentum, while Momentum displays positive valuation, quality and momentum. Positive quality refers to strong financial health, low volatility and downside risk, while positive value indicates that the stock is trading at an attractive value. In contrast, Richemont displays negative valuation and momentum, while Anglo American displays weak relative momentum and quality.

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