

Discovery Equity Fund

31 December 2025

Market background

Risk assets capped a strong year with gains in Q4, underpinned by resilient global growth and supportive policy shifts. Global equities maintained their positive momentum as 2025 closed, with the MSCI All Country World Index rising about 3% over Q4 (in USD). Stock markets shrugged off a wobble in November on AI-bubble fears and sticky inflation data, continuing their ascent in December as the US Federal Reserve (Fed) delivered another cut in policy rates and Chair Jerome Powell struck a more dovish tone.

By region, emerging markets led advanced-economy equity benchmarks for the year, with a c.5% rise over Q4 helping the MSCI EM Index to a c.34% annual gain. Though US stocks modestly trailed the global index in the final quarter of 2025, they lagged by the largest margin since the Global Financial Crisis over the full year. Nevertheless, despite headwinds from US trade policy, elevated technology valuations and China's AI breakthroughs lifting Asian markets, the S&P 500 Index still ended the year close to its all-time highs. Other developed market equity benchmarks also finished 2025 positively, including the UK's FTSE All-Share Index (+6% over Q4), Germany's Dax (+3%) and Japan's Topix (+9%). The latter reached its highest-ever year-end level on AI expectations and a better-than-feared outcome to trade negotiations with the US. By equity sector, materials and healthcare were among the leaders in Q4, while energy equities lagged as the oil price continued to slide on oversupply concerns.

South African markets closed out 2025 on a strong note, with the JSE All Share Index climbing 8.1% in Q4 to deliver an annual return of 42.4%. The market advanced steadily over the quarter, supported by robust performance in resource-linked sectors, particularly gold and platinum miners, as prices for precious metals rose.

On the growth front, GDP data released in December showed that the South African economy expanded by 2.1% year-on-year, beating expectations of 1.8%. Growth was supported by household consumption and export activity. The rand finished the year at R16.56/USD, one of the strongest performances among emerging market currencies in 2025, bolstered by higher precious metals prices and improved external balances.

Performance review

For the quarter, the portfolio underperformed the benchmark.

Among the largest detractors from relative performance were underweight positions in ABSA and Standard Bank. Our exposure to ABSA was driven by negative signals in momentum and quality. Within the quality category, key contributors included dividend yield, earnings yield and price-to-sales. In terms of Standard Bank, our underweight exposure was driven by negative signals in earnings expectations and momentum.

Adding to relative performance were overweight positions in Datatec and Merck. Our decision to hold an overweight position in Datatec was driven by strong signals in earnings expectations and value. Within the value category, key contributors included earnings yield, cash flow yield and dividend yield. Our exposure to Merck, meanwhile, was driven by strong signals in value, quality and momentum. The key factors within the value category included cash flow yield, earnings yield, and dividend yield, while low volatility, forecast growth and historic profitability were prominent within 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 DRD Gold and Sappi, while significant underweights include Valterra Platinum and FirstRand.

Our overweight position in DRD Gold is largely driven by positive earnings expectations, positive momentum and attractive value. In terms of value, the key contributors include earnings yield, cash flow yield and book yield. Our positioning in Sappi, 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 book yield.

In terms of the portfolio's underweights, in our view, Valterra displays weak quality and poor value. The key contributors in the value category include earnings yield and cash flow yield, while historic growth and historic profitability are prominent within the quality category. FirstRand reflects poor value and negative momentum, with earnings yield and cash-flow yield the key contributors in the value category.