Discovery Equity Fund

Market background

Overall, global equities had another decent innings in May, albeit at a slightly slower run rate than the previous month. Expectations of a robust global economic recovery and the return of inflation saw value continue to garner favour over growth stocks. Developed market equities (MSCI World Index) ended the month 1.4% higher, lagging their emerging market peers (MSCI Emerging Markets Index) which posted gains of 2.3%.

The South African stock market capped the seventh straight month of positive gains, tracking higher in line with global peers. The benchmark FTSE/JSE All Share Index ended 1.6% higher, while the Capped SWIX posted an even better 2.9% at the close. At a super-sector level, financials (+9.3%) did most of the heavy lifting, aided by industrials which finished a modest 1.6%, while resources ended in the red for the first time since October.

At the sector level, it was a broadly mixed picture across the bourse. Key sector leaders over the month were found in consumer services (retailers, travel & leisure) and financials (banks); 'SA Inc.' (companies that derive most of their revenue from South Africa) performed strongly over the period. Notwithstanding the resumption of Level 2 lockdowns, consumer-facing shares held their ground, with some names touching multi-year highs during the month, reflecting investor optimism on the recovery of earnings going forward. Banks were among the best performers over the period, finding support in a stronger local unit. Bucking the trend was the resources sector, as commodity prices took a breather during the month, before stabilising as the month drew to a close.

Performance review and activity

For the month, the portfolio underperformed the benchmark.

The offshore component of the portfolio was the biggest detractor from relative performance, with offshore gains further eroded by a stronger rand over the period.

The resources sector, with the exception to gold miners, retreated over the month. As a result, the overweight allocations to Impala Platinum and BHP Group weighed on relative performance. The platinum-group metals (PGM) basket price and iron ore commodity prices retraced over the month, which the shares followed. Meanwhile, not holding gold miners, Gold Fields and AngloGold Ashanti, hurt relative performance as the two counters tracked the stronger gold price.

On a more positive note, the underweight index bellwether Naspers, was the biggest contributor to relative performance over the period, while exposure to select 'SA Inc.' stocks (Capitec Bank and Mr Price Group), also added to gains. SA banks rallied in line with government bonds on the improving macroeconomic outlook, while recent trading updates from the peer group confirmed a stronger-than-expected operating environment. Consumer spending has surprised positively, and recent financial releases have seen revenue growth exceed market expectations.

Significant purchases over the period included MTN Group and Spar Group, while significant sales included Standard Bank Group and Richemont.

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 Spar Group, while its significant underweight holdings include FirstRand Bank and Naspers. Both Clicks and Capitec display strong relative quality attributes. In contrast, FirstRand displays weak relative price momentum, while Naspers exhibits weak relative value.

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