

Discovery Equity Fund

31 May 2026

Market background

Global financial markets were broadly positive in May. Equities advanced, led by technology stocks as AI enthusiasm remained a key driver of performance, while renewed hopes of an end to the US-Iran conflict helped lower oil prices. May proved to be a more challenging month for South African markets, with the FTSE/JSE All Share Index closing in negative territory.

Consumer-facing sectors came under pressure from higher fuel costs, tighter monetary policy and weaker disposable income, while financials proved more resilient amid expectations of wider net interest margins. Resources remained volatile, as broader mining sentiment continued to be weighed down by global growth concerns.

Fixed income was a key bright spot. South Africa's 10-year bond yield fell over the month, supported by improved global risk sentiment and hopes of a US-Iran agreement, tighter SARB policy aimed at containing inflation, and Moody's revision of South Africa's outlook from stable to positive.

The rand also strengthened towards month end, supported by the improved sovereign credit outlook and attractive real yields.

Performance review

For the month, the portfolio underperformed the benchmark.

Among the largest contributors to relative performance were overweight positions in Anglo American and ASML. Our overweight exposure to Anglo American was driven by strong signals in earnings expectations, quality, and momentum, with low volatility, historical growth and historical profitability as key contributors in the quality category. Similarly, our exposure to ASML was driven by strong signals in quality, earnings expectations and momentum. Here, the key contributors in the quality category were low volatility, historical growth, forecast growth and historical profitability.

Detracting from relative performance were overweight positions in Sappi and The Foschini Group. Our overweight in Sappi was driven by strong signals in quality, valuation and momentum. Historical growth, capital utilisation and forecast growth were the main features in the quality category, while price-to-sales, earnings expectations and book yield were prominent in the value category. Our exposure to Foschini was driven by strong signals in quality, momentum and valuation. Cash flow yield, earnings yield and book yield were the key contributors in the value category, while historical 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, strong 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 valuation.

Some of the portfolio's largest overweight positions include Astral Foods and ASML, while significant underweights include FirstRand and Standard Bank Group.

Our overweight position in Astral Foods is driven by positive earnings expectations, strong quality, positive momentum and attractive valuation. The key contributors in the value category include cash flow yield, earnings yield and dividend yield, while historical growth is prominent in the quality category. Our positioning in ASML, meanwhile, is driven by positive earnings expectations, positive momentum and strong quality factors, with low volatility, forecast growth and historical profitability the key contributors in the quality category.

In terms of the portfolio's underweights, in our view, FirstRand displays poor valuation, negative earnings expectations and negative momentum, with earnings yield and cash flow yield the key contributors in the value category. Standard Bank, meanwhile, displays weak valuation and negative momentum, with earnings yield and cash flow yield the key contributors in the value category.