

# Discovery Equity Fund

31 May 2025

## Market context

Global equities staged a strong rebound in May, buoyed by easing trade tensions and firm US economic data. The S&P 500 rallied sharply, reflecting renewed investor confidence and improving sentiment toward risk assets. The FTSE 100 also posted solid gains, supported by resilient corporate earnings and a firmer macro backdrop.

While equities benefitted from a stronger tone overall, central banks signalled caution and markets dialled back expectations for rate cuts, particularly in the US and UK, as inflation concerns persisted. The rally was not without pause: a late-month downgrade of the US sovereign credit rating revived worries over fiscal sustainability, slightly tempering optimism. Still, market conditions were notably more constructive than in April, with investors selectively rotating into cyclical and growth-sensitive sectors. Emerging market equities also gained, supported by improving fund flows and recovering commodity prices, particularly in energy and industrial metals.

In South Africa, capital markets ended May broadly firmer, with the JSE All Share Index reaching new record highs during intra-month trading. Investor sentiment was buoyed by two key developments: a landmark diplomatic engagement with the US and a reduction in domestic political uncertainty following the successful passage of the national budget. On the macroeconomic front, headline inflation held steady at 2.8% y/y in April, while core inflation eased to 3.0% y/y – its lowest level since mid-2021. The South African Reserve Bank (SARB) revised its 2025 inflation forecast downward to 3.2%, prompting policymakers to cut interest rates by 25 basis points (bps) as widely expected.

## Performance

For the month, the portfolio outperformed the benchmark.

Among the largest contributors to relative performance over the period were overweight positions in Sasol and Netcare. Our decision to hold an overweight position in Sasol was influenced by strong value and quality signals. Key contributors in terms of value were cash-flow yield and book yield, while robust historical profitability was the prominent factor in terms of quality. Our positioning in Netcare, meanwhile, was influenced by strong signals in value, momentum and quality, where historical profitability stood out as the key contributor within the quality category.

Among the largest detractors from relative performance were the portfolio's underweight positions in Sibanye-Stillwater and Impala Platinum. Our underweight exposure to Sibanye-Stillwater was driven by poor signals in momentum and quality where historic profitability and volatility were the main drawbacks in the quality category. Our positioning in Impala Platinum was driven by poor signals in value, quality and momentum. Key detractors in terms of value were cash-flow yield and dividend yield, while historic profitability and volatility were prominent within the quality category.



## Outlook

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 Capitec and British American Tobacco, while significant underweights include Anglo American and Richemont.

Our overweight position in Capitec is largely driven by positive earnings expectations and strong quality indicators. In terms of British American Tobacco, our overweight position is largely driven by positive momentum and attractive valuations. In terms of the portfolio's underweights, in our view, Anglo American displays poor value and negative earnings expectations, while Richemont reflects weak earnings and poor value.