

# Discovery Equity Fund

30 September 2026

## Market background

Global equities made modest gains in the third quarter, supported by resilient growth and robust earnings, which outweighed concerns around geopolitics and rate hikes. Developed markets outperformed, in particular, US equities. A further re-escalation in the US-Iran conflict in September tempered risk appetite; however, with Brent crude up by 42% from its end-June lows, inflation concerns were revived.

US Treasury yields rose sharply over the quarter as oil-driven inflation concerns and resilient data led the US Federal Reserve (Fed) to its first rate hike since 2023; the 10-year closed the quarter at 5.28% (its highest since 2007), and the 30-year at 5.63% (its highest since 2002). Heavy Treasury issuance and fiscal deficit concerns drove a sell-off in longer-dated bonds, which an expanded long-bond buyback programme only briefly steadied.

South African equities ended the quarter marginally lower, with early gains unwinding in September. The FTSE/JSE All Share Index fell 0.3%: a rotation into precious metals lifted resources 12.8% over the quarter, but a rate hike by the South African Reserve Bank (SARB), surging oil prices and rising global yields weighed on markets.

The SARB raised the repo rate by 25bps to 7.25% (prime 10.75%) in September, resuming the tightening cycle after an unexpected hold in July. Headline inflation slowed sharply, below consensus expectations, but rising oil prices threaten to push inflation higher in the months ahead.

## Performance review

For the quarter, the portfolio outperformed the benchmark.

Adding to relative performance was the portfolio's overweight position in Microsoft. Our position in the tech firm was driven by strong signals in quality and earnings expectations. The key quality factors included profitability, growth and safety, while news sentiment and analyst sentiment were prominent in terms of earnings expectations. Also contributing to performance was the portfolio's underweight exposure to Naspers.

Weighing on relative performance were our overweight positions in Astral Foods and The Foschini Group. Our exposure to Astral was driven by strong signals in value and earnings expectations, where the key value factors were earnings yield, dividend yield and total enterprise value. In terms of earnings expectations, analyst sentiment and news sentiment were prominent factors. Our position in Foschini was driven by strong signals in value, momentum and quality. The key value factors included cash flow yield, book yield and total enterprise value, while long-term and short-term were prominent in the momentum 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.



Some of the portfolio's largest overweight positions include Anglo American and Astral Foods, while significant underweights include FirstRand Bank and Naspers.

Our overweight position in Anglo American is largely driven by the portfolio's multi-factor view. Our positioning in Astral Foods, meanwhile, is driven by attractive value and positive earnings expectations. The key contributors in the value category are earnings yield, dividend yield, and total enterprise value, while analyst sentiment and news sentiment are prominent earnings expectations factors.

In terms of the portfolio's underweights, FirstRand Bank reflects poor value, in our view, where the key contributors include earnings yield, cash-flow yield and total enterprise value. Our underweight in Naspers is driven by negative momentum, poor quality, poor value and negative earnings expectations. The key contributors in the momentum category are mid-term, long-term and short-term, while growth, profitability and capital utilisation are among the prominent quality factors.