

Discovery Equity Fund

31 July 2025

Market context

Global markets remained upbeat in July, buoyed by easing trade tensions, robust economic data and strong corporate earnings.

US equities rose for a third consecutive month (+2.2%), led by the tech sector after a strong earnings season and subsiding tariff concerns. The Nasdaq hit fresh record highs. European equities also gained, supported by strength in banks and exporters and optimism around a potential US/EU trade agreement. Japanese equities rebounded mid-month as auto tariffs were scaled back and risk appetite returned. Chinese equities rallied on the back of policy stimulus, earnings momentum and improving investor sentiment.

In South Africa, equity markets ended the month in positive territory, supported by a strong performance from precious metals. On the monetary side, the South African Reserve Bank (SARB) cut its key interest rate by 25 basis points to 7%, as expected. However, a surprise announcement from Governor Lesetja Kganyago, indicating that the SARB would lower its inflation target to 3%, sparked controversy. The timing appeared to catch National Treasury off guard, prompting Finance Minister Enoch Godongwana to release a statement rejecting the validity of the move, stating that such changes require Treasury's approval. Despite the political tension, bond markets responded positively: the 10-year government bond yield fell to around 9.6%, its lowest level since January.

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 Telkom. Our decision to hold an overweight position in Sasol was influenced by strong value and quality signals. Key contributors in terms of value were book yield, cash-flow yield and earnings yield. In terms of quality factors, forecast and historic growth, historic profitability, and low volatility were prominent features. Our positioning in Telkom, meanwhile, was driven by strong signals in earnings expectations, momentum and value. The key contributors in the value category included book yield, cash-flow yield, dividend yield and earnings yield.

Among the largest detractors from relative performance were the portfolio's overweight positions in Life Healthcare and Sappi. Our exposure to Life Healthcare was driven by strong signals in earnings expectations, valuation and quality. Within the quality segment, capital utilisation and low volatility were prominent, while dividend yield and cash-flow yield were the standout features within the value category. Strong signals in earnings expectations, momentum, valuation and quality drove our decision to hold an overweight position in Sappi. The key contributors in terms of quality included forecast and historic growth, and low volatility. Within the value category, book yield, cash-flow yield, earnings yield and dividend yield were among the main drawcards.



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 AngloGold Ashanti and Sasol, while significant underweights include Gold Fields and Anglo American.

Our overweight position in AngloGold Ashanti is largely driven by positive earnings expectations and momentum factors. In terms of Sasol, our overweight position is largely driven by attractive value, positive momentum, strong quality and positive earnings expectations. In terms of the portfolio's underweights, in our view, Gold Fields displays poor value and negative momentum and weak quality, while Anglo American reflects negative earnings expectations and weak quality.