

Discovery Global Value Equity Feeder Fund

30 June 2025

Market context

Global equities overcame tariff turbulence and hostilities between Iran and Israel to end the second quarter of 2025 in positive territory. The MSCI ACWI Index gained 11.5% over the three months, ending the period with a 4.5% rise in June. With the global equity benchmark comprising over 60% US stocks, the performance largely reflected a robust showing by the US market, which was helped by some encouraging economic data releases and the resurgence of some of the 'Big Tech' equities. Nevertheless, European and UK shares still delivered positive returns in Q2 overall, recovering in May and June from April's tariff-induced wobble, while emerging markets equities were particularly strong. By sector, information technology was the standout performer in Q2 – the tech-focused Nasdaq index was up about 18% over the period, with telecoms and industrials equities also faring well. Energy was among the weakest equity sectors, despite the threat to a crucial oil-supply route in the Middle East after conflict broke out between two of the region's dominant protagonists.

Performance

For the quarter, the portfolio outperformed the benchmark. The contributors to relative returns spanned a broad range of themes and sectors, including air travel, our Brazilian holdings, financials and selected positions in technology. Energy services exposure detracted on the back of a weaker oil price.

At the stock level, the top contributors to relative returns included the following. Rolls-Royce continued to reach new highs, recovering all of the 'peak tariff fear' drawdown of early April and more. The firm reiterated its guidance at May's AGM, with some positive detail on its civil aviation business, while recent newsflow on the firm – potentially re-entering narrowbody jets, China potentially shifting from Boeing to Airbus for good, and growing appreciation of Rolls-Royce's defence exposure – was taken positively by the market. Semiconductor equipment supplier Aixtron had been very weak prior to last quarter, but finally recovered some of that underperformance, reporting quarterly results that, while weak, were seemingly less bad than feared, resulting in the stock rising sharply. Allfunds, a technology company that specialises in fund distribution and investment solutions, posted strong numbers in the quarter, including very good client inflows, far in excess of consensus expectations. Leisure travel company Jet2 delivered a positive trading update in April, pointing towards full-year profits ahead of consensus, promising summer 2025 bookings, and the launch of a £250 million share buyback programme. Investment platform XP also delivered quarterly results ahead of expectations and performed strongly in the quarter overall; it was further lifted by a strong quarter for Brazilian stocks generally.



The primary detractors from relative returns included the following. Banking software company Temenos reported disappointing quarterly results, which revealed a slow start to the year, attributed to an expected down-sell from a large buy-now-pay-later player and deal slippage (most of which has apparently subsequently been recovered). Oilfield services companies NOV and Schlumberger's share-price performances in Q2 reflected a declining oil price. Kazakhstan-based fintech Kaspi.kz lowered its guidance in quarterly results, citing macroeconomic headwinds factors outside its control, evolving domestic regulations and broader market volatility. While we usually focus on stocks we hold in these updates, it was a quarter in which stocks we do not hold featured notably among the relative detractors, namely NVIDIA, Microsoft and Broadcom.

Outlook

Given the brief drawdowns in global and particularly US markets, it is worth revisiting the relative valuations of major equity markets, which at the start of the quarter (during 'peak tariff fear') had started to see US premium valuations narrow vs. the rest of the world, particularly Europe. That didn't last long, though, and US valuations are still exceptionally high. We continue to see significant value in non-US stocks broadly, and there are scenarios where a reversion to more 'normal' equity market conditions would be very beneficial for the portfolio.

However, we do not construct our portfolios based on any reliance on macro scenarios playing out, instead looking for the best ideas on a bottom-up basis that meet our return criteria, irrespective of what other investors may determine a 'fair' equity risk premium at different points in the investment cycle. With this approach, we are finding no shortage of potential investments, reflected in the diverse spread of contributors to relative returns in the most recent quarter, spanning a broad range of themes and sectors. Looking forward, our portfolios remain attractively valued, with upside potential that we regard as compelling.

We are positioned as follows:

- Sector bias: overweight industrials and consumer discretionary.
- We continue to find a lot of opportunities in:
 - Travel-exposed sectors and stocks, relating to tourism, aerospace industrials and air travel generally.
 - Auto-suppliers exposed to a transition to electric vehicles (EVs) and hybrids.
 - Idiosyncratic stories across many other economic sectors, from cyclical sectors such as financials and materials, to more defensive sectors such as healthcare and staples.
- Country: overweight UK, Europe; underweight US and Japan.