Discovery Equity Fund

31 August 2026

Market background

August was a strong month for risk assets. Gold jumped 10% as investors sought protection against inflation and financial repression, while emerging markets extended their gains on the back of the AI trade. US Treasury yields ended August marginally higher, though the small move masked considerable volatility. Long-dated bonds sold off through the first half of the month on concerns over the fiscal deficit and heavy Treasury issuance, with the 30-year yield touching its highest level in almost two decades.

South African equities had a strong month, with the FTSE/JSE All Share Index climbing 4.6%, carried almost entirely by a resurgent resources sector, even as the rest of the market traded considerably softer. Fixed-income markets came under pressure. South Africa's 10-year bond yield ended August at around 8.74%, its highest level since mid-month, as a firmer US dollar and hawkish remarks from US Federal Reserve Chair Kevin Warsh reinforced expectations that US rates would stay higher for longer.

Performance review

For the month, the portfolio underperformed the benchmark.

Among the main detractors from relative performance was our underweight position in Gold Fields. Our decision to hold an underweight position was driven by negative signals in earnings expectations, momentum and value. The key contributor in the earnings expectations factors was analyst sentiment, while short-term and long-term were prominent in the momentum factors.

Also weighing on performance was our overweight exposure to WH Group. Our positioning in the counter was driven by strong signals in value and quality. The key contributors in the value category were dividend yield, earnings yield and cash flow yield, while growth, profitability and capital utilisation were prominent in the quality factors.

Turning to positive contributors, our underweight positioning in Naspers was among the main drivers of relative performance, as was our overweight exposure to Sibanye Stillwater. In terms of Sibanye, our decision to hold an overweight position was driven by strong signals in value, quality and momentum. The key contributors in the value category were earnings yield, dividend yield and cash flow yield, while safety, capital utilisation and profitability 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 that is dynamically adjusted to ensure relative risk is actively managed throughout the business cycle. We prefer shares trading at a discount to the market, with positive momentum, strong 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 and Naspers.

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

Turning to the portfolio's underweights, FirstRand, in our view, displays poor value and negative earnings expectations. The standout factors in the value category include earnings yield, cash flow yield and total enterprise value, while analyst sentiment and news sentiment are prominent in terms of earnings expectations. Our underweight position in Naspers reflects the portfolio's multi-factor view.