Discovery Global Value Equity Feeder Fund

Market background

Global equities finished 2023 strongly. The positive sentiment in risk-asset markets was driven partly by declining inflation on both sides of the Atlantic, leading to growing investor confidence that the next move by central banks would be to ease monetary policy. This view gained momentum in December after the US Federal Reserve (Fed) signalled interest rate cuts in 2024.

Developed markets outperformed emerging markets, with US equities leading. Although outperformance in the US was largely driven by the 'Magnificent Seven' technology companies, the rally broadened as the quarter progressed. Chinese equities underperformed, on continued weakness in the country's property stocks and negative sentiment towards gaming-related stocks due to the prospect of further regulation. By sector, IT and real estate were among the best-performing parts of the MSCI ACWI. Energy stocks lagged, reflecting lower oil prices.

Performance review

The Fund delivered a positive absolute return for the quarter, outperforming the benchmark.

The primary contributors to relative returns in the quarter were diverse and included automotive supplier Vitesco Technologies, which received a takeover approach from Schaeffler at a price that was subsequently increased after investor pushback, including from us. Other contributors included Rolls-Royce: a capital markets day by the jet-engine maker was well received by the market, even following the stock's strong rally in the preceding quarters, with more ambitious profit and cashflow targets than expected helping to lift the share price. Bank of America was another contributor, its share-price outperformance driven by expectations-beating Q3 results, released in October. Aircraft lessor Aercap also closed the year strongly, with more insurance proceeds received in relation to aircraft stranded in Russia incremental to the stock's net asset value, and likely to be earmarked for future share buybacks. Automotive supplier TI Fluid Systems also contributed, helped by strong results.

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The main detractors from relative returns included Turkey-based airport operator TAV Havalimanlari, which underperformed after releasing its quarterly results in October. Oilfield services company NOV also detracted, its share-price underperformance reflecting declining oil & gas prices over the three months. British American Tobacco was another detractor, after the company reported a significant impairment on previously acquired businesses in the US, lowering the growth prospects of those businesses. BorgWarner was also a detractor, after the auto-supplier's quarterly results were poorly received by the market. They included a reduction in revenue guidance on the back of lower electric-vehicle-related product sales. Finally, Kazakhstan-based fintech company Kaspi's share price gave up some of its gains in the final quarter of 2023 after a strong run, but remained strongly in positive territory for the full year. We continued to hold all of the detracting stocks mentioned here at the end of the period under review.

Outlook and strategy

Value as a style had a mixed year in 2023, with significant underperformance in the US relative to growth equities, but much better performance elsewhere, such as in Asia and Europe. Against this backdrop, we are pleased to report that the most recent quarter's outperformance has left our value portfolios ahead of their benchmarks for the full year and over longer time periods, with a diverse group of companies and types of value opportunity contributing to relative returns. We will continue to fish in a broad spread of value pools in the year ahead.

Even following the outperformance last year, we continue to see attractive upside potential in the companies we hold. Over the past five years, meanwhile, value has remained significantly underwater vs. growth and quality equities. In short, we continue to see significant value remaining in our current portfolios and are finding no shortage of interesting value opportunities to research.

At the start of a new year, it may be helpful to reiterate our current portfolio positioning.

- 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 most 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.

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