

Discovery Flexible Property Fund

30 April 2026

Market background

Financial markets surged in April, defying significant geopolitical tensions. Global equities delivered their strongest monthly gain since the post-pandemic rally in late 2020, led by a renewed rally in technology and AI-linked stocks. The US-Iran conflict kept oil prices elevated and complicated the inflation outlook, while government bonds came under pressure as higher energy prices pushed out expectations for central bank rate cuts. Despite this, investor sentiment improved markedly as markets looked through near-term risks and focused on resilient corporate earnings and structural growth themes. Global equities, as measured by the MSCI All Country World Index, returned 10.2% in US dollar terms over the month.

In the United States, equities rebounded strongly as investors returned to AI-linked and growth stocks. The technology-heavy Nasdaq rose 15.3%, while the S&P 500 gained 10.5%. Semiconductor and AI-related shares led the rally, supported by strong earnings and renewed confidence in AI capital spending. The Federal Reserve maintained a cautious stance, leaving rates unchanged, signalling that persistent inflation pressure could keep policy tighter for longer.

South African equity markets edged higher over the month, with the JSE All Share Index gaining 1.6%, though the path was volatile. The geopolitical shock weighed on South Africa's trade balance and inflation outlook as higher oil prices and rand weakness dampened sentiment. A brief reprieve arrived mid-month when a temporary ceasefire between the US and Iran was announced, prompting a sharp relief rally. April also saw the largest fuel price increases in South Africa's history, while Eskom's new 8.76% electricity tariff hike took effect simultaneously, creating significant inflationary headwinds. The rand remained under pressure throughout, finishing the month at approximately R16.67 to the US dollar.

Performance review

The portfolio outperformed the benchmark for the month.

Performance was driven primarily by positioning and stock selection within the portfolio's offshore allocation. The largest contributor to relative performance was the overweight position in Hammerson, which rallied strongly following well-received full-year results. These included earnings ahead of expectations, an improved dividend outlook, and continued evidence of operational momentum across its prime UK retail destinations.

Among South African counters, the portfolio's underweight exposure to NEPI Rockcastle was a meaningful positive contributor, as the stock continued to lag the broader sector amid ongoing tax uncertainty and a more challenging Romanian fiscal backdrop. Underweight positions in Lighthouse Properties and MAS plc. also added value, with the latter still constrained by ongoing governance concerns and the continued withholding of dividends.

Stock selection among South African retail-focused names was another source of relative gains. The overweight position in Vukile Property Fund contributed positively, with the stock recovering as the market gained greater comfort with the company's accretive acquisition activity and the strategic case for additional equity capacity.

On the negative side, the portfolio's underweight position in Growthpoint Properties detracted from relative performance, as the stock benefitted from broader sector strength and constructive sentiment around its strategic repositioning.



Outlook and strategy

The listed property sector remains supported by improving operational delivery and strengthening balance sheets. Following a volatile March, fundamentals reasserted themselves in April as the principal driver of sector returns.

Although valuations have recovered meaningfully, the sector continues to offer a compelling combination of income yield and growth. On a relative basis, listed property remains favourably positioned within the context of the domestic bond market.

Underlying fundamentals continue to improve. Tenant demand is normalising, vacancies are trending lower and rental reversions are stabilising across most retail and industrial segments. Although the office sector remains more challenged, pockets of recovery are emerging, particularly in well-located, energy-efficient buildings.

Several REITs are normalising towards higher payout ratios as balance sheets strengthen and interest cover ratios improve. This reflects growing confidence in both dividend sustainability and future growth prospects.

Macro conditions remain an important driver of sentiment. While geopolitical risks remain elevated, the sector's bottom-up fundamentals remain constructive. Combined with a stable rand and contained inflation, the ratings outlook for South African-listed property should remain stable, with potential for further improvement. Selective offshore exposure continues to provide diversification benefits alongside solid operational momentum.

Against this backdrop, the portfolio remains positioned towards domestically focused counters offering sustainable income visibility, strong management execution and disciplined capital allocation, while maintaining selective exposure to higher-growth international opportunities.