Discovery Flexible Property 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

The portfolio underperformed the benchmark for the month.

SA property was the main drag on relative performance in August, as volatility in global yields weighed on the sector. The sell-off was broad-based, hitting the majority of the portfolio's domestic holdings, with higher-beta large-cap names, Fairvest, Vukile, Redefine and Hyprop, among the hardest hit. We used the weakness in share prices to increase our exposure to the likes of Redefine and Hyprop, where the underlying fundamentals remain attractive.

Despite the recent downturn, we believe that the backdrop for SA-listed property remains constructive. A benign interest rate environment continues to ease funding costs as swap margins compress, a net positive for the sector, while persistent undersupply keeps occupancies at record highs across most sub-sectors. There is a clear gap between share prices and strengthening fundamentals, creating an opportunity to add exposure and place the portfolio in a net long position, which helps explain the portfolio's underperformance for the month, as net long positions are typically penalised in a risk-off environment, regardless of the underlying fundamentals.

On the offshore side, Segro, the largest listed REIT in the UK and Europe, was among the standout contributors for the month after accepting a takeover proposal from Prologis, one of the largest US REITs, at roughly a 20% premium to the prevailing share price. We held a long-standing overweight position in the stock through a period of industrial oversupply, backed by conviction in its medium-term fundamentals, and that conviction has been rewarded: the shares are up 30% for the year on the back of the deal. Terms are still being finalised, but the transaction is effectively done, and we expect to receive the proceeds partly in cash and partly in Prologis shares.

Outlook and strategy

Following a strong performance in 2025, the listed property sector has continued to benefit from stronger operational performance and improved balance-sheet discipline. The easing of the mid-year inflation and geopolitical concerns has provided further support to the sector, and looking ahead, we expect this positive momentum to persist, underpinned by resilient fundamentals and a stabilising domestic interest rate backdrop.

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. The office sector remains more challenged, although pockets of recovery are emerging, particularly in well-located, energy-efficient buildings.

Encouragingly, several REITs are normalising towards higher payout ratios as balance sheets strengthen and interest cover ratios improve. This supports both dividend yield sustainability and future growth prospects.

Macro conditions remain an important driver of sentiment. While geopolitical risks continue to rise, the sector's bottom-up fundamentals remain constructive. Combined with a stable rand and contained inflation, the ratings outlook for SA-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.