Discovery Invest

Discovery Flexible Property Fund

31 July 2026

Market background

Global markets split sharply in July, as a reassessment of AI valuations collided with a renewed oil shock. Doubts over AI capex and monetisation weighed heavily on technology and semiconductor stocks, while the collapse of the US-Iran agreement drove oil prices sharply higher, lifting energy, defence and value-oriented markets.

In South Africa, the FTSE/JSE All Share Index (ALSI) closed July marginally higher, with gains spread across a number of sectors. SA banks were the largest positive contributor on a weighted basis, supported by continued earnings resilience.

The South African Reserve Bank (SARB) surprised markets by leaving the repo rate unchanged at 7.0%. Markets had largely priced in a 25-basis-point rate hike following June's annual inflation print of 5.0%, with core inflation also rising to 4.1%. Although the SARB revised its short-term inflation forecasts lower, the central bank signalled that inflation is likely to remain above 4% into early next year, still well above its 3% target.

The SARB's interest rate decision and inflation forecast prompted a sell-off in longer-dated domestic bonds. The rand also weakened, but showed signs of recovery towards the end of the month against a weaker US dollar. By the end of July, the rand traded at around R16.54 to the US dollar, down 0.9% for the month.

Performance review

The portfolio outperformed the benchmark for the month.

The largest contributor to relative performance was the portfolio's off-benchmark exposure to SEGRO, which continued to re-rate strongly following Prologis's earlier takeover approach. Sentiment around the deal, combined with SEGRO's underlying operational momentum in European logistics, drove further gains in the share price over the month.

The portfolio's offshore holdings were the dominant driver of relative performance. Hammerson delivered a further positive contribution against a supportive UK property backdrop, while overweight positions in Sirius Real Estate and Tritax Big Box also added value, underpinned by strong operational delivery and continued investor appetite for high-quality logistics and industrial assets.

Within the domestic component of the portfolio, the overweight position in Vukile Property Fund added value, supported by continued positive newsflow around the group's Iberian acquisition activity and improving underlying earnings delivery. The underweight position in Stor-age also contributed, with the share price coming under modest pressure over the month.

Among the main detractors from relative performance was the overweight position in Fairvest, which sold off following a period of strong performance. The underlying investment case remains intact, supported by defensive lower-LSM retail exposure and continued earnings growth. No changes have been made to the position.

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.