

# Discovery Flexible Property

31 December 2025

## Market background

Global equities maintained their positive momentum as 2025 drew to a close, with the MSCI All Country World Index rising approximately 3% over the fourth quarter (in USD).

By region, emerging markets outperformed advanced-economy equity benchmarks for the year, with a c.5% rise over Q4, helping the MSCI EM Index achieve a c.34% annual gain. Though US stocks modestly trailed the global index in the final quarter of 2025, they lagged by the largest margin since the Global Financial Crisis over the full year.

Nevertheless, despite headwinds from US trade policy, elevated technology valuations and China's AI breakthroughs lifting Asian markets, the S&P 500 Index still ended the year close to its all-time highs.

Global fixed income markets closed the year reflecting a clear divergence in policy paths across regions, after a period of heightened volatility and recalibration through Q4. In the US, rate cuts supported front-end performance and a bull steepening of the yield curve, but uncertainty around growth, inflation and the Federal Reserve's (Fed) internal debate kept markets finely balanced, reinforcing a cautious outlook into 2026. In contrast, Europe and Japan leaned more decisively hawkish: the European Central Bank (ECB) signalled an end to its easing cycle as inflation stabilised near target and fiscal dynamics pushed yields higher, while Japan's exit from ultra-loose policy gathered pace amid persistent inflation and political uncertainty. The UK sat between these poles, with easing inflation and a December rate cut driving a late-year rally, even as fiscal questions and cautious central bank guidance tempered gains.

South African markets closed out 2025 on a strong note, with the JSE All Share Index climbing 8.1% in Q4 to deliver an annual return of 42.4%. The market advanced steadily over the quarter, supported by robust performance in resource-linked sectors, particularly gold and platinum miners, as prices for precious metals rose. South African local currency bonds also had a strong quarter and year overall. The 10-year government bond yield ended 2025 at 8.2%, having started at 10.3%. More broadly, yields declined against a backdrop of benign inflation dynamics, strong demand for South African bonds (from both domestic and foreign investors) and a rating upgrade: Standard & Poor's raised South Africa's sovereign credit rating from 'BB-' to 'BB', with a positive outlook.

The rand finished the year at R16.56/USD, one of the strongest performances among emerging market currencies in 2025, bolstered by higher precious metal prices and improved external balances.

## Performance review

For the quarter, the portfolio outperformed the benchmark.

The property sector continued its strong performance, led by South African-listed names. The sector benefitted from a highly supportive local bond environment, which was further reinforced by solid operational results and broadly upgraded guidance from most companies reporting during the period, building on the positive trend over the past 12 to 18 months.

Property companies have delivered robust topline growth, maintained disciplined cost control and, with interest rates now lower, are seeing a meaningful reduction in finance costs. As a result, earnings momentum is evident across all lines of the income statement, translating into strong dividend growth, with most South African property names delivering high-single to low-double-digit dividend growth.



While valuations have recovered meaningfully, the rally has come off a very depressed base. In our view, the sector remains fairly valued relative to bonds, particularly when considering the improved growth outlook. This combination of income and growth supports the case for the sector to trade at a modest premium to the bond market.

The portfolio delivered a strong performance over the quarter, although returns were modestly diluted by offshore holdings. Over the year, we have proactively reduced offshore exposure from around 20% to well below 10%, while increasing allocations to higher-beta South African property counters. Holdings such as Redefine, Fairvest, Hyprop and Vukile benefitted meaningfully from the strong domestic rally and were notable positive contributors to performance over the period.

The main detractors were offshore holdings, including Merlin Properties, Unibail and American Tower. Importantly, this relative underperformance was not driven by weaker fundamentals or poor absolute returns, but rather by the exceptionally strong performance of South African-listed peers. While offshore names delivered reasonable results, they lagged local counters, which posted high double-digit gains over the same period.

## Outlook and strategy

After a stellar performance in 2025, the listed property sector continued to be supported by firmer operational performance and improved balance sheet discipline. Much of the anticipated improvement in local bonds has further supported listed property on the domestic front. Over the next 12 months, we anticipate that this positive momentum will continue, supported by strong fundamentals and a conducive local bond environment.

While valuations have recovered, the sector still offers a compelling combination of yield and growth. Domestic fundamentals continue on an improving trajectory as tenant demand normalises, vacancies trend lower and rental reversions stabilise across most retail and industrial segments. The office sector remains challenged, but pockets of recovery are evident in well-located, energy-efficient buildings. Encouragingly, several REITs are normalising to higher payout ratios, supporting dividend yields and growth, as balance sheets strengthen and interest cover ratios improve. Macro conditions remain a key driver of sentiment. The interest rate cutting cycle continues to be a supportive driver for returns, both from a rating and financial leverage perspective. Combine this with a steady rand and contained inflation, and ratings for SA-listed property should be stable, if not improving. Selective offshore exposure continues to offer diversification benefits alongside solid operational momentum.

Against this backdrop, the portfolio remains positioned towards domestically focused counters with sustainable income visibility, solid management execution and clear capital allocation discipline, while maintaining selective exposure to higher-growth international names.