

Discovery Flexible Property Fund

31 May 2026

Market background

Global financial markets were broadly positive in May. Equities advanced, led by technology stocks as AI enthusiasm remained a key driver of performance, while renewed hopes of an end to the US-Iran conflict helped lower oil prices. May proved to be a more challenging month for South African markets, with the FTSE/JSE All Share Index closing in negative territory.

Consumer-facing sectors came under pressure from higher fuel costs, tighter monetary policy and weaker disposable income, while financials proved more resilient amid expectations of wider net interest margins. Resources remained volatile, as broader mining sentiment continued to be weighed down by global growth concerns.

Fixed income was a key bright spot. South Africa's 10-year bond yield fell over the month, supported by improved global risk sentiment and hopes of a US-Iran agreement, tighter SARB policy aimed at containing inflation, and Moody's revision of South Africa's outlook from stable to positive.

The rand also strengthened towards month-end, supported by the improved sovereign credit outlook and attractive real yields.

Performance review

The portfolio performed broadly in line with the benchmark for the month.

The listed property sector was relatively flat in May, with geopolitical developments continuing to influence market sentiment. A moderation in bond yields provided some support for domestic property counters, although part of this recovery has since reversed in June.

Performance was primarily supported by the portfolio's overweight positions. Fairvest was a key contributor following strong results, which included top-quartile net property income growth and an upgrade to FY26 distributable income guidance. Equites Property Fund also added value, supported by solid results and the sale of its UK portfolio, which materially strengthened the balance sheet and improved the quality of earnings.

The main detractors were Vukile and Redefine, both of which are significant overweight positions that experienced some profit-taking after a period of strong performance. We remain constructive on Vukile, supported by its quality South African portfolio, Iberian exposure and recent entry into the Italian market. MAS Real Estate was also a detractor, as the share continues to trade largely on corporate action sentiment rather than fundamentals. While we retain a small holding, the company's overall appeal from a real estate perspective continues to decline, both from a corporate governance and underlying investment perspective.

From a portfolio positioning perspective, we took profits in Fortress B and moved to an underweight position, reflecting stretched valuation levels and the company's exposure to NEPI Rockcastle, where we also remain underweight. The proceeds were redeployed to close our underweight in Sirius Real Estate and to add selectively to Growthpoint Properties following recent share price weakness.



Outlook and strategy

Following a volatile March, the sector has traded more closely in line with fundamentals. Supported by a stable rand and steady growth outlook, the outlook for South African listed property remains stable.

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.