

# Discovery Flexible Property

28 February 2026

## Market background

Financial markets were broadly positive in February. US Treasury yields declined, while global equities rose on resilient economic data. Tech stocks had a weaker month, selling off amid concerns about potential AI disruption.

South African equity markets delivered gains over the month, with the JSE All Share Index rising despite some early volatility. Market performance was driven primarily by strength in the resources sector, as precious-metals producers continued to benefit from supportive gold and platinum prices amid sustained global demand for safe-haven assets.

Finance Minister Enoch Godongwana delivered the 2026 National Budget. The Minister highlighted stronger-than-expected revenue collection, ongoing fiscal consolidation efforts, and a commitment to expenditure discipline. These developments support an improving medium-term fiscal outlook and enhance policy credibility as the government continues to deliver a primary surplus. The bond market responded positively, with longer-dated bond yields falling. The rand strengthened and remained relatively resilient on the back of improving fiscal indicators and broader positive sentiment towards South African assets, finishing the month at R15.94 to the US dollar.

## Performance review

For the month, the portfolio outperformed the benchmark.

Among the leading contributors to relative performance was the portfolio's underweight exposure to NEPI Rockcastle. While we continue to view the company as a high-quality business, the share price came under pressure due to near-term headwinds. Tax uncertainty related to the company's corporate structure has clouded its near-term earnings outlook. At the same time, Romania, which accounts for over a third of its portfolio, continues to face fiscal tightening and higher taxes, likely to dampen consumer spending.

Performance was further supported by overweight positions in several South African counters, including Hyprop, Redefine and Fairvest. Improving retail property fundamentals and effective cost management initiatives, including solar investments and operational efficiencies, are supporting earnings growth across the sector.

Among the main detractors from relative performance was our overweight exposure to Hammerson. Although the company reported strong results in February, including earnings guidance ahead of expectations and a robust balance sheet, the broader UK property market remained weak. Despite Hammerson having outperformed the UK market, it lagged stronger South African property peers.

Overweight exposure to Vukile Property Fund also detracted. The company's acquisition activity and request for additional capacity to raise equity weighed on its share price. While this can cap the share price in the short term, we believe the transactions are highly accretive and supportive of long-term growth, strengthening both earnings prospects and the balance sheet. Overall, we remain constructive on Vukile, given its strong retail assets, improving operating fundamentals and disciplined balance sheet.



## Outlook and strategy

Following a strong performance in 2025, the listed property sector has continued to benefit from firmer operational delivery and improved balance sheet discipline. The anticipated improvement in the domestic bond environment has provided further support to the sector. Looking ahead, we expect this positive momentum to persist, underpinned by resilient fundamentals and a supportive local 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; however, 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.