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NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter Two, 2024

Nedgroup Investments Flexible Income Fund

Performance to 31 March 2024	Fund Performance*	Stefi*110%
3 months	2.9%	2.1%
12 months	9.5%	9.0%

The fund experienced a good quarter, with local fixed income assets delivering strong positive returns across the board.

Over the longer term the Nedgroup Investments Flexible Income Fund has delivered on its mandate to outperform cash with a predictable and low risk return signature. Its long-term performance is attributable to its philosophy of investing in a diversified range of fixed income asset classes, avoiding expensive ones and focusing on high credit quality.

Market Commentary

The second quarter of 2024 was overall a strong quarter for global equity markets. The S&P 500 continued its strong trajectory, returning another 4.3%, despite it being narrowly led by a handful of mega-cap tech and AI-related stocks. In general, however, developed market equities (MSCI World Index +2.8%) underperformed emerging markets (MSCI EM Index +5.0%) as softer US economic data and a rebound in China supported EM equities. Fixed income markets were disappointing, as a hawkish FOMC and persistent inflation concerns in some regions tempered rate cut expectations. US Treasuries were flat over the quarter (US Treasuries Index[1] +0.1%), but US Corporate[2] (-0.1%), EU government[3] (-1.2%), and UK government[4] (-1.1%) bonds all generated negative returns. Emerging market bonds[5] fared better, delivering +0.7% over the quarter.

In the US, economic data is slowing, particularly data relating to the US consumer which had previously been resilient. Unemployment rose to its highest point in more than 2 years, and high inflation and interest rates is starting to show in consumer spending and demand. Despite softer economic data and lowering inflation, the Fed remained hawkish at its June conference, with only one cut now being expected in their 2024 projections. The Fed communicated their preference to wait on cutting interest rates until there is more certainty in the downward inflationary trend. The market expects about 45bps of cuts in 2024, slightly more than the Fed. The ECB started its highly anticipated cutting cycle in June, cutting interest rates by 25bps. The projection for future cuts, however, is difficult, as inflation is proving more problematic than the central bank had hoped for, with May inflation (+2.6%) up from 2.4% in April. Inflation is also concerning the BOE, who kept interest rates unchanged at 5.25%. Despite inflation reaching target (2%) for the first time since 2021, high wage inflation is threatening to move inflation back above target.

Election risk is a significant theme in 2024. On the developed market side, UK, French and US elections dominate news. While the landslide win of the Labour party in the UK appear market positive, the uncertain outcome in the French election and Trump clearly the front-runner in the US polls after the presidential debate add to market volatility. On the emerging market side, 'anti-establishment' voting saw surprises in Mexico and even popular governments like Modi's in India underperformed expectations. Local elections, however, delivered a pleasant surprise for South African investors. With the ANC losing the majority vote for first time in 30 years, fears around an ANC, MK and EFF coalition kept investors wary of South African assets. Encouragingly, this outcome was avoided and the formation of a Government of National Unity (GNU), that excluded these leftist parties, was well received by the market.

* Net return for the Nedgroup Investments Flexible Income Fund, A class. Source: Morningstar (monthly data series).

1 LD20TRUU Index; 2 LUACTRUU Index; 3 LEEGTREU Index; 4 LSG1TRGU Index; 5 EMUSTRUU Index

Following the election, local assets were one of the top performers in the Emerging market space over the quarter. The FTSE/JSE All Share index returned an incredible 8.2% for the quarter. Similarly, bonds (ALBI) returned 7.5% and property 5.5%. The Rand appreciated 3.6% over the quarter relative to the US dollar. Inflation linked bonds also delivered a positive 2.6%, but significantly underperformed nominal bonds for the quarter. The long end of the South African government bond curve performed particularly well, as long-term fiscal risks were priced lower.

Cabinet was concluded on 30 June, the composition of which was largely welcomed by market participants. In a key position, finance minister Godongwana was re-elected, signalling continuity in fiscal policy prudence. With these positive political developments, there is an increased likelihood of economic reforms. These reforms, together with moderating inflation, lower interest rates, as well as ongoing developments in energy & logistics are significantly increasing the growth potential for the economy going forward. Given the above-mentioned factors, we believe the risk premium demanded for SA assets has decreased.

Current positioning and outlook

- Moderate Duration

As at the end of Q2 2024 domestic duration is 0.82 years in nominal bonds and 0.29 years in inflation-linked bonds. We sold nominal bonds toward the end of the quarter, as positive news around the election translated into stronger bond yields. We sold more longer-dated bonds, as the rally in the longer end of the curve was more pronounced (compression of high fiscal risk premium). The SA risk premium priced into local bonds (10-year tenure) has rallied to 3.5%, which we deem to be fair given the positive fundamental developments.

- Offshore Bonds & Money Market

The fund holds an exposure to Offshore Bonds & Money Market instruments at 14.1% where we aim to generate an equivalent or superior yield to domestic assets hedged back to rands, while maintaining a high degree of credit quality and diversification. Our effective offshore currency exposure is at 3.3%. We still view the local currency (rand) as being undervalued at current levels but believe dollar strength may persist while rates remain high in the US.

- High Credit Quality

The portfolio has a high degree of credit quality. Our credit process has historically shielded the fund from capital loss due to credit events in SA and we are confident in our ability to protect investors' capital in the fixed income space. We retain our preference for a diversified portfolio of senior bank debt and low risk / high grade corporates.

- Convertible Bonds

We continue to look for opportunities in this space, but low yields (relative to nominal bonds), expensive offshore equity markets and stretched balance sheets continues to make this space unattractive.

- Property

The fund currently has a 1.7% exposure to domestic property, a small exposure as we remain concerned around the fundamentals in this sector. We remain opportunistic in our holdings of this sector, but overall still prefer bonds over property.

- Preference Shares

Preference share exposure is at 2.0%, with the majority in the large banks. The pre- and post-tax yield remains attractive and with institutions buying back their preference shares, our allocation is naturally decreasing.

Summary and conclusion

The second quarter of 2024 saw the continued rally in global equity markets, particularly the S&P500, but overall emerging market equities outperformed developed market equities. Global fixed income markets, however, generally disappointed, as a hawkish Fed (despite softer economic data out the US) and continued inflationary pressures in many regions of the developed world continue to stand in the way of a rate rally. Election risk is a significant theme in 2024, adding to market volatility. On the local front, however, the election outcome of a government of national unity (GNU) that excludes leftist MK and EFF parties, has been welcomed by investors, and local assets have rallied significantly across the board. With the increased likelihood of significant structural reforms, buoyed by taming inflation, prospectively lower interest rates, and improvement in the logistics and energy sectors, the growth potential of South Africa going forward has been revised upwards, and tail risks significantly reduced. As a result, we believe the risk premium required for SA assets has reduced.

Disclaimer

WHO WE ARE
Nedgroup Collective Investments (RF) Proprietary Limited is an authorised Collective Investment Scheme and the representative of Nedgroup Investments Funds PLC in terms of the Collective Investment Schemes Control Act. It is a member of the Association of Savings & Investment South Africa (ASISA)..

OUR TRUSTEE
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HOW ARE OUR FUNDS PRICED
Funds are valued daily at 15:00. Instructions must reach us before 14:00 (12:00 for Nedgroup Money Market Fund) to ensure same day value. Prices are published daily on our website and in selected major newspapers.

FEES
A schedule of fees and charges is available on request from Nedgroup Investments. One can also obtain additional information on Nedgroup Investments products on our website.

DISCLAIMER

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Past performance is not necessarily a guide to future performance. Nedgroup Investments does not guarantee the performance of your investment and even if forecasts about the expected future performance are included you will carry the investment and market risk, which includes the possibility of losing capital. Our funds are traded at ruling prices and can engage in borrowing and scrip lending.

Some funds may hold foreign securities including foreign CIS funds. As a result, the fund may face material risks, which could include foreign exchange risks, market conditions and macro-economic and political conditions.

A fund of funds may only invest in other funds, and a feeder fund may only invest in another single fund, both will have funds that levy their own charges, which could result in a higher fee structure.

The Nedgroup Investments Money Market Fund offering aims to maintain a constant price of 100 cents per unit. A money market fund is not a bank deposit. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument held. In most cases the return will merely have the effect of increasing or decreasing the daily yield, but in an extreme case it can have the effect of a capital loss. Excessive withdrawals from the fund may place the fund under liquidity pressures and that in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The yield is calculated using an annualised seven day rolling average as at the relevant dates provided for in the fund fact sheet. Nedgroup Investments has the right to close its funds to new investors in order to manage it more efficiently.

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