NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter Four, 2024

Nedgroup Investments Flexible Income Fund

Performance to 31 December 2024	Fund Performance[1]	Stefi*110%
3 months	1.81%	2.14%
12 months	9.93%	9.01%

The fund experienced a good quarter, with local fixed income assets delivering reasonable returns. Offshore duration, however, detracted slightly from returns, but was somewhat offset by a weaker ZAR, and hard currency exposure held within the fund.

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 fourth quarter of 2024 saw more muted market returns, but, overall, 2024 was a fantastic year for financial market investors. The year was significant in terms of global election news, with more than 70 countries going to the polls in 2024, affecting roughly half the world's population. While equity markets fared well, fixed income markets remained more volatile, primarily driven by geopolitical tensions and central bank decisions responding to continued inflationary concerns.

The S&P continued with its stellar performance, returning 2.4% for the quarter, and 25.0% for the year. In general, global developed markets outperformed emerging markets for the year, with the MSCI All World Index delivering 19.2% for the year, and the MSCI EM Index returning 7.9%. Local market equities saw a reasonable year, with the FTSE/JSE All Share Index gaining 13.4%, despite a 2.1% decline in Q4. The local property sector returned an incredible 28% for 2024, outperforming all other local asset classes.

Global bond investors experienced a difficult year overall, with the FTSE World Government Bond Index declining 2.8%. US rates in particular struggled, continuing to move higher as the extent of the cutting cycle is revised. The US 10-year moved 79bps higher over the quarter, and 69 bps higher over the past year, ending the year at 4.57%. Despite the challenging backdrop, local bonds held up extremely well with the All Bond Index gaining 0.4% for the quarter and 17.2% for the year. Local inflation linked bonds outperformed nominals slightly for the quarter by 0.4% but lagged for the year, returning 7.8% while cash (STeFI composite) returned 8.5%. The rand weakened significantly by 8.9% during Q4 to end the year at R18.90 / USD, 2.8% weaker for 2024.

The re-election of Donald Trump as the US president was likely the most significant event of 2024, spurring much of the bond weakness seen, but strengthening the US dollar significantly. His re-election will have a significant impact on global trade, geopolitics, and financial markets in the years to come. His stated policies of lowering taxes, increasing trade tariffs, deregulation, less fiscal discipline and stricter immigration control are, although near term supportive of US equities, concernedly inflationary and may undo much of the heavy lifting done by central banks globally during the last few years.

The Federal Reserve elected to focus on slightly softer employment numbers and benign inflation prints, continuing its cutting cycle with 25bps in November and December, following the initial 50bps cut in September. December meeting minutes, however, indicate that the Committee was "at or near the point at which it would be appropriate to slow the pace of policy easing." Most FOMC participants also noted while disinflationary progress is still apparent, upside risks to inflation had increased recently, considering stronger-than-expected inflation

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

readings and the potential impact of policy changes from the incoming administration. Resultingly, the committee signalled a slower pace going into 2025 with only two 25bps cuts expected, indicating the benchmark yield should end the year between 3.75% and 4% range which is 50bps higher than the September expectation.

The Trump victory contributed further uncertainty for the Chinese markets as large trade tariffs loom for an economy that has struggled to shift from export manufacturing to local consumerism. In addition to the stimulus measures in Q3, China announced a 10 trillion yuan (USD1.4tr) package during November, aiming to repair municipal balance sheets and support the property sector over the next few years. Although the stimulus is significant, the market expects more, especially post the US election outcome.

On the local front, 2024 proved to be an exceptional year, with the formation of the GNU initiating positive reform and confidence to the South African economy. This quarter saw finance minister Godongwana deliver the medium-term budget policy statement on 30 October. The budget, unfortunately, fell short of market expectations, but expectations may have been unreasonable to start with. Despite lower revenue and higher expenditure expectations, the budget was overall conservative and, positively, primary surpluses are still seen to be rising and debt is still seen to be stabilising.

The SARB continued its hawkish stance, and cut interest rates by 25bps to 7.75% in November, despite inflation declining to a very low 2.8%. Although this low print is largely due to base effects, inflation is expected to remain below 4% for 1H25. The potential impact of the strong dollar, higher global rates and local price risks around electricity, water and wages, however, prompts the SARB to take a cautious stance, and we expect this cautious stance to continue.

Current positioning and outlook

- Moderate Duration

As at the end of Q4 2024 domestic duration is 0.63 years in nominal bonds and 0.38 years in inflation-linked bonds. We reduced nominal bonds slightly in periods of strength. Short-end linkers, particularly in the 2028/2029 area of the curve continue to look attractive, despite lowering inflation expectations, and we continued to add duration in that area of the curve opportunistically over the quarter.

- Offshore Bonds & Money Market

The fund holds an exposure to Offshore Bonds & Money Market instruments at 14.5% 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 2.7%. The rand, depreciated significantly over the quarter, and we view the currency as weak as at quarter end. We sold hard currency exposure into ZAR weakness over the quarter.

- 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 1.6% exposure to domestic property. We have opportunistically sold exposure into strength, as this sector continues to rerate quickly. A lot of good news has, in our opinion, been priced into this asset class and we remain cautious in our exposure.

- Preference Shares

Preference share exposure is at 2.2%, 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

While the fourth quarter of 2024 saw more muted market returns, overall, 2024 was a fantastic year for financial market investors. Equity investors, however, generally fared better than bond investors, as the re-election of President Trump and stickier inflation prints out the US have caused markets to revise the pace and depth of the US cutting cycle. On the local front, bond markets performed well over 2024, with the country risk premium compressing because of positive reform and upward growth projections off the back of the GNU. While the MTBPS disappointed markets, expectations were likely unreasonable to start with and we remain positive that primary surpluses are still seen to be rising and debt is still seen to be stabilising. The SARB continued its hawkish rhetoric and despite low local inflation prints, cut interest rates by 25bps to 7.75% in November, and remain within restrictive policy range. We expect the SARB to maintain this cautious stance as risks for inflation globally remain elevated, and questions around the depth of the US cutting cycle remain.

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

The Standard Bank of South Africa Limited is the registered 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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