NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter One, 2025

Nedgroup Investments Flexible Income Fund

Performance to 31 March 2025	Fund Performance[1]	Stefi*110%
3 months	1.81%	2.01%
12 months	10.73%	8.82%

The fund experienced a reasonable quarter, with local and offshore fixed income assets delivering positive total returns to 31 March. The fund benefited from its holdings in bonds on the short end, to belly of the curve which outperformed the long end of the curve considerably. Local fixed income assets, however, came under pressure in the first week of April following significant market developments, both locally and offshore. The fund's diversified exposure and low-risk signature will, however, shield investors from much of this volatility.

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 first quarter of 2025 saw the year start off very differently from what markets expected coming into the new year. Many expected US exceptionalism to continue under Trump, with one to two rate cuts priced in as inflation slowly lowered and a soft-landing narrative continued to play out.

While tariffs should not have surprised us, the scale and volatility of implementation, particularly after the April 2nd Liberation Day Tariff announcements, have truly set markets off course, with not only growth prospects being downgraded, but also inflationary concerns resurging. This is particularly a concern in the US, where a weakening USD means tariffs are not being offset by currency appreciation and will almost certainly be felt by the consumer. US consumer sentiment tumbled, as did business confidence, with the Atlanta Fed's GDPNow model projecting negative Q1 GDP growth.

The market is now (as of the first week of April) pricing in four interest rate cuts from the US this year, with growth concerns clearly dominating inflationary concerns at present. Prior to the April 2nd Tariff announcement by President Trump, the US 10Y strengthened 36bps over the quarter, to 4.21%, and US 10Y real yields strengthened 39bps to 1.83%. Subsequently, however, yields have experienced continued volatility, with inflation-linked bonds appearing (so far) to underperform their nominal counterparts. A potential stagflationary environment leaves the Federal Reserve in a difficult position going forward, but with their communication at the last FOMC meeting of tariff inflation being transitory (sound familiar?), it appears they are willing to address growth concerns as a priority over price stability.

South Africa is not exempt from the political drama out of the US. Not only has President Trump singled out South Africa on numerous occasions regarding local policy, but South Africa was hit with a 30% reciprocal tariff. It does seem that some goods like steel, copper, pharmaceuticals, and minerals are exempt from the 30% tariff. Other exports like vehicles and citrus, however, will face the full 30% tariff unless some agreements can be made. SA exports to the US made up 8% of total SA exports and 36% of those were PGMs and 75% in total were commodities, so the economic impact might be less severe given some of the above exclusions. The estimated GDP impact at this proposed tariff threshold is around 0.4%-0.5%.

Tariff drama was coupled with continued political drama on the local front, with the GNU appearing to be on the brink of collapse, after the DA failed to vote in the ANC's proposed budget. While the ANC managed to pass their proposed budget with a 0.5% VAT increase garnering support from Action SA, the aftermath of this upheaval has generated considerable concern around future growth and local political stability. Not only did the ZAR weaken against the USD, but local equities and bonds sold off, with the long end of the yield curve moving comfortably over 12%. This selloff implies a considerable rerating of the South African risk premium. The SARB also finds itself in a difficult environment going forward, where a weaker currency, political uncertainty (locally and offshore) and global inflationary pressures will need to be weighed against low growth, low inflation and potentially diminishing global interest rates.

Current positioning and outlook

- Moderate Duration

As of the end of Q1 2025 domestic duration is 0.65 years in nominal bonds and 0.37 years in inflation-linked bonds. As the long end of the yield curve sold off toward the end of the quarter, a small portion of duration was switched to the longer end of the curve, and some duration was purchased into weakness at the start of Q2 2025.

- Offshore Bonds & Money Market

The fund holds 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. Some offshore duration was reduced into the strong US Treasury rally, in the first week of April. Our effective offshore currency exposure was at 2.8% at the end of Q1 2025, but this has been reduced in April as the rand has experienced significant weakness.

- 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 have made this space unattractive. Recent market volatility may, however, open opportunities in this asset class.

- Property

The fund currently has a 1.5% exposure to domestic property. We sold exposure into strength prior to Q1 2025, as a lot of good news we believed was priced into this sector.

- 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 over the past few years, our allocation is naturally decreasing.

Summary and conclusion

If tariffs stay as announced, it may take years to reorganise global trade and financial agreements into distinct tiers, with countries sorted according to their currency policies, trade agreements and security alliances. A period of deep institutional upheaval that reshapes economic and political structures may yet playout, as well as potentially a lot of unintended consequences that may yet reveal themselves. On the local front, continued political uncertainty will continue to drag on investment sentiment and growth. This is the time where a well-diversified portfolio should protect investors against adverse market movements – while also being cognisant of emerging investment opportunities when volatility increases.

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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