



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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A photograph of an open book with white pages, tied with a white string bookmark. The book is positioned on the left side of the page, with the text overlaid on the right.

NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter Two, 2025

Nedgroup Investments Flexible Income Fund

Performance to 30 June 2025	Fund Performance ¹	Stefi*110%
3 months	2.8%	2.0%
12 months	10.4%	8.7%

The fund experienced a strong quarter, with local fixed income assets performing particularly well over the quarter ending 30 June 2025. The fund benefitted in particular from its holdings in local nominal bonds, property and preference shares.

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

Heightened geopolitical risks, including tariff announcements around “Liberation Day” and the escalation of conflict in the Middle East, contributed to considerable market volatility over the quarter. Nevertheless, global equity markets closed out the half-year at record highs and global bond markets ultimately also delivered positive performance, with the Bloomberg US Treasury Index returning 0.8% for the quarter. Softening inflation data, some easing in geopolitical tensions toward the end of the quarter, and a more dovish market tone contributed to a gradual move lower in yields.

The Federal Reserve kept policy rates on hold in June, showing softening economic forecasts, but higher inflation risks. Markets are pricing in a meaningful probability of a rate cut in September, but the Fed continues to communicate their data dependence. Notably, long-duration Treasuries underperformed their shorter-dated counterparts, reflecting concerns about persistent inflation as well as elevated fiscal deficits. These concerns are centered around President Trump’s proposed “big, beautiful bill,” which could add an estimated \$3–\$5 trillion to the fiscal deficit, alongside uncertainty around the inflationary consequences of renewed tariffs and ongoing fiscal stimulus. These factors also contributed to continued weakness in the USD.

European government bonds outperformed their US counterparts over the quarter. Easing inflationary pressures allowed the European Central Bank to cut policy rates in both April and June. Although President Lagarde signaled that the ECB is approaching the end of its cutting cycle, market participants still expect an additional rate cut before year-end, given inflation forecasts that continue to undershoot targets. In the UK, the lingering economic effects of Brexit, combined with entrenched inflation, have pushed the risk premium on Gilts higher, particularly at the long end of the curve, which remains steep. Restrictive monetary policy persists, although weakening economic data suggest that policy tightening is likely to ease in coming quarters.

Turning to the domestic market, South African bonds performed exceptionally well. The FTSE/JSE All Bond Index (ALBI) returned a robust 5.9% over the quarter. Contributing factors included weaker USD demand, the de-escalation of trade tensions towards quarter-end, and significant local developments. Discussion of a potential reduction in the inflation target from 4.5% (mid-point of the 3%-6% inflation band) to 3% drove both the rand (+3.3%) and nominal bond yields stronger. The South African Reserve Bank (SARB) published a research paper outlining the potential benefits of a lower inflation target and urged National Treasury to agree timeously, arguing that implementing such a change during a period of low inflation would minimise transition costs. Local inflation-linked bonds delivered 0.8% over the quarter, lagging their nominal counterparts quite significantly, as the benefits of lower inflation expectations are less advantageous for this asset class.

The potential revision of the inflation target introduces greater uncertainty into long-term inflation expectations, complicating the valuation of long-dated bonds. Assuming the country risk premium remains unchanged at levels we deem appropriate, market pricing implies long-term inflation expectations of approximately 4%, a level between the existing and proposed targets. As a result, bond valuations are increasingly binary, hinging on the eventual policy decision regarding the inflation target.

While the near-term impact on bond and rand returns has been clearly positive, we remain cautious about the longer-term implications of a lower inflation target. Achieving this would likely require the SARB to maintain higher real rates for an extended period, which could be challenging in an economy already grappling with sluggish growth. Furthermore, there are material risks that such a framework could worsen South Africa's debt-to-GDP trajectory, which is already under strain. Unfortunately, fiscal space to absorb policy missteps is very limited. For now, however, the market appears unfazed, with the yield curve continuing to bull-flatten in response to the proposed changes.

It appears the SARB and National Treasury are close to concluding their technical review of the proposed inflation-targeting framework and are expected to submit recommendations to the finance minister shortly. We continue to monitor these developments closely, as the ultimate direction of monetary and fiscal policy — and with it, local fixed income valuations — will be heavily influenced by this decision.

Current positioning and outlook

- **Moderate Duration**

As at the end of Q1 2025 domestic duration is 0.67 years in nominal bonds and 0.33 years in inflation-linked bonds. The fund benefited from the strong performance in local nominal bonds, particularly in the long end of the curve. The fund switched bonds in the short end /belly of the curve to longer dated bonds early in the quarter, allowing for the fund to participate in the flattening of the curve as a result of a potentially lower inflation target, without adding additional duration risk.

- **Offshore Bonds & Money Market**

The fund holds exposure to Offshore Bonds & Money Market instruments at 12.3% 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. Offshore duration was reduced into the strong US Treasury rally, in the first week of April. Our effective offshore currency exposure was at 2.3% at the end of Q2 2025, keeping USD exposure low as we maintain a bearish USD outlook.

- **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 1.7% exposure to domestic property. While this sector also benefitted from a rally off the back of a potentially lower inflation target, we maintain the view that a lot of good news is priced into this sector and remain low in our allocation.

- Preference Shares

Preference share exposure is at 2.3%, all in the large banks. The pre- and post-tax yield remains attractive and with institutions buying back their preference shares the past few years, our allocation is naturally decreasing. ABSA announced the repurchase of their preference share this quarter at an attractive price (93 clean price), and the fund's exposure (at 1.55%) will reduce as a result.

Summary and conclusion

Heightened geopolitical tensions and trade tariffs drove market volatility over the quarter, but global markets still posted positive returns. Softening inflation data, some easing in geopolitical tensions toward the end of the quarter, and a more dovish market tone contributed to a gradual move lower in yields. US long-dated Treasuries, however, underperformed around inflation and deficit concerns linked to President Trump's proposed fiscal package. In South Africa bonds surged, with the ALBI returning 5.9%, largely driven by the potential lowering of the inflation target to 3%. The SARB believes a lower target can be implemented with less disruption while inflation prints are low and is seeking an urgent decision from National Treasury. The longer-term risks around the impact on debt sustainability and growth, however, remain a potential concern.

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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