NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS MANAGED FUND

Quarter Two, 2025

Nedgroup Investments Managed Fund

Performance to 30 June 2025	Fund[1]	ASISA Category[2]
3 months	7.3%	8.3%
12 months	19.6%	21.5%

Market Overview

The global investment landscape continues to shift under the weight of escalating geopolitical tensions, an increasingly inward-looking U.S. foreign policy, and unsustainable debt accumulation in the U.S. While U.S. markets remain supported in the near term by a weaker dollar and softer energy prices, risks are rising. In contrast, South African assets, though not immune to global headwinds, offer relative value and some insulation amid higher global volatility.

U.S. foreign policy is negative for global growth and equity risk premia

The United States is increasingly inward-focused and no longer acting as the primary guarantor of the rules-based international order that has broadly prevailed since the Second World War. This shift towards a more multipolar world is likely to embolden other powerful countries to pursue their own interests, potentially at the expense of global stability. This rise in political and economic risk does not appear to be reflected in current market valuations.

Aside from the heightened risk of global conflict, countries will also need to allocate greater resources to their own defense, as evidenced by NATO members' renewed commitment to significantly higher military spending. Much of this expenditure, although increasing GDP, is unlikely to be as economically beneficial as investment directed towards more productive avenues.
Furthermore, much of the United States' inward focus appears to yield limited benefits. Defence spending has not been reduced, savings from cuts to foreign aid in areas such as food and health initiatives are minimal, and the adverse economic consequences of broad-based tariffs have been extensively demonstrated by reputable economists.

In contrast to these external policy shifts, several domestic policies under the current administration are also negative for long-term economic growth. Political attacks on what has historically been a relatively well-functioning and independent judicial system risk undermining institutional credibility and the rule of law, which are essential foundations for economic confidence and investment. Additionally, a non-evidence-based approach to aspects of health care policy, including politicisation of public health decisions, reduces the effectiveness and efficiency of health outcomes and spending.

U.S. current debt path unsustainable

The U.S. federal debt held by the public at the end of June 2025, stands at approximately $36 trillion or 123% of the country's GDP, having more than doubled since 2000.

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[1] Nedgroup Investments Managed Fund, A-Class, net of fees.
[2] ASISA South Africa Multi Asset SA High Equity

Trump's Big Beautiful Bill is estimated to add a further $3 trillion to national debt over the next decade. On the surface, the bill provides a short-term boost to consumption, employment, and industrial activity, particularly in sectors tied to domestic construction, energy, and defence. However, the legislation will reduce tax receipts more than spending cuts, while diluted tariffs will fail to generate sufficient revenue to offset tax cuts. Concerningly, the next decade is likely to be far costlier than the last one, which was helped by ultra-low interest rates. Interest costs are now growing faster than any other budget category due to higher interest rates and debt accumulation.

Elevated debt levels limit fiscal flexibility and may raise borrowing costs if investor confidence wanes. While determining the threshold which bond markets deem an acceptable debt level remains extremely difficult, many market participants remain relatively unconcerned. This is likely due to the fact that concerns over rising U.S. debt have persisted for many years without triggering meaningful market dislocations.

At present, the debt burden appears manageable, largely because bond yields remain below the rate of GDP growth. However, if bond yields begin to rise above the pace of economic expansion—potentially triggered by investor concerns about overspending—the government could be forced into a painful fiscal consolidation involving significant tax hikes and spending cuts. Such measures would likely be negative for both GDP growth and broader U.S. market performance.
Whilst there is no viable alternative to the U.S. Dollar as the world's reserve currency, we expect the overvaluation of the dollar and concerns regarding U.S. policy discussed above, together with the unsustainable fiscal deficits, to continue weighing on the dollar.

In the near term, the U.S. market will be supported by a weaker dollar and lower oil price, which could provide some relief to growth and corporate margins. However, the tail risk of rising bond yields is growing as is the risk of eventual fiscal consolidation and a commensurate growth slowdown.

U.S. slowdown is likely despite resilient hard data

Soft high-frequency data, which includes surveys like consumer confidence, business sentiment, and the Purchasing Managers' Indices (PMIs), have highlighted broad-based weakness in U.S. economic sentiment.

On the other hand, hard economic data has remained relatively strong, with the unemployment rate remaining stable at 4.1%. Whilst other key metrics, such as payrolls and industrial production, show no signs of an imminent downturn, we have finally started to see signs of a slowdown in May consumer spending. Despite the above positive picture that the hard data paints, we expect the U.S. economy to slow into the back end of the year, as the hard data inevitably catches up with current soft data sentiment. In addition, Trump's reciprocal tariff deadline of July 9th is fast approaching, and businesses still don't know the size and scope of the tariffs they will face. This reduces their ability to operate and manage their supply chains. At a company level, U.S. corporate earnings outlooks have become increasingly opaque. Even if tariffs remain at current levels, businesses will still have to decide how much of the additional costs they can absorb in their margins and how much they will pass through to the end consumer. Despite the slowing economy, we expect the Fed to remain cautious about cutting rates without knowing the full impact of Trump's ever-changing tariffs on inflation.

SA assets remain a safe harbour in a stormy global sea

In South Africa, GNU stability has been tested in the first half of 2025, impacting positive sentiment and the growth outlook. The coalition's ability to manoeuvre through the inevitable challenges will determine whether it can sustain its momentum into 2026. For now, both investors and political analysts view the GNU as stable but fragile, capable of pushing reforms but requiring careful management of inter-party dynamics.

SA focused companies' earnings growth prospects have reduced in 2025 on the back of slower than expected economic reform and a fragile and slowing global growth backdrop. Despite the slower than anticipated growth, SA should still deliver a better GDP performance than it did last year, enabling many of the locally focused companies to grow their earnings, albeit at a slower than expected rate.
Given South Africa's lower growth outlook and slow pace of economic reform, fiscal consolidation remains critical in preventing an unsustainable buildup of debt to GDP. While Moody's post-budget commentary reflected a marginally more optimistic view of South Africa's fiscal trajectory, the agency continued to warn about the risks of weak growth, elevated social spending, a bloated public sector wage bill, and low levels of fixed investment.

Despite these structural challenges, select SA focused companies' valuations have improved on the back of their underperformance over the last six months and are starting to look attractive once again. From a fixed income perspective, the decline in nominal yields and narrowing of the spread between South African and U.S. bond yields, combined with the growing tail risks associated with higher long-term global interest rates, particularly in the U.S., reinforces the case for maintaining a low duration bias within our portfolios.

In summary, given the increasing levels of geopolitical risk globally and rapidly shifting economic policies toward self-preservation, we anticipate volatility to rise as the market gains greater clarity around the impact of these policy changes on company profits and long-term interest rates. Despite continued uncertainty, Truffle continues to find good opportunities in both globally and domestically focused companies with significant margins of safety. This means we can construct well-diversified portfolios, which are able to withstand volatility and a range of different economic outcomes.

Performance Commentary

A temporary easing of trade tensions and geopolitical uncertainty saw global markets bounce back over the second quarter. Gold came down from lofty highs as investors upweighted riskier assets once again. South African markets followed suit posting strong second quarter returns with SA equities in the lead (Capped SWIX 9.7%). Both local Bonds (ALBI) and Property (SAPY) were also strong returning 5.9% and 9.1% respectively. Within equities, SA Industrials (11.8%) led local sector performance with good returns from Telcos and Naspers. SA Resources (9.2%) was once again supported by Platinum miners.

Naspers and Prosus contributed strongly to Q2 equity market returns and a meaningful position benefitted fund performance. Pleasing Tencent results with better earnings visibility were well received, but the key reason for the outperformance was Prosus financial results in June. These results demonstrated that the core e-commerce businesses were free cash-flow positive for the first time, meaning that a full passthrough of the Tencent dividend to Prosus shareholders is in sight.

Exposure to foreign-exposed industrials (British America Tobacco and Anheuser) also contributed while select SA Banks added to performance. Platinum miners contributed to outperformance given constrained supply.

Detractors over the quarter included gold miners who lost some of the significant Q1 gains. A holding in Aspen proved to be the largest detractor. The share derated significantly following the surprise announcement of the loss of an mRNA manufacturing contract. No detail was provided, but it is probably fair to assume that the change to global tariffs would've played a role. Importantly however, this dispute is not related to Aspen's manufacturing capabilities or quality of their facilities. Aspen should be able to fill the excess capacity in future years, but clearly this will now take much longer than expected.

From a fixed income perspective, the fund benefitted from falling bond yields.

Portfolio Movements

Over the quarter, we sold a position in Richemont taking profits after the luxury business share price rerated. This was driven by strong financial results (especially in jewellery), and resilience outside China. We anticipate a weak quarter of luxury earnings ahead as many luxury companies are still rebasing after excessive price increases in the last few years.

We reduced a position in Standard Bank and have added to Capitec given improved and more compelling valuation metrics. We also added to a position in Investec. We added to a position in diversified miner Glencore, as we remain constructive on copper. The stock is trading at a significant valuation discount while the business continues to generate strong cashflow.

From a fixed income perspective, the decline in nominal yields and narrowing of the spread between South African and US bond yields, combined with the growing tail risks associated with higher long-term global interest rates, particularly in the US, reinforces the case for maintaining a low duration bias.

Heading into the third quarter we remain relatively defensively positioned given heightened uncertainty. While GNU instability increases risk to South Africa's economic prospects, we are focused on finding and holding exposures to select opportunities that aim to drive capital and income growth in the portfolio.

Responsible Investing

Regulatory environment

- **Social & Labour Impacts of Tariff Uncertainty and Automation -** Ongoing tariff uncertainty and rising input costs placed increasing pressure on companies to cut expenses, particularly through workforce reductions. Walmart, Target, Apple and Ford are a few examples of high-profile companies announcing job cuts. The adoption of AI and automation is also set to impact employment levels as supply chains are disrupted and rerouted

- **Climate Goals Under Pressure Amid Policy and Cost Challenges** - A mix of pragmatism and political resistance continues to threaten global renewable energy targets, impacting mineral demand for the green transition. Although some countries have reaffirmed their renewable energy targets, we are monitoring delays from renewable developers given high costs and regulatory constraints..

- **Shifting US climate policy landscape**: The evolving structure of the US's "Big Beautiful Bill" creates uncertainty for climate related initiatives given varying impacts on existing electric vehicle and renewable energy credits. While the legislation is still to be finalised, it will likely have significant implications on the profitability and viability of green economy sectors in the US.

- **Germany's Green Budget Sparks Debate** - Germany announced its largest green spending program in history, targeting renewable energy, electrification and infrastructure. However, some climate activists criticised the inclusion of funding support for natural gas storage. This highlights the tension between energy security and decarbonistion priorities.

- **Mixed momentum across Emerging Markets** - Brazil's renewable energy companies face a number of challenges including supply chain snags, high borrowing costs, and transmission line issues. Meanwhile, Thailand and Indonesia are driving a faster rollout of renewable energy. In South Africa, the updated Accelerating Coal Transition investment plan has been approved, unlocking up to $2.6bn in financing.

Engagements

- **Greencoat Renewables** (newly listed on the JSE; European renewables exposure). We engaged with management on the European renewable energy landscape, given permitting delays and grid connection bottlenecks in the region have historically slowed growth. Reforms are underway to speed up project approvals. Management highlighted an improving environment for project permitting, with timelines starting to shorten. Furthermore, their borrowing costs have started to decline.

- **Naspers/Prosus** (Capital allocation and shareholder returns) - Our engagement focused on their capital allocation strategy, specifically efforts to narrow the discount to NAV, and provide clearer guidance on dividends. Encouragingly, the e-commerce portfolio has turned positive at the EBIT level, supporting the longer-term investment case.

- **Short-Term Insurers and Risk of Civil Unrest** - We held discussions with the short-term insurers and short-term insurance divisions of life insurance companies around to assess emerging systemic risks. A key concern being the potential for another riot similar to those in KZN in 2021. Although direct exposure remains limited, insurers noted indirect risks if policyholders are unable to recover from events not covered by Sasria. Given Sasria's capital constraints, this remains a tail risk worth monitoring.

- **Aspen contracts and tariff-driven disruption -** Aspen experienced a significant decline in share price when a client used the adverse event of tariff announcements to exit a contract. This had a direct impact on company profitability and raised concerns about contractual risk across the client base. We engaged with a number of brokers and company management to understand the broader implications. No further adverse developments have emerged, and the immediate risk appears to have abated.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Naspers Ltd	6.21%	1.25%	Aspen Pharmacare	0.99%	-0.49%
Prosus NV	6.22%	0.94%	Sappi Ltd	0.65%	-0.13%
Capitec Bank Holdings Ltd	3.01%	0.51%	Harmony Gold	0.74%	-0.10%
R2035 Govt Bond: 8.875% 280235	7.22%	0.49%	Gold Field Ltd	1.88%	-0.07%
British American Tobacco PLC	3.57%	0.47%	Boxer Retail Ltd	0.62%	-0.06%

Asset Allocation	Domestic	Foreign	Total
Equity	72.64%	-	72.64%
Fixed Income	21.67%	-	21.67%
Property	4.42%	-	4.42%
Cash	1.27%	-	1.27%
Equity Derivatives	-	-	-
Total	100%	0.00%	100%

Source: Truffle, as at 30 June 25

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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