NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS RAINMAKER FUND

Quarter Two, 2025

Market context

Global equities ended the second quarter on a strong note, with emerging markets edging ahead of developed peers. The MSCI Emerging Markets Index gained 12% in US dollar terms, marginally outperforming the MSCI World Index, which rose 11.5%.

In the US, equities advanced as recession fears eased and the prospect of renewed trade negotiations with key partners lifted sentiment. Non-farm payrolls showed improvement, while subdued inflation strengthened expectations of two additional rate cuts before year-end. European markets also moved higher. A delay in US tariffs on European Union imports provided relief, while a rate cut by the European Central Bank in June and a firmer euro further supported equity performance. In China, equities posted modest gains, despite trade tensions persisting beneath the surface. Although a temporary pause in tariffs was agreed between the US and China, Chinese exports to the US declined sharply, placing pressure on export-driven sectors.

South African equities ended the quarter in positive territory, lifted largely by renewed strength in the resources sector, with platinum particularly strong. Political developments were front of mind for investors, with the Government of National Unity (GNU) securing agreement on a revised fiscal framework. President Ramaphosa’s diplomatic outreach to the US further signalled political alignment. While cabinet tensions flared in June following the dismissal of a Democratic Alliance minister, relations between the two largest coalition parties showed signs of stabilising as the quarter drew to a close.

Performance

The portfolio delivered a positive absolute return for the quarter, slightly trailing the benchmark in line with its expected return profile during risk-on environments. Meaningful contributions came from both domestic and global equities, with South African equities marginally outperforming offshore holdings.

Among domestic names, Prosus performed strongly, driven by solid growth in its e-commerce operations and an ongoing transition to a more focused operating company model, which supported improvements in profitability, free cash flow generation, and returns to shareholders. British American Tobacco delivered stable results, with its defensive earnings profile and dependable dividends providing support in a volatile global environment. Capitec was also a key contributor, reflecting strong earnings across its business lines, accelerated digital adoption, and the successful scaling of new product offerings in credit and insurance.

Not owning certain domestically exposed retailers, which lagged during the period, helped offset some of the drag. Our domestic positioning remains focused on higher-quality, resilient businesses with strong balance sheets and self-help levers, rather than relying on cyclical economic recovery or overly optimistic consumer demand assumptions.

Within the portfolio’s global allocation, several holdings delivered standout performances. Booking Holdings advanced after a strong first quarter, with travel demand remaining robust. The company reported record levels of nights booked, comfortably ahead of expectations, and noted that global leisure travel remains resilient despite macroeconomic and geopolitical uncertainty. Microsoft performed well, supported by both a favourable tech environment and strong results at the end of April. Growth was broad-based across its business units, while cost control and slowing capital expenditure drove improved free cash flow guidance, now expected to accelerate into the high teens in FY26. Taiwan Semiconductor Manufacturing Company (TSMC) also added positively to performance, supported by strong demand for advanced chips, particularly those enabling artificial intelligence applications, as well as improved investor sentiment around semiconductor earnings resilience.

Tax software provider Intuit also added meaningfully to returns. The company reported results that exceeded expectations, supported in particular by a very strong performance from its TurboTax unit, which grew its customer base by 24%. NetEase, the Chinese gaming and technology company, posted a robust set of first-quarter earnings, driven by a combination of successful new game launches and sustained monetisation in existing franchises.

While overall returns were positive, certain positions and absences detracted from relative performance. Not holding NVIDIA, which rallied further in Q2, was the largest single detractor. Similarly, not holding Broadcom also weighed on performance as demand for AI-related semiconductors continued to lift the sector. Visa lost ground following the US Senate's passing of the GENISIS Act, which introduces regulation around stablecoins. Additional headlines suggested that major retailers such as Walmart and Amazon may explore issuing their own stablecoins. While this has raised concerns around potential disruption to traditional payments infrastructure, we believe Visa remains well-positioned. Its multi-node authorisation network is structurally difficult to replicate, and the benefits of stablecoins to end users versus established card networks remain uncertain at this stage.

ICON, the clinical research organisation, detracted from returns after revising its annual guidance lower in April due to softer biopharma activity and broader uncertainty in the sector. That said, performance recovered somewhat in June, and management has emphasised that current conditions are cyclical rather than structural. Beiersdorf, the skincare group, also detracted modestly, despite delivering a marginal earnings beat in Q1 and reaffirming full-year guidance. While the stock lacked a clear positive catalyst during the quarter, we remain constructive on the medium-term outlook, with growth expected to be supported by innovation in areas such as Thiamidol and Epicilline. Conversely, the decision not to hold Apple contributed positively to relative performance, as the stock lagged other large-cap technology names.

Outlook

The investment environment remains complex, shaped by persistent geopolitical tensions, uneven inflationary pressures, and diverging monetary policy paths across regions. This continues to create volatility and market dispersion, with performance increasingly driven by fundamentals and stock-specific outcomes rather than broad beta.

Against this backdrop, we remain focused on building a resilient equity portfolio anchored in our quality philosophy. We favour companies with strong balance sheets, consistent earnings, and durable competitive advantages – traits that support both capital preservation in volatile periods and long-term growth as conditions normalise.

We are encouraged by the performance of our holdings this quarter and continue to find compelling opportunities through our disciplined, bottom-up research process. While markets remain headline-driven, our approach is rooted in identifying realisable growth at reasonable valuations, with a focus on businesses that can deliver through cycles, not just in favourable conditions. We believe that quality continues to offer the best combination of resilience and compounding potential in today's environment. As ever, our priority remains delivering consistent outcomes for our investors.

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.

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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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