



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

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A photograph of an open book with white pages, tied with a white ribbon bookmark. The book is positioned on the left side of the page, with the pages fanning out towards the right.

NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter Three, 2025

Nedgroup Investments Flexible Income Fund

Performance to 30 June 2025	Fund Performance ¹	Stefi*110%
3 months	2.45%	1.93%
12 months	9.17%	8.29%

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

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

Global fixed income markets were shaped this quarter by a notable cooling in US economic momentum, heightened focus on Federal Reserve communication, and renewed debate over central bank independence.

After demonstrating remarkable resilience through the first half of the year, US economic data moderated meaningfully over the quarter. Labour market indicators softened, with non-farm payrolls coming off markedly. Additionally, disruptions to official reporting during the temporary US government shutdown added further disturbance and contributes to continued deterioration of investor sentiment.

Against this backdrop, US Treasury yields moved lower, reflecting expectations of a policy pivot. The 10-year Treasury yield ended the quarter around 4.2%, down from the highs seen earlier in the year, while shorter-dated yields declined more markedly as markets priced in rate cuts over the coming quarters. The front end led the rally, but despite the rise in rate cut expectations the US yield curve remains notably steep, reflecting investor unease amid expansive fiscal policy and heightened policy uncertainty.

Federal Reserve communication played a critical role in driving market sentiment. Policymakers signalled an increasing willingness to respond to softer growth data, though they have been careful to avoid pre-committing to a specific path. Market participants have also been closely watching governance developments at the Fed following the appointment of Dr. Stephen Miran to the Board of Governors in September. While Miran's appointment fills a short-term vacancy, the speed and context of the appointment have reignited concerns about the potential politicisation of monetary policy. These developments have injected an additional layer of uncertainty into rate markets, with investors particularly attentive to the Fed's efforts to maintain its independence and credibility at a potentially pivotal juncture in the policy cycle.

In the euro area, the ECB paused its easing through Q3, maintaining its key rates unchanged as inflation hovered near target and underlying pressures remained uncertain. In the UK, the Bank of England delivered a modest cut in August — lowering Bank Rate by 25 bps to 4.00 % — supported by signs of disinflation, though core price pressures and sticky wage growth kept the path of further easing cautious. Meanwhile in Japan, the Bank of Japan held policy rates constant at 0.50 % throughout Q3, as core inflation moderated somewhat, yet remains above target. New leadership's pro-growth stance is, however, expected to delay further tightening in favour of supporting domestic demand.

¹ Net return for the Nedgroup Investments Flexible Income Fund, A class. Source: Morningstar (monthly data series).



In South Africa, the fixed income market was shaped by a notable shift in the SARB's policy stance. Taking advantage of a period of subdued inflation — which eased to 3.3% in August — the SARB unilaterally began targeting the lower end of its 3–6% inflation band. This implies that real interest rates will need to be run higher to help anchor inflation expectations downward. So, while much of the developed world is entering an easing cycle, South Africa's policy rates are likely to see limited near-term adjustments. National Treasury is expected to formally announce a revision to the inflation target in due course, likely aligning it with the 3% level the SARB has already begun to pursue in practice.

Bonds rallied strongly over the quarter, supported by declining global yields and a repricing of long-term inflation expectations, with the FTSE/JSE ALBI delivering a total return of 6.9%.

Looking ahead to the November MTBPS, a key focus will be whether the new inflation targets are formally incorporated into the budget framework. Without this adjustment, the fiscal projections risk being materially inaccurate and of limited value. The integration of a lower target will inevitably affect the near-term debt-to-GDP trajectory, pushing it higher initially. We will watch closely to see what growth assumptions and real rate benefits are built into the projections but remain cautious that the anticipated boost to real growth and compression in risk premia may prove overly optimistic. We remain cautious about the potential impact of this shift on long-term debt dynamics, particularly given the risk that it could exacerbate an already challenging debt-to-GDP trajectory.

Although the ZAR is no longer trading at historically cheap levels, ongoing softness in the USD could continue to provide support for emerging market currencies, and we maintain a neutral stance.

Current positioning and outlook

- **Moderate Duration**

As at the end of Q3 2025 domestic duration is 0.6 years in nominal bonds and 0.3 years in inflation-linked bonds. The fund benefited from the strong performance in local nominal bonds, particularly in the long end of the curve. As bonds continued to rally throughout the quarter, the fund sold some exposure opportunistically in the short end to belly of the curve, at attractive levels.

- **Offshore Bonds & Money Market**

The fund holds exposure to Offshore Bonds & Money Market instruments at 11.2% 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 offshore duration remains low, and more predominantly in the linker space, as fiscal pressures in the US continue to escalate. Our effective offshore currency exposure was at 3.4% at the end of Q3 2025; slightly increased from last quarter as the ZAR continues to rally.

- **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. Market volatility may, however, open opportunities in this asset class and we remain vigilant.

- **Property**

The fund currently has a 1.8% 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 0.7%. 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.

Summary and conclusion

The third quarter of 2025 saw global fixed income markets respond to moderating US economic momentum, evolving Fed guidance, and ongoing policy uncertainty, with Treasury yields moving lower despite a steep curve reflecting fiscal and policy concerns. In Europe, central banks largely held policy steady, while Japan's pro-growth leadership is expected to delay further tightening. Domestically, the SARB's shift toward targeting the lower end of the inflation band has supported bonds, with the FTSE/JSE ALBI returning 6.9% for the quarter. Looking ahead, the November MTBPS and the formal incorporation of new inflation targets will be key for fiscal and debt dynamics, with potential implications for debt-to-GDP trajectories. Currency markets remain supported by weaker USD trends, though the ZAR is no longer at historically cheap levels, and a neutral stance is maintained.

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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