NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS FINANCIALS FUND

Quarter Four, 2025

Nedgroup Investments Financials Fund

Performance to 31 December 2025	Nedgroup Investments Financials Fund[1]	Benchmark: FTSE/JSE SA Financials Index
3 Months	13.7%	18.4%
12 Months	23.8%	27.4%

Market Commentary

Global markets

Global markets delivered attractive returns to investors in 2025; despite a barrage of news that one would ordinarily associate with more risk aversion and lower returns. The MSCI All Country World Index in US dollars gained 22.3%, the MSCI Emerging Markets Index gained 33.6% and the MSCI South Africa Index (assisted by rand strength and a run in precious metals) gained 77.3% in US dollars. The JPMorgan Global Bond Index gained 6.6% while the JPMorgan Cash Index return lagged at 2.5%. US equities delivered another strong performance gaining 17.3% but lagged returns in Europe (35.4%) and the UK (35.1%).

Gold had another exceptional year, gaining 13.1%, 27.2% and 64.4% in 2023, 2024 and 2025. Newspapers from Sydney to New York reported how people were queueing outside gold exchanges to either buy gold coins or sell old jewellery. Emerging market central banks have been consistently acquiring physical gold to diversify their foreign exchange reserves following the sanctioning of Russian reserves in the wake of the Ukraine invasion. Institutional investors are seeking to diversify their dollar assets amid concerns about US fiscal and monetary policy. The Bank for International Settlements (BIS) in a recent analysis cautioned that “a widely used statistical test to detect the explosiveness of a price process suggests that both the S&P 500 and the price of gold have entered explosive territory in recent months.”

South African markets

SA equities delivered strong returns in 2026. Large caps, in rands, returned 49.4%, mid-caps gained 31.0% and small caps 21.5%. Resources (+126%) had its second-best year on record with returns in 1999 (+137%) surpassing returns of 2025. Financials and industrials gained 27.4% and 18.1%, respectively. The FTSE/JSE Capped Swix gained 42.6% in rand – the best year since 2006. The FTSE/JSE Property Index gained 30.6% and the FTSE/JSE All Bond Index closed 24.2% higher. Domestic cash, as measured by the SteFI delivered 7.5%. In sticking with the gold theme, Kruger rands gained 54.6%.

In the final quarter of 2025, National Treasury published the Medium-Term Budget Statement and confirmed that South Africa will now target a 3% inflation rate with a 1% tolerance band. Treasury noted that “structural economic reforms are making steady headway, particularly in electricity, transport and logistics, and bulk water provision. Faster implementation of domestic reforms will support expanded growth and investment” and “accelerating infrastructure investment… will strengthen growth prospects, reduce borrowing costs, improve confidence and foster faster job creation.” The bond market continued its months-long rally on confirmation of the lower inflation target and prudent spending forecasts. Disappointingly, Treasury forecasts economic growth to remain at or below 2% over the forecast period (2025-2028). Slower growth remains the most important risk to fixed interest investors. SA Inc would offer substantial upside in the event of improved domestic growth prospects.

Intra-sector there were some strong and divergent moves: Banks generally being positive (average of the big 4 plus Capitec 24.1%) whilst due to the strong rand shares with large offshore holdings had relatively poor returns.

Fund performance

The Nedgroup Investments Financials Fund generated good returns for both the quarter and the 12 months to December 2025.

Over the 12 months Absa and Standard Bank gave a total return of 40.2% and the Denker Global Financial Fund 32%, while Nedbank (5%) and Investec (3.1%) detracted.

In the last quarter of the year, however, Nedbank also caught the re-rating wave, with the four large banks and Capitec generated a return of 24.1% for the quarter. MMI also contributed, delivering a very good return of 19.8%.

The strong returns from the banks were due to the positive effect of the higher gold price and a stronger rand (+6.7% against the US dollar). As a result of the stronger rand, the Denker Global Financial Funds’ return in rand was closer to 6.1%, while Investec returned -1.6%

Investec, being a large investment in the fund (average for the quarter 8.8%), was the main contributor to the fund’s underperformance relative to the index (refer to the section below). The fund’s investment in the Denker Global Financial Fund, measured in US dollars, performed exceptionally well, returning 49% over the 12 months and 12.8% over the quarter. However, the strong rand reduced this performance to 6.1% in rand terms.

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

Top/bottom contributors

Top contributors	Ave. weight	Performance attribution	Top detractors	Ave. weight	Performance attribution
Nepi Rockcastle plc	-	0.5%	Investec	8.9%	-1.3%
Remgro Ltd	-	0.3%	Absa Group	4.1%	-0.3%
Quilter plc	-	0.2%	Standard Bank	9.7%	-0.2%
Fortress Income Fund	-	0.1%	Redefine Income	-	-0.1%
Reinet Investments	-	0.1%	OUTsurance	3.0%	-0.1%

Source: StatPro Average weights in the fund are for the 3 month period.

Note: Due to the concentrated nature of the fund, attribution is in our opinion not that meaningful especially in this volatile quarter where most of the benchmark relative performance is attributed to shares not included in the fund (but held in the benchmark). In addition, the tables above do not reflect the index weights and hence gives less insight into portfolio positions relative to the benchmark. We provide additional information in the commentary below.

Top 5 contributors

The top five contributors to the fund's relative performance were shares the fund does not own (for reasons set out in previous quarterly reports), but mainly due to the fund's large investment in the Denker Global Financial Fund, through which it gains most of its offshore exposure. Beyond these, the three largest contributors relative to the index during the quarter were MMI and Sanlam, with MMI, Sanlam and Investec representing the fund's three largest overweight holdings relative to the index.

- **MMI**: We remain positive on the group's positioning and leadership. While the share re-rated during 2025, we believe the market valuation still does not fully reflect the company's long-term growth potential.
- **Sanlam**: The fund's large holding in Sanlam reflects its consistently high returns on capital, which support long-term shareholder value creation. In addition to its dominant life insurance and investment businesses, Sanlam benefits from three key growth assets: its stake in Shriram in India, its broader African operations, and its investment in Santam. The recently announced joint venture with TymeBank underscores management's ability to create new growth opportunities ahead of peers. We also believe the market underappreciates the long-term value of Sanlam's strategic partnerships with Allianz in Africa and MUFG's investment in Shriram, which should prove mutually beneficial over time.

Top 5 detractors

- **Investec**: Investec's UK and South African operations faced meaningful headwinds during calendar year 2025. In the UK, the financial sector has been under pressure following revelations of historic inadequate disclosure of commissions paid to dealers, which has resulted in claims, fines and regulatory scrutiny. This has been compounded by the UK government's strained fiscal position, raising the risk of higher taxation for banks. Against this backdrop, UK GDP growth has remained close to stall speed, limiting the environment for meaningful lending growth. In South Africa, persistently low economic growth has intensified competition within the banking sector. Unlike the four large domestic banks, Investec does not benefit from a broader Africa growth footprint, placing it at a relative disadvantage. It is therefore understandable that market sentiment towards Investec has weakened, contributing to the company's underperformance. Despite these challenges, we believe the pressures facing Investec are largely temporary and that the market is undervaluing the quality of its management team. The stock currently trades at approximately 0.85x price-to-net asset value, representing a 15% discount to NAV, while offering a return on equity in excess of 13% and a dividend yield above 6%. On this basis, we have gradually increased the fund's exposure to Investec. This positioning detracted from performance in the fourth quarter of 2025; however, we believe it will meaningfully benefit investors in 2026.
- **Absa**: The fund's holding in Absa was reduced due to uncertainty surrounding the CEO position, as it typically takes time for a new CEO to identify operational issues and implement corrective actions. However, since taking office, Kenny Fihla has introduced several changes which, together with Absa's attractive valuation, have contributed to a degree of share price re-rating.
- **Standard Bank**: We rate both Standard Bank's management team and the franchise very highly but are marginally underweight the share - despite it being an almost 10% investment in the fund. Due to the share's strong performance (reflected in the fund's returns this quarter), it marginally detracted from relative performance.
- **OUTsurance**: OUTsurance is one of the few high-quality growth stories in South Africa, with strong long-term potential driven by an excellent management team and a well-established franchise. In the short term, however, its new venture in Ireland has introduced some uncertainty, and the share price became stretched, leading to underperformance relative to the market during the quarter. We believe that continued strong earnings growth should allow the valuation to normalise relatively quickly.

Current positioning and outlook

Changes to portfolio

As per above, the holding in Investec was increased to almost 10% (from 4% end Q3). Towards the end of the month, we also added to the Absa, Standard Bank and Sanlam holdings and took a 1% holding in the Optasia IPO.

Outlook

The positive outlook for the financial sector outlined in the previous quarterly report remains intact. A weaker US dollar, lower oil prices and a higher gold price are supporting South Africa's current account balance while easing inflationary pressures. This should allow for lower interest rates over time, which in turn would support increased consumer spending and, ultimately, higher levels of investment in the economy.

In the short term, investor flows appear to be moving out of financials and into resource shares. However, we believe this shift underestimates the sector's long-term compounding ability. The fund has delivered a compound annual growth rate of 15.8% since inception 22 years ago, despite the numerous challenges South Africa has faced during this period. We believe banks can continue to generate this level of long-term value creation, and that the sector currently offers an attractive investment opportunity.

Responsible Investment Comments

The average ESG score of 93% of the fund's investments is 8.18. This compares favourably to Dec 2024's score of 8.00. A few of the investments that had a 10.0 score were downgraded to 9.20, but one must bear in mind that a score of 10 is difficult to consistently maintain. Pleasing to note is that the improvements were generally in the sub-categories of environmental and governance scores. Banks, however, did see a slight deterioration in their environmental scores, mainly due to differences of opinion on the environmental impact and scoring of funding energy projects.

The Denker Global Financial Fund's Social Responsibility scores declined marginally after the pushback from President Trump on DEI (diversity, equity and inclusion), reducing the pressure on US banks to report on the statistics.

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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