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NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter Four, 2025

Nedgroup Investments Flexible Income Fund

Performance to 31 December 2025	Fund Performance[1]	Stefi*110%
3 months	2.65%	1.87%
12 months	10.07%	8.01%

The fund experienced a strong quarter, with local fixed income assets performing particularly well over the quarter ending 31 December 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

The final quarter of 2025 marked a constructive period for financial markets, characterised by resilient—albeit moderating—global growth, easing inflation pressures, and increasing confidence that the global monetary tightening cycle had peaked.

Emerging markets outperformed developed markets notably in 2025, with the MSCI EM equity index delivering 34.3% versus the MSCI World Index return of 21.6% for the year. Despite this, equity markets everywhere performed well, with the S&P 500 (+17.9%), Eurostoxx 50 (+22.1%), Hang Seng (+32.5%), and Nikkei (+28.6%) all ending the year strong. A similar theme was seen in bond markets, with developed-market bonds delivering softer returns; the Bloomberg US Treasury Index returned 6.3%, while the Bloomberg EM USD Bond Index retuned 11.1% for the year.

In South Africa, the positive emerging market backdrop supported local financial markets. Equities returned an impressive 42.4% for the year, with 8.1% delivered in the final quarter, underpinned by improving sentiment and strong commodity performance. Precious metals were the standout performer of the year, with the Bloomberg Precious Metals Index up 80.2% for 2025. Local bonds also delivered strong returns, with the ALBI returning 24.2% for the year, and 9.0% of this over the last quarter. The rand strengthened materially, gaining 12% against the US dollar over the year.

Global Backdrop

Global economic growth slowed modestly in 2025 but remained broadly resilient, with real GDP expansion moderating from prior years yet staying positive. Growth was restrained by elevated trade barriers, geopolitical uncertainty, and tighter financial conditions. Despite easing inflation and a pause in monetary tightening, financial conditions remained restrictive, as high real interest rates, balance-sheet reduction, and tight credit standards continued to weigh on investment and growth. Nevertheless, underlying demand—particularly consumer activity in advanced economies—helped prevent a sharper global slowdown.

The United States continued to outperform most other developed markets in 2025 in terms of growth, supported by a relatively robust labour market and stronger consumer spending. Inflation maintained a downward trajectory but remains above target, prompting the Federal Reserve to sustain a restrictive policy stance that gradually moved toward neutral. By the fourth quarter, markets were pricing gradual rate cuts in 2026, contributing to lower long-dated bond yields and a softer US dollar. Fiscal concerns in the US, however, continue to promote a steep yield curve.

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

In Europe and the United Kingdom, growth remained subdued but stable, with below-trend GDP expansion reflecting structural constraints. Inflation eased meaningfully, supported by lower energy costs and improving supply conditions, allowing the ECB and Bank of England to pause further tightening. Constrained fiscal policy and weakening UK business confidence, however, moderated the pace of recovery.

Japan recorded modest growth, underpinned by accommodative monetary policy and low real yields. Structural headwinds, including demographic pressures and weak productivity, continued to cap stronger cyclical expansion, while subdued inflation allowed the Bank of Japan to maintain its accommodative stance.

South Africa

South Africa's economic performance in 2025 reflected gradual improvement from a low base. Growth remained modest but stabilised as electricity supply constraints eased and logistical bottlenecks improved incrementally. Structural challenges continue to cap potential growth, but the operating environment in 2025 was more predictable than in prior years and the supportive global backdrop for emerging markets further boosted investor confidence.

Inflation trended lower through the year and remained within the South African Reserve Bank's revised tolerance band of 2%-4%. However, there is risk that inflation edges higher as favourable base effects unwind and growth improves, making adherence to the new target more challenging. While South Africa continues to offer high real interest rates relative to the revised target, a substantial compression in risk premia has already occurred, suggesting that much of the bond market's valuation support is priced in. As a result, although real yields remain attractive in absolute terms, local bonds are increasingly starting to look expensive, implying a more balanced return outlook from current levels.

Fiscal dynamics improved gradually in 2025, with the government maintaining a focus on expenditure control and revenue stabilisation, while progress on reforms and governance at key state-owned entities helped reduce near-term fiscal risks. This improvement underpinned significant compression in sovereign risk premia, while higher commodity prices provided—and may continue to provide—additional support to government revenues and debt sustainability. That said, expenditure control has historically been a weak point, and long-term fiscal challenges remain, meaning investor confidence, though strengthened over the year, will continue to depend on ongoing discipline and reform progress.

Current positioning and outlook

- Moderate Duration

As at the end of Q4 2025 domestic duration is 0.55 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. 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 10.7% 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 3.7% at the end of Q4 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 2.0% 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 in 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 market outlook for 2026 is more modest, as elevated geopolitical tensions, extended balance sheets, sticky inflation, and stretched valuations in several areas are likely to temper return expectations. Central banks in major economies are expected to maintain a cautious approach, seeking to balance support for growth with the need to contain inflation. A key risk to this view is that more accommodative-than-expected monetary policy, together with productivity-driven improvements, could continue to underpin corporate earnings and broader economic activity. We do, however, believe that the global environment warrants caution.

In South Africa, supportive global conditions, stabilising growth, and elevated real yields continue to underpin local markets. That said, much of the improvement in risk premia and fiscal sentiment is already priced in, while inflation is risked rising off a low base. This supports a more neutral stance on fixed income, with a focus on valuation and carry rather than taking directional risk.

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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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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DATE OF ISSUE
January 2026