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NEDGROUP INVESTMENTS RAINMAKER FUND

Quarter Four, 2025

Market context

The final quarter of 2025 reflected a market environment that remained supportive on the surface, but increasingly selective beneath it. Global growth proved resilient, inflation continued to moderate, and central banks edged cautiously toward easier policy. Equity markets responded by extending an expanding bull market, though returns were driven by a narrow set of themes rather than broad-based earnings momentum.

Global market leadership remained concentrated during the quarter, but momentum was less consistent than earlier in the year. Performance oscillated as markets rotated between artificial intelligence-linked exposures, select cyclical areas and more defensive parts of the market, reflecting growing uncertainty around the sustainability of earnings and margin assumptions. Valuations in parts of the market remained elevated, but investor willingness to look through rising capital intensity and near-term cash flow pressure became more uneven as the quarter progressed. While headline returns were still supported by a small number of drivers, outcomes became increasingly sensitive to earnings delivery, guidance and financing conditions, contributing to a more volatile and differentiated environment.

In South Africa, conditions stabilised rather than accelerated. Inflation eased, and real rates remained elevated, creating scope for a cautious shift in policy without materially altering the growth outlook. Equity market outcomes were particularly narrow, with momentum concentrated in platinum group metals and a small number of resource-linked names. Outside of these areas, returns were more subdued, with a recovery in listed property from depressed levels providing incremental support rather than broad-based earnings strength.

Currency played a meaningful role over the period. A firmer rand supported domestic asset returns while acting as a headwind to offshore assets in rand terms, offsetting otherwise stable hard-currency performance. Overall, the environment moved beyond acute stress, but has yet to generate sustained traction – a backdrop that increasingly rewards valuation discipline, balance and preparedness over momentum-driven positioning.

Performance

Performance over the period reflected a market environment defined by narrow leadership and pronounced dispersion across sectors. While the Fund delivered solid absolute returns for investors, it lagged the sector average. This relative outcome was shaped less by broad market exposure and more by the concentration of returns in a limited set of themes.

In South Africa, relative performance was challenged by the market's strong bias toward resources and select high-beta exposures. Returns were dominated by PGM-linked companies and listed property, while more defensive and quality-oriented sectors lagged. Within consumer discretionary, stock selection added value, supported by strong contributions from select retail and luxury exposures. Financials delivered solid absolute returns, but relative outcomes were more muted as performance was driven by a narrow subset of constituents. Industrials and technology detracted, reflecting company-specific pressures and a rotation away from earnings durability toward momentum-driven trades.

Offshore, outcomes were more balanced. While absolute returns were muted, relative performance benefitted from effective stock selection across several sectors. Consumer discretionary and healthcare exposures added value, supported by resilient earnings delivery and improving fundamentals. Financials also contributed positively, while technology holdings delivered modest relative gains despite volatility across the broader sector. Weakness in consumer staples and industrials reflected near-term sentiment rather than deterioration in underlying business quality.

Currency was the dominant headwind offshore. Rand strength offset hard-currency returns, dampening absolute performance and masking areas of effective stock selection. These translation effects, rather than fundamental weakness, were the primary driver of offshore underperformance.

Overall, performance reflected a portfolio positioned away from the most crowded and momentum-driven areas of the market, and instead, aligned with durable businesses capable of compounding through the cycle. While this approach lagged in a narrowly led market, outcomes remained consistent with the portfolio's quality bias and long-term investment philosophy, which continues to compare favourably through full market cycles. Looking ahead, we find ourselves most constructive on the businesses that look different from the crowded trades that have defined recent market leadership.

Portfolio Activity

Portfolio activity during the quarter focused on trimming areas of strength and reallocating capital toward businesses where valuation support and prospective returns have improved. Changes were incremental and disciplined, aimed at managing concentration risk while maintaining exposure to high-quality franchises.

Within global equities, we reduced exposure to several large technology and semiconductor holdings, including Microsoft, Alphabet, ASML and TSMC. These positions have delivered strong share price performance and remain core holdings, but trims were implemented to reflect lower forward-looking returns and increased concentration following the rally. The objective was to take some chips off the table rather than change long-term conviction.

Proceeds were redeployed selectively into areas offering more attractive risk-reward characteristics. We increased exposure to the London Stock Exchange Group, where valuation support has improved, and concerns around AI-driven disruption appear overdone. We also added modestly to Beiersdorf and Intuit, increasing exposure to defensive, cash-generative business models trading on more compelling valuations.

Within luxury, we reduced Richemont following a strong rally after adding at earlier lows and reallocated capital to LVMH. While LVMH has underperformed, we believe the business retains meaningful self-help potential and is well positioned to benefit from a recovery in Chinese luxury demand, with valuations offering a more attractive long-term return profile.

We also reduced exposure to the gold ETF following its strong run, taking profits as the balance of risks shifted and redeploying capital elsewhere in the portfolio.

Collectively, these adjustments refined the portfolio around businesses with durable cash generation, improving valuation support and sustainable return profiles, while managing concentration risk in a market where leadership remains narrow, and differentiation is increasing.

Outlook

Capital intensity has risen meaningfully, particularly in areas linked to artificial intelligence and infrastructure build-out, while financing conditions remain restrictive by historical standards and productivity gains uneven. In this environment, the sustainability of returns becomes increasingly important. Businesses reliant on perpetual multiple expansion face a narrower margin for error than in recent years.

We remain mindful of concentration risk in global indices, particularly around artificial intelligence and a small number of mega-cap names. Participation remains selective, with a preference for businesses where monetisation is clear and returns on invested capital are sustainable, rather than those propelled primarily by momentum-driven narratives.

Looking ahead, it is unlikely that the return profile of 2026 will mirror that of the recent past. As the cycle matures, we expect market leadership to broaden and differentiation to increase, with fundamentals playing a more decisive role in driving outcomes. This is typically a more demanding phase of the cycle – but also one that creates opportunity for disciplined investors.

The opportunity increasingly lies in owning businesses whose intrinsic value compounds steadily. Many of these businesses have continued to perform well operationally but have lagged more speculative stocks – particularly in the domestic market, where quality names have often been used as funding sources for higher-momentum exposures. We are also mindful that some of the strongest contributors to recent local market performance, notably platinum group metals, reflect a narrow and cyclical set of drivers that we do not expect to be repeatable. In this environment, investing is less about predicting the next sentiment swing and more about preparation – ensuring portfolios are built on lasting fundamentals rather than passing trends. As markets broaden and differentiation reasserts itself, discipline is likely to matter more, not less.

Our focus remains unchanged. We continue to favour businesses that can generate consistent cash flows, reinvest sensibly and compound value through the cycle. In South Africa, this means largely backing globally competitive businesses with clear self-help levers, pricing power and balance-sheet strength. Offshore, we favour leading technology, consumer and financial businesses with durable earnings, defensible competitive positions and credible paths to long-term value creation.

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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