

**NEDGROUP**  
INVESTMENTS

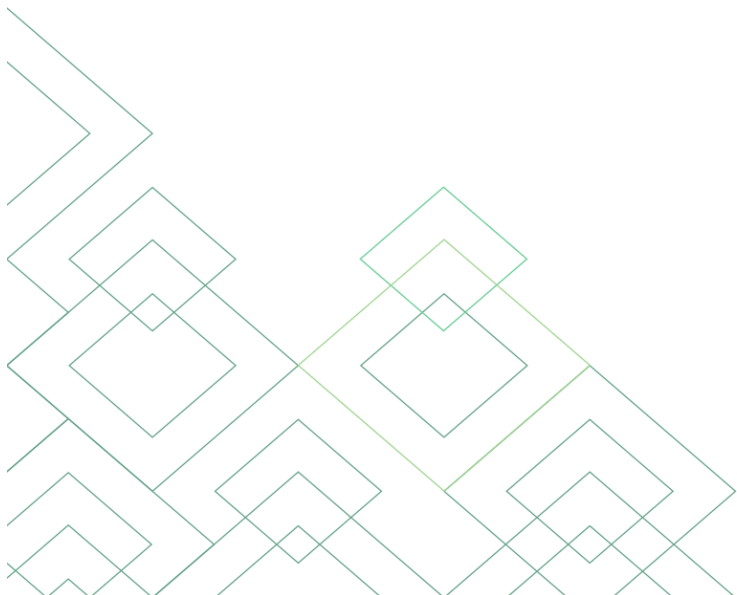
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# **NEDGROUP INVESTMENTS** **FINANCIALS FUND**

Quarter One, 2026





Performance to 31 March 2026	Nedgroup Investments Financials Fund <sup>1</sup>	Benchmark: FTSE/JSE SA Financials Index
3 Months	-2.1%	-0.9%
12 Months	22.7%	28.9%

**Market Commentary**

Global markets

Global markets entered 2026 on a positive footing, supported by easing inflation in most developed economies and expectations that policy rates were at or near their peak. As the quarter progressed, however, geopolitical developments, particularly in the Middle East, introduced a new source of uncertainty. Energy prices rose sharply, with Brent crude becoming highly volatile with intraday price spikes from US\$90/bbl to US\$120/bbl). This shifted investor focus away from the pace of rate cuts toward resilience of growth and inflation expectations amid a serious energy supply disruption. The longer such disruptions persist, the more significantly global central bank monetary policy responses are likely to be affected. Generally, the European Central Bank and the Bank of England in general prioritise price stability, while the Fed and the Bank of China are more growth sensitive.

Despite the highly uncertain environment and elevated volatility, investor outcomes were relatively robust. Over the quarter, the MSCI All Country World Index fell 3.6%, the MSCI Emerging Markets Index was broadly flat (-0.5%), and the MSCI South Africa Index lost 4.4% (all in US dollars). The Bloomberg US Aggregate Bond Index was mostly unchanged, returning -0.05%, while 3-month US Treasury bills generated 0.6%. US equities lost 4.6%, continuing to lag returns in Europe (-2.8%) and the UK (+2.0%).

South African markets

South African markets were shaped by a combination of improving domestic fundamentals and external shocks. On the positive side, fiscal dynamics continued to improve. Strong commodity-related tax revenues, expenditure restraint and growing investor confidence in institutional credibility and stability supported early-quarter gains in rand-denominated assets. However, these gains were partly offset by offshore developments. Rising oil prices widened downside risks to both inflation and the growth trajectory, prompting a reassessment of the interest rate outlook and growth prospects. By the end of the quarter, markets had largely removed expectations of near-term rate cuts, with policy risks skewed toward a more cautious, or potentially tighter, stance if inflation pressures persist. Despite near-term volatility, the improving fiscal backdrop and ongoing micro-reforms in areas such as energy and logistics remain important building blocks for longer-term growth.

The FTSE/JSE Capped All Share Index closed marginally weaker in rand terms (-0.5%), while the Real Estate Investment Trust (REIT) sector fell 5.3%. Bond markets reflected this push and pull: improved fiscal credibility supported valuations, but upward pressure on global yields and oil-related inflation risks brought an end to the strong rally. The FTSE/JSE All Bond Index lost 3.4%, while domestic cash (SteFI) delivered 1.7%. The FTSE/JSE Top 40 Index (-0.6%) outperformed both the FTSE/JSE Mid and Small Cap Indices, down 1.2% and 2.3%, respectively.

**Fund performance**

The Nedgroup Investments Financials Fund held up well over the quarter, generating -2.1% - which is satisfactory bearing in mind it's 22.7% return over the 12 months ending March 2026.

JSE, Ninety One, Investec and Standard Bank were the investments that generated the highest absolute returns whilst Sanlam, Santam, Momentum (MMI), OUTsurance and FirstRand showed the largest declines. The decliners were generally the insurers, where earnings were impacted by the negative market returns. FirstRand declined as investors priced in uncertainty ahead of the pending outcome of a potential UK consumer watchdog fine. The positive performers, including the investment in the Denker Global Financial Fund, were generally boosted by the weaker rand.

In terms of contribution, the largest positive contributions came from the Denker Global Financial Fund, Investec (where the fund has a very large overweight) and JSE.

Whilst the fund's absolute performance as well as the positive contributors was satisfactory, over the quarter the market punished our large insurance investments (Sanlam, Santam, MMI and OUTsurance) and they were the largest negative contributors.

<sup>1</sup> 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
Denker Global Financial	21.7%	0.5%	Discovery Holdings	-	-0.5%
Investec	10.1%	0.4%	Sanlam	9.7%	-0.3%
Old Mutual	-	0.1%	MMI Group	6.2%	-0.2%
Vukile Property Fund	-	0.1%	Standard bank	10.2%	-0.2%
JSE	1.6%	0.1%	Remgro	-	-0.1%

Source: StatPro

*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

- **Denker Global Financial Fund:** Following the fund's very strong performance in 2025, it held up well in Q1 - mainly thanks to banks continuing to report good results and the increase in more defensive investments (such as the London Stock Exchange Group). In addition, counter-intuitively, higher interest rates are better for banks and insurers as interest margins improve, and only when interest rates are hiked too aggressively do potential bad debts become a negative factor. Hence, the fund held up well (in fact, it delivered a positive rand return) and we have confidence in the return potential for the year ahead.
- **Investec:** Investec was one of the detractors in 2025 due to the headwinds facing the UK (refer the commentary in the Q4 2025 report). However, as we wrote in the Q4 report "we believe that the market is ignoring the quality of Investec's management team. It now trades on a 0.85x P/NAV (a 15% discount to its net asset value), offering a return on equity of over 13% and a dividend yield in excess of 6%". So, we kept adding to the fund's holdings and are positive this should benefit the fund in 2026.
- **Old Mutual:** We agree with the actions initiated by the new CEO at Old Mutual to increase the company's return on capital but believe that changing the culture will take longer than anticipated. Hence, the fund at this point is still not invested in Old Mutual and its negative performance helped the fund's relative performance. Bear in mind that the fund has large overweight positions in Sanlam and MMI because we believe their high returns on capital should, for the foreseeable future, outperform that of Old Mutual.
- **JSE:** The fund has held an investment in JSE for a number of years because of its high return on capital. In 2025 the investment base and turnover of the JSE increased considerably thanks to the gold and commodity sector rally helping the re-rating of the share in Q1. On a forward price-earnings ratio (FPE) of 11.5x and a dividend yield of 5.5%, the share remains undervalued and a core holding.
- **Vukile Property Fund Ltd:** The fund has no investment in the listed property sector. This position benefited performance as listed property continued to face headwinds from elevated interest rates.

### Top 5 detractors

- **Discovery Holdings:** Discovery has considerable potential to grow its earnings but remains just too expensive for the fund. Therefore, the fund is not invested in Discovery at this point, and it is a detractor to the fund's returns when it outperforms the investments in the fund (such as this quarter).
- **Sanlam:** The fund's large holding in Sanlam is because of its consistently high return on capital, which leads to high shareholder value growth over time. Besides its dominant life insurance and investment businesses, Sanlam's three gems are: (a) its large investment in Shriram in India; (b) its broader African portfolio; and (c) its investment in Santam. In addition, its JVs (with GoTyme in South Africa and Allianz in Africa) position it very well. However, in the short-term the market fall and accounting changes caused the share to underperform sharply in this quarter hence detracting from the fund's performance.
- **MMI:** As in the case if Sanlam (refer above), negative attribution was due to weaker share price performance in a volatile market environment for life insurers.
- **Standard Bank:** We rate both Standard Bank's management team and the franchise very highly. This can be seen in the fact that the fund has a 10% investment in Standard Bank. However, this remains below the of the index's exposure.





- **Remgro:** The fund does not hold Remgro due to its offshore allocation to the Denker Global Financial Fund, which has outperformed Remgro over time and supported overall fund performance despite periods when Remgro rallied.

## Current positioning and outlook

### Changes to portfolio

A number of changes were made to the portfolio, the major ones being the purchase of Optasia at the time of its IPO, plus a further purchase thereafter; and an increase in the fund's holdings in Standard Bank and Santam. The purchases were funded by reducing the holdings in FirstRand, Sanlam and Nedgroup.

Optasia is a micro lender diversified across 34 countries, primarily in Africa but also in Asia, and is well positioned both technologically and geographically to grow its earnings base substantially. Similarly, Standard Bank is very well placed to benefit from the higher African growth rate.

We reduced the investment in FirstRand due to the continued uncertainty around the potential size of the UK fine and the group's planned exit from the UK, whilst Sanlam had become a bit too expensive.

### Outlook

Looking ahead, the outlook for South African financial equities remains closely tied to global inflation dynamics, the trajectory of oil prices, and the domestic interest rate cycle. Persistently high interest rates continue to weigh on credit demand and consumer affordability, although they provide margin support for well-capitalised banks.

Insurers remain sensitive to market volatility and movements in long-term interest rates, while listed property exposure is expected to remain challenged until there is clearer evidence of monetary policy easing.

The macro factors listed above do play a role. However, we believe that over time the quality of the management teams will deliver continued good growth in shareholder value whilst at the same time the valuations of the individual shares are not excessive.

An excellent example of the above is that an investment in Standard Bank in December 2000 would have generated a compound return of 16% over the 25 years to 31 December 2025. This, despite all the significant negative international and local events over those years.

## Responsible Investment Comments

The average ESG score of the fund's investments is 8.29, marginally higher than the March 2025 score of 8.18. This compares favourably to December 2024's score of 8.03. The two most notable changes are the increase in Standard Banks rating whilst FirstRand's rating was reduced due the UK leasing commission investigation.

Sadly, this reflects the sometimes-incorrect way in which the scores are derived as FirstRand's problem stems from its investment in Moto Novo made many, many years ago and in no way reflects current corporate standards.

But the high average score continues to demonstrate that South African management teams continue to take the score seriously.

The Denker Global Financial Fund's Social Responsibility scores declined further after the pushback from President Trump on DEI (diversity, equity and inclusion), reducing the pressure on US banks to report on the statistics. This reflects negatively in the social category score.





## 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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