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NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter One, 2026





Nedgroup Investments Flexible Income Fund

Performance to 31 March 2026	Fund Performance ¹	Steffi*110%
3 months	1.34%	1.21%
12 months	9.84%	7.18%

The funds experienced a reasonable quarter, holding up well in an environment where fixed income assets underperformed over the quarter. The fund benefitted from its conservative duration positioning, strong floating rate component and small USD exposure.

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 first quarter of 2026 was characterized by a sharp divergence between encouraging domestic macroeconomic progress and a suddenly volatile global backdrop. While local structural reforms and fiscal consolidation began to bear fruit, markets were forced to aggressively reprice risk and interest rate trajectories due to unforeseen geopolitical shocks.

The abrupt shift in market sentiment was starkly visible in equity performance, where a brutal March wiped out the gains accumulated earlier in the year. Global developed markets sold off as the S&P 500 ended the quarter down -4.4% (driven by a -5.0% drop in March), while the broader MSCI World Index fell -3.5% for the quarter (-6.3% in March). Emerging markets exhibited extreme volatility; the MSCI EM Index finished the quarter relatively flat at -0.1%, but this masked a massive -13.0% decline in March, highlighting just how significantly these markets had run earlier in the year before the tide turned. Locally, the JSE/FTSE All Share Index (ALSI) mirrored this trend, returning -0.6% for the quarter after a punishing -10.5% drawdown in March.

The primary catalyst for this global risk-off environment was a sharp recalibration of inflation expectations. Coming into 2026, markets had priced in a definitive easing cycle from the US Federal Reserve. However, escalating geopolitical tensions in the Middle East, specifically conflicts impacting Iranian oil supply, pushed Brent crude prices persistently higher. This supply-side shock has reignited fears of sticky global inflation. Consequently, the market's expectation for the Fed Funds rate saw a hawkish recalibration. The Fed held its target range steady at 3.50%–3.75% at its March meeting. Futures markets, which just months ago anticipated a glide path toward 3.0%, now imply a terminal rate for the year closer to 3.7%. This "higher for longer" reality echoed through the European Central Bank and the Bank of England, placing upward pressure on global sovereign yields.

Domestically, global shockwaves resulted in a negative quarter for South African fixed income assets. The JSE/FTSE All Bond Index (ALBI) returned a disappointing -3.4% for the quarter, dragged down by -6.8% return in March alone. Inflation-linked bonds (ILBs) and property offered little place to hide, with the asset classes down -1.3% and -4.9% for the quarter respectively (-5.9% and -11.4% in March respectively). This downward move in local bonds was driven not only by higher imported inflation expectations but also, crucially, a sharp expansion in the real yield demanded by investors; meaning concerns over potential growth and fiscal outlooks off the back of this event are elevated. Sadly, this is in sharp contrast to what has been a largely resilient and positive local economic narrative of late. Inflation expectations, prior to the tensions in the middle east, had moved down dramatically in response to the SARBs new 3% target, with February's print coming in at exactly 3%. Similarly,

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





the February 2026 Budget was arguably one of the most constructive in recent years. National Treasury demonstrated a firm commitment to debt stabilization, finally showing that debt-to-gdp has peaked, and should realistically consolidate downwards from here.

While painful, a selloff of some degree was, in our opinion, unfortunately, inevitable. Markets had become highly optimistic about the local macroeconomic picture prior to this shock. While our internal outlook was not inherently negative, acknowledging the government's recent strides in fiscal consolidation and the South African Reserve Bank's continued prudence, the market had priced local bonds for perfection, leaving virtually no buffer for a global risk-off event.

Current positioning and outlook

- Moderate Duration

As at the end of Q1 2026, domestic duration is 0.7 years in nominal bonds and 0.3 years in inflation-linked bonds. The fund benefitted from moderate duration going into a weak March (0.5 years) and added opportunistically into weakness, as bond valuations appeared more attractive.

- Offshore Bonds & Money Market

The fund holds exposure to Offshore Bonds & Money Market instruments at 8.2% 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 and inflation pressures are skewed to the upside. USD exposure was reduced as the ZAR traded above R17 to the USD.

- 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.

- Property

The fund currently has a 2.2% exposure to domestic property. After a significant selloff in March, exposure to this sector was slightly increased, as valuations appeared more reasonable after a long rally in this sector.

- 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

Looking ahead, while the recent market repricing has left local bonds trading at progressively more attractive valuations, the ultimate impact of the ongoing conflict on the domestic inflation trajectory and broader economic growth remains highly uncertain. The severity of these macroeconomic shocks will heavily depend on the duration and scope of the geopolitical tensions. In navigating this environment, we have prudently used the recent market weakness to incrementally increase our portfolio duration and lock in higher yields. However, given the unpredictable nature of the current landscape, we have maintained sufficient dry powder to add further length to the portfolio should market levels continue to cheapen.





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.

NEDGROUP INVESTMENTS CONTACT DETAILS

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