NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS BALANCED FUND

Quarter Two, 2026

Nedgroup Investments Balanced Fund

Performance to 30 June 2026	Fund[1]	ASISA Category[2]
3 months	2.9%	2.8%
12 months	13.8%	12.3%

Market Overview

The conflict in Iran remains unresolved with a fragile ceasefire punctuated by isolated incidents. Markets, however, have largely moved on. The Strait of Hormuz has partially reopened, and while the world is still learning to route around residual disruption, the oil price has retraced as the market once again begins to factor in the medium-term risk of excess supply. The normalisation of refined product availability will take longer, given the time required to repair infrastructure and restore normal flow. Encouragingly, peak inflationary pressure from the conflict appears to be behind us, and fears of more persistent second-round effects have started to subside.

US: inflation and interest rates

New Fed Chair, Kevin Warsh moved quickly to establish his independence, opening with a more hawkish tone than markets had expected. As oil prices slumped, he softened this stance, acknowledging that inflation risks had come down, however he has continued to stress a commitment to price stability. The market is currently pricing a little over one more hike this year.

The significant reduction in inflation expectations, as reflected in inflation swaps, alongside retreating oil prices, has pushed short-term real yields up from 1% to a considerably more restrictive 1.8%, effectively tightening monetary policy regardless of what the Fed does next.

The K-shaped economy remains firmly intact. Earnings growth and enthusiasm for AI continue to lift the S&P 500, supporting the wealth effect and spending among higher-income consumers. However, overall consumer confidence remains lacklustre, and the labour market is slightly softer.

Given mixed economic data and monetary policy that has already tightened via the bond market, we think further rate hikes are unlikely. However, given the persistently elevated levels of inflation since the Covid pandemic, the Fed will want clear evidence of a sustained decline before it entertains any cuts. Real long bond rates of 2.3% remain broadly consistent with long-run GDP growth expectations.

The AI story continues to evolve

One of the defining investor questions in AI is how value will ultimately be captured across the value chain. Of the four layers that make up the chain today, semiconductors capture the bulk of gross profit share, while hosting companies (hyperscalers such as Amazon and Microsoft that rent out compute capacity), foundational large language models (OpenAI, Anthropic) and applications show little value accrual. For the economics to prove sustainable, value extraction will eventually need to migrate

[1] Nedgroup Investments Balanced Fund, A2-Class, net of fees.
[2] ASISA South Africa Multi Asset High Equity

upwards to these other layers. We believe that path is likely to remain murky before a more economically rational equilibrium can emerge.

Leading Western large language models face growing competition from open-source alternatives, typically Chinese, which are proving 'good enough' for less complex work at a fraction of the price. This is pressuring pricing and market share at the model layer, with potential knock-on effects for the hyperscalers hosting these Western models. Weaker model economics could translate into softer rental demand and near-term hosting overcapacity, interrupting hyperscaler capital spending and, ultimately, demand at the semiconductor layer.

The picture is further complicated by participants integrating across the chain in both directions. Anthropic and OpenAI are building vertical applications, like Claude for Legal, with ambitions extending into hosting and chip design. The hyperscalers are developing their own AI chips in an effort to erode Nvidia's dominance.

In short, while players across the value chain are encroaching on one another's territory in response to the dynamics within their own layer, the greater risk is that open-source models' ability to pressure Western models and the application layer could compress margins across the chain before value has had the chance to migrate upwards. Pressure on large language model profitability may be a contributing factor to OpenAI's delayed IPO. Given that semiconductor companies are already earning most of the profit in the chain, and given how extremely high their margins are, particularly in memory, the risk to this segment is becoming more of a concern. We continue to see opportunities in select technology companies that have been punished on the perception that they are not optimally positioned for AI, Tencent being one such example.

Commodities: oil downside risk

Over the medium term, the risk for oil is to the downside. Prior to the Iran conflict, there was already concern about excess supply and once countries have rebuilt their inventories, these concerns will likely deepen. Additional supply is coming from low-cost producers such as the UAE, which has now also left OPEC. Its cost of drilling is roughly half of Saudi Arabia's, and it holds an estimated two million barrels of spare capacity.

US shale is now a major driver of the oil price, with an extraction cost of around $65, while renewables and EVs continue to steadily grow their share of the energy mix.

Gold has pulled back from January highs and now sits in a more neutral territory. The long-term drivers behind central banks' continued accumulation of gold should hold, and dollar weakness should provide a modest additional tailwind.

South Africa: lacklustre growth

South Africa's terms of trade remain favourable, with precious metal prices still elevated and the oil price meaningfully lower. The economy is still in a phase of structural disinflation, and the currently elevated cyclical inflation reading should peak soon. This, combined with fiscal prudence evidenced by a primary surplus, has resulted in a sovereign credit upgrade from Fitch and an upgrade to Moody's credit outlook. This has been positive for the rand and domestic bond yields, both of which should remain supported. This in turn should help underpin South African equity valuations.

Reform momentum continues, with Transnet making tangible progress. Municipalities remain a problem area; the White Paper released in March is promising in intent but carries very long implementation timelines.

South African economic growth unfortunately remains lacklustre, a factor we continue to weigh carefully in our sector positioning. The consumer remains under pressure, and as a result we continue to favour more defensive retailers and banks that stand to benefit from a more buoyant corporate sector.

Outlook

The market's swift move past the Iran conflict, despite it remaining formally unresolved, is a reminder of how quickly attention rotates to the next pressing question, in this case the evolving economics of the AI stack and a new Fed chair finding his footing. We continue to favour positioning that is not overly reliant on any single narrative resolving in our favour, while using South Africa's improving fiscal and ratings trajectory, and periods of volatility more broadly, to add to compelling opportunities as they arise.

Performance commentary

Global equity markets performed well in the quarter with the MSCI World returning 13.3% in ZAR. Locally, SA equities struggled through the quarter driven by a significant de-rating across precious metal stocks.

Foreign equity exposure was the largest contributor to fund performance. A meaningful exposure to Taiwan Semiconductor and Samsung added to performance, although we have now taken profits in these positions. Exposure to US healthcare also contributed given an improved earnings outlook.

Within local equity, the funds exposure to SA Financials contributed while an increased holding in larger foreign-exposed businesses such as Bidcorp and Anheuser also added to performance. We had reduced exposure to some of the SA Inc counters in favour of these businesses.

Our exposure to precious metals especially Impala Platinum and Gold Fields detracted from performance.

The fund maintained exposure to Naspers and Prosus. Despite strong fundamentals and earnings performance in Tencent, the share continued to weaken given the overall risk-off appetite and broader sell-off across Chinese tech stocks as investors reacted to AI concerns.

Portfolio movements

The fund remains well diversified in the current environment; we continue to hold a meaningful position in SA dual-listed stocks with compelling valuations (Prosus, Anheuser, Aspen and Bidcorp). We trimmed our position in larger SA Banks and added to specific SA retailers, particularly quality food retailers such as Shoprite. We maintain a meaningful position in Pepkor on valuation grounds.

Within foreign equity, we trimmed exposure to European banks and semiconductors especially in respect of Samsung.

We increased fund exposure to local bonds over the quarter taking the opportunity to add to duration at higher yields.

The environment remains highly uncertain, however with valuations of quality businesses at compelling levels, we are finding opportunities while maintaining a strong margin of safety as we head into the second half of 2026.

Responsible Investing

Regulatory environment and news flow

- **Energy security is continuing to reshape the transition debate -** Higher oil and fuel costs, linked to the Iran war, are reinforcing the strategic importance of energy security. The newsflow showed consumers and policymakers responding in different ways: electric vehicle demand has strengthened in several markets including Europe, South Korea and Kenya, while governments have also been considering fuel-price relief, gasoline tax holidays, and electricity-tax reductions to reduce pressure on households and industry. This is not a simple pro- or anti-transition story. The same energy shock that supports EV adoption and electrification is also contributing to renewed interest in domestic oil, gas and nuclear supply. Examples include increased oil exploration interest in Alaska and Namibia, China’s domestic oil and gas discoveries, and US financing support for large nuclear reactors.

  Several companies and institutions are reassessing their sustainability commitments. Microsoft is reportedly discussing shelving a clean-energy target, Burberry has postponed its net-zero goal to 2050, Scottish Southern Energy said it is unlikely to meet its 2030 renewable-energy target, BHP is reported to be slowing some decarbonisation projects, and Princeton’s endowment is backtracking on its pledge to divest from publicly traded oil and gas companies. These developments point to a shift from aspirational target-setting toward practical delivery, cost, technology, energy security, and market-return considerations. We’re keeping an eye on the direction of travel and how that might impact companies in which we invest.

- **EV momentum is building but execution risks remain** - European EV sales have improved while China’s exports of EVs, batteries, and solar cells increased over the quarter. BYD is advancing rapid-charging technology for new vehicles with plans for fast-charging stations in Europe while Toyota is expanding its US battery-electric lineup. China is also targeting 40% penetration of new energy heavy-duty trucks by 2030. However, whilst there are these notable advancements, automakers remain divided on EV strategy, with some cutting production or workforces. Ferrari’s first EV launch reportedly received a negative market and customer reaction. Grid readiness is also a recurring issue: questions around how new rapid-charging technologies might put pressure on electricity grids, and delays to grid connections in countries like the UK point to infrastructure as a key bottleneck. EV penetration and recycling rates are an important aspect to monitor – given their impact on PGM demand and supply.

- **Climate risks & physical impacts** - The physical effects of climate change continue to intensify, with increasing frequency and severity of extreme weather events globally. From deadly wildfires in Chile and Australia to catastrophic floods in Mozambique and Portugal, and from record-breaking heat waves in the U.S. Southwest to winter storms crippling Texas, the pattern of destruction and grid emergencies is intensifying. Research indicates that these risks are beginning to have more direct financial implications, with borrowers facing penalties for ignoring climate vulnerabilities, and U.S. property markets vulnerable to climate hazards. The United Nations has issued warnings of "global water bankruptcy," and heightened stress on infrastructure in developed nations is evident. Cracked homes in London are being linked to record heat. This reinforces the importance of active engagement with companies on climate resilience and risk management.

- **Climate physical risk is becoming a financial and operational issue -** Extreme weather featured heavily across the newsflow over the quarter. Heat waves in Europe, America and Canada; global wildfire activity; floods in Mozambique and South Africa; water shortages in the UK; drought risk for South African farmers; and hurricane exposure in the New York metropolitan area all show physical climate risk becoming more visible and costly. The implications extend beyond direct asset damage. Changing climate conditions place pressure on agriculture, livestock, water infrastructure, electricity systems, insurance affordability and municipal credit risk. BBVA, Spain's second biggest bank, has moved to adjust loan pricing based on customers' exposure to physical climate risk – this suggests that physical risk is starting to be incorporated into financing and credit assessments. This will be a further engagement topic with the banks over the next quarter.

Engagements

Engagement topics ahead of AGMs:

- **Absa Group Ltd**: remuneration policy concerns. These included a large quantum paid to the CEO and poor disclosure, as well as extra pay packages set aside for recruiting new management. We ultimately ended up voting against their remuneration policy..

- **Nedbank Group Ltd:** the process taken to adjust remuneration which is typically done after M&A and only in instances where the impact would be material. We also engaged on the minimum wage paid to contractors and will continue this engagement during H2 2026 with NED and the other banks.

- **MTN:** governance in key risky jurisdictions. The company indicated that having people on the ground in these countries helps them raise risks in advance. They are still waiting for the opportunity to exit their Iranian business, and the lifting of sanctions on Iran might present an opportunity.

- **Sirius Real Estate Ltd:** a key resolution to allow them to issue up to two-thirds of the shares in issue. While we understand this is common across UK companies, we voted against the resolution given this exceeds our authority levels.

In light of the regulatory issues seen at Rathbones Group over the quarter, we had the following engagements:

- **Rathbones Group PLC**: Rathbones compliance and governance issues related to regulatory funding around the calculation of UK consumer duty. Based on our research including likely range of outcomes, we ultimately exited a small position in the fund.

- **Quilter PLC**: Contagion from the compliance issue at Rathbones. We were comfortable that contagion would be limited however ultimately sold a position on valuation grounds.

Collaborative engagements

Collaborative letters signed over the period included:

- A letter to the Department of Water and Sanitation from a collaborative water group outlining proposed water-related reforms and action required from government. Our letter was acknowledged, and we are waiting for a response.

- A letter informing the UK government why investors support human rights due diligence received a response. This will form part of the review the government is undertaking regarding legislation to tackle human rights abuses in supply chains. This is a positive outcome, and we will continue to monitor progress.

- A collaborative letter we signed appealing to relevant regulatory body for better disclosure on methane emissions as an investor group. This was shared at London Climate week. In Q3, letters will be sent to individual companies to request improved disclosure.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Samsung Electronics Co Ltd	1.33%	0.68%	Impala Platinum Ltd	1.44%	-0.57%
Taiwan Semiconductor-SP ADR	2.21%	0.64%	Gold Fields Limited	1.37%	-0.48%
Grindrod Limited	1.17%	0.44%	Valterra Platinum Ltd	1.53%	-0.29%
Elevence Health Inc	1.46%	0.35%	Leonardo SpA	1.00%	-0.24%
Unitedhealth Group Inc	0.98%	0.35%	Prosus Nv	2.62%	-0.22%

Asset Allocation	Domestic	Foreign	Total
Equity	34.73%	30.90%	65.63%
Fixed Income	10.54%	3.81%	14.35%
Property	5.04%	2.87%	7.92%
Cash	6.77%	10.76%	17.53%
Derivatives	-	-5.50%	-5.50%
Total	57.08%	42.85%	100.00%

Source: Truffle, as at 30 June 26

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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