NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS FINANCIALS FUND

Quarter Two, 2026

Nedgroup Investments Financials Fund

Performance to 30 June 2026	Nedgroup Investments Financials Fund[1]	Benchmark: FTSE/JSE SA Financials Index
3 Months	8.48%	8.28%
12 Months	21.41%	28.46%

Market Commentary

Global markets

The US remained the primary engine of global market performance during Q2. AI-driven capital expenditure and resilient economic activity supported risk assets.

One of the defining features of Q2 was the transition from Jerome Powell to Kevin Warsh as Federal Reserve Chair, with markets focusing on how the Fed's reaction function might change under new leadership. Warsh formally assumed the role on 22 May 2026 and has already signalled a meaningful shift in both communication and policymaking processes. Rather than providing extensive forward guidance, his first FOMC meeting removed much of the Fed's previous signalling around the future path of interest rates and adopted a shorter, fact-based policy statement. Warsh has also launched five internal review task forces to examine key areas of the Fed's operations and policy framework, a move widely viewed as the first stage of a broader institutional overhaul.

Corporate spending on semiconductors, data centres, cloud computing and AI-related technologies remained the dominant driver of equity returns. Elevated energy prices early in the quarter, following tensions in the Middle East, resulted in a decisive shift in expectations from further interest-rate cuts to potential rate hikes. Central banks in Japan, Australia, Norway, Indonesia and South Africa, among others, raised interest rates late in the quarter due to concerns about inflation. The US Federal Reserve and the Bank of England held rates steady but indicated the potential for future rate hikes. The two most important questions for near-term market performance are whether the AI-led investment cycle can continue to broaden across the economy and whether the new Fed leadership can restore inflation to target without derailing economic growth.

Over the quarter, the MSCI All Country World Index gained 14.9%, while the MSCI Emerging Markets Index rose 24.1% (in US dollar terms). The Bloomberg US Aggregate Bond Index closed modestly higher, returning 0.7%, while the US Treasury Bills 1–3 Month Index generated a return of 0.9%. US equities outperformed, gaining 15.2%, while returns in Europe (10.9%) and the UK (4.1%) lagged (all in US dollar terms).

South African markets

South African markets spent much of the quarter caught between domestic fundamentals and a challenging global capital allocation environment. Fiscal outcomes continued to exceed expectations, but the global energy shock early in the quarter increased risks to economic growth, policy credibility, and reform momentum. Lower energy prices towards the end of the quarter proved supportive of local bond markets. SA Inc. continues to trade at attractive valuations, but without stronger growth momentum, it is difficult to see investors assigning higher valuations to these companies.

The FTSE/JSE Capped All Share Index closed marginally weaker in rand terms, declining by 2.4%, while the Real Estate Investment Trust (REIT) sector gained 10.0%. Bond markets benefited from improved fiscal outcomes and lower energy prices, with the FTSE/JSE All Bond Index gaining 7.9%. Domestic cash (SteFI) delivered a return of 1.7%.

Fund performance

The Nedgroup Investments Financials Fund delivered satisfactory performance, returning 8.48% for the quarter and 21.41% over the 12 months ended 30 June.

[1] Net return for the Nedgroup Investments Financials Fund, A class. Source: Morningstar (monthly data series).

Capitec, MMI (Momentum Group), OUTsurance, the Denker Global Financial Fund and Standard Bank generated the highest absolute returns during the period, while Optasia, Ninety One, Absa, Sanlam and Nedgroup recorded the largest declines. Although Optasia was a relatively small holding, it detracted the most from performance due to its 25.7% share price decline (the reason for the decline is discussed in the detractor section below).

In terms of contribution, the largest positive contributors were the Denker Global Financial Fund and MMI.

While the Fund's absolute performance over the 12 months (21.41%) was strong, it underperformed its benchmark, largely due to performance in the first six months of the year. This was primarily the result of an underweight position in Standard Bank and overweight positions in Sanlam and Investec. In addition, although the Denker Global Financial Fund performed well (+32% in US dollar terms), the benefit of this performance was reduced by the strength of the rand.

Top/bottom contributors

Top contributors	Ave. weight	Performance attribution	Top detractors	Ave. weight	Performance attribution
Reinet Investments	-	0.7%	Investec	10.1%	-0.5%
Denker Global Financial Fund	23.7%	0.5%	Optasia	1.4%	-0.5%
MMI	5.8%	0.3%	Capitec	9.7%	-0.5%
ABSA Group	4.9%	0.2%	Santam	2.2%	-0.2%
Old Mutual	-	0.1%	PSG Fin Services	-	-0.2%

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

- **Reinet:** Due to its significant investment in the Denker Global Financial Fund, the Nedgroup Investments Financials Fund does not hold a direct investment in Reinet.
- **Denker Global Financial Fund:** The fund recovered strongly during the quarter as investors increasingly believed that the war would come to an end and that oil prices would decline, although this occurred more quickly than most had expected. The fund's 15% gain during the quarter more than offset its 4.5% decline in Q1, resulting in a strong return of approximately 15% for the six months ended 30 June.

  This performance was driven largely by a strong rebound in both European and US banks, while a number of mid-cap banks also recorded sharp gains.

  At the same time, the continued sell-off in exchange operators such as the London Stock Exchange Group and ICE (Intercontinental Exchange) created attractive investment opportunities, as did parts of the insurance sector.

- **MMI**: The Fund has maintained a large investment in MMI for several years, based on the belief that the executive team would successfully turn the business around. Jeanette Marais, Risto Ketola and their team continue to make good progress. We believe MMI can continue generating a high return on equity (ROE), which makes it an attractive investment for the Fund.

- **Absa:** Kenny Fihla is assembling an experienced team to improve Absa's return on equity. However, the risks associated with a turnaround strategy remain high. As a result, despite the company's seemingly attractive valuation, the Fund maintains a below-benchmark weighting in Absa.

- **Old Mutual:** We support the actions initiated by Old Mutual's new CEO to improve the company's return on capital. However, we believe that changing the corporate culture will take longer than anticipated. As a result, the Fund is not invested in Old Mutual at present, and the company's negative share price performance benefited the Fund's relative performance.[Tv1] It is also worth noting that the Fund maintains significant overweight positions in Sanlam and MMI because we believe their higher returns on capital are likely to continue outperforming those of Old Mutual for the foreseeable future.

Top 5 detractors

Investec: Investec has a strong franchise in South Africa and is in the process of expanding beyond its traditional market segment, with encouraging results so far. Unfortunately, its UK operations continue to operate in a low-growth, highly regulated environment, which has resulted in UK banks trading at discounted valuations. In addition, Rathbones, in which Investec holds a 41.2% economic interest, is facing regulatory scrutiny after a skilled-person review highlighted concerns relating to KYC shortcomings.

Optasia: Optasia is a recent JSE listing with considerable growth potential in the low-income consumer segment and operations across 38 countries. During the quarter, however, its Airtime Credit Services business in Nigeria was suspended by mobile network operators due to regulatory uncertainty. The suspension has since been lifted, and management has provided a trading update reaffirming its guidance despite the disruption. Growth in the Micro Finance Solutions business remains attractive and has been unaffected.

Capitec: The Fund has an investment of almost 10% in Capitec. However, due to the company's record-high valuation, this remains below the benchmark weighting.

Santam: The Fund's significant holding in Santam reflects its consistently high return on capital, which has historically translated into strong shareholder value creation over time. However, market weakness during the quarter resulted in the share underperforming, which detracted from the Fund's performance.

PSG Financial Services: We rate PSG Financial Services' management team and business highly. However, like many high-quality businesses, the shares tend to trade at valuations that are too expensive for a value-oriented investment philosophy. As a result, the Fund does not currently hold an investment in PSG Financial Services.

Changes to portfolio

Very few changes were made during the quarter, with only small additions to positions, namely Optasia Limited (0.3%) and ABSA Group Limited (0.3%).

Current positioning and Outlook

The portfolio remains concentrated in core South African financial services companies, with significant exposure to major banks and insurers. Key holdings include FirstRand Ltd, Standard Bank Group Ltd, Capitec Bank Holdings Ltd, Sanlam Ltd, Momentum Group Ltd, Investec Ltd, Absa Group Ltd and OUTsurance Group Ltd.

Relative to the benchmark, the Fund maintains active positions, including underweight exposures to selected large banks and overweight exposures to insurers and specialist financial companies. The portfolio also excludes several benchmark constituents, which contributed positively to relative performance through timing effects.

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 companies are expected to remain challenged until there is clearer evidence of monetary policy easing.

While the macroeconomic factors outlined above do play a role, we believe that, over time, the quality of management teams will continue to drive strong growth in shareholder value. At the same time, the valuations of the underlying shares do not appear excessive.

An excellent example of this is Standard Bank. An investment in Standard Bank made in December 2000 would have generated a compound annual return of approximately 16% over the 25 years to 31 December 2025, despite the significant local and international challenges experienced over that period.

Responsible Investment Comments

Background: Upon joining Absa, the CEO received cash and share-based buyout awards. However, a key concern raised in the report related to the CEO's 2025 short-term incentive (STI), which was calculated on a full-year equivalent basis despite the CEO only joining in June 2025 (i.e. it was not pro-rated). The Board considered this appropriate, given the leadership responsibilities assumed during a critical transition period and the fact that the CEO had foregone a short-term incentive during the first half of FY25.

At Absa's AGM, approximately 43% of shareholders, including Denker Capital, voted against the remuneration implementation report. This led to additional shareholder engagement sessions, during which dissenting shareholders were given the opportunity to raise concerns and provide recommendations.

During the engagement process, it became clear that shareholders were unconvinced by the rationale for calculating the incoming CEO's incentive on a full-year equivalent basis. Furthermore, the significant level of dissent was viewed as a governance concern, with shareholders encouraging the Board to demonstrate greater accountability in future reporting periods.

As investors, we believe management should be rewarded for meeting or exceeding performance targets, but not in advance of delivering those outcomes. The emergence of governance concerns such as this is troubling, particularly given Absa's recent governance challenges. However, we are encouraged by the company's willingness to engage constructively with shareholders, and we hope the Board will give serious consideration to the feedback received.

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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