NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter Two, 2026

Nedgroup Investments Flexible Income Fund

Performance to 30 June 2026	Fund Performance[1]	110% STeFI Call
3 months	3.0%	1.8%
12 months	9.8%	7.0%

The fund experienced a reasonable quarter, seeing strong performance off the back of rebounding fixed income markets. The fund's exposure to local nominal and inflation linked bonds, in particular, contributed positively to returns. 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

Despite a volatile Q2 2026, defined by geopolitical energy shocks and a hawkish pivot from the Fed, global risk assets proved remarkably resilient. The US equity market continued its strong run, albeit narrow, returning 15.1% for the quarter, while the US Treasury Index delivered a 0.3% gain despite the higher-for-longer rate narrative. Locally, South African assets experienced a sharp divergence. The JSE/FTSE All Bond Index (ALBI) surged 7.9% on a wave of positive fiscal and political sentiment, lifting local listed property and inflation-linked bonds alongside it, with gains of 10.0% and 6.5%, respectively. Conversely, the FTSE/JSE All Share Index (ALSI) faced significant headwinds, declining 2.4% for the quarter. This weakness in local equities was primarily driven by hawkish global rate expectations, which placed considerable pressure on commodity prices, resulting in the RESI20 Index falling 19.7%.

Globally, the macroeconomic backdrop was dominated by the inflationary fallout from the conflict involving Iran. The conflict triggered a significant energy shock early in the quarter, elevating inflation concerns across markets. Fortunately, a de-escalation in US-Iran tensions during early June helped ease oil prices, removing a substantial portion of the Middle East risk premium from markets by quarter-end.

However, the relief in inflation expectations was quickly offset by a notably hawkish shift from the Federal Reserve. Operating under new leadership, the June FOMC meeting, with Chairman Warsh at the helm, introduced a distinct change in tone. While the Fed left policy rates unchanged, it delivered a materially more hawkish message: nine of the 18 officials projected at least one further rate hike by year-end, leaving the dot plot evenly split between hikes and holds or cuts. Notably, the policy statement under Chairman Warsh was considerably shorter, providing less forward guidance than markets had become accustomed to under previous leadership. This shift in communication raises the prospect of greater policy uncertainty going forward.

The underlying US economic data supported this hawkish stance. First-quarter GDP growth was revised upward to 2.1% from 1.6%, while May's PCE inflation data came in broadly in line with expectations, although annual inflation remained elevated at 4.1%. Interestingly, the long end of the US Treasury curve rallied following the Fed's shift in tone, suggesting that investors viewed the move as reinforcing the central bank's commitment to controlling inflation. As a result, global real yields remain elevated.

Elsewhere in the developed market universe, the ECB raised policy rates in response to the energy shock but signalled a pause thereafter as European growth remains fragile. Meanwhile, the Bank of Japan took a historic step by raising rates to their highest level since 1995. Despite this, the yen remained under considerable pressure against the US dollar, while long-dated Japanese government bond yields stayed elevated.

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

Locally, the South African bond market remained well supported. As Strait of Hormuz-related risks eased globally, the South African 10-year bond yield drifted lower, ending June at around 8.35%. This decline in yields was largely driven by an increasingly constructive domestic fiscal and political backdrop, culminating in a significant sovereign milestone. In early June, Fitch Ratings upgraded South Africa's sovereign credit rating to BB from BB-, marking the country's first ratings upgrade in nearly 21 years. Citing a return to primary fiscal surpluses and disciplined expenditure management, the upgrade strengthened the broader "SA Inc." investment case and further supported offshore investor demand. Consequently, foreign demand for South African government bonds remained exceptionally strong, with net inflows reaching R139 billion over the 18 months to June, more than the combined inflows recorded over the previous four years.

On the monetary policy front, the South African Reserve Bank (SARB) continues to navigate a complex inflation environment. The Q2 BER inflation expectations survey showed expectations rising to 4.4% for 2026, up from 3.6% in the first quarter. While these expectations remain above the SARB's preferred 3.0% target over the longer term, it is worth noting that the survey period captured the peak of the Middle East energy shock rather than the subsequent moderation in oil prices. Nevertheless, the SARB remains cautious. Governor Lesetja Kganyago's recent comments at the ECB's Sintra Forum were notably hawkish, cautioning against declaring victory over inflation too soon. His remarks have brought the possibility of a further 25-basis-point rate increase, which would take the repo rate to 7.25%, back into focus ahead of the 23 July MPC meeting.

Current positioning and outlook

- Moderate Duration

As at the end of Q2 2026, domestic duration is 1.0 years in nominal bonds and 0.2 years in inflation-linked bonds. The fund benefitted from an increased nominal bond duration in Q2, as duration was opportunistically added into weakness, after a weak Q1 in local bonds.

- Offshore Bonds & Money Market

The fund holds exposure to Offshore Bonds & Money Market instruments at 5.3% 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 remains neutral with around 2.8% exposure.

- 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 2.3% exposure to domestic property. The fund benefitted from a slightly higher allocation in Q2, as exposure was added after a weak Q1.

- 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

While sentiment towards South African assets remains positive, investors should be mindful of potential political uncertainty ahead of the November local elections. At the same time, consumers continue to face pressure from high interest rates and the lingering impact of elevated fuel costs. These challenges may temper economic growth, increasing the risk that economic data disappoints expectations in the second half of the year.

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.

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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