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NEDGROUP INVESTMENTS FLEXIBLE INCOME

Quarter Three, 2026

Nedgroup Investments Flexible Income Fund

Performance to 30 September 2026	Fund Performance[1]	Stefi*110%
3 months	1.27%	1.87%
12 months	8.55%	6.93%

The fund experienced a good quarter, particularly off the back of struggling local and global fixed income markets. The funds floating rate allocation, conservative duration and hard currency hedge all contributed to the resilience of the fund over the quarter.

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

Global equity and fixed income markets diverged in the third quarter of 2026. Equities demonstrated continued resilience while bond markets faced pronounced headwinds. The S&P 500 extended its gains, returning 2.9% for the quarter, underpinned by robust earnings expectations across the technology sector. Global equity markets followed suit, with the MSCI World index delivering 1.9% and the MSCI Emerging Market Index relatively flat (-0.2%). In stark contrast, US Treasuries, and global fixed income broadly, encountered heavy selling pressure, driving yields higher across the curve as investors digested persistent economic resilience alongside structural concerns over heavy sovereign debt issuance and higher inflation.
Domestically, the FTSE/JSE All Share Index (ALSI) posted respectable loss of 0.3% for the quarter, largely catalysed by a rotation into resources and precious metals through to the end of August and a very weak September as risk assets came under pressure. South African fixed income, however, had a more challenging period as domestic yields were dragged higher by the global bond sell-off. Inflation-linked bonds (ILBs) held up better than nominal paper, returning 1.5% versus -0.7% for nominal bonds for the quarter, providing defensive duration insulation as real yields absorbed some of the curve pressure. Meanwhile, listed property struggled alongside duration assets, posting -1.5% as higher discount rates weighed on performance.

The dominant global macro narrative centred on this persistent weakening and steepening of the US yield curve. Recent Federal Reserve communications reinforced a higher-for-longer, restrictive posture against resilient activity data, with the fed hiking 25bps in the September meeting. Over the quarter, the US 10-year real yield (TIPS) surged past 2.6%, with the nominal yield increasing 82bps over the quarter to 5.3%. Sovereign liquidity and market-functioning concerns have clearly begun to register not only with the market, but with policymakers: the US Treasury announced its debt buyback program targeting off-the-run paper, while the Federal Reserve facilitated USD liquidity via its repo framework to the Bank of Japan, mitigating the risk of disorderly Treasury liquidations to fund foreign exchange defence. Yet despite these tactical supply-relief measures, curve steepening persisted. Crucially, this move reflects higher real term premia rather than unanchored inflation risks. With 10-year US breakeven inflation rates remaining well-anchored near 2.3%, the market is clearly not pricing a long-term inflation spiral; instead, the elevation in long yields reflects fiscal deficit funding strains, substantial net Treasury absorption, and enduring growth momentum.

On the domestic front, the South African Reserve Bank (SARB) maintained its hawkish vigilance, delivering a 25-basis point hike in late September to lift the repo rate to 7.25% in response to energy constraints and sticky upside inflation risks. While broader sentiment toward South African government bonds remains constructive—with the sovereign risk premium having compressed meaningfully over the past few years on improved fiscal messaging and political stability under the Government of National Unity (GNU), the tailwind from that

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

compression has largely played out. With global yields exerting upward pressure and substantial positive local news already priced into credit spreads, we maintain a more neutral stance on local nominal bond valuations at current levels.

Looking ahead, global asset allocation will increasingly reflect the political calculus of the upcoming US midterm elections. Fiscal policy, cost-of-living pressures, and trade dynamics remain front of mind. While a divided Congress typically delivers policy gridlock, historically supportive for risk assets by curtailing sweeping regulatory or tax shifts, the path forward will likely invite episodic volatility around debt-ceiling debates and geopolitical frictions. Domestically, upcoming municipal elections will serve as the next key barometer of confidence in the GNU. A cohesive outcome could reinforce structural reform momentum, whereas an unfavourable result risks unwinding some of the optimism currently reflected in domestic asset prices.

Current positioning and outlook

- Moderate Duration

As at the end of Q3 2026 domestic duration is 1.0 years in nominal bonds and 0.2 years in inflation-linked bonds. The fund continues to trade duration tactically, trading the more recent range-bound nature of the nominal government bonds. Overall, we remain neutral on valuations at current levels.

- Offshore Bonds & Money Market

The fund holds exposure to Offshore Bonds & Money Market instruments at 5.9% 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 3.0% 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 2.2% exposure to domestic property. Exposure to the sector remains low limited to high quality and highly liquid companies. Property fundamentals have improved and we expect robust earnings over the next reporting cycle which will be supportive for total return dynamics in the space.

- 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

In the third quarter of 2026, global markets saw a divergence as resilient equities outperformed fixed income, which faced selling pressure driven not only by higher shorter-term rates, but by structural US debt concerns and rising real yields, rather than an overwhelming concern around long term inflation. Locally, South African equities gained, but domestic bonds and listed property were pressured by the broader global rate environment and a hawkish 25-basis-point hike by the SARB. With the positive political momentum of the Government of National Unity now largely priced into local credit spreads, we have adopted a neutral stance on domestic nominal bonds. Looking ahead, we expect elevated market volatility driven by the upcoming US midterms and local municipal elections, underscoring the need for an active, highly selective approach to yield generation.

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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