NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

NEDGROUP INVESTMENTS FINANCIALS FUND

Quarter Two, 2025

Nedgroup Investments Financials Fund

Performance to 30 June 2025	Nedgroup Investments Financials Fund[1]	Benchmark: FTSE/JSE SA Financials Index
3 Months	9.7%	8.7%
12 Months	20.1%	20.3%

Market Commentary

Global markets

Following the sharp sell-off triggered by the Trump administration's "Liberation Day" tariff announcements on 2 April, global markets rebounded, ultimately delivering attractive second quarter returns. The initial shock—marked by a 12% drop in the S&P 500 and a spike in US Treasury yields–reversed as the White House changed course and softened its policy stance. By quarter end the MSCI World Index closed 11.5% higher. Emerging markets also delivered robust returns gaining 12.0% as the US dollar weakened notably, with the DXY index (a measure of the US dollar against a basket of currencies) lost 7.1%.

Friedrich Merz became Chancellor in Germany on 6 May following the Christian Democratic Union's election victory in February. The ruling coalition has signalled more conservative fiscal policies but also included a landmark commitment to increase defence spending by 1.5% of GDP. This helped deliver attractive returns by European defence and infrastructure-related equities. The European Central Bank cut rates by 25bps in June—its first move in the current cycle.

The Fed held rates steady as unemployment numbers were resilient and inflation remained somewhat above the targeted 2% level.

Israel launched an attack and the US bombed Iran's nuclear facilities. Despite the seriousness of these events, markets remained composed.

South African markets

Visible stress in the Government of National Unity (GNU) and the failure of the DA to vote for the budget on 2 April (hours before the US tariff announcements) resulted in weakness in SA fixed income and currency markets. This domestic shock was compounded by the much worse than expected tariff announcements later that same day out of the US. SA asset markets delivered attractive returns in the second quarter notwithstanding the inauspicious start. As the US softened its stance on tariffs, global risk sentiment improved. The eventual compromise between the GNU partners on the Division of Revenue Bill reassured investors that fiscal governance would not alter course drastically. Active lobbying by the SA Reserve Bank to reduce the inflation target helped anchor inflation expectations. These factors combined with a weaker dollar assisted domestic asset returns.

The SA equity market, as measured by the Capped SWIX, delivered strong returns in the second quarter gaining 9.7%. The FTSE/JSE Property Index gained 9.1% and the FTSE/JSE All Bond Index closed 5.9% higher. Domestic cash, as measured by the SteFI delivered 1.9%.

Fund performance

The Nedgroup Investments Financials Fund had a good quarter (+9.7%) thanks to strong performance from the large investments in the Denker Global Financial Fund, Sanlam, Investec and MMI (Momentum). Despite the recent strong performance of gold and platinum miners, the fund outperformed the majority of the funds in the ASISA SA - Equity – General category over the medium term. On an annualised basis, over three years the fund delivered 21.0% vs. the SA general equity fund category's average of 13.5% and over five years 21.3% vs. 14.2%. This is because of the consistent growth in shareholder value of both the SA banks and insurers as well

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

as the strong performance of the Denker Global Financial Fund over the past five years (which added +193% cumulatively in US dollars over the five years (23.8% annualised)).

During the quarter, the banks (with the exceptions of Nedbank and Standard Bank) performed well despite the macro and political uncertainty and low GDP growth rate, Capitec and Investec were the best performers (+14%) whilst the insurers had OUTsurance ending +12% and Sanlam and MMI +10%.

Top/bottom contributors

Top contributors	Ave. Weight	Performance attribution	Top detractors	Ave. weight	Performance attribution
Denker Global Financial Fund	23.5%	0.6%	Reinet	-	-0.6%
Standard Bank	8.6%	0.5%	PSG Konsult	-	-0.1%
Investec*	8.5%	0.4%	Mas Plc	-	-0.1%
Remgro	-	0.3%	Capitec	10.3%	-0.1%
Sanlam	12.1%	0.3%	Redefine Income Fund	-	-0.1%

Source: StatPro.
*Investec PLC and Ltd combined

Top 5 contributors

- **Denker Global Financial Fund:** The fund gained 24.5% over the six months and 15.0% over the quarter ending 30 June (in US dollars). The Euro (and most other currencies) gained strongly (+9%) against the dollar which helped the performance, but both US and EU shares reported good Q1 results and continued their re-rating. Many of the individual shares owned in the fund remain mispriced (in our opinion) and with the tailwinds of de-regulation and lower interest rates we expect further re-rating. The fund has increased its investment in emerging market banks that should benefit in terms of loan growth, lower bad debts and a re-rating as global interest rates start coming down.
- **Standard Bank:** Standard Bank (an underweight position) results were disappointing but not unexpectedly so, due to the previous quarter's very strong results. Yet the share subsequently sold off a bit.
- **Investec:** Investec's share price has been under pressure due to concerns around the UK motor vehicle leasing contracts, the continued very low GDP growth and uncertainty around recent policy proposals by the Labour government. Management however is targeting a wider client base which, with other changes should result in its ROE (return on equity) exceeding 13% over time. This would mean that on a <0.7x P/tNAV (price divided by tangible net asset value) basis, Investec is one of the most undervalued banks in South Africa - which belies the quality of its management. We have therefore used the price fall to add to the fund's holdings.
- **Remgro:** Due to the large investment in the Denker Global Financial Fund, where the fund gains offshore exposure, we do not invest in Remgro and hence it appears as a detractor when the share gains. However, this should be measured against the investment in the Denker Global Financial Fund. Over time this decision has helped the fund outperform due to the Denker fund outperforming Remgro.
- **Sanlam:** Sanlam's share price bounced back strongly after the previous quarter's decline. The fund's large holding in Sanlam is because of its consistently high return on capital which leads to high shareholder value growth, as well as its large investment in Shriram in India and its broader African portfolio. This decision is another that has generated good performance for the fund over many years and we expect it to continue to do so.

Top 5 detractors

- **Reinet:** As with Remgro, the fund has not had an investment in Reinet, preferring to invest in the Denker Global Financial Fund for its offshore exposure. Again, as with Remgro, this decision has worked well for the fund over the past few years.
- **PSG Konsult:** For various reasons (mainly limited liquidity) the fund has not held an investment in PSG Konsult. This has detracted from the fund as CEO Francois Gouws and his team have generated consistently good growth over the past five years.
- **Capitec:** We rate both the management of Capitec and the franchise very highly. In fact, we think they must be amongst the top three in the world**.** This is reflected in the valuation **(**both in terms of P/tNAV and PE) and whilst the fund has a large Capitec holding (10%) we are underweight the 12% index weight simply because we believe Investec presents better upside over the medium term.
- **Mas Holdings & Redefine**: The fund has no holdings in property companies at the moment.

Current positioning and outlook

Very few changes were made to the portfolio during the quarter. We further reduced the fund's holdings in Absa, Standard Bank and Nedgroup slightly (due largely to market movements). We added to the Investec holdings and, for the first time in many years, made a small purchase of Old Mutual shares. Old Mutual is significantly undervalued and we think that the appointment of Jurie Strydom as CEO could be a first step in the long process required to unlock the value.

Outlook

In SA, the past squandering of resources has resulted in a large debt burden, which inhibits further spending and needs strong action to reduce the debt levels and the interest expense bill in the budget. Therefore, financial sector growth in 2025 will depend, now more than ever, on government actions. In that regard, the actions to not pass the VAT hike and force the ANC government to implement a growth-oriented budget is of immense importance. For the sector to re-rate further the country needs capital inflows attracted by growth and capital friendly regulation. Inflows will also help strengthen the rand and allow the SARB to cut interest rates.

Hence it is vital that, besides the debt burden, the growing water crisis in Gauteng is tackled and other hindrances and inefficiencies are removed.

The seemingly attractive valuation of companies within the fund indicates that investors do not have high expectations. This is despite, for example, the fund's compound annual growth rate of 15.5% since inception 22 years ago – even with all the problems SA faced over that period. We have full confidence that it will continue to generate similar returns in the future.

Both the SA banks (and insurers) remain very well placed to benefit from any increase in sentiment and business activity. We think they represent bargains which will unlock over time.

Responsible Investment Comments

The fund's ESG score has improved each quarter from an average score of 7.6 in June 2024 to 8.0 end June 2025. With such a high average score the increases tend to be small. Over this quarter the increase was largely due to Old Mutual, Sanlam and MMI increasing their environmental and governance scores, whilst the banks generally all saw slight deteriorations in the environmental scores seemingly due to different scoring or disclosure. But the important issue is that one does see that management teams do take it seriously. Over the next six months we will monitor if this remains the case post President Trump's actions. Certainly, in the case of US banks and insurers the Social Responsibility scores should decline due to recent political and regulatory pushback against DEI (diversity, equality and inclusion) initiatives.

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.
Contact details: Standard Bank, Po Box 54, Cape Town 8000,
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

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

Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za

OUR OFFICES ARE LOCATED AT

Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001
WRITE TO US
PO Box 1510, Cape Town, 8000