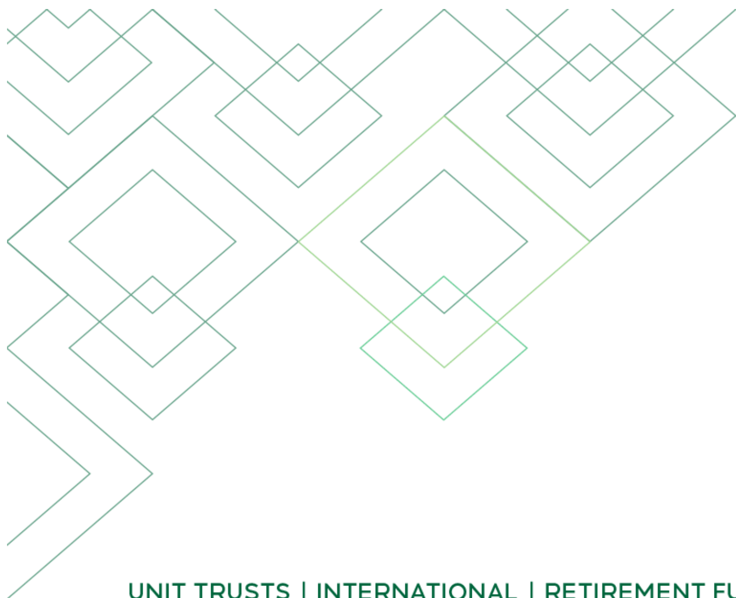

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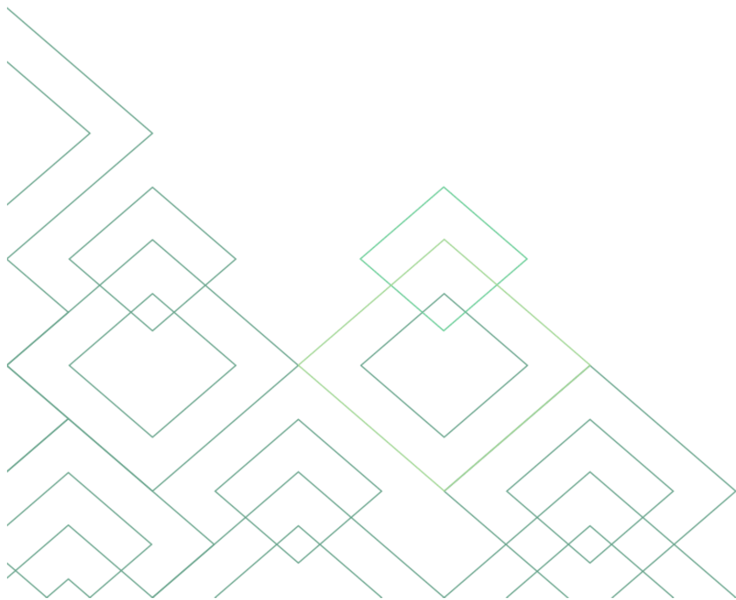
NEDGROUP INVESTMENTS BALANCED FUND

Quarter One, 2025



Nedgroup Investments Balanced Fund

Performance to 31 March 2025	Fund[1]	ASISA Category[2]
3 months	5.5%	0.7%
12 months	15.0%	12.4%

Market Overview

A tariff-induced global slowdown

Tariff announcements have elevated the risk of a US and global recession and increased uncertainty for businesses and policy makers. This has driven global markets lower. Locally, political challenges have raised fears that South Africa's necessary reform agenda will slow, further adding to the growth pressure from tariffs.

Tariffs: many are larger than expected. What will eventually stick?

As we pen this note, the S&P500 is down almost 18% from its February high, while the Trump administration maintains a firm stance on their tariff proposals. Some smaller trading partners appear willing to negotiate given their dependence on US imports, while larger trading partners like China have responded with reciprocal tariffs. The key question is whether domestic pressure from a collapsing stock market will force the US's hand to be more reasonable.

Currently tariffs are expected to reach 25%, levels not seen for over a century. What was originally perceived as a negotiating tool from a transactional leader now seems to follow a more ideological approach. The economic implications, though difficult to quantify precisely will certainly be meaningfully negative. Tariffs effectively tax consumers through higher prices, negatively impacting consumption and consequently US GDP growth. They will also disrupt supply chains as approximately 80% of US imports are intermediate goods essential for current production. According to our survey of economists, the negative impact to US GDP ranges from 1-2%. Effects on other countries will vary based on their export dependency. Countries like Mexico, China and Vietnam will experience a far greater impact on GDP growth due to their reliance on US exports. The result of the tariffs is in essence a supply shock for the US and a demand shock for exporters to the US. The impact of higher tariffs in the US is likely to add 2% to inflation as companies and consumers adjust to the higher prices.

Capital expenditure and investment will suffer from the uncertainty regarding tariff arrangements, further weighing on global growth. Even if reasonable agreements are eventually reached with key territories, determining how much this uncertainty persists and its impact on future investment will remain challenging.

For South Africa the direct impact will be limited to our non-commodity exports to the US, (primarily motorcars and the agriculture sector) representing about 0.6% of our total GDP. However, secondary effects from slowing global growth will likely hurt tourism and commodity demand. Ultimately, our relationship with the US and our ability to maintain the GNU will be of greater importance for our economic outlook.

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

As of 8th April, most equity markets are trading in line with their long run valuations. The negative GDP impact will slowly filter through to negative earnings revisions which will raise valuations.

The positives aspects of this market correction include:

- It is easily reversible if politicians are prepared to "eat humble pie", although some long-term damage to confidence is likely.
- US consumers and businesses are in relatively healthy financial positions.
- The Fed and European Union has room to cut rates. The Fed is holding back currently due to inflationary concerns, which could be overshadowed by a growth slowdown.

In the long run voters will force politicians' hands. The timeframe for markets to price this in is difficult to determine. We will leverage these negative price movements to acquire securities at compelling valuations.

Europe finally has some tailwinds

While a continuation of the US trade war will undoubtedly have negative repercussions for Europe, several positive developments have emerged over the past month that could support growth. Multiple factors that have historically hampered European productivity growth appear to be reversing.
In a landmark decision, the German parliament passed historic constitutional reforms that enable the incoming Friedrich Merz government to significantly increase defence spending and launch an ambitious €500 billion funding package aimed at boosting Germany's infrastructure investment. This combined military and infrastructure initiative totals €1.0 trillion over the next 12 years and could potentially enhance German GDP by 1-2% annually.

Simultaneously, energy prices are declining, with an anticipated substantial increase in US LNG production likely to keep them subdued over the medium term. Consumer spending could also rebound from a low base, supported by relatively healthy personal balance sheets.
European leaders have acknowledged their over-regulated economy, and any moves to ease regulatory burdens would positively impact growth. EU Commission President Ursula von der Leyen is advocating for a reduction in EU ESG rules, a position echoed by EU President Donald Tusk. Additionally, ESG funds in Europe are considering including defence companies in their portfolios, which should provide a boost to European indices.

Encouragingly, European banks have finally achieved adequate capitalisation and are generating respectable returns after years of restructuring and balance sheet repair. These combined factors suggest that despite ongoing global trade tensions, Europe may be positioned for a period of improved economic performance, especially on a relative basis.

China embraces tech leaders - a positive for China tech shares

In a significant shift of policy direction, the Chinese government is now actively embracing its technology leaders, as evidenced by the re-emergence of Jack Ma from his period of isolation. This rapprochement between Beijing and its tech entrepreneurs signals a potentially more supportive regulatory environment for the sector. Simultaneously, the release of DeepSeek demonstrates China's ongoing capability to compete effectively in the high-tech arena, particularly in artificial intelligence.

On the macroeconomic front, China plans to increase its budget deficit this year, enhancing fiscal stimulus to support economic growth. However, uncertainty remains about whether these government

measures will successfully encourage Chinese consumers to increase spending. To address this challenge, authorities are implementing a multibillion-dollar subsidy program specifically designed to stimulate consumption, with a particular focus on boosting purchases in service sectors including travel, tourism, and sports. This program could launch in the second half of this year if consumer spending continues to underperform expectations.

Despite these positive developments, tensions with the United States continue to pose a significant risk. Although China has been strategically reducing its export dependence on the American market, the volume of trade remains substantial enough that disruptions matter considerably. China has placed reciprocal tariffs of 34% on the US in retaliation to the US's 54% tariffs. This has significantly impacted Chinese equities, highlighting the ongoing vulnerability of the market to geopolitical tensions despite efforts to diversify trade relationships.

South African recovery looks tepid and likely to take longer

The South African economic recovery trajectory is facing significant headwinds, suggesting a longer and more gradual path to growth than previously anticipated. The tariff-induced global slowdown is affecting economies worldwide, and South Africa will not be immune to these pressures. Growth forecasts are being revised downward by approximately 40 basis points, primarily due to the impact of tariff hikes. Changes to growth estimates are clearly a moving target at this stage although it is fair to say they would be meaningful.

Consumer and business confidence had already been declining prior to the trade war escalation, largely due to the delayed Budget and increasing instability within the Government of National Unity (GNU). At the time of writing, GNU negotiations continue, with increasing indications that a resolution may be achievable. While this will require pragmatism and compromise from all parties, the GNU remains an essential foundation for South Africa's economic recovery - a reality that will hopefully guide stakeholders toward a constructive outcome.
Nevertheless, a significantly higher risk factor will now be attached to political stability going forward compared to the period before the Budget disagreements. SA-US bilateral relations have also further deteriorated, although SA-EU relations have strengthened, which could potentially counterbalance some of the negative effects of Trump's trade measures.

On the inflation front, while there is little demand-side pressure, a weaker currency may cause supply-side inflation. Fortunately, falling oil prices will help mitigate some of the inflation effects caused by the weaker Rand. Rate cuts are more likely to materialize provided inflation doesn't spike excessively.

Domestically exposed companies have experienced aggressive selling following suggestions of the Democratic Alliance potentially leaving the GNU, compounded by US tariff announcements. We have begun selectively buying into counters that offer compelling value in this environment.

Outlook

The ultimate duration and level at which tariffs will settle remains unknown at this stage. The uncertainty and ill-will created will undoubtedly weigh on global investment and growth going forward. The risk of a recession has increased substantially. However, share prices are declining rapidly, suggesting that a recession may soon be adequately priced into markets.

Our portfolios have maintained defensive positioning to date, which should enable us to capitalise on opportunities to acquire quality companies at reasonable valuations as market conditions evolve.

Performance Commentary

The first quarter of 2025 was characterised by significant market uncertainty primarily driven by Trump's announcement of broad-based US tariffs. Baseline tariffs of 10% on imports with higher rates on specific countries add to US inflation and recession risk. The local backdrop delivered its own challenges as the February Budget was delayed amidst GNU disagreements.

Gold and platinum miners led South African equities to a solid performance in the first quarter of 2025 (Capped SWIX: 5.9%) with the SA Resources sector up 27.9%. Despite better local inflation data and a stronger currency, uncertainty across global and local markets remained high with investors seeking safe havens. SA Industrials managed to deliver a positive return of 3.1% given better performance from foreign-exposed companies such as Anheuser and Prosus. SA Financials lagged with a loss of 2.0% and SA property lost 4.2% after being the best performing asset class for 2024.

SA bonds (ALBI) gained 0.7% over the quarter while global bonds benefitted from increased uncertainty.

Global equity markets struggled again in Q1. The MSCI World index was down 1.3% in USD as the prospects of slower growth from the world's largest economy dampened sentiment. Gold benefitted from the shifting investor sentiment. Good stock picking within our foreign equity exposure was the main contributor to fund performance over the quarter. Select European industrial counters in the portfolio performed well despite overall market weakness. Leonardo SPA, one of our European defense investments, and Imperial Tobacco, one of our consumer staples holdings, were once again two of the top contributors. A position in RENK Group, another defense counter, also contributed.

From a local equity perspective, gold and platinum miners contributed to outperformance while the fund benefitted from exposure to Naspers / Prosus. Chinese tech companies are benefiting from improved sentiment as the Chinese government welcomes the private tech sector back into the fold. The release of DeepSeek has also illustrated the ability of China tech to compete in the AI sector.

Detractors over the quarter were largely the SA Inc counters in the portfolio. These shares re-rated significantly in 2024 given positive election sentiment in the year, however slightly disappointing retail updates and heightened GNU uncertainty have led to profit taking in these shares.

Portfolio Movements

Given global economic uncertainty, we have maintained a relatively defensive position. We added exposure to BTI and select European stocks in the defence sector. We have also added a position in Sony given strong valuation metrics.

We maintain exposure to the larger SA Banks within the SA equity allocation given strong free cash flow and compelling dividend yields.

From a Fixed Income perspective, we had reduced duration in the fund at the end of the last quarter, preferring inflation linked bonds (ILBs) and floating rate notes. We have largely maintained this position throughout the quarter.

Global equity markets remain extremely volatile. We maintain an underweight in the US equity market in our offshore positioning on valuation grounds and continue to focus on select exposure to European stocks which are offering value. These sectors include European Financials, Defence, Industrials and Consumer staples.

The extent of US tariffs and the impact on global growth remains uncertain. We are positioned relatively defensively given heightened uncertainty, with exposures to select opportunities that aim to drive capital growth in the portfolio.

Responsible Investing

Regulatory environment

- Weather-related events continued to intensify global concerns. The Los Angeles wildfires, exacerbated by climate change, raised questions about potential increases in reinsurance rates. While none of our insurance companies had direct exposure to these events, we're monitoring how this might affect reinsurance contract negotiations in the coming quarters.

- US foreign policy changes had mixed implications for our investments. The reduction in USAid to African nations initially raised concerns about foreign exchange liquidity in certain markets. However, our analysis revealed minimal exposure among our portfolio companies in the affected regions.

- Similarly, the US withdrawal from climate commitments to developing countries—representing approximately $1 billion for South Africa—could impact the Just Energy Transition initiative. We're particularly attentive to how Sasol might secure alternative funding for green hydrogen production, as government subsidies remain crucial for project viability.

- In Europe, the EU announced plans to reduce reporting requirements and scale back sustainability measures, including the Carbon Border Adjustment Mechanism (CBAM) and Corporate Sustainability Due Diligence Directive (CSDDD). These changes may affect demand for certain South African exports to European markets and reduce regulatory pressure on supply chain human rights standards.

- Within South Africa, two regulatory developments deserve attention. The Draft King 5 corporate governance code completed its public comment period on 4 April, with outcomes still pending. Additionally, the Presidential Climate Commission held discussions about expanding nuclear energy's role in the national electricity mix, which could positively impact decarbonization pathways for industrial companies heavily dependent on Eskom.

Our engagement activities included discussions with UK wealth managers Quilter and Rathbones regarding regulatory investigations. Both firms are implementing measures to ensure consistent advice across their broker networks and eliminate double-charging on client cash through interest and management fees.

We also investigated news regarding Glencore's money laundering probe, which appears connected to previous corruption and bribery investigations that were closed. The renewed scrutiny increases the risk profile of this holding.

Top contributors	Average weight	Performance contribution	Top detractors	Average weight	Performance contribution
Gold Field Ltd	1.99%	1.04%	Wilson Bayly Holmes-Ovcon Ltd	0.79%	-0.21%
Anglogold Ashanti Ltd	1.74%	0.97%	Pepkor Holdings Ltd	1.22%	-0.17%
Leonardo SpA	0.98%	0.57%	Investec Ltd	1.64%	-0.16%
Babcock International Group PLC	1.36%	0.54%	Sappi Ltd	0.61%	-0.14%
Naspers Ltd	3.96%	0.46%	Anglo American PLC	2.47%	-0.14%

Asset Allocation	Domestic	Foreign	Total
Equity	44.13%	24.34%	68.46%
Fixed Income	7.82%	6.42%	14.24%
Property	1.69%	2.98%	4.66%
Cash	4.58%	10.73%	15.32%
Equity Derivatives	0.22%	-2.90%	-2.68%
Total	58.44%	41.56%	100%

Source: Truffle, as at 31 March 25

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)..

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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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