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NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter Four, 2019

For the period ended 31 December 2019

NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Performance to 31 December 2019	Nedgroup Mining & Resources Fund[1]	ASISA SA Equity Resources & Basic Industries
Q4 2019	23.1%	9.0%
12 months	39.9%	38.8%
YTD	39.9%	38.8%

Market Commentary

The year ended on a high note for global equities as investors were able to breathe a sigh of relief on the back of a firm Phase 1 trade agreement between the US and China, and a decisive Tory victory in the UK's snap general election that paved the way for a less-uncertain Brexit. These December developments helped to improve sentiment towards global growth in 2020, as did the backdrop of easy monetary policy put in place by major central banks. South African investors also benefitted from the bullish global sentiment, outweighing largely negative local developments as both local equities and bonds delivered positive returns for the quarter, while the rand gained ground against all three major currencies.

The fourth quarter (Q4) of 2019 was characterised by an increasingly bullish (albeit still volatile) market environment from October onwards after both President Trump's announcement that a Phase 1 trade deal would be announced "within weeks", and UK Prime Minister Boris Johnson's success in passing a Brexit deal through Parliament. US equities reacted by reaching fresh record highs in late December, while global equities recorded their best annual gains since 2009. Emerging market equities outperformed developed markets in Q4 after a long period of underperformance. Global bonds, meanwhile, delivered only marginally positive returns in Q4 as the US Federal Reserve (Fed) signalled in October it was not likely to lower interest rates further and left rates on hold at its 11 December meeting.

In retrospect, the strong performances from global equity and especially global bond markets were the biggest surprises of the year. Going into 2019, many investors had been concerned that the decade-long equity bull market was coming to an end as it had surpassed the duration of all other bull markets in history, and global growth had slowed. They had seen company earnings growth decelerate and the impact of stimulative growth policies wane. For bonds, the market was expecting four interest rate hikes from the Fed for the year to fight expected rising inflation. Instead, they were faced with a serious China-US trade war, worsening Brexit uncertainty and slower-than-expected global growth. All of this prompted far more monetary easing than forecast (three 25bp rate cuts from the Fed). No one could have forecast that 2019 would be the strongest year for global equities in a decade, and that, even more impressively, global bonds would deliver 6.8% in total returns from their already-historically-high price (low yield) levels at the start of the year. Real global bond yields began 2019 at around 0%, offering poor long-term prospective returns which in theory should have discouraged investors from buying more (yet they did). Global equities had at least started the year at more attractive valuations.

During the quarter, the IMF lowered its global growth forecasts to 3.0% for 2019 and 3.4% for 2020, based on the broad slowdown in manufacturing and investment seen in the latter part of the year, as well as Brexit uncertainty and the impacts of the US-China trade war. But on 13 December, President Trump announced he was ready to sign a Phase 1 trade pact with China, averting planned new tariffs on another $160bn of Chinese products set to take effect on 15 December. Among other concessions, China has pledged some $400 billion in tariff cuts on 859 types of products from the US and other trading partners starting 1 January, as well as promising to buy more US agricultural products. This sparked a pre-Christmas equity rally in stocks around the world, also boosting emerging market currencies.

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

Precious metal prices all rose during Q4, with palladium ending a stellar year with a 52.5% price gain in 2019. Platinum was up 22.4% and gold rose 19% for the year thanks to its safe-haven status. Other commodity prices were mixed for the 12 months: nickel gained 32.1% and copper rose 3.2%, but zinc lost 8.7%, lead was down 4.3% and aluminium fell 3.7%. The price of Brent crude oil gained about 8% over the quarter, rising from around US$62 per barrel at the start of October to close the year at around US$67 per barrel as markets anticipated an uptick in demand in 2020 as a result of improving US-China trade and global growth. Oil prices gained about 22% in 2019 on the back of the supply cuts by OPEC and its partners and latterly the Q4 Phase 1 trade deal. For 2020, analysts expect the oil price to remain relatively contained as the US becomes a net petroleum exporter for the first time (helping offset the impact of OPEC cuts), as well as continued moderate global economic growth.

SA equities were buoyed by the improved global growth outlook and "risk-on" sentiment in Q4, which underpinned technology stocks and resources companies. This made for a relatively narrow rally for the local equity market. The FTSE/JSE ALSI returned 4.6% for the quarter, with resources returning an impressive 13.8%. Financials delivered 2.8%, listed property produced 0.6% and industrial counters were flat. For the year, the ALSI returned 12.0%, thanks largely to the resources sector which delivered 28.5%. This far outpaced the 8.9% from industrials, 0.6% from financials and 1.9% from listed property.

Finally, the rand rallied against all three major currencies in Q4, along with most other emerging market currencies. It gained 7.6% against the US dollar, 0.9% against a much stronger pound sterling and 4.9% versus the euro. For the year the rand appreciated 2.7% versus the US dollar and 4.5% against the euro but lost 0.5% against the pound sterling.

Portfolio Commentary

The fund's top five performing positions added 19.1% to returns over the second quarter while the bottom five detracted -0.1%.

Winners	Ave.weight	Performance contribution	Losers	Ave.weight	Performance Contribution
Impala Platinum	16.3%	7.5%	Glencore	2.1%	-0.2%
Sibanye Gold	8.0%	4.8%	Textainer Group	0.1%	-0.0%
Anglo American	19.9%	2.9%	Harmony Gold Mining	0.2%	0.0%
Northam	6.0%	2.5%	Rhodium ETF	0.1%	0.0%
Sasol	8.7%	1.5%	BHP Group	8.8%	0.1%
		19.1%			-0.1%

Current positioning and outlook

During the quarter we switched some AngloGold into Gold Fields on relative underperformance, and similarly, we closed the position in the Rhodium ETF to add to Royal Bafokeng Platinum. We took some profit on the outperforming Impala Platinum and trimmed the Mondi position, adding to Anglo American, Exxaro Resources and Pan African Resources, and created new small positions in Harmony Gold and Trencor.

The platinum group metals (PGMs, specifically palladium and rhodium) are undergoing a dramatic squeeze as automakers globally need to position for tightening emissions standards while supply response is constrained by the long period of crimped CAPEX (lack of price elasticity on both supply and demand). This increase in loadings is more than compensating for weak global auto sales (and a longer-term trend towards electric vehicles). We remain constructive on the PGM sector.

Beyond this, we closed 2019 with more comfort on the global economy, arising from the phase 1 US-China trade deal, supporting industrial commodities, but started 2020 with heightened geopolitical concerns, from events in Iran, supporting the gold safe-haven appeal. This appears to be a theme that we need to prepare for, viz. volatility and cautious to bet heavily on trends, thus our adding to both gold and industrial metals exposure with funding from non-mining resources (Mondi).

Another key variable to account for is Eskom. Uncertainty on the power supply has implications for the rand, specific commodities and the miners that produce them. Commodities, like the platinum group metals that are highly dependent on South Africa, are likely to be beneficiaries in terms of price performance, but high electricity users within the South African economy may be prejudiced – for now the equities have been the winners but the risks are fluid in relation to potential loss of volume vs escalation in prices.

Responsible Investing

In October Sasol released the findings of the independent review into the shortcomings at the LCCP in the US and announced the departure of the joint CEOs. We had engaged with the company, and while we are of the understanding that the responsibility for the failure did not lie at the individual level, and that measures to ameliorate the shortcomings do not present as quick fixes, we broadly support the changes made and do continue to see an attractive long-term investment case. We also acknowledge the greater effort by the company with respect to environmental disclosure.

During the quarter, we also engaged with Anglo American on their remuneration policy.

We met with the chairperson of their Remuneration Committee, Anne Stevens, and their head of global reward to discuss revisions to the Remuneration Policy to better align executive pay with shareholders interest. We have also seen other positive developments at Anglo American in response to shareholder concerns from the prior year; the individual objectives have dropped to 20%, and safety improvement targets are now a more material weight in remuneration.

DISCLAIMER

WHO WE ARE

Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

OUR TRUSTEE

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PERFORMANCE

Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

PRICING

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

Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

DISCLAIMER

Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

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