NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter Two, 2020

NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Performance to 30 June 2020	Nedgroup Mining & Resources Fund[1]	ASISA SA Equity Resources & Basic Industries
Q2 2020	50.1%	45.5%
12 Month	14.7%	13.1%
YTD	-4.2%	9.4%

Source: Morningstar

Market commentary

As the world continued to battle the Coronavirus in the second quarter of 2020, countries started to reopen gradually and financial markets rebounded. However, by the end of the quarter, the pandemic was still a long way from being conquered, nor did markets fully regain their losses. It continued to take a heavy toll on human lives even as lockdowns were lifted, and caution prevailed as estimates started to emerge regarding the extent and severity of its impact on economic growth. The IMF projected a 3% contraction in global growth for 2020, depending on how quickly countries and industries were able to open safely. Yet financial markets bounced back from oversold levels, with most global assets posting strong gains for the three months.

In the US, Q1 2020 GDP contracted by 5.0% quarter-to-quarter, and inflation fell to 0.1% year-to-year in May, its third straight month of decline. However, Q3 and Q4 data are expected to reflect strong growth off a low base as all states started to reopen in June. After its emergency 1% interest rate cut in mid-March, at its June policy meeting, the US Federal Reserve left the benchmark interest rate unchanged at near 0%, saying it expected rates to remain around zero through 2022. It also said it would continue to buy back bonds to support the economy. The growth outlook deteriorated further as the Fed lowered its GDP forecast to a 6.5% contraction for 2020, but it expects 5.0% growth in 2021. In the equity market, the S&P 500 gained 20.5% in US$ for the quarter, while the Nasdaq shot up 30.3%, making it one of the only equity markets to fully regain its Q1 losses.

In the UK and European Union, governments also started to reopen their economies, with the UK lagging Europe. Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond-buying programmes. For the first time, the ECB launched a backstop facility to provide euro-denominated repo lines to countries outside the euro area. For Q1 2020, the UK reported a -2.2% quarter-to-quarter contraction in its GDP, the largest in 40 years, while the EU's economy was even weaker with a 3.3% quarter-to-quarter contraction. In the equity markets, the FTSE 100 returned 8.8% in US$ for the quarter, while Germany's DAX produced 26.8% and the French CAC 40 delivered 16.2% in US$.

In Japan, the economy was already weak going into 2020 with a much worse-than-expected contraction in GDP growth of -7.2% year-to-year in Q4 2019, due largely to the impact of the new local consumption tax and the US-China trade war. For Q1 2020 the economy slumped by 2.2% year-to-year, putting the country in recession. The latest consumer spending, exports, and output data are pointing to the worst growth performance for the country since World War II in Q2 2020. The Nikkei 225 returned 18.1% for the quarter.

China, meanwhile, reported a 6.8% year-to-year contraction in GDP for Q1 2020, even though the economy had started to reopen as early as March. This was the country's first decline in growth since 1992. Industrial production fell 8.4% over the quarter, while retail sales were down 19%. However, analysts were increasingly optimistic that China would escape a technical recession, forecasting 1.5% year-to-year GDP growth in Q2 and a 1.8% year-to-year expansion for 2020 thanks to stimulus measures from the government and PBOC. At the same time, China's move to impose new restrictions on Hong Kong's democratic freedoms through new legislation around treason, sedition and other forms of anti-government protest was met with widespread condemnation, both local and international, dampening investor sentiment. Despite this, the legislation was passed. Consequently, Hong Kong's Hang Seng Index returned a subdued 4.8% for the three months and the MSCI China returned 15.4% in US$.

It was a mixed picture in South Africa for Q2 2020. Although local equities rebounded more than those in many other countries, the economic picture worsened despite the gradual re-opening of the economy from June. Data showed SA GDP shrank by 2.0% quarter-to-quarter in Q1 2020 (better than the -3.8% quarter-to-quarter expected), but the Treasury has forecast a sharp -7.2% contraction for 2020. The already-recessionary conditions were exacerbated by the lockdown, drastically curbing consumer and business spending, investment, and industrial production. Although the government implemented fiscal tax relief and spending programmes to help cushion the economy, these were necessarily relatively modest due to budget constraints.

At its policy meeting on 21 May, the SARB cut the repo rate by a further 50bps to 3.75%, a historic low. This brought the total reduction to 2.75% for 2020 so far, and its interest rate model is projecting two further 25bp interest rate cuts in 2020. This was reinforced by the latest inflation data, as April CPI came in at 3.0% year-to-year, its lowest level since 2005. The SARB also lowered its GDP growth forecast to -7.0% for the year, versus -6.1% in April, while expecting 3.8% growth in 2021 and 2.9% growth in 2022. In addition to this, the central bank bought back large amounts of government bonds for the first time to support the market during the quarter.

Meanwhile, Finance Minister Tito Mboweni's Supplementary Budget unveiled in mid-June highlighted at least part of the extent of damage done by the pandemic. The government budget deficit is now expected at 15.7% of GDP in the current 2020-21 financial year, more than double the previous forecast of 6.8%. The budget did aim to stabilise the government's growing debt burden, but at 87% of GDP by 2023/24, this is still a worryingly high level. Still, the financial market reaction to the details contained in the Supplementary Budget was subdued as most of the bad news had already been priced into bond yields.

The local equity market experienced a very strong quarter after the indiscriminate selling in March that saw the FTSE/JSE All Share Index (ALSI) return -21.4% for Q1 2020. Companies with global earnings held up better than local "SA Inc" shares, as the ALSI delivered a 23.2% return for Q2. This was led by resources stocks with a 41.2% return, followed by Listed Property (SAPY Index) with 20.4%. Industrial stocks produced 16.6% and financials returned 12.9%.

Finally, along with other emerging market currencies, the rand posted small gains in Q2 against all three major currencies after its drastic sell-off in Q1, appreciating 2.7% against the US dollar, 3.0% against the pound sterling and 0.4% versus the euro. The price of Brent crude oil ended the quarter at around US$42 per barrel, up from US$34 at the end of March as markets anticipated more demand as the global economy opened up. OPEC and Russia ended their price war, negotiating further reductions in supply. As for other commodities, palladium was the only major commodity that lost ground over the quarter, down 16.4%, while gold gained 9.8% and copper shot up 25.9%

Portfolio commentary

The fund's top five performing positions added 27.3% 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	10.1%	7.4%	Rhodium ETF	0.0%	-0.2%
Sibanye Stillwater	6.5%	5.5%	Platinum ETF	0.6%	-0.1%
Anglogold Ashanti	9.1%	5.2%	Textainer	0.1%	-0.0%
Anglo American	17.0%	4.9%	Mondi	1.3%	0.1%
Pan African Resources	6.5%	4.4%	Harmony Gold	0.0%	0.1%
		27.3%			**-0.1%**

Current positioning and outlook

Simplistically, the second quarter was characterised by a massive recovery following the market crash in the first quarter. Many nuances existed behind the recovery. While massive policy stimulus was released globally, South Africa and much of the world was battling significant uncertainty from the Covid-19 pandemic as well as the economically debilitating lockdown. Within commodities unprecedented demand disruption was offset by similarly unprecedented supply disruption, leaving commodity prices relatively resilient, but on uncertain foundations, and the miners producing the commodities balancing the benefit of price support from supply disruption versus volume hit from being unable to operate at full capacity.

Within this context we actively sought to balance full participation in the reflation trade, but reduce fragility from the portfolio, thus reducing exposure to stocks with an elevated risk of operating disruption and elevated levels of debt. We consequently made some significant changes during the quarter. We also looked to balance the safe-haven credential of gold with the pro-cyclical industrial commodities. We favour the role of gold in the portfolio as it not only tends to outperform during risk events but tends to outperform from the policy steps of the recovery (low-interest rates, liquidity, uncertainty). Gold and gold equities currently account for approximately 27% to the portfolio weight.

During the quarter, in the gold sector, we closed our position in DRDGold following their decision to adopt a hard lockdown at their operations despite dispensation to surface operators to continue operating. We added to AngloGold Ashanti for its geographic diversification and took a position in Harmony Gold Mining at the end of the quarter through its bookbuild to fund its acquisition of the South African assets of AngloGold. Harmony's share price had disproportionately underperformed due to its South African exposure and the overhang ahead of the capital raise.

We diversified our Platinum Group Metals (PGMs) exposure by reducing exposure to the operationally levered Sibanye Stillwater, Impala Platinum, and Royal Bafokeng Platinum, all of which are exposed to deep level labour intensive conventional mining and the high population density of the Rustenburg region, in favour of a new position in Anglo American Platinum.

Of the large diversified miners' BHP was least impacted by the pandemic, operationally, and we added to the position at the expense of Anglo American and Glencore. We also added a new small position in Kumba, which was impacted by the South African lockdown, but benefitted from a surprisingly robust iron ore price, as Chinese demand emerged from the pandemic early while Brazilian supply to the market was disrupted.

Within the commodity ETFs we closed positions in rhodium and platinum, as South Africa came out of stage five lockdown and supply disruption concerns waned and created a new position in the gold ETF.

Responsible investing

During the quarter we engaged with Sasol via conference call to discuss their remuneration strategy and changes thereto. We also debated our understanding of their environmental reporting strategy and current obstacles to improving their Greenhouse gas emissions.

We also had more formal correspondence with Exxaro, concerning potential projects and specifically their financial and environmental impact, and sought more clarity on what their CEO refers to as a 'just transition' to a low carbon economy. Later discussions also included the impact of COVID-19 and the company's strategy in managing this.

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