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NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter Three, 2020

Performance to 30 September 2020	Nedgroup Mining & Resources Fund[1]	ASISA SA Equity Resources & Basic Industries
Q3 2020	13.19%	10.03%
YTD	8.49%	20.37%
12-month	33.56%	25.48%
3-year (ann.)	20.28%	19.13%

Market Commentary

The Coronavirus pandemic continued to dominate global headlines in the third quarter (Q3) of 2020, with many countries battling the second wave of infections amid the ongoing re-opening of economies. Financial markets were generally positive across both equities and bonds, helped by ongoing supportive monetary and fiscal policies, although the gains were far lower than the exceptional rallies seen in Q2. Rising risk-off sentiment in September saw some earlier quarterly profits retraced. Underpinning market sentiment were rising hopes of the development of an effective vaccine by early 2021, the further opening of markets and an acceleration in trade, as well as improving economic indicators in the largest economies. However, weighing on sentiment were troubling accelerations in infections in key European countries like the UK and France, where stricter lockdowns had to be re-imposed, and the failure by the US to stop the spread of the pandemic in the lead-up to the Presidential election on 3 November. During the quarter the IMF did not revise its projected 4.9% contraction in global growth for 2020, saying it expects the recovery to be “long and bumpy”.

In the US, it was reported that GDP contracted by 31.4% q/q in Q2 2020 following a 5.0% contraction in Q1, with the second quarter being the hardest hit by the pandemic lockdowns. The latest estimates show the economy is expected to shrink by 3.7% in 2020 before rebounding by 4% in 2021, but, more positively, the economy added 1.4m jobs in August, and the unemployment rate fell to 8.4%. At its August policy meeting, the US Federal Reserve left the benchmark interest rate unchanged at near 0%, adding that it now expected rates to remain around zero for the next three years. It also said it would continue to buy back bonds to support the economy. The US dollar continued to weaken against other major currencies as the government grappled with high budget deficits and a failure to contain the pandemic. In the equity market, the S&P 500 gained 8.9% in US$ for the quarter, while the Nasdaq was up 12.6%, giving it a total return for 2020 so far of 31.7%.

In the UK, market sentiment was subdued as the government failed to make progress with its Brexit negotiations, sparking more talk of a “no-deal” Brexit and its negative consequences. Equally, a return to more strict lockdown measures in some cities caused concerns that growth would suffer more than expected. The UK’s GDP contracted by 19.8% q/q in Q2 2020, the largest quarterly contraction on record.

Like the US, the Bank of England and European Central Bank (ECB) maintained record-low interest rates and supportive bond-buying programmes, with the ECB pledging to buy up to EUR1.35trn worth of debt through June 2021 under the Pandemic Emergency Purchase Programme. Meanwhile, Euro area unemployment rose to 7.9% in July from 7.7% previously, and the area recorded an 11.8% q/q contraction in GDP. In the equity markets, the FTSE 100 returned 0.4% in US$ for the quarter, while Germany’s DAX produced 8.2%, and the French CAC 40 delivered 2.3% in US$.

In Japan, Prime Minister Shinzo Abe, the country’s longest-serving leader, announced his surprise resignation for health reasons in September, and was replaced by his chief cabinet secretary and expected successor, Yoshihide Suga. Markets took this in stride as Suga is widely expected to continue with Abe’s economic policies. Japan’s GDP shrank by 7.9% q/q in Q2 2020, marking the third consecutive quarter of contraction and the steepest on record. The Nikkei 225 returned 7.0% for the quarter.

Meanwhile, China’s economic data continued showing signs of further economic acceleration, with manufacturing activity, industrial output, services and exports continuing to expand. The country reported 3.2% y/y GDP growth for Q2 2020, rebounding from a record 6.8% y/y contraction in Q1 and recovering earlier than other large economies due to its earlier re-opening. At the same time, Hong Kong financial markets were in the red following the authorities' quick moves to arrest and prosecute local pro-democracy protesters under the territory's strict new security law. Hong Kong's Hang Seng Index returned -2.6% for the three months, and the MSCI China returned 12.6% in US$.

Among other sizeable emerging equity markets, in US$ terms the MSCI India was the quarter's strongest performer with a 15.1% return, followed by South Korea's KOSPI at 13.6%, the MSCI China with 12.6% and the MSCI South Africa at 3.7%. Lagging was the MSCI Turkey with a -15.6% return and Brazil's Bovespa with -3.1% (both in US$).

South Africa sees tepid performance

Although the country experienced a slowdown in the spread of the Coronavirus and an accompanying acceleration in economic activity during the quarter, this good news was offset mainly by weak economic indicators, poor company earnings reports and more load-shedding from Eskom to keep local financial markets and sentiment subdued.

South African financial markets were marginally positive over the quarter, helped by higher commodity prices. This was despite the country posting a shocking 51% q/q contraction in GDP in Q2 2020, worse than market estimates of a 47.3% decline. GDP is now expected to contract by 8.2% in 2020, before rebounding by 3.9% in 2021 and 2.6% in 2022. Apart from the sharp 51% q/q contraction in GDP growth for Q2 2020, one of the most critical indicators showed the country lost some 2.2 million jobs during the second quarter under the effects of the lockdown. The number of employed persons decreased by 2.2 million to 14.1 million versus the first quarter of 2020. However, this was not reflected in the unemployment rate, which improved due to a collapse in the number of people actively seeking work over the period.

At its policy meeting on 17 September, the South African Reserve Bank (SARB) announced a worsening growth outlook for the country, with GDP now expected to contract by 8.2% in 2020, compared to the -7.3% forecast in July. The SARB kept the repo rate unchanged at 3.5%, and its latest interest rate model forecasts no further changes over the near term. However, two rate increases are seen in the second half of 2021. This is in the face of a relatively benign inflation outlook: consumer inflation was mostly steady at 3.1% y/y in August from 3.2% in July, and the SARB expects CPI to average 3.3% in 2020. Looking ahead, the SARB lowered its CPI forecasts to 4.0% in 2021 and 4.4% in 2022.

Also, during the quarter, the SARB slowed its purchases of government bonds as local bond market liquidity continued to improve, buying only around R350m in August compared to an average of R10bn monthly in the first months of the programme, introduced in March.

The local equity market finished in the black thanks solely to Resources stocks, with other sectors losing ground. The FTSE/JSE All Share Index (ALSI) returned 0.7% for Q3 2020. The Resources 10 Index returned 5.7%, Financials -1.6%, Industrials -2.3% and Listed Property (SAPY Index) was the poorest performer with -14.1%.

The price of Brent crude oil ended the quarter at around US$42.50 per barrel, very near where it started. The price remains under pressure from ongoing slow global growth and steady supply. As for other commodities, palladium was among the star performers over the period, gaining some 21.8%, while gold was up 6.5% and platinum rose 7.1%. Among industrial metals, copper rose 9.5%, aluminium increased 8.4%, and nickel was up 12.5%.

Finally, the rand put in a mixed performance in Q3, gaining 3.9% against a weaker US dollar but depreciating 0.5% against the pound sterling and 0.3% versus the euro.

Portfolio Commentary

The fund's top five performing positions added 11.4% to returns over the third quarter while the bottom five detracted 1.3%.

Winners	Ave.weight	Performance Contribution	Losers	Ave.weight	Performance Contribution
Impala Platinum	9.9	2.7	Glencore	1.6	-0.5
Northam	6.2	2.4	Anglogold Ashanti	8.1	-0.3
Pan African Resources	6.6	2.3	Sasol	5.0	-0.3
Gold Fields	7.2	2.1	Sappi	1.5	-0.2
Royal Bafokeng Platinum	3.8	1.8	Oceana Group	0.4	-0.1
		11.7%			**-1.3%**

Current positioning and outlook

Given the massive volatility in the market, and the consolidation of the rally from the March lows, we made several adjustments in the fund during the September quarter.

In the platinum sector, we took a more pro-growth tactic to reflect a consolidation of the supply and demand dynamic for the metals by adding to the sector and switching some Anglo-American Platinum (quality defensive) into Northam and Royal Bafokeng Platinum. We also started to look through the disruption in South African labour-intensive mining by adding to the position Sibanye Stillwater, which we view as trading at a material discount within the mining sector at prevailing commodity prices.

In the gold sector, we switched some AngloGold into Harmony Gold Mining for similar reasons. We also trimmed the position in Pan African Resources due to the growing weight of the stock in the fund, although we still regard it as attractively valued within the sector.

The general mining sector is dominated by exposure to iron ore, which has performed well based on strong demand from China, coupled with supply disruption from Brazil. While we are tactically relatively comfortable in the near-term, we reduced some exposure in African Rainbow Minerals. We closed the position in Kumba Iron Ore, adding to Glencore (which we still hold in an "underweight" position due to its underperforming commodity mix, specifically coal, as well as uncertainties resolving outstanding governance issues).

Concerning non-mining resources, we added back slightly to Sasol as we took greater comfort that the balance sheet risk has stabilised – while we expect the earnings recovery to be slow. Our base case is still for an equity raise in Q1'21; we now expect this to be less than the $2bn indicated level). We also added small positions in Omnia Holdings and out of sector Oceana, by disposing of positions in Textainer Group Holdings and Trencor (following the playing out of corporate activity there).

Responsible Investing

During the quarter we met virtually with the executive management teams of Anglo American, BHP Billiton, Anglo American Platinum, Royal Bafokeng Platinum, Gold Fields, Northam Platinum, Impala Platinum, Harmony, Pan African Resources and Sasol.

These meetings were held post the publication of their June 2020 results, in addition to financial and strategic discussions we took the opportunity to discuss pertinent ESG matters. We delved into how the companies were managing their operations during the Covid-19 pandemic and the measures that they put in place to ensure the safety of their employees and the stability of the operating environment in the future. For companies with South African mines, we discussed the additional social initiatives that they had undertaken to support the communities in which they operated.

For Sasol, in addition to the discussions we had with the CEO and the CFO; we had formal correspondence with the Board where we raised our concerns around the separation packages paid to the former joint CEOs. We also had informal discussions with the Investor Relations of Sasol to understand the implications of the Hurricane at their Lake Charles operations in the USA.

Finally, we had a meeting with the Social, Transformation and Remuneration committee of Impala Platinum, where we discussed the remuneration strategy, and we spent time delving into the work done by the Human Resources Departments around the engagement with the unions at the mines.

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.

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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