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NEDGROUP INVESTMENTS MINING & RESOURCE FUND

Quarter Four, 2020

Performance to 31 December 2020	Nedgroup Mining & Resources Fund[1]	ASISA SA Equity Resources & Basic Industries
3 Months	10.14%	4.58%
12 Months	19.49%	25.89%
3-year (ann.)	22.06%	19.10%

Market commentary

Despite the global pandemic and financial crisis of 2020, it proved to be a surprisingly good year for many investors based solely on the total returns recorded by many different asset classes worldwide. The fourth quarter ended on a very optimistic note in financial markets. Investors shrugged off the rising second and third waves of Coronavirus infections and bought up riskier assets, pushing many equity markets to record highs. Investor sentiment was primarily boosted by the development and initial rollouts of effective vaccines across large economies like the US, UK, EU, Russia and China, and Democrat Joe Biden's election as US President. Late December also saw the US Congress' agreement of a fourth stimulus package and the UK and EU's finalisation of a Brexit deal, among other factors. The bullish mood carried along South African equities despite tighter lockdown conditions, helping the FTSE/JSE All Share Index end in positive territory for the year (up 7.0% in rand terms).

In the US, investors took heart from President-Elect Joe Biden's Cabinet choices, which partly signalled a return to "safe" Obama-era policies and an active stance on combatting the pandemic. The passage of another round of fiscal stimulus measures, combined with the start of vaccinations country-wide, led many to expect a faster economic recovery. US equity markets hit fresh record highs in December as the S&P 500 returned 12.2% for the quarter and 18.4% for the year, while the Dow Jones Industrial 30 delivered 10.7% and 9.7%, respectively. The technology-heavy Nasdaq 100 produced 13.1% for the quarter and a stunning 48.9% in 2020 (all in US$).

In the UK and EU, the news was dominated by the approval of effective Covid-19 vaccines and the start of their distribution in both regions. In the last week of the year, the conclusion of a last-minute Brexit deal after over four years of negotiations also lifted stock markets. In the UK, lockdown restrictions were tightened sharply as a new, more infectious variant of Covid-19 was identified, while many EU countries also introduced various new tightening measures.

The Bank of England kept its primary interest rate unchanged at its meeting on 17 December: despite the vaccines' eventual positive effects, it cited high uncertainty around growth given December data showing the country's tenuous Q3 recovery nearly grinding to a halt. Meanwhile, the European Central Bank (ECB) projected that the euro area's real GDP would contract by 7.3% in 2020, rebounding to 3.9% growth in 2021 and 4.2% growth in 2022. The ECB left interest rates on hold at its 10 December policy meeting but expanded specific monetary measures to boost regional economies.

For the quarter, the UK's FTSE 100 returned 17.2%, the German DAX 12.7% and France's CAC 40 12.8% (in US$). For 2020, the FTSE 100 badly underperformed regional counterparts due to the more detrimental impact of Covid-19 in that country and the uncertainty over a no-deal Brexit. UK stocks ended the year in the red with a -8.7% return, while the German bourse delivered 13.7% and French stocks produced 3.6%.

Asian bourses hit record highs in December amid optimism over the new vaccines and accelerating growth in the region on the back of recoveries in consumer demand and business activity. Chinese industrial output rose 7.7% y/y in November, and Japanese Q3 GDP growth of 22.9% y/y showed a strong recovery underway, even as the government announced a new US$700bn stimulus package. There were even gains for Hong Kong's Hang Seng despite harsh jail sentences given to several high-profile pro-democracy activists under the territory's new security laws. These new laws, introduced earlier in the year, helped keep equity returns for 2020 nearly flat as investors feared further negative repercussions for business activity.

In China, the People's Bank of China (PBoC) left its benchmark interest rate steady at its meeting on 21 December amid the pickup in the economy. The Chinese economy grew by an annualised 2.7% q/q in Q3 2020, with its Manufacturing PMI hitting a decade-high 54.9 in November. In the fourth quarter, Japan's Nikkei 225 delivered 21.2%, the MSCI China 11.2% and Hong Kong's Hang Seng 16.2% (in US$). For 2020, the Nikkei returned 24.5% and the MSCI China 29.7%, while Hong Kong stocks delivered a marginally positive 0.2% return.

Among other sizeable emerging equity markets, in US$ terms South Korea's KOSPI was the strongest performer at 35.4%, followed by the MSCI Turkey with 30.3%, the MSCI South Africa with 22.2%, the MSCI Russia with 22.0% and the MSCI India with 21.2%. For the year, the South Korean market came out on top with a 41.1% return in 2020, and the MSCI China also performed strongly with 29.7% in US$ terms for the year. The Turkish, South African and Russian markets were in the red, with annual returns of -8.6%, -3.5% and -11.6%, respectively (all in US$).

In South Africa, a strong resurgence of the Coronavirus locally led to stricter lockdowns. Still, global risk-on investor sentiment prevailed, putting the local bourse in positive territory for the year. The country closed 2020 with over 1 million Coronavirus infections and 30,000 deaths, the highest on the African continent. Amid a shortage of detailed government plans to acquire and roll out one or more vaccines, market participants worried over the impact of possible rollout delays until mid-2021.

In more positive news, SA GDP growth for Q3 2020 surprised to the upside at 13.5% q/q (6.1% annualised) compared to the 13.1% expected, and Q4 consumer confidence recovered to -12 pts from -23 pts in the third quarter. The South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its November meeting, stating that further easing was unlikely in the near term but hinting at increases in Q3 and Q4 of 2021. The SARB is projecting an 8.0% contraction in the economy for 2020, improving to 3.5% growth in 2021 and a 2.4% expansion in 2022. Inflation also remained subdued, with headline CPI slowing to 3.2% y/y in November from 3.3% y/y in October.

Moody's and Fitch both downgraded SA's sovereign credit rating further into "junk" territory on the credit rating front. Moody's lowered the country's rating to Ba2 from Ba1 with a negative outlook, citing further weakening in the country's fiscal strength over the medium term as the primary trigger. Simultaneously, Fitch cut the sovereign credit rating to BB- from BB and assigned a negative outlook, citing high and rising government debt as a primary trigger behind the cut. Standard & Poor's maintained its credit rating for South Africa at BB- with a stable outlook. Despite this, Fitch later upgraded South Africa's largest five banks' National Long-Term credit ratings to 'AA+' from 'AA', which reflected an improvement in their creditworthiness relative to the country's best credits.

And in another significant development, the courts handed the SA government a win in its wage battle against unions, saying that no existing collective agreement with fiscal implications can be enforced if National Treasury does not back it. However, South Africa's manufacturing production fell by 3.4% y/y in October versus -1.9% in September, and the Purchasing Managers Index (PMI), which indicates business activity, edged down to 50.3 pts in November from 51.0 pts in October. It is, however, still above the critical 50-point level that separates expansion from contraction.

The FTSE/JSE All Share Index delivered 9.8% in Q4, led by substantial gains in Listed Property and Financials. The ALSI ended 2020 in positive territory, returning 7.0% after losing 30% at its low in mid-March. For the quarter, Listed Property (SAPY Index) was the star performer, returning 22.2%, while Resources shares (J258 Index) delivered 8.3%, Financials (J580 Index) produced 19.5%, and Industrials (J257 Index) returned 7.4%. For 2020, the JSE's offshore-focused sectors had the most substantial returns, with Resources at 21.2% and Industrials at 12.0%. Locally oriented sectors were in the red as Financials delivered -19.7% for the 12 months and Listed Property -34.5%.

The spot price of Brent crude oil closed 26.5% higher from the previous quarter at around US$52 per barrel, propelled higher by expectations of a quicker and healthier recovery in global growth. The gold price rose only 0.3% in Q4 as risk-aversion abated during Q4, but still posted a total gain of 24.3% for the year. Platinum and palladium gained ground over the three months, up 23.0% and 1.9%, respectively. Industrial metals also gained enormously in the last quarter of the year on growth optimism, with copper up 17.1%, aluminium 13.9% higher, nickel rising 15.0% and zinc 12.9% higher.

Finally, the rand gained good ground against all three major global currencies during the quarter due to ongoing US dollar weakness and the more robust appetite for risk assets, hitting around R14.6/USD in December and near levels last seen in early 2020. The local currency was up 12.3% against the US dollar, 7.3% versus the pound sterling and 8.2% against the euro. Over 2020, the rand depreciated, losing 4.6% against the US dollar, 9.0% versus the pound sterling and 14.4% against the euro.

Portfolio commentary

The fund's top five performing positions added 10.7% to returns over the fourth quarter while the bottom five detracted 4.3%.

Winners	Ave. weight	Performance Contribution	Losers	Ave. weight	Performance Contribution
Impala Platinum	11.2%	3.6%	Gold Fields	4.7%	-2.2%
Anglo American	13.9%	2.8%	AngloGold Ashanti	3.1%	-0.9%
Sibanye Stillwater	8.7%	2.3%	Harmony Gold Mining	1.6%	-0.6%
Glencore	3.3%	1.1%	Royal Bafokeng Platinum	5.8%	-0.5%
Northam	6.5%	1.0%	New Gold ETF	1.0%	-0.2%
		10.7%			**4.3%**

Current positioning and outlook

With the broadening and deepening of the global manufacturing recovery, the case for industrial metals has grown relative to precious metal (safe-haven) assets. During the quarter we responded by trimming the gold position, cutting AngloGold Ashanti and Gold Fields. We used some of the proceeds from the sales mentioned above to add to Harmony Gold Mining, due to its discounted rating and our expectation of a near-term benefit from the South African assets it acquired from AngloGold Ashanti. The remainder of the proceeds funded additions to Glencore and African Rainbow Minerals. The former's underperforming commodity mix (relative to its iron ore heavy peers) started to inflect upwards, while the latter is a beneficiary of robust iron ore and platinum group prices. The consensus market view appears to be a further recovery in global manufacturing with additional tailwinds from a low-interest-rate environment, a weakening USD, and potential fiscal and monetary stimulus. Although we neither support nor reject this view, tail risks to this scenario support a prudent holding in gold equities.

Within the Platinum Group Metals (PGMs) sector, we remain constructive - explicitly noting rhodium's spectacular performance. Northam Platinum has been a primary beneficiary of the rhodium price given a favourable product mix. We switched some of the Northam outperformance into discount rated Sibanye Stillwater and Anglo-American Platinum.

Within non-mining resources, we trimmed Mondi to build a position Omnia as it looks to benefit from asset disposal and an improving mining and agriculture cycle. We also added to Sappi and Sasol – two stocks whose high operating and financial gearing weighed on their performance during the crisis's depths but whose commodity markets and financial position have improved. Sasol has taken steps to strengthen its balance sheet through asset disposals designed to mitigate equity raise risk. Furthermore, the prevailing rand and oil prices further reduce the dilution risk currently reflected in the share price.

Responsible investing

We had a meeting with ESG representatives of Gold Fields, where we discussed labour and environmental management. Concerning their environmental management, Gold Fields are continually running projects to become more energy-efficient, which will benefit both shareholders and the environment over the fullness of time.

In the Q3 commentary, we noted we had formal correspondence with Sasol's Board around remuneration (specifically the mutual separation packages paid to their former joint CEOs). In Q4, we furthered our correspondence concerning this matter and their overall remuneration policy. We also had a meeting with Sasol's Chairman ahead of their Annual General Meeting, the discussion focussed on topics such as board experience, executive succession planning and climate change. The Chairman is actively looking at the board members' experience and ensuring that experienced members can carry Sasol forward in its journey. Additionally, Sasol has issued a Climate Change report and is actively working towards de-carbonation but is fully aware of the structural obstacles it needs to overcome.

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.

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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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