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NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter One, 2021

Nedgroup Investments Mining & Resource Fund

Commentary produced in conjunction with sub-investment manager, Prudential Investment Managers

Performance to 31 March 2021	Nedgroup Mining & Resource Fund*	ASISA SA Equity Resources & Basic Industries
3 Months	24.7%	20.5%
12 Months	133.2%	101.7%
YTD	24.7%	20.5%

* Net return for the Nedgroup Investments Mining & Resource Fund, A class. Source: Morningstar

Market Commentary

It was another positive quarter for risk assets around the globe, with investor sentiment supported by progress in vaccine rollouts, signs of an acceleration in economic growth, and promises of more US government spending. In the form of a proposed US$2.25 trillion, eight-year infrastructure program by the Biden administration, which would have a positive impact on global growth. However, gains and sentiment were tempered by the continued spread of the Coronavirus and its variants and their subsequent growth effects. Another dampener was growing market concerns over higher US inflation and interest rates, which led to bond weakness, mainly in the US. Nonetheless, the South African equities market outperformed most emerging and developed markets, recording solid gains for the quarter, coming off low valuations compared to other markets and helped by its Resources exposure.

At its 17 March policy meeting, the US Federal Reserve (Fed) left interest rates unchanged, even as it revised its GDP growth forecast for 2021 sharply higher to 6.5% from 4.2% in the previous quarter. Chairman Jerome Powell indicated that despite rising US Treasury (UST) yields, and a rise in February CPI to 1.7% y/y from 1.5% in January, the central bank was not worried about inflation and would likely keep rates on hold through 2023. US equity markets continued to perform well despite their more expensive valuation. The S&P 500 returned 6.2% for the quarter, the Dow Jones Industrial 30 delivered 8.3%, and the technology-heavy Nasdaq 100 produced 1.8% (all in US$).

In the UK, the mood was buoyed by the country's vaccination programme's swift implementation, which lifted hopes of accelerated growth to come. The government unveiled plans to relax all pandemic restrictions by 21 June. Better-than-expected Q4 2020 GDP figures also helped raise sentiment, with the UK economy expanding by 1.0% q/q. Simultaneously, the Bank of England left its key interest rate unchanged as expected. However, it reiterated that it would ease monetary policy if needed. February consumer inflation was very subdued at only 0.4% y/y, down from 0.7% the previous month and reflecting the strict lockdown conditions in place over much of the period.

In the EU, the European Commission lowered its GDP forecasts for 2021 from 4.2% to 3.8%, stating that the resurgence of Covid-19 infections and the appearance of more contagious variants had forced many countries to reintroduce lockdown measures. Among the bloc's largest economies, Spain and France are expected to expand at the steepest rates for 2021, with GDP growth forecast at 5.6% and 5.5%, respectively. The risks surrounding the Eurozone growth outlook remained tilted to the downside but became less pronounced due to prospects of a global economic recovery and the launch of vaccination campaigns. Sentiment, however, remained under pressure due to the slow pace at which vaccinations have been rolled out and the impact this would have on the Eurozone's economic recovery. Eurozone GDP shrank by 0.6% q/q in Q4 2020. Meanwhile, the European Central Bank (ECB) left interest rates on hold at its 11 March policy meeting, emphasising it would continue its bond purchases and other supportive monetary measures until inflation reached its 2.0% target. In February, consumer inflation in the Euro area remained steady at 0.9% y/y, indicating very little cost pressure in the region.

For the quarter, UK equities outperformed their regional counterparts, helped by the better valuations on offer and better vaccinations progress. The UK's FTSE 100 returned 5.9%, the German DAX 4.5% and France's CAC 40 5.3% (in US$).

In Japan, the economy advanced at a robust 3.0% q/q pace in Q4 2020, beating market estimates of a 2.3% expansion. For the year 2020, the economy shrank 4.8%, marking the first contraction since 2009. The Bank of Japan left its key short-term interest rate unchanged at -0.1% and maintained the target for the 10-year Japanese government bond yield at around 0%. The central bank also upped its GDP growth projection for the next fiscal year to 3.9% from 3.6%, while the forecast for the current fiscal year shifted marginally from -5.6% to -5.5%. Deflation persisted as consumer prices declined 0.4% y/y in February. However, there was a slowdown in the pace of the drop as energy prices rose.

In China, the government's crackdown on large tech companies like Tencent towards the end of the quarter created investor worries of further curbs and tighter regulation to come on other companies, weighing heavily on the local equity market. In contrast, Hong Kong equities fared better despite additional measures to curb democracy in the special administrative region. News that the People's Bank of China (PBoC) would continue to provide economic support in 2021 helped to counterbalance the negative sentiment, along with reports that it would refrain from sudden shifts to offer stability. The PBoC left its benchmark interest rates steady at its February policy meeting. For February, consumer inflation (deflation) was reported at -0.2% y/y, and producer inflation came in at 1.7% y/y as months of solid manufacturing growth pushed raw material costs higher. Positive data saw non-manufacturing and services PMI both bouncing back sharply in March to 56.3 (from 51.4) and 54.3 (from 51.5), respectively.

For the first quarter of 2021, Japan's Nikkei 225 was flat, delivering 0.0%, the MSCI China returned -0.4% and Hong Kong's Hang Seng produced 4.3% (in US$).

Among large emerging equity markets, in US$ terms, the MSCI South Africa was by far the top performer for the three months with a 12.3% return, followed by the MSCI India with 5.2% and MSCI Russia with 5.0%. South Korea's KOSPI recorded a 2.3% return, but Brazil's Bovespa lost 9.8% on the back of the Coronavirus's uncontrolled spread. The MSCI Turkey had a disastrous quarter with a -20.2% return following the President's dismissal of the central bank governor and most of his top cabinet officials, among other measures.

In South Africa, market sentiment was supported by the government securing a supply of vaccines and kicking off phase one of its three-phase vaccination campaigns on 17 February to vaccinate roughly 67% of the population by the end of the year. Later in the quarter, investors welcomed the news that Johnson & Johnson's Covid-19 vaccine's local manufacturing had commenced, with 30 million doses earmarked for use in South Africa. However, questions remained over insufficient supply and the slow pace of the rollout and the impact it could still have on growth.

Also helping the improving environment was news that the South African economy grew by an annualised 6.3% q/q in Q4 2020, beating market expectations of a 5% increase, with eight out of 10 industries reporting growth in the fourth quarter. As widely expected, the South African Reserve Bank (SARB) left the repo rate unchanged at 3.5% during its 25 March meeting while also lowering its economic growth forecast for Q1 2021 to -0.2% from 1% at its January meeting. However, it lifted its projected 2021 GDP growth to 3.8% from 3.5% previously, primarily due to accelerating global growth prospects. It also moved forward its projected rising interest rate path slightly, penciling in 25bp rate hikes in the second and fourth quarters of the year, compared to the third and fourth quarters previously. Despite this, Governor Lesetja Kganyago stressed that the pace of the country's economic recovery would largely depend on the government's ability to effectively roll out its vaccine programme and mitigate the onset of the third wave of infections.

Finance Minister Tito Mboweni unveiled a better-than-expected national budget in February, which saw the scrapping of proposed personal tax increases, favouring fiscal consolidation and reined-in expenditure to support the pandemic-battered economy. Mboweni proposed a government wage bill cut to help reduce government debt and aid in funding the free nationwide vaccine programme.

Other highlights included lowering the corporate income tax rate to 27% as of 1 April 2022, the first reduction since 2008, while the excise duties on alcohol and tobacco products were raised by 8%. Investors, however, remained cautious over the path of recovery outlined by Mboweni, with Moody's stating that the lower budget deficits were unlikely to prevent debt from rising. Fitch said the country still faced "severe challenges" to implement fiscal consolidation.

In other positive news, inflation remained subdued, with headline CPI slowing to 2.9% in February, below the SARB's 3%-6% target range and market expectations. The government unveiled plans for eight independent power producers to support the nation's struggling power utility, which will consist of solar energy, wind, liquefied natural gas and battery storage, with renewable energy expected to start adding to the grid from August 2022. The project is expected to inject R45bn of private investments into the economy. Meanwhile, the South African National Treasury published its updated 'Operation Vulindlela' plan, detailing the government's strategy to boost the economy in the wake of the Covid-19 pandemic.

The FTSE/JSE All Bond Index (ALBI) was in the red for the quarter with a -1.7% return as foreign investor demand spluttered. The yield curve continued to flatten as bonds in the 1–3-year maturities sold off more than longer-dated bonds. SA inflation-linked bonds posted another strong performance, delivering 4.6% after 5.4% in the previous quarter as investors sought inflation protection. Cash (as measured by the STeFI Composite) produced 0.9% for the three months. The FTSE/JSE All Share Index delivered an impressive 13.1% return in rand terms for Q1 2021, benefitting from higher commodity prices and the more robust global and local growth outlook. Gains were led by a strong performance from Resources shares (J258 Index) at 18.7%, while Industrials (J257 Index) delivered 13.0%. More locally focused sectors were not as impressive but still in the black, with Property (All Property Index) posting an 8.1% return and Financials (J580 Index) producing 3.8%.

After gaining over 26% in the last quarter of 2020, the spot price of Brent crude oil closed 22.7% higher in Q1 2021 at around US$60 per barrel, propelled higher by expectations of a quicker and more substantial recovery in global growth and curbs on supply. The gold price lost ground as risk-aversion continued to diminish, down 11% for the quarter. Other commodities were more robust, as platinum and palladium rose 8.2% and 9.4%, respectively, while copper was up 14.3% and aluminium 11.9% higher.

Finally, the rand put in a mixed performance against the three major global currencies during the quarter, in an environment that saw general US dollar weakness. The local currency lost 0.8% against the US dollar and 1.8% versus the pound sterling, but was up 3.5% against the euro.

Portfolio Commentary

The fund's top five performing positions added 18.2% to returns over the quarter while the bottom five detracted 2.0%.

Winners	Ave. weight	Performance Contribution	Losers	Ave. weight	Performance Contribution
Royal Bafokeng Platinum	8.0%	5.0%	Pan African Resources	4.1%	-1.6%
Impala Platinum	12.0%	4.5%	Harmony Gold Mining	1.8%	-0.3%
Sasol	7.0%	3.6%	Anglogold Ashanti	1.4%	-0.1%
Anglo American	13.4%	3.2%	Mpact	0.0%	-0.0%
BHP Group	10.2%	1.9%	Oceana Group	0.5%	-0.0%
		18.2%			**-2.0%**

Current positioning and outlook

The JSE resources sector is again dominated by the extraordinary performance of the platinum group metals (PGMs), particularly Rhodium and, to a less significant extent, iron ore.

In terms of revenue contribution to the fund, the PGMs contribute approx. 45%, of which Rhodium contributes about half, even though it is only a minor metal in terms of volume for the companies. Pricing anchors for commodity prices based on marginal cost and incentive pricing tend to be weak for by-product commodities as supply elasticity is less of a factor than primary mined commodities. In the case of Rhodium, demand elasticity is limited by the regulatory requirements of automotive emission reduction. Under current vehicle demand growth assumptions, metal loading on autocatalysts and mined supply we project sustained market deficits with limited opportunity for price elastic substitution or destocking, thus supporting sustained unprecedented high prices. This is undoubtedly the most significant risk and opportunity in the fund currently.

During the quarter, we added to the PGM sector position and reduced gold and iron ore. We made more substantial switching within the subsectors to reflect relative share price movements.

In the PGM sector, we switched a preference from Anglo American Platinum to Northam Platinum following the formers outperformance and progress in favourable unwinding of a BEE structure in the latter and superior growth trajectory. We also added to Royal Bafokeng Platinum for its promising growth vector and executed a minor switch from Impala Platinum into Sibanye Stillwater, both substantial holdings in the fund.

In the gold sector, we trimmed the position as expectations of gold price strength get paired back, in parallel with rising long-dated US interest rates, and earnings revisions for the sector decline. We cut NewGold from the fund and trimmed AngloGold Ashanti and Gold Fields. We added to the discount rated Harmony Gold Mining in expectation of favourable integration of the South African portfolio acquired from AngloGold Ashanti in 2020, as well as an improvement from the Covid disrupted 2020.

The general mining sector on the JSE is dominated by exposure to iron ore, which is 100% more than the marginal price due to strong demand from China and a disrupted supply from Brazil. While unsustainable in our view, the companies are enjoying windfall profits while the equities are discounting substantially weaker prices, so we look to enjoy the "stronger for longer" environment while tactically trimming exposure to manage the risk. We have switched some exposure from BHP Group, which is 70% exposed to iron ore, into Glencore, with no iron ore exposure. Additionally, we made a switch from African Rainbow Minerals into Exxaro Resources, which have similar iron ore exposure but reflecting the share price underperformance and apparent superior valuation of Exxaro Resources. We also created a new position in the junior developer, Orion Minerals, participating in a private placement to gain direct exposure to an exciting copper/zinc project portfolio in the Northern Cape at a deep discount to Net Present Value.

Within the non-mining sector, the JSE moved Mondi from the resource to the industrial sector. In principle, we view it as an investable "resources" idea. However, we believe better opportunities exist within the core sector. We cut the position from the fund, adding a small position to Sasol, Omnia and Sappi, and creating a new position in Mpact, all of which are delivering a solid recovery trajectory off depressed bases.

Responsible Investing

December 2020 results were released during Q1 2021. Consequently, we had engagements with most of the executive teams of the resource companies under our coverage. Importantly, we used this opportunity to speak to ESG matters as well. Our ESG discussions focussed on safety protocols during the January ramp up, post the Christmas break, and the impact of the 2nd COVID wave on their operations. Our discussions also included their work around renewables and the possibility of decreasing their Eskom risk and improving their carbon emissions.

Additionally, we have held further discussions with the Sasol Remuneration team. These discussions are to ensure their remuneration policy is transparent and is aligned with shareholder returns.

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
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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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