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NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter Three, 2021

Nedgroup Investments Mining & Resources Fund

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

Total Return As at 30 September 2021	Fund[1]	Benchmark[2]
3 Months	-1.4%	-2.0%
YTD	15.6%	10.8%
1 Year	27.4%	15.9%
3 Years p.a.	22.6%	19.1%
5 Years p.a.	19.7%	15.2%

1. Nedgroup Investments Mining & Resources Fund, A class.
2. ASISA South Africa Equity Resources category

Market Commentary

The third quarter of 2021 saw a notable shift toward investor risk aversion compared to the first half of the year, as several mounting concerns around global growth took their toll on financial markets. Among the most influential were: the relentless spread of the Covid Delta variant, indications of a sooner-than-expected start to the US Fed's (and other central banks') policy tightening, and stricter Chinese regulatory policies. Global bond markets came under pressure, and many equity markets produced negative returns, with emerging markets and currencies lagging developed markets. Technology and Resources counters were among the worst performers, the latter due to the fall in commodity prices (apart from oil), especially in September.

In the US, the economy grew at a robust 6.7% (q/q annualised) pace in Q2 2021, fuelled by further recoveries in manufacturing, services and consumer spending. Combined with an acceleration in inflation and improving employment data, the US Federal Reserve signalled it would taper its long-standing easy monetary policy. It expects to purchase fewer assets in the fourth quarter and gradually hike interest rates in 2023, somewhat sooner than the market expected. This weighed on US Treasuries and equities and prompted some analysts to scale back their growth estimates. US equities delivered subdued and mixed returns for the quarter, with the significant losses coming in September as sentiment deteriorated. The S&P 500 delivered 0.6%, the Dow Jones Industrial 30 -1.5%, and the technology-heavy Nasdaq Composite -0.2% (all in US$).

The Bank of England and the European Central Bank followed the US Fed's tighter policy forecast in September, although their monetary tightening is expected to be less aggressive. The former said that the case for modest tightening had strengthened amidst rising inflation concerns. At the same time, the latter announced it would start tapering the pace of its net asset purchases due to improved economic and financial conditions. UK GDP growth was revised higher to 5.5% (q/q annualised) for Q2 2021, while the Euro Area's jumped to 2.2% (q/q annualised). For the quarter, the UK and major European bourses were all red, as the FTSE 100 produced a return of -0.5%, the CAC 40 delivered -1.8%, and Germany's DAX posted -4.0% (all in US$).

Japan's economy finally recorded positive growth, with a 0.5% (q/q annualised) GDP expansion in Q2 compared to -1.1% in Q1. Consumer spending, private investment and government spending all contributed to the turnaround, but the world's third-largest economy is still lagging in its recovery compared to other countries. The spread of the Delta variant, particularly in the Tokyo region, has been one of the main factors hampering progress. As expected, the Bank of Japan left its key short-term interest rate unchanged at -0.1% at its September meeting. But unlike its counterparts, it reinforced its message that current low interest rates would stay in place for as long as necessary.

In China, the economy grew at a respectable 1.3% (q/q annualised) in Q2, slightly above the 1.2% consensus expectation. However, as Q3 wore on, there were increasing indications that this growth was losing steam. With concerns over the negative impact on growth of the government's regulatory crackdown and the possibility of a liquidity crisis prompted by troubles at Evergrande, China's second-largest private property developer. This, in turn, sparked the selling of global Resources stocks. At the same time, uncertainty over Evergrande continued, as the government did not assure lenders that it would assume its debt. After announcing a surprise cut to banks' reserve requirements in July, the People's Bank of China left its base interest rates on hold in September, indicating that there was still room for further cuts to support the country's growth recovery. This dampened some expectations of an additional rate cut in the shorter term and heightened concerns of a bigger-than-expected economic slowdown in the third and fourth quarters of the year. For the third quarter of 2021, Japan's Nikkei 225 returned 2.4%, the MSCI China produced -18.1%, and Hong Kong's Hang Seng delivered -14.1% (all in US$).

Among other sizeable emerging equity markets, in US$ terms, Brazil's Bovespa was the worst performer with a -19.4% return, while South Korea's KOSPI delivered -13.0% and the MSCI South Africa -5.5%. The top performer was the MSCI India with a 12.7% return, followed by the MSCI Russia with 9.9% (all in US$).

South Africa

Economic growth for Q2 2021 surprised on the upside at 1.2% (q/q annualised) compared to consensus expectations of 0.7% q/q and up from the revised 1.0% q/q recorded in the previous quarter. This amounted to 19.3% y/y growth due to the low base of the last year. Growth was uneven across sectors, with transport, agriculture and services posting the strongest performances while manufacturing contracted. News, however, was dominated by the July riots sparked by the jailing of Jacob Zuma. National Treasury estimated the resulting damage could subtract around 0.9 percentage points from 2021 GDP growth. Growth prospects were hit by the higher lockdown levels imposed due to the spiking "third wave" of the coronavirus pandemic during the quarter, which came despite the continued rollout of the government's vaccine programme. The ebbing of the wave towards quarter-end was a positive sign that vaccinations were making progress in combatting the Delta variant of the virus.

At its September MPC meeting, the South African Reserve Bank kept its benchmark interest rate unchanged at a record low of 3.5%. Still, it sounded more hawkish as it indicated that its first 25bp hike would be coming in the last quarter of the year, as well as further 25bp increases in each quarter of 2022 and 2023. Notably, Governor Lesetja Kganyago floated the idea that the SARB may want to reduce its inflation target range from the current 3%-6% to below the inferred 4.5% mid-point target.

Good news came in the form of record-breaking trade surpluses on the back of the rise in commodity prices earlier in the quarter, in turn creating higher-than-expected tax receipts from mining companies. This alleviated some pressure on the government's expected budget deficit, allowing Treasury to cut some planned bond issuance. However, with commodity prices falling later in the quarter, concerns returned over the perilous state of government finances.

The local market outperformed many of its emerging market peers in Q3, helped by its better relative value and improved company earnings prospects during the period. The standout sector was Financials, which delivered a 13.2% return, followed by Listed Property (the All Property Index) with 6.5%. The Resources 10 Index retraced some of its previous strong performance with a -3.8% return amid growing concerns over a Chinese economic slowdown. The Industrials sector was partially impacted by Naspers/Prosus, posting a -4.3% total return.

SA bonds managed to eke out a 0.4% positive return during the quarter (as measured by the FTSE/JSE All Bond Index), losing 2.1% in September as US Treasuries and global bonds recorded negative returns. The local yield curve continued to flatten as longer-dated bonds outperformed, reflecting South Africa's relatively steeper curve at the beginning of the period. Meanwhile, SA inflation-linked bonds again outperformed their nominal counterparts as inflation fears gained ground, producing 2.0% (Composite ILB Index), and cash (STeFI Composite) delivered 1.0%.

The spot price of Brent crude oil gained 4.5% in Q3 and has risen nearly 52% for the year to date. The sharp increase has fuelled global inflation, with the price at around US$80 per barrel at quarter-end. Other commodity prices were weaker over the quarter, the exception being aluminium, which gained 13%. Otherwise, gold was down 2%, and platinum fell 11%, palladium plunged some 30%, impacted by a sharp drop in demand as the shortage of microchips slowed automobile production. Nickel fell 1.5%, and copper lost 3.7%.

Finally, the rand depreciated against major global currencies over the quarter, retracing some of the gains seen earlier this year amid risk-off sentiment and a stronger US dollar, particularly in September. It lost 5.4% against the US dollar, 2.9% versus the pound sterling and 3.0% against the euro over the three months. This boosted returns for SA investors with offshore exposure.

Portfolio Commentary

The fund's top five performing positions added 6.71% to returns over the quarter, while the bottom five detracted -7.15%.

Winners	Ave.weight	Performance Contribution	Losers	Ave.weight	Performance Contribution
Sasol	7.59%	2.72%	Impala Platinum	10.44%	-2.54%
Glencore	7.40%	1.48%	Royal Bafokeng Platinum	9.89%	-2.31%
Thungela	1.15%	1.23%	Northam	7.90%	-1.60%
Omnia	2.31%	0.78%	Pan African Resources	2.91%	-0.35%
Exxaro	7.67%	0.51%	Anglo American Platinum	2.32%	-0.34%
		6.71%			**-7.15%**

Globally, energy is experiencing a powerful short-term squeeze. Of the more significant contributors to positive fund performance during the past quarter, Sasol, Exxaro, Thungela, and Glencore all play into this energy thematic. However, this is likely to become a long-term theme. We need to find ways to take advantage of this for our clients while balancing the investability of fossil fuel producers with clean energy opportunities, whilst being mindful of the widening valuation gap and broadening ESG demands on the industry.

Current positioning and outlook

Over the past year, an exceptional performance from iron ore and platinum group metal miners boosted the SA resource sector. Recently, however, there has been a massive inflexion away from industrial commodities (partly impacted by China's policy and the impact of semi-conductor shortages on automobile production) to energy commodities. Both old energy (fossil fuels) and new energy, which is predominately base metals that support electrification.

We are considering the impact of three current critical themes on our portfolio positioning.

1. The near-term impact of global supply chain disruption, specifically manifested in the semi-conductor shortage, impacts automobile production and platinum group metals demand. We consider this to be transitory.
2. The impact of shifting policy imperatives in China, specifically related to steel production (iron ore demand) through property investment and general economic stimulus.
3. The broad, long-term theme of the transition to clean energy will create idiosyncratic squeezes in specific commodities as the available resources experience market deficits.

Within the South African resource sector, we have relatively limited direct exposure to energy (except for thermal coal). Our most pressing challenge is to manage the nuances of idiosyncratic commodity demand within a global supply constrained sector and the limitations of the JSE listed mining universe.

We added to Thungela (for thermal coal) and created a new position in South32 (aluminium, metallurgical coal) during the quarter. Consistent with the recent inflexion away from industrial commodities, we closed African Rainbow Minerals and reduced our Anglo-American position and BHP. We also added some defensive positions to the portfolio with Omnia, Oceana, and Mpact (non-mining resources) and a new position in the gold ETF whilst closing the position in Harmony Gold. In the PGM sector, we trimmed Impala Platinum and Sibanye and focused our positioning on the growth-oriented Northam Platinum and Royal Bafokeng Platinum and created a new holding in Anglo Platinum.

Responsible Investing

We held management meetings with multiple resource companies post the release of their June 2021 results. In addition to discussing company results, views on the market and strategy, we also discussed ESG topics.

Some of which include:

- Vaccination programs at the mines and the educational programs they are running to ensure vaccine uptake.
- The work done around the mining communities and steps undertaken around renewable energy.

Additionally, we had informal discussions with Exxaro's Investor Relations on their Just transition strategy. We also met with Sasol executives and non-executives around the Climate Change resolution scheduled to be tabled at their 2021 AGM in November.

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.

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.

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