NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter Four, 2021

Nedgroup Investments Mining & Resources Fund

Commentary produced in conjunction with sub-investment manager, M&G Investments.

Total Return As at 31 December 2021	Fund[1]	Benchmark[2]
3 Months	22.9%	22.9%
1 Year	42.1%	36.1%
3 Years p.a.	33.4%	27.9%
5 Years p.a.	24.5%	21.3%

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

Market Commentary

The final quarter of 2021 was very positive for investors due to rallies in developed equity markets around the globe and in South Africa. Investors looked past adverse developments like the higher uncertainty posed by the Omicron variant of the Coronavirus to push many bourses to record highs. Amid this risk-on sentiment, many of the world's equity markets recorded impressive returns in 2021. However, emerging market equities lost ground in Q4, with the broad MSCI Emerging Markets Index ending the year in the red, dragged down by significant losses in China and Turkey. Equally, global bonds posted negative returns in Q4 and for the year as many central banks finally signalled or started to pare back on their ultra-easy monetary policies by trimming asset purchases or hiking interest rates to fight rising inflation.

The most apparent emerging headwind to growth in the US was the rapid spread of the Omicron variant, which stretched local health services and disrupted economic activity around the country. In another significant development, the Federal Reserve (Fed) shifted to a more aggressive inflation-fighting stance, doubling the pace of its planned reduction in asset purchases, and bringing forward the timing of its expected rate hikes. On the government spending front, Congressional opposition to President Biden's nearly US$2 trillion "Build Back Better" programme meant spending delays and likely cutbacks in the programme's total future injection into the US economy. However, investors essentially looked through these adverse developments, focusing instead on indications of Omicron's less severe nature and the government's decision not to impose stringent lockdown measures to combat it. They were also encouraged by reports of some progress in developing a "universal" vaccine to help prevent all future variants of Covid-19.

The World Bank (and others) lowered their forecasts for China's 2021 GDP growth to around 8.0%. This was due to subdued consumer spending, Covid outbreaks and stringent government containment measures, a slumping property market and constrained production activity. Its 2022 GDP growth is expected at around 5%, the lowest in decades. In a move to bolster growth, the People's Bank of China (PBoC) cut its one-year loan prime rate for businesses and households to 3.8% from 3.85%, even as its lower reserve requirements for banks also took effect.

In line with market expectations, the South African Reserve Bank (SARB) hiked the repo rate by 25bps to 3.75% in November. Data showed CPI rose to 5.5% y/y and PPI hit a 10-year high of 9.6% y/y in November, primarily driven by higher fuel prices, reinforcing expectations for more interest rate hikes from the SARB in 2022. The MPC's latest forecasts show a gradual hiking cycle, with the repo rate reaching approximately 5.0% by December 2022, 6.0% at the end of 2023 and 6.75% by end-2024. South Africa's GDP growth slowed to 2.9% y/y in Q3, contracting by 1.5% quarterly due to July's riots and tighter lockdowns. Forecasts show a consensus of around 5.1% growth for 2021, falling to approximately 2.0% in 2022.

The economy faces more headwinds such as the continuation of the Coronavirus pandemic, slowing global growth, rising interest rates, further power constraints and lower government spending. Commodity prices, which firmly underpinned SARS revenue collections and the local equity market in 2021, are likely to be less supportive in 2022. The SARB's expectations are for growth of 5.3% in 2021, falling to 1.7% in 2022 and 1.8% in 2023.

The rand lost ground against the major currencies in Q4, losing 6.2% against the US dollar, 6.4% against the pound sterling, and 3.9% against the euro. For the year, it depreciated 9.1% versus the US dollar, 8.0% versus sterling, and 0.9% against the euro.

The spot price of Brent crude oil fell 0.9% in Q4 but still rose some 50% for 2021, ending the year at around US$79 per barrel and fueling global inflation. Other commodity prices were firmer over the quarter: zinc gained 20.4%, nickel 15.1%, lead 10.1% and copper 7.2%, while aluminium lost 1.6%. However, aluminium was among the strongest gainers in 2021, up 41.9%, even as copper gained 25.2%, zinc 33.3%, and nickel 26.5%. Precious metals were much more subdued for the year, with palladium down 20% in 2021, platinum losing 9.4% and gold falling 3.4%.

Portfolio Commentary

The fund's top five performing positions added 19.79% to returns over the quarter, while the bottom five detracted -2.05%.

Winners	Ave. Weight	Performance Contribution	Losers	Ave. Weight	Performance Contribution
Royal Bafokeng Platinum	7.43%	9.19%	Sasol	8.65%	-1.15%
Impala Platinum	10.26%	3.35%	Thungela Resources	1.71%	-0.30%
Anglo American	13.20%	2.77%	Exxaro Resources	6.53%	-0.27%
Gold Fields	7.00%	2.74%	Oceana Group	1.17%	-0.25%
Northam Platinum	8.89%	1.75%	Omnia	2.97%	-0.08%
		19.79%			**-2.05%**

Current positioning and outlook

The dominating long-term theme in the resource sector is the ongoing energy transition dynamic and the immense volatility in the individual commodities – both old carbon-intensive and new low carbon alternatives. The International Energy Agency published an extensive report on coal and concluded that in 2021 electricity generation from coal was likely to be at all-time highs, and 2022 was likely to be higher. Furthermore, the report stated that a move to a lower carbon emission trajectory could only be possible beyond 2024, despite the ambitions of COP26.

Given the significant contribution from fossil fuels to the current global energy mix and an extended period of low capital investment in supply, these commodities' prices have shown considerable upward presses. Most notably, seaborne thermal coal and spot European and Asian natural gas prices.

We also note the upward squeeze in Lithium prices, where strong demand growth (estimated at 21% per annum to 2030) is not being matched by supply growth (estimated at 16% per annum to 2030). A reflection of how the supply of the transition commodities is not currently capable of meeting the decarbonisation agenda (as promoted at COP-26).

Energy security is political, as well as economical. We expect energy transition to be a fundamental theme for decades to come, to present extensive volatility, and to offer opportunities across the spectrum of old polluting commodities and new transition commodities, that themselves require significant energy to develop. Within our JSE based investment universe, coal is our primary energy commodity, with limited direct exposure to oil and gas (amongst the fossil fuels). Within the transition commodities, we can obtain reasonable access to copper (an enabler of electrification), albeit diluted within the portfolio of the diversified miners. However, exposure to battery commodities and renewables is limited.

The second noteworthy theme in the sector during Q4 was not just consolidation in the platinum sector but a degree of competitive and potentially hostile activity that has been rare in the South African mining sector for over a decade. Both Northam Platinum and Impala Platinum took significant stakes in Royal Bafokeng Platinum. This is notable as we have exposure to all of these in the fund. Royal Bafokeng Platinum is our single largest position ahead of exiting the position into the specific offer. This sort of corporate activity often signals a maturing of the cycle.

We tendered our Royal Bafokeng Platinum (RBP) holdings (about 15% of the portfolio) into the Impala Platinum (IMP) offer of R90/RBP share plus 0.3IMP shares per RBP share. With the cash received from the offer mentioned above, we entered new positions in African Rainbow Minerals, New Gold ETF and New Platinum ETF. We also trimmed Sibanye Stillwater within the PGM sector and added it to our Northam Platinum position.

Other significant changes to the portfolio during the quarter were as follows:

- Within the diversified miners, we added to Anglo American (an attractive growth profile), South32 (delivering its portfolio transformation towards base metals), both of which were funded by selling BHP.
- We continue to favour Gold Fields over AngloGold Ashanti in the gold sector, as they deliver superior cost and volume performance.
- Consistent with our constructive view on the energy complex, we added to Sasol and have active positions in Exxaro Resources, Glencore, and a small position in Thungela Resources. While these positions are in fossil fuels, and we need to be mindful of ESG risk, we view the valuation and cash generation as compelling for shareholder returns.

Responsible Investing

Some meaningful engagements held during Q4 around responsible investing were:

- Northam Platinum Remuneration Committee Chair: Northam has instituted a new Remuneration Committee Chair (HH Hickey). The purpose of our meeting was an introduction to the new chair and for her to inquire about the critical items we have seen in other remuneration policies. Things touched on were reasonability, alignment of interests, and objectivity (i.e. numerical verification) of remuneration policies.

- Sasol Remuneration Chair, our final meeting ahead of their November 2021 AGM. We have had various engagements with Sasol over the last few years as they undertook the journey to review their remuneration policy. One of the critical items for the Sasol Remuneration Committee was aligning the remuneration policy with the business ESG targets.

- Head of ESG at GoldFields, the discussion was around ESG priorities and targets. The meeting discussed a broad range of aspects, but water stewardship was the primary focal point. Water was one of Goldfields six key ESG priorities. They wanted to ensure 80% of the water used by operations is recycled and re-used, up from the current 73%, and decrease freshwater usage from 45% (2018). Pleasingly, in 2020, there was a 35% reduction in freshwater use.

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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