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NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter One, 2022

Nedgroup Investments Mining & Resources Fund

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

Total return as at: 31 March 2022	Fund [1]	Peer Group [2]
3 Months	20.8%	19.3%
6 Months	48.5%	46.6%
12 Months	37.7%	34.8%
3 Years	34.7%	29.3%

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

Market Commentary

The first quarter of 2022 was full of unpleasant surprises, starting with high levels of financial market volatility. January uncertainty over global inflation and interest rate policies, and risk-off investor sentiment, were reflected in broad weakness across global equities and bonds. Then the tragic and destructive Russian invasion of Ukraine in the last week of February, and the unprecedented level of sanctions imposed against Russia, created further uncertainty, rocketing commodity prices and inflation concerns. This combination of developments meant that many global asset returns were squarely in the red, even safe havens like US Treasuries.

Commodity-producer South Africa was among the few beneficiaries of the spikes in precious metals and other commodity prices. In contrast to most other countries, both local equity and nominal bond markets registered respectable returns for the quarter, and the rand appreciated substantially against the major global currencies. However, this was offset in March by widespread bearish investor sentiment and weakness in Naspers/Prosus shares resulting from a further sell-off in Tencent amid a renewed Chinese government regulatory crackdown.

The soaring price of Brent crude oil shocked markets during the quarter, up 38.7% by the end of March and reaching over US$133 per barrel on 8 March before subsequently easing somewhat on news of the planned release of more US (and some European) government oil reserves. On 31 March, it was trading at US$123 per barrel. Gold was up only 5.6% for the quarter, having spiked on the safe-haven effect but then falling back. Palladium jumped (up 19.4%), given Russia's position as the only major supplier outside South Africa. Other commodities like coal and tin soared, and even industrial metals were higher: zinc gained 17.4%, nickel 59.6%, aluminium 24.8%, lead 4.5% and copper 6.7%.

South Africa experienced a fragile economic recovery in Q4 2021, recording GDP growth of 1.7% y/y and bringing full-year 2021 growth to 4.9%, slightly better than expected. In Q1 2022, the Omicron variant of the Coronavirus proved to be less disruptive to economic activity than initially feared, helping lift business and consumer sentiment. However, a more significant boost came from ever-rising global commodity prices, benefiting most SA mining companies and government tax revenues. While the high oil price did hurt local growth prospects, the country's terms of trade improved. Consequently, supporting the rand, which appreciated significantly against the three largest global currencies: it was 8.6% stronger versus the US dollar, 11% higher versus the UK pound sterling and 10.3% up against the euro in Q1 2022.

SA's relatively slow growth and the stronger rand meant that local inflation was more subdued than many other countries, with February inflation unchanged at 5.7% y/y and inflation expectations not rising above the South African Reserve Bank (SARB) 6% ceiling. This quarter marked the first time South African CPI was lower than that of the US in many years. Even so, with CPI at the higher end of the SARB's 3-6% target range and well above the 4.5% midpoint, the SARB hiked the repo rate by 25bps at both its March and January MPC meetings, as expected, to reach 4.25%, citing inflation and the war as the most significant threats. In March, the Bank raised its expectations for economic growth to 2% for 2022 from 1.7% at the January meeting and lifted its 2022 inflation forecast to 5.8% from 4.9% previously.

The quarter brought other good news in the form of a 2023 National Budget, which signalled the government's commitment to fiscal discipline by reducing the budget deficit using part of its revenue from higher commodity prices. With future government bond issuance pared back, this also underpinned the rand and local bond strength.

SA equity performance diverged widely during the quarter, but the overall FTSE/JSE ALSI emerged with a relatively respectable return of 3.8%, underpinned by the Resources sector's 18.2% return and 20.3% from Financials. The All-Property Index returned -1.6% and Industrials -13.1%, the latter hurt by over 30% declines in the values of Naspers and Prosus on the back of a further sharp sell-off in Tencent shares amid renewed Chinese government regulations.

Portfolio Commentary

The fund's top five performing positions added 15.55% to returns over the quarter, while the bottom five detracted -0.14%.

Winners	Ave. Weight	Performance Contribution	Losers	Ave. Weight	Performance Contribution
Anglo American	17.04%	3.68%	Mpact	1.30%	-0.07%
Thungela Resources	4.62%	3.68%	New Gold Platinum ETF	0.25%	-0.04%
Sasol	9.78%	3.33%	New Gold ETF	0.16%	-0.02%
Exxaro Resources	6.56%	2.48%	African Rainbow Min	0.08%	-0.00%
Gold Fields	8.26%	2.38%	Anglogold Ashanti	0.16%	-0.00%
		15.55%			**-0.14%**

Current positioning and outlook

Complexity in the investment environment was amplified in Q1. Notwithstanding the dreadful humanitarian crisis in Ukraine, it is incumbent on us to identify opportunities and commodities offer abundant opportunities across energy, industrial and haven commodities.

Looking beyond the military conflict in Ukraine, we continue to see a complex interaction of energy transition, geopolitics and socio-economics. On a broad basis, we highlight the singular focus on the climate change theme that has come to dominate the natural resource landscape. Fossil fuels, particularly natural gas, but meaningfully, oil and coal, have been at the epicentre of the economic impact of the conflict, at least partly due to the excessive reliance of Europe on Russian supply in a supply-constrained and capital-starved sector.

While European geopolitics took centre stage, the complexities within China intensified too. Specifically, a significant Covid-19 increase resulted in a major lockdown with general implications (for demand) and a further tightening in the property sector that is key to commodity demand and, most specifically, iron ore and steel. The Covid, Property and Ukrainian escalation have potential ramifications later in the year as Xi Jinping runs for an unprecedented 3rd term and what this may mean in terms of economic stimulus. Over the decade, Chinese credit cycles have been a substantial driver of commodity markets, but this has stalled recently amid a shift in priorities to rebalance the economy behind a "common prosperity" tagline.

Additionally, the US Fed pivoted to a more cautious inflation outlook. The potential for up to 7 interest hikes sets us up for a paradigm shift in investment winners and losers following a multi-decade declining interest rate/deflationary cycle.

While the natural resources sector can outperform in an inflationary environment -- specifically when higher commodity prices drive that inflation -- one needs to be cognisant of the inflationary cost base and the risk to economic growth and commodity demand from rising inflation and interest rates. With all these opportunities and threats, we sought to balance defensive and risk-seeking options, favouring exposure to the energy sector, with large Glencore, Sasol, Thungela and Exxaro positions.

Changes to the general mining positions favoured energy over iron ore. We added to Glencore and Thungela (and Anglo American), funded from BHP and African Rainbow Minerals, which we exited. We took a somewhat defensive position in the Platinum Group Metals (PGM) sector by re-initiating a stake in Royal Bafokeng Platinum (RBP). RBP was subject to corporate activity with Impala Platinum and Northam Platinum, with a firm offer from Impala Platinum for R90 plus 0.3 Impala Platinum shares per RBP share. We funded this position by trimming positions in Impala Platinum, Northam Platinum and Anglo American Platinum. We cut the gold exposure slightly by reducing the Gold Fields stake. We reduced Sappi while introducing a new position in PPC following its pullback and increasing evidence of its improved financial and operating health. We also exited the positions in the gold and platinum ETFs.

Responsible Investing

The first quarter of 2022 overlaps with the December 2021 results season, so we had the opportunity to engage with almost all the management teams. As part of our discussions of company results and market outlooks, we engaged in ESG aspects. We view ESG risks as business risks and integrate ESG considerations into our investment process.

Specific discussions that we want to highlight:

With the **Goldfields CEO**: We discussed their new project, Salares Norte, and the safe movement of the Chinchillas located close to the mining operations. Chinchillas are an endangered species. We also discussed the implications of Covid on their business, specifically their operations in Western Australia, the region was under lockdown, and the operations faced high staff turnover given the skill shortage.

With the **Sasol CEO**: We discussed the outlook for Sasol over the short-medium term as they implement their climate strategy. Over the short term, that involves increasing the use of renewables, and over the medium term, that means instigating Liquefied natural gas imports.

With the **PGM miners**: A key focus was the support provided to the communities in which they operate. We noted an increase in community disruptions that have impacted operations. - During the pandemic, we've seen unemployment rise, and this, coupled with poor service delivery from municipalities in the regions, has necessitated miners to assist their communities where possible.

With **Northam's Remuneration chair** (HH Hickey): The meeting was a follow-up to the introductory meeting held last year on the remuneration policy, and we discussed high-level principles of their remuneration policy. Their remuneration committee meetings will take place during April to finalise the policy. We also discussed the oversight that their board provides and the structure of their meetings.

A general theme discussed with **all SA miners** is their progress in implementing renewables into their operations. The need here is two-fold, one to ensure the stability of operations. During the second half of 2021, we witnessed the impact of load shedding on mining production. Second is cost, with renewables being more cost-effective than Eskom's price increases over time.

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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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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