NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter Three, 2022

Nedgroup Investments Mining & Resources Fund

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

Total return as at: 30 June 2022	Fund[1]	Peer Group [2]
3 Months	0.6%	-0.9%
6 Months	-9.9%	-16.1%
12 Months	33.7%	23.0%
3 Years	31.5%	21.4%

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

Market Commentary

Global financial markets were painted in a sea of red in the third quarter (Q3) of 2022, falling more sharply in September as any remaining optimism over economic growth for the year and into 2023 was primarily crushed by global central banks, led by the US Federal Reserve. Their stiff fight against persistent global inflation resulted in surprisingly aggressive interest rate hikes, with markets having to revise their forecasts for interest rates steeper on several occasions during the period. While acknowledging the "painful" consequences felt by consumers and businesses, central bankers have been more concerned about higher inflation levels becoming embedded into the broader economy through the second-round effects of inflation expectations and wage demands.

These developments translated into greater pessimism over corporate earnings growth and weighed on bond prices, with risk-off sentiment sending most markets into negative territory -- particularly emerging market equities. Conditions were exacerbated by the ongoing Russia-Ukraine war, the European energy crisis, and China's continuing economic slowdown resulting from tight Covid-related restrictions and a weak property market. With a more limited geographical impact, but still of note, was the September meltdown in UK bonds and the pound on the back of new Prime Minister Liz Truss's surprise introduction of plans for a much higher government budget deficit on the back of proposed unfunded tax cuts, among other measures.

For 30 September 2022, the MSCI All Country World Index returned -6.8%, the MSCI Emerging Markets Index produced -11.6%, and the Bloomberg Global Aggregate Bond Index delivered -6.9% (all in US$). South African markets were not spared in the sell-off; growth prospects deteriorated amid rising prices, higher borrowing costs and the high frequency of electricity outages, all of which weighed on economic activity. All equity market sectors delivered negative returns for the quarter: the FTSE/JSE All Share Index (ALSI) returned -1.9%. Locally oriented sectors were weakest, with -4.2% from Financials and -4.1% from Listed Property (All Property Index), while globally-oriented sectors delivered marginally better returns with -1.3% from Industrials and -2.1% from Resources. The rand depreciated significantly against the rampant US$, which reached multi-decade highs versus other global currencies like the sterling and the euro. The rand lost 9.7% versus the greenback, 2.8% against the euro and 0.9% against the pound sterling over the quarter.

In the US, the US Fed hiked its Federal Funds rate by a combined 150bps in Q3, a very aggressive policy tightening move by historical standards, even as annual inflation eased to 8.3% in August from 8.5% in July. Meanwhile, US economic growth shrank by 0.6% y/y in Q2 2022 on the heels of a 1.6% contraction in Q1, as consumer incomes and corporate profits were hit by higher debt costs and rising prices for food and energy, despite a fall in the latter in September. The Fed's latest survey showed the median of US GDP growth forecasts was revised lower to just 0.2% for 2022 (vs 1.7% previously) and 1.2% in 2023 (vs 1.7%). Fed Funds Futures contracts now imply US interest rates reaching approximately 4.5% in mid-2023, well above the 2.9% forecast in May.

In China, the focus was squarely on supporting economic growth for the quarter. GDP growth for Q2 2022 disappointed at only 0.4% y/y compared to the 1.0% expected. The activity was weighed down heavily by the government's harsh crackdowns against Covid-19 as the country suffered its worst virus outbreak since the pandemic's peak in early 2020. Large cities such as Shanghai, Chengdu and Wuhan fell under strict containment measures, severely denting consumer demand and business activity. Ongoing property market weakness also undercut consumer and business sentiment. As a result, the central bank left its benchmark lending rates unchanged in September after implementing some credit easing measures earlier in the quarter, while the government also contributed fiscal support. This ongoing monetary policy divergence between China and the US increased the risk of further yuan depreciation and capital outflows. The yuan fell to a 13-year low against the surging US$ in September.

It proved to be another challenging quarter for South Africa. The South African Reserve Bank (SARB) followed the US with 150bps of interest rate hikes during Q3 to curb local price pressures and ensure the interest rate differential between SA and the US did not become too broad, thereby protecting against rand weakness. More hikes are expected in the coming months, in line with the rest of the world. The Q3 rate increases came amid a contracting economy: Q2 GDP growth came in at -0.7% (q/q annualised), below market forecasts of a 0.8% fall, as the lasting impact of the devastating floods in KwaZulu-Natal and intense power outages during the period negatively impacted economic growth on top of the global slowdown. Consequently, the SARB pencilled in growth for Q3 and Q4 at 0.4% and 0.3%, respectively, and trimmed its GDP growth forecast for 2022 to 1.9% from 2.0%. The central bank sees the economy expanding by only 1.4% in 2023 and 1.7% in 2024.

In more positive news, SA's annual inflation eased to 7.6% in August from an over 13-year high of 7.8% in July, marginally above market expectations of a 7.5% rise. The Purchasing Managers' Index expanded to 52.1 points in August from 47.6 in July, following a steep fall in fuel prices at the start of August, which helped moderate cost pressures. And finally, retail trade climbed by 8.6% y/y in July, following a 2.3% fall in the previous month, marking the steepest rise in retail activity since June 2021.

The oil price fell during the quarter on the back of expected lower demand as growth slows: Brent crude oil lost 23.4% in US$, ending the month at around US$90 per barrel. However, supply cuts could be on the horizon as OPEC+ members consider reducing production to prop up the price. Over the past 12 months, the oil price has been only 12.0% higher. Turning now to other commodities, palladium was the only gainer for the quarter (+10.2%) mainly due to supply constraints, whereas slower growth and the stronger US$ weighed broadly on demand. Among precious metals, gold fell 8.5%, and platinum lost 5.7%. Industrial metals prices lost between 1%-9% in Q3.

Portfolio Commentary

The fund's top five performing positions added 7.18% to returns over the quarter, while the bottom five detracted -5.31%.

Contributors	Ave. Weight	Performance Contribution	Detractors	Ave. Weight	Performance Contribution
Thungela	9.03%	4.69%	Sasol	11.92%	-2.74%
Glencore	11.61%	1.25%	Sappi	4.16%	-0.85%
Exxaro	5.99%	0.54%	Anglo American	13.82%	-0.73%
Royal Bafokeng Platinum	1.62%	0.48%	Pan African Resources	4.23%	-0.55%
Oceana	1.35%	0.21%	Impala Platinum	7.47%	-0.44%
		7.18%			**-5.31%**

Current positioning and outlook

Positioning in the fund continues to favour energy relative to industrial metals and a tilt in favour of defensive positions into the anticipated global slowdown.

Relative to the second quarter, evidence of demand weakness in industrial commodities continues to grow. Previously downward pressure was more strongly seen from financial markets taking negative bets in anticipation of the structural slowdown. Various commodity prices hold above cost curve support, indicating further downside risk. Aluminium has fallen deep into the cost curve, and steel margins across multiple products and regions have gone to zero.

Providing some support for industrial commodities is the supply disruption arising from geopolitical factors, notable sanctions against Russia, issues in South America, and energy-related impacts to refining finished metals like Aluminium and Zinc (specifically in Europe).

Within the portfolio, we took some profit following the exceptional performance of Thungela Resources. We also reduced the position in South32 as the stock experiences downside risk to earnings expectations at prevailing commodity prices, particularly from Aluminium and Manganese. We created a new position in African Rainbow Minerals within the industrial metals sector due to its elevated free cash flow yield, strong financial situation, and profit from the weakening ZAR. We also added to BHP as a high-quality defensive stock.

In the gold sector, we created a new position in AngloGold Ashanti. We closed the position in Gold Fields due to systematic outperformance over the past few years and their bid for Canadian-listed Yamana Gold that will create near-term dilution if successful. We also closed the position in the GOLD ETF.

In the Platinum Group Metals (PGMs) sector, we closed the position in Royal Bafokeng Platinum, which had worked as a relatively defensive option due to the cash underpin of the prevailing Impala Platinum take-out offer, which is still pending competition approval. We added to the Impala Platinum position.

In non-mining resources, we created a new position in Mondi following price weakness associated with the markdown of the company's Russian assets, approximately 20% of the company's value, and note potential upside if the terms of the subsequent sale for those assets are met. We also added to our Sappi position as an apparent late-cycle beneficiary in what otherwise proves to be a rapidly slowing fundamental landscape.

Responsible Investing

The June 2022 results reporting period occurred during the last quarter, and we had the opportunity to engage with our mining and chemical companies. We view ESG risks as business risks; therefore, we also used our management meetings to discuss the risk and opportunities around Responsible Investing.

Mining companies are a critical part of the communities in which they operate and they must step up to fill gaps in inefficient municipalities. We discussed the work that is being done with communities to support them.

Specific engagements that we want to highlight:

Kumba Iron Ore
One of the issues we have had with Kumba was that its mining efficiency rates were below the benchmark. As Kumba cannot increase volumes due to rail and port constraints improving efficiencies is critical for cost performance. The CEO noted the company's work over the last few months to find the root cause. The critical factor, they said, is that over the previous few years, mining operations didn't stop even during the height of Covid. As we are transitioning back to a more normal world employees require additional support, and Kumba has been implementing additional support.

Sasol
We discussed the decarbonisation journey of Sasol over the medium term and the progress that Sasol has made over the last few months. This was explicitly related to the work done to increase renewables in their energy mix and increase the supply of Liquefied Natural Gas (LNG) into their feedstock mix.

Impala Platinum
In the first half of Impala's financial year, there were fatalities at their Rustenburg operations. We discussed mining safety and the key processes they have in place.

Anglo-American and Anglo-American Platinum
We discussed the work with Hydrogen trucks and what that could mean for the PGM sector. Specifically, on Anglo-American Platinum, we discussed the community and heritage sites at the Mogalakwena operations and how growth opportunities at Mogalakwena would ensure that all stakeholders are taken on the journey.

Exxaro
While Exxaro is a coal company, it plans to use excess cash flows to invest in renewables and battery metals. We discussed the options available and the market dynamics for their growth aspirations.
We had the opportunity to engage with the Company chair and the Remco chair. We discussed the company's strategy over the medium and longer term and the remuneration policy. It is worth noting that the new CEO is the first CEO that is not part of the Eyesizwe BEE structure.

Omnia
We attended Omnia AgriBio day, where there was a re-iteration of Omnia's commitment to ESG and it is part of the business framework. The critical item under discussion was the growth opportunities in greener fertilisers.
We discussed the elements of their remuneration report with the Chair and Remco Chair.

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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