NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter Two, 2023

Nedgroup Investments Mining & Resources Fund

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

Total return as at: 30 June 2023	Fund[1]	Peer Group [2]
3 Months	-7.2%	-4.4%
6 Months	-15.2%	-5.8%
12 Months	-5.0%	6.0%
3 Years	22.1%	18.8%

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

Market Commentary

The second quarter (Q2) of 2023 brought mixed results for investors, with global bonds losing ground but global equities performing relatively strongly in developed markets, even surprisingly so given the ever-changing outlook for global growth over the three months. A more positive growth outlook prevailed for the US, even as China's deteriorated, pushing US and other developed market equities higher while keeping emerging market equities relatively weaker.

In the US, the Fed hiked its repo rate by 25bps at its May FOMC meeting and then paused in mid-June to assess the economic impact of its cumulative hiking cycle, moves that were expected by the market and brought temporary relief to interest rate markets. However, after the meeting, unexpectedly hawkish comments by Fed Governor Jerome Powell and other Fed Presidents surprised markets by indicating another 1-2 increases ahead, equivalent to a potential additional 50bps. US inflation news was positive, with sharp drops in both CPI and PPI seen in May on the back of lower energy and food prices: CPI fell to 4.0% y/y from 4.9% y/y in April, while PPI dropped to 1.1% y/y versus 2.3% y/y previously. Still, this was well above the Fed's CPI 2.0% target, and core CPI (excluding food and energy) remained high at 5.3% y/y.

In the UK, the BOE's higher-than-predicted 50bp hike in June brought its base lending rate to 5%, the highest level since 2008, as the UK battled stubbornly high CPI of 8.7% y/y in May, unchanged from April and the highest among major developed economies. Markets anticipate further rate hikes with no pause as the central bank has lagged others in its tightening cycle. The UK economy ground out 0.1% q/q growth for Q1 2023, avoiding a recession, but investors fear it could be tipped into contraction by the BOE's aggressive stance. Like the US, resilient consumer demand and a tight labour market keep growth buoyant but also fuel inflation.

At its June meeting, the European Central Bank (ECB) announced a 25bp rate rise to 3.5%, in line with expectations, while raising its inflation and growth forecasts and ruling out any pause in its hiking cycle. As such, markets widely anticipate another 25bp hike at its July policy meeting and the chance of another increase in September before a possible pause towards year-end. Euro area CPI stood at 6.1 y/y% in May, triple the Central Bank's 2% target, while core CPI was sticky at 5.3% y/y. Seven Euro area economies contracted in Q1 2023, putting the region in a mild technical recession with -0.1% GDP growth.

Japan impressed investors with its continued recovery during Q2, reporting much better-than-expected revised GDP growth figures at 2.7% (versus 1.9% forecast) for Q1 2023. CPI rose to 3.2% y/y in May, high for the economy. However, the Bank of Japan continued its easy monetary policy, keeping its key lending rate at -0.1% as widely expected, saying that while they noted the rise in inflation, they would maintain procedures designed to lift the country out of decades of deflation. Price increases have been driven by strong consumer demand and a weaker yen.

China reported a somewhat disappointing GDP growth of 4.5% for Q1 2023. The country's rebound lost momentum in Q2, with inflation falling, new borrowing declining, and retail sales growth slowing amid declining consumer confidence. Reports showed lacklustre May industrial production growth at 3.5% y/y from 3.6% y/y. The data prompted analysts to revise and lower their growth forecasts for 2023, now ranging from approximately 4.5%-6.5%. Pent-up consumer demand and services continue to underpin the current (weaker) expansion, while the property sector remains weak and youth unemployment is high. To spur growth and meet the government's 5% growth target for 2023, the People's Bank of China (PBOC) cut short- and medium-term interest rates. Analysts now expect further cuts and stimulus measures from the central bank, such as expanded infrastructure financing and easing in lending requirements, such as mortgage downpayments.

In South Africa, financial markets were more volatile, with growth prospects being weighed down by load-shedding. In addition, the country was hit hard by a sell-off of SA bonds, banking shares and currency in May amid reports that South Africa was selling weapons to Russia and adopting a supposedly pro-Russian stance in its war against Ukraine and, more generally. This prompted fears of retaliation from the West through trade and financial sanctions, leading to elevated investor risk perceptions for local investments. In June, however, these fears abated somewhat, and the assets regained ground (especially bank shares). Still, risk perceptions remained higher than in Q1, as reflected by a weaker rand and elevated bond yields.

The SARB surprised the market at its May MPC meeting by hiking the repo rate by an aggressive 50bps to 8.25%, worried about still-high inflation and the future inflationary impact of the weaker rand. And following the central bank's hike, SARB governor Kganyago remained tough in his anti-inflation stance, saying in late June that interest rates might need to go higher and stay there for longer. As such, the market is now expecting another 25bp hike at the MPC meeting in July and a possible extra 25bps in September. This was in the face of slowing CPI, which fell markedly to 6.3% y/y in May from 6.8% in April, and expectations of a further decline in June as energy prices continued to ease and the rand rebounded. The SARB forecasts CPI to fall within its 3-6% target band in Q3 or Q4 this year.

The SARB also revised upward its economic growth expectations for 2023 to 0.3% from 0.2% in March, following the release of better-than-expected Q1 GDP data showing growth at 0.2% y/y, meaning South Africa had avoided a technical recession following a 1.1% contraction in Q4 2022. Still, the figures showed load-shedding and logistical issues were depressing fixed investment and consumer and business sentiment, with the critical contributor of household spending rising only 0.4% during the quarter. June reports revealed the FNB/BER Consumer Confidence Index fell to -25 points for Q2, its second-lowest level on record after the -36 points seen during the Covid hard lockdown period of Q2 2020. At the same time, the country's Manufacturing PMI fell to 49.2 points in May, indicating a contraction in activity due mainly to weak demand.

The SA equity market was dragged down in Q2 by losses in Resources shares amid fears of slower demand (mainly from China), offsetting good gains in Financials (after rebounding in June) and respectable returns from Industrials. The FTSE/JSE All Share Index (ALSI) returned 0.7% in Q2. Industrial counters returned 3.4%, Financials produced 5.9%, Resources -6.4% (Resources 10 Index) and the All-Property Index 1.0% (all in rands).

The oil price trended lower during the quarter, with Brent crude ending at around US$76 per barrel from around US$80 per barrel at the start of the period on the back of expected lower demand as global growth slowed, even as producers like Saudi Arabia announced plans for further supply cuts. Brent crude oil has lost approximately 13% in US$ since the beginning of 2023. Other commodity prices also moved lower in Q2 amid the uncertain outlook; even the price of gold fell 2.5%. Zinc was the most significant loser, down 18.7%; nickel lost 12.7%; aluminium fell 10.3%; and copper fell 8.1%. Among platinum group metals, palladium fell 16.0%, and platinum lost 9.1%.

Finally, despite regaining some 4.6% against the US dollar in June as sentiment improved, the rand still lost 6.5% against the greenback for the quarter. It depreciated 6.9% against the euro and 9.5% versus the UK pound as sentiment toward SA remained depressed. So far this year, the rand has lost 11.6% versus a weakening US dollar.

Portfolio Commentary

The fund's top five performing positions added 1.94% to returns over the quarter, while the bottom five detracted –5.65%.

Contributors	Ave. Weight	Performance Contribution	Detractors	Ave. Weight	Performance Contribution
Glencore	3.04%	1.12%	Impala Platinum	13.02%	-2.12%
DRDGold	1.20%	0.37%	Northam Platinum	8.20%	-1.39%
Omnia	3.36%	0.24%	Anglo American	8.11%	-0.95%
Orion Minerals	7.65%	0.13%	Pan African Resources	14.82%	-0.68%
BHP Group	0.24%	0.08%	Sappi	4.07%	-0.51%
		1.94%			**-5.65%**

Current positioning and outlook

The second quarter was challenging for the JSE resources sector. The first quarter had started strongly backed by China reopening from their Covid lockdown but ended with the US regional banking crisis. The second quarter was characterised by growth momentum in China disappointing and hawkish OECD monetary policy. The resource sector experienced the benefit of ZAR weakness and some alleviation of load-shedding pressures, offset by a more general risk-off backdrop. While conviction is difficult in this environment, we have a defensive bias to the portfolio.

To this end, during the quarter, we added to positions in exchange-traded commodities, gold for its haven status and platinum to benefit as palladium weakens within the PGM basket. We also established a small position in the rhodium ETF as protection against possible escalating winter load-shedding risk, although this was not a factor during the quarter.

DRDGold is a stock that benefited materially from the weaker rand, so we took some profit and added to Harmony as a better-valued South African gold play. Within the PGM sector, we added incrementally to Anglo American Platinum and Impala Platinum.

In the general mining sector, we closed the position in African Rainbow Minerals, partly motivated by their rising investment in the recently acquired Bokoni platinum mine, as the cycle weakens. We created a new position in Kumba Iron Ore as a cleaner play on domestic iron ore and a more transparent dividend policy. We also funded this position from Exxaro Resources and Thungela Resources as the massive coal rally of 2022 rolled over.

Sappi and Omnia were other funders of the defensive exchange-traded commodities positions previously mentioned.

Responsible Investment

We undertook the following Responsible Investing activities during the second quarter:

- M&G South Africa and other asset managers engaged with Sasol on their climate change aspirations. We discussed the key milestones of renewable projects and the outlook on using gas as a transitional fuel source in the latter part of this decade.

- We engaged with the Chairman of Sasol, discussing succession planning, governance and how he is balancing the requirement to transition and the sustainability of the business.

- We engaged with Thungela Investor relations on their coal policies and their journey to net zero.

- We met with the Impala Chairperson. The meeting focused on their succession planning, employee skills development, and employee safety.

- We also spent time engaging with the Impala sustainability team. There was no set agenda for this meeting, but it was to discuss a broad range of ESG topics.

    - Given the risks of load curtailment, we focused on employee health and safety – how to operate safely underground.
    - Capital allocation decisions the board will need to make with rising ESG spend.
    - Diversity in the organisation and how to manage talent and retain staff.

- We met with the Glencore sustainability team and discussed coal resolutions in the AGM and the vote requested by shareholders.

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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