NEDGROUP INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

NEDGROUP INVESTMENTS MINING & RESOURCES FUND

Quarter Four, 2023

Nedgroup Investments Mining & Resources Fund

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

Total return as at: 31 December 2023	Fund[1]	Peer Group [2]
3 Months	1.0%	5.1%
6 Months	3.3%	2.6%
12 Months	-12.4%	-3.3%
3 Years	14.7%	14.4%

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

Commodity Market Commentary and Review of 2023

In 2023, commodity markets went through a correction phase following the post-COVID boom and specific supply dislocations, and investment appetite for the resources market was cautious. The standout commodity performers for 2023 were iron ore and copper, but overall commodity sentiment was weak.

Going into 2023, the market was expecting strong stimulus from China, which would support commodity markets, particularly iron ore, as China consumes more than 70% of global seaborne iron ore. But this market sentiment waned in late Q1 /early Q2 as fundamentals looked weak, particularly land sales, starts and plan approvals in China. However, iron ore has been resilient due to low inventory levels, low scrap levels, specific infrastructure stimulus, and property completions in China, which are commodity-intensive. We have seen the trend continuing in Q4, where low inventory levels support the iron ore markets.

While Copper prices were resilient last year, they were weaker than consensus expectations at the start of the year due to China's property downcycle and broader global economic cycle weakness. Copper has benefitted from grid infrastructure investment, consumer products and renewable investment in China. This has been price supportive and current prices are more than 40% relative to marginal prices.

Looking in 2024

The outlook for the resources sector is not overly bullish coming into 2024, and there is a risk that prices may come under pressure if there is further global economic weakness.

For the resources sector, the concern remains around inflation pressures (cost and capex), a global recession weakening demand, and moderation of cash returns as companies pivot into investments. China remains a key focal point for the resources sector; we are mindful that in the future, China's GDP pa will be below 5% and growth for the next decade may be lower than what we experienced in 2023.

What country could be the next China?

Over the last 20 years, China's industrialisation has driven the commodity markets. China remains a critical driver regarding commodity markets for the short-to-medium term. We view steel production as a proxy for industrialisation. In contrast, China's steel production peaked in 2020/1, and we don't see rapid growth in the future from China; it does have a high base, which will continue to consume commodities and be essential for the market.

The Chinese government aspires to shift China from an infrastructure-heavy economy to a consumer-based (consumption) economy beyond the next decade. Over time, this will decrease China's steel intensity per capita.

India is the most compelling country that may move along the industrialisation curve and impact commodity markets. Infrastructure development is one of the critical parts of the Indian government's agenda, and India's population will exceed China's in a few years. If we look at India's steel intensity per capita, it is where China was 20 years ago. India only produces 130mt of steel (6% of total steel), expected to grow to more than 300mt by 2030.

BHP, one of the largest iron ore and metallurgical coal miners, has noted that they expect the rampant expansion of India's steel industry to boost its coal business significantly. *"Even if that [government target] misses a bit, and let's say it's 260 (mn tonnes), which is 15 per cent less, it's a huge growth trajectory,"* BHP Chief Commercial Officer Vandita Pant.

While India is highly likely to increase steel production and infrastructure development, it will be to a different extent and speed than we saw with China over the last 20 years. It will take much longer due to regulation and the democratic structure in India versus China. In addition, China had a significant wealth effect from housing 'sales' in 1998 and land sales since then to drive infrastructure development and pull commodity markets.

Next Driver of commodity markets

When we look at the key driver for commodity markets, or mega theme, over the next 10+ years, it will look different from the last 20 years (and the last 100 years). Historically, commodity markets were driven by infrastructure development led by industrialisation, and this caused the "super-cycles", where "rising tides lift all boats".

The mega themes over the medium and longer term will be energy transition, energy security, supply underinvestment, and food security, and this won't be a typical super cycle. Base metals, particularly copper, have compelling medium to longer term fundamentals.

The current rate of capital expenditure investment is likely to need to be increased to match robust demand supported by the energy transition, and supply constraints are growing. In contrast, a new demand trajectory is set by regulation. Energy transition for countries to hit net zero globally by 2050 would require six times more mineral inputs in 2040 than today.

The outlook is fluid; forecasts are made with the understanding that new and old energy will co-exist for a long time.

Portfolio Commentary

The fund's top five performing positions added 6.19% to returns over the quarter, while the bottom five detracted –7.21%.

Contributors	Ave. Weight	Performance Contribution	Detractors	Ave. Weight	Performance Contribution
BHP Group	10.61%	1.84%	Sasol	10.31%	-3.80%
Northam Platinum	5.85%	1.32%	Anglo American	16.59%	-2.10%
Exxaro Resources	7.49%	1.20%	Impala Platinum	2.39%	-0.54%
Pan African Resources	3.89%	0.93%	Thungela Resources	4.01%	-0.53%
Harmony Gold Mining	1.75%	0.89%	Orion Minerals	0.51%	-0.25%
		6.19%			**-7.21%**

Current positioning and outlook

The Fund continued with a defensive bias through the last quarter of 2024.

In the general miners, the bulk miners are in a strong position at prevailing commodity prices and we therefore added to Exxaro. Exxaro, via its holding in Sishen Iron Ore Company, and BHP benefitted from the iron ore market dynamics described earlier. BHP is a quality company with its assets on the low end of the cost curve. BHP can take advantage of both Copper and Iron Ore prices. Exxaro is attractively valued on a dividend yield basis; shareholders yield a strong dividend from Exxaro's share in the SIOC iron ore business and its export thermal coal business.

We sold our position in Orion Minerals, a small company developing base metal assets in the Northern Cape. Our concern is that the management team will need help transitioning the company from development to an operating company, and the business will generate negative free cash flow longer than we initially expected.

We have a neutral PGM sector position with an underweight in the PGM equities and overweight in the Platinum ETF. Given the downgrades in the commodity basket, elevated inflation, and high capex levels, we are cautious of the sector. For the basket price to rise in the short term, there needs to be a strong recovery in auto demand and a decrease in Palladium and Rhodium stock levels. We maintain a conservative stance on the equities, with our relative preference in the sector being Northam, which has quality volume growth delivered at its Booysendal operations.

We are overweight the gold sector both in the equities and Gold Bullion. Our preference in the equities is the South African Gold miners, Pan African Resources, and Harmony Gold Mining.

Sasol was a detractor from the quarter’s performance. Sasol’s South African value chain is a highly complex business facing several structural uncertainties related explicitly to its decarbonisation journey and the ability to maintain production beyond 2030 with the lack of natural gas being available. The international business is not generating cash flows as the chemical cycle is at trough levels, and the recovery may take 2-3 years.

OPEC+ is balancing the oil markets and the view is that it may be able to balance the markets in 2024, but it gets harder going into 2025. They will want to taper the current cuts they have in place, and the demand outlook is softer post the Covid recovery. The management team needs to balance the cash flow utilised to repay debt or return it to shareholders. The valuation looks attractive on cash metrics, but the company is operationally and financially geared.

Responsible Investing

During the quarter, we have had the following key engagements:

Sasol:
We participated in Sasol’s climate change round table, where we, with other asset managers, engaged Sasol’s sustainability team on their decarbonisation objectives.

We also engaged with Sasol’s lead independent director; we have been concerned that Sasol’s Chairman has a stake in a gas exploration company, Kinetico (via a holding company). The gas exploration company had found coal-based methane gas next to Sasol’s Secunda operations. Sasol’s SA business requires gas as a transitional feedstock.

There is currently no commercial relationship between Sasol and Kinetiko, and the economic viability of the gas has yet to be proven. We wanted to get comfort that Sasol has processes to ensure sufficient mitigation if a conflict of interest arises.

Impala Platinum:
We engaged with Impala’s sustainability team; this was a follow-up meeting. We discussed the ESG considerations the business evaluates and how the head of sustainability ranks the risk. The PGM basket had significantly deteriorated throughout 2023, and a large part of the conversation was around how the business will still need to invest in sustainability.

Post the engagement with the Sustainability team, Impala had a tragic accident at the Rustenburg operations, which led to 13 fatalities and 73 employees being injured and required hospitalisation. A conveyance system, which transported employees up and down the shaft, instead of ascending had started to descend rapidly, causing the accident.

We engaged with the Investor Relations of Impala directly after the incident and had follow-up calls with them to understand the nature of the incident and what the process is from here. We will continue the engagements in 2024 with the sustainability teams and the executives.

In addition to discussions with Impala, we engaged with Anglo-American Platinum, Northam, and Sibanye Stillwater on the conveyance systems at their underground operations.

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
The Standard Bank of South Africa Limited is the registered trustee.
Contact details: Standard Bank, Po Box 54, Cape Town 8000,
Trustee-compliance@standardbank.co.za, Tel 021 401 2002.

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.

NEDGROUP INVESTMENTS CONTACT DETAILS
Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za

OUR OFFICES ARE LOCATED AT
Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001
WRITE TO US
PO Box 1510, Cape Town, 8000