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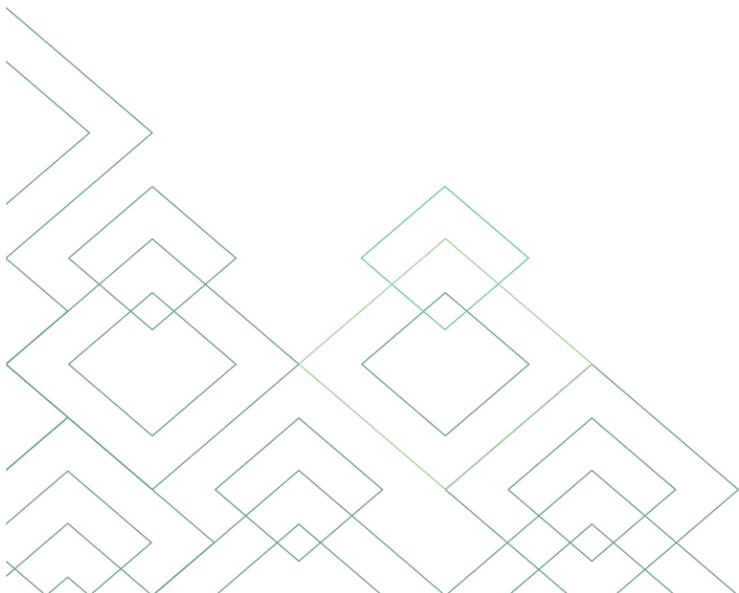
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# **NEDGROUP INVESTMENTS** **MINING & RESOURCES FUND**

Quarter One, 2023





# Nedgroup Investments Mining & Resources Fund

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

Total return as at: 31 March 2023	Fund <sup>1</sup>	Peer Group <sup>2</sup>
3 Months	-8.6%	-1.4%
6 Months	1.7%	12.0%
12 Months	-8.4%	-6.0%
3 Years	43.3%	36.7%

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

## Market Commentary

So far in 2023, global financial markets have experienced wild swings – particularly in the usually less volatile fixed income markets – dictated by the guessing game over the path of US interest rates, inflation and growth. January’s sentiment was relatively bullish, dominated by expectations of a weaker US economy going into 2023, which would have increased the likelihood of softer inflation, lower-than-expected interest rates and a relatively imminent pause to the US Federal Reserve’s rate hiking cycle. This was all up-ended in February by surprisingly strong economic data, including more widely embedded inflation than previously thought. With the Fed signalling its intention to continue hiking, this sent market uncertainty higher and global asset prices lower, an environment that continued well into March.

Then the emergence of banking sector turmoil sparked by the sudden failure of specialist Silicon Valley Bank and the engineered buyout of Swiss banking giant Credit Suisse by UBS shocked markets even further, with the swift central bank and government interventions preventing contagion to other sectors. Gold benefited, and risk-off sentiment prevailed as global financial stocks sold off. Central banks suddenly had an even tougher policy balancing act, choosing between fighting inflation, safeguarding national banking systems and supporting growth and employment. Ironically, this led to more positive expectations of lower interest rates and sooner-than-expected rate pauses.

The US Fed hiked by a measured 25bps in March, as expected, as did the Bank of England (BOE), while the European Central Bank (ECB) and SA Reserve Bank (SARB) announced relatively robust 50bp increases given their higher inflation threats. Looking back, investment managers have rarely seen such sharp changes in market views in such a short period. US Treasury bonds, for example, experienced high volatility of around 10%, with the 10-year UST yield falling by 50bps from about 4.0% to 3.5% between February and March – a massive move in that market.

While the growth outlook improved in several key economies, making equities more attractive, risk aversion remained apparent over the quarter. Global equity returns outperformed bonds, while developed equity markets outperformed emerging ones.

In South Africa, the equity market was dented by risk aversion and weakness in Listed Property and Resources stocks during the quarter, but buoyed by Industrial shares. The FTSE/JSE All Share Index (ALSI) returned 5.2% in Q1, while the more locally exposed Capped SWIX delivered 2.4%. Industrial counters returned 13.6%, while Financials produced 0.4%, Resources -4.4% (Resources 10 Index) and the All Property Index -4.8%.

For the quarter, SA nominal bonds (the FTSE/JSE All Bond Index) delivered 3.4%, while inflation-linked bonds (ILBs) produced 0.9% and cash returned 1.7%. Finally, despite some late-March gains from the SARB’s larger-than-expected rate hike, the rand moved weaker against the major global currencies, losing 4.8% against the broadly weaker US\$ and 7.3% against the UK sterling 6.5% versus the euro over the quarter.





In the US, the US Fed hiked its repo rate by 25bps at both its February and March meetings, moves that were expected by the market. However, uncertainty was created by surprisingly robust economic data, including strong retail sales data, a higher-than-expected January CPI at 6.4% y/y, and a still-strong jobs market. February's core CPI, at 5.5% y/y, showed inflation was more deeply entrenched than thought. This data, combined with hawkish language from the US Fed, led investors to expect higher interest rates for longer and sparked global equity and bond sell-offs.

The global banking turmoil later reversed this bearish sentiment, which led investors to expect central banks to move less aggressively in their rate increases to support the banking sector. While banking stocks did sell off, March's confirmed "small" 25bp increase by the Fed appeared to reinforce the idea that US rate hikes might be close to an end and that uncertainty had eased to an extent. Upward revisions to US growth forecasts and for other vital economies also reinforced the broadly more positive outlook by the end of the quarter.

China also continued its recovery from its strict Covid-19 lockdown in Q1 2023, having posted GDP growth of only 2.0% in 2022. The government set a conservative 5% growth target for 2023, with the IMF forecasting 5.2%, accounting for around 30% of global growth for the year. Pent-up consumer demand is driving the current expansion, along with consumer services, while the property sector remains weak.

The PBOC left interest rates steady in Q1 to support the recovery while implementing a surprise cut to bank reserve requirements to support liquidity and any nervousness associated with global banks. The ongoing monetary policy divergence between China and the US has kept the pressure on the yuan and caused some capital to leave the country.

The oil price fell during the quarter due to expected lower demand as global growth slowed and improved supply. Brent crude oil lost approximately 7% in US\$ terms, ending the quarter at roughly US\$80 per barrel after falling as low as US\$72 per barrel in mid-March. Other commodity prices were mixed in Q1 amid the uncertain sentiment, with gold the largest beneficiary. Nickel was the most significant loser, down 24.2%, while zinc lost 3.9%, aluminium fell 1.0%, and copper gained 6.5%. Among precious metals, gold rose 8.0%, platinum lost 7.6%, and palladium was down 18.5%.

## Portfolio Commentary

The fund's top five performing positions added 2.32% to returns over the quarter, while the bottom five detracted -7.60%.

Contributors	Ave. Weight	Performance Contribution	Detractors	Ave. Weight	Performance Contribution
AngloGold Ashanti	3.04%	0.91%	Glencore	13.02%	-1.64%
DRDGold	1.20%	0.47%	Impala Platinum	8.20%	-1.58%
Pan African Resources	3.36%	0.42%	Northam Platinum	8.11%	-1.57%
BHP Group	7.65%	0.37%	Anglo American	14.82%	-1.42%
PPC	0.24%	0.15%	Thungela Resources	4.07%	-1.39%
		<b>2.32%</b>			<b>-7.60%</b>





## Current positioning and outlook

Amid this elevated volatility, we seek to build a portfolio balanced for risk and opportunity.

The Chinese post-Covid reopening presents a meaningful chance of demand recovery that balances the risk from developed market recession and the uncertain geopolitical climate. Following a year of solid energy commodity performance, we observe a switch to China-centric metals and, more recently, the gold haven.

Similarly, the longer-term expectation of commodity supply constraints, driven by deferred capex and tougher permitting processes, provide some offset for shorter-term macroeconomic demand concerns. This supply constraint has the habit of presenting as specific price squeezes across the commodity spectrum – both new and old economy commodities - and accentuates fund volatility.

During the quarter, we trimmed the AngloAmerican position, reflecting the outsized contribution of the holding in the fund and our expectation that cost pressures and commodity mix would create better cash-generating opportunities elsewhere. We added to BHP Group, created a new position in South32 and added to Exxaro.

Within the gold sector, we switched some positioning from AngloGold Ashanti and Pan African Resources to DRDGOLD and created a new, small position in Harmony Gold and NewGold. We view the gold ETF position as a defensive holding as it eliminates operating gearing and operating risk.

We also created a new position in the Platinum ETF; this position is for an environment where the Platinum Group Metals basket price is undermined by the performance of Palladium and Rhodium but where Platinum outperforms. Due to a more diversified demand and potentially the longer-term development of the hydrogen economy. We trimmed our positions in Impala Platinum and Sibanye Stillwater as operating challenges and cost pressures added to the commodity price pressure.

We closed positions in industrial/resource proxies PPC and Mondi, following some share price strength and preferring the gold and platinum ETFs. We also trimmed Sappi as the earnings momentum for pulp and paper rolled over.

## Responsible Investing

When meeting with the executives of the resources companies under our coverage during the quarter, key discussion points included:

- The challenging operating environment in South Africa (pro-longed load-shedding and increased security risks).
- A vital discussion point with Bulk and Coal Miners was the risk that Transnet posed to mining operations and the South African economy.
- With Anglo-American Platinum, we discussed re-establishing households close to their Mogalakwena operations. This is important for safety reasons due to the community's proximity to the mine's blasting radius.
- With the Impala and Northam CEOs, we discussed the Royal Bafokeng Platinum transaction. Specifically, we are concerned that the transactions become value destructive. The ongoing process has created operational risk at Royal Bafokeng Platinum due to the uncertainty that they may lose skilled employees.
- With the AngloGold Ashanti Remuneration Chair, we discussed the principles of their remuneration policy.
- With Glencore's Head of Sustainability and Company Secretary, we discussed a requisitioned resolution and statement on climate change for their 2023 AGM.

Additionally, we wrote to the Northam board, noting our concerns about their intention to make a firm offer for the remaining Royal Bafokeng Platinum they didn't own. We noted that the operating environment had deteriorated over the last 18 months.-The PGM basket has come under pressure, and the expected price on the offer will create value destruction.





## 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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