NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

Quarter 3, 2019

For the period ended 30 September 2019

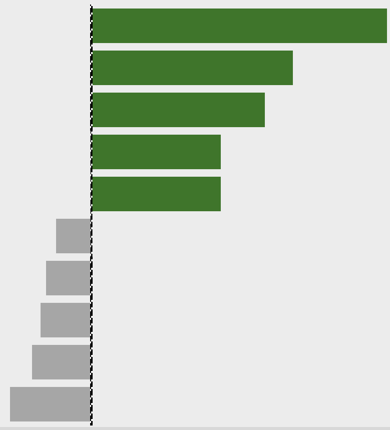
NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

30 September 2019	YTD	1 year	3 year	5 year	7 year	10 year	Since Inception
Nedgroup Investments Bravata Wwide	12.2%	8.1%	6.7%	8.3%	13.2%	11.8%	10.3%
(ASISA) Wwide MA Flexible	12.1%	3.5%	5.6%	6.9%	11.1%	10.7%	10.3%
SA CPI + 5%	7.0%	9.8%	9.9%	10.2%	10.6%	10.4%	11.1%

We were pleased with the funds results for the quarter. These were driven by good performance from three large investments made in the past, namely Reinet (11% of the fund), Royal Bafokeng Platinum (4%) and Transaction Capital (5%), as indicated in the table of contributors and detractors below:

31 December 2018 - 30 September 2019

Share	Contribution (%)*
Reinet Investments	2.4
Transaction Capital	1.7
Royal Bafokeng Platinum	1.4
USD Cash	1.1
IBM	1.1
RECM & Calibre	-0.3
Owens-Illinois	-0.4
L Brands Inc	-0.4
Omnia Holdings	-0.5
Tsogo Sun Holdings	-0.7



Source: *Bloomberg, 30 September 2019*

Below is a summary of the investment case for each of these companies:

REINET (RNI)

Reinet was founded as a result of a change in tax legislation which allowed the Rupert Family to unbundle stakes held in British American Tobacco (BAT) out of their other listed companies.

There are three key points in the investment case worth emphasising. Firstly, Reinet has traded at a significant discount to the sum of its parts, sometimes more than 40%, for lengthy periods. While there is a valid reason for a discount, we felt that 40% was too high. Unlike the controlling shareholders of some other conglomerates, The Rupert Family has always been notably fair to minority investors. We have enquired with our industry peers and it seems that the performance fees charged go some way to explaining the discount.

Secondly, over the last 12 months, the company has bought back more than 5% of the outstanding shares. Buybacks, when the share trades at such a significant discount to the value of the underlying assets is highly value accretive to us, the remaining shareholders.

Thirdly, we are optimistic about the long-term prospects for BAT and Pension Insurance Corporation (PIC), the two investments that make up the bulk of the value in Reinet.

Should the rand strengthen, it would, of course, dampen our returns in the short term, but we feel the extent of the discount and the value inherent in BAT and PIC will more than compensate for this over a ten-year investment horizon.

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ROYAL BAFOKENG PLATINUM (RBP)

Mining companies are difficult to forecast as they are essentially about the demand and supply dynamics for the commodities they dig out of the ground. As a result, our investment philosophy has always favoured the lowest cost producers, like RBP.

We think that the recent rally in the basket price of the platinum group metals (PGM's), despite the slowing global auto market and the threat of electric vehicles replacing internal combustion engine-powered cars, indicates a sustained deficit in PGM's. While the current price of PGM's is supportive of developing new mines, PGM miners can't just press a button and produce more metal…new mines take many years to develop. RBP is in the fortunate position of ramping up its second, low cost, long-life mine into this buoyant price environment. While the ramp-up is currently consuming cash, RBP will generate significant free cash flow over the medium term should the current PGM prices hold.

RBP's management team has impressed us with a string of good capital allocation decisions to purchase assets, and their own shares, on very favourable terms. Should the PGM prices hold for the next few years, RBP may well become an attractive acquisition target.

Additionally, RBP is one of the smaller producers of PGM's and therefore typically less investable for large fund managers.

TRANSACTION CAPITAL

Transaction Capital does essentially two things: it lends money to taxi operators, and buys distressed lending books from retailers and banks, mainly in South Africa.

Transaction Capital continues to show strong growth despite the gloomy economy in South Africa. Part of the reason for its success has been its ability to create alternative revenue streams and not rely on conventional methodologies. Additionally, they delight their customers, and management never ceases in their endeavours to enlarge the moat around their business. Their management team is impressive, its founding shareholders are still hands-on, and we suspect we will look back over time and be pleasantly surprised by the success of this investment. The share is not cheap, but it deserves its premium rating.

OTHER TRANSACTIONS

Below is a table of our Buys and Sells for the period, as well as our Top Holdings as at 30 September 2019:

BUYS AND SELLS

Holdings	Nominal Exposure (%)	Change (%)
Reinet Investments Sca	11.5	6.3
Royal Bafokeng Platinum Ltd	4.4	2.0
Lazard Ltd-Cl A	1.1	1.1
AECI Ltd	2.8	1.0
Investec Plc	1.3	0.4
African Oxygen Ltd	0.4	0.4
Transaction Capital	5.4	-0.8
Loews Corp	0.0	-0.8
Intl Business Machines Corp	2.2	-0.8
Owens-Illinois Inc	0.0	-1.2
Pepsico Inc	0.0	-1.7
MTN Group Ltd	0.0	-2.1
* Eurobank Ergasias Sa	0.0	-2.1

Source: *Bloomberg, 30 September 2019*

** Grivalia Property REIC acquired by Eurobank Eragsias Sa*

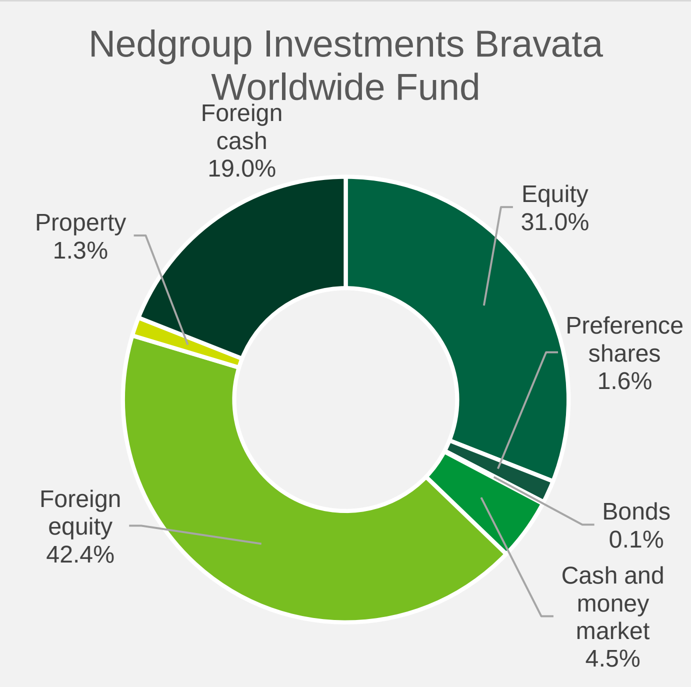
TOP HOLDINGS

Holdings	Holding (%) 30 Sep 2019	Holding (%) 31 Dec 2018	Change (%)
Berkshire Hathaway Inc-Cl B	12.1	11.3	0.8
Reinet Investments Sca	11.5	5.2	6.3
Transaction Capital	5.4	6.1	-0.8
Melco International Develop.	4.8	4.3	0.5
Royal Bafokeng Platinum Ltd	4.4	2.5	2.0
Bank Of New York Mellon Corp	3.6	3.5	0.1
AECI Ltd	2.8	1.8	1.0
Nestle Sa-Reg	2.3	1.7	0.7
Tsogo Sun Gaming Ltd	2.3	3.8	-1.6
Intl Business Machines Corp	2.2	3.0	-0.8
	51.5	43.2	

Date: *30 September 2019*

We have been active as we have focused the fund. We no longer have exposure to Greece and have lightened our investment in IBM as it got closer to $150/share. PepsiCo has done very well for us in the past, and we sold it after holding it for many years, as it simply got too expensive. Coupled with the valuation, we were concerned that it has managed to increase its debt from USD3billion to USD34billion without meaningfully growing the value of its franchise.

ASSET ALLOCATION



Date: *30 September 2019*

Our sale of the MTN shares appears to have been well-timed as we averaged R110/share. MTN now trades at R92/share at the time of writing. New investment has been made in Lazard, an asset manager and boutique investment bank based out of the US.

Our investment in Omnia has been disappointing and has now been removed from the portfolio, preferring instead to hold AECI Limited.

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A FEW THOUGHTS

It has become increasingly difficult to find investments that meet our requirements and are available at a reasonable valuation. The political environment over which we expressed concerns over the last two years has materialised as expected, together with the negative consequences that it brings. What has surprised us is the extent to which the leaders of the USA and the UK have gone to achieve their goals.

The low-interest-rate environment provides some support for equities around the globe and more than a third of sovereign bonds now trade at negative yields (we're not sure what this says about economics as a science). The debt of countries like Greece now trade at below 2%- it was not long ago when they traded at double-digit yields! None of us are sure how the low interest rate environment ends, but if Japan is anything to go by this may go on for a while.

Investors will note that we continue to increase our exposure to South African assets. This is despite our lack of faith in the government's ability to kick-start the economy and make the right economic policy decisions. This concern means we have consistently applied high discount rates in our valuations of South African business. Despite this, we continue to find high-quality businesses being sold at big discounts to our conservative estimates of fair value. We may be early, but it is seldom that we have seen this many quality companies trading at such low prices. Many of our companies trade at depressed yields of over 10%.

While we do not find foreign bonds appealing, South African bonds look attractive if we can avoid the potential rating downgrade. The R186 yields about 8.3%, versus an inflation rate of 4.5%. We suspect that we will find out soon how the government intends to deal with the increasing debt at Eskom. We simply do not know.

The developed markets have done quite well for the year so far, despite all the uncertainty caused by their politicians. It has been a phenomenal 11 years for the S&P with no signs of this abating yet. The accommodative low-interest rates provide enormous support for the high valuation of US shares we see today. We remain concerned that margins are at all-time highs, the excess borrowing that companies have incurred has not gone into productive assets but rather into share buy-backs.

This is the longest expansion of US GDP growth, 40 positive quarters so far. Unemployment is at record lows and the US consumers' balance sheet is in good shape. Inflation is benign. We worry that the positive macro headlines may be masking the dangers lurking in the background. There have been significant money market shortages in the USA requiring the Fed to step in to reduce overnight rates with the Fed chief going out of his way to point that this was not a form of quantitative easing. Our greatest danger is that we think we know how this plays out…we simply don't know. The future is impossible to forecast, but in South Africa, at least we have valuations on our side. The same cannot be said for the US.

CONCLUSION

Perhaps, if we may, illustrate our concerns about the low-interest rate world by way of a story about the truck driver who stops every few miles to bang on the side of his rig with a sledgehammer. After a cop driving behind the truck watches the driver doing this, again and again, the cop pulls him over and asks him what he is doing. "This is a 40-ton truck," the driver says 'but I am carrying 41 tons of canaries. Got to keep them flying" (*Source: Grant's Interest Rate Observer*).

We guess we will find out how all these policies of low-interest rates will play out when the policy-makers either run out of hammers or when the canaries tire of flying…

DISCLAIMER

WHO WE ARE
Nedgroup Collective Investments (RF) Proprietary Limited, is the company that is authorised in terms of the Collective Investment Schemes Control Act to administer the Nedgroup Investments unit trust funds. It is a member of the Association of Savings & Investment South Africa (ASISA).

OUR TRUSTEE
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PERFORMANCE
Unit trusts are generally medium to long-term investments. The value of your investment may go down as well as up. Certain unit trust funds may be subject to currency fluctuations due to its international exposure. 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.

PRICING
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
Certain Nedgroup Investments unit trust funds apply a performance fee. For the Nedgroup Investments Flexible Income Fund and Nedgroup Investments Stable Fund, it is calculated daily as a percentage (the sharing rate) of total positive performance, with the high watermark principle applying.

For the Nedgroup Investments Bravata World Wide Flexible Fund it is calculated monthly as a percentage (the sharing rate) of outperformance relative to the fund's benchmark, with the high watermark principle applying. All performance fees are capped per fund over a rolling 12-month period. A schedule of fees and charges and maximum commissions is available on request from Nedgroup Investments.

DISCLAIMER
Unit trusts are traded at ruling prices and can engage in borrowing and scrip lending. Nedgroup Investments has the right to close unit trust funds to new investors in order to manage it more efficiently. For further additional information on the fund, including but not limited to, brochures, application forms and the annual report please contact Nedgroup Investments.

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