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NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

Quarter 4, 2019

For the period ended 31 December 2019

NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

INVESTMENT PERFORMANCE

31 December 2019	YTD	1 year	3 year	5 year	7 year	10 year	Since Inception
Nedgroup Investments Bravata Ww	12.9%	12.9%	5.9%	7.8%	12.5%	11.8%	10.2%
(ASISA) Wwide MA Flexible	13.6%	13.6%	6.5%	6.5%	10.5%	10.4%	10.2%
SA CPI + 5%	8.7%	9.8%	9.7%	10.2%	10.4%	10.4%	11.0%

Over one year, the return of the fund was just under 13%. Longer-term, the fund has continued to deliver double-digit growth with the annualised seven-year return of just under 13% and the ten-year return of 12%. Our medium-term performance on a relative basis may be seen as acceptable but, by our standards, is a bit disappointing. Our conservative approach over the last five years has held back the returns of the fund.

Back to the beginning

When we launched Bravata 14 years ago, the rationale for a worldwide flexible fund was simple: it gave clients the ability to invest in markets and industries not ordinarily available to South African investors, it was a hedge against South African currency weakness, it offered diversification benefits and the chance to preserve capital by investing in low-risk assets such as fixed interest and cash. In addition, the flexibility of the mandate still allowed us to invest in local South African assets such as equities, fixed interest and property should they be attractive. Asset allocation was left to the fund manager.

At launch, the worldwide flexible category was small and consisted primarily of five funds. Today the class has changed significantly, with some 79 funds, R46 billion under management and with two funds above R8 billion each.

Although the category has grown, some of the advantages of the worldwide flexible mandate have diminished. Exchange control has been relaxed, giving investors more choices, and increasingly investors have been prepared to make their own asset allocation decisions. The number of counters on the JSE has shrunk, and a large chunk of the JSE has moved offshore. (When one strips out the major miners, Prosus / Naspers, dual-listed stocks such as Richemont and British American Tobacco, it is really just banks and a few related industrial stocks such as the retailers that remain).

We continue to think that the latitude allowed by the category is its number one attribute, but we see very few fund managers fully exploiting this flexibility, preferring to remain offshore, fully exposed to equities with very little exposure to South Africa. The MSCI World Index (in rands) has compounded at approximately 17% over the previous 10 years with the US delivering 20% per annum, so being short the rand and long offshore equity has worked. In the future, it's going to take some courageous decision-making by our peers to go against this positioning. How will investors react when they discover that their fund is fully invested in South African bonds or cash, or zero equity exposure to offshore equity markets and almost 100% exposure to South African equity? This is an important question - there is a good chance that more exposure to South Africa may turn out to be the right trade over the next five years.

There is no doubt that South African stocks are cheap, but without the tough choices that need to be made by South Africa's leaders, Mr. Ramaphosa in particular, South Africa could get even cheaper. International capital allocators have a wide range of choices as to where to send their money - to choose South Africa, they must feel that their rights are safeguarded, and their investments are secure. Without those guarantees, the money will stay offshore.

To reference an old investing maxim, figuratively speaking, I am not yet sure there is the required blood on the South African streets. The inevitable ratings downgrade now looks very likely with a resulting increase in borrowing costs and possible further weakness in the rand. We already have stagnant growth, rising unemployment and many of our young educated students preferring to leave their country of birth.

Despite this, I continue to believe that there is some hope. South Africa has been here before; during the eighties, we very nearly ran out of forex to pay for our imports. We were the pariah of the world. We received no support from foreign financial institutions, and there were riots (there really was blood!) on the streets. While we have our challenges, the country is today in a much better position, we do have access to capital markets and foreign aid.

How will this affect our portfolio strategy?

Portfolio Positioning

None of the concerns listed above are new to us. We remain ready to act quickly should we see evidence of the right decisions being made and the news changing for the positive. Today the fund is 57% offshore, and much of our "local" stocks have some rand hedge qualities. Additionally, the attractive valuations of the true local investments will protect us in case of further local selling.

31 December 2018 - 31 December 2019	
Holdings	**Contribution (%)***
Royal Bafokeng Platinum	2.7
Reinet Investments	2.6
Melco Intl Development	1.5
Transaction Capital	1.5
Berkshire Hathaway Inc-CL B	1.0
RECM & Calibre	-0.3
Omnia Holdings	-0.4
USD Cash	-0.6
L Brands Inc	-0.7
Tsogo Sun Holdings	-0.8

Source: *Bloomberg, 31 December 2019*
**Figures are not exact but do give a good estimate of the relative contribution of the underlying securities*

Additionally, we have made some small stock-specific mistakes, namely Omnia and Carrefour. Other disappointing investments have been IBM, L Brands, RECM & Calibre and the Tsogo group of companies. While there is value in these shares, our timing was poor, but the low valuations mean that from this point onwards it is likely these investments will do well.

Portfolio Buys and Sells over 2019

Holdings	Holding (%) 31 Dec 2019	Holding (%) 31 Dec 2018	Change (%)
Reinet Investments Sca	11.9	5.2	6.6
Berkshire Hathaway Inc-Cl B	9.9	11.3	-1.4
Royal Bafokeng Platinum Ltd	5.9	2.5	3.4
Transaction Capital	5.4	6.1	-0.8
Melco International Develop.	5.1	4.3	0.8
AECI Ltd	3.5	1.8	1.7
Bank Of New York Mellon Corp	2.9	3.5	-0.5
Tsogo Sun Gaming Ltd	2.3	3.8	-1.6
Nestle Sa-Reg	2.2	1.7	0.5
Oriental Watch Holdings	2.1	2.0	0.0
	51.0	42.2	

Date: *31 December 2019*

Holdings	Nominal Exposure (%)	Change (%)
Top Buys		
Reinet Investments Sca	11.9	6.6
AECI Ltd	3.5	1.7
Lazard Ltd-Cl A	1.2	1.2
African Oxygen Ltd	0.6	0.6
Investec Plc	1.4	0.5
Top Sells		
Transaction Capital	5.4	-0.8
Berkshire Hathaway Inc-Cl B	9.9	-1.4
Pepsico Inc	0.0	-1.7
MTN Group Ltd	0.0	-2.1
* Eurobank Ergasias Sa	0.0	-2.1

Source: *Bloomberg, 31 December 2019*
** Grivalia Property REIC acquired by Eurobank Eragsias Sa*

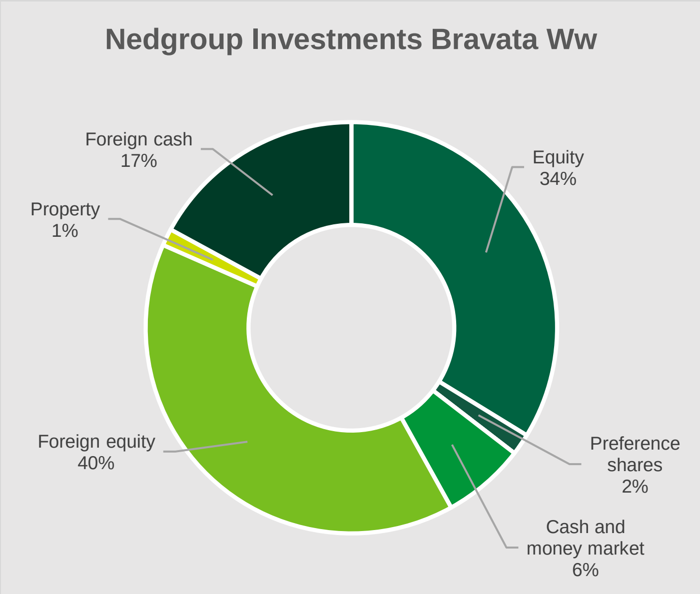
NEDGROUP INVESTMENTS

Over the last 12 months, the most significant transaction was taking our investment in Reinet to 10% of the fund. Smaller investments were made in AECI, Lazard and Afrox.

The fund exited long-term positions in PepsiCo and Grivalia and trimmed back our holdings in Berkshire Hathaway and Transaction Capital to make cash available in the fund. Finally, we initiated a short-term trade in MTN which yielded a significant surplus. Investors are referred to past fact sheets written, which explain in detail, our views on the above stocks.

From time-to-time, we traded in the South African bond market, and these actions yielded reasonable returns. We will continue to take advantage of the volatility in South African bonds and the Rand.

Current Portfolio Allocation



Date: *31 December 2019*

OUTLOOK FOR 2020

Despite the media being full of predictions, we do not know how the year will play out. We are heading into an election year in the USA, an accord of some kind between China and the USA and there will be no shortage of uncertainty in the Middle East. We have a new head of the European Central Bank, and the Prime Minister of the United Kingdom will try and take his country out of the European Union. One prediction we are confident of is that there will be no shortage of news. The uncertainty that news creates will create an opportunity for the patient investor.

Inflows into exchange-traded funds (ETF's) continue apace, leaving active managers as the losers. Over the very long term, this can only be good news for active managers brave enough to deviate from the benchmark. What remains to be seen is how long real active managers can last as their business models are challenged, and they face significant career risk.

We remain concerned about the instant liquidity that ETF's promote. I suspect that the day investors storm the exits they may not all be able to get out. What happens if the liquidity does, in fact, dry up - do the central banks step in? We continue to believe that investing in assets that can deal with any crisis that the markets throw at them is the right way to deal with these concerns. These assets need to produce cash flow, have competent management and make products that we require. Companies such as Transaction Capital, Reinet, Royal Bafokeng Platinum, Berkshire Hathaway and some of the smaller companies such as Oriental Watch and Bowler Metcalf fit this description and will be just fine.

We will continue to look for new investment ideas. I suspect (as I have mentioned in the past), the opportunity may lie in Asia, in countries such as Singapore, Malaysia, Thailand, Vietnam and Hong Kong. South Africa looks very cheap, but we need to see some stewardship of the economy and the tough decisions mentioned above for us to commit additional capital.

We look forward to deploying the fund's capital over the next decade, and we hope to repeat some of the success of the last 14 years.

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

The Standard Bank of South Africa Limited is the registered 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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