NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS
Bravata Worldwide Flexible

Quarter Two, 2020

Nedgroup Investments Bravata Worldwide Flexible Fund

Performance:

30 June 2020, net returns	QTD	YTD	1 year	3 year	5 year	Since Inception
Fund – A Class	9.5%	-2.2%	3.7%	5.0%	6.6%	9.7%
SA CPI + 5%*	1.3%	4.1%	8.1%	9.1%	9.9%	11.0%

Source: *Morningstar, 30 June 2020*

We are halfway through the year and it has certainly been the most eventful time in the markets we have ever experienced. In my opinion, the volatility this time has not only been worse across all markets, but the extent of the high correlation of negative returns has been unprecedented. We are going to avoid discussing the crisis, not wanting to under-emphasise the seriousness of the pandemic, but we feel so much has been written by individuals who are better placed to comment on it than we are.

What we know

Top Holdings:

Holdings	Holding (%) 30 Jun 2020	Holding (%) 31 Dec 2019	Change (%)
Reinet Investments Sca	11.6	11.9	-0.2
Berkshire Hathaway Inc-Cl B	8.0	9.9	-1.9
Melco International Develop.	5.3	5.1	0.2
Transaction Capital	5.1	5.4	-0.3
Royal Bafokeng Platinum Ltd	5.0	5.9	-0.9
AECI Ltd	2.9	3.5	-0.6
Bank Of New York Mellon Corp	2.8	2.9	-0.1
British American Tobacco Plc	2.8	0.0	2.8
Oriental Watch Holdings	2.6	2.1	0.5
Intl Business Machines Corp	2.3	2.0	0.4
	48.3	48.5	

Source: *Bloomberg, 30 June 2020*

In the short-term, having exposure to South African assets and the rand turned out to be wrong. Interestingly the companies we have invested in, and continue to invest in, have managed the crisis better than we initially forecast. We apply a robust process to businesses we have known well for many years - Not one of our investments will need a rights issue, most of our companies have very strong balance sheets coupled with astute and fast-moving management teams that have shown the ability to act fast and responsibly.

In our large investments offshore, our experience has been the same. In our discussions with senior management of the companies we have invested in they have continually impressed us with their insights in dealing with this crisis. While we have been unable to meet directly with management, we have been more than impressed with their public actions.

We were also wrong on the ability of the South African government to deal with the economic implications of the pandemic. Initially after a great start, the President united a fragmented country in solidarity and compelled everyone into a hard lockdown to allow the government time to prepare health facilities. Unfortunately, the initial solidarity and goodwill did not last very long, and the government has seemingly reverted to old policies which have shown little success in the past. Bailing out SAA (with money they do not have), not allowing cigarette sales and losing the associated (much needed) tax revenue, and seemingly ignoring basic business principles does not appear to be working.

"Cometh the hour, cometh the man"

The facts around investing in South African companies have changed. Before the pandemic occurred, we estimated we had about three years to get our country's house in order. Structurally high unemployment and low (no) growth for many years was already a crisis. This has now been brought forward to this year. This is perhaps the only silver lining that we can find in this crisis in that instead of kicking the can down the road for another three years we are being forced to deal with it today, and thus far the response has not inspired investment confidence. Markets respect strength and certainty, two ingredients lacking in South Africa.

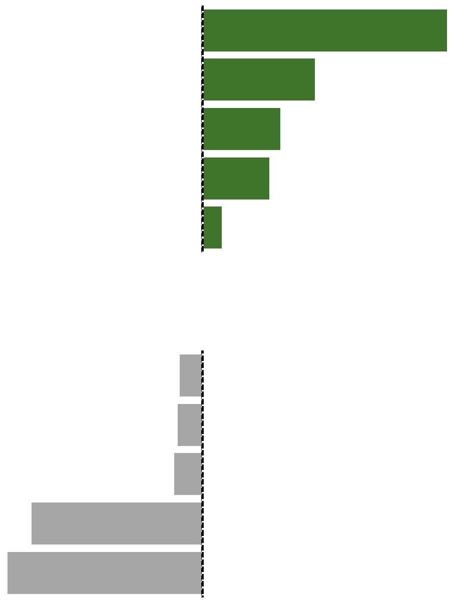
The above has forced us to reconsider adding South African assets that are purely domestically focused. In addition, our margin of safety required will need to be larger as we believe the country will suffer in the long term as a result of the actions taken by the government to deal with the economic environment.

Despite the attractive valuations of local companies, we intend to limit our exposure to South Africa. We will favour equities of a rand hedge nature. Incremental investments are likely to be made in companies of South African origin with foreign revenue and local costs, and whose valuations more than adequately factor in the risks perceived. We also suspect inflation will start to rise as the dollar costs get fed into the cost supply chain which will be a further headwind to the already stressed local business and consumer environment. The hurdle for new South African exposed investments has increased for us given the higher risks for the domestic economy in the coming years.

Actions taken

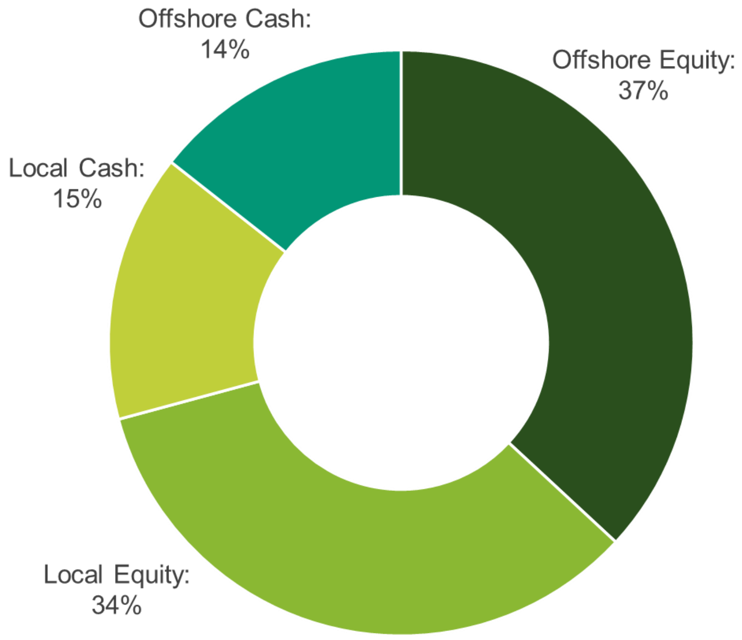
Buys & Sells:

Holdings	Holding (%) 30 Jun 2020	(%) Change
Top Buys		
British American Tobacco Plc	2.8	2.8
Long4Life Ltd	1.3	1.3
Spur Corp Ltd	1.1	0.9
CK Hutchison Holdings Ltd	0.9	0.7
Melco International Develop.	2.9	0.2
Top Sells		
Reinet Investments Sca	11.6	-0.2
Lazard Ltd-Cl A	0.9	-0.3
BP Plc	1.0	-0.3
Berkshire Hathaway Inc-Cl B	8.0	-1.9
Nestle Sa-Reg	0.0	-2.2



Date: *31 December 2019 - 30 June 2020*

Asset Allocation:



Date: *30 June 2020, Nedgroup Investments*

True to our investment philosophy and principles we have accumulated ownership in companies we understand and know well during this period of market weakness. We continued to acquire assets over the calendar year as their prices fell, despite the fact that the long-term value of these companies has not changed. In the past we anticipated that some of these assets were worth double their share prices. This has not changed except to say their upside has significantly increased over the next five years.

Bonds

For a number of years we did not own bonds. In the current crisis we chose to enter these markets, as opportunities presented themselves, and we were handsomely rewarded. In particular the South African Government R186 bond was very attractive when compared to inflation expectations over the next five years. It got as high as 11.7% and as we write it stands at 7.6%, a difference of approximately 35 per cent! We have chosen to take profits and we reduced duration.

Small Caps

We have added to shares such as Hudaco, AECI, Supergroup, Long 4 Life and some additional small caps. Indeed, we have seen one of our smaller companies, Quantum foods, move from 300 cents/share to 950 cents/share as we write. We suspect the small cap market to be very profitable for long term investors.

Offshore

We continue to increase our Hong Kong holdings of Li Ka-shing. In the volatility we were able to invest in Jumbo (a Greek retailer) for a third time at prices under EUR13/share and sell at above EUR16/share in the space of a few months. Our Pargesa holding was swapped into its subsidiary Groupe Bruxelles yielding a reasonable gain for long term investors.

Berkshire Hathaway recently purchased an energy storage facility for USD10 billion. There are not many companies that can write out cheques for that amount. While it continues to underperform the market, we are quite content to sit with the company as we watch the value unfold over the long term.

It is apt to remind us of Mr. Buffett's sage advice: *"Successful investing takes time, discipline and patience. No matter how great the talent or effort, some things just take time. You can't produce a baby in one month by getting nine women pregnant."*

Conclusion

The developed markets in particular look fair to over-valued. Emerging markets, Asia specifically, look attractive in terms of value. The negative sentiment expressed on South Africa's prospects are reflected in the pricing of domestic South African equities making them some of the cheapest assets in the world on most measures. Much of this is valid given the concerns around the economy and government, but there remain excellent businesses within the South African market that are run by capable management teams and trade at significant discounts to their intrinsic value. In time, the market will recognise the value of these businesses and we will sell these investments into strength and reallocate into other attractive opportunities, most likely offshore.

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.
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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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