NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS
Bravata Worldwide Flexible Fund

Quarter One, 2021

"Pessimism is on the side of the buyer" ~ Anon

"You pay a high price for cheery consensus" ~ Warren Buffet

	1 year	3 year	5 year	7 year	10 year	Since Inception
Bravata WW Flexible[1]	42.0%	15.3%	9.5%	10.4%	13.9%	11.0%
SA Inflation +5%	8.0%	9.0%	9.6%	9.9%	10.3%	10.7%

Past performance is not indicative of future performance.
Source: *Bloomberg, 31 March 2021*

To start, we would like to cast our minds a year back to an extract from the March 2020 commentary, where we took the opportunity to explain the significant challenges faced by investors and how during times of uncertainty it was important to maintain one's investment philosophy and not be swayed by short-term sentiment. In this uncertain context, we reminded investors to remain focused on what we do know and to retain a longer term investment perspective. Our thoughts at the time of writing the commentary last year that informed the portfolio positioning were summarised as follows:

- Aylett & Co.'s philosophy of investing in assets we understand with the appropriate risk management, we believe, remains intact,
- Aylett's & Co.'s ability to say no to many opportunities without the fear of missing out will stand the portfolio in good stead;
- The cost of money is near zero;
- Seeking companies with resilient balance sheets, strong management teams who are willing to adjust quickly, and whose products the market need, seems like a sound strategy;
- South Africa was cheap before this crisis and it is now even cheaper; and
- Aylett & Co.'s investment actions have not changed over the last three months. The team have continued to add to assets we like and understand.

Investors who remained patient through the year period have been rewarded with a strong performance and recovery. This was demonstrated in the strong recovery of the fund's performance during the subsequent year.

Performance

The performance of the fund post the March 2020 letter gives context as to how we applied Aylett's & Co.'s investment philosophy in light of what we observed at the time. Over one year the fund has delivered a return of 42% versus 8% for the targeted benchmark of CPI plus 5%, a real return of 39%. Over 10 years the fund has given an investor 14% per annum outperforming the benchmark by just under 4%. Since the inception of the fund (October 2005) the fund has delivered in turn 11%, which is equal to the benchmark thereby more than preserving the purchasing power of investors.

The decision to stay invested in good South African stocks, such as Royal Bafokeng, AECI and Transaction Capital at the beginning of last year has been vindicated by subsequent performance. This appeared to be premature into the downgrade and at the start of the epidemic however in hindsight this turned out to be a rewarding decision for our invetors. As the crisis started, lockdowns ensued and the country was downgraded, it was not an easy decision, and looked to be premature. However the results from the companies and the share price performance has been positive for investors that held these stocks.

[1] Net return for the Nedgroup Investments Bravata Worldwide Flexible Fund, A class.

From 31/12/2020 to 31/03/2021

Holding	Contributor %
Royal Bafokeng Platinum Ltd	6.2
L Brands Inc	1.4
Transaction Capital Ltd	1.3
Berkshire Hathaway Inc-Cl B	0.9
AECI Ltd	0.8

Figures are not exact but do give good estimates of the relative contribution of the underlying securities.
***Source:** Bloomberg, 31 March 2021*

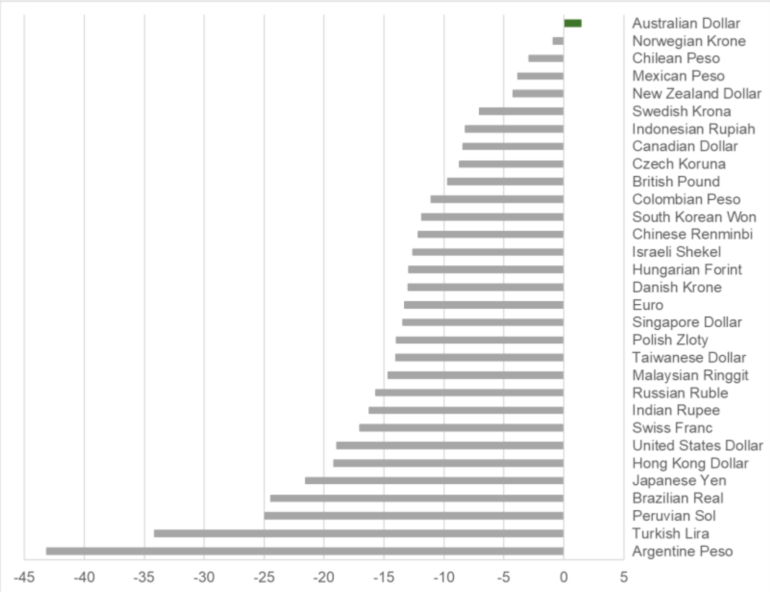
As in the past, our experience is that your best investment decisions are made during periods of uncertainty, oftentimes seemingly too early. In essence, one is taking unpopular investment actions and buying assets that others do not want. A good example was L Brands, which owned the troubled business of Victoria's Secret and a the business in Bath & Body Works. Victoria's Secret was troubled coming into the pandemic due to a slow turnaround and credit was not given to the better Bath & Body Works business. However, in many ways the crisis allowed management to make some hard decisions that had been postponed and completely right size the Victoria's Secret business while building on strengths elsewhere. Credit for these actions was not reflected in the valuation last year, but more recently the market has come around and the share price has reflected this. L Brands was the best performing stock in the S&P 500 in the first quarter of 2021 and the 5th best performer last year. This shows us once again that being patient, not panicking when everyone around you are losing their heads and most importantly allowing investment ideas the time to play out serves as a wonderful form of risk adjustment.

Even before Covid hit us last year it was an unpopular view to own South African assets based on the valuations that many of them were trading at. Covid made South African assets even less popular (hard to believe that was possible!). Our decision to invest in South African stocks was not only driven from evaluation of the underlying businesses and their fundamental drivers, but an expectation that the currency was simply too weak and would correct given time. If one looks at the tables below, not only was the South African stock market of the last 12 months the best market to be in, but the relative currency view turned out to be good too. Currency is difficult to call at the best of times, but given the extremes of last year it was clear that the Rand had become too weak.

Country	% Return $
South Africa (JALSH Index)	86%
Canada (SPTSX Index)	63%
Germany (DAX Index)	62%
Italy (FTSEMIB Index)	58%
US (SPX Index)	56%
Japan (NKY Index)	53%
France (CAC Index)	51%
China (SHCOMP Index)	38%
UK (UKX Index)	36%

***Source:** Bloomberg, 1 April 2020 to 31 March 2021*

World Currency Ranker (Spot Returns) vs ZAR



Source: *Bloomberg, 1 April 2020 to 31 March 2021*

Transactions for the period

We have been more active than usual over the past year due to the gyrations in markets worldwide. The fund is changing most meaningfully in the offshore investments. The tables below describe several movements in the fund:

Entries

From 31 December 2020 to 31 March 2021

	Holding (%)	Change (%)
Wabtec Corp	1.4	1.4

Exits

From 31 December 2020 to 31 March 2021

	Holding (%)	Change (%)
Jefferies Financial Group In	0.0	-1.7
African Oxygen Ltd	0.0	-0.7
Jumbo Sa	0.0	-0.3

Up Weights

From 31 December 2020 to 31 March 2021

	Holding (%)	Change (%)
L Brands Inc	3.2	1.3
Sabre Corp	1.5	0.5
Hudaco Industries Ltd	1.1	0.2
BP Plc	0.9	0.2
Caxton And Ctp Publishers An	0.5	0.1
Precia	0.3	0.1

Down Weights

From 31 December 2020 to 31 March 2021

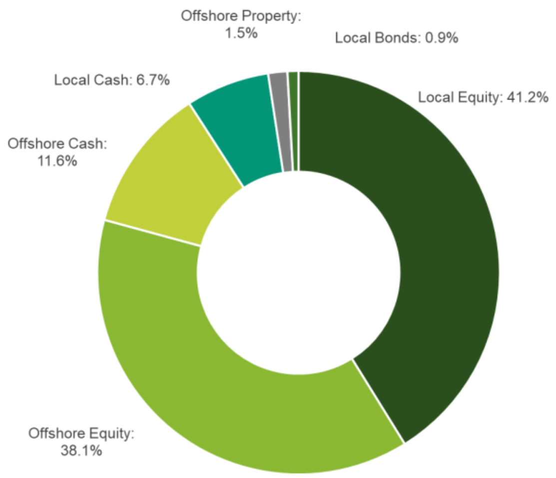
	Holding (%)	Change (%)
Berkshire Hathaway Inc-Cl B	6.7	-1.2
Lazard Ltd-Cl A	0.7	-0.4
Transaction Capital Ltd	5.9	-0.2
Ninety One Plc	0.2	-0.2
US Bancorp	1.1	-0.1

Date: *31 December 2020 to 31 March 2021*

Investors will have known about some travel-linked stocks added last year from prior letters, we have also now added Wabtec Corporation. They are a leader in global freight and transit rail equipment who are based out of the United States. We have continued to exit from market sensitive stocks like the US asset managers (Jefferies Financial Group and Lazard Ltd), as well as some of the US banking stocks. We have also continued to reduce the equity exposure into strength which will ultimately result in our cash holding reaching 30% as demonstrated in the asset allocation chart below:

Holdings	Holding (%) 31 Mar 2021	Holding (%) 31 Dec 2020	Change (%)
Royal Bafokeng Platinum Ltd	11.7	8.5	3.1
Reinet Investments SCA	8.9	9.8	-0.9
Berkshire Hathaway Inc-Cl B	6.7	8.0	-1.2
Transaction Capital Ltd	5.9	6.1	-0.2
AECI Ltd	4.9	4.8	0.1
Melco International Develop.	3.6	4.1	-0.4
Spirit Aerosystems Hold-Cl A	3.5	3.2	0.3
L Brands Inc	3.2	2.0	1.3
Bank Of New York Mellon Corp	2.4	2.5	-0.1
Grupo Aeroportuario Cen-Adr	1.9	2.3	-0.4
	52.8	51.3	

Date: *01 January to 31 March 2021*

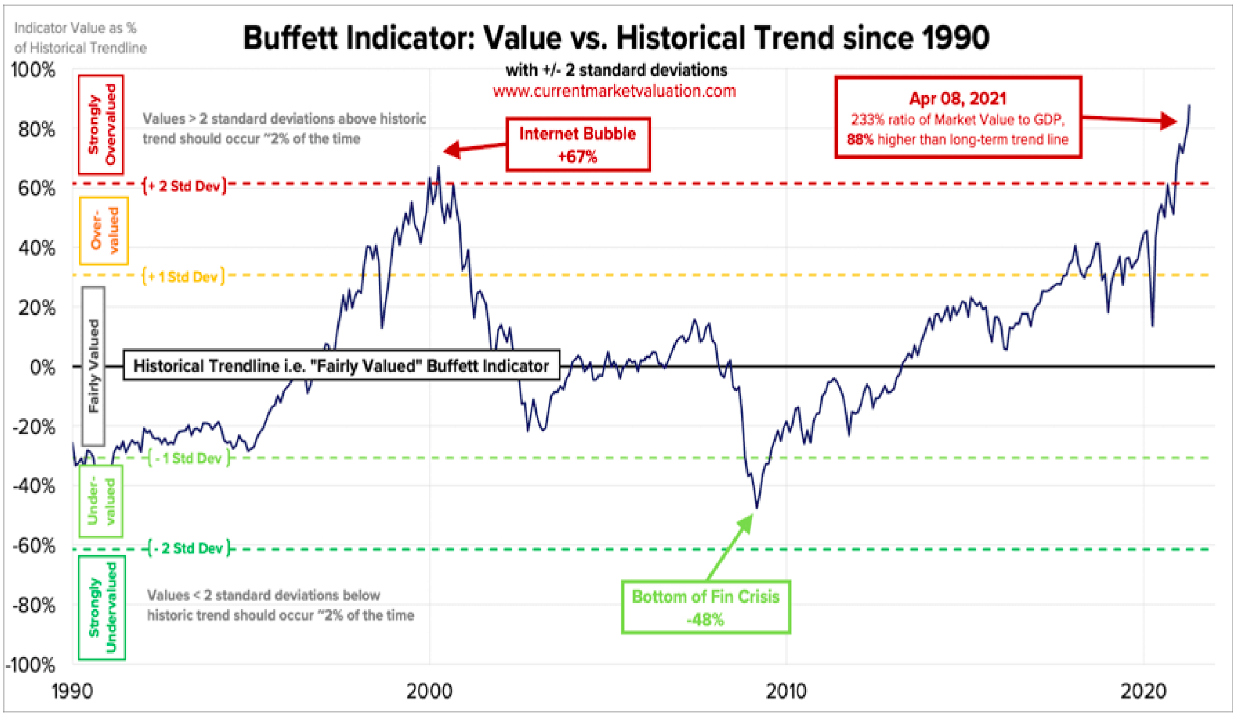


Conclusion

During times of pessimism and fear we tend to be very active. This crisis was no different and at the beginning of the second quarter last year (April to June) we were very active. Our actions were to invest more into South African stocks that we already liked as well as adding some new offshore names, particularly in the more hard-hit travel sector. Twelve months later South Africa still appears to be reasonably valued, whereas offshore (particularly U.S. markets) looks far more fully valued to us. In many ways this is a repeat of the situation just before the pandemic hit.

Going forward we will continue to reduce exposure to developed equity markets, except where we find compelling ideas at attractive valuations, and maintain our South African investments. However, we continue to monitor the South African economic and political situation closely to determine if any more adverse developments negatively affect the outlook of our stocks. Our major concern about many offshore markets is primarily valuations at a headline level.

If we use the Buffett Indicator (see graph below) as a simple way of looking at US markets, the US market appears to be overvalued. Many other indicators show the same answer right now. However, in the offshore space we do continue to look for attractively valued companies that are obscured by some of these headline valuation metrics.



The Buffett Indicator is the ratio of total US stock market valuation to GDP as of 31 March 2021
Source: *www.currentmarketvaluation.com*

Much has been said about inflation going forward and we have learned not to try and forecast it. We prefer to look for great companies, which produce superior income, at reasonable prices which will do well no matter the inflation figures. At the moment there are fewer opportunities like this due to valuations, so our preferred intention is to build up cash.

To this end we remind investors of the words of Warren Buffett, “you pay a high price for cheery consensus.” In the space of a single orbit around the sun we have moved from peak pessimism to something approaching peak optimism (at least in many developed markets). Being more circumspect about returns going forward and having increased cash on hand feels appropriately prudent to us. Cash, and patience, allows us to wait for the new opportunities when they appear. In the meantime, we will look forward to seeing our existing investments continue to perform for us and compound returns for clients.

Disclaimer

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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