NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS Bravata Worldwide Flexible Fund

Quarter Three, 2021

INTRODUCTION

Prior to the start of the global Covid-19 pandemic in 2020, South Africa was downgraded to junk status by several rating agencies. Numerous commentators made an emotional and perhaps irrational demand that we should sell everything and invest offshore. While we understood their thinking, we at Aylett & Co. felt most of their concerns had been adequately reflected in local asset prices, and furthermore, the currency had weakened substantially in anticipation of the downgrade.

As a house we had decided to redirect funds from our offshore allocation and invest in local South African assets as at that point there was lot of pessimism priced in. Then, the Covid-19 pandemic hit us. This gave us a significant opportunity to add to stocks we already owned at bargain basement prices. For example, we were able to add to our investment in Royal Bafokeng Platinum when the share price was below R20 compared to the pre-crisis price of over R50 per share. In addition, we were able to invest into new stocks which we had been watching and for many years were out of our reach due to their valuations. As a result, we have been handsomely rewarded with more than adequate returns for our investors.

In the past we have consistently said that our best investments have been made when we appear to be underperforming relative to the market. It has been even more pleasing to our team that the companies we own have produced very good results despite the effects of Covid-19. The restructuring of balance sheets and cost cutting augurs well for the long-term future of these companies.

PERFORMANCE

30 September 2021 (Annualised Net returns)	1 year	3 years	5 years	7 years	10 years	Since Inception
Fund – A Class[1]	26.1	12.4	9.8	10.1	13.5	10.9
Benchmark[2]	10.14	9.31	9.62	9.88	10.28	10.9

Source: *Bloomberg, 30 September 2021*

Our performance year-to-date has been satisfactory with the only detractor being Melco International Development, which is our investment in a Macau casino. The concerns reflected in the share price have been related to Covid-19 and regulatory concerns which we were always cognisant of. We believe these concerns are temporary in nature, will be dealt with over time, and the decline in share price should not be permanent.

Primary Contributors to Return

From 31/12/2020 to 30/09/2021

Holding	Contributor %
Royal Bafokeng Platinum Ltd	3.5
Transaction Capital Ltd	3.1
Bath & Body Works Inc	2.3
Berkshire Hathaway Inc-Cl B	1.6
AECI Ltd	1.4

Primary Detractors from Return

From 31/12/2020 to 30/09/2021

Holding	Detractor %
Melco International Develop.	-1.4
Grupo Aeroportuario Cen-Adr	-0.2

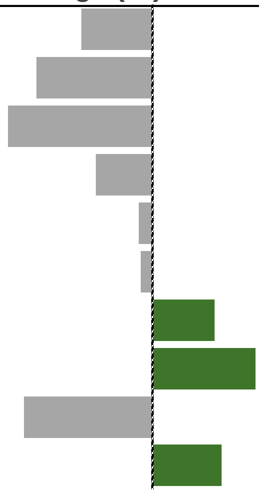
Figures are not exact but do give good estimates of the relative contribution of the underlying securities.
Source: *Bloomberg, 30 September 2021*

[1] Net return for the Nedgroup Investments Bravata Worldwide Flexible Fund, A class.
[2] Benchmark is the South Africa CPI+5%

Royal Bafokeng Platinum was a star performer, even post giving up some of the performance due to concerns of the very well publicised shortage of microchips, and hence cars. However, even as we write the share price has recovered quite nicely.

TOP HOLDINGS

Holdings	Holding (%) 30 Sep 2021	Holding (%) 31 Dec 2020	Change (%)
Reinet Investments SCA	8.8	9.8	-1.0
Royal Bafokeng Platinum Ltd	6.9	8.5	-1.7
Berkshire Hathaway Inc-Cl B	5.9	8.0	-2.1
Transaction Capital Ltd	5.3	6.1	-0.8
AECI Ltd	4.6	4.8	-0.2
Spirit Aerosystems Hold-Cl A	3.1	3.2	-0.2
British American Tobacco Plc	3.0	2.1	0.9
Sabre Corp	2.5	1.0	1.5
Melco International Develop.	2.2	4.1	-1.9
Tsogo Sun Gaming Ltd	2.2	1.2	1.0
	44.4	48.8	



Our decision not to hold Naspers and Prosus over the last two years has been correct on a relative basis and preferring to own the international oil majors over Sasol has also proven to be favourable.

TRANSACTIONS

Entries
From 31/12/2020 to 30/09/2021

	Holding (%)	Change (%)
Wabtec Corp	2.2	2.2
Conocophillips	1.2	1.2
Delfi Ltd	0.9	0.9
Rubis	0.8	0.8
Victoria's Secret & Co**	0.6	0.6
Exxon Mobil Corp	0.5	0.5

Exits
From 31/12/2020 to 30/09/2021

	Holding (%)	Change (%)
Bank Of New York Mellon Corp	0.0	-2.5
Jefferies Financial Group In	0.0	-1.7
Lazard Ltd-Cl A	0.0	-1.1
Redwood Trust Inc	0.0	-1.0
CK Hutchison Holdings Ltd	0.0	-1.0
Bank Of America Corp	0.0	-0.9
African Oxygen Ltd*	0.0	-0.7
CK Asset Holdings Ltd	0.0	-0.5
Ninety One Plc	0.0	-0.4

***Date:** 31 December 2020 to 30 September 2021*

Up Weights
From 31/12/2020 to 30/09/2021

	Holding (%)	Change (%)
Jumbo Sa	2.1	1.8
Sabre Corp	2.5	1.5
Tsogo Sun Gaming Ltd	2.2	1.0
British American Tobacco Plc	3.0	0.9
Hudaco Industries Ltd	1.4	0.6

Down Weights
From 31/12/2020 to 30/09/2021

	Holding (%)	Change (%)
Berkshire Hathaway Inc-Cl B	5.9	-2.1
Royal Bafokeng Platinum Ltd	6.9	-1.7
Oriental Watch Holdings	0.8	-1.1
Transaction Capital Ltd	5.3	-0.8

***Date:** 31 December 2020 to 30 September 2021*

Most of the activity has been in the international part of the portfolio. Over time we have added substantial amounts of funds to two main areas, namely travel and energy-related stocks. Currently, both sectors are quite volatile as they appear to be more affected by Covid-19 and ESG concerns respectively which in our opinion are being overly discounted by the current share prices. Valuations are not demanding, and we are being handsomely rewarded by substantial dividends in energy stocks while we wait. If there is further weakness in these stocks, we would look to add more.

An old favourite has returned to the Fund; Jumbo (a retailer based in Greece) which is really becoming a play on the Balkan area and not only Greece. It is a well-run business and is not expensively valued.

There are a number of new counters that we are busy adding to the fund and, in time, as soon as we can start travelling again and meet management teams, I suspect we will be increasing our exposure to them. In a year's time the portfolio will be quite different from a few years back.

THE FUTURE

As per usual, we don't really know what the future looks like. We have no hard views on inflation but on the current evidence it looks as if it is being less transitory than Central Banks might like. Most of our concerns are based on the abundant monetary and fiscal stimulus by governments and their respective Central Banks. Inflation expectations are not helped either by the supply shortages we are seeing in multiple commodities and products globally, leading to repercussions across almost every industry. The speed of the recovery from the depths of the pandemic is also leading to wage pressures globally as labour supply is in a shortfall and wage increases are typically rather sticky. Taxes are also likely to be raised in many regions globally to pay for past generosity or future spending from governments.

The lack of cooperation by Governments on many fronts will not help the world either. For example, current high European gas prices are affected by the lack of new supply coming through a Russian pipeline due to political issues. Antagonism between nations in Asia is also a major cause for concern. Chinese military aircraft are stepping up incursions into Taiwan airspace, leading to real consideration of the risks of invasion. ESG pressure (being driven politically in many cases) will also potentially lead to poor capital allocation decisions outside of a management team's circle of competence.

CONCLUSION

Our answer to all this, as always, is to buy good assets that have some pricing power, that produce products and services we need, and are managed by rational allocators of capital. Finally, make sure you do not overpay for these assets. My advice to our team is to not let the headlines cloud their judgement, but for them to continue to scour the markets for opportunities. The investment community has become so short-term in its thinking that it continues to ignore good assets that are being priced on paybacks of 5 years (the equivalent of a 20 percent yield). Sometimes these stocks do not even react to good news.

We are optimistic and excited about the future of the companies we own and their ability to generate returns to shareholders. We believe there to be significant upside remaining in the stocks we own, even with global market valuations being on the high side.

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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