



UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

see money differently

A photograph of an open book with white pages, viewed from a low angle. A white bookmark is visible in the center. The text is overlaid on the right side of the image.

# **NEDGROUP INVESTMENTS**

## **Bravata Worldwide Flexible Fund**

Quarter One, 2022

## PERFORMANCE

31 March 2022 (Annualised Net returns)	1 year	3 years	5 years	7years	10 years	Since Inception
Fund – A Class <sup>1</sup>	17.0%	16.0%	11.9%	11.2%	14.1%	11.4%
Benchmark <sup>2</sup>	10.9%	9.6%	9.5%	10.2%	10.3%	10.9%

Past performance is not indicative of future performance.

Source: Bloomberg, 31 March 2022

## BACKGROUND

Every year, seemingly without fail, our job as fund managers requires us to deal with new uncertainties. It sometimes feels like the once in a thousand-year flood happens every year. Whatever the uncertainty or shock, the outcome is inevitably fear and panic. These panics are useful though to fund managers who are able to use it to their advantage to buy attractive assets at even lower prices than usual. The subsequent recovery and normalisation can lead to unexpected payoff profiles.

A recent example of this jump was in energy prices globally that went far beyond our own short-term expectations. We had invested significantly into energy due to the lack of capital spend into new supply with what we believed to be relatively inelastic demand. Lack of capital spend was driven by Environmental, Social and Governance (ESG) considerations and reallocation of spend towards solar and wind generation. We certainly didn't forecast Russia, who produce approximately 10% of global oil, to invade Ukraine and threaten the supply of energy into Europe. The squeeze in prices beyond what we think are normal levels allowed us to sell our energy investments for significantly higher prices than we paid in a much shorter time frame than expected.

## TOP HOLDINGS

Holdings	Holding (%) 31 Mar 2022	Holding (%) 31 Dec 2021	Change (%)
Reinet Investments SCA	8.4	7.5	0.8
Berkshire Hathaway Inc-Class B	5.5	5.7	-0.2
Transaction Capital Ltd	5.1	4.9	0.2
AECI Ltd	4.1	4.2	0.0
British American Tobacco Plc	3.5	2.8	0.7
Sabre Corp	3.5	2.1	1.4
Tsogo Sun Gaming Ltd	3.4	2.6	0.8
Spirit Aerosystems Hold-Class A	3.2	2.9	0.3
Bath & Body Works Inc	2.4	1.9	0.5
Arco Platform Ltd	2.3	1.2	1.0
	41.3	35.8	

Date: 31 March 2022

## GLOBAL MARKETS

Throughout my career I have avoided investing into Russia. We were consistently told how cheap the stocks were and how strong the yields on many (mostly energy producing) companies were. But we preferred to listen to the advice of Charlie Munger and not invest into jurisdictions where we weren't confident in the safety of our clients' capital. Oftentimes a market is cheap for a very valid reason and low multiples do not protect you as much as you think they might. In addition to this we had been amazed at how Europe, Germany, has increasingly

<sup>1</sup> Net return for the Nedgroup Investments Bravata Worldwide Flexible Fund, A class.

<sup>2</sup> Benchmark is the South Africa CPI+5% (one month in arrears)

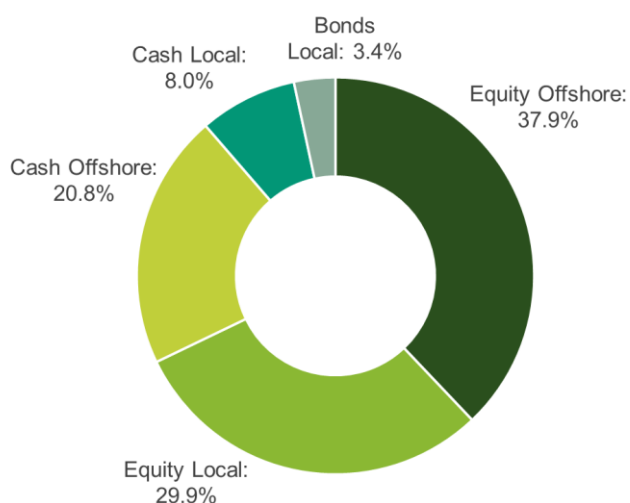
become beholden to energy supplied from Russia. This felt like a recipe for disaster to us and is increasingly looking to be the case.

This has just reinforced one lesson to me, that independent thinking is critical in this job. You will end up disagreeing with very smart people who have compelling arguments around investments you don't own. But if you have done your own work and have a strong basis for your view, you may be proven right in the fullness of time. It can take a very long time to be proven right though. We chose to never own Steinhoff International Holdings, or anything in the Russian stock market, due to the unacceptable risks we saw, but these views took 12 and 20 years respectively to play out.

Previously we have been attracted to China as an investment destination. The transformation of that economy has been significant and many powerful businesses have risen. We have, however in the last two years divested significant amounts from China. These investments that were made by the fund were profitable for investors, but we could not ignore the changes in the area, from the actions in Hong Kong to the regulatory clampdown and destruction of entire industries that did not align to government priorities. This is a key reason we have never owned Naspers Limited as we were concerned that regulatory environment could turn hostile for Tencent Holdings Ltd, their main investment. Investors in the stock were given a brief taste of this during the first quarter with the shutdown in gaming approvals which impacted Tencent, but recent regulatory actions across multiple industries have been far more severe. There have been many successful investors who invested in China, including Charlie Munger, and many of them have suffered significant losses.

Our conclusion is that it is fine to have a different view to someone, even if they are one of your investment heroes. By sticking to the facts and being willing to hold our own opinions we should be able to drive satisfactory outcomes in the long term. Long term is of vital importance, as patience is a primary factor lacking in the investment world today.

## ASSET ALLOCATION



**Date:** 31 March 2022

### *South African allocation*

We were also fortunate to direct funds into South African investments which was counter to the behaviour of many other investors. We believed that the pessimism was simply too much and had produced incredibly attractive valuations. It might appear that we are simply contrarian investors, but this is not the case. Being contrarian for contrarian's sake is an incredibly dangerous strategy and there are graveyards littered with these investors.

You need strong research, factual understanding and reasoning as to why the market is pricing something wrong. We prefer to think that we are rational and independent in our thinking, if this leads us to a contrarian call then so be it. Being humble in terms of the limits of your own understanding, or being willing to simply not invest in something, is also incredibly important.

## TRANSACTIONS

It was an active quarter for us, with the biggest sale being the energy exposure mentioned earlier. We also chose to sell out of Impala Platinum Holdings Ltd. This cash was deployed into existing ideas such as British American Tobacco Plc, Tsogo Sun Gaming Ltd, Arco Platform Ltd, Sabre Corporation, and Bath & Body Works Inc and into new ones such as Sonic Automotive Inc, MoneySuperMarket.com and SBM Offshore NV.

### Entries

	Holding (%)	Change (%)
MoneySupermarket.com	1.0	1.0
Sonic Automotive Inc-Class A	0.7	0.7
SBM Offshore NV	0.7	0.7
Meta Platforms Inc-Class A	0.5	0.5

### Exits

	Holding (%)	Change (%)
Impala Platinum Holdings Ltd	0.0	-1.6
ConocoPhillips	0.0	-1.5
TotalEnergies SE	0.0	-1.0
Exxon Mobil Corp	0.0	-1.0

### Up Weights

	Holding (%)	Change (%)
Sabre Corp	3.5	1.4
Arco Platform Ltd	2.3	1.0
Tsogo Sun Gaming Ltd	3.4	0.8
British American Tobacco Plc	3.5	0.7
Bath & Body Works Inc	2.4	0.5

### Down Weights

	Holding (%)	Change (%)
Berkshire Hathaway Inc-Class B	5.5	-0.2

**Date:** 31 December 2021 to 31 March 2022

## CONTRIBUTORS & DETRACTORS

### Primary Contributors to Return

From 31/12/2021 to 31/03/2022

Holding	Contributor %
Reinet Investments SCA	1.1
Sabre Corp	0.7
Transaction Capital	0.5
ConocoPhillips	0.5
Berkshire Hathaway Inc-Class B	0.5

### Primary Detractors from Return

From 31/12/2021 to 31/03/2022

Holding	Detractor %
Bath & Body Works Inc	-0.9
Melco International Develop.	-0.6
Victoria's Secret & Co	-0.2
Booking Holdings Inc	-0.2
Rubis	-0.2

*Figures are not exact but do give good estimates of the relative contribution of the underlying securities.*

**Source:** Bloomberg, 31 March 2022

## OUTLOOK

Performance has been subdued for the last quarter after a very good prior 12 months. Many of our current investments were only made in the last 2 years and we should see some reasonable returns over the next few years as the world recovers from the pandemic. However, we caution investors that we do not expect to see the same level of returns going forward as we had from equity markets in the past decade.

Stimulus is being pulled away globally, rates are rising, inflation is finally rearing its head and the long term consequences of the Ukraine war are unknown. This is a confluence of headwinds unlike any we have seen for a long time and the effects across companies and individuals are yet to be seen. We have prepared for this in terms of setting conservative expectations and driving better relative returns through owning cash-generating, dividend-distributing companies where possible.



## 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.

### NEDGROUP INVESTMENTS CONTACT DETAILS

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