NEDGROUP INVESTMENTS

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NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

Quarter 3, 2018

For the period ended 30 September 2018

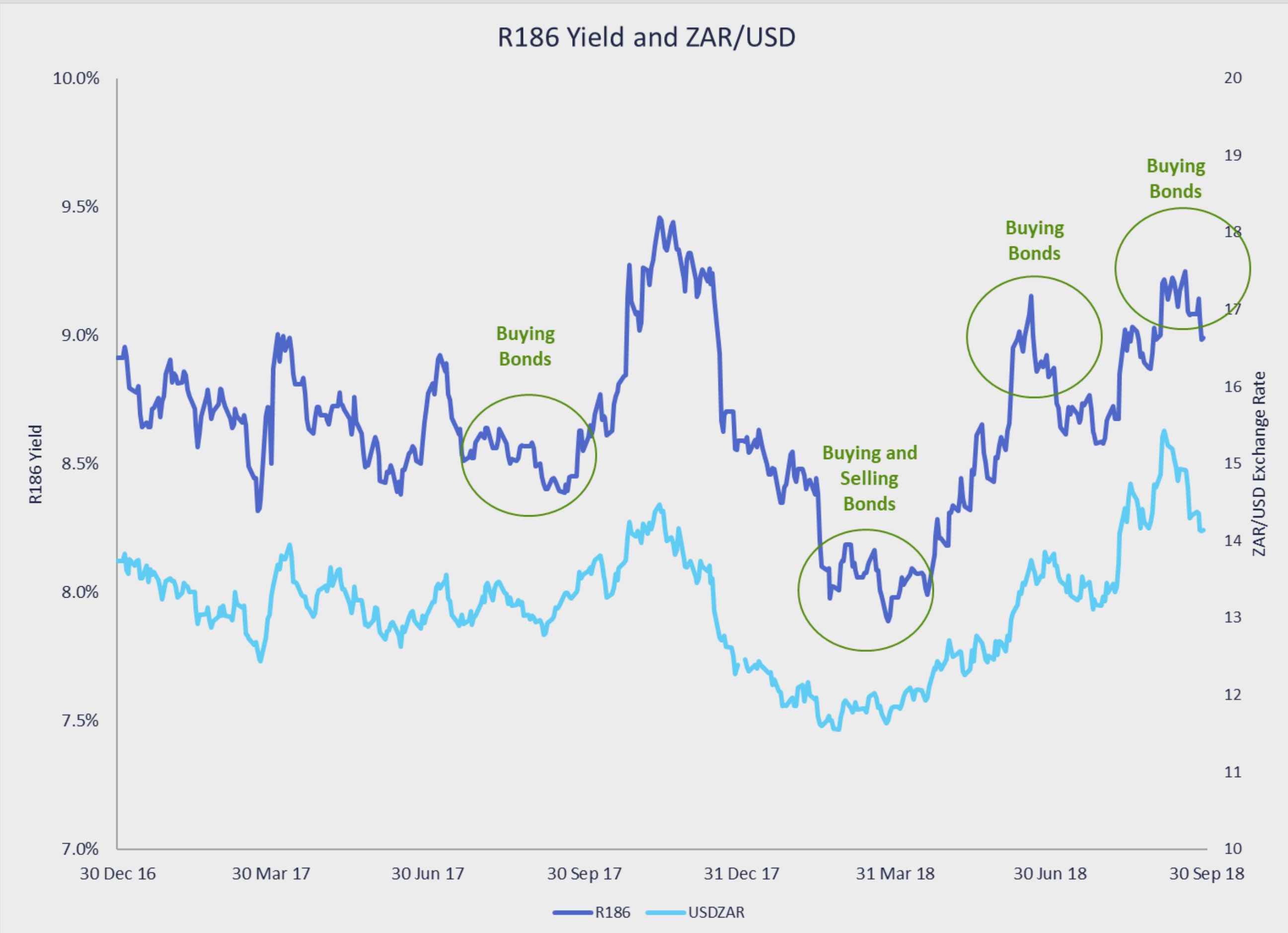
NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

We have been consistent in our message over the last few years in that we believe many of the levers available to policy makers for asset price growth have been used. Central bankers around the world have been very accommodating with low interest rates and the provision of excess liquidity. Many of the tools in their tool kit have been tried, we struggle to see what can be used next.

In the US, the government has reduced taxes for companies and provided incentives for the repatriation of US dollars held offshore. The new administration has introduced tariff protection for several industries in an attempt to assist local producers - something which might help in the short-term, however, in the long-term is more likely to hurt the country as inefficiencies are introduced and products and services become more expensive for the consumer. China's full reaction to these tariffs are yet to be seen. They have, in the meantime, responded by stimulating their economy and introducing some of their own protection policies.

Globally, companies continue to buy back their own shares funded by cheap debt made available by the central banks, instead of investing in productive assets. We note that most of these loans have variable interest rates and as rates rise, interest bills will follow.

The US long bond currently trades at above three percent and it is not inconceivable that we might see four percent quite soon. The implication of this is obvious: as the reserve currency (USD) re-prices, all other weaker currencies, in particular emerging market currencies, will have to live with higher borrowing costs, something which has begun to reflect in the R186.



Source: *Bloomberg, 30 September 2018*

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Commodity prices have edged higher over the last few years led mainly by the oil price. A higher oil price affects emerging markets more than they affect developed markets. It remains to be seen whether the frackers that previously reduced oil prices return to apply pressure to the price again. It does not help that the US has punished Iran for reintroducing oil into global markets.

FINANCIAL MARKETS

In general, the global political environment has been abysmal with no shortage of drama. There is not a day without some headline that rattles confidence and has investors selling assets. A good example is the UK government which continues to erode confidence. One wonders how Brexit will end. Hopefully some sanity will prevail, and it doesn't happen.

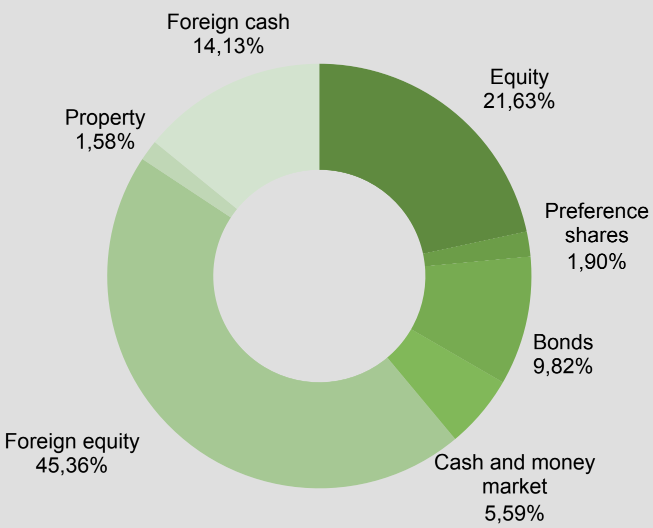
Many of the highly rated companies such as the FAANG's (Facebook, Apple, Amazon, Netflix and Google) face significant issues, like regulation. Will their business models survive if interest rates move much higher, where capital is no longer free?

Anyone who has started a career in the financial services market in the last ten years has not witnessed a bear market.

Bankers appear to have poor short-term memories and have seen some lending on terms similar to those that led to the financial crisis of 2008. The debt markets look vulnerable with all forms of lending at record levels. Global debt to GDP is now 217 percent, up from 179 percent in 2007. Howard Marks has recently written a very good piece on this topic, explaining the risks associated with the current high levels of debt. We concur with Marks that should something go wrong in the markets, it is not going to come from the equity markets, but more likely from the public and private debt markets. Will this result in rising inflation, debt defaults, rising interest rates and more trade disputes? We simply do not know, but prefer to remain cautious. We will continue to invest, but need even more safety from our investments coupled with lower expectations in terms of returns.

THE PORTFOLIO POSITIONING: ASSET ALLOCATION

Nedgroup Investments Bravata Worldwide Flexible Fund



Date: *30 September 2018*

Investors will have noticed that the fund has less than sixty percent offshore, the lowest it has been in years. The major reason for this is we have found local assets that are cheap and yields which we think are attractive. We think the weakness of local markets has had little to do with South Africa specifically, but more with emerging market risk and uncertainty in other parts of the globe. We have used this weakness in the currency (ZAR) to bring money back to the South African markets and invest in local assets. Local fixed interest makes up around fourteen percent of the fund and the balance of the forty percent held locally is in equities. We have also made a new investment into MTN at attractive prices.

The major reason for increasing our investment exposure to South Africa despite the pessimism, is that asset prices more than reflect the problems our country has, whereas offshore asset prices (in general) do not. We concede that short-term prospects for South African companies don't look great, but the prices we are currently paying do not require much optimism. While we have not introduced many new ideas to the fund, you will notice that we continue to allocate capital to companies we know intimately and that command strong positions in their markets.

As previously mentioned, the R186, South Africa's long-term bond currently yields about nine percent. At one stage it was trading to almost double inflation - a premium we don't think is warranted and therefore an attractive asset. With the exception of a weak rand, and upward pressure from rising US rates, we see no reason why rates should increase in South Africa: confidence is low, the political environment uncertain and the petrol price increases are tantamount to a rate increase on an already struggling economy.

BUYS AND SELLS

Holdings	Nominal Exposure (%)	Percentage Change from 31 December 2017
RSA 10.50% R186 211226	9.8	9.5
Longleaf Asia Pacific Ucits	4.1	0.9
Investec Plc	0.9	0.6
Omnia Holdings Ltd	0.9	0.2
Wal-Mart Stores Inc	0.0	-0.6
Harley-Davidson Inc	0.0	-0.6
Anglo American Plc	0.0	-1.0

Source: Bloomberg, 30 September 2018

PERFORMANCE CONTRIBUTORS / DETRACTORS

31 December 2017 - 30 September 2018

Share	Contribution (%)*
USD	3.2
Berkshire Hathaway Inc-Cl B	2.1
Bowler Metcalf Ltd	0.5
IBM	0.5
Oriental Watch Holdings	0.5
RECM & Calibre Ltd	-0.2
Royal Bafokeng Platinum Ltd	-0.2
Tsogo Sun Holdings Ltd	-0.6
Melco International Develop.	-0.7
L Brands	-1.2

Source: Bloomberg, 30 September 2018

We favour businesses with strong balance sheets and try to value businesses in a way that takes into account an uncertain future. Businesses that sell products and services that are understandable, are required on a day-to-day basis and cannot be easily replaced, are businesses that we like. Industries such as tobacco and food companies come to mind, as well as companies like Oriental Watch Holdings and Bowler Metcalf with their cash flush balance sheets and simple business models.

Over the quarter, the rand weakened by around 8% against the US dollar, and by around 7% against the Euro. This helped the performance of the fund when translating our US and European portfolio companies. Additionally, Bowler Metcalf's share price climbed after it released a positive set of June results and concluded the sale of its beverage business, Softbev, for a satisfactory price.

The performance of the fund was negatively affected by the share price decline in L Brands, the US listed underwear and personal care business after its subsidiary, Victoria's Secret, released a disappointing trading update indicating the recovery in same-store sales will take longer than expected. Melco International Development also detracted from the quarters' performance. This is despite continued positive trading results and its share price declined along with a broader sell-off in Chinese gaming stocks. We continue to believe that both Melco International Development and L Brands trade at considerable discounts to intrinsic value.

OUTLOOK

Investing in South Africa with its struggling economy and the pervasive pessimism will feel uncomfortable to many but this pessimism feels familiar. It wasn't long ago when we were investing in commodity companies that were priced for Armageddon, an investment which turned out to be very rewarding. The local investments will require time and patience, but we don't think it is impossible that with a bit of growth and improvement in the sentiment of our country, share prices of some of the businesses we are buying today could double.

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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