see money differently

NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

Quarter 4, 2018

For the period ended 31 December 2018

NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

31 December 2018	1-year	3-year	5-year	7-year	10-year	Since Inception
Nedgroup Investments Bravata Worldwide Flexible	3.2%	1.8%	7.1%	12.7%	11.6%	10.0%
(ASISA) Worldwide MA Flexible	-1.3%	0.6%	6.0%	11.0%	10.2%	9.9%
Benchmark - SA CPI + 5%	9.8%	10.7%	10.7%	10.7%	10.6%	11.2%

****Source**: Morningstar data (inception date: October 2005)*

MARKET OVERVIEW

The concerns we expressed at the beginning of the year have largely played out and in the words of a respected fund manager, “2018 was a brutal year”. Equity markets in local currency terms generated negative returns, bond markets led by the US, followed suit, and the only place of safety was dollar cash.

The negative equity returns should not have surprised investors. After years of rising equity markets, a correction was inevitable. On all measures, valuations were stretched, and it didn’t take much for the market to correct. As the US Federal Reserve continued to raise rates, justified by strong fundamental economic indicators, the gravitational pull of higher rates would in time, bring equity markets down. A more cynical view was that the Federal Reserve was trying to give themselves some room for additional levers to stimulate growth when an inevitable slowdown appears.

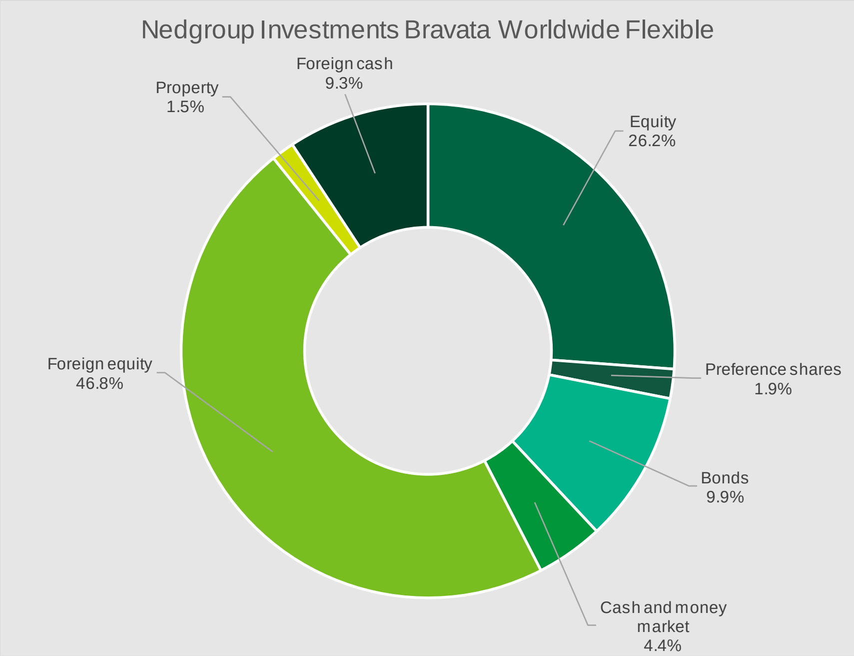
Markets dislike uncertainty and there is no shortage of this in the news. President Donald Trump provides daily uncertainty and the disarray of the American political system creates even more confusion and inaction. We have consistently cautioned about the long-term effects of his policies, mainly the introduction of tariff protection and anti-competitive legislation. The effects are being felt in China and many of the economic indicators support this notion. Recently both Samsung and Apple have cautioned of decelerating sales.

Across the Atlantic, the UK government continues to create more uncertainty with their inability to elucidate an effective plan of action on the planned withdrawal from the European Union. As observers, we cannot help wondering what on earth the UK government is thinking? We have yet to come across any cogent argument for an exit from the EU. In short, we have decided to limit exposure to the UK until some certainty prevails. Our view is perhaps contentious, that Brexit may not happen, and a second referendum is expected.

The political brinkmanship that has occurred from time-to-time continues to add further uncertainty. There is no shortage of negative information ranging from skirmishes in Ukraine, US ships sailing near man-made Chinese islands, to the suspicious murder of a Saudi journalist. Recently the confusion created by the sudden announcement of the US withdrawal from Syria provides more examples of these uncertain policies. Finally, the partial shut-down of the US government over the funding for the border wall between Mexico and the US adds more negative noise to the market’s performance.

The fund has been well positioned for this negative news. Reducing our exposure to developed markets and higher cash reflected our concerns, and throughout the year we continued to invest in South Africa, in equites and bonds.

THE PORTFOLIO POSITIONING: ASSET ALLOCATION



Date: *31 December 2018*

BUYS AND SELLS

Holdings	Nominal Exposure (%)	Percentage Change from 31 December 2017
RSA 10.50% R186 211226	9.9	9.6
Reinet Investments Sca	5.2	5.2
MTN Group Ltd	2.1	2.1
Hospitality Property Fund Ltd	1.5	1.5
Wal-Mart Stores Inc	0.0	-0.6
Harley-Davidson Inc	0.0	-0.6
Anglo American Plc	0.0	-1.0

Source: *Bloomberg, 31 December 2018*

BONDS

By far our biggest investment was into the South African bond market, mainly the R186 (South Africa's long-term bond) and one-year NCD's (Negotiable Certificate of Deposit) of the five major banks. A yield of nine per cent or more made sense to us when looking against the prevailing poor economic growth, the SARB's rate hikes, the lack of pressure on inflation as well as the low rates in the US which were close to four per cent. Furthermore, the political environment improved slowly over time as President Cyril Ramaphosa provided some reassuring action. A real return of approximately four per cent is attractive.

REINET

The purchase of Reinet to be successful requires three conditions: 1) a large holding company discount, 2) the British American Tobacco share price trading at a large discount to fair value, and 3) a strong rand versus the euro/pound.

The first two conditions have been met and the level of the currency while difficult to predict seemed to be somewhere in the middle. Of comfort to us, is the introduction of a significant buy-back program by the company, which bodes well for the long-term success as an investment.

In addition, with the British American Tobacco share price having fallen so much, Pension Fund Corporation now makes about 35 per cent of the holding company value making the investment case much less reliant on a single company (British American Tobacco) than in the past.

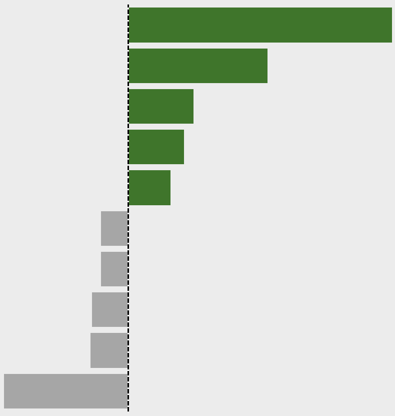
MTN

Perhaps a controversial investment, but one which suited our mandate. Investors will recall the company being fined a large sum of money to which the share price reacted negatively and plunged 30 per cent. Without going into the merits of the case we felt the market's reaction was irrational and we structured an entry point into MTN by writing puts on the share at a strike price of R85. The premium income was reasonably high owing to the volatility and the pessimism that prevailed at the time. Effectively the cost of our position was R78.24 per share (as at 31 December 2018 MTN was trading at R89.00 per share).

PERFORMANCE CONTRIBUTORS AND DETRACTORS:

31 December 2017 - 31 December 2018

Share	**Contribution (%)***
USD	3.3
Berkshire Hathaway Inc-Cl B	1.7
Oriental Watch Holdings	0.8
Bowler Metcalf Ltd	0.7
RSA 10.50% R186 211226	0.5
Jefferies Financial Group Inc	-0.3
IBM	-0.3
Melco International Develop	-0.4
Omnia Holdings Ltd	-0.5
L Brands	-1.6



**Figures are not exact but do give a good estimate of the relative contribution of the underlying securities*
Source: *Bloomberg, 31 December 2018*

CONTIBUTORS:

Berkshire Hathaway provides a wonderful alternative to the US markets and deserves its large position in the fund. Mr. Buffett's canny purchases have started to pay off. Furthermore, his cash holdings are starting to generate higher yields whereas in the past the company earned very little for its high cash holdings. The intrinsic value inherent in the company continues to increase and this is evidenced by the executive raising the buy-back price of the company's stock. In the meantime, the cash continues to pour in, building up dry powder for the next large acquisition.

Our small caps, namely Oriental Watch Company and Bowler Metcalf have contributed significantly to the fund's performance. Both companies have large amounts of cash and have practiced good capital allocation which to our minds has not been fully appreciated by the market. In common with many of our companies, the strategy of investing with owner-managed companies has stood us well in difficult times. It is a formula that has been followed by us at Aylett & Co, particularly where management has shown rational behavior regarding capital allocation.

Finally, our foray into local fixed-interest markets proved timeous and rewarded us with positive returns. Above, we have explained our strategy of investing in the fixed interest markets which in the short term appears to be correct.

DETRACTORS:

L Brands is the holding company for Victoria's Secret, and Bath and Body Works. The decline in L Brands share price has largely been a result of the poor Victoria's Secret's results over the last three years, a result of fashion errors, discontinuing swimwear, changes in consumer preferences and a shift to online.

L Brands management has made extensive changes to the leadership at Victoria's Secret and is commencing with corrective action. Despite the mistakes made by the business, Victoria's Secret remains the US market share leader, and a powerful brand with a strong following. In addition to the US business, it has an extensive international business and is busy building a retail presence in China which is likely to be a big market for the business in the future. It also has a large profitable personal care and makeup businesses which continue to grow.

In contrast to Victoria's Secret's results, Bath and Body Works has performed exceptionally well, growing sales, margins, and profits consistently over the last decade and today makes up most of the group's profits. If Bath and Body Works were separately listed, we think it would be worth more than the entire L Brands group at today's share price ($27/share), meaning we are paying little to nothing for Victoria's Secret. We continue to think that L Brands currently trades at a significant discount to fair value.

Omnia's share price declined significantly over the course of 2018. This was driven by poor performances in all its divisions. The agriculture division suffered with farmers under pressure, low urea prices and a dispute with a major supplier. Explosives battled with a very competitive environment, customers taking strain, low ammonia prices and other customer-specific issues. The chemicals trading division struggled, as anticipated, reflective of the state of the South African economy leading to a decline in volumes. It is our view that most of these issues are cyclical and/or once-off in nature and that, with the passage of time, earnings will revert to significantly higher levels.

OUTLOOK

Regular readers will know that our view seldom changes. We find it difficult to forecast the future and so our standard defence is to buy investments that have strong balance sheets, management teams that are able to adapt to rapid market changes and at the same time allocate capital in a shareholder-friendly manner. The concerns we mentioned may prevail, and we expect new ones will surface. This will not deter us from investing in assets should the conditions suit us.

The portfolio has significant latent value, particularly its South African assets. For that value to be unlocked we need confidence to return to the country. All that is required is for the stewards of our economy, namely the government, to take action that will lead to certainty and confidence. We suspect it will be a bumpy first six months with the latter part of the year improving, but we don't really know and continue to remain invested in our stocks and bonds.

Presently there are not many new ideas to be introduced into the fund, and instead we continue to add to existing counters within the portfolio. As previously mentioned on numerous occasions, we have been very optimistic on the valuations inherent in the fund with significant upside for the portfolio. This unpopular view would not be the first time we have found ourselves in this position. It is an uncertain world, but the companies in the fund are strong, with ample cash and products, which are required by consumers. They have strong management teams who are candid in their actions and will ultimately unlock significant value for us as investors.

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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