



**NEDGROUP**  
INVESTMENTS

see money differently

**NEDGROUP INVESTMENTS  
BRAVATA WORLDWIDE  
FLEXIBLE FUND**

**Quarter 1, 2019**

For the period ended 31 March 2019

## NEDGROUP INVESTMENTS BRAVATA WORLDWIDE FLEXIBLE FUND

### MARKET OVERVIEW

As we write this, the global markets are in risk-off mode, a reaction to the dovish tone adopted by the US Federal Reserve – something we discussed as a possibility in a previous quarterly commentary. We suspect that the pause contemplated by Mr. Powell (Federal Reserve Chairman) appears related to the pressure exerted by Donald Trump and a reaction to a perceived slowdown in the US economy. which has seen a weakening of the US dollar against emerging market currencies like the South African rand.

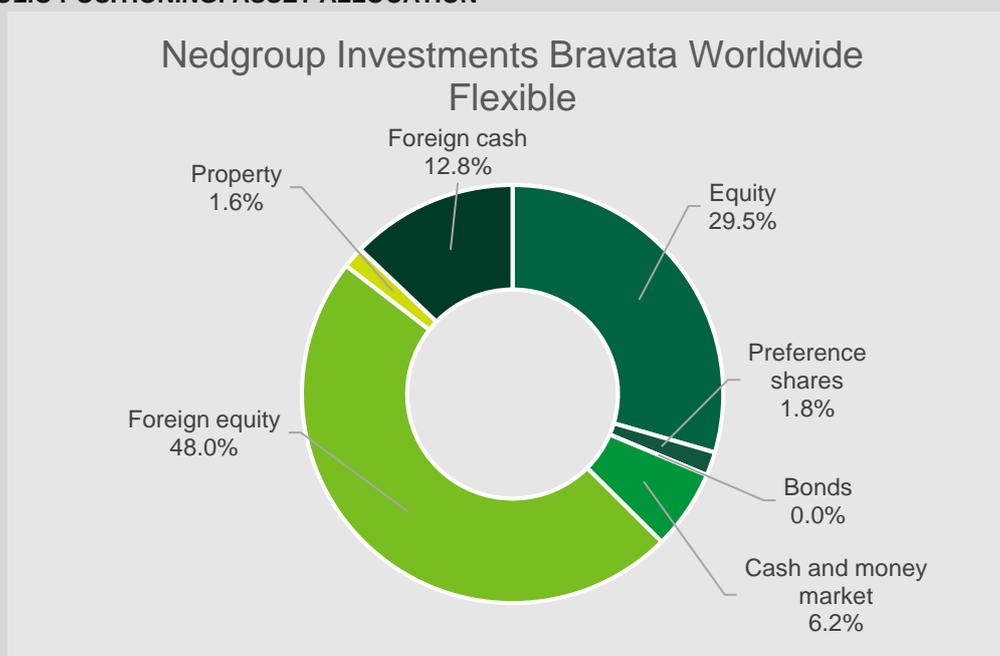
### PERFORMANCE

31 March 2019	YTD	1 year	3 year	5 year	7 year	10 year	Since Inception
<b>Nedgroup Investments Bravata WW</b>	7.5%	15.0%	5.7%	8.5%	13.2%	12.7%	10.4%
<b>(ASISA) Wwide MA Flexible</b>	8.5%	12.7%	4.3%	7.5%	11.6%	11.6%	10.4%
<b>SA CPI + 5%</b>	1.7%	9.8%	10.0%	10.3%	10.6%	10.5%	11.1%

*Source: Morningstar, 31 March 2019*

One of the aims of the fund, is that if we can grow an investors wealth in real terms by 6% per annum, the investor should be quite well off on retirement. If we assume inflation of 7%, the fund would need a nominal return of about 13%. Over the last ten years, despite the conservative approach taken by the fund, Bravata has compounded at 13 per cent per annum – doubling nominally just over every five years.

### THE PORTFOLIO POSITIONING: ASSET ALLOCATION



*Date: 31 March 2019, Nedgroup Investments*

Our long-time investors in the fund will know that we favour a bottom-up approach to constructing the portfolio. As a result, two things have happened: total equity exposure has increased to almost 85% of the fund and our equity exposure to South Africa has increased to about 30%. It was not long ago when our equity exposure was lower, and we had a small exposure to South Africa.

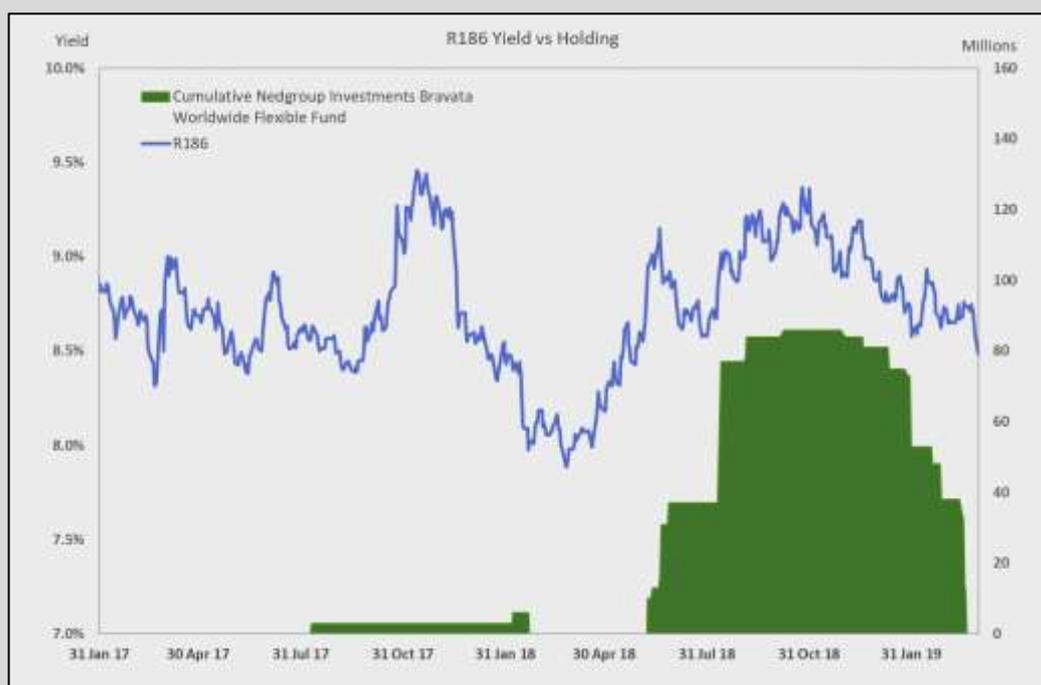
The increase in equity exposure is a result of attractive assets being found at attractive prices. We cannot remember the last time we have seen such high yields on South African assets. In some cases, certain companies are trading on price earnings multiples of between four and five.

In general, low interest rates are a positive for asset prices. The market is anticipating lower US interest rates and South African rates will benchmark off this, resulting in less pressure for local rates to rise.

## BUYS AND SELLS

Holdings	Nominal Exposure (%)	Percentage Change from 31 December 2018
Reinet Investments Sca	8.1	2.8
Royal Bafokeng Platinum Ltd	3.5	1.0
Investec Plc	1.3	0.4
Loews Corp	0.0	-0.8
RSA R186	0.0	-9.9

Source: Bloomberg, 31 March 2019



Source: Bloomberg, 31 March 2019

Our most notable transaction was the selling of our entire R186 bond portfolio, with a net return of 5%, mainly as a result of finding more attractive opportunities in equities. The proceeds from this sale were used to increase our positions in Reinet, Royal Bafokeng Platinum and Investec.

Offshore, we continue to increase our exposure to Asia through the Longleaf Asia Pacific Fund. Between our holdings in Melco (a casino in Macau) and Oriental Watch Holdings (a retailer of Swiss watches) and the Longleaf investment, our exposure to Asia is approximately 12%.

## THE PORTFOLIO

Holdings	Nominal Exposure (%)	Percentage Change from 31 December 2018
Berkshire Hathaway Inc-Cl B	10.92	-0.4
Reinet Investments Sca	8.07	2.8
Transaction Capital	5.92	-0.2
Melco International Develop.	4.80	0.5
Longleaf Asia Pacific Ucits	4.41	0.6
Bank Of New York Mellon Corp	3.66	0.2
Intl Business Machines Corp	3.62	0.6
Royal Bafokeng Platinum Ltd	3.54	1.0
Tsogo Sun Holdings Ltd	3.39	-0.5
L Brands Inc	2.74	0.2
	<hr/> 51.1	

### Berkshire Hathaway (11%)

Mr. Buffett has been clear that shareholders should expect subdued returns from Berkshire Hathaway as the law of large numbers continues to hamper its long-term record of outstanding performance. At present it is the 5th largest component of the S&P 500. Investors may then ask why we own it? We think it is a wonderful proxy for the S&P 500 and a reasonable way to obtain exposure to the US economy. It is a company we know well, run by arguably the most rational investors in the world with exceptional capital allocation skills. Berkshire has a very low head office cost and a valuation which is not far from a level where Mr. Buffett is prepared to purchase the shares back. The company is positioned for longevity and the future management teams have been selected and entrenched with the DNA of Berkshire. We suspect in times to come that the new managers may start paying dividends as they struggle to invest the prodigious excess cash flows.

### Reinet (8%)

Reinet is a holding company with two primary assets; British American Tobacco and Pension Insurance Corporation. While British American Tobacco will be well known to most, Pension Corp is an unlisted company that assumes the liabilities of company pension funds for an up-front sum.

At present, Reinet trades at 40% discount to the sum of its parts, the majority of which we think are valued cheaply. BAT currently trades on 10 times earnings and management conservatively place a 20% discount on the embedded value of Pension Corp. In addition, the management team is buying back its own shares - a clear indication of rational capital allocation.

While there are many reasons why a holding company trades at a discount to the sum of its parts, we think the performance fee structure at Reinet is a significant contributing factor to Reinet's wide discount. We note that Reinet is currently very far away from the high watermark, above which the performance fee would apply. It is not inconceivable that a change of thinking by management could remove the performance fee and reduce the discount.

### Transaction Capital (6%)

Transaction Capital essentially does two things; it lends money to the taxi industry and is the biggest buyer of distressed books from retailers and banks. The management team is never content to sit still and continues to invent new ways to add value to shareholders and diversify its revenue streams. They are market leaders in their segments, dominate their markets and never cease to look for ways to delight their customers and enlarge the moat around their businesses. In addition, management is backed by the founding shareholders who themselves have proven to be remarkable capital allocators.

### Melco International Development (5%)

Melco is one of six casino concessionaires in Macau. It is run by Lawrence Ho, whose family were the original casino owners in Macau and still are. The difference is that Melco is his show, and the company is driven by a different set of principles. This is mainly as a result of his western education which is evident in his capital allocation skills. Such skills have been tested and he has passed with flying colours.

The long-term prospects for Macau are good as the region becomes the established gambling destination for Chinese gamblers. This is a situation that suits the Chinese government and is acceptable to them in terms of control and regulation.

Potentially, with Mr. Ho, there is always something new, but this is not built into their share price and certainly not into our thinking. Ultimately, over the next ten years, we think having exposure to one of the largest and most profitable casino markets make sense, particularly when getting that exposure through a holding company that trades at a significant discount to the value of the underlying assets.

#### **Royal Bafokeng Platinum (4%)**

RB Platinum is the sixth largest platinum producer in South Africa. While a relatively easy company to understand, RB Platinum has been largely ignored by the market as a result of its small size and limited free float. Investors have tended to focus on the larger producers despite RB Platinum being a higher quality, lower risk platinum group metal producer. Management has used its capital to purchase good assets at bargain basement prices. It has very good BEE credentials being 40% owned by the Royal Bafokeng Nation, has good labour relations and has been relatively unscathed from worker union issues. Our position has been built up over the years and this is a company that we have spent many hours getting to know. Ultimately, it's the platinum group metal prices that will determine its success as an investment, a group of commodities that we believe still has a bright future.

#### **Tsogo Sun Holdings (3%)**

Tsogo is South Africa's premier casino group. Tsogo is a relatively easy company to understand with a simple holding company structure without many minorities. The share trades at levels not seen for many years, a result of a consumer under pressure. While South African companies fight for share of the consumers wallet, casinos will face competition for the punters' disposable cash. Ultimately, we believe the economy will improve and that this may well be one of the best ways we could gain exposure to the South African consumer.

#### **OUTLOOK**

The companies discussed above, along with the investment in the fund of Longleaf Asia Pacific fund, account for just over 40% of the fund. The rest of the portfolio is also cheap, in particular the smaller positions in South African stocks such as MTN, AECI, RECM and Calibre, Investec and Bowler Metcalf.

We are optimistic about these counters and the fund stands a good chance of doing well from these positions.

#### 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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For further information on the fund please visit: [www.nedgroupinvestments.co.za](http://www.nedgroupinvestments.co.za)

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#### WRITE TO US

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