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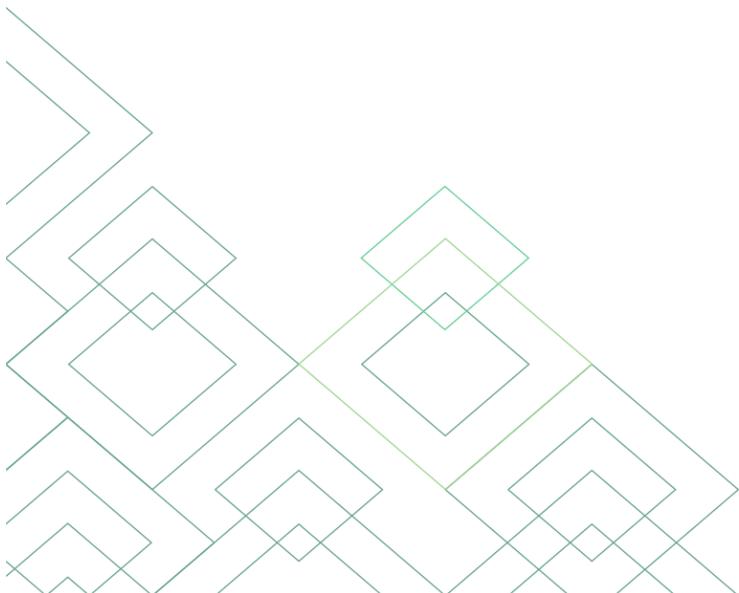
see money differently



# **NEDGROUP INVESTMENTS**

## **Bravata Worldwide Flexible**

Quarter One, 2020



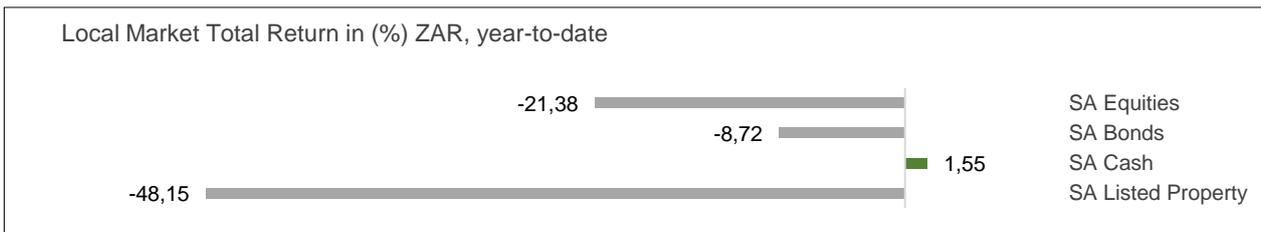
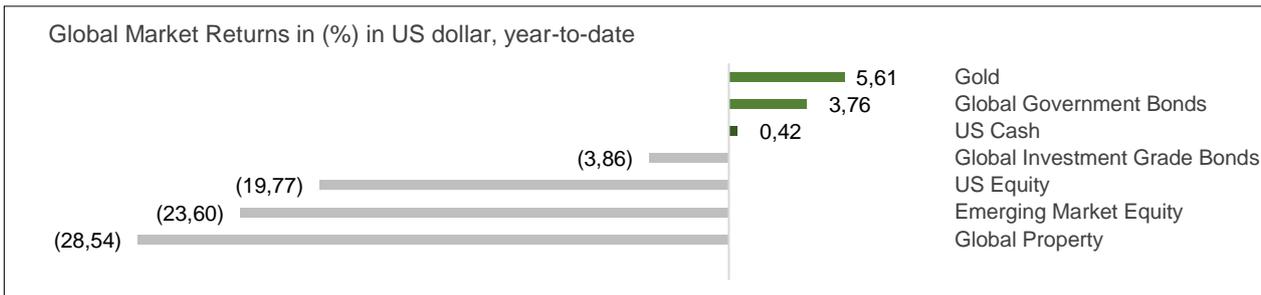


## Nedgroup Investments Bravata Worldwide Flexible Fund

Performance to 31 March 2020 <sup>1</sup> ('R)	Fund	Benchmark <sup>2</sup>
3 months	-10.6%	2.7%
12 months	-6.1%	9.9%

### Market Overview

Since our last quarterly commentary, the world has confronted the greatest pandemic in over a hundred years. So far COVID-19 has sickened millions of people, killed over a hundred thousand and the health crisis is far from over. Global financial markets have been through one of the most volatile periods in recorded history. The S&P500 declined 20% for the quarter while the JSE All Share Index finished down 21.4% over the same period. Peak to trough, the JSE was down more than a third at one point during the quarter.



### Fund Performance

The portfolio suffered a drawdown during the quarter driven primarily by the fund's exposure to SA Inc stocks and emerging market stocks like Melco Int Development. The 18% exposure offshore to cash helped cushion the impact of the sell-off in global markets in February and March, which left few stocks unscathed in dollar terms.

Nedgroup Investments Bravata Worldwide Flexible Fund	
31 December 2019 - 31 March 2020	
Holdings	Contribution (%) <sup>*</sup>
USD Cash	4.3
Reinet Investments	0.6
UK T-Bill	0.4
Berkshire Hathaway Inc	0.3
R186	0.2
Redwood Trust	-1.3
Melco Intl Development	-1.8
Tsogo Sun Holdings	-1.8
Transaction Capital	-2.5
Royal Bafokeng Platinum	-3.2

**Source:** Bloomberg, 31 March 2020  
<sup>\*</sup>Estimate of the relative gross contribution of the underlying securities

<sup>1</sup> Net return for the Nedgroup Investments Bravata Worldwide Flexible Fund, A class. Source: Morningstar (monthly data series).

<sup>2</sup> Benchmark is the South Africa CPI+5%





## Long-term Perspective

Without understating the terrible suffering that COVID-19 has brought on, it is important to ask: Is this going to end the same way as all the prior crises the world has faced? We simply don't know. There is a lot about this crisis we don't know. Perhaps it is better to focus on what we do know. In a piece Howard Marks, a highly-regarded US investor, recently wrote<sup>3</sup>:

What does the US (and the world) see today?

- one of the greatest pandemics to reach us since the Spanish Flu of 102 years ago;
- the greatest economic contraction since the Great Depression, which ended 80 years ago;
- the greatest oil-price decline in the OPEC era (and, probably, ever); and
- the greatest central bank/government intervention of all time.

## Personal Reflections from the Portfolio Manager

I started managing money in 1995 and twenty-five years later not much seems to have changed in the investment markets other than that each crisis comes with a new name. Each time, the initial destruction of wealth is enormous, but the outcomes always seem to end the same way and dare I say, life goes on.

South Africa has been downgraded and locked down – both of which a country with fundamental economic challenges like South Africa, does not need at this time.

What I am observing as a portfolio manager?

- Aylett's philosophy of investing in assets we understand with the appropriate risk management, we believe, remains intact;
- Aylett's ability to say no to many opportunities without the fear of missing out will stand the portfolio in good stead;
- The cost of money is near zero;
- Seeking companies with resilient balance sheet, strong management teams who are willing to adjust quickly, and whose products the market need, seems like a sound strategy;
- South Africa was cheap before this crisis and it is now even cheaper; and
- Aylett's investment actions have not changed over the last three months. The team have continued to add to assets we like and understand.

## The Portfolio

More than 51% of the fund is invested in six assets. They are in order of size, and as a percentage of the total fund, South African R186 Government Bonds (14%), Berkshire Hathaway Inc-Class B (11%), Reinet Investments SCA (11%), Royal Bafokeng Platinum (5%), Transaction Capital (5%) and Melco International Development (5%).

Readers were referred to past companies where the companies listed above have been discussed in detail. These bear rereading as, while the prices of these assets may be lower, the facts have not changed. Clearly, there are new risks we must consider but none of these risks has been enough for us to change our mind. In some instances, the investment case for some of the assets has improved.

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<sup>3</sup> <https://www.oaktreecapital.com/insights/howard-marks-memos>





Long-time investors in the fund will remember that the fund has owned government bonds in the past. The fund made small amounts of excess returns (over inflation) and exited the position, investing the proceeds in one-year paper.

The significant increase in yield as a result of the COVID-19 crisis gave us another opportunity to buy South African Government debt and 8.3% of the fund's assets are invested in South African R186 Government Bonds.

So, what has changed?

With the inevitable downgrade now behind us it seems like the South African government is starting to take the tough actions required to strengthen the country's balance sheet (actions such as the refusal to continue to fund South African Airways and the potential prosecution of corrupt officials). The political landscape has improved, and inflation does not appear to be a problem. South African sovereign yields, relative to yields available on other sovereign paper, are very attractive and we don't think we will have a problem repaying the debt.

The fund has less than 30% exposure to the South African economy. These are strong companies that meet Aylett's investment requirements. Examples include Spur, Long for Life, AECI and Bowler Metcalf.

**Conclusion**

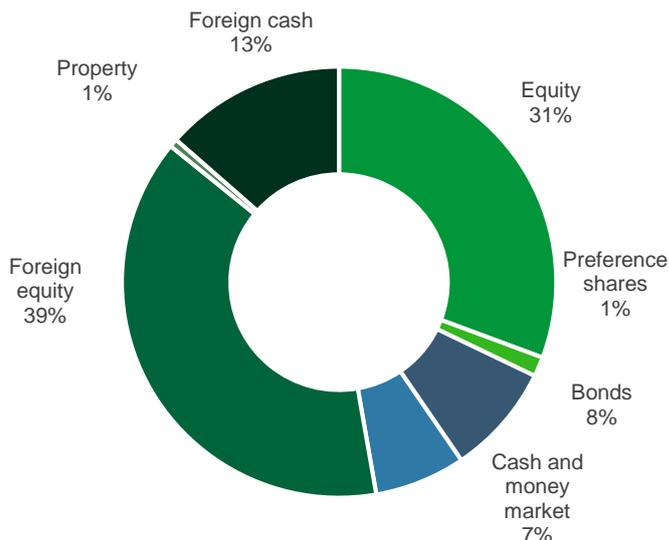
Should markets fall again, surplus funds will either be used to add to quality assets we know well or to invest in new assets that until now have been too expensive to purchase. We will keep investors informed of any additional news.

A few quotes are brought to mind when considering the challenging environment, we must now confront, which we will leave as a final thought for this quarter's commentary:

*"Remember George, this is no time to go wobbly"*  
**Margaret Thatcher (start of the Kuwait War 1990)**

*"When the facts change, I change my mind. What do you do, sir?"*  
**John Maynard Keynes**

**Nedgroup Investments Bravata Ww**





## 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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