



**NEDGROUP**  
INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

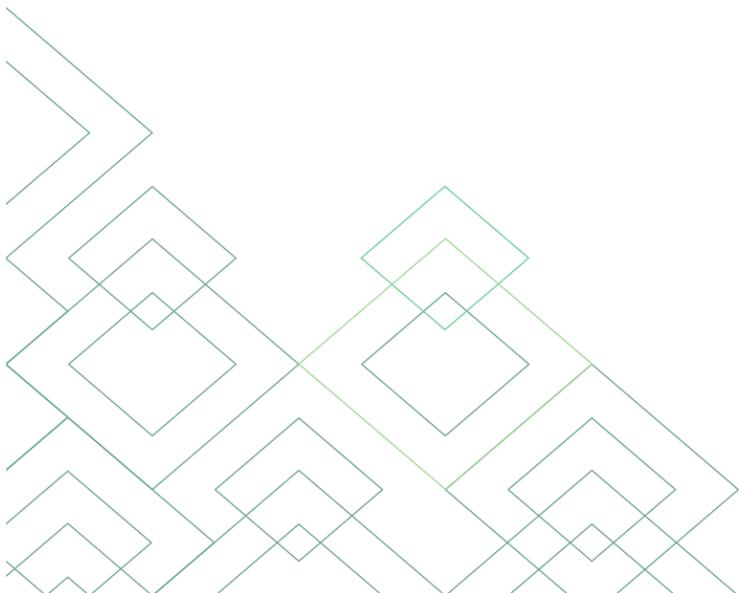
see money differently



# **NEDGROUP INVESTMENTS**

## **Bravata Worldwide Flexible Fund**

Quarter Three, 2020





## Nedgroup Investments Bravata Worldwide Flexible Fund

30 September 2020 (Net returns)	1 year	3 year	5 year	7 year	10 year	Since Inception
Fund – A Class <sup>1</sup>	4.3%	5.8%	6.7%	8.2%	12.1%	9.9%
Benchmark <sup>2</sup>	8.2%	9.3%	9.8%	10.1%	10.3%	10.8%

Source: Bloomberg, 30 September 2020

### GLOBAL MARKETS

Since we wrote our June factsheet, there has been limited change to the portfolio. The world seems to be coming to terms with the pandemic and after the volatility experienced in the first and second quarters, markets moved mainly sideways in the third quarter. The daily news flow about the speed of the recovery moved markets up and down, but there has been a lack of overall direction. The political situation across the globe remains poor, and with the looming election in the US in November, it looks like we may be due a new government and a new President in the US. The cost of money continues to stay very low.

In the United Kingdom, the government displays a lack of leadership, and creates more confusion, which has taken its toll on the already weak UK equity market. By contrast Asia, and in particular China, is well on the path to recovery. On many of the metrics we track, China is up to 80% of last year's activity and the countries around China seem to be picking up on that momentum. The strong recovery in economic activity in China, particularly in infrastructure spending, has created strong demand for commodities.

During the quarter we started to see opportunities in a handful of travel and leisure related US stocks. While it's still early days, we think these businesses look interesting and many display the traditional fundamentals that we look for in our investments. Many have challenged balance sheets but the low cost of borrowing in the US is allowing them time to recover and to rebuild their balance sheets. We allocated considerable research time to the sector during the last two quarters and have started to build positions in a handful of names which will be discussed in due course.

### POSITIONING OF THE FUND

A significant change to the risk profile of the fund has been our change in attitude to the risk we associate with investments in South Africa. As discussed in previous fact sheets, we continue to find very attractively priced South African equities. The "cheapness" of these equities must always be measured against the concomitant risk associated with not only the businesses themselves but also the risk inherent in the country in which they operate. In the past, we had found much of the "SA Inc" risk to be more than priced in. However, over time we believe that government's inability to react in an investor-friendly way and painfully slow decision-making mean that our appraisal of South African country risk is rising.

Capital is leaving the country and we continue to see wealthy and highly skilled citizens emigrating. Additionally we are increasingly of the opinion that South Africa has too much debt. If we add the debt on the balance sheets of government, state-owned enterprises, the municipalities and the parastatals (such as the land bank), debt to GDP stands at almost 100%! This is too high for a country like South Africa with all its structural challenges.

As a result, we require an ever greater margin of safety in our thinking towards our SA investments. In general, we prefer to invest in companies that have revenue profiles that are based in dollar / euro and costs that are

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

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





based in rands. That's not to say we won't consider pure South African domestic stocks but the South African assets we do own in the fund are either sufficiently cheap or the businesses are of sufficient quality that more than compensate us for the risk of investing in South Africa.

Going forward, it's very likely that the Bravata Fund will own more international businesses and will have a less South-African focus. It is important to note that this is not a reaction to the weak markets in South Africa and there is no doubt that domestic South African equities are cheap but as discussed above, the changes in South Africa demand an increasing required rate of return. That said, should there be any confidence booster for the citizens and investors of this country, we would expect a sharp positive reaction from the markets.

## HOLDINGS

### Top Holdings:

Holdings	Holding (%) 30 Sep 2020	Holding (%) 31 Dec 2019	Change (%)
Reinet Investments Sca	11.0	11.9	-8.4%
Royal Bafokeng Platinum Ltd	9.7	5.9	64.4%
Berkshire Hathaway Inc-CI B	9.0	9.9	-9.1%
Transaction Capital	5.8	5.4	7.4%
Melco International Develop.	4.5	5.1	-11.8%
AECI Ltd	4.1	3.5	17.1%
Oriental Watch Holdings	2.9	2.1	38.1%
Bank of New York Mellon Corp	2.5	2.9	-13.8%
British American Tobacco Plc	2.5	0.0	>100%
Intl Business Machines Corp	2.2	2.0	10.0%
	54.3	48.5	

**Source:** Bloomberg, 30 September 2020

A few of the ideas in the portfolio of investments that we have made continue to look very promising in the long term:

### Reinet

The largest position in the fund is Reinet, which is essentially a holding company for two large investments which make up 80% of the value, namely British American Tobacco, and the unlisted Pension Fund Corporation (PFC). In addition to these investments, there are a number of small investments that make up the remaining 20%.

We think the full value of Pension Fund Corporation is not appreciated. PFC is a company that insures pension fund liabilities. Covid-19 truly tested the business model and PFC passed with flying colours. It recently raised GBP750m worth of new funds that will allow the business to grow and get the benefits of scale. It is a company run by Johann Rupert, an owner-manager that we have worked closely with in the past and have been encouraged by some of the investment and management actions that have been taken recently, such as the share buy-backs.

We have discussed British American Tobacco in the past so won't repeat that again here other than to say we think that it has a resilient combustibles business that funds not only the de-gearing and the generous dividend, but will also allow the business to build a portfolio of reduced risk nicotine products that will grow revenue and profits for decades to come. BAT is very cheap and currently trades on an 8% dividend yield (compare that to the 10 year UK treasury yield of less than one quarter of one percent!) and 7.5x next year's earnings.





Despite the two major assets being attractively priced in the sum of the parts, Reinet still trades at a 40% discount.

### **Royal Bafokeng Platinum**

Our next biggest investment is Royal Bafokeng Platinum (RBP) which is one of the smallest listed platinum group metals (PGM) miners. After many years of development, its new mine will reach steady state production in the next 12 months, delivering metal into the strongest price environment in history. At spot prices, RBP will produce significant amounts of free cashflow and we expect a maiden dividend at the full year results announcement in March next year.

Additionally, should there be any consolidation within the PGM industry on the Western Limb, RBP is a possible acquisition target.

### **Transaction Capital Ltd**

Another high quality company that we have had in the portfolio for a very long time is Transaction Capital. The company lends money to taxis and buys distressed debt. Over the last 12 months, including during the COVID crisis period, we have been impressed by the management teams' capital allocation. Not only did they issue shares at good prices but were also able to raise capital to buy a used-car business called "Webuycars", which will be immediately earnings accretive to the business. We suspect that in five to ten years Transaction Capital will have developed into a world-class company.

### **AECI Limited**

Another good quality company that we have invested in many times is AECI Limited. The company produces explosives used in the mining industry and chemicals used in mining, manufacturing, water treatment and food enhancement. The business will do better should the rand weaken against developed market currencies and it has continued to prosper as other South Africa chemical companies, namely Sasol and Omnia, have floundered. The company currently trades at between seven and nine times cash flow and would be impossible to replace at its current enterprise value.

### **Berkshire Hathaway Inc**

Berkshire Hathaway is another large holding, making up 9% of the fund. Mr. Buffett has been able to again show the resilience of the model he's created and today has \$150billion in capital ready to invest. He recently made a \$10 billion acquisition, in very difficult times, which was pleasing to us as shareholders. This has been a long term investment of the fund, and we expect from time to time that it will surprise to the upside.

### **Other**

The Oriental Watch Company announced during the quarter that it would buy back 14.5% of the shares in issue at a significant premium to the market price using cash on the balance sheet. We view this as yet another very positive capital allocation decision by management in a series of shareholder friendly (and rational) actions taken by management over the last 3 years.

### **New Holdings**

As discussed above, investors will notice that the fund is busy building new positions in a handful of travel-related and leisure stocks. Our policy is not to discuss individual investments until the positions have been built. In due course we will provide more detail but in the meantime can say that the new investments will not only change the mix of the portfolio but will also add exposure to markets new to the fund – for example an airport in Mexico.



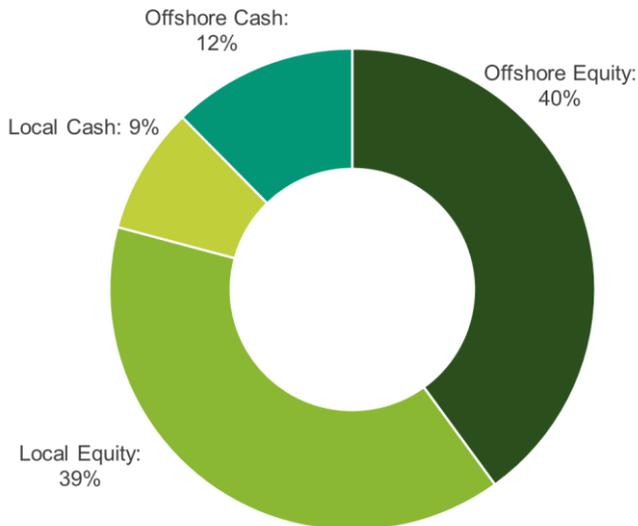


## Buys & Sells:

Holdings	Holding (%) 30 Sep 2020	(%) Change
<b>Top Buys</b>		
British American Tobacco Plc	2.5	2.5
Booking Holdings Inc	1.3	1.3
Grupo Aeroportuario Del Centro	1.3	1.3
Long4Life Ltd	1.1	1.1
AECI Ltd	4.1	0.7
<b>Top Sells</b>		
Bp Plc	0.8	-0.6
Berkshire Hathaway Inc-CI B	9.0	-0.9
Reinet Investments Sca	11.0	-0.9
Pargesa Holding Sa-Br	0.0	-1.9
Nestle Sa-Reg	0.0	-2.2

**Date:** 31 December 2019 - 30 September 2020

## Asset Allocation:



**Date:** 30 September 2020

## LOOKING FORWARD





We believe Asian markets in general, and Hong Kong in particular, still provide good opportunities and we expect to allocate more research time to the region. There remains a lot of latent value in the funds' SA Inc small cap stocks like Long4life, Tsogo Gaming, and Tsogo Hotels.

The fund is currently 75% invested in equity and over time we expect the foreign exposure in the mix to grow. Should markets overseas correct we would expect to add to the equity holdings in the fund.





## 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.  
Contact details: Standard Bank, Po Box 54, Cape Town 8000,  
[Trustee-compliance@standardbank.co.za](mailto:Trustee-compliance@standardbank.co.za), Tel 021 401 2002.

### 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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