



NEDGROUP
INVESTMENTS

UNIT TRUSTS | INTERNATIONAL | RETIREMENT FUNDS

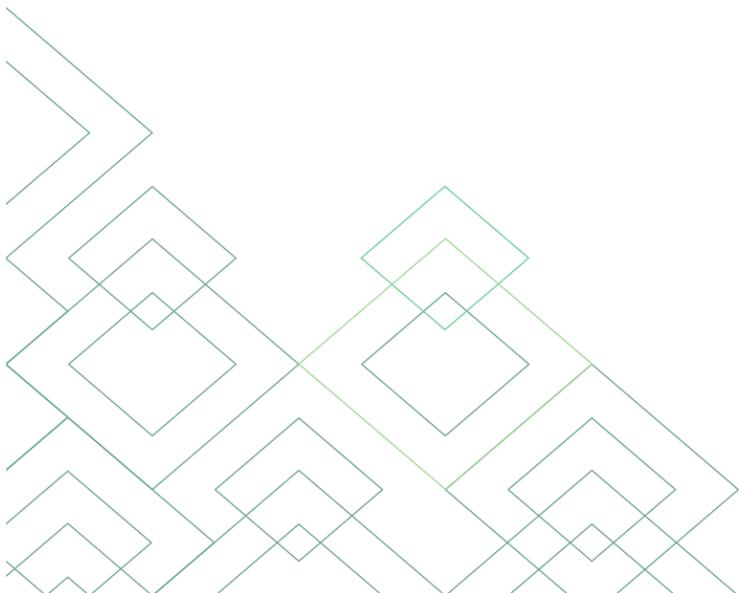
see money differently



NEDGROUP INVESTMENTS

Bravata Worldwide Flexible

Quarter Four, 2020





Nedgroup Investments Bravata Worldwide Flexible Fund

31 December 2020 (Net returns)	1 year	3 year	5 year	7 year	10 year	Since Inception
Fund – A Class ¹	7.7%	7.9%	5.1%	8.0%	12.4%	10.0%
Benchmark ²	8.3%	9.2%	9.9%	10.1%	10.3%	10.7%

Source: Bloomberg, 31 December 2020

INTRODUCTION

2020 was a year of two halves. The first half was dominated by falling markets due to the Covid-19 pandemic and resultant economic shutdowns globally. Relative to other funds our funds were weighted to South African assets which in our view were materially undervalued. As the Covid-19 pandemic peaked in the middle of the year and stimulus was rolled out, stocks started to recover which resulted in a very strong second half. We were fortunate not to sell our assets and we used the weakness to add into the shares we already owned and to invest in numerous new counters.

In our experience, we have never witnessed such indiscriminate selling of top-quality assets. Fund managers had no choice but to sell to fund their outflows. Fortunately for Aylett & Co., we managed to attract new flows into the funds which allowed us to purchase many counters at bargain basement prices. The maxim that pessimism is on the side of the buyer was never truer than during the second quarter of 2020.

TOP HOLDINGS:

Holdings	Holding (%) 31 Dec 2020	Holding (%) 31 Dec 2019	Change (%)
Reinet Investments Sca	9.8	11.9	
Royal Bafokeng Platinum Ltd	8.5	5.9	
Berkshire Hathaway Inc-CI B	8.0	9.9	
Transaction Capital	6.1	5.4	
AECI Ltd	4.8	3.5	
Melco International Develop.	4.1	5.1	
Spirit Aerosystems Hold-CI A	3.2	0.0	
Bank Of New York Mellon Corp	2.5	2.9	
Grupo Aeroportuario Cen-Adr	2.3	0.0	
British American Tobacco Plc	2.1	0.0	
	51.5	44.5	

Source: Bloomberg, 31 December 2020

¹ Net return for the Nedgroup Investments Bravata Worldwide Flexible Fund, A class.

² Benchmark is the South Africa CPI+5%





ACTIONS TAKEN

New investments were made into companies such as Long4Life Limited, Hudaco Industries Ltd and Spur Corporation Limited. In addition, we invested in South African bonds which yielded excellent results for clients. The correction offshore allowed us to invest in travel related sectors, which we will detail later.

The most noteworthy actions we took were to hold onto our current investments despite the significant decreases in share price value, and we added to them as they declined. Examples of this include L Brands Inc, Oriental Watch Holdings and Transaction Capital Ltd which have rewarded us handsomely for being patient. The quality of our investments stood out and not one of the companies we hold needed a rights issue. In addition, their earnings and cash flow did better than we would have expected given the headwinds experienced.

In our previous commentary we had mentioned our concerns for the local economy and this view has not changed. In fact, as the year has unfolded it may have become worse. As a result we have slightly increased our offshore exposure. No new local ideas have been introduced into the fund since the pandemic-driven sell-off and with the delisting of African Oxygen Limited we have decided to reinvest the proceeds offshore as we have been able to find some interesting stocks. Because the shift has been significant, we have shared some of our thoughts on these ideas below.

BUYS & SELLS

Holdings	Holding (%) 31 Dec 2020	(%) Change
----------	----------------------------	------------

Top Buys

Spirit Aerosystems Hold-CI A	3.2	3.2	
Grupo Aeroportuario Cen-Adr	2.3	2.3	
British American Tobacco Plc	2.1	2.1	
Long4Life Ltd	1.3	1.3	
AECI Ltd	4.8	1.3	

Top Sells

BP Plc	0.7	-0.6	
Berkshire Hathaway Inc-CI B	8.0	-1.9	
Intl Business Machines Corp	0.0	-2.0	
Reinet Investments SCA	9.8	-2.1	
Nestle Sa-Reg	0.0	-2.2	

Date: 31 December 2019 – 31 December 2020





NEW IDEAS

Travel and aerospace-related companies saw a large sell-off last year and the recovery off the lows was muted given that their industry was among the most affected. However, within the sectors we saw opportunity for companies that were mispriced relative to their long-term cash generation ability. Specifically, we invested in four separate companies: Booking Holdings, Grupo Aeroportuario del Centro Norte (“OMAB”), Spirit Aerosystems and Sabre Corporation. Each of the companies have their own specific drivers as described below, but their commonality was that all were heavily sold-off in the pandemic. Post a strong recovery on positive vaccine news they all still remain attractive investments in our view, if not even more so given the compression of the recovery timeline on faster rollout of vaccines than we had initially assumed.

BOOKING HOLDINGS

Booking Holdings is a leading online travel agent with a presence across the globe. Their business facilitates the booking of accommodation and related activities between travelers and suppliers and they earn a fee for the administration and marketing. Booking is a trusted brand, with strong user functionality and is a highly effective marketing tool for their supplier partners. Many of these partners are small/mid-sized accommodation providers and would lack the ability to market themselves otherwise. Booking is a high margin, high return on capital, and high cash generation business that trades on an attractive valuation given the continued growth prospects, even post the pandemic normalization. This is one of the best companies in the travel industry as the sell-off allowed us to acquire shares at a very attractive valuation.

OMAB (Grupo Aeroportuario del Centro Norte)

OMAB is a strategic infrastructure asset as the operator of 13 airports in the central and northern regions of Mexico. Prospects for continued growth in air traffic in Mexico are strong as it remains a developing market with growing wealth levels, and the potential for per capita flights taken continue to increase.

Airports are the ultimate toll gate as there is no mechanism to avoid them if you wish to travel, plus the traveler is captive in them for a minimum of an hour before a flight. Time to waste usually results in money spent, all of which OMAB take a cut of. Capital expenditure is high given the asset-heavy nature of the business, but it results in increased passenger capacity (thus more revenue) and better facilities. The toll gate nature results in high margins and cash flow, and very attractive returns on capital, even given the capital spend. OMAB will benefit from the recovery in air traffic and are a big beneficiary of any potential near-shoring of production capacity into Mexico from Asia.

SPIRIT AEROSYSTEMS

Spirit Aerosystems manufacture aerostructures (fuselages, wings and engine components) for both Boeing and Airbus, and are one of their largest and most important suppliers. Their competitive advantage lies in their manufacturing expertise, cost control and on-time performance – where they are best in class. The business was severely affected by the grounding of the Boeing 737 Max (which was responsible for half of their revenue) and the subsequent production cuts on nearly all planes due to the pandemic.

These headwinds, combined with debt levels that appeared high at first glance, resulted in the company being valued at a significant discount to intrinsic value. Significant cost, restructuring and liquidity actions have been taken and Spirit will emerge as a more profitable business post-pandemic.

Aerospace is currently in a weakened state, but the industry will grow again and Spirit are well placed to benefit when this occurs. Additionally, even as new fuel and energy sources start to appear in aerospace, Spirit have no risk as currently there is no technology that replaces the body of the plane. So whether the plane is flown on hydrogen, battery or jet fuel, Spirit’s products will continue to play a vital part.



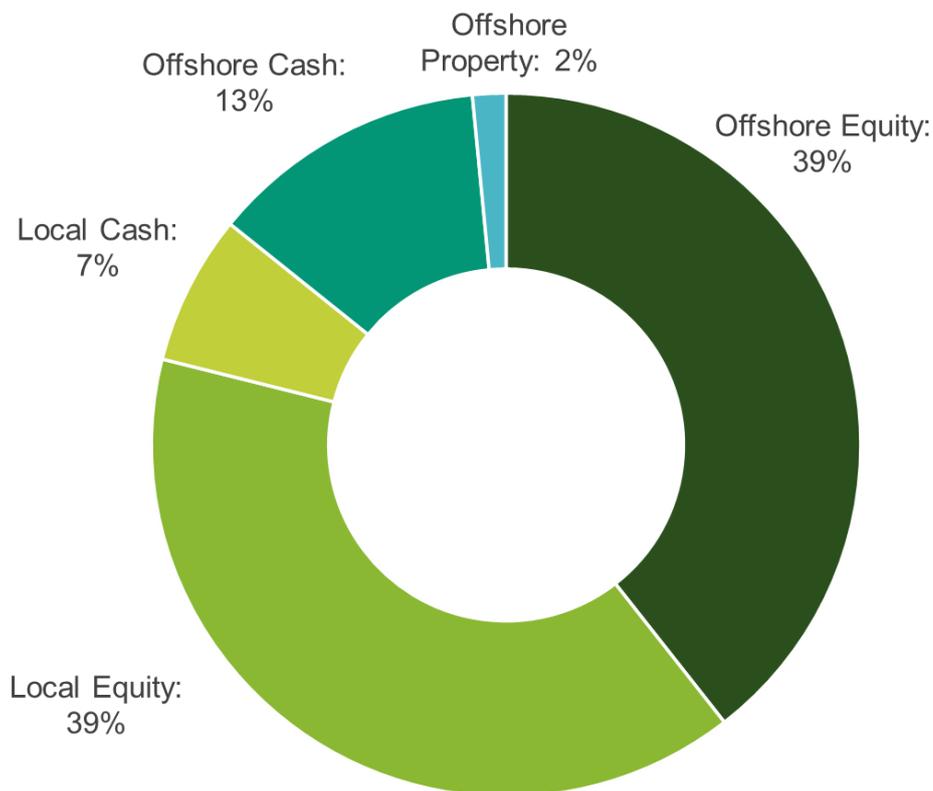


SABRE CORPORATION

Sabre is a critical part of the travel ecosystem as a key provider of booking functionality through the second largest global distribution system, which is effectively connecting demand and supply for travel agents. In addition to this, they are a key provider of operations and revenue management software for airlines and hotels. Their software and systems are key products for many travel industry participants, but as they are paid a fee on booking their revenue collapsed during the pandemic and is still recovering. Sabre is also undergoing a technology transformation which is obscuring near-term profitability but will result in a more competitive offering in future.

Due to their private equity history and annuity-like revenue stream (in normal circumstances), they entered the pandemic with debt that was in hindsight too high. Strong cost and liquidity actions have been undertaken subsequently and now there is ample liquidity to wait out a recovery. Their exposure to business travel will also result in a slower recovery than leisure travel, but we are not paying for a full recovery in the current valuation. Sabre is a key technology provider to the travel industry, and in the process of becoming a more profitable and higher return business through their technology investments, an attractive proposition that is hidden through a near term focus on the weakness in the travel sector.

ASSET ALLOCATION



Date: 31 December 2020

CONCLUSION

In conclusion it is likely we will move more capital offshore as opportunities continue to present themselves. Developed markets do look expensive in aggregate though and as such we are hesitant to be fully invested right now. However, we are still managing to find companies at attractive valuations within these markets and will continue to do detailed research on them. In the meantime, should the rand strengthen we will transfer the cash offshore. Then, should a correction occur we will then be able to invest the cash in these franchises and any more we might uncover.





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, 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.

NEDGROUP INVESTMENTS CONTACT DETAILS

Tel: 0860 123 263 (RSA only)
Tel: +27 21 416 6011 (Outside RSA)
Email: info@nedgroupinvestments.co.za
For further information on the fund please visit: www.nedgroupinvestments.co.za

OUR OFFICES ARE LOCATED AT

Nedbank Clocktower, Clocktower Precinct, V&A Waterfront, Cape Town, 8001
WRITE TO US
PO Box 1510, Cape Town, 8000

