

# Naviga BCI Worldwide Flexible Fund

**Sector:** Worldwide–Multi Asset–Flexible  
**Fund manager:** Carey McElhone  
**Benchmark:** CPI + 5% p.a.

Returns to investors	1 year	3 years
Naviga BCI Worldwide Flexible Fund	24.01%	26.66%
Sector Average	13.14%	9.54%
Inflation (CPI)	4.87%	3.85%

ProfileData performance stats to 30 June 2021: CAGR with dividends reinvested

## Please describe your investment universe.

The fund's mandate is broad, allowing the fund to invest in a range of asset classes, with no bias towards any one geographical location or sector. Having said that, the fund's growth strategy is to invest in equities, the asset class with the highest expected return over the long-term.

At inception in September 2017, the fund held a mix of SA and global stocks. Towards the end of 2018, the market took a turn for the worse and the fund rotated somewhat into money market instruments.

Today, the fund is predominantly a US equity fund after rebalancing towards high momentum growth stocks, most of which happen to be in this region. The US stock market is wide and diverse, with a large enough universe of stocks to select from. We continuously search for high growth companies worldwide and have investments in companies outside of the US too.

## Please comment on your investment year (July 2020 – June 2021) from a fund manager's point of view.

For the year ending 30 June 2021, the fund returned 24% in rand terms and 51% in US dollar terms. The end of 2020 was sluggish with the market going sideways for the last few months. This continued into 2021 with the market's rotation into value stocks. The second quarter picked up nicely and the stocks we have invested in have performed well.

Navigating Covid-19 times has been challenging but it has also presented many excellent investment opportunities as it accelerated the adoption of online shopping, remote work and automation. The fund's investments in e-commerce, chipmakers and other related sectors have been very beneficial.

## In terms of risk management, what methods or strategies are you able to use to protect your clients' investments?

As the fund is invested exclusively in equity stocks, it tends to be volatile and the fund is considered to have a high risk profile. Volatility is often equated to risk, but we regard risk as the danger of permanent capital loss. Investors with long term investment growth objectives should not face the need to liquidate in weak market periods. In that case volatility does not pose a risk of capital loss.

The biggest risk of capital loss is posed by company failures caused by poor business management decisions and lapses in corporate governance practices. We protect investors by aiming to choose stocks of companies that have good long term growth prospects and by monitoring their business fundamentals and governance standards. We do not engage in risk hedging activities as we believe that their net effect detracts from superior returns.

We purposefully do not over-diversify the portfolio as this reduces excess returns. We keep a smaller statistically relevant selection of stocks that should outperform the indices over the long term.

Every investor has their own personal circumstances and tolerance and they need to be comfortable with some volatility. The risk of capital loss is higher over shorter periods, however, expected long-term returns are also higher. The investment horizon for any investor should be at least 5 years.

**Please comment on the year ahead, and if possible estimate the performance of your fund over 2 or 3 years. What are your targets and objectives for the year ahead?**

While the benchmark for the Fund is CPI +5% p.a., we prefer to measure the performance against a more appropriate benchmark, being the tech heavy Nasdaq Composite Index. The target is to outperform the index over the longer term. The fund has managed to beat the index over the last 2 and 3 year periods.

Technology stocks are providing the most opportunities at the moment, with excellent growth prospects from some less familiar names that are emerging in this space.

2020 was an extraordinary year for the fund, with a return of 78% in rand terms for the year. One cannot expect to replicate that performance annually; however, we do expect growth to continue. We aim to continue to generate meaningful returns for investors by identifying companies that have potential for high growth, have a sound business model, good financial fundamentals and offer a service or product that satisfies a clear need either now or in the future.

**Are equity markets in general overpriced? Do you anticipate a significant correction or will the bull run continue?**

One cannot express an opinion that covers all markets worldwide. We believe that advances in digital technology will be the biggest driver of world economic activity over the next few decades. The USA will remain in the forefront of the development and exploitation of that technology. We will consequently focus on USA markets.

There is no doubt that USA markets are experiencing a very long growth phase. In the past every growth phase has ended in a correction. We expect that history will repeat itself and that a significant correction will occur sometime. The events that have sparked past market collapses were varied and unforeseen. USA markets have always regained upward momentum and surpassed previous valuations after a period of time.

We do not believe that anyone can reliably benefit from timing market fluctuations and we see no merit in trying to predict a correction.

**Which asset classes do you expect will give the best total rates of return over the next few years?**

The fund is a long equity fund, with a small cash holding. We don't see this changing much over the next few years. We intend to stay invested in equities as we expect this asset class will outperform any other asset class over the long-term.

Innovation and technology are delivering so much change and opportunity in new markets and products. We expect this to continue for the long term. Our job is to identify and invest in the companies that lead these sectors and deliver excess growth and returns.

**Offshore investments are heavily influenced by the rand. Please give your view on the rand over the next 1, 3 and 5 years.**

Currencies over the long term are a product of interest rate and inflation differentials. No one can control nor predict exchange rate movements. Therefore we do not have a view or hedge against currency fluctuations.

In the long run, being invested in quality high momentum growth stocks should trump any exchange rate noise. In fact, the rand's appreciation against the dollar over the past 5 years is insignificant.

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