PRESCIENT

TIME FOR MEDICAL SCHEME TRUSTEES TO RE-EVALUATE THEIR INVESTMENT MANDATES?

Medical aid funds are sensitive to capital losses and have a low tolerance to take on investment risk, but they still need to achieve inflation-beating returns to counter the impact of medical inflation.

Historically, medical aid inflation has been much higher than consumer price inflation and is currently close to 11% compared with CPI at 6%.

The fact that Regulations 29 and 30 of the Medical Schemes Act limit equity exposure to a maximum of 40% makes high return targets challenging to achieve, said Bastian Teichgreeber, Portfolio Manager at Prescient Investment Management.

“This is especially so considering the high liquidity needs of medical aid schemes for funding necessary withdrawals,” he added.

Generally speaking, Prescient expects equities to deliver real long-term returns in a range of 6% to 8%, bonds to achieve 2% real growth, and cash 1% real growth.

Teichgreeber noted, however, that it is possible to achieve an ambitious investment return target while being sensitive to the risk of losses, and while working within the constraints of legislation in a highly regulated environment.

“At Prescient we believe in the concept of compounding positive returns over time and therefore we do not think it is contradictory to have an ambitious return target while at the same being sensitive to downside risk.

“We achieve this by holding a significant portion in growth assets which are protected from any risk of losing capital.

“Our philosophy is centred around capital preservation as we structure solutions that are able to capture the market as it goes up, without exposing our clients to loss of value as markets go down”.

Teichgreeber said that Prescient manages its medical aid solution in a way that delivers returns significantly above medical aid inflation, after fees.

Given the high liquidity needs of medical aid funds, a large allocation of a fund’s capital is allocated to interest bearing assets. At Prescient this necessitates a thorough analysis of interest bearing instruments, which is undertaken on an ongoing basis as part of the group’s robust credit process.

The challenge for medical aid funds is to deliver inflation-beating returns while dealing with tough liquidity and regulatory constraints, and a low tolerance to take on risk.

According to Teichgreeber: “By protecting our equity allocation, we are able to carry a higher portion in the important inflation-beating asset class than ordinary allocations. Regulation 29 allows a medical aid scheme to carry a higher nominal equity exposure, as long as the fund manager buys protection on it.

“By doing so we are not only Regulation 29 compliant, we also reduce the portfolio’s downside risk while enabling it to capture the necessary equity upside.

“With our long track record in running derivative driven funds, we are the ideal partner for any medical aid scheme. We know how to manage protected equity in a balanced portfolio and how to make sure that the protection is not a drag on performance.

“On top of that, as one of the leading fixed income houses in South Africa, we know how to deal with the remaining, more conservative allocation of the portfolio”.

In terms of historical performance, Prescient has proven its ability to manage downside risks efficiently over almost two decades, adhering to its promise not to lose capital. Despite not losing any capital, the group has delivered significant equity upside.

Since inception of its Positive Return Strategy in 1998, Prescient has returned CPI plus 7% without any downside risk.

Ends

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About Prescient

- Prescient’s subsidiaries include: Prescient Investment Management (SA), Prescient Securities, Prescient Management Company, Prescient Life, Prescient Fund Services, Prescient Fund Services (Ireland) Prescient Wealth Management, Prescient Profile, and EMHPrescient Investment Management.

- Prescient Investment Management is a signatory to the United Nations Principles of Responsible Investing (UN PRI) and pledged to the Codes for Responsible Investing in South Africa (CRISA).
- The Prescient Global Income Fund, now known as the Prescient Global Income Provider Fund, was ranked by Morningstar as the 7th top performing fund for 2015.
- **More recently, the Prescient Income Provider Fund won the Raging Bull Award for the Best South African Multi-Asset Income Fund, Best South African Interest-Bearing Fund as well as a certificate for the Best South African Multi-Asset Income Fund on a risk – adjusted basis over five years to December 31, 2016.**
- Morningstar data also confirmed that The Prescient China Balanced Feeder Fund has been the top performing South African domiciled fund for the second year in a row.
- Prescient Investment Management was the first institution in Africa to be granted a Qualified Foreign Institutional Investor (QFII) licence by the China Securities Regulatory Commission (CSRC).
- Prescient Investment Management was named Overall Investments/Asset Manager of the Year at the Imbasa Yegolide Awards 2011, Absolute Return Manager of the Year in 2013 and Bond Manager of the Year and Responsible Service Provider of the Year in 2015.
- The full details and basis of the award can be obtained from the fund manager.
- For any additional information such as fund prices, brochures and application forms, email info@prescient.co.za or visit www.prescient.co.za
- Prescient Investment Management Ltd, is an authorised financial services provider (FSP 612). Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. Performance has been calculated using net NAV to NAV numbers with income reinvested. There is no guarantee in respect of capital or returns in a portfolio. Prescient Management Company (RF) (Pty) Ltd is registered and approved under the Collective Investment Schemes Control Act (No.45 of 2002). For any additional information such as fund prices, fees, brochures, minimum disclosure documents and application forms please go to www.prescient.co.za