PRESCIENT

ASSET MANAGERS NEED TO REINVENT THEMSELVES IN A CHANGED WORLD.

Bonds are currently Prescient's preferred asset class

To deal with quantitative easing, low real returns and the challenges of the future, asset managers need to reinvent themselves by constantly adapting to changes in the global environment.

Bastian Teichgreeber, Portfolio Manager and Analyst responsible for positive return and balanced mandates at Prescient Investment Management, commented that if asset managers stick to static asset allocation approaches that worked in the past, they risk falling behind in future. "For example, we need to deal with the fact that the risk free rate of return might turn negative and that expected returns on developed market government bonds are below zero. There are also the implications of ever lower expected returns from equities and volatile currency movements."

"It's crucial to understand the environment we're operating in. Aside from low real returns, uncertainty has escalated and correlations are more unstable."

Teichgreeber said that within Prescient's asset allocation process, bonds are currently the preferred asset class. The fund manager also currently favours cash over equities.

"Equities are expensive and we are in the later stage of the global business cycle. Local bonds have priced in a lot of risks to materialise, like the Federal Reserve hiking US interest rates, or South Africa being downgraded".

He added that gross domestic product growth is correlated with equity returns, which are higher in periods of strong nominal GDP expansion. Quantitative easing had struggled to create economic growth or inflation, instead pushing up asset prices and creating asset price inflation.

The intention behind quantitative easing was to kick-start a struggling economy, providing easy money to encourage companies to invest and consumers to spend, with the result that growth and inflation eventually pick up again.

"However, in the absence of fiscal stimulus and structural reforms, it's been found that monetary policy alone can't succeed," Teichgreeber said.

"The problem over the last few years is that companies have not invested due to pessimism about the future, while consumers have saved more to make up for the loss in interest. Investors are pushed up the risk curve in order to achieve a predetermined return target."

With volatility and uncertainty likely to continue, Prescient currently believes that a defensive asset allocation strategy is more promising than an aggressive allocation.

Teichgreeber said the Prescient Positive Return Fund is ideally suited to current market conditions. Regulation 28 compliant, the fund aims at generating consistent positive returns, while safeguarding the portfolio from downside risk.

The fund aims to protect capital over a 12-month rolling basis and has been successful in this regard, having never lost money over any rolling 12-month period. It invests in cash, capital market instruments, and equities with an active asset allocation overlay. The equity component of the fund is protected to reduce the risk of capital loss.

"The portfolio adopts an innovative asset allocation approach, structured to optimise returns in positive market cycles and to protect capital in negative periods," said Teichgreeber.

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