



MARKET NEUTRAL HEDGE FUND LIKELY TO BENEFIT FROM NORMALISING MARKETS.

Dr Nafees Hossain is making good progress with the Prescient Market Neutral Hedge Fund, a South African statistical arbitrage strategy that launched in October.

The fund is the first single-strategy hedge fund from Cape Town-based Prescient Investment Management, a quantitative-focused house that is part of the listed Prescient Group.

Seeded by the Prescient life company with R3 million, it has gained a net 8.12% since inception. It now has R4.5 million under management with capacity for R300 million to R500 million.

Hossain uses an established methodology that he has worked on for many years, previously running hedge funds at both Sanlam Investment Management and X-Chequer Fund Management. He joined Prescient in late 2012 in an asset allocation and research role, covering long-only and absolute-return mandates, with a focus on alpha-generating strategies in equities and fixed income, both locally and globally.

Hossain is a published academic with a PhD in statistics from the University of Cape Town, a Masters in financial mathematics and an Honours degree in actuarial science. He joined SIM in 2006 as a quantitative analyst, taking a quants and risk-management role in the absolute-return division, which had around R12 billion under management. That role expanded to cover inflation-linked and balanced products as well as derivative strategies. At SIM, he incubated and then launched a statistical arbitrage strategy, based on a proprietary model that he started working on in 2007. The strategy focuses on South Africa's top 90 listed companies, measuring co-moving factors between stocks within various sectors, and investing via intra-sector pair trades.

After a previous client suggested he re-launch the strategy, Hossain says he and the Prescient team did a lot of research around portfolio construction, looking back 20 years. While the core philosophy of the fund remains the same, a new improved process created exciting results.

"Hedge funds are a new area for Prescient, so I had to convince the team of the merits of the strategy and philosophy, leveraging off their combined skills to launch the new fund," he

said.

In its previous incarnations, the fund had low gearing, which will now be used to better effect in the new portfolio. After extensive research and backtesting, gearing limits have now been set at five times, but will on average run at about 1.5 times.

The fund has a conservative profile, with the portfolio comprising 15-20 equity pair trades at any given time, with daily trading. Net exposure is rarely above +5% or -5%.

It conservatively targets cash plus 6% throughout the cycle, although research has shown the ability to deliver cash plus 12% per annum.

Hossain's hedge fund team includes Justin Sage and Kevin Weller.

Sage has a Bachelor of Economics degree from the University of Stellenbosch, starting his career at Merrill Lynch Prime Brokerage (London) in 2000 before joining UBS Investment Bank where he spent four years as an equity swap specialist servicing top-tier hedge funds across multiple strategies and products.

In 2004 he joined Creo Capital, an Asian hedge fund in Singapore, as a trader covering Asian equities and derivatives. From 2006-2010 he was head of trading for Singapore-based Amoeba Capital Partners, an Asia ex-Japan long/short equity fund. He moved back to South Africa in 2011, working at StatPro as business development manager before joining Prescient in 2012 to enhance the trading and electronic execution capabilities, building infrastructure, systems and centralising all dealing.

Weller joined Prescient in 2011 to head algorithmic trading and cost analytics, and is responsible for the group's internal and external institutional client algorithmic trading activities on local and global markets. He has a Bachelor of Science with Honours from the University of Natal, working previously at Old Mutual Asset Managers as an equity trader before joining Barnard Jacobs Mellett in the US, based in Connecticut, as head of sales and trading until 2006. He was then with Investec Securities in New York for two years, returning to South Africa as a sales trader with Noah Financial Innovation in Johannesburg. He focuses on the fund's algorithmic design and automated capabilities.

The fund has performed well since launch, adding 5.7% in its first three months last year and a further 2.38% this year.

Hossain says the past three years have been tough for market-neutral funds compared with

previous market cycles. US quantitative easing generated excess liquidity in the markets, making momentum a much more prevalent factor and mean reversion almost non-existent as certain relationships broke down. While the US dollar weakened, emerging markets did well.

“It has been an important time to learn lessons about portfolio construction and diversification and to build robust processes,” Hossain said. “Our process with this fund reflects that.”

He added that while QE has ended in the US amid strong macroeconomic data and a strengthening dollar, the start of the European QE process has put a dampener on the euro. These imbalances will bring higher volatility, creating an environment that should benefit his strategy.

The team’s initial aim is to grow the current fund and then to look further afield, applying the process to more liquid global markets. In time, they plan to launch a global stat arb fund for South African investors.

Prescient is also looking to offer a version of the existing fund to retail investors under incoming regulations, where gearing will need to be limited to 200%.

The team’s long-term vision is to extend their process into to include other strategies, which could potentially be combined into a multi-strategy fund in time.

Prescient Investment Management has assets under management of around R64 billion, and a 22-strong investment team. It has around R16 billion in absolute return and balanced funds.

It is predominantly a quant house with a focus on building specialist solutions with predetermined risk limits for clients. Prescient is also known for using derivatives to bring asymmetry into its portfolio performance.

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

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