

ASSET ALLOCATION BECOMING MORE ADAPTIVE

Asset allocation, arguably one of the most critical aspects of fund management when it comes to performance, is becoming more adaptive and dynamic in response to market volatility.

Bastian Teichgreeber, Portfolio Manager at Prescient Investment Management, says asset allocation, which accounts for up to 90% of the returns generated by fund managers, is not about selecting the most promising asset classes in terms of absolute returns, but rather finding an optimal allocation in which assets can interact in a risk-reducing manner.

“The objective is to develop the combination of the right set of assets to capture an optimal risk return profile. The fact that different asset classes are driven by different factors leaves them partly uncorrelated to each other. “This enables sophisticated asset allocation to deliver stable returns, since the risk to which the whole allocation is exposed can be nicely balanced.”

An asset class is a group of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. Prescient investment Management’s local portfolios, cash, bonds, property, inflation-linked bonds and equities are defined as asset classes. The group also includes offshore bonds and offshore equity for its international portfolios.

Prescient differentiates between strategic and tactical asset allocation. The former is long-term orientated, the latter more short-term. Both allocations are derived quantitatively. Teichgreeber notes, “Strategic asset allocation is reviewed six-monthly or yearly, while tactical asset allocation changes can occur more frequently, taking into account changes in volatility.”

In the long run, volatility is mean reverting, with strategic asset allocation also orientated towards the long-term. More dynamic, tactical asset allocation involves deviation from the optimal long-term strategic allocation. In terms of determining tactical asset allocation, Prescient’s quantitative models incorporate two components: market momentum and macroeconomics.

Teichgreeber says it is important that the relationship between risk and return over a long duration is clear cut because the risk profile directly affects the asset allocation strategy. “However, this relationship can hold in the long term. Of course, there will always be periods in which riskier asset allocations underperform low risk allocations,”

Where its South African portfolios are concerned, Prescient Investment Management is currently overweight cash and bonds, and underweight equities.

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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