

INVESTORS TURNING INCREASINGLY TO ALTERNATIVE ASSETS.

Alternative assets including hedge funds, private equity, infrastructure funds and art – provide major opportunities for investors to diversify away from traditional asset classes to benefit from reduced overall portfolio risk and wider opportunity set.

Dr Nafees Hossain, Portfolio Manager and Analyst at Prescient Investment Management, says: “Alternative investments utilise a different approach to investing compared to equity or fixed income investments. Given their ability to invest in areas and ways that traditional investments can’t, alternative assets have the potential to improve the overall risk return characteristics of a portfolio. “They represent wider and more exotic opportunities that are not correlated with other assets to deliver an asymmetrical profile to an overall investment portfolio”. He adds that alternative assets have become more mainstream in recent years as investors look to minimise downside risk. The focus tends to be an absolute rather than relative returns.

Absolute return funds measure portfolio gains or losses as a percentage of invested capital, compared with the relative return measures often used by long-only funds that try to track and outperform a benchmark. Long-only funds are not allowed to indulge in short selling, but hedge funds, for example, employ different strategies in order to produce a positive return regardless of the direction of the market.

Absolute return managers tend to use short selling, leverage and high turnover in their portfolios. However, Hossain notes alternative assets are often more illiquid and hence have an embedded liquidity risk premium relative to traditional asset classes. “Alternatives with proven track records and demonstrated success tend to become long-term investments on the part of sophisticated investors. Due to higher fees and sometimes the illiquidity of these types of investments, it can be costly exercise to trade the assets. “In addition, investments in artwork and infrastructure-related projects, for example, may take long to gain significant value. On the others side, due to lower liquidity, alternative assets are often mispriced and offer opportunities for arbitrage.” Despite unique risks and other considerations, he says alternative investments can be useful tools to improve the risk-return characteristics of a portfolio.

They can increase diversification and reduce volatility given low correlations to more traditional investments and they can offer the potential for enhanced returns due to the wider

investment opportunity set.

He cautions, however, that investors need to undertake proper due diligence before allocating money to alternative assets. “Alternative managers may invest in a wide variety of instruments, including derivatives. They will also utilise short selling. Understanding complex investment strategies requires more upfront and ongoing due diligence”.

Following the recent inclusion of hedge funds under legislation governing collective investment schemes, Hossain calls for stronger oversight of other alternative investments like renewable energy funds, as this will make the asset class more accessible to investors

Ends

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- 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.
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