



TOP PERFORMING PRESCIENT EXPECTS CONTINUED SOLID RETURNS FROM VOLATILE CHINA

After a tumultuous 2015, market volatility in China is expected to persist, creating opportunities for solid returns in a market that is home to some 50 million retail investors. That's the view of Liang Du, Head of the China funds at Prescient Investment Management.

"Last year saw a continuation of the free market reforms being undertaken in China. The country is going through a tough period of adjustment, moving away from massive infrastructure and central government-led mega projects to a focus on consumption, services and improving the lives of ordinary people.

"Although the adjustment is painful in the short-term, with the government having to balance different dynamics, the reform process is one of the core reasons we are invested in China. Given current market pricing, and barring a massive crisis, we expect that future returns will be very reasonable."

"Chinese debt is a concern regularly raised by commentators. Chinese debt ratios have increased dramatically but it is important to realise that the debt dynamics are quite different to the rest of the world. The household sector itself has some of the lowest debt ratios in the world, and so do most private enterprises. The sector that is primarily indebted is the unlisted state-owned corporate sector. In a sense it's a bit like lending money to indebted family member. While it is painful, it is highly unlikely that the government will make the commercial banks bear the brunt of the pain, resulting in a financial crisis. Instead what we are currently seeing is the government swapping out bad debt from the banks to asset management companies which then merge and restructure unsuccessful entities with successful ones to manage the bad debt dynamics."

The Prescient China Balanced Feeder Fund has been the top performing South African domiciled fund for two years in a row.

In a year when most equity markets were negative, and the Chinese market delivered flat returns in US dollar terms, Prescient's China Balanced Fund was up over 15% in US dollars. In rands, the Fund returned over 57% for 2015.

“Since inception the Fund has outperformed Chinese inflation by 14% per annum in dollars, which resulted in returns of over 40% per annum in rands. This level of outperformance is unlikely to persist over the long-term and we have set as a more realistic outcome over the next 10 years a target of CPI + 8% per annum in renminbi (RMB). This is still very high, but given the opportunities in China, we believe it is achievable. China will remain a volatile market, which is where opportunities lie,” said Du.

For 2015, the equity component of the Prescient China Balanced Fund outperformed the market by a staggering 18%, with the alpha achieved through more than 1 800 trades.

Du added: “Our model is based on taking advantage of the aggregate behavioural investment biases of the retail investor, using statistical average to generate our profit. That simply means that we generate alpha through a large number of small wins rather than through a small concentrated set of large wins. Because of the high proportion of retail investors in China, they are able to swing market sentiment which creates attractive opportunities for us.”

“This contributes to volatility, which is what we count on to generate outperformance. Chinese retail investors treat the stock market as a casino, and we try to be the house. China remains one of the few places with massive retail participation and inefficient markets.”

A primary challenge for regulators has been to try and reduce volatility in the stock market, while continuing to liberalise the capital market, allowing for a more flexible exchange rate, as well as opening up the interbank market, where the majority of bonds are traded, to more participants.

Where the RMB is concerned, the recent rally in the US dollar against almost every other currency in the world, has positioned the RMB close to fair value, if not slightly overvalued.

Given the degree of panic and rampant speculation that often occurs in Chinese markets, Du says that, as fund manager, Prescient’s job is to stay calm and try to benefit from the volatility. “When sentiment is too negative we will try to be brave, and when sentiment is massively bullish we will be more grounded.

“Prescient’s asset allocation is driven by three main factors: valuation, sentiment and policy. In terms of valuation, the Chinese market is around 20% cheaper than the rest of the world, with financial stocks priced for absolute disaster. This is, however, in a world where most

equity markets are quite expensive.

“Sentiment is currently very weak after the recent fall, and policy is supportive of the market at the moment. As such we have a far more neutral allocation to equities at around 67.5% - far from between 90% and 95% when the Fund started.”

Du added that, having depreciated dramatically against almost all currencies in the past four years, the rand is currently very cheap relative to its fundamentals. Prescient does not intend to take any action to hedge against rand strength, but suggests that this is a good time for clients to consider the possibility.

The Prescient China Balanced Fund’s investment team is relocating to China in March, with its proximity to the market expected to help research even more opportunities.

“China is delicately poised in a period of transition, and is expected to become fully open in the next decade or so. This will be a unique period in history, and we look forward to taking advantage of investment opportunities to continue delivering strong returns for our clients,” said Du.

Ends

For media interviews:

Monique Martheze

PR/ Media

Email: monique.martheze@prescient.co.za

+ 27 (0) 21 700 3663

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