A place for **investors to hide**

BY CRAIG GRADIDGE
Co-Founder Of Gradidge-Mahura Investments

The current market volatility must have a number of investors scurrying for cover. With so many sources of risk in global markets such as Greece, China and rising rates in the US, together with a weakening currency, deteriorating economic conditions and rising interest rates locally, weakness and/or volatility could characterise markets for some time to come.

So where should investors be looking to park their funds while waiting for volatility to drop off? Cash is still offering low returns after taxes and fees. Higher returns at the bank come with liquidity trade-offs as investors are expected to commit to at least a one-year fixed term to get something close to an attractive rate.

Investors with fresh capital have a number of options at the moment: ignore volatility and invest now with a long term view; phase money into the market in an orderly fashion over a certain time horizon; phase money into the market in a disorderly fashion based on market movements; or park the funds in cash and wait until markets are cheap and yields high.

Which strategy is the best one to adopt will depend on the investor and their appetite for risk. For the patient investor with a sufficiently long-term horizon, the option to park funds and wait is good. The question is then where to park the funds, and at least beat inflation while waiting?

THE LOW COST AND LOW VOLATILE NATURE OF THE FUND MAKES IT AN ATTRACTIVE OPTION FOR INVESTORS WITH AN UNDEFINED INVESTMENT HORIZON.

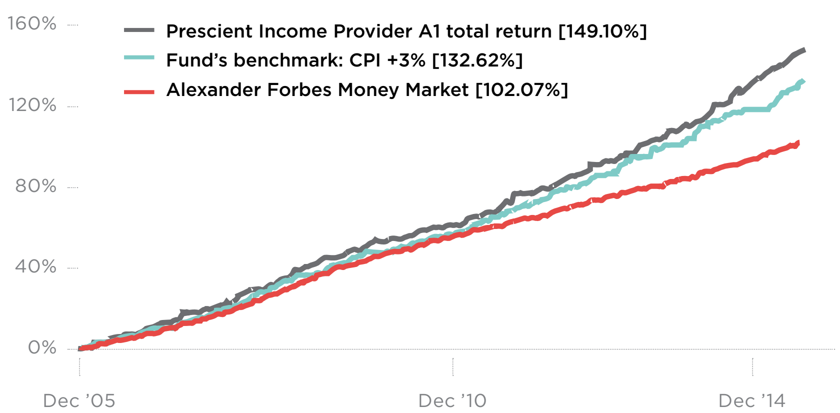
The Prescient Income Provider fund is a solid option for investors. The fund aims to generate income and outperform the South African cash and short-term bond market through a full interest rate cycle, and provide some growth in capital. According to the fund fact sheet, it invests in cash, high quality capital market instruments, preference shares and listed property. A number of techniques are used to generate returns including duration management, yield enhancements and risk management strategies. Risk is also mitigated by applying strict credit limits, and the fund is able to invest offshore.

We like the fund because of the relatively low cost structure compared to its peers. The Coronation Strategic Income fund is cheaper, but only by 0.05%. The fund also has an explicit risk benchmark of no capital losses over rolling three-month periods, and has consistently achieved this benchmark. On the upside, the fund has a performance benchmark of CPI+3%, which is an incredibly tough benchmark for such a fund. We will be happy with CPI+1% – CPI+2% over time from the fund. It has outperformed CPI+3% since inception in 2005, however, this has been a largely benign inflation environment coupled with above average returns from bonds and property.

Prescient has a long and credible track record in managing fixed interest mandates, and was largely responsible for the success of the Nedgroup Flexible Income fund before handing back that mandate. The low cost and low volatile nature of the fund makes it an attractive option for investors with an undefined investment horizon, waiting for an opportunity to get back into the market. They will likely keep inflation at bay in the short term, and have the liquidity when they need it. ■

editorial@finweek.co.za

PERFORMANCE OF THE **PRESCIENT INCOME PROVIDER FUND**



Data from FE 2015