

In the complex landscape of global finance, investment strategies must be both sophisticated and flexible. At Prescient Investment Management (Prescient), our systematic investment approach prioritises asset allocation and risk management, providing our clients with access to a diverse range of global investment funds. These funds are tailored to meet various objectives and risk appetites, offering options for those seeking stable income, long-term growth, or targeted exposure to specific markets. Backed by meticulous research and risk control, our strategies are designed to optimise returns while minimising volatility.

### **Asset Allocation as the Key to Success**

One of the fundamental principles in modern investment management is that asset allocation drives portfolio performance far more than individual security selection. Numerous studies support this, including Brinson, Hood, and Beebower's (1986) influential research, which concluded that over 90% of the variation in a portfolio's return is attributable to asset allocation decisions rather than stock picking or market timing. This insight forms the core of our investment philosophy at Prescient, where we emphasise the importance of spreading investments across asset classes rather than focusing on the idiosyncratic risks of individual securities.

Our Global Fixed Income approach begins with the allocation of assets across a broad investment universe, including fixed and floating-rate instruments, real and nominal bonds, money market instruments across various jurisdictions, derivatives, property, credit instruments and global currencies. This diverse array of options allows us to build portfolios that are not only well-diversified but also positioned to capture market dislocations as opportunities arise. With this approach, and our steadfast commitment to risk management, our funds remain stable, even in volatile market conditions.

### **The Global Fixed Income Universe**

Our investment strategy spans an extensive asset universe that includes 23 global asset classes and over 15,292 investable instruments. Of these, 19 asset classes are denominated in USD, while South African Constant Term Bonds and EU Sovereign Bonds are denominated in ZAR and EUR, respectively. At times we implement currency hedges, and by doing so we reduce volatility and create additional opportunities for alpha generation without the exposure to unpredictable currency fluctuations.

One of the key advantages of Prescient's approach is our ability to access even the most exotic asset classes while eliminating idiosyncratic risks through diversification. This practice aligns with the findings of financial scholars such as Markowitz (1952), whose Modern Portfolio Theory demonstrated the importance of diversification in reducing risk. Unlike traditional fund managers who often focus too much on security selection, we recognise that the real driver of investment success lies in how assets are allocated across different categories.

### **Systematic Portfolio Construction**

At the heart of Prescient's investment strategy is a systematic process for portfolio construction. This process involves running thousands of simulations to test different asset combinations, ranking them based on performance and risk metrics. By using enhanced visualisation techniques, we gain detailed insights into the allocation of assets across various classes and regions, as well as the impact of currency fluctuations on portfolio performance. The introduction of currency hedging and overlay strategies further enhances our ability to protect and grow our clients' wealth in a globalised market.

For instance, the Prescient Global Income Provider Fund, one of our flagship offerings, targets a real return of US CPI +1.5% while maintaining a positive rolling 12-month return. Through rigorous, scientific backtesting and risk analysis, we ensure that the Fund not only meets its performance objectives but also withstands extreme market conditions. By continuously monitoring embedded risk exposures, such as left-tail risks and drawdowns, we proactively position the portfolio to mitigate potential vulnerabilities.

## The Role of Risk Management

A robust investment strategy is only as good as its risk management framework, and at Prescient, we take this aspect of investment management very seriously. We apply real-time risk monitoring and analysis, using current portfolio weights to model potential outcomes in past market scenarios. This allows us to decompose the portfolio's sources of volatility, identifying sensitivities to specific events or market shifts.

Research from the field of behavioral finance highlights that investors often overreact to short-term market movements, leading to suboptimal decisions (Thaler, 1985). By applying a systematic and disciplined approach, we mitigate the human biases that can distort decision-making processes. Our focus on long-term objectives, supported by continuous monitoring and risk controls, ensures that our portfolios remain resilient over time.

## From Fixed Income to Multi-Asset Strategies

While fixed income plays a central role in our investment universe, Prescient's systematic process can easily be extended to other strategies, such as balanced or equity-focused funds. For example, we can overlay synthetic equity exposure onto an optimal fixed income allocation, ensuring that asset allocation remains the core driver of investment success while also capturing other risk premia like equity, credit, term, and currency.

This adaptability is key to helping our clients achieve their investment goals in a constantly evolving market environment. As markets become increasingly interconnected, the ability to adjust exposure across multiple asset classes is crucial. Our systematic process, combined with our extensive global reach, allows us to offer clients a range of solutions that can compete—and excel—in global markets.

## Conclusion: The Prescient Advantage

Investing globally presents numerous challenges, particularly for South African managers competing on the international stage. However, the same challenges exist for global investors as well. At Prescient, we leverage a systematic, research-driven approach that focuses on diversification, asset allocation, and low costs to deliver superior results. With access to an extensive asset universe, enhanced risk management techniques, and a commitment to optimising returns, our global investment funds are designed to provide our clients with both stability and long-term success.

By emphasising asset allocation, mitigating idiosyncratic risks, and utilising cutting-edge portfolio management techniques, we ensure that our clients are well-positioned to navigate the complexities of the global investment landscape with confidence.

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