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THE IMPORTANCE OF GLOBAL ASSETS IN YOUR INVESTMENT PORTFOLIO.

Building financial immunity against the antics of South African politicians should be a discretionary savings priority argues Haakon Kavli, Portfolio Manager and Analyst at Prescient Investment Management

As South Africans, our daily diet of news is a concoction of South African political intrigue mixed with fast-changing world events at the hands of unpredictable personalities like Donald Trump, Vladimir Putin, Xi Jinping and Kim Jong-Un.

But while global actors on the political stage can affect our lives indirectly, local politicians have a far more direct influence on our wellbeing.

With on-going political turmoil, we are increasingly aware of our dependence on the South African government to deliver on its responsibilities. Our personal safety depends on local authorities managing crime. Our children's future depends on the education provided by South African institutions. And our job security and financial wellbeing depends crucially on the South African economy. All considered, we are highly exposed to the vagaries of living in South Africa.

Given this situation, it makes sense for household to avoid putting retirement savings back into the same basket that already holds all other nest eggs for their future; including jobs, education, healthcare and security.

However, policy makers show little regard for the simple desire for diversification. Consequently, we still face regulation that requires all pension funds to invest at least 75% of their assets within South Africa.

This policy is far from optimal and has some major implications for South African investors.

First, it may be pointed out that forced investment in South African assets has, perhaps by chance, benefited South African savers. According to Bloomberg, a major financial data provider, South Africa has beaten all other major economies in terms of equity market performance since 1900. One may speculate that this is the reason the regulation limiting offshore investment has survived this long. Had South African equities instead underperformed during that time, domestic investors would presumably have shouted louder for greater access to international markets.

That said, even households that are optimistic about South Africa's future and expect strong local equity returns to continue, would find it prudent to consider the concentration of South African-related risk in their portfolios.

A good approach is to ask if you were a neutral outside investor, how much of your portfolio would you allocate to South Africa, and how much would you allocate to the rest of the world? Now, add up the financial value of all your South African exposures, including future employment income, residential property ownership and retirement funds. What is your true current allocation to South Africa?

In all likelihood, most households' current exposure to South Africa is sufficiently high just from employment income and home ownership alone. On top of this, their retirement funds are 75% invested in local assets. This implies that any additional discretionary savings should be heavily tilted towards global assets. Not because expected returns are higher offshore, but because this approach provides protection against South African risks.

There are several opportunities for South Africans to invest in global portfolios without transferring cash to foreign accounts.

One may, for example, utilise one of the many local unit trusts that invest solely in foreign assets. For example, Prescient Investment Management offers a range of global funds including equity funds, income funds and balanced funds, some of which are priced in foreign currency (USD or EUR) while others are hedged to the rand and take no exchange rate risk.

South African investors cannot rely on local equities to always outperform global markets. And neither can we rely on politicians to always do what is best for our economy. But we can avoid these risks by investing in assets that are out of their control.

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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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