Seed Weekly

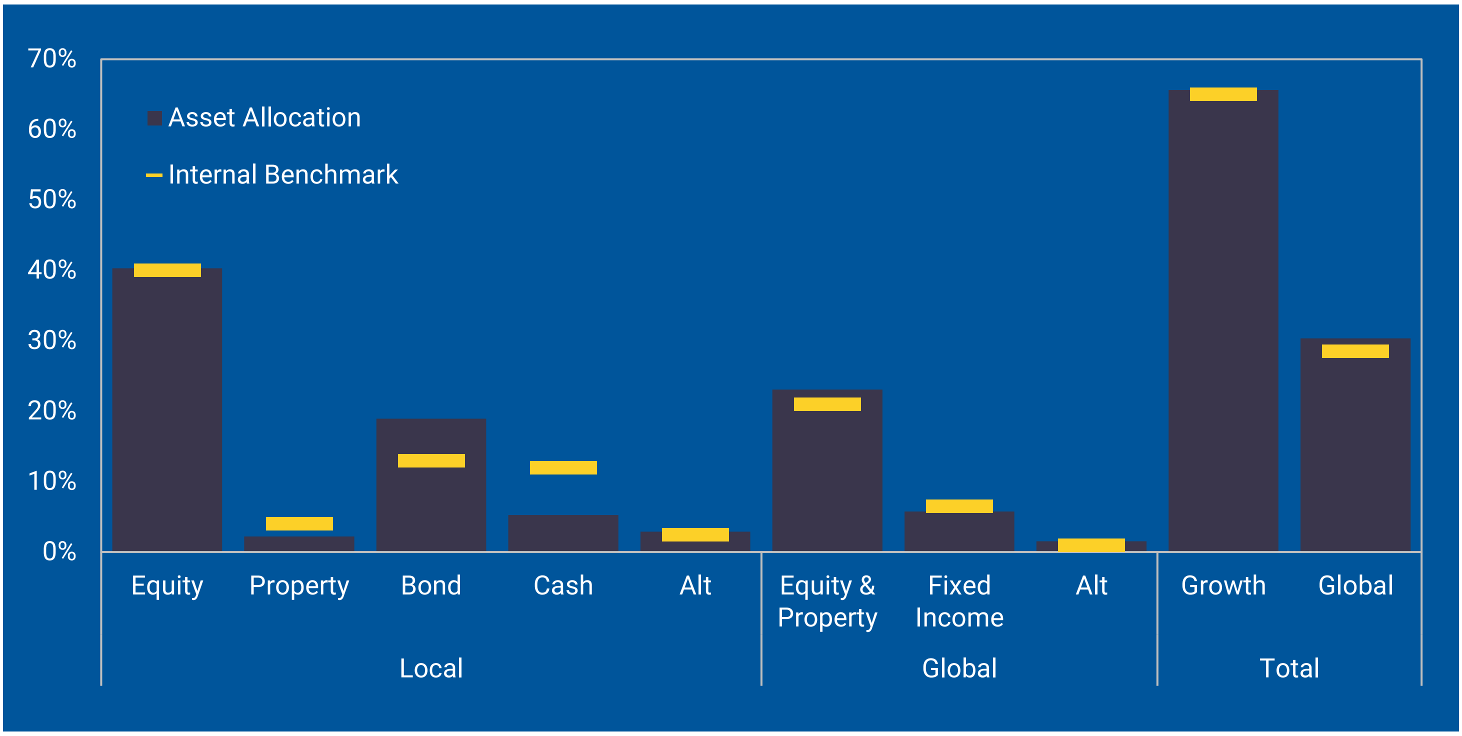
Seed Balanced Prescient Fund by Mike Browne

In June 2021, the Seed Balanced Prescient Fund celebrated its 11th anniversary.

Over these 11 years, there has been quite some change amongst its peers. At launch, in June 2010, there were 98 funds in the ASISA South African Multi Asset High Equity category. Of these 98 funds, 34 have been discontinued/merged into other funds/had a significant mandate change, which means that less than two-thirds of funds that were around when the Seed Balanced Prescient Fund was launched are still around in a similar shape or form. For a fund to just be able to survive this long is an achievement in and by itself but, in addition to surviving, the Seed Balanced Prescient Fund's performance is comfortably in the top half of survivors (which would typically be comprised of the better performing/more successful funds) since inception. There are now 237 funds in the category, and it will be interesting to see which of these is still around in 11 years' time. I wouldn't bet against the Seed Balanced Prescient Fund!

Like any Fund it has had its shares of good and bad times, but over the fullness of time it has shown its value when included as a portion of an investor's long term investment bucket (either discretionary investments or as a major component of retirement savings) and blends exceptionally well with other funds in the category.

As at the end of June 2021, the Fund is robustly positioned. The chart below shows how the Fund is positioned relative to its internal benchmark (Strategic Asset Allocation).



Source : Seed Investments (30 June 2021)

The average holding period for the mandates within the Fund is just under 5 years. As managers, we don't like to chop and change strategies to chase the latest flavour of the month, but rather perform extensive due diligence up front, and then focus on those strategies that we expect will show persistence.

Local equity exposure is currently close to benchmark weighting at just over 40%, and we expect that this component will be a major driver of returns going forward. Fairtree and Visio (the local equity active managers) have continued to deliver on their mandates. While the Fairtree component has shown quite a bit more volatility than the market over the 5 years that it has been in the Fund, it has outperformed by over 10% pa, adding lots of value through its active macro driven process. In the nearly 9.5 years that the Visio mandate has formed a part of the Fund it has consistently outperformed its index benchmark and, while it has only generated outperformance of around 1.5% pa, it has done so with much less risk (capturing just over 50% of the benchmark's downside and experiencing a maximum drawdown of less than two-thirds of the market). The Fund's local equity exposure is rounded up with a low-cost passive component managed by Satrix.

The Fund's global equity weight sits at 23% and, while it is mainly comprised of managers (Fundsmith and Lindsell Train) that focus on globally branded franchises/high quality businesses, there is also some exposure to low-cost systematic strategies that either focus on a geography (S&P500), favourable investment styles (momentum/minimum volatility), or provide an asymmetric payoff profile (listed ETN). The Fund is also currently using its full 30% global allocation given where the ZAR is trading versus the USD and other hard currencies and the opportunity set abroad.

The final large exposure in the Fund is a 19% allocation to local bonds. With the SA 10-year bond yielding 9.3%, this is a low risk allocation that can generate decent inflation beating returns. This is particularly attractive in an environment where cash yields are 1.5% behind inflation (i.e. a negative real yield). Taquanta manages the bulk of the local bond exposure in a relatively inexpensive fashion that seeks to take small incremental bets versus peers and the ALBI in order to generate risk-controlled outperformance over the long term.

This hopefully gives some flavour as to how the Seed Balanced Prescient Fund is currently positioned, and more importantly gives some insight into how it is managed. We are consistently on the lookout for a range of managers/strategies that can not only generate great risk adjusted returns, but that can also blend well with those strategies that remain within the Fund. As multi managers we strive to ensure that our portfolios are not only exposed to one house view or investment style, but to a range of ideas and philosophies that will result in a consistent investor experience.

Take care,

Mike Browne *CFP®*
Portfolio Manager

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