Seed Weekly

Seed Income Prescient Fund by Mike Browne

seed investments

In June 2021, the Seed Income Prescient Fund celebrated its 6th anniversary.

Over the past 6 years it has been a useful building block for many investors and should continue to form an important part in any investor's portfolio. When anyone starts earning an income for the first time, the first portion of their savings should be put into a low-risk investment that can be used as an emergency fund. The Seed Income Prescient Fund is the perfect vehicle for this kind of saving.

Most advisors recommend setting aside between 3 and 6 months of your net salary into an emergency fund which can be accessed, at short notice, in the case of emergency. The past 12 – 18 months has clearly shown the need for such an allocation, even for people in 'safe' jobs. Two important factors when deciding on where to park this allocation are, the likelihood that this emergency fund will need to be accessed is relatively low at any point in time, and the possibility that it will need to be accessed at short notice is important.

In the ideal scenario you/your client will have a stable job and no unforeseen health/family emergencies, in which case the emergency fund could sit untouched for a decade or more. However, there could well be an unfortunate event(s) soon after setting the money aside that the emergency fund needs to be accessed for. The pool of assets needs to cater for both scenarios.

The potential for two very different time horizon presents the advisor with an interesting conundrum of where to park the money. On the short-term end sits a savings account, a 32 day call account, or a money market unit trust which would satisfy the requirement of capital protection and short term notice. On the other side, any strategy that has a potential drawdown of around 5% or more would be putting too much capital at risk (bearing in mind there is a high likelihood that markets will be down at the time that the money is required).

It is here that the Seed Income Prescient Fund seeks to fill the gap. Most strategies with equity exposure will put too much capital at risk (i.e. will be exposed to drawdowns in excess of 5%), and while the Seed Income Prescient Fund can have some exposure to property it will generally comprise less than 5% of the Fund (currently 2.4%), so it ticks the box of not being too risky (in addition, the Fund has only generated a negative monthly return twice in 6 years and has a maximum drawdown of 4.8% – in one of the sharpest market drawdowns during last year's COVID crash).

While it might be tempting to stash the emergency fund in a cash type solution, with interest rates at all time lows, these accounts are guaranteed to lose you money in real terms (i.e. after the effects of inflation – currently 5.2%). A savings account yields at most 3% (and is possibly too easily accessed), 32 day call will give you around 3.5% (with the caveat that you have to give notice – and will most likely have to bridge your emergency costs for a bit), and money market unit trusts are currently yielding around 4.0% - 4.5% (best of the bunch, but still behind inflation – even before tax is taken into account).

The Seed Income Prescient Fund's current net yield (i.e. after TIC) currently sits just above 6%, which is the best proxy for the Fund's expected return over the coming 12 months. The Fund offers a yield above inflation so, should the emergency fund not be required for a few years, you will at least have the comfort that it is maintaining its purchasing power. The Fund achieves this yield by strategically blending a range of the top fixed income managers, that provide the core of the Fund, with a range of uncorrelated income mandates that help to increase the Fund's overall yield and increase the expected return.

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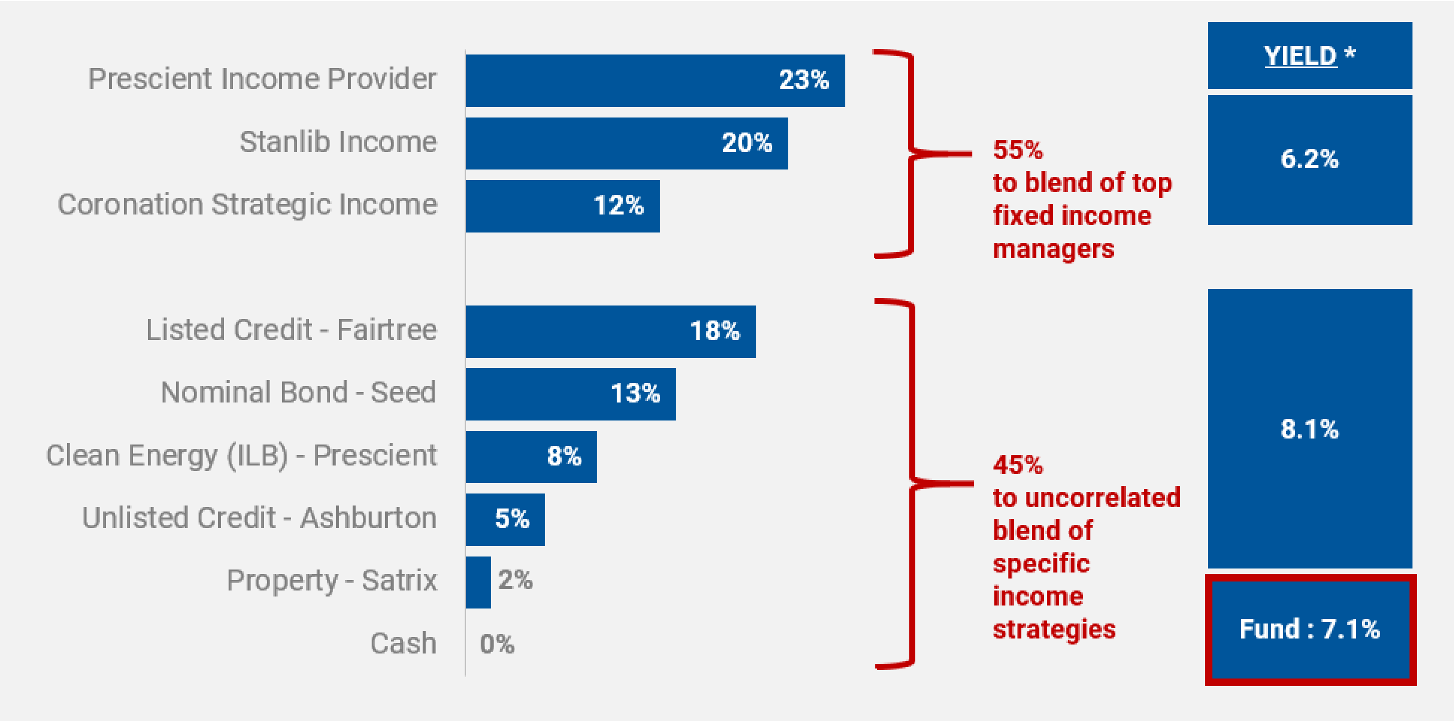
The chart below shows how the Fund is currently positioned with the relevant gross yields.



Source : Seed Investments (30 June 2021) ***Gross Yields**

As can be seen, the Fund is robustly constructed comprising a variety of managers, each with a different investment style, and includes a range of income strategies that aren't all correlated. While the Fund takes on a bit of risk to generate this high relative yield, its design should result in relatively consistent monthly returns and ensure that it hits the mark for those investors that require somewhere to either park their emergency fund for the short term or, hopefully, grow it slightly in real terms over the long term (i.e. no emergencies to worry about).

Take care,

Mike Browne *CFP®*
Portfolio Manager

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