PRESCIENT

INVESTMENT FIRM STILL BULLISH ON CHINA

Cape Town - Liang Du, Prescient Investment Management portfolio manager for its various China funds, says he is still optimistic about the long-term outlook for the world's second biggest economy as well as its stock market.

This comes after Chinese equities swung from massive gains to a spectacular crash during the course of this year.

The Shanghai Composite slumped 29% in the third quarter, helping to erase $5trn in the bourse's value, mainly due to concern about a slowdown in the Chinese economy coupled with the penchant among individual investors to borrow money to invest in the stock market.

"Prescient is actually still very bullish on China," Du said in a telephone interview with Fin24. "China has a very diverse and very strong economy. Even if it grows at just 3%, over the long term it is still a very attractive investment market given current valuations."

Du says Chinese stocks are trading at price-to-earnings ratios of between 12 and 13, compared to about 17 and 18 for the rest of the world.

While the Chinese economy is slowing down, he says this is a perfectly natural symptom of an economy that is rebalancing to one that is more services-based rather than dominated by the construction and manufacturing sectors.

Momentum investments says that despite this economic transition, China's economy is still likely to grow at about 6.5% in both 2015 and 2016 thanks to additional monetary stimulus and accelerated infrastructure spending from the nation's government.

While this is down from the 10.5% average growth experienced between 2000 and the 2008 financial crisis, it is still well above the 3% level Du says is enough to make the country a good long-term investment choice.

"We're very confident about China's long-term fundamentals and we remain invested with a long-term horizon in view," he says. "The long-term inflation outlook in China is also stable and quite low by global standards, and that is also a welcome sign for investors."

Du says a big reason for the slump in the Chinese equity market was the proclivity of the country's roughly 50 million retail investors – who account for an estimated 80% of trading - to borrow money to invest in stocks. Given that one could then use stock investments as collateral to borrow yet more money to invest in equities, this exposed many investors to so-called margin calls.

Margin calls occur when a lender demands more cash to cover for the depreciating value of the collateral used by someone to borrow money, which in this case would have been the falling Chinese equities themselves.

“The Chinese stock market is very technical and highly regulated,” says Du.

“Each stock is only permitted to drop 10% a day before its trading it suspended. The problem was that people who were invested in smaller stocks couldn’t liquidate their positions to meet their margin calls because of the 10% cap, so they resorted to just selling out of everything which obviously exacerbated the issue.

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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.
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