etfSA Research

Research News: Prescient Income Provider AMETF — December 2023

LAUNCH OF ANOTHER AMETF ON THE JSE

The number of Actively Managed ETFs (AMETF) is on the rise, contributing to the growth of the Exchange Traded Product (ETP) universe. The Prescient Income Provider Feeder AMETF **(JSE code: PIPETF)** listed on the JSE on the 8th December 2023, and is unique in its kind by **feeding from an existing and longstanding unit trust fund**, the **Prescient Income Provider Fund.** In accordance with new legislation, Exchange Traded Funds (ETFs) can now also be actively managed, meaning they have room for flexibility, rather than focusing on Indexing tracking solutions. **Prescient has listed the PIPETF as an AMETF**, while having the flexibility of **actively managing the unit trust fund**, which it feeds from.

The PIPETF provides exposure to a wide range of local and global interest-bearing assets and targets a return of CPI +3% per annum through a full interest rate cycle. This AMETF aims to avoid losing capital over any rolling 3-month period and is suitable for investors who are looking to get exposure to high income and long-term capital stability.

Check out the etfSA Investor Podcast on this AMETF (Episode 50), under the etfSA.co.za website > Media Center > Podcasts: The ETF Investor - Episode 50 - Actively Seeking Income Yield

ETP Name	JSE Code	MANCO	Listing Date	ISIN	Sector Exposure
Prescient Income Provider Feeder AMETF	PIPETF	Prescient	8 December 2023	ZAE000328407	Specialist Securities – Income focused

OVERVIEW

The Prescient Income Provider Feeder AMETF (PIPETF) feeds from the Prescient Income Provider unit trust fund and will solely comprise of the holdings in the unit trust, with the exception of liquid instruments.

The unit trust fund is a multi-asset fund that aims to achieve a high levels of income, in accordance with the fund's strategy of capital preservation and liquidity. The fund invests in local and global money market funds, bonds (including inflation-linked bonds), property, preference shares, and derivatives (i.e., credit linked notes). An advantage of investing through listed securities is the ability to receive intra-day pricing. Unit trust funds only make use of the previous working day's closing prices, whereas listed securities have prices available throughout the day. Prescient makes the Net Asset Value (NAV) pricing available daily on their website and the PIPETF will be valued at least three times a day, in accordance with the JSE Listing Requirements.

The AMETF is designed to provide a diversified portfolio of income-generating instruments. A portion of the offshore exposure will be currency hedged back into rand exposure, so the performance is exposed to some currency risk (i.e., exchange rate differential).

- The management fee is 0.40% excl. VAT
- In terms of income distributions, it is a distributing AMETF that pays out monthly
- Is Regulation 28 Compliant and is suitable for Tax Free Savings Accounts (TFSA)
- This AMC is suitable for investors with a short-to-medium term view and the risk profile is moderate
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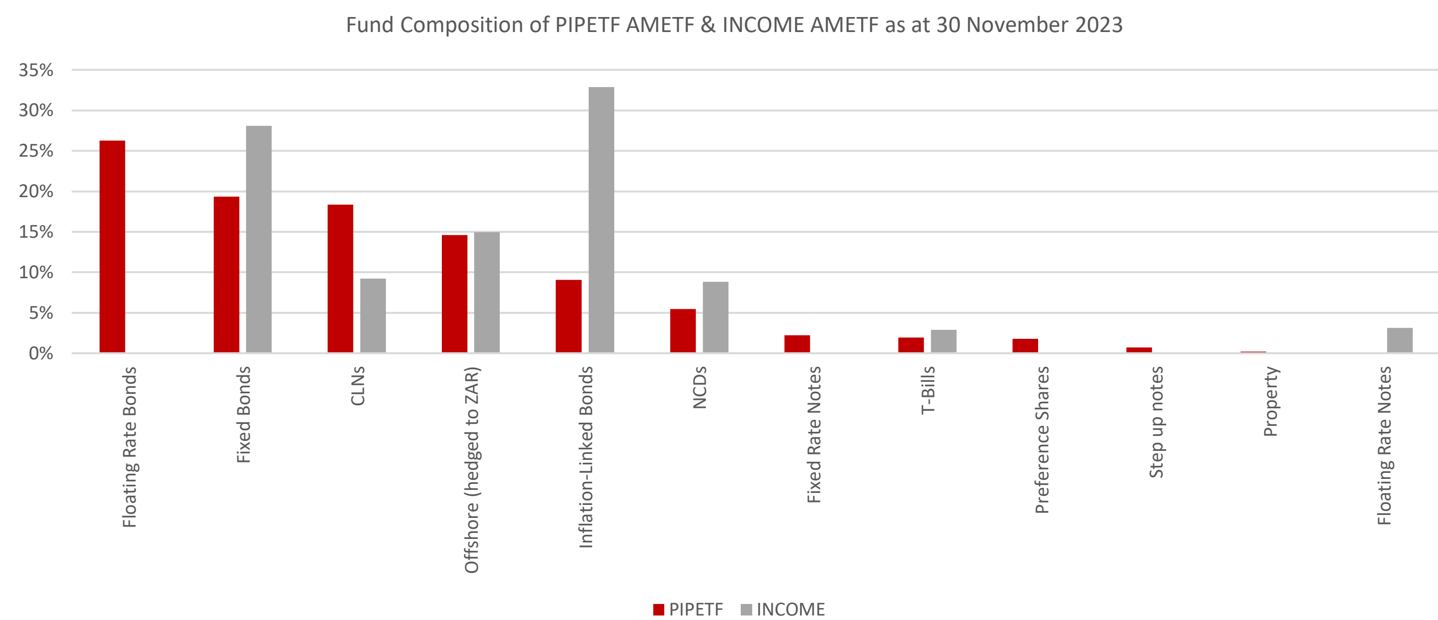
PORTFOLIO ANALYSIS

The Prescient Income Provider AMETF (PIPETF) makes use of money market funds, bonds, property, preference shares, inflation-linked bonds, derivatives, and offshore cash and bonds to meet the fund's objective, of a real return target of CPI + 3%. Another AMETF that has a similar strategy, is the 10X Income AMETF (INCOME) – view this research note on the etfSA.co.za website > ETP Info Centre > Research: CoreShares Income AMETF (now 10X Income AMETF). As such. the INCOME AMETF is included in this research note for comparative purposes only.

The PIPETF AMETF's strategy differs to that of the INCOME AMETF, in that the PIPETF AMETF targets a return of CPI + 3% over rolling 3-month periods, whereas the INCOME AMETF targets a return of CPI + 2.5% over rolling 3-year periods. The duration of the PIPETF AMETF is 1.7 years (1 year and 7 months) in comparison to the INCOME AMETF, which has a duration of 4.2 years (4 years and 2 months).

AMETF	Fund Duration (Yrs)
PIPETF	1.7
INCOME	4.2

Straightaway you can see that the investment approach between these two AMETFs vary, and as such, you can expect for their exposures to vary as well. Looking at the fund composition below, the PIPETF AMETF has the largest weighting towards floating rate bonds (bonds that have variable rates), whereas the dominant exposures in the INCOME AMETF are in inflation-linked bonds and fixed rate bonds. Floating interest rates allow investors to gain exposure to the variable interest rate, so when interest rates rises or falls at any given time, the rates in the bonds adjusts accordingly with this change. The INCOME AMETF targets the slightly longer end of the curve with its exposures in the fixed rate bonds and the inflation linked bonds. As at the end of November 2023, the duration of inflation-linked bonds and fixed rate bonds in the INCOME AMETF, is 1.09 years and 2.73 years, respectively. While the current fund composition of the PIPETF is targeting the shorter end of the curve, the fund does not have a duration limitation and is rather managed conservatively to improve capital stability over rolling 3-month periods.



Source: Prescient, 10X, etfSA (14 December 2023)

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METHODOLOGY

Understanding the investment strategy is vital to know what you will be investing in. The PIPETF AMETF feeds from the Prescient Income Provider unit trust fund and from a risk target perspective, the fund aims to have a positive rolling three-month real return at CPI + 3%, which translates to the power of compounding positive real returns that are inflation-adjusted. Prescient makes use of a risk-based approach in the selection of the assets in the portfolio. Each asset is assigned a risk number and through scenario testing and analysis, various outcomes are determined off the back of the fund's risk budget. Prescient's investment process is valuation driven and further details on the fund's methodology is highlighted below:

- **Duration or interest rate decision:** The interest rate position is determined (whether to be long or short interest rates), whereby the fair market value of instruments could be affected factors, such as rising interest rates and country and/or currency-specific risks, so instruments offering the best value expectation with a low risk of valuation, is selected.
- **Scenario Analysis:** A risk management scenario analysis is conducted to model the returns of various money market instruments under varying interest-rate scenarios. Prescient also models the returns under varying scenarios within the investment universe to select assets that produce stable returns across all scenarios.
- **Credit Risk Management:** A quantitative risk-cognisant approach is taken in managing the asset allocation, pricing and credit portfolios. An internal credit rating framework is employed to evaluate and select credit that seeks to avoid default risk and limit the credit-spread risk.

Source: Prescient (14 December 2023)

RISK PROFILE

The Prescient Income Provider AMETF (PIPETF) is uniquely positioned as being an actively managed ETF that provides investors with exposure to a wholistic income offering using multi-asset classes, including global and local bonds, preference shares, property, and derivatives. etfSA.co.za classifies the risk profile of the PIPETF AMETF as moderate. Investors should be aware of their risk appetite and should be mindful of the risks associated with investing in this AMETF. Be sure to obtain the latest information and risk considerations of the AMETF from the managing company.

Details on some of the risks to be aware of is as follows:

- **Currency Risk**: The Portfolio may be exposed to currency risk in relation to the valuation of assets held in other currencies besides the Rand
- **Market Risk**: Market risk exists because of price changes. As the portfolio will always be exposed to markets, it is effectively exposed to market-related volatility
- **Credit Risk**: The risk that a borrower fails to meet its obligations, resulting in a financial loss
- **Liquidity Risk**: A risk that an investment cannot be bought or sold on time to prevent or minimise a loss
- **Interest Rate Risk**: Interest rate risk is the decline in the value of an asset or instrument resulting from fluctuations in interest rates.

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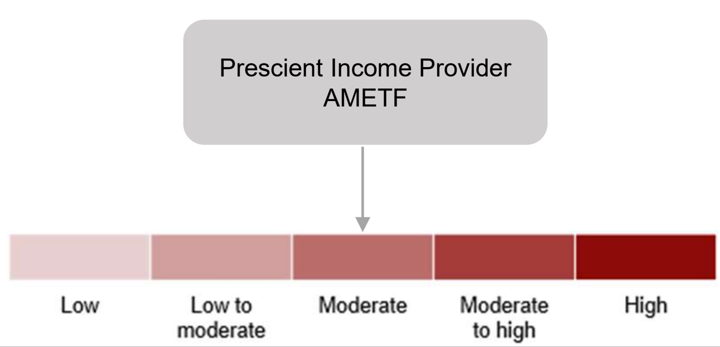

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