

It's no secret that "data" has been a buzzword for some time now. It's viewed as a valuable asset across nearly every industry imaginable, and thus, companies that want to stay relevant and increase profitability really do need to embrace data in their processes and decision-making.

While data-driven decisions are widely embraced in the asset management industry, is data truly recognised as the greatest asset in asset allocation that it promises to be?

In traditional asset management strategies, decision-making heavily relies on human decision-making skills, such as interpreting economic trends and assessing overall market sentiment. While acknowledging the importance of humans making decisions that are difficult to quantify, the rapidly evolving landscape of the asset management industry has led to a greater emphasis on quantitative evidence used to inform decision-making.

Data plays a pivotal role for asset managers in various aspects. It enables them to make well-informed decisions, assess and mitigate risks, monitor investment performance, gain insights into client behaviour and preferences, align with their investment objectives, and ensure compliance with regulatory standards.

Prescient Investment Management adheres to a systematic investing approach, merging quantitative and human decision-making skills to ensure enhanced financial certainty for our clients. Our approach involves three pillars: advanced statistical analysis, meticulous portfolio construction and optimisation and leveraging AI and machine learning. Our dedicated, in-house data science team is central to our investment process and assesses over 120 million data points daily. This empowers us to execute our investment strategy with heightened efficiency, effectively meeting our clients' needs.

We adeptly manoeuvre through intricate market dynamics, basing our decisions on rules and evidence, thus aiming to deliver reliable, long-term outperformance. We advocate for investment choices that are grounded in robust data science and analytics, creating a synergistic blend of data-driven analysis and informed human insights. Embracing this symbiosis equips asset managers to navigate evolving markets amid uncertainty, optimise costs and offer value-driven products to their clients.

At Prescient, robust risk management is integral to our investment process. Beyond merely monitoring portfolio performance, we maintain real-time vigilance over risk factors. Employing diverse risk metrics, we quantify the risk exposure contribution of each asset to overall portfolio risk. Another aspect of our risk management strategy involves scenario analysis, which is done by simulating each asset's total return through a list of historical stress scenarios. Additionally, we track peer risk given that one of our primary objectives remains consistent outperformance against benchmarks and peers. While we strive for superiority, we also aim to maintain a balanced proximity to peer performance.

These findings can then be strategically used to mitigate risk, whether by adjusting or maintaining portfolio positioning with appropriate levels of protection. This approach is invaluable for measuring and controlling the level of risk exposure in the portfolio and ensuring that it is not overly exposed to highly correlated assets, thus promoting diversification. Asset managers can make informed decisions and devise strategies to safeguard portfolios against significant downside movements by accessing this data.

All asset managers share the common objective of maximising the value of a diverse range of assets while mitigating risk to an acceptable level. This duty entails making decisions on behalf of clients in good faith and hinges on gaining access to quality data and translating it into knowledge and, ultimately, wisdom. That makes data the most valuable asset for asset managers when overseeing a portfolio.

Given the increasingly complex investment landscape, data science's prominence in asset management processes is sure to continue increasing. We at Prescient will continue to maximise the value we can extract from our data capabilities, enhancing our investment decision-making and delivering the best investment results for our clients.

Disclaimer

Prescient Investment Management (Pty) Ltd is an authorised Financial Services Provider (FSP 612).

Please note that there are risks involved in buying or selling a financial product, and past performance of a financial product is not necessarily a guide to future performance. The value of financial products can increase as well as decrease over time, depending on the value of the underlying securities and market conditions.

There is no guarantee in respect of capital or returns in a portfolio. No action should be taken on the basis of this information without first seeking independent professional advice.

This document is for information purposes only and does not constitute or form part of any offer to issue or sell or any solicitation of any offer to subscribe for or purchase any particular investment. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever that may be suffered as a result of or which may be attributable directly or indirectly to the use of or reliance upon the information. For more information, visit www.prescient.co.za
