



Prudential Investment Managers  
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# AI and your investments: Getting the best of both worlds

Artificial Intelligence (AI) is becoming a bigger part of every aspect of our lives, and it is giving individuals and corporations unprecedented power. A key question investors need to ask is: Are you utilising this power in your investment portfolio?

## AI in investing

AI is a series of algorithms that mimic human intelligence to perform tasks more efficiently than humans. They are informed by processing huge amounts of data. AI will have a fundamental impact on almost every industry eventually, and the world of investments is no exception. In fact, the investment industry is already seeing rapid growth in the popularity of AI-driven products.

## How can AI enhance my portfolio?

A traditional actively managed equity fund manager, or fund management team, will typically have around 300 companies on their “watchlist”. Equity analysts will keep a close eye on these companies and rank them in terms of their “investable” characteristics. Based on this research they will group the watchlist companies into three broad categories: buy, sell, or neutral. Fund

managers will use this information to optimise the portfolio holdings to achieve the fund's objectives.

However, a big question that haunts fund managers is what might we be missing out there beyond our watchlist? Should we change our investable universe? This is where the power of AI comes in. Its ability to process huge quantities of data means it is possible to track and analyse every single listed company across the globe – of which there are around 8,500. Any human team has to narrow down the universe of shares available to a manageable number, but in doing so they might possibly be excluding some great opportunities. With AI involved, this narrowing down is no longer necessary. This helps to expand the investable universe, limited only by a company's own investment processes and philosophy, as well as resources.

### **How Prudential's Global Equity Fund uses AI**

The [Prudential Global Equity Fund](#) uses the best of both worlds: it [combines the science of big data with the art of human judgement](#). To identify the companies the fund should invest in, the fund managers feed proprietary data sets into a proprietary machine-learning model. This produces a 'score' for each company in the investable universe; this score is a measure of how likely the company is to outperform the benchmark. The investment team then constructs a portfolio using this information as input and combines it with a fundamental overlay.

While the machine-learning model is fundamental to the strategy, it is largely used to analyse the vast quantities of proprietary data it is provided with. Significant human investment knowledge and expertise are required to build and manage the model, and subsequently interpret its output and build an optimised portfolio.

The investment team's fundamental analysis and experience are also required to assess such issues as data errors, corporate actions, and ESG concerns, among others. The fund managers ultimately make the final decisions as to which stocks are included in, and removed from, the portfolio, and holdings are continually reassessed.

### **What are the results so far?**

Prudential's Global Equity Fund is managed by M&G investments in London. The fund's objective is to provide investors with capital

growth over the long term by investing in a diversified equity portfolio of global companies.

At its inception in June 2017, 30% of the fund was managed based on the proprietary-developed AI machine learning model, with the remainder of the equities pooled in M&G equity funds and invested in ETFs. In May 2020, the portion allocated to the machine-learning model was increased to 80% due to the superior returns the model has delivered over time, including during times of extreme stress such as world markets experienced in early 2020.

For the 12 months to 31 March 2020, the [Prudential Global Equity Feeder Fund](#) (in rands) delivered a return of 34.5% (net of all fees), outperforming the 27.9% from its benchmark, the MSCI All Country World Index. Investors can also invest directly in US dollars into the Prudential Global Equity Fund via various well-known local investment platforms.

Prudential is pleased to offer this innovative product to South African investors who want exposure to the best equity opportunities available across the globe, and we are excited about the prospects of this new approach to investing.

For more information about our global funds, please visit the [Offshore Funds](#) section of our website. Alternatively, please feel free to contact our Client Services Team on 0860 105 775 or email us at [query@prudential.co.za](mailto:query@prudential.co.za).