PRUDENTIAL **INSIGHTS**

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INVESTMENT MANAGERS

Prudential Investment Managers

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Asset classes explained: A closer look at cash

Over the past few weeks we've explored the three major asset classes that fund managers like Prudential use to generate returns for their clients, namely: equities, bonds and listed property. In this, the fourth instalment in our series on asset classes, we take a closer look at "cash" investments and explain how they produce returns and how they can benefit you as an investor.

What are "cash" investments?

Cash investments are made up of various interest-bearing securities that essentially take the form of short-term loans which pay regular interest over time (usually with a repayment period of less than 12 months). These securities typically comprise money market instruments like certificates of deposit, bankers' assurances, promissory notes and company commercial paper. The terms "cash" and "money market" instruments are often used interchangeably to describe these short-term investments.

How do they differ from other interest-bearing securities like bonds?

Given their short maturity period, the interest paid – and therefore the return that investors receive – is generally lower than bonds.

This shorter repayment period is also what makes cash a lower-risk asset class than bonds. Money market securities are among the lowest-risk investments held by unit trust funds other than physical cash (i.e. bank notes).

What are the benefits?
Not all investments are made with long-term growth in mind. At times, some investors may need their money to be easily accessible and safe, which makes cash investments a great option. Not only do they offer better returns than the interest paid by a bank account, generally keeping up with inflation, but cash investments are also typically more flexible than call deposits offered by banks – in that there is no fixed waiting period to withdraw your money. Asset managers, on the other hand, buy a mix of money market securities issued by different companies, banks and governments, with various maturities of up to 12 months, which they then hold in their money market and multi-asset funds for diversification benefits.

What type of investor would it suit?
Cash investments could suit you if you are saving towards something special, like a down payment on a home or new car, or have a baby on the way. These investments are also ideal if you are looking for a short-term "parking facility" for your savings. They also make great "emergency fund" investments for those unexpected expenses that tend to arise from time to time.
At Prudential, we have a range of cash-type investments for investors to choose from, such as our Money Market and Income Funds. Both funds are ideal for risk-averse individuals wanting a short-term investment with protection from equity market volatility, and who need an inexpensive safe haven to house their savings.

To find out how much your investment would have been worth today if you had started investing in any one of our top-performing funds sooner, try our Past Performance calculator. And if you're ready to start investing with us now, you can complete an application form online in under 10 minutes.

For more information please contact your financial adviser. Alternatively, feel free to call our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.