



## **NEWS RELEASE**

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### **SA HEDGE FUND INDUSTRY FACES EXCITING PERIOD OF OPPORTUNITY**

With significant changes expected on the regulatory front, South Africa's hedge fund industry faces an exciting period of opportunity.

Carla de Waal, Head of Funds of Hedge Funds at Novare Investments, pointed out that expected changes to Regulation 28 of the Pension Funds Act, which governs where and to what extent retirement funds can invest, could significantly alter the investment landscape.

In early December 2010 National Treasury published the second draft of Regulation 28, presenting a version significantly different from current legislation as well as from the first draft of the revised Regulation 28 that was published in February 2010.

“One of the most significant changes is a large increase in allowed exposure to alternative investments, which includes private equity and hedge funds, that pension funds can consider when constructing portfolios that best match their liabilities,” said de Waal.

“According to the second draft, a pension fund would be allowed to invest up to 10% of its assets in alternative investments. This formal recognition of alternative investments in pension fund regulation should help to expand the investment opportunity set pension fund consultants look at when advising their clients.”

Given that South African pension funds have more than R1 trillion in assets, the local hedge fund industry (currently estimated to be less than R50bn in size) could benefit from significant inflows.

“If more pension funds make use of the opportunity to increase their exposure to hedge funds, the industry has scope for significant growth,” said de Waal.

Another significant inclusion in the revised draft is that the per-fund limit for funds of hedge funds is double the limit applicable to single hedge funds (5% as opposed to 2.5%).

De Waal said this acknowledges the additional selection, portfolio construction and monitoring functions provided by funds of hedge funds, which should reduce risk for investors compared with investing directly in a hedge fund.

The principle of diversification is encouraged throughout the revised draft, as is limiting counterparty or issuer risk for pension funds.

“Changes to Regulation 28 will constitute a significant step for the South African investments industry. This follows the hedge fund manager legislation that was implemented in 2007 under the Fiduciary and Intermediary Services Act (FAIS), requiring hedge fund managers to apply for a specific category of financial services provider licence with additional requirements regarding experience, qualifications and financial soundness.

“Solid performance, combined with more competitive fees and improved levels of transparency make a compelling investment case for hedge funds,” said de Waal.

Most local hedge funds held their ground well during the first half of 2010, preserving capital whilst the equity markets suffered another drawdown. It is this characteristic of potentially reduced downside when equity markets suffer, that could in particular add value to pension fund portfolios.

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