



## **NEWS RELEASE**

**14 September 2010**

### **HEDGE FUNDS GROW ASSETS, PROTECT CAPITAL**

South African hedge funds increased assets under management by over 8% to R32.1 billion as at 30 June 2010, against the previous year's R29.7 billion, as the industry benefitted from a buoyant equity market in the second half of 2009.

More importantly, when equity markets sold off in the first half of 2010, hedge funds managed to protect capital, helping portfolios with hedge fund allocations to weather the storm.

These were amongst the findings of the 2010 South African Hedge Fund Survey released by Novare Investments in Cape Town today.

According to Carla de Waal, Portfolio Manager at Novare Investments, "Investors are demanding improved due diligence as regulators globally renew their focus on legislation aimed at curbing systemic risk. Amidst all of this, investors are still eagerly looking for alpha, and continue to find opportunities in the alternatives space at a time when returns from traditional asset classes have become more muted."

Hedge funds participating in the survey recorded marginal net inflows, compared to net outflows a year before, with half of inflows going to 12 managers with at least two years of experience. While there were 12 new fund launches over the year, indicative of ongoing industry consolidation is that hedge funds with at least a five-year track record were managing half of all industry assets.

As in previous years, funds of hedge funds dominated industry investments with close to 80% of inflows into hedge funds coming from these funds. Direct investment by life insurers and high net worth individuals represented the remainder of net inflows.

Funds of hedge funds are still the largest investor group in the local industry, holding nearly

65% of all investments. With 9.7% of assets, high net worth individuals are the second largest group, followed by direct pension investments (9.2%) and life fund investments (8.6%). Only 1.6% of hedge fund assets under management are from offshore investors.

Other changes in the industry included lower average fees and a longer time frame before crystallisation of performance fees. In addition, the industry continued to improve transparency and reporting standards with more funds providing detailed portfolio holdings on a more regular basis, including intra-month performance updates.

On industry capacity, de Waal said: “Some 14.5% of hedge funds, representing 6% of industry assets, are closed for new investments. Capacity available in funds that do still accept new capital is just over R44 billion.”

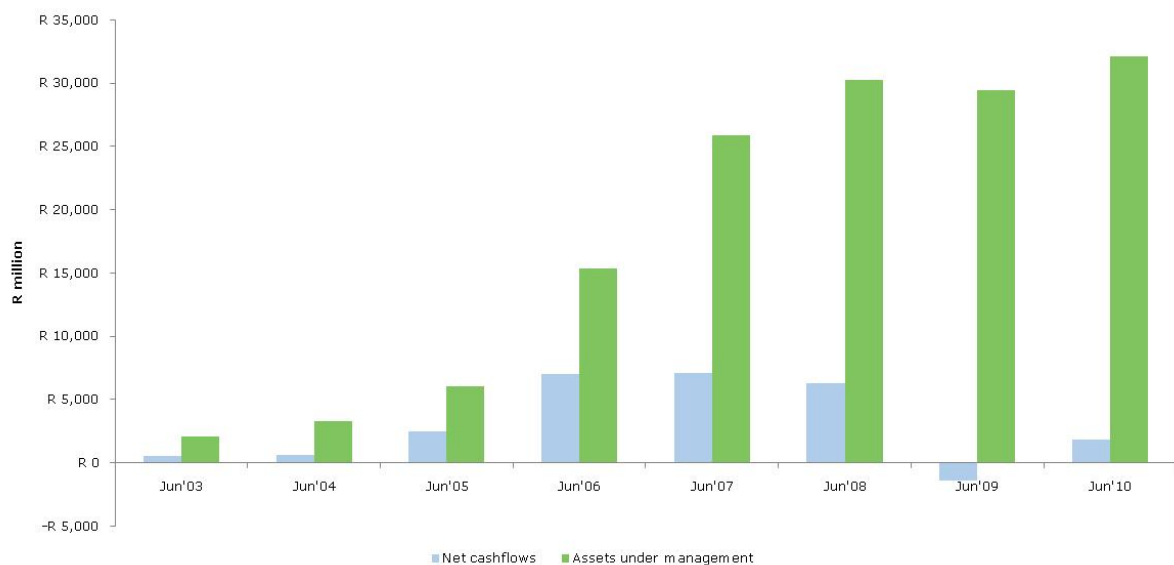
As at 30 June 2010 equity long/short strategies made up the bulk of assets under management in the South African hedge fund industry, comprising 41.9% of assets.

Novare Investments’ 2010 South African Hedge Fund Survey can be found at [www.novare.co.za](http://www.novare.co.za)

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## Graphic

- Assets under management



**About the survey**

This survey was conducted by means of a voluntary questionnaire completed by South African managers managing local hedge funds. Included are managers running funds that they classify as “hedge funds” according to their interpretation of the hedge fund strategy employed. The results are reported on an aggregate basis. Performance figures are from Novare® Investments' proprietary research and other publicly available sources.

Only locally domiciled hedge funds not regulated under the Collective Investment Schemes Control Act were included. Unit trusts were excluded, even though some do use investment strategies similar to those employed by some hedge funds, such as short asset exposure through the use of derivatives.

The survey takes a snapshot of the South African hedge fund industry as at 30 June 2010. Based on responses received in prior years, we aim to identify changes in how the hedge fund industry conducts itself and longer term trends that are unfolding.

The survey covers 167 different mandated funds managed by 71 management companies. This figure increases to 235 when adding pooled funds and segregated mirror mandates together, an increase from 220 last year.

**Notes**

**Equity Long/Short** strategies generate positive returns by being both long and short in the equity market. “Market risk” (systematic risk) is thus significantly reduced while specific risk is retained. The majority of local equity long/short funds tend to be long biased even though short positions are taken.

**Equity Market Neutral.** Long and short positions in related assets are taken with the effect that directional market risk is (in most cases) completely offset.

**Gearing** (sometimes used synonymously with “leverage”). The practice of borrowing money to add to an investment position when one believes that the return from the position will exceed the cost of borrowed funds. Hedge funds utilise leverage in order to increase returns. Leverage can have the effect of magnifying returns as well as the losses.

**Gross Exposure** (mostly used synonymously with “leverage”). The sum of the absolute exposures obtained across all investments of a fund. Short selling (that is borrowing scrip to sell short) and the use of derivatives increase the gross exposure of a fund.