



## **NEWS RELEASE**

**5 October 2009**

### **SOUTH AFRICA'S HEDGE FUNDS STEADY IN THE TURMOIL**

The South African hedge fund industry proved its resilience by remaining stable through recent market turbulence with assets under management of R29.7 billion at 30 June 2009 - just 2% lower than the previous year's R30.3 billion.

Although the industry recorded its first year of net outflows of R1.4 billion, there was another strong showing in terms of fund launches with 20 new hedge funds coming to the market. The majority of these were started by already established management companies. Funds discontinued over the past year returned an additional estimated R1.9 billion in investor capital.

These figures, from the 2009 South African Hedge Fund Survey released by Novare Investments in Cape Town today, exclude money in absolute return funds and unit trusts that use leverage. Common to the funds surveyed is that all utilise some form of short asset exposure or short selling, and some form of leverage measured by the extent to which the gross exposure of underlying assets exceeds the amount of capital in the fund. All funds surveyed have a fee structure where a basic management fee as well as some incentive, or performance, fee is levied.

Now in its sixth edition, Novare Investments' comprehensive survey takes a snapshot of the industry as at end June, summarising changes over the previous 12 months in terms of the strategies used by funds, their levels of leverage and market exposure, as well as operational issues.

Carla de Waal, Portfolio Manager at Novare Investments, said: "Amongst the key findings in this year's survey is that reporting and transparency to investors continued to improve with a noteworthy increase in the percentage of funds reporting daily.

"There has been a downward shift in fees charged by hedge funds, and redemption periods have shortened with a markedly lower percentage of funds requiring three months' notice. Hedge funds managing nearly three quarters of industry assets require one month's notice for investors to redeem.

"Our local hedge fund industry has matured to the extent that it offers investors a less equity-centered pool of funds to choose from. Historically the South African hedge fund industry has been

characterised by a large majority of assets managed in equity long/short and equity market neutral funds. These strategies still dominate the market, but to a lesser extent.”

About 41% of assets are currently managed in equity long/short funds, compared to 53% two years ago and nearly 80% in 2005, followed by equity market neutral, which make up just under 20% of all local hedge fund assets. Other strategies such as fixed interest hedge funds (with a slight increase in assets under management to 13% of the industry total), structured finance (nearly 5% of industry assets), macro (5% of assets) and volatility arbitrage (3% of assets) continue to gain in popularity and size, offering investors a healthy blend of less market directional strategies to invest in.

Funds of hedge funds remain the largest investor group in local hedge funds, with assets managed by these investors comprising 60% of all hedge fund assets.

Hedge funds significantly reduced their exposure levels over the past year, with trading activity (portfolio turnover) picking up. Managers mostly use scrip borrowing and the subsequent shorting process to increase gross exposure levels, with only a small percentage of participants using external cash borrowing for gearing purposes.

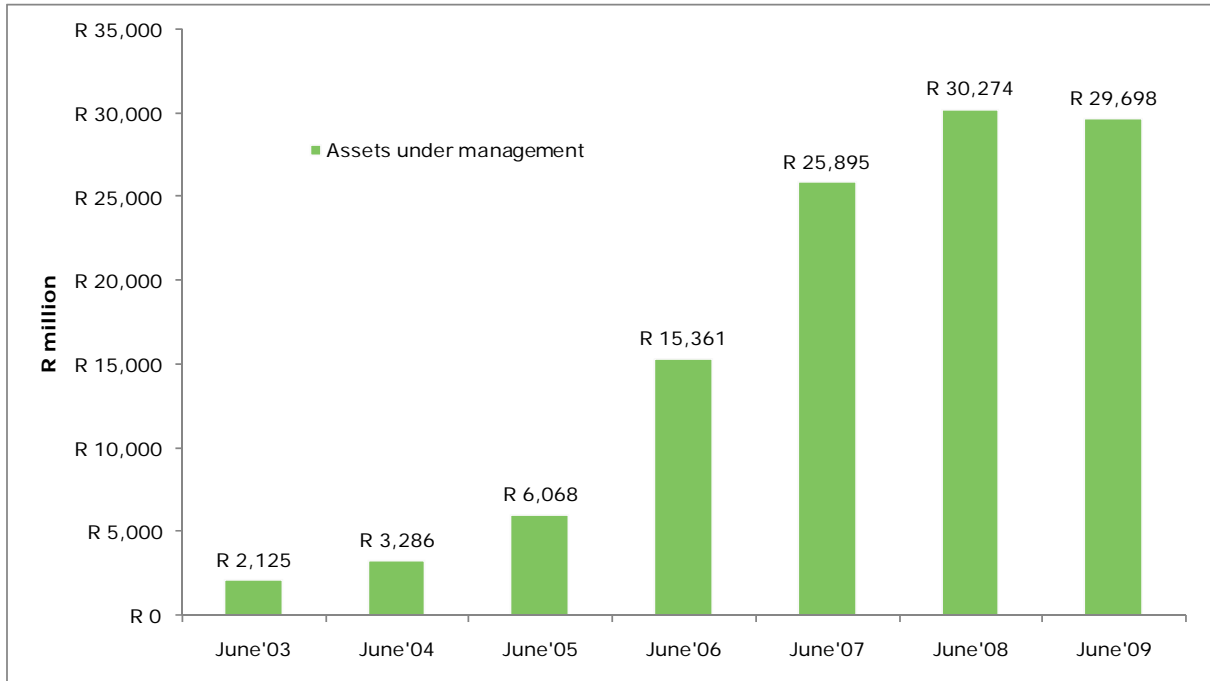
“While some local funds had to deal with client outflows, just as many saw net inflows over this period when the performances from local hedge funds met expectations. With managers more accommodating in terms of lower fees and regular reporting, South African hedge funds look poised for growth,” said de Waal.

Novare Investments' 2009 South African Hedge Fund Survey can be found at [www.novare.co.za](http://www.novare.co.za)

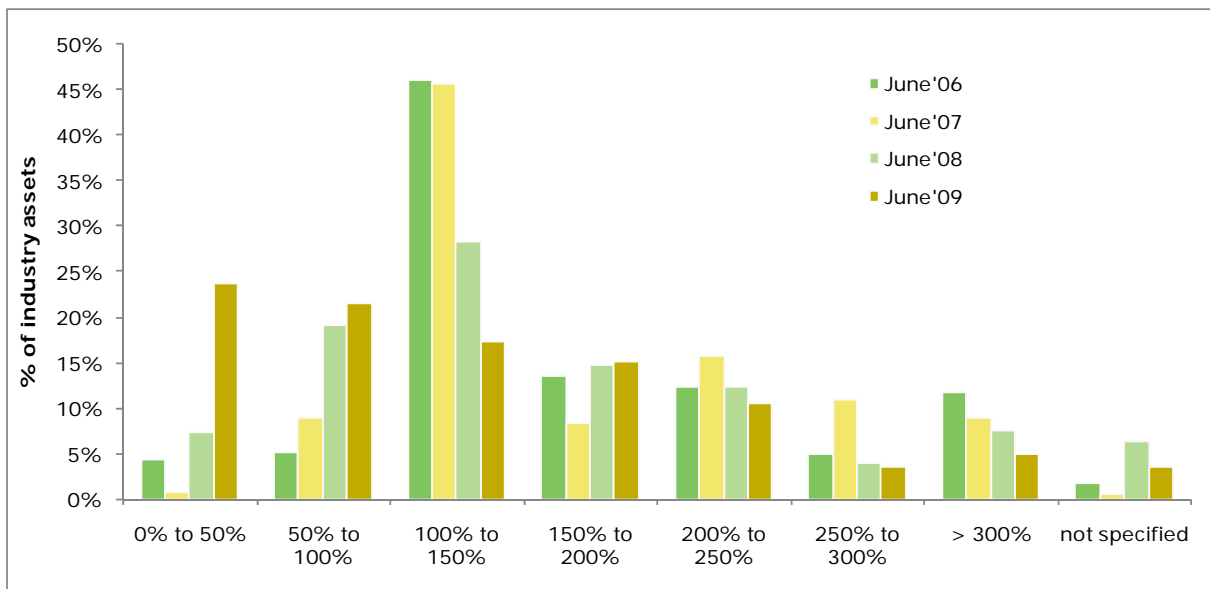
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## Illustrations:

- Graphic: Assets under management



- Graphic: Average level of gross exposure as percentage of asset size



## About the survey

This voluntary survey is conducted by means of a questionnaire sent to hedge fund managers. Only local domiciled, rand denominated funds classifying themselves as “hedge funds” are included in the results. The survey covers 150 different mandated funds managed by 77 management companies. The total number of hedge funds managed by these managers, including mirror funds with similar mandates, amount to over 220. We believe that the funds represented in this survey constitute at least 96% of the estimated total assets managed in locally domiciled hedge funds, and that this report gives an accurate overview of the industry as at 30 June 2009.

## 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.