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NEWS RELEASE

HEDGE FUNDS AN APPEALING ALTERNATIVE IN VOLATILE MARKETS

The last decade has witnessed the growing popularity of alternative investments, especially hedge funds, and this trend seems likely to continue for the foreseeable future.

That's the view of **Francois Cilliers (pictured)**, Portfolio Manager at Novare Investments. "Alternative investments encompass assets that offer potentially distinct risk-return profiles relative to the more traditional asset classes of equities, bonds and cash. They encompass an investment sub-universe that includes hedge funds, private equity, real estate, venture capital and certain approaches to commodity investing."

Cilliers notes, however that the term is increasingly synonymous with hedge funds, partly due to their growing popularity and media attention. In addition, hedge funds have expanded their scope to encompass different categories of alternative investments – in some cases to the point where the distinction becomes arbitrary.

Today the hedge fund industry globally is estimated to be worth over \$2.5 trillion, consisting of a wide variety of sub-strategies, derived from both the blend of underlying asset types that hedge funds can invest in, as well as the manner in which they execute their strategy.



"The main distinguishing characteristic of hedge funds is their ability to utilise leverage and make substantial use of derivatives. This forms part of the hedge fund's financing mechanism, as well as enabling it to potentially increase returns while simultaneously providing more substantive protection in the form of a "hedge" during tumultuous market conditions - depending on the manager's skill of execution.

"Several managers that have been net short in the recent declining market would have found that they were able to profit substantially from these events. And this has been the reason why institutional and sophisticated high net worth individuals internationally have been allocating a growing portion of their funds to hedge funds. In many instances a well diversified portfolio of hedge funds has demonstrated the ability to act as both a return enhancer as well as a risk-reducer within the investor's overall portfolio."

However a lack of knowledge and the air of mysticism that sometimes surrounds the industry - partly warranted given its historic opacity and operation outside of a formal regulatory framework - have contributed to some investors being slower on the uptake to include hedge funds in their portfolios. The industry's move towards greater regulation and transparency will help in this regard.

Cilliers adds that investors new to hedge funds tend to either enlist the assistance of an asset consultant in selecting their hedge fund exposure, or they access hedge funds via a fund of hedge funds vehicle.

"The fund of hedge funds typically consists of a number of underlying hedge funds and utilises the fund of fund manager's expertise and knowledge obtained during the due diligence and fund selection process. It is also the fund of hedge fund manager's undertaking to try and help the investor avoid

some of the common pitfalls associated with investing in hedge funds and to offer easy access to a diversified range of hedge fund managers and styles within a single vehicle.

"Hedge fund of funds can also potentially offer investors access to funds that may otherwise already be closed to new investors, as well as providing clients with information on the overall portfolio and industry in their active or advisory capacity."

In South Africa, hedge funds today represent investments totalling around R35bn, in approximately 140 hedge funds, predominantly within long-short and market neutral equity-based strategies. Evidence of their popularity as a vehicle of choice in accessing this increasingly attractive asset class is that fund of hedge funds account for more than half the total investment.

Novare Investments manages the Mayibentsha Fund of Funds that was launched in April 2003. The fund currently has some R1.7 billion under management with a solid five-year track record.

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