



NEWS RELEASE

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SA HEDGE FUNDS TO GROW ON RENEWED INTEREST IN EMERGING MARKETS AND STRONGER REGULATION

Regulation 28 amendments will also open fund management opportunities in Africa

Given the investment potential of emerging markets, together with improved regulation in South Africa, there is no reason why the local hedge fund industry can't grow over the medium term to well in excess of R100 billion from its current asset base of some R32 billion.

That's the view of Francois Cilliers, CIO of Novare Investments who says that, "The challenge is to make the substantive leap in marketing South Africa as a destination with world class investment and hedge fund expertise, which should result in this asset base growing to be much more representative of local market capitalisation."

Cilliers said there were significant opportunities for global investors to obtain emerging market exposure, and once markets stabilised, there would be a renewed search for growth in more stable and liquid emerging markets, including South Africa.

The South African hedge fund industry has been stable in terms of assets that have remained at about R32 billion over recent years.

In addition to the investment potential of emerging markets, Cilliers adds that investors, including South African retirement funds, are likely to find that improved regulation is another reason to invest in hedge funds.

"One of the most positive effects of amendments to Regulation 28 is that this piece of important pension fund legislation has recognised and I believe legitimised hedge funds as a potentially valuable long-term investment for local pension fund investors," he says.

South African hedge fund managers are ahead of their international peers in that they have been regulated for some time, which Cilliers says validates hedge funds as an eligible asset class for long-term investment.

In addition to the supervision of managers, Regulation 28 defines which asset classes retirement funds can go into. Hedge funds were previously considered unlisted securities and the total exposure was limited to 2.5%. However, that threshold has been raised and a total of 10% of a pension fund's assets can now be allocated to hedge funds.

According to Cilliers: "Recognition of hedge funds as worthy of inclusion in pension fund portfolios acknowledges that the South African industry has in place all the checks and balances required to afford protection for institutional investors, particularly pension funds."

He adds that Regulation 28 is important for another reason – it allows an additional 5% of South African pension fund assets to be invested into Africa.

"As a consequence, a lot of highly skilled South African fund managers are looking to capture both the investment opportunities and the asset flows that will materialise in Africa. South African institutions will move several billion dollars into Africa over the next few years, resulting in significant inflows for the managers dedicated to this region. Rich opportunities in Africa should not be overlooked."

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Notes to Editors

Novare was founded in October 2000 as an independent investment management business in South Africa. In 2006 the company began expanding into Africa where they have built an extensive network and gained invaluable experience and insight into investing on the continent. Having been in the business for over a decade, Novare has some 300 years of collective experience in the investment industry.

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Novare Actuaries and Consultants is an independent implemented consulting firm providing specialist support to institutional clients in Southern Africa. Johan Henn is chief executive of Novare Actuaries and Consultants.

Novare Investments is an independent multi-manager firm providing tailor-made investment solutions to both retail and institutional clients in Southern Africa. Marius Kilian is chief executive of Novare Investments.

Novare Equity Partners is a private equity fund manager focusing on investment opportunities in Sub-Saharan Africa. It is the manager of the Grand Towers Africa Property Fund 1 domiciled in Mauritius. Derrick Roper is chief executive of Novare Equity Partners.

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