

## SA hedge fund sector 'faces constraints'

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Warren Brown

THE South African hedge fund industry is facing capacity constraints as demand for hedge fund investments grows, a survey of hedge fund managers by SYmmETRY Multi-Manager has found.

But by diversifying their investment strategies, hedge fund managers could alleviate some of the pressure on these constraints, SYmmETRY head of alternative and fixed interest Warren Brown said yesterday.

Brown said 90% of managers surveyed believed they would cap their existing funds within the next three years. Many managers preferred to cap the size of their funds at low levels because it was sometimes difficult to deliver superior performances with larger funds.

Combined with the limited number of investment strategies available, this would constrain the industry.

At present, South African hedge funds adopt four strategies: long/short equity; market neutral; fixed interest; and trading funds. However, 85% of the R10bn invested in hedge fund assets are concentrated in long/short equity and market- neutral strategies.

By comparison, managers in the US and Europe use 12-15 strategies.

"There is greater potential for individual funds' capacity constraints being reached in these two categories and this is becoming an obstacle to investors wishing to invest," Brown said.

Gavin Glick, MD of Peregrine Investment Managers, said that while there were capacity constraints on the established hedge fund managers, there was still room for investment in the hedge fund industry.

"I don't think we face constraints in the short term," Glick said. "There is a fear of investing in the new managers, but there are managers available to take new investments," he said.

Glick said most institutions would invest with a manager only once it had a track record of at least a year. After that, allocation of funds could take up to eight months.

"As a new fund manager, you have to be able to survive for about two years without inflows."

Glick said that while there was a concentration of managers offering long/short equity strategies, funds were slowly adopting other strategies as well.

Brown said there was a need for more talent, products and entrants into the hedge fund industry. This would lead to more diversification.

He said there was the potential for assets in the industry to grow to R25bn. At present, invested funds equate to less than 1% of investable institutional assets.

In the US, the average hedge fund allocation was 5% in 2003 and was expected to have grown to more than 7,5% last year.

But only about 1% of funds in the UK and Europe were invested in hedge funds. Brown said that despite the lack of regulation in the industry, investors were becoming more comfortable with hedge funds.