

Hedge Funds Might Improve SA's Dearth of Savings

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Warren Brown

As concerns over the lack of saving by South Africans reaches all-time highs, market experts are advising retirement funds to look at hedge funds to save the country's ailing savings environment.

Warren Brown, head of fixed interest and financial modelling at Old Mutual's SYmmENTRY multimanager, said retirement funds should include hedge funds in their investment plans to ensure optimal portfolios.

His recent talks were also in reaction to concerns about the lack of a clear regulatory and taxation regime for these funds.

Though the percentage of hedge fund investment in South Africa is very small, experts expect it to grow.

Many institutional investors in South Africa already have some exposure to these funds within their investment portfolios, Brown said.

Though hedge funds are seen exclusively as a way of reducing the overall risk in one's portfolio, some experts are still concerned about their perceived risks.

But Brown cautioned that the "buyer beware" principle should be applied as the safest and most meaningful way for trustees to approach all of their investment opportunities, including hedge funds.

"South Africa's already regulated asset management industry is littered with failed companies. Respected studies show that risk diversification is improved by including hedge funds in portfolios," he said.

Brown disputed the notion that the unregulated nature of the hedge fund industry in South Africa contributes negatively to its risk profile.

He said hedge funds were established as legal entities and managers were registered with the Financial Services Board. Tax laws apply to capital gains and income, providing clarity on the tax status of these funds.

“While anticipated regulation of hedge funds specifically as a separate industry is to be welcomed, it’s worth remembering that no amount of regulation will protect the foolish investor.

“Hedge funds are part of the quickly evolving world of unconstrained investing where transparency will be key in terms of risk management and investor protection,” Brown said.

Hedge funds are often regarded as a relatively low risk investment option because of their generally consistent returns.