

## Recognising South Africa's top performing hedge funds

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Money Web

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Warren Brown

Cape Town --- 10 February 2006. Six of South Africa's top performing hedge funds were recognised for their achievements at the second annual Old Mutual SYmmETRY Hedge Fund Awards in Cape Town last night.

The winners were picked from 21 eligible hedge funds that participated in the qualifying SYmmETRY Multi-Manager Hedge Fund Performance Survey. Trophies were awarded to two overall winners judged on risk-adjusted performance over one year and two years, and also the top performers in four categories based on different investment strategies. Funds were judged on their performance (net of all costs) ending December 31, 2005.

Participation in the SYmmETRY survey is open to hedge fund managers who have at least R2.5-million of assets under management and a 6-month track record. However, only those hedge funds open to new investors and have been active for at least 12 months could qualify for the awards.

Explaining why only funds open to new investors are considered for the awards, Warren Brown, Head of SYmmETRY Alternative Investments, says there is little purpose in placing focus on funds that investors cannot access. The main aim of the awards is to acknowledge top performing hedge funds and their managers, to raise industry awareness, and to highlight for investors the risks and benefits of hedge funds.

Although the Financial Services Board is looking at incorporating hedge funds into existing legislation, hedge funds have thus far remained unregulated. While it is not illegal to manage or invest in a hedge fund, no disclosure requirements or investor protection regulations apply to funds investing in alternative asset classes. In addition hedge fund managers are also not yet allowed to actively solicit investments into their funds.

As a result take-up of these alternative investments has been relatively slow, especially among retirement funds, which continue to hold less than 1% of their assets in hedge funds.

Brown says the restrictions placed on retirement funds by Regulation 28 of the Pensions Fund Act have also resulted in retirement fund portfolios being unable to meaningfully diversify their investments through the inclusion of alternative investments such as hedge funds.

"There is a real fear that when these constraints are lifted, the more than 60 hedge fund managers in South Africa will be swamped with assets flowing into their funds. This is likely to result in many funds rapidly reaching capacity, especially those delivering superior performance."

The market value of assets managed by funds that participated in the 2005 SYmmETRY Hedge Fund Survey was R4.4-billion, compared to R3.9billion in 2004 - an increase of 13%. The number of participating funds, however, increased by only one.

Brown estimates that the R4.4-billion of asset under management represents more than one third of the assets managed by the total number of South African hedge funds.

"This means that edge Hedge Hmore more more than a third of hedge fund assets are in the hands of less than a third of the hedge funds in SA."

But while regulations are being evaluated and changes recommended, the hedge fund industry continues to grow and managers continue to compete. The winners of the 2005 SYmmETRY Hedge Fund Awards are:

#### **Best Overall Performance (one year)**

The Decillion Fairtree Fund clinched the trophy for best overall performance over one year. The fund, from the Market Neutral category, achieved a return of 34% for the year ending December 31, 2005.

This was the highest overall return over the one year achieved by a fund open to new investments at the lowest possible risk (as measured by the Omega statistic).

The Omega function divides returns into gains and losses and then calculates the ratio of the gains to the losses. A return distribution with more gains than losses has a higher Omega value than one with fewer gains and more losses.

While the Fairtree Fund's return is lower than the 47.3% achieved by the JSE All Share Index over the same period, the comparative associated risk is significantly lower. However, the fund significantly beat the returns of 10.8% for bonds and 7.1% for cash.

The Decillion Fairtree Fund is managed according to a market neutral strategy. Last year's winner, Breakwater Capital's Impact Fund, came from the Long/Short category.

#### **Best Overall Performance (two years)**

This trophy went to last year's overall winner for one year, Breakwater Capital's Impact Fund. This is a new award, which recognizes risk-adjusted performance over two years.

The Impact Fund returned 24.6% p.a. for the two years, compared to 35.9% p.a. for the JSE All Share Index, but with an Omega statistic of almost six times that of the All Share Index indicating a significantly superior risk-adjusted return.

With a number of managers now having longer periods of performance data, the different funds' performances can be compared over longer time frames.

This is a pleasing win for the Impact fund after winning last year's 1-year risk-adjusted performance.

### **Fixed Interest Category**

Top of the performance charts in this category is Granite Fixed Income Fund, managed by Mark Le Roux at Coronation Fund Managers.

Le Roux previously managed the fund while at Decillion before Coronation bought the fund. The fund returned 10.2% for the year, marginally below the All Bond Index, but well above the return for cash.

There are still only two funds in this category, the smallest number of contenders among the four categories, but it is expected that there will be at least three more by the end of 2006.

The other fund in this category, the Pacific Dunes Fund, was last year's winner. Hedge fund managers who employ the fixed interest strategy aim to generate profit by exploiting pricing inefficiencies between related fixed income securities. The challenge is to neutralise exposure to interest-rate risk.

### **Market Neutral Category**

Decillion's Fairtree Fund took top honours in this category with a stellar return of 34%.

Not only does the Fairtree Fund show superior risk-adjusted performance compared to all other funds, but it also achieved more than double the average return of the seven contenders for the award in this category.

The Fairtree Fund is the only fund to receive more than one award at this year's ceremony.

The Market Neutral category is the second largest with eight funds. Fund managers in this category aim to generate profit by exploiting pricing inefficiencies between related equity securities. The aim is to neutralise exposure to directional market risk by combining long and short positions in broadly equal amounts.

### **Long/Short Equity Category**

The award for best Long/Short equity fund went to Blue Bay's Mayflower Fund for the second year. This fund returned 28% for the year, significantly outperforming the average for the category (including closed and capped funds) of 19.6%.

The Long/Short Equity category is the largest hedge fund category with 11 qualifying funds and also holds almost half the assets of the hedge funds surveyed by SYmmETRY.

Managers with funds in this category aim to generate profit by combining core long holdings of equities with short sales. The aim is to reduce exposure to directional market risk.

### **Trading Category**

The Ploutos Capital Fund, managed by the Worldwide Capital team of managers, took top honours in this category with a return of 22.5%.

The trading category has historically been the category with the most volatile returns and this year was no exception with the average category volatility only marginally lower than that of the equity market in 2005.

Another indication of the volatility of returns in the category is that last year's winner for best performance in the category was the worst performer in 2005.

In this category, fund managers aim to generate profit by trading equities, bonds, indices and derivatives.

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