

## HEDGE FUNDS

### Looking for alternatives - Local hedge funds are growing

29 March 2007

Fin Week Top 200

---

HEDGE FUNDS are growing in stature and popularity in the South African market, being taken increasingly seriously by institutional investors like retirement funds. There are signs that retail investors are also starting to nibble at this alternative asset class through the more accessible and affordable fund-of-hedge-funds.

It's still a new investment industry in this country, but hedge funds are also growing rapidly, both in number and in assets under management. For this reason a ranking of local hedge funds makes its debut in this review. Many of the funds are starting to establish longer-term track records; investors are interested, so the more information we can provide on hedge funds the better to help investors make informed choices. Researching hedge funds is a specialised discipline, and we are grateful to Symmetry Multimangers for letting us use their detailed hedge fund survey performance and risk statistics tables.

We've only used a shortened and simplified version of the performance table, but we do note risk-adjusted performance winners in the text.

The survey forms the basis for awards given to the top funds operating in the four different hedge fund strategies employed in the South African market, and for the best risk-adjusted performance. Now in its third year, the Old Mutual Symmetry Hedge Fund Survey awards ceremony took place in February.

There are other very good hedge fund reviews and indices available, notably from Nedgroup Investments. We have chosen the Symmetry survey because it ranks investments – as do the other tables in this review – and produces the winners on an annual basis.

However, ranking hedge funds is a contentious subject. Returns are obviously important, that's why we invest, but in the pure sense, top performance is not really what hedge funds are about. As the name suggests, hedge funds should offer protection to other asset classes like equities, bonds and property, by offsetting movements in the market. One risk statistic used by Symmetry is the funds' correlation with major indices like the all-share and all-bond indices. The idea is that as part of a diversified portfolio, hedge funds should offer downside protection and capital preservation when these indices turn down, and also offer participation in the upside.

Hedge funds will not suit all investors, and as the different strategies employed produce very different results, these funds need to be chosen with care. That's why hedge fund-of-funds make sense, a professional investment team make the choices and monitor performance. A retail investor looking for a vehicle to shoot out the lights would be ill advised to invest in a single hedge fund.

But that said, the winners in two of the categories over one year and the second placed fund in the long-short equity category managed to beat the all-share index's return of 41,2%, not bad considering the strong year that the local equities market enjoyed. It's also worth noting that three of the funds claiming top spot in the performance ranking over one year are also number one over three years, and the other one-year winner is second over three years. Consistency is starting to come through in the longer term, an encouraging sign.

The best performing funds in the four categories over one year are listed below:

- Fixed interest - RMB Proton Fund with a return of 14,5%
- Long-short equity – Oryx Segregated Fund with a return of 46,5%
- Market neutral – Stanlib Quasar Fund with a return of 18%

- Trading – Badger Quant Fund with a return of 42,8%

The best risk-adjusted performance over one year went to the Oryx LLP Fund. Its return of 46% also placed it second overall.

Over three years, the best risk-adjusted performance went to the Oryx Segregated fund (also winner in its category over one year). Its annualised return is 43,7%.

Participation in the Symmetry Hedge Fund Survey is open to all hedge funds, but only managers with at least R5m under management and a 12-month track record qualify for awards.

Fred Liebenberg who heads Alternative and Absolute Manager Research at Symmetry says it's pleasing to see more hedge fund managers coming to market managing other hedge fund styles. "Last year most new hedge funds traded in the long-short equity sector, but that has changed significantly over the past year."

He also notes the industry is seeing more managers leaving proprietary trading desks and establishing hedge funds. "They don't always have a long investment history but are making use of very interesting quantitative models," he says.

The jury is still out over how much alpha, or manager skills over and above the market, hedge fund managers are adding. It's difficult to tell in the strong bull markets we have enjoyed over the past few years.

But at the time of writing, the market had been going down for five days. If this proves to be the start of a prolonged downturn it will test the hedge fund managers at what they're meant to be good at – running funds with little correlation to the market. Next year's table could show a very different picture.