

Top hedge boffins beat the JSE

11 February 2007

Business Times Money



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You can cover your bets with the better funds, but don't expect to beat the equity market when the bull is really running, writes Chris Needham

The winning investment managers at this week's third annual Symmetry Hedge Fund Awards showed their mettle by beating the returns of the JSE over the past year. But the median return was more pedestrian and showed that hedge funds won't always beat the market in a strong bull run.

The best return for the year came from the Oryx Segregated Fund, managed by Heiko van Wyngaarden. It delivered a return of 46.5% in 2006 — 5% better than the JSE.

This was in the long-short equity category of funds (see below) which is still the largest category in terms of the number of managers and assets under management.

The category was also the best category in terms of returns for the third year running, with the average funds giving a return of just over 27% — notably less than the JSE's return. Best market-neutral fund was the Stanlib Quasar Fund, which delivered a return of 18%. The average market-neutral fund did 12.4%.

Among trading funds, DWT Securities' Badger Quant Fund gave investors 42.8% for the year, far ahead of its peers' average return of over 20%. Trading funds also saw the most volatility over the period.

RMB Proton Fund won best fixed-interest fund with a return of 14.5% for the year — far better than the returns on cash last year, which were in the region of 8.5%.

Van Wyngaarden's Oryx Segregated Fund also scooped the award for the more prestigious best risk-adjusted performance over three years for delivering a stellar annualised return of 43.7% — and with only five months of negative returns in that time.

The winners were picked from participants in the Symmetry Multi-Manager Hedge Fund Performance Survey with at least R5-million under management and a 12-month track record. While the average hedge fund returns may lag those of conventional equity funds in 2006, hedge funds should come into their own by protecting their investors' money from losses during a market downturn.

But globally, that hasn't been the case of late, says Philip Saunders, the London-based head of investment strategy at Investec Asset Management. He said this week that when the equity market corrected in the middle of last year, so did hedge funds.

Comparing the HFRI Fund of Funds Composite to the MSCI World index, "it came off a similar amount though over a period of about three months rather than one". The MSCI fell 3.3% in May while the hedge fund index fell 1.9%, then 0.6% in June and 0.2% in July.

"The hedge doesn't seem to be there," Saunders said, and questioned whether, in that case, investors would really want to pay the performance fees that hedge funds charge.

A fee of 2% a year and 20% of the returns above their benchmark is not uncommon.

"Almost everything is becoming correlated in the carry world."

Victor Hugo, CEO of Vega Asset Management, said hedge fund managers are paid to make money no matter what the market environment is, and cannot afford to wait and hope the market recovers after a downturn .

"A lot of hedge fund managers were bruised in the market downturn last year because they didn't expect it, but a good hedge fund shouldn't be running on expectation. It's very easy even for a hedge fund to slip into the habit of taking a view on the market instead of being one of the quickest to react to limit drawdowns."

James Guimaraens, CFP and associate director at Precept Wealth Solutions, said that when it comes to investing in hedge funds — which is done through an endowment — "you're adding substantial costs because of the structure".

He said investors should evaluate their selected hedge funds in comparison to a well-managed balanced portfolio with careful asset allocation strategies.

"Investing in a hedge fund does not automatically mean that you have a better risk- return relationship when compared to a normal balanced fund with a carefully managed asset allocation strategy."

- In long-short equity funds the manager can elect to "go long" (buy a stock in the hope its price will rise) or "short" (sell a share you expect to fall) .

A market neutral fund aims to strip out the risk of investing in specific companies.

Trading funds hold shares for short periods, usually no more than a month. Fixed interest funds beef up returns by leverage.

- Hedge funds and you

A hedge fund is an investment fund that can sell short (to make money out of a falling market) and take on gearing (borrow money to invest). This means that hedge fund managers have the tools to make money in any market . Traditionally the preserve of the rich, who used them to limit market losses, hedge funds usually required a minimum investment of R1- million. But there are some funds that now accept as little as R100 000 — and smaller investors can access hedge funds via a life endowment. Hedge funds are not yet regulated by the Financial Services Board so they are not allowed to solicit business.