Media Release
Association for Savings and Investment South Africa (ASISA)
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Tough year for local hedge fund industry as it completes the conversion of assets to regulated CIS structures

The South African hedge fund industry ended 2017 with assets under management of R62.4 billion, a decline of R5 billion from the R67.4 billion managed at the end of 2016.

The 2017 statistics for the local hedge fund industry, released by the Association for Savings and Investment South Africa (ASISA) today, show that this was the hedge fund industry's first decline in assets under management since 2011 when assets stood at only R31.4 billion.

Outflows as a result of poor performance

Eugene Visagie, convenor of the ASISA Hedge Funds Standing Committee, comments that poor fund performance in 2016 and 2017, mainly by the larger equity long/short funds, resulted in investors withdrawing capital and moving it to more traditional asset classes.

According to Visagie, hedge fund performance has been muted since 2016 following events such as Nenegate, Brexit and the election of President Donald Trump. In addition, he says, the majority of hedge fund managers did not anticipate the rally in the rand last year.

He points out that fixed income was the best performing strategy in 2017 and therefore also received the most net inflows.

Visagie says hedge funds apply a number of different specialist strategies to asset classes such as equities, bonds, cash and property with the aim of mitigating the impact of market volatility. The most common hedge fund strategy in South Africa is referred to as "equity long/short". At the end of December 2017, 60.4% of hedge fund assets was invested in this type of strategy, while 14.1% was invested in fixed income.

He cautions that hedge funds are designed to protect capital by outperforming the markets during times of heightened volatility. "However, when financial markets deliver strong performances hedge funds are unlikely to show similar results," he concludes.

Transitioning to a regulated environment

Visagie says the industry faced another year of consolidation in 2017 as it continued to transition to the regulated environment.

In April 2015 South Africa became the first country to put in place comprehensive regulation for hedge fund products. The new regulations provide for two categories of hedge funds, namely Qualified Investor Hedge Funds and Retail Investor Hedge Funds.

This required the hedge fund industry to prioritise the conversion of hedge fund products to structures that conform to the provisions of the Collective Investment Schemes Control Act (CISCA).

"The implementation of the new regulation has led to some hedge fund managers consolidating their product offering," says Visagie.

Under the new hedge fund regulation, 295 hedge fund portfolios have been approved by the former Financial Services Board (FSB).

By the end of December last year, 99% of hedge fund assets had transitioned to regulated structures - 69% of hedge fund assets had been allocated to Qualified Investor Hedge Funds and 30% to Retail Investor Hedge Funds. The remaining 1% completed the transition during the early part of 2018.

Visagie remains positive about the growth prospects of the local hedge fund industry, despite the challenges facing hedge fund managers.

"The industry is still small, but it has the potential to be a key role player in the South African savings industry. This is where the new regulation is of particular importance as it provides a much-needed structure for making hedge funds marketable to new investors."

Ends

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