

**Media Release****Association for Savings and Investment South Africa (ASISA)****8 March 2021****Local hedge funds industry finding its feet in a regulated environment**

The South African hedge funds industry ended 2020 with assets under management of R73.27 billion. Statistics released by the Association for Savings and Investment South Africa (ASISA) show that assets under management increased by R4.35 billion in 2020 from the R68.92 billion managed by local hedge funds at the end of 2019.

Hayden Reinders, convenor of the ASISA Hedge Funds Standing Committee, says this is the first time that independent statistics are available for the local hedge funds industry. In the past statistics were collected and reported by various product providers.

The collection of meaningful data was made possible by the introduction of the ASISA Hedge Funds Classification Standard, which came into effect on 1 January 2020. The classification of hedge fund portfolios into different categories also makes it easier for investors and their advisers to assess and compare funds with the aim of selecting hedge funds appropriate for their risk profiles and investment portfolios.

Commenting on the new hedge fund statistics, Reinders says assets under management achieved a healthy growth in 2020 despite hedge funds having recorded net outflows of R2.45 billion for the period.

He explains that while the local hedge funds industry has the potential to play an important role in the South African savings industry, it is still trying to find its feet following the transition to a regulated environment over the past five years.

**An industry finding its feet**

South Africa became the first country in the world to put in place comprehensive regulation for hedge fund products in April 2015. The regulations provide for two categories of hedge funds, namely Qualified Investor Hedge Funds and Retail Hedge Funds. In order to comply with the regulations, hedge funds had to convert to legal structures that conform with the provisions of the Collective Investment Schemes Control Act (CISCA).

Qualified Investor Hedge Funds require a minimum investment of R1 million and are open to investors with a solid understanding of the investment strategies deployed by hedge funds and the associated risks. Retail Hedge Funds, on the other hand, are more strictly regulated in terms of the investments and the risks that they are allowed to take and are open to all investors who can afford the average minimum lump sum investment amount of R50 000.

Reinders says the process of transitioning to either a Qualified Investor Hedge Fund structure or a Retail Hedge Fund structure led to a number of hedge fund managers drastically consolidating their product offering. As a result the total number of regulated hedge fund products had dropped to 233 by the end of December 2020.

## Salient numbers

|                                      | Qualified Investor Hedge Funds |           | Retail Hedge Funds |           |
|--------------------------------------|--------------------------------|-----------|--------------------|-----------|
|                                      | 2020                           | 2019      | 2020               | 2019      |
| <b>Assets under management (AUM)</b> | R46.33 bn                      | R46.32 bn | R26.94 bn          | R22.60 bn |
| <b>Percentage of AUM</b>             | 63%                            | 67%       | 37%                | 33%       |
| <b>Net annual flows</b>              | - R1.39 bn                     | R0.87 bn  | - R1.06 bn         | R0.04 bn  |
| <b>Number of hedge funds</b>         | 120                            | 130       | 113                | 115       |

## Investor trends

Hedge funds are designed to mitigate the impact of market volatility on capital by applying specialist strategies within the different asset classes. Hedge funds in South Africa are therefore classified according to their investment strategies:

- **Long Short Equity Hedge Funds** are portfolios that predominantly generate their returns from positions in the equity market regardless of the specific strategy employed such as “long bias” and “market neutral”.
- **Fixed Income Hedge Funds** are portfolios that invest in instruments and derivatives that are sensitive to movements in the interest rate market.
- **Multi-Strategy Hedge Funds** are portfolios that over time do not rely on a single asset class to generate investment opportunities but rather blend a variety of different strategies and asset classes with no single asset class dominating over time.
- **Other Hedge Funds** are portfolios that apply strategies that do not fit into any of the other classification groupings.

According to Reinders, the most popular hedge fund strategy in South Africa is “equity long/short”. At the end of 2020, 52.7% of retail money was invested in Long Short Equity Hedge Funds and 53.2% of qualified investor money.

|                          | Retail Funds<br>% of assets | Qualified Funds<br>% of assets |
|--------------------------|-----------------------------|--------------------------------|
| <b>Long Short Equity</b> | 52.7%                       | 53.2%                          |
| <b>Fixed Income</b>      | 33.7%                       | 7%                             |
| <b>Multi-Strategy</b>    | 13.5%                       | 37.9%                          |
| <b>Other</b>             | 0.1%                        | 1.9%                           |

Reinders notes that only retail investors were prepared to commit net inflows to hedge funds in 2020. The two categories that managed to attract meaningful net inflows in 2020 were the Retail Long Short Equity category (R921.39 million) and the Retail Fixed Income category (R104.01 million).

**Ends**

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*ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies.*