Hedge Funds – Additional Scope for Pension Funds

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When it comes to optimising pension fund portfolios, the new Regulation 28 of the Pension Funds Act gives trustees more arrows in their quiver. By allowing pension funds to increase their exposure to hedge funds to a maximum limit of 10% of portfolio allocation, the opportunities and potential advantages offered by hedge funds or hedge fund-related strategies are now available to more than just the mega retirement funds.

Fiduciary duty

Given the scope to increase hedge fund exposure, trustees now have a fiduciary duty to explore the possibilities and potential advantages of enhancing their portfolios with hedge funds or hedge fund-related strategies.

A strategy, not a stand-alone asset class

RisCura does not necessarily view hedge funds or fund of hedge funds as a separate stand-alone asset class, but rather as a complement to a strategy within a defined asset class. This can be in the form of downside protection and lower volatility within equities or as a fixed income replacement strategy when yields on fixed income are not very attractive. Additionally, without appropriate advice or resources, fund of hedge funds may offer more diversification of hedge fund strategies and an additional level of risk management than investing directly in the underlying hedge funds, albeit at an increased fee.

The South African experience

While the South African hedge fund industry is relatively young compared to the global market, it has rapidly matured since the first South African hedge fund was launched in 1998, and is now ahead of the curve with regards to global best practice, and relative performance. South African hedge funds, outsourcing to specialist independent service providers, ensure the highest levels of global standards with regards to transparency, independent risk management and valuation, and mandate compliance.

A South African industry framework has long been in place, and portfolio risk, performance and mandate compliance using individual fund holdings have been independently monitored since 2005. Hedge fund managers (who are regulated by the FSB) work closely with the following independent specialist service providers:

- independent prime brokers
- independent risk managers
- independent administrators
- independent custodians
- independent auditors
- independent legal counsel

This has seen the South African hedge fund industry lead the way with regard to regulation and monitoring, providing additional scope for South African pension funds.

For more information on Regulation 28, **click here**.

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