Hedge Funds Performance: The South African experience

24 May 2012

In the previous article on hedge funds, we mentioned that the South African hedge fund industry is relatively young compared to the global market. The first South African hedge fund was launched in 1998, a fair few decades after the fund started by Alfred Winslow Jones in 1949 in the United States.

That being said, South African hedge fund managers have had a few market cycles and crises to cut their teeth on, such as the 1998 Russian debt default; the 2000 Dot-com bubble; the terrorist attacks of 2001; the 2007 subprime mortgage/liquidity crisis; and the 2010 European sovereign debt crisis (PIIGS).

Still, the performance of South African hedge funds has been a positive experience for investors. This article looks at their performance over the last five years, and reiterates the point raised in last week's article about taking advantage of the opportunity to increase the scope and exposure to hedge funds in optimising a pension portfolio.

Data

The monthly published HedgeNews Africa Hedge Fund Indices are used as reference for both the composite and individual strategy indices. These are the median monthly hedge fund returns per strategy and combined to composite level since January 2007. This is not an attempt to rank individual hedge fund strategies' performances, or to compare the composite single-manager returns to the composite fund of hedge funds. It is an attempt to see how hedge funds performed relative to local market indices, in particular the FTSE/JSE All Share Index; the ALBI index; and the Barclays ILB index. The hedge fund returns are all net of fees, and the market indices refer to the total return indices. The total return index is an index that calculates the performance of a group of stocks/securities assuming that all dividends and distributions are reinvested.

Performance overview

Table 1 shows the annual performance over the last five years since January 2007:

	Fund of Hedge Funds Composite	Single-Manager Composite	FTSE/JSE All Share Index	All Bond Index	Barclays ILB Index
2007	16.48%	14.03%	19.19%	4.25%	9.16%
2008	-0.09%	9.03%	-23.23%	16.97%	13.62%
2009	11.29%	12.32%	32.13%	-0.99%	7.66%
2010	9.00%	9.81%	18.98%	14.96%	10.97%
2011	8.04%	8.79%	2.57%	8.80%	13.05%

Graph 1 shows the annual performance over the last five years since January 2007:

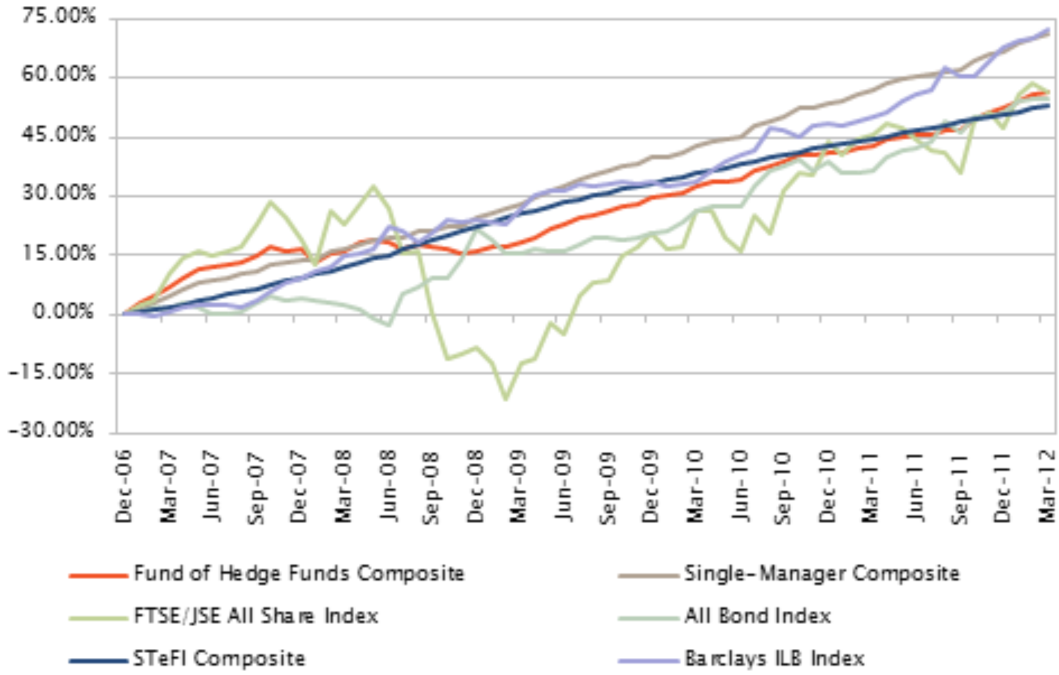


Table 2 provides some descriptive return statistics over the five year period since January 2007:

	Fund of Hedge Funds Composite	Single-Manager Composite	FTSE/JSE All Share Index	All Bond Index	Barclays ILB Index
Annualised Return	8.81%	10.78%	8.09%	8.60%	10.88%
Standard Deviation	0.97%	0.51%	5.38%	2.09%	1.35%
Min Monthly Return	-2.67%	-0.42%	-13.24%	-2.86%	-2.08%
Max Monthly Return	2.79%	2.08%	12.45%	8.51%	4.76%
Range of Monthly Returns	5.46%	2.50%	25.69%	11.37%	6.84%
No. of Positive Monthly Returns	48	58	35	40	44
No. of Negative Monthly Returns	12	2	25	20	16

Crash/Recovery

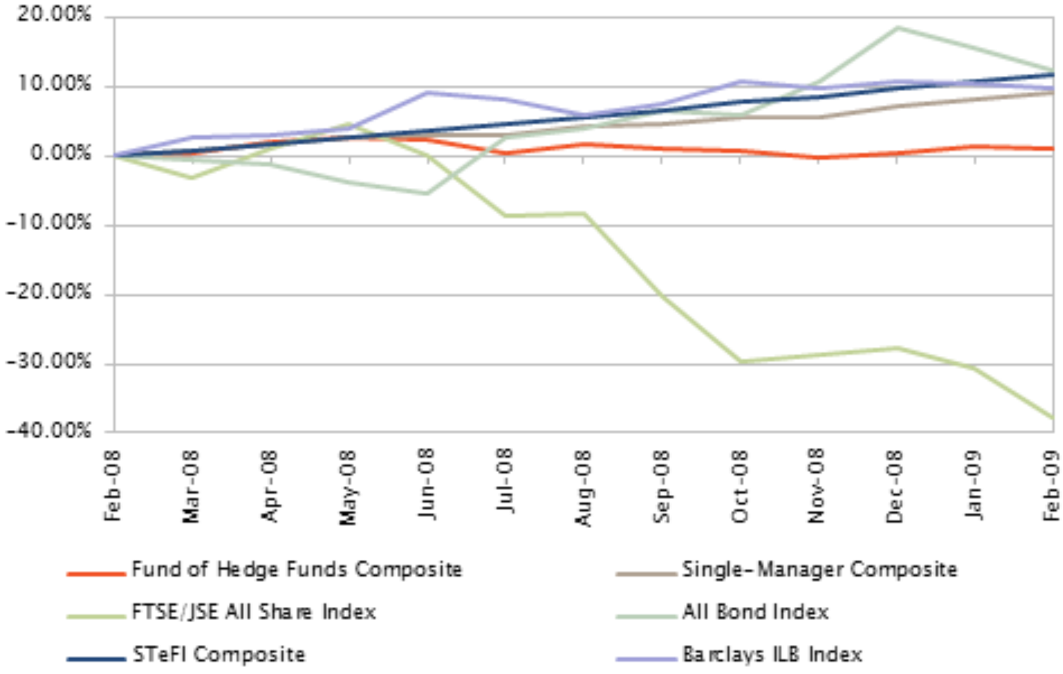
The significance of using hedge fund strategies in a portfolio allocation is highlighted by focusing on two important periods during the previous five years, namely the crash (Bear) and the subsequent recovery (Bull).

First, we take a look at the crash over the 12-month period from March 2008 to February 2009 in Table 3 and Graph 2 below.

Table 3:

Fund of Hedge Funds Composite	Single-Manager Composite	FTSE/JSE All Share Index	All Bond Index	Barclays ILB Index
1.19%	9.26%	-37.59%	12.43%	9.87%

Graph 2:

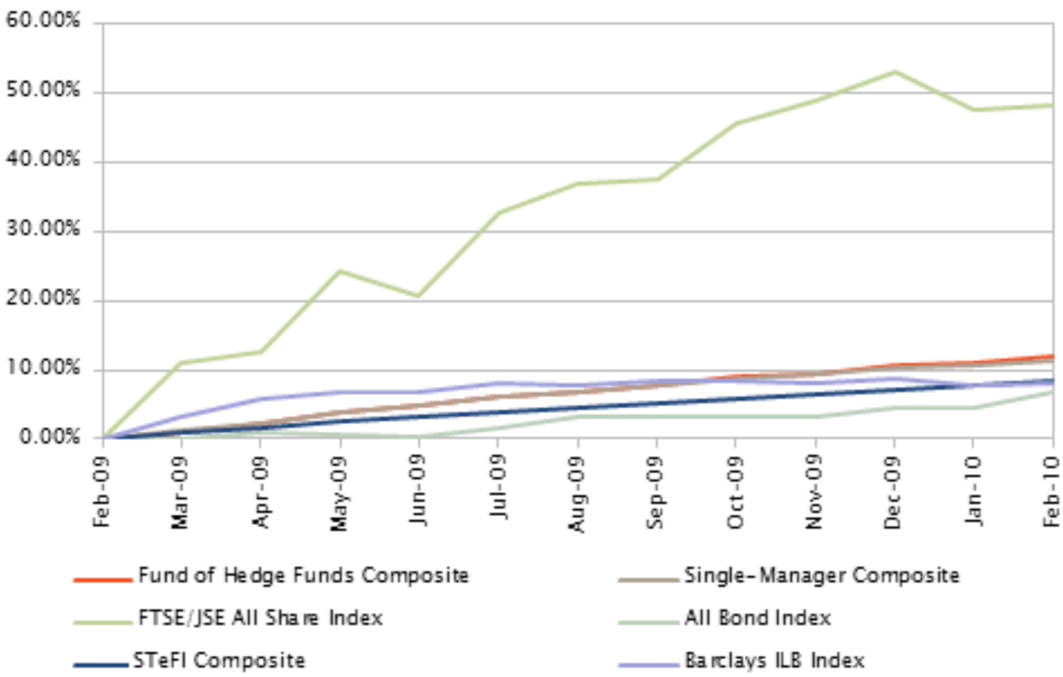


The recovery over the following 12-month period from March 2009 until February 2010 is shown in Table 4 and Graph 3 below.

Table 4:

Fund of Hedge Funds Composite	Single-Manager Composite	FTSE/JSE All Share Index	All Bond Index	Barclays ILB Index
11.83%	11.29%	48.30%	6.78%	8.17%

Graph 3:



As a final note, please refer to Tables 5 and 6 below for an indication of the performance and return statistics of the various South African single–manager hedge fund strategies over the last five years since January 2007.

Table 5:

	Fund of Hedge Funds Composite	Single-Manager Composite	Long/ Short Equities	Market Neutral	Multi Strategy	Fixed Income	Event Driven	Managed Futures
2007	16.48%	14.03%	19.97%	10.43%	10.60%	11.14%	25.15%	18.82%
2008	-0.09%	9.03%	-10.03%	10.54%	-1.46%	9.23%	17.70%	23.97%
2009	11.29%	12.32%	15.87%	12.73%	10.61%	14.87%	12.23%	-3.74%
2010	9.00%	9.81%	10.29%	5.92%	11.96%	18.26%	10.50%	5.22%
2011	8.04%	8.79%	8.49%	6.97%	8.27%	10.72%	11.30%	-3.28%

Table 6:

	Fund of Hedge Funds Composite	Single-Manager Composite	Long/Short Equities	Market Neutral	Multi-Strategy
Annualised Return	8.81%	10.78%	8.40%	9.29%	7.88%
Standard Deviation	0.97%	0.51%	1.79%	0.45%	1.07%
Min Monthly Return	-2.67%	-0.42%	-4.65%	-0.10%	-3.33%
Max Monthly Return	2.79%	2.08%	3.99%	2.03%	2.80%
Range of Monthly Returns	5.46%	2.50%	8.64%	2.13%	6.13%
No. of Positive Monthly Returns	48	58	41	57	47
No. of Negative Monthly Returns	12	2	19	3	12

Regulation 28 gives South African retirement funds the opportunity to explore local hedge funds, and, as this investment vehicle continues to produce consistent returns, it may be a welcome change.

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

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