



## Deciphering Hedge Fund Returns

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The [HedgeNews Africa's](#) Fund of Funds Composite Index outperformed the S&P 500 Total Return index by almost 43 percent during the last two years of relative weakness in the U.S. The index also outperformed the MSCI EAFE (emerging markets), net by roughly 39 percent, according to data compiled by [PerTrac](#), a solutions provider to alternative asset managers.

Emerging markets have been deemed by many market participants as the saving grace of growth and returns during hard economic times in superpowers like U.S.

As Latin America, Asia and parts of Eastern Europe have made their marks on the map, Africa is still unknown. Plagued by geopolitical unrest, poor demographic signs of growth, it can be said a region where few investors can go. Pioneering the way into this developing market are hedge funds.

The more developed hedge fund market in the region is in South Africa, according to Gwyneth Roberts, founder of HedgeNews Africa, a provider of data on the emerging African hedge fund market. Investors can expect 'transparent and liquid markets,' as well as 'access to sophisticated market tool' in South Africa, noted Roberts.

'There are a few - and a growing number (hedge funds) - focused on the broader African region. It is early for many nascent African markets but growth is on the way,' said Roberts, who noted that some African-based stocks are listed on exchanges in London, New York and Toronto and 'creates opportunity.'

Roberts noted that most hedge fund strategies implemented in Africa are long/short equity or fixed income. Esoteric strategies have no place in the region until the market develops and manager have 'access to more tools and a wider investor base.'

Much of the market's strength comes from internal interest, according to Robert. Institutional investors, such as South African pensions and fund of funds are currently injecting capital into the local hedge fund market though there is 'increasing offshore interest,' said Roberts. For foreign investors, the attraction is uncorrelated assets to major markets.

'South African banks were largely protected from the credit crunch and many parts of Africa are practically unbanked so that explains some of the diversion post 2008,' Robert said.

Diversification is also a part of the African story, said Roberts. 'There are different stock exchanges and economies which have their own domestic issues and therefore tend to behave differently from each other.'

Of course, investing in Africa is not without risks. 'Many investors are looking for steady risk-adjusted returns, while there are those that come to Africa and are prepared to take on more risk in search of higher reward,' according to Roberts.