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News

South African Funds of Funds Prove Resilient

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South Africa's funds of funds market, although nascent, has proved resilient to global economic events.

When it comes to the performance of funds of hedge funds, the South African market is proving to be a stable investment environment, according to recent research from PerTrac. The study shows that the South African market during the global credit crunch remained in a relatively resilient and steady state, despite its nascent compared with the US and Western European markets. James Rundle reports.

"In a down market, the South African fund of funds market stayed static," explains Lisa Corvese, managing director of global business strategy at PerTrac. "It didn't take the major dips that people took across the rest of the globe during the credit crunch of 2008. The fund of funds composite typically hovers around \$3 billion, and it's stayed between \$3 billion and up to about \$3.3 billion during 2010. So you can see that it's pretty steady-state."

The reasons for this lie in social, political and geographical factors, according to Corvese. "If you look at the environment, it's a country that is transitioning to a market-dominant economy," she says. "It has a burgeoning middle class, it has natural resources, and it's poised for growth."

More significant than this, Corvese claims, is a more adaptive legislative environment aimed at promoting the growth of financial services. "The challenge for South Africa is raising capital," she continues. "They need to become more institutionalized in their process to match their performance right now. They're doing that by adapting the legal and regulatory frameworks to assure investors, and it helps them in their cause."

One specific area of interest Corvese highlighted was the proposed rule on how much pension funds are allowed to allocate to alternative investments in South Africa. "I think what's really interesting is that there's a regulatory environment much like those on different sides of the pond, which is going to reassure investors, and allow even domestic pension funds to allocate up to 10 percent [of their assets] to the alternative strategies within the Southern African environment," she says. "That was supposed to come into force in July, but it's been pushed back until December. It's still this year, so it's a 2011 regulation designed to reassure investors. That's a very interesting piece of the puzzle, and I always think that when you look at broad benchmarks, it always is just the tip of the iceberg, and it belies a whole lot of other stuff that's going on underneath."

PerTrac commissioned the research on the back of client requests about the region, culminating with a strategic partnership with HedgeNews Africa, in which information from the latter was added to the former's analytics database. The resilience of the market is perhaps somewhat surprising given the relatively modest size of the South African fund-of-funds market, with assets under management totaling around \$10 billion, although Corvese sees this as typical for the company's research. "One of the interesting things about PerTrac is that we provide a wider lens — kind of an inclusive view to the analysis of hedge fund data," says Corvese. "That's one of the reasons people use PerTrac, because they can make comparisons that are counter-intuitive."

Emerging markets have recently garnered a certain amount of attention in terms of providing investors with a relatively safe investment, with half-decent returns compared with the huge volatility of markets elsewhere. As a result, Corvese believes South Africa will become an area of much interest in the future. "I think it's an area that good analysts who are looking at the broader emerging markets and nascent economies — because you must bear in mind that this is very nascent — are putting into their analysis, there's no doubt about that," she says. "But it's definitely being looked at by our clients, and it's also being looked at by those who want to put it into the pie of how they're going to allocate alternative strategies, and how they're going to look at alternative strategies in emerging markets."

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