

By Leon Kok

HEDGE FUNDS

Capital protection trumps perception

Top-performing hedge fund uses proprietary analysis to preserve investor capital.

Many investors are apprehensive about investing in hedge funds, but in a time of crisis there is arguably a compelling case to reconsider this option.

This is according to **Jean Pierre Verster, CEO of Protea Capital Management**. A case in point is the firm's Protea Worldwide Flexible SNN Qualified Investor Hedge Fund, which hit a new all-time high at the end of May 2020. The fund also won a BarclayHedge Global Top 10 Equity Long/Short award recently, for its 10.49% annualised return (after fees) over the three years to March 2020.

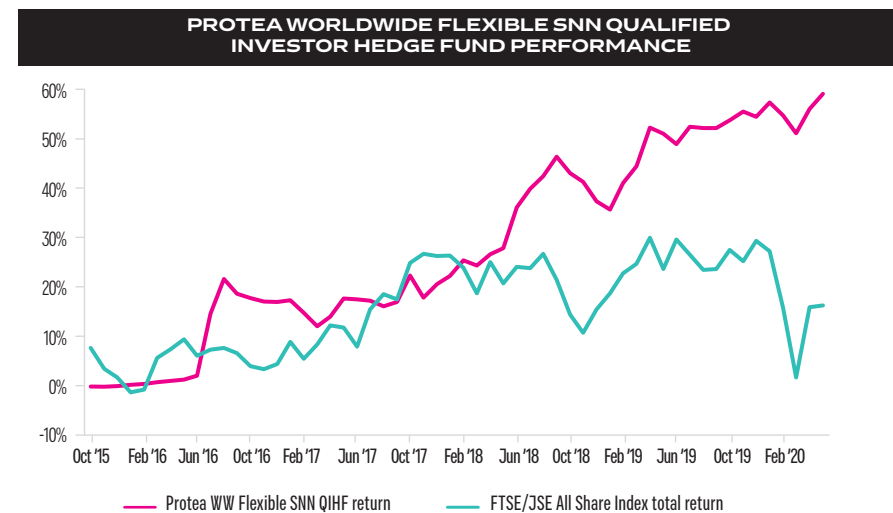
Verster points out that hedge funds in South Africa have benefitted from a world-class regulatory regime for several years. They are obliged to appoint independent administrators, custodians and auditors, and therefore have the same checks and balances in place that traditional long-only unit trusts have. Hedge funds were previously only available to institutions and the ultra-wealthy, but the man in the street can now access hedge funds too.

Verster dispels claims that the primary driver of a hedge fund is to make money out of the misfortune of others by shorting shares. This is because not all hedge funds follow an activist short-selling approach, where internal research is shared publicly. Rather, he argues that the most important imperative of short-selling is to protect a portfolio's value over time.

This has been particularly apparent during the current crisis, he says, in which numerous long-running hedge funds have succeeded in protecting investors against the fall in markets.

The Protea Worldwide Flexible SNN QIHF has a R1m minimum investment requirement. Protea Capital Management also manages two retail hedge funds, namely the Protea South Africa SNN Retail Hedge Fund, and the Protea Global SNN Retail Hedge Fund. These funds have a minimum investment amount of R50 000 once-off or R2 000 monthly. All three these funds are domiciled and regulated in SA.

The Protea South Africa SNN RHF focuses on JSE-listed securities, while the Protea Global SNN RHF focuses on developed-market equities. Both have net equity exposure of 35% to 75% at most



SOURCE: SANNE & Bloomberg

times, with a maximum gross exposure limit of 200% (i.e. a maximum leverage of two times). Typically, the funds would have around 120% long exposure and 70% short exposure.

The objective, says Verster, is to generate above-average returns. This involves buying shares that are expected to rise in price, and by shorting shares that are expected to fall in price.

Marked features of the firm's investment philosophy are intellectual honesty, flexibility, and data-driven decision-making. "We believe that one can learn important lessons from various successful investors who have applied quite different investment philosophies," Verster explains. "We are not dogmatic in our approach and seek to continually improve our decision-making."

Protea Capital Management follows a 'quantamental' investment approach, involving a combination of traditional fundamental analysis with quantitative investment techniques. The approach ensures sufficient diversification to guard against risk concentration, and the avoidance of behavioural bias. It can also be described as a 'man-plus-machine' approach towards investing.

An important assumption imbedded in the firm's investment philosophy is that, over time, a company's share price will converge

with its value. Value is defined as the net present value of the future cash flows that a company is expected to generate. Proprietary algorithms are used extensively to forecast these cash flows.

The origin of Protea Capital Management dates to early 2009, when Verster invited a small group of friends and family members to pool their investments and form the Verster Investment Partnership. As general partner, he managed their wealth alongside his own. The core strategy rapidly developed into a diversified share portfolio, investing both long and short in listed equities on the JSE. The partnership's mandate was later expanded to include investing in global equities.

The Protea range of hedge funds was launched in partnership with an established asset manager in 2016, and Protea Capital Management was awarded its own Financial Services Provider licence last year.

The Protea South Africa SNN RHF and Protea Global SNN RHF are available on the Momentum Wealth platform while the Protea Worldwide Flexible SNN QIHF is offered on the 27four Life and Hollard platforms for investment via endowment policies. All three funds are also available on the Ashburton Equity-Linked Note and Absa LISP platforms. ■



Jean Pierre Verster
CEO of Protea Capital Management