

# Hedging the bad times, funding the good

Protea Capital Management is an investment management firm, specialising in hedge funds. Its focus is on growing the wealth of its clients at an above-average rate over the long term by investing in publicly listed equities worldwide. *Blue Chip* spoke to Jean Pierre Verster, CEO and portfolio manager, about the increasing interest and accessibility of hedge funds in South Africa, as well as their regulatory environment.

**In 2015, hedge funds became collective investment schemes regulated by the Collective Investment Schemes Control Act. How did regulation impact the hedge fund industry?**

The regulatory change has been beneficial for both the industry and investors. The Association for Savings and Investment South Africa (ASISA) has categorised hedge funds, and their Hedge Fund Classification Standard came into effect on 1 January 2020. The Standard provides a framework where hedge funds are grouped together according to their investment strategies and geographical exposures, which makes it easier for investors and advisors to compare and select hedge funds according to their risk profiles.

Retail investors can now access an asset class which was previously only available to sophisticated high net-worth and institutional investors. With hedge funds falling under the regulatory ambit of traditional unit trusts, certain reporting requirements which increase the transparency of the product are mandatory. Minimum disclosure documents, which contain all the salient information of the funds, are released at least quarterly, empowering investors to make an informed decision when considering hedge funds.

Despite having been regulated for more than five years, financial advisors have struggled to access hedge funds for their clients.

**Why has it taken so long for hedge funds to be available on LISP platforms?**

Linked Investment Service Provider (LISP) platforms needed to complete some product development of their own before hedge funds could be added as a fund option. Due to the increased interest and demand from the financial advisory community, the process has been fast-tracked and nearly all major LISP platforms have now added hedge funds to their platforms, giving advisors access to this under-appreciated asset class.

**What potential opportunities do the new draft changes to Regulation 28 hold for hedge funds?**

I am optimistic that the proposed changes to Regulation 28 of the Pensions Fund Act will further enhance investor exposure to hedge funds. In terms of the proposed changes, hedge funds, private equity funds and infrastructure investments will each have their

own investment limits, rather than being lumped together in one category (as has been the case to date). The changes should lead to an increased allocation to hedge funds by pension funds.

Additional regulatory changes may also prove to be favourable to industry growth over the next few years. ASISA's hedge fund standing committee have been engaging with the industry regarding possible amendments under Board Notice 90. This would allow unit trusts to invest in hedge funds, which they are currently unable to do.

**Given the current low interest rate environment, investors are struggling to find decent returns without the risk of a sharp decrease in the value of their capital. What propositions do hedge funds offer in this regard?**

Hedge funds have proven their mettle over the past five years, with many hedge funds outperforming traditional unit trusts (with less volatility) during a time when returns have been hard to come by. They navigated the difficult 2020 market and still delivered above-average returns when most traditional unit trusts had not. Hedge funds aim to limit deep drawdowns, while still participating in the upside.

**Tell us about the proprietary quantamental analysis process Protea Capital employs for stock picking.**

Our quantamental investment analysis process takes a "Man + Machine" approach towards investing. It combines traditional, fundamental company analysis with quantitative investment techniques, which improves both breadth and depth of analysis. We believe that this approach leads to better decision-making and assists in avoiding psychological biases, as explained in behavioural finance theory.

Past awards are testament that the process works, even though returns can be lumpy. The Protea Global SNN Retail Hedge Fund was nominated for an award during the recent HedgeNews Africa Awards ceremony. ■



**Jean Pierre Verster,**  
CEO, Protea Capital  
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