

Protea under way with higher-gearred long/short mirror for overseas clients

Despite global long picks struggling in 2022, last year was good for South African stocks and Protea has successfully protected against downside risks

Protea Capital Management, headed by Jean Pierre Verster, is making consistent progress with its range of hedge funds, investing long/short with a long bias in South African and global equity markets using the firm's quantamental investment philosophy.

The Protea Worldwide Flexible SNN QIHF invests both in South Africa and offshore, while the Protea South Africa SNN RHF focuses on the JSE and the Protea Global SNN RHF has an offshore focus.

All three funds are domiciled and regulated in South Africa.

Protea also launched a Malta-domiciled hedge fund in January 2022, the Protea International Hedge Fund, which is a mirror of the rand-denominated global long/short fund but with higher gearing. It is available to offshore investors in dollar, euro and pound share classes and awaits Section 65 approval to be marketed in South Africa.

The Protea South Africa SNN Retail Hedge Fund gained a net 12% last year, returning an annualised compound 10.77% since inception in July 2017. The Protea Worldwide Flexible SNN QI Hedge Fund added 4.91% last year, with an annualised compound 10.25% since inception in October 2015 and the Protea Global SNN Retail Hedge Fund retraced by -9.41%, with an annualised compound return of 5.53% since inception in July 2017.

"Last year was a good year for the South African portfolio, although our quality longs in the global portfolio were hammered," says Verster. "South Africa has held up well in the context of international markets. There are fewer growth stocks on the JSE than globally so the domestic market did not see as sharp a recovery post-Covid. Similarly, the local market didn't fall last year, as happened in global equity markets."

Protea has an established team of six individuals, including Verster as CEO and portfolio manager, Dr Shinhye Chang as senior data scientist, and senior analyst Richard Cheesman. Edrich Jansen heads business development with Willem le Roux as head of operations and Cecile Hechter in client services, office support and marketing.

Verster has 16 years of asset management experience, launching his first fund in 2016



Jean Pierre Verster

while under the Fairtree umbrella before setting up his own shop in 2019. He was previously with 36ONE Asset Management for six years.

Protea's quantamental process relies on combining qualitative and quantitative analysis. Its proprietary quantitative valuation models make extensive use of automation to scale the analysis process, which leads to breadth and depth of analysis.

Portfolios combine both long and short books, as well as special situations, with risk management and ESG factors a core focus.

Currently, the portfolios include significant long exposure to growth stocks and moderate exposure to China, helping the funds to perform strongly in January.

The South African portfolio went into 2023 with net exposure of 56%, with main sector exposures in consumer discretionary stocks, financials, materials and industrials.

The global book has net exposure of 80%, with its biggest allocations to consumer discretionary stocks, financials, IT, communication services and industrials, healthcare and energy.

The Protea Worldwide Flexible SNN QIHF was born out of a private partnership, which has a track record of long/short investing stretching back to 2011, returning five times money (14.6% per annum net) versus 3.3 times money from the JSE All Share (10.7% per annum gross).

The fund has been successful in limiting deep drawdowns, with its worst month at -3.68% versus -8.49% for the MSCI World (total return, rand) and -12.13% for the JSE All Share Index (total return) since the fund's inception. The fund's lowest rolling 12-month return is -4.73% versus -12.46% from the MSCI World and -18.42% from the JSE All Share, while its largest cumulative drawdown is -7.84% versus the MSCI World's -18.62% and the JSE's -21.72%.

The Protea Worldwide Flexible SNN QIHF has also outperformed similar traditional long-only unit trusts (based on the average of the Worldwide - Multi Asset Flexible Category), over one, two, three and five years.

When compared with traditional unit trusts, the Protea South Africa SNN RHF would be one of the top 10 performing funds in the ASISA South-African Equity-General category over a one- and five-year period. It has added 11.8% per annum over five years versus 6% per annum from the SA high equity category average.

"Even after a tough year for many strategies, South African hedge funds have a great story to tell," says Verster. "We can use all the investment tools to offer a different source of return while protecting against downside risks."

He notes that all major LISPs (linked investment service provider platforms) have added hedge funds to their product offering in recent times, creating important access for investors, yet the hedge fund industry still punches way below its weight in terms of assets.

Private equity investor Fledge Capital bought a 24.96% stake in the business roughly a year ago. With assets under management of R1.2 billion, Protea is focusing on measured business growth. It will be looking to add a global analyst or senior operations/trading hire this year.