

Protea gains Section 65 approval for international long/short offering

Looking towards business expansion for its 'quantamental' investment process, Protea has set its sights on opportunities and short-selling markets ex-SA

Protea Capital Management has received Section 65 approval for its Protea International Hedge Fund, a global long/short fund focused on developed markets ex-SA.

The fund, domiciled in Malta, launched last January into difficult global markets. Seeded with roughly US\$4 million, it invests into developed markets including Canada, the US, the UK, the EU (including Scandinavia) and Asia (Singapore, Hong Kong, Japan and Australia) and excludes South Africa.

Headed by Jean Pierre Verster, Protea applies its 'quantamental' process to domestic and global markets, managing both a South African long/short strategy and a global long/short strategy, which inform its four hedge funds.

"Our 'quantamental' investment process is based on universal valuation principles and can be applied across the globe to analyse and identify investment opportunities," says Verster. "Not all stock exchanges globally allow for short-selling – we therefore focus on equities traded in developed markets and in advanced emerging markets."

He notes that the international fund is part of Protea's long-term business strategy, given the shrinking South African market.

"If we want to grow as a business, we must look at investment opportunities ex-SA and eventually, investor flows from other parts of the world as well. There is a limited savings and investment pool in South Africa and fewer investment opportunities. The international fund allows us to attract potential investors that don't want to invest in rands, nor into South Africa," he says.

"There are thousands of equity long/short funds in developed markets and our challenge is to outperform the majority of them over time."

The international hedge fund went live last January, at a tough time for the markets.

"Our international hedge fund launched into exactly the wrong type of environment for our strategy," says Verster. "High-quality growth stocks significantly underperformed lower-quality stocks such as oil, gas and heavy industrials. It was a terrible year for the Nasdaq."

Verster notes that Protea's models had



Jean Pierre Verster

positioned the portfolio correctly with a long-term view, despite short-term challenges. The fund declined 13% in its first year, yet still outperformed the MSCI World Index, which fell -19.4%. It has gained 6.32% so far this year, versus 9.63% from the MSCI World.

"It is impossible to accurately predict what the markets will do. Crystal balls are cloudy. Last year was a case in point when our high-quality longs declined and, at the same time, our shorts went up," he says. "We manage the risk and then let the mar-

kets do what they do – over the long term, price and value converge."

As portfolio manager, Verster considers both fundamental and quantitative inputs from his team to construct the portfolios.

The international fund has around 140 positions at any given time, with the quant process allowing Verster to build a broader, more diversified portfolio than a purely fundamental approach.

He adds that the short book has worked well over the past 12 months, creating alpha particularly from loss-making US technology stocks, which have had a lot of hype around them.

Protea's longest running fund, the Protea Worldwide Flexible FR QI Hedge Fund, which invests long/short in South Africa and globally, has added a net 9.67% since inception in October 2015, versus 8.31% from the FTSE/JSE All Share Index and 6.37% from cash (three-month Jibar). It has added a net 6.27% so far this year to the end of September.

Elsewhere in the fund range, the rand-denominated Protea Global FR Retail Hedge Fund has gained a net annualised 7.6% since launch in September 2017, and 28.28% so far this year.

FUND FACTS

Protea International Hedge Fund

Strategy: Global long/short

Portfolio manager: Jean Pierre Verster

Prime broker: Absa

Administrator: Apex

Domicile: Malta

Currency classes: US dollar, British pound, euro

Section 65 approval in South Africa: Yes

Minimum investment: \$100,000

The Protea South Africa FR Retail Hedge Fund, which focuses on listed South African counters, has added 8.69% since inception in July 2017, and is -4.06% lower so far this year.

Verster notes that Protea's models are advocating for significant long South African exposure, including smaller companies (retailers, industrials) and larger caps, notably in the banking sector.

"We have been positioned that way but prices haven't risen significantly," he says. "We are confident in our long book in SA but companies are under pressure and haven't delivered meaningful earnings growth. It is about managing risk and finding companies that will do well in a lacklustre economy. With all our funds, we aim to beat the long-term return of a comparative passive long-only portfolio, but with less volatility, while limiting downside to a greater extent."

Protea typically excludes long exposure to commodities companies, which don't meet its quality criteria, but has benefited from short positions in the space.

Protea has a team of seven people based in Johannesburg, Pretoria and Cape Town.

Deborah Brennan has recently joined as head of operations, coinciding with Willem le Roux taking a six-month sabbatical.

Brennan joined the team in August, bringing many years' experience in fund

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administration. She was most recently with the Apex Group (formerly Sanne) as an associate director, focusing on the alternative investment industry. In 2019, she was in-

volved in a migration and system implementation project at IDM. She joined JTC in 2015, working in fund administration, where her responsibilities included setting up various fund structures.

She has a BCom in Financial Reporting from the University of Cape Town, starting her financial services career as an accountant and obtaining the CIMA qualification.

"Willem set up our processes and automated our systems and Deborah is building on that to bring in additional checks and balances," says Verster. "Operationally, we are seeing the benefits."

The investment team includes Richard Cheesman, who joined in 2019 and focuses on fundamental analysis, and Dr Shinhye Chang, a data scientist who joined in 2021 with a focus on the quantitative side.

Protea has assets under management of R1.1 billion from retail investors.

"We had strong growth in our first two years as a business although our AUM has been flat for the last 12 months," says Verster. "The South African hedge fund industry is starting to see increased flows from retail investors, as the biggest funds have embarked on a major marketing drive. It is good for the industry as financial advisers begin to make the mental shift to appreciating returns after fees. We are patiently waiting for the next tier of hedge fund managers to benefit from increased inflows."



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