

S. AFRICA EMERGING AS GROWING HEDGE FUND MARKET

According to a recent survey, assets managed by South African hedge funds rose more than 27 percent in the year ending June 2014 (source: Novare Investments South African Hedge Fund Survey 2014) with the country's hedge fund industry now managing \$4.8 billion. Industrial development initiatives, a forward-looking regulatory environment and strong central bank leadership have all played a role in writing this success story.

Hedge Funds: a New Investment Category

Responding to the 2008 financial crisis, South Africa re-examined its legislative environment in order to bolster what worked and protect investors from what did not. A new legislative proposal calls for regulating and overseeing hedge fund structures within the context of the existing Collective Investment Scheme Control Act of 2002. The legislation would define hedge funds as a new and separate category under the collective investment regime. Greater transparency, investor protection, promotion of market integrity and prevention of systemic risk are key objectives of the legislative proposal.

Quality Managers

Although there is some debate as to whether the overall assets under management (AUM) come more from performance growth versus actual new inflows, the fact remains that there are an increasing number of investment funds being allocated to hedge fund managers. More important, the new inflows are attracted largely from new international sources as opposed to being from local sources. According to the Novare survey, equity hedge funds received net cash inflows of R3.5 billion (South African Rand) — the first time in six years that the funds have had net inflows. The quality of fund managers and the extent to which they are engaged with regulators is seen as a significant factor attracting such inflows.

Where Moneys Were Allocated

Larger South African hedge funds attracted the bulk of net cash inflows with 63.6 percent allocated to companies with assets exceeding R2 billion; this was followed by 20.5 percent of net cash flows going to hedge funds with assets between R1 billion and 2 billion. In addition, eight new funds were launched during the year ending June 2014. Half of the assets allocated to the new funds came from existing hedge funds, while 30 percent of new fund assets came from individuals with high net worth.

New Central Bank Governor

With this month's appointment of Lesetja Kganyago as South Africa's Reserve Bank governor, it is expected that the financial stability policies put in place by his predecessor will continue. According to Mr. Kganyago, "It is a continuum that we have seen since Ms. Marcus arrived at the bank in 2009 and I do not have to reinvent anything, I just have to carry on from where she left."

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