Managers' Digest

Issue 4 • 2023

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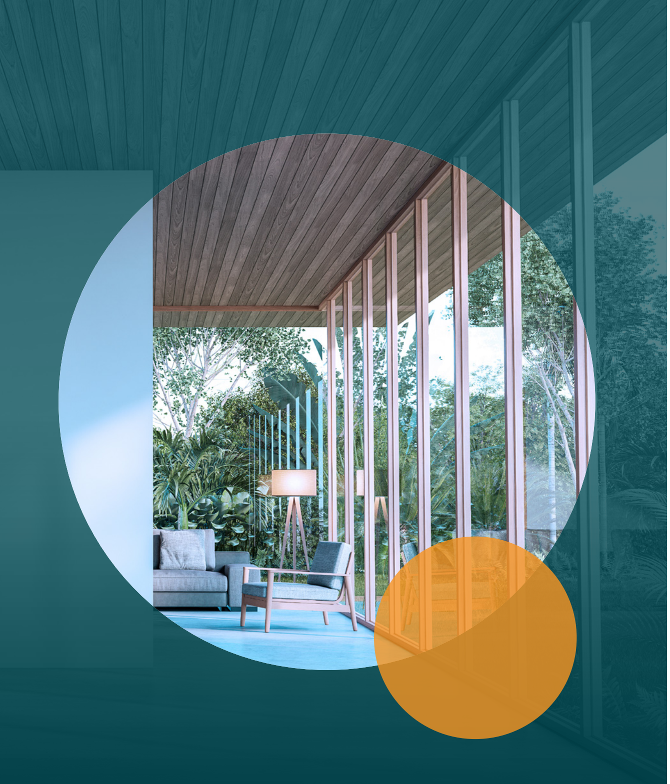


In this **edition**

Along with providing some insights into the fourth quarter (Q4) performance of survey constituents, the December 2023 iteration of the Managers' Digest also delves into topics related to the recent COP28 conference. We provide an overview of the key outcomes of the summit in our Sustainable Investments section.

Deputy Chief Investment Officer, Senzo Langa from Alexander Forbes Investments is featured in our expert insights interview, providing some background on his journey within the investments industry and personal development.

Derivative instruments are featured in 'Word on the Street', with Alexforbes' Senior Strategic Development Specialist, Daniel Olivari, providing us with insights into hedge funds in the investor education section.

Introduction

Markets ended 2023 on a high note, both domestically and globally, with indexes realising performance well within positive territory. The constituents of the Large Manager Watch (LMW) category of our flagship Manager Watch™ Survey started the first month of Q4 on the downside. The peer group median performance of the SA and Global LMW participants was reported as -1.99% and -2.31% respectively for the month ending October 2023. November 2023 saw a rebound in the median performance for both categories, with realised returns of 6.51% and 7.25%, moderating to 2.06% and 1.99% for the domestic and global categories respectively in December 2023.

Locally, the FTSE All Share Index ended the year with an annualised one-year return of 9.25%, accompanied by strong performance in domestic bonds and cash. The FTSE All Bond Index and Short-Term Fixed Interest Rate Index (SteFI) produced a 9.70% and 8.06% return respectively for 2023. Global market index performance reveals relatively higher returns than those produced domestically, with both the MSCI World and S&P 500 realising a respective South African rand (ZAR) return of 33.72% and 35.36% respectively for 2023.

The impressive performance realised at the latter part of 2023 comes on the backdrop of mixed economic data, with the South African Q3 Gross Domestic Product (GDP) contracting by 0.2% from the previous quarters' increase of 0.6%. Contributing to the low GDP figure were various headwinds such as the intensification of load shedding, geological tension and elevated inflation.

Sharpshooter

The Sharp Shooter (best absolute performer across all surveys) for the quarter is the **Prescient Property Composite**, participating in the Property survey with a return of **16.96%**.

The best relative performer for the quarter was the Futuregrowth Development Equity Composite, participating in the **Targeted Development Investment (TDI)** survey and outperforming its benchmark by **8.69%.**

16.69% — **Prescient Property Composite**

8.69% — **Targeted Development Investment (TDI)**

Surveys in numbers

Some interesting facts generated over Q4 2023 across all surveys, include:

87
Asset managers participating
across our surveys

749
Participating strategies
across our surveys

R7.76 trillion
Total assets under management
(AuM – June 2023) of all participating strategies

49
BEE level 1 contributors

59
Signatories of the **UN Principles for Responsible Investment (PRI)**

363
Portfolios outperformed their respective benchmarks
(excluding the International, Namibia, Fund of Hedge Funds, Africa and LDI surveys)

589
Portfolios increased their market values
(excluding the Fund of Hedge Funds survey)

69
Companies endorsing the principals of the Code for Responsible Investing in South Africa (CRISA)

Read more

Industry news

Harmonisation of FTSE/JSE Index update:
In the September 2023 iteration of the Managers' Digest we introduced the proposal tabled by the FTSE/JSE Index to consolidate the methodology behind their index construction. The goal of the index harmonisation project is to reduce the number of similar and/or overlapping indices, and if necessary, to introduce new specialist and differentiated indices that are suited to market demand.

- Based on market consultation, many respondents are in favour of the SWIX methodology.
- To ensure fair treatment of all companies, the All Share Index and its variants, such as the Top 40 and Capped All Share, will adopt the SWIX methodology.
- There is no impact on the index construction for investors using the SWIX indices, including capped indices. However, for investors using the Capped ALSI, some rebalancing alignment will be required. Please refer to the table that shows the Capped SWIX top 10 versus the Capped All Share top 10 and the largest buy/sells to align.
- The lack of accurate data means that depositary receipts have been excluded from the calculation of the SWIX FF factor (March 2023). Once the SWIX methodology has been applied to the All Share indices, the JSE will decommission SWIX indices and maintain All Share indices as the flagship suite (Phase 2 of the harmonisation).
- On the Capped SWIX methodology, a 10% capping limit will apply (implemented June 2023), as well as a Naspers and Prosus group capping of 12% (September 2022).

Index performance

Best-performing SA indices in the surveys

Quarter	1 year	3 years	5 years
16.37% FTSE/JSE SA Listed Property Index	**10.70%** FTSE/JSE All Property Index	**14.87%** FTSE/JSE SA Listed Property Index	**12.51%** FTSE/JSE Top 40 Index

Best-performing peer group benchmarks as featured in the surveys

Quarter	1 year	3 years	5 years
6.95% Global LMW Median	**13.67%** Global Dynamic Median	**13.00%** Global Dynamic Median	**11.84%** Global Dynamic Median

SA and Global Best Investment View (BIV) – asset allocation

This section explores how asset managers are adjusting their investment strategies in both the South African and Global BIV categories of the Manager Watch survey. These adjustments are influenced by recent changes in Regulation 28 of the Pensions Funds Act, specifically in the rules governing offshore investments, particularly an increase in the limit to 45%.

SA BIV - average asset allocation

	June 2023	September 2023	December 2023
SA equities	64.5%	62.9%	64.61%

There have been noticeable shifts in the quarterly asset allocation of the participants in the SA BIV category from June 2023 to December 2023. On average, there was an increase of 1.71% in the allocation of assets to domestic equities, with an increase of 0.97% to bonds. These slight changes could be in response to market dynamics or a broader strategy for managing risk and returns, with the prospects of a risk-on environment emerging as a result of the slowdown in interest rate hikes by the South African Reserve Bank (SARB).

Among the managers, the one with the highest allocation to domestic equities had an exposure of 75.3%, delivering a quarterly return above the upper quartile.

Global BIV - average asset allocation

	June 2023	September 2023	December 2023
SA equities	38.6%	37.3%	38.66%
Total SA assets	**67.0%**	**66.5%**	**65.80%**

	June 2023	September 2023	December 2023
Global equities	23.2%	24.4%	25.19%
Total global	**33.0%**	**33.5%**	**34.20%**

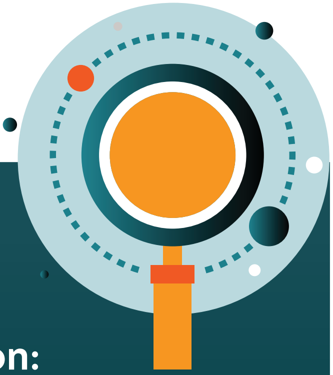
The Global BIV category delivered an average performance of 6.38% for the quarter, possibly influenced by the shifts in asset allocation.

Average assets allocated to global investments from June 2023 to December 2023 increased by 1.2%. Among the managers, the one with the highest allocation to global assets for the quarter ending December 2023 had an exposure of 46.1%, delivering a quarterly return above the upper quartile. Of the 43 managers, only 4 were lower than 30% by more than 5%.

Overall, the data indicates a significant trend of managers gradually increasing their global allocations, particularly in offshore equities, in response to the amended Regulation 28, which allows for higher offshore exposure. The trend suggests that asset managers are diversifying their portfolios to take advantage of global opportunities and manage risk, considering the relative attractiveness of different asset classes and markets. Differences in offshore investments and performance across managers are likely to continue, emphasising the importance of smart allocation decisions.

Survey in focus -
Fund of Hedge Funds (FoHF) Manager Watch™ Survey

The FoHF Manager Watch™ Survey emerges as a critical tool in assessing the performance and trends within the FoHF industry. Constituents that make up the FoHF survey serve as sophisticated investment vehicles that diversify risk and maximise returns by allocating capital across a carefully selected portfolio of hedge funds. Unlike traditional investment strategies, FoHFs provide investors with a curated basket of hedge funds. The purpose of the Fund of Hedge Funds Manager Watch™ Survey is to provide clients, trustees, consultants and asset managers with objective and meaningful performance and risk comparisons across SA Hedge Fund of Fund asset managers.



Rules for participation:

Minimum size requirement:
A minimum size of R25 million is required for participation, maintained over a minimum 12-month period.

Regulatory compliance:
Hedge fund managers are required to comply with the prerequisite Category 2A regulation.

Return submission:
Returns must be submitted gross and net of fees. Model returns for portfolios are not allowed.

Multiple submissions:
Multiple submissions per survey are permitted, with a maximum of three portfolios per sub-category, per asset manager.

Introduction of Hedge Funds:

The Fund of Hedge Funds Manager Watch™ Survey will be undergoing significant transformation, expanding its scope to encompass both single-manager hedge funds and FoHF. This evolution will be reflected in what will be called the Hedge Fund and Fund of Hedge Funds Manager Watch™ Survey, which would welcome participation from a broader spectrum of investment strategies, such as:

South African Long-Short Equity:
Tailored for funds actively trading South African equities, capturing market opportunities through both long and short positions.

South African Market Neutral:
Focused on funds minimising overall market risk in the South African context by balancing long and short positions.

South African Fixed Income:
Designed for funds primarily investing in South African fixed-income securities, providing stability and income generation.

South African Multi-Strategy:
Welcoming funds employing a diversified approach across multiple strategies within the South African market to manage risk and enhance returns.

The expansion of the survey to include both single-manager hedge funds and FoHFs, under the newly termed Hedge Fund and Fund of Hedge Funds Manager Watch™ Survey, is a very exciting development as the survey will broaden its analytical scope. This enhancement not only enriches the survey's comprehensiveness but also extends its utility to a wider audience of clients, trustees, consultants and asset managers. It facilitates informed decision-making through objective performance comparisons.

Risk statistics – Volatility and tracking error

Lowest volatility

	1 quarter	3 years	5 years
Total SA Equity	**10.14%** Visio Absolute Equity Composite	**11.17%** Foord Domestic Equity	**13.81%** First Avenue Focused Equity
Manager Watch SA Best Investment View	**11.58%** Allan Gray Domestic Balanced	**8.50%** Allan Gray Domestic Balanced	**10.05%** Foord Domestic Balanced
Manager Watch Global Best Investment View	**3.49%** Rezco Value Trend	**4.26%** Rezco Value Trend	**6.04%** Rezco Value Trend

Volatility is a measure of investment price fluctuations over time. Higher volatility suggests larger price swings and potential gains or losses.

For example, the Allan Gray Domestic Balanced fund had a 3-year return of **13.39%**, showing positive performance. Its portfolio volatility of **8.50%** indicates relatively moderate fluctuations in returns. This suggests a reasonable level of risk, aimed at achieving steadier returns.

Highest volatility

	1 quarter	3 years	5 years
Total SA Equity	**25.65%** Camissa Managed Equity Fund	**16.25%** Satrix Smartcore™ Index Fund	**23.54%** Fairtree Asset Management Equity fund
Manager Watch SA Best Investment View	**19.10%** Coronation Domestic Managed	**11.69%** Coronation Domestic Managed	**14.61%** M&G Domestic Balanced
Manager Watch Global Best Investment View	**23.69%** Camissa Global Balanced Fund	**11.68%** Merchant West SCI Managed P&G Fund	**16.29%** PSG Balanced Fund

Volatility is a of investment price fluctuations over time. Higher volatility suggests larger price swings and potential gains or losses.

For example, the 5-year PSG Balanced Fund volatility of **16.29%** was much higher than the average volatility of **11.01%** in the peer group. This indicates that the PSG Balanced Fund experienced larger price movements compared to its peers over the past five years, making it relatively riskier than its peers.

Lowest tracking error

	1 quarter	3 years	5 years
Total SA Equity	**0.07%** Old Mutual SWIX40 Enhanced Index	**1.51%** Mianzo Enhanced Equity Fund	**1.83%** Alexander Forbes Investments Pure Equity Local
Manager Watch SA Best Investment View	**0.09%** Ninety One Segregated Domestic Mandate	**1.68%** Alexander Forbes Investments Performer Local	**1.95%** Alexander Forbes Investments Performer Local
Manager Watch Global Best Investment View	**0.31%** STANLIB Multi Manager Balanced Fund	**0.49%** Alexander Forbes Investments (Spectrum)	**0.63%** Alexander Forbes Investments (Spectrum)

The **tracking error** measures how closely an investment follows a benchmark index. It reflects the divergence between the investment's returns and the index's returns, indicating the effectiveness of replicating the benchmark's performance.

For example, the Alexander Forbes Investments (Spectrum) fund achieved a solid 5-year return of **10.63%** per annum, indicating strong performance. With a low tracking error o**f 0.63%**, it closely followed its intended strategy or benchmark. This suggests relatively lower risk and more consistent returns.

Highest tracking error

	1 quarter	3 years	5 years
Total SA Equity	**10.09%** Ninety One Value Composite	**5.97%** Vunani FM Core Equity Fund	**5.95%** BlueAlpha Equity
Manager Watch SA Best Investment View	**14.93%** Aeon Domestic Balanced Fund	**9.11%** Aeon Domestic Balanced Fund	**12.36%** Aeon Domestic Balanced Fund
Manager Watch Global Best Investment View	**18.17%** Old Mutual Multi-Managers Inflation Plus 5-7%	**15.66%** Rezco Value Trend	**16.56%** PSG Balanced Fund

The **tracking error** measures how closely an investment follows a benchmark index. It reflects the divergence between the investment's returns and the index's returns, indicating the effectiveness of replicating the benchmark's performance.

For example, the PSG Balanced Fund achieved a 5-year return of **12.82%** per annum, while its benchmark recorded a 5-year return of **10.75%**, indicating positive performance. A 5-year tracking error of **16.56%** suggests that the portfolio is suited for investors with higher risk appetites. As a result, it has the potential of experiencing relatively more unpredictable returns.

Survey asset distribution

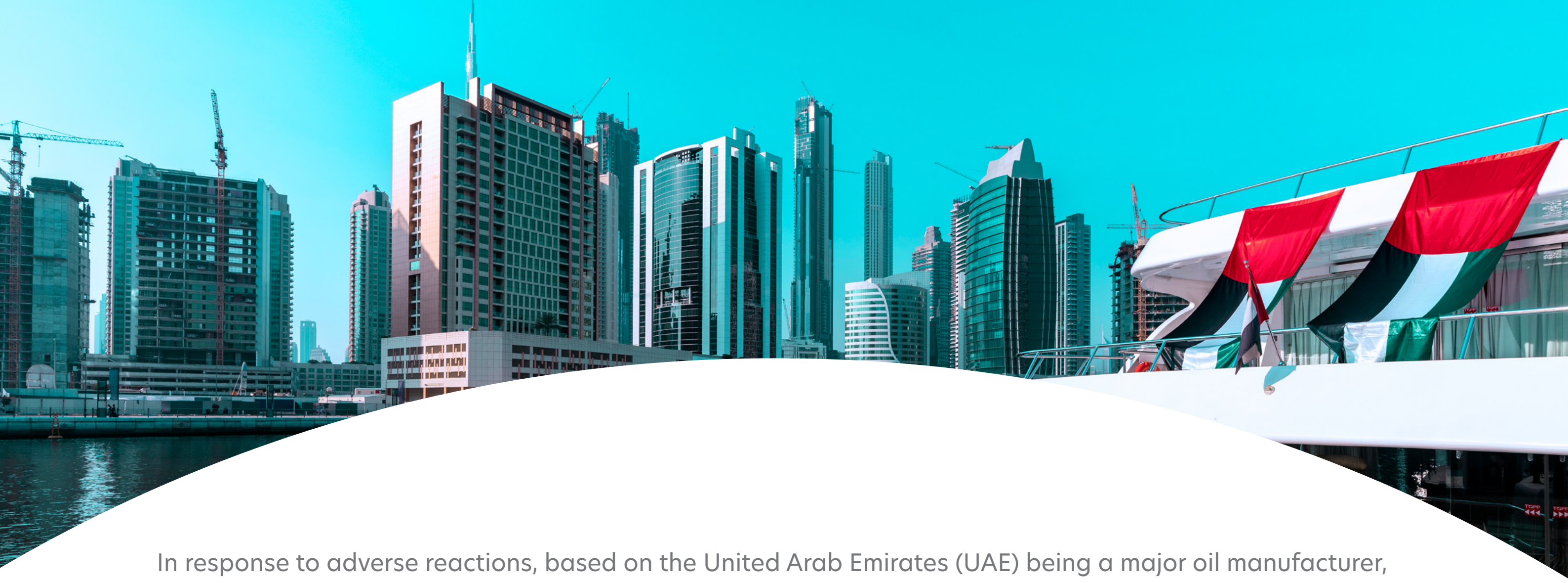
	June 2023	September 2023	December 2023
Absolute Return	R228 billion	R217 billion	R216 billion
BEE	R481 billion	R466 billion	R712 billion
Manager Watch	R1 432 billion	R1 456 billion	R1 549 billion
Medical Aid	R90 billion	R90 billion	R64 billion
Multi-Manager	R498 billion	R408 billion	R534 billion
Namibia	R84 billion	R91 billion	R96 billion
Property	R56 billion	R54 billion	R60 billion
SA Bond	R230 billion	R218 billion	R230 billion
SA Equity	R477 billion	R474 billion	R499 billion
SA Money Market	R490 billion	R552 billion	R529 billion
Shari'ah	R32 billion	R31 billion	R33 billion
TDI	R66 billion	R69 billion	R73 billion
Total	**R4 164 billion**	**R4 126 billion**	**R4 595 billion**

The figures in the table above suggest that over Q4, the surveys realised an overall growth in assets managed by its constituents. When viewing the various surveys in isolation, there is a noticeable increase in assets within the BEE survey. This is a result of the entry of 23 new funds (mainly OMIG and Sanlam funds) into the survey and a decrease of R24 billion in Medical Aid assets due to the exit of two portfolios from the survey. The growth in asset values across most surveys indicates increased investor confidence, with the assets in the flagship Manager Watch™ Survey increasing by R93 billion.

While these figures provide insight into the asset distribution of the surveys, it's important to note that additional analysis and context would be necessary to fully understand the implications of these trends. Factors such as market conditions, economic indicators and investor behaviour would need to be considered to gain a comprehensive understanding of the observed changes.

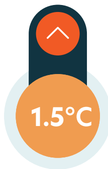
Sustainable investment considerations
COP28: A historic shift towards sustainable futures

A significant turning point in the global fight against climate change was reached in the recently concluded 28th meeting of the Conference of the Parties (COP 28) to the United Nations Framework Convention on Climate Change (UNFCCC), in Dubai.



In response to adverse reactions, based on the United Arab Emirates (UAE) being a major oil manufacturer, government ministers and other delegates from nearly 200 countries reached a ground-breaking consensus (referred to as the UAE Consensus), that emphasises a transition away from fossil fuels. The decision signals a reaffirmation by the global community of the goal to limit global warming to no more than 1.5°C. It is therefore important to understand the significance of limiting Earth's temperature to below the mentioned threshold and how the transition away from fossil fuels can aid in fulfilling the overriding climate target.

Why it matters:



Scientists have consistently warned about the catastrophic consequences of surpassing the 1.5°C threshold. Exceeding 1.5 degrees raises the risk of triggering major tipping points, endangering coral reefs, melting polar ice sheets and contributing to a sea-level rise that threatens coastal communities worldwide. The COP28 agreement not only reaffirms this critical goal but emphasises the urgent need to stay within this limit to avoid the above-mentioned irreversible changes.

Impacts on global communities:

Beyond environmental concerns, the agreement acknowledges the human dimension of climate change. In the United States alone, 13 million people may face displacement due to a sea-level rise by the end of the century. For low-lying Pacific Island nations, exceeding 1.5 degrees poses an existential threat. Furthermore, temperature rises amplify the frequency and intensity of extreme weather events, including droughts, storms, wildfires and heatwaves.

The UAE Consensus reflects a paradigm shift with the potential to redefine global economies. The heart of the COP28 agreement lies in the commitment to transition away from fossil fuels in energy systems.

The proposal, published by the UAE, calls for a just, orderly and equitable transition, aiming to achieve net zero by 2050. This move is unprecedented in COP history, explicitly acknowledging the role of fossil fuels and setting a global goal to triple renewables while doubling energy efficiency. There is also an emphasis on tripling renewable energy sources and doubling energy efficiency improvements. This signifies a concrete commitment to accelerating action in the decade ahead, aligning with the scientific consensus on climate change.

Expert insights -
An interview with ...

Senzo Langa
Deputy Chief Investment Officer at Alexander Forbes Investments

Please introduce yourself: name, designation and company name.

Senzo Langa, Deputy Chief Investment Officer at Alexander Forbes Investments

What motivated you to become an investment professional?

In the investment profession, one makes decisions with lots of unknowns, yet the outcome via investment performance will be known. This performance, once known, offers no assurance of repetition in future scenarios; and might disappear the next hour, day, week or month. This aspect of investments fascinates me. It presents a level playing field where all participants strive to uncover insights and strategies that yield optimal risk-adjusted returns for their clients.

How does your investment style and philosophy influence your approach to managing client portfolios?

With approximately 12 years of experience at Alexander Forbes Investments, a multi-manager, I have come to understand the significance of maintaining positive exposure to investment styles that are likely to be rewarded in the future. These styles include quality, value, momentum and small caps, which are essential in managing client portfolios.

Within portfolio construction, we place a lot of emphasis on risk management, focusing particularly on the quality of risk. We ensure that no single style dominates the outcome. Instead, we anticipate that our alpha will primarily arise from astute stock selection. This selection process is underpinned by our thorough and rigorous manager research process.

How do you stay disciplined and avoid making emotional decisions during market volatility?

We adhere to a robust and repeatable process with stringent governance measures to mitigate various risks. These include, but are not limited to, market volatility and key person risk. Our philosophy champions purposeful diversification, which is essentially the 'free lunch' strategy. It effectively reduces risk without compromising expected returns.

Our approach is team-based, with the investment committee responsible for making final decisions. This framework helps to diminish behavioural biases, ensuring a focus solely on the merits of each investment case. Such a disciplined approach is important in ensuring that decisions are always aligned with the best interests of our clients.

What are one or two of the most common mistakes you see novice investors make, and how can they avoid them?

Investing in a company merely because it appears cheap and offers a significant margin of safety, without a clear catalyst for an earnings turnaround, is a common error, particularly among valuation-driven managers.

Another common mistake is the complete disregard of the macroeconomic environment in the investment process. This can lead to poorly timed investments, either too early or too late. This is not to advocate for market timing but rather to highlight the importance of being cognisant of the macroeconomic environment. Incorporating this awareness can enhance the quality of implementation decisions.

How do you think advancements in technology such as AI is changing the investment industry, and how are you adapting to these changes?

One significant advancement AI has introduced to our industry is the enhancement of the execution and trading of securities. This development has led to reduced costs and minimised market impact, thanks to sophisticated algorithms employed within the trading environment.

Another benefit is the facilitation of data collection, which aids in asset allocation decisions. This is particularly effective when used as an input in the asset allocation process. If supervised correctly, AI has the potential to transform the industry positively. At Alexforbes, being a multi-manager, we primarily benefit from the ease of data collection. This efficiency grants us more time to focus on the investment case.

However, AI does have its drawbacks. For instance, share price volatility in response to the news has invariably increased due to automated algorithms, making them susceptible to reacting to 'noise'. However, this concern is gradually being mitigated through continual improvements in the quality of these algorithms.

What are one or two of the biggest challenges you face as an investment professional, and how do you address them?

In the investment world, information is a powerful tool, yet there is never absolute certainty that an investment thesis will unfold as anticipated. Consequently, we are prone to analysis paralysis and indecisiveness, which can negatively impact performance. Overcoming this challenge is daunting, but it can be mitigated through time, experience and collaboration with a supportive and empowering team. Additionally, adhering to a well-defined process can provide guidance. Often, employing a methodology that balances probabilities in decision-making tends to yield the most favourable outcomes for clients.

What are one or two of the most important lessons you have learned about investing over the course of your career?

The most important lesson in this field is to concentrate on the factors within your control. Utilise the systems available to you to enhance decision-making.

Accept that you won't always be correct, but it's vital to celebrate your successes and learn from your mistakes. Additionally, maintaining a checklist can be an effective strategy to reduce errors. When faced with uncertainty, adopting a balance of probability approach is often a prudent course of action.

What sets you apart from other investment professionals, and how do you differentiate yourself in a crowded field?

My dedication to continuous learning and a winning mind-set distinguishes me in this field. Working in a multi-manager environment, I gain exposure to the finest asset managers both locally and globally. This access allows me to tap into the best minds, processes, algorithms, research and teams available. Given my competitive nature, I am driven to learn from the best, and my work environment is highly conducive to this pursuit. Furthermore, I am part of an empowering atmosphere where the most effective ideas prevail. This culture not only fosters my professional growth but also provides a significant advantage in generating the best risk-adjusted returns for our clients.

Finally, what advice would you give to someone who is just starting to invest their money and looking to build a diversified portfolio?

Returning to fundamentals is key; start by establishing your return objectives and risk appetite. This step is crucial for assessing your optimal portfolio composition.

It is advisable to maintain a balanced exposure across various investment types, including local and global passive funds, active funds, smart beta, hedge funds and private markets.

If you have a higher risk tolerance, consider diversifying into more adventurous options like frontier markets, regional funds, stylistic funds and thematic funds. Ultimately, the composition of your portfolio should align with your specific return objectives and risk appetite.

Word
on the street

What are derivative instruments?

Derivatives are financial instruments that derive their value from an underlying asset. Investors use derivatives to manage risk, speculate on future price movements and enhance portfolio returns. In this article, we'll delve into the world of derivatives, exploring their definition, types and how they function in the dynamic realm of investments.

At its core, a derivative is a contract between two parties that derives its value from the performance of an underlying asset, index or rate. The most common underlying assets include stocks, bonds, commodities, currencies and interest rates. Derivatives essentially allow investors to make bets on the future price movements of these assets without owning them.

Types of **derivatives**

- Futures are standardised contracts to buy or sell an asset at a predetermined price and date in the future. Widely used in commodities like oil, gold and agricultural products, futures contracts facilitate hedging against price fluctuations.
- Options contracts provide the buyer the right, but not the obligation, to buy (call option) or sell (put option) an underlying asset at a predetermined price within a specified period. Investors use options for hedging, speculation and income generation through covered call strategies.
- Swaps involve the exchange of cash flows or other financial instruments between two parties. Interest rate swaps, currency swaps and commodity swaps are common, helping businesses manage risks associated with interest rates, currencies and commodity prices.
- Forwards contracts are like futures. They are customised agreements between two parties to buy or sell an asset at a future date and price. Unlike futures, forwards are not traded on exchanges and are tailored to meet the specific needs of the contracting parties.
- Derivative warrants are options issued by financial institutions, granting the holder the right to buy or sell an underlying asset at a predetermined price. Derivative warrants are often used for speculative purposes and can be leveraged to amplify returns.

In the intricate world of investments, derivatives play a pivotal role in managing risk, facilitating speculation and optimising portfolio performance, unlocking a multitude of strategic possibilities.

*For more details on how you can access the resources provided by Alexforbes for retail investors, **read more here**

Investor education

Hedge Funds: A trusted companion on the financial seas

The past few years have taught us that the world is an ever-changing and uncertain place. From unprecedented pandemics to geopolitical conflicts, global events have increased volatility in financial markets.

Navigating these turbulent waters requires specialised knowledge and dynamic strategies to help steer investment portfolios through complex and ever-changing markets. In the realm of investments, hedge funds can serve as trusted sailing companions.

In this article, we explore how hedge funds can smoothly help guide investments while capturing opportunities and managing risks. We delve into their active management, flexibility and ability to deliver successful voyages, ultimately generating superior risk-adjusted returns for investors.

Understanding hedge funds: **The art of investment navigation**

Hedge funds offer unique skills and support, led by experienced asset managers who employ diverse strategies and techniques to successfully manoeuvre investments. These strategies allow hedge funds to chart a course through various asset classes and markets, providing a valuable source of risk-adjusted, absolute returns for portfolios.

Benefits of hedge funds: **Sailing towards success**

Active navigation

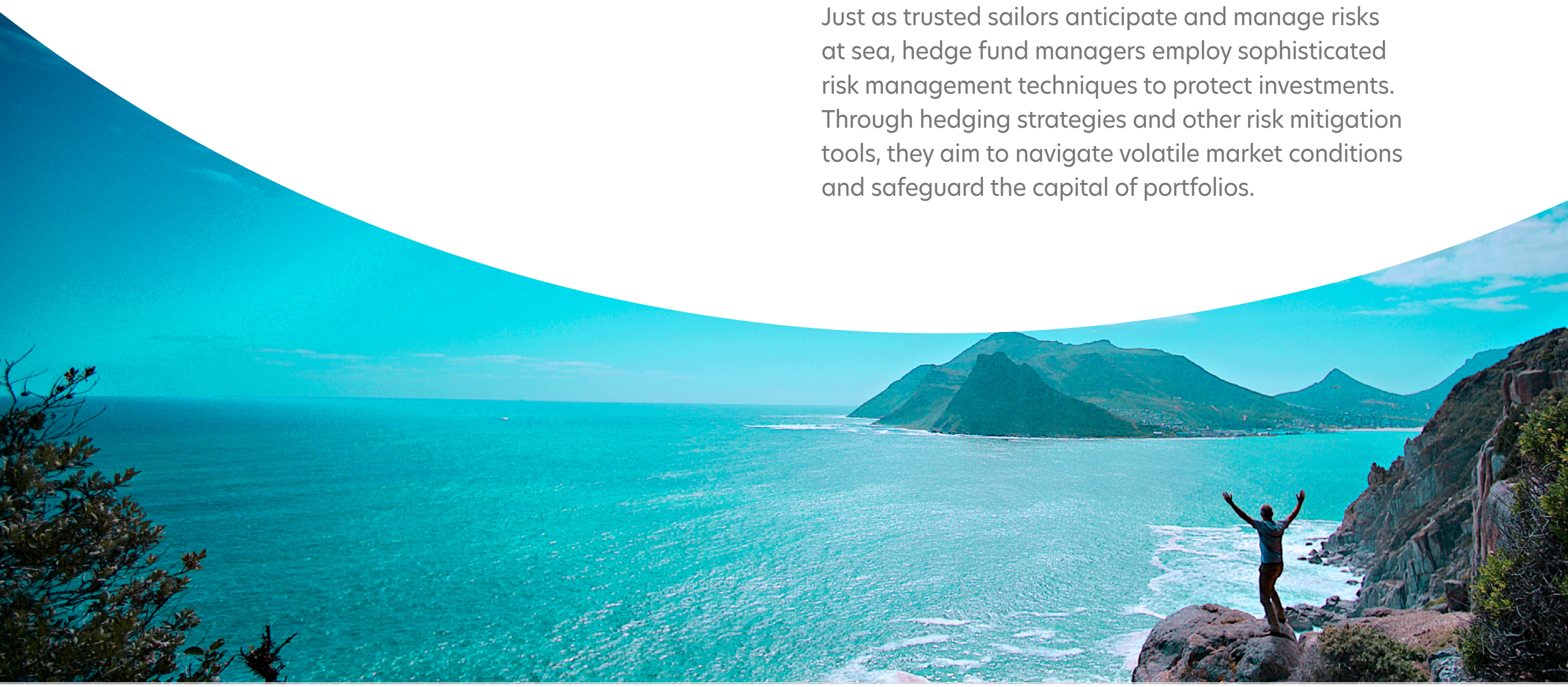
Hedge fund managers actively manage their portfolios, making dynamic adjustments to seize investment opportunities and respond swiftly to market changes. Their proactive approach enables them to capture gains and steer clear of potential losses.

Flexibility and adaptability

Similar to ships changing course to avoid obstacles, hedge funds possess the ability to explore different investment strategies and asset classes, where appropriate. This flexibility allows them to respond to evolving market conditions and optimise portfolio performance.

Risk management

Just as trusted sailors anticipate and manage risks at sea, hedge fund managers employ sophisticated risk management techniques to protect investments. Through hedging strategies and other risk mitigation tools, they aim to navigate volatile market conditions and safeguard the capital of portfolios.



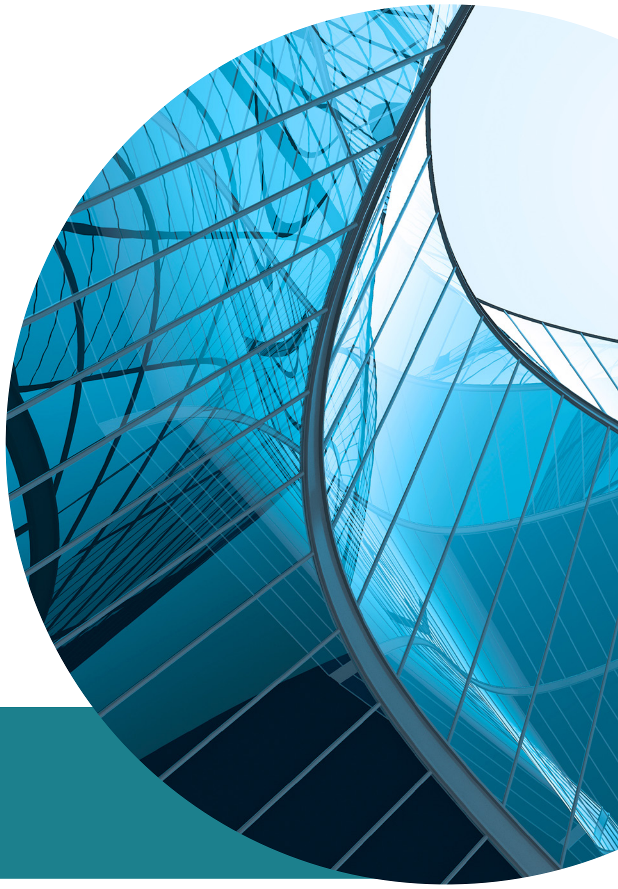
Academic studies

Research and evidence: **The navigator's toolkit**

Several academic studies have investigated the effectiveness of hedge funds. [1]Metzger and Shenai (2019) analysed the performance of ten major hedge fund strategies during and after the global financial crisis. The data-sample was analysed for correlations, risk and return, consistency of performance and return attribution. They concluded that hedge fund strategies can generate superior returns and conserve capital for investors, particularly during periods of crisis. Additionally, [2]Amin and Kat (2003) showed that hedge funds can improve the risk-return profile of portfolios when mixed with traditional investments.

Locally, research conducted by [3]Muridili et al. (2022) assessed the impact of Covid-19 on the performance of hedge funds compared to mutual funds in South Africa. Their research concluded that hedge funds were able to perform better, from a risk-adjusted perspective, than mutual funds during the volatile market environment of 2020 (the Covid-19 pandemic period). Again, this experience demonstrates that integrating hedge funds into the mainstream component of traditional market-linked portfolios can enhance risk-adjusted returns and provide valuable diversification benefits.

Our experience



Since March 2000, we have successfully managed FoHF portfolios. Our expertise lies in overseeing four distinct strategies, each tailored to specific risk and return profiles.

These strategies aim to deliver improved long-term investment performance while minimising downside risk. Our analysis consistently reveals that incorporating dedicated allocations to these hedge fund strategies within a broader multi-asset approach can enhance risk-adjusted returns for investors.

Daniel Olivari
Senior Specialist - Strategic Development at Alexforbes

1. https://www.mdpi.com/2227-7072/7/1/15
2. https://www.jstor.org/stable/4126750
3. https://www.researchgate.net/publication/365692959_The_Impact_of_Covid-19_on_the_Performance_of_Hedge_Funds_Compared_to_Mutual_Funds_in_South_Africa

Financial food for thought - **Weakness or strength?**

The Milkmaid

A milkmaid was on her way to the market to sell some milk from her cow. As she carried the large jug of milk on top of her head, she began to dream of all the things she could do after selling the milk.

"With that money, I'll buy a hundred chicks to rear in my backyard. When they are fully grown. I can sell them at a good price at the market."

As she walked on, she continued dreaming, "Then I'll buy two young goats and rear them on the grass close by. When they are fully grown, I can sell them at an even better price!"

Still dreaming, she said to herself, "Soon, I'll be able to buy another cow, and I will have more milk to sell. Then I will have even more money."

With these happy thoughts, she began to skip and jump. Suddenly she tripped and fell. The jug broke and all the milk spilt onto the ground.

No more dreaming now, she sat down and cried.

The moral of the story ...

Just like the milkmaid who didn't think about the milk spilling, when you invest money, remember things might not always go as planned. It is good to think about what could go wrong and have different types of investments.

The milkmaid made big plans based on money she didn't have yet. In investing, it is better to make choices based on real information and careful thinking, not just hopes or guesses.

Understand what you're investing in. Look at how companies are doing and what's happening in the market. Have a backup plan. Always have a little extra money saved for unexpected things that might happen.

These tips could help you make smarter choices with your money, thinking about both the good and bad that can happen.

* To find out more about your options and to get help when you need it, contact our My Money Matters centre on 0860 000 381 or **mymoneymatters@alexforbes.com**.

Conclusion

In this newsletter, we covered a diverse range of topics relating to investments and finance. We shared some investment performance insights, followed by industry news and a new investments-related concept covered in 'Word on the Street'.

In addition, we provided statistics on asset class performance and highlighted the importance of considering environmental, sustainability and governance factors in investments.

We included an insightful interview with an expert in the field, discussed hedge funds in the investor education section and shared a short story for financial food for thought.

Lastly, we wrapped up with a 'Word on the street' section.

We hope you found this newsletter informative and insightful, and we look forward to hearing your thoughts and feedback. Please feel free to share any comments, questions or suggestions by sending an email to **managerwatch@alexforbes.com**.

Glossary

Asset allocation: Dividing an investment portfolio among different types of assets (like equities, bonds, and cash) to achieve the desired risk and return, based on goals, risk tolerance, and time horizon.

Active return: also known as relative return, represents the difference between the actual return of the portfolio and the return of a specified benchmark over a given period of time.

Best Investment View (BIV): The portfolio/ composites included in this survey represent the asset managers' best unconstrained investment view, appropriate to Regulation 28 compliant retirement funds.

Call options financial contract that gives the holder the right, but not the obligation, to buy a specified quantity of an underlying asset at a predetermined price within a set time frame.

Commodities are raw materials or primary agricultural products that can be bought and sold, such as gold, oil, wheat and copper.

Conference of the Parties (COP) is an annual meeting where United Nations member states convene to assess progress in dealing with climate change and other environmental issues.

Code for Responsible Investing in South Africa (CRISA): Guidelines in South Africa that promote responsible investing practices. It encourages considering ESG factors in investment decisions.

Futures are standardised contracts to buy or sell an asset at a predetermined price and date in the future.

Geopolitical tensions: Conflicts or disputes between nations that impact financial markets. They can cause trade disruptions, policy changes or increased market volatility.

Gharar: refers to excessive uncertainty or ambiguity in Islamic finance. It pertains to transactions that involve an element of risk or speculation that is considered excessive and is not allowed according to Islamic principles.

GDP is a monetary measure of the market value of all the final goods and services produced within a country's borders in a specific time period, usually a quarter or a year.

Haram: means forbidden or prohibited in Islamic law. It refers to actions, behaviours or practices that are considered sinful or unethical and are not allowed according to Islamic teachings.

Hedging in investments is a risk management strategy that involves taking an opposite position in a related asset to offset potential losses in an existing investment.

Median return: The middle value of a set of returns or performance of a group of investments.

Options Contracts provide the buyer the right, but not the obligation, to buy (call option) or sell (put option) an underlying asset at a predetermined price within a specified period.

Principles for Responsible Investment (PRI): A global initiative promoting sustainable investing. It encourages investors to incorporate ESG factors for long-term sustainable returns.

Put options are financial contract(s) that gives the holder the right, but not the obligation, to sell a specified quantity of an underlying asset at a predetermined price within a set time frame.

Regulation 28: South African regulation for retirement funds, setting investment limits and guidelines. It ensures diversification and risk management by specifying exposure to different asset classes, sectors and regions.

Riba: means interest. It refers to the prohibition of charging or earning interest in Islamic finance, as it is considered unethical and against Islamic principles.

Shari'ah: Islamic principles and guidelines for financial activities, including investments. It prohibits interest-bearing transactions and investments in businesses involved in prohibited activities like alcohol, gambling, and pork products.

Swaps involve the exchange of cash flows or other financial instruments between two parties.

Targeted Development Investment (TDI): These investment portfolios aim to maximise investor returns while paying attention to socially responsible investing and issues relating to the development and upliftment of previously disadvantaged communities.

UAE Consensus is a declaration on climate, relief, recovery and peace that was endorsed by 80 governments and 43 organisations at COP28, the 28th annual Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC).

United Nations Framework Convention on Climate Change (UNFCCC) is an international treaty among countries to combat "dangerous human interference with the climate system".

Warrants are options issued by financial institutions, granting the holder the right to buy or sell an underlying asset at a predetermined price.