



HEDGE FUNDS: THE LONG AND SHORT OF IT ALL

WADE WITBOOI
PORTFOLIO MANAGER | GLACIER INVEST

THINK WORLD CLASS

glacier
by Sanlam



AMSTERDAM
STOCK
EXCHANGE

THE BEGINNING

1602

Dutch East India
Company

1st Public Company

1774

Eendragt
maakt magt

1st Diversified Fund

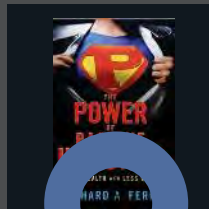
Source: Future of Investment Management,
CFA institute (2018)

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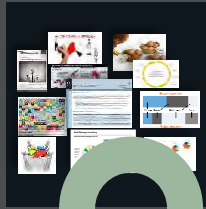
EVOLUTION OF ASSET MANAGEMENT



Pre 1980's
Wild Wild West



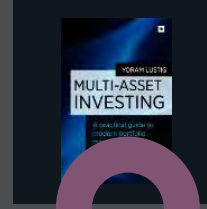
1980's
Rise of Indexation
& Passive investments



1990's
Multi-
Management



2000's
Core-Satellite
(Alpha-Beta)



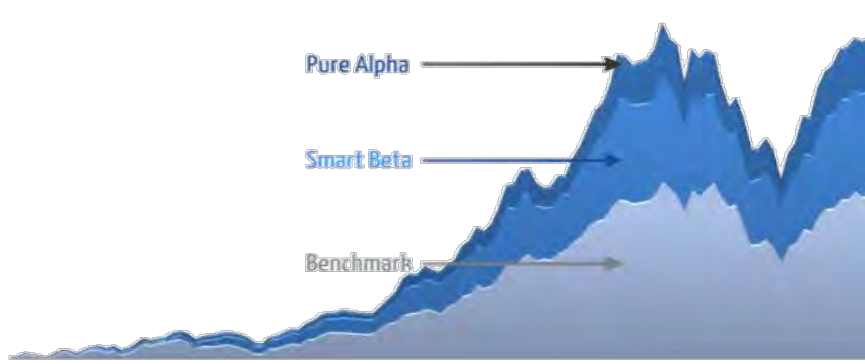
2010's
Multi-Asset



2020's
Solutions/
Outcomes-based
investing

Source: Sanlam Investments Multi-Manager (2020)

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NEED FOR UNIQUE SOURCES OF RETURNS

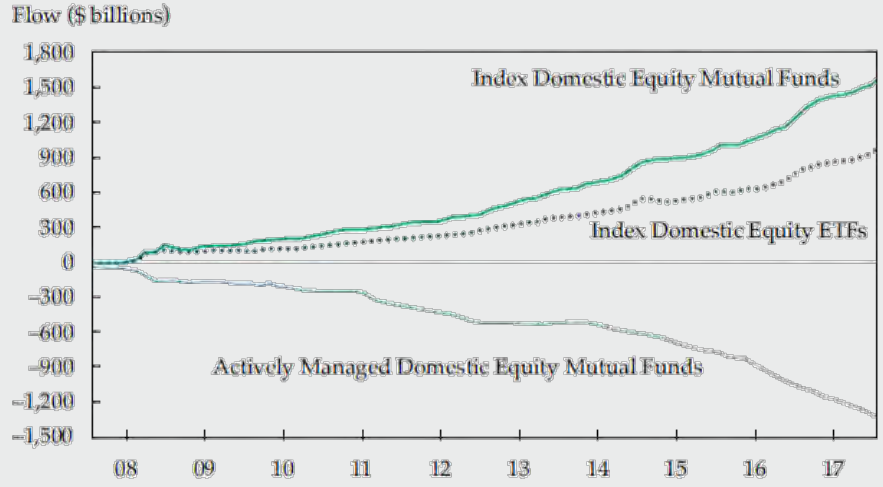


Exhibit 5.1 US Domestic Equity Flows (\$ billions)

Source: Future of Investment Management (CFA institute), Satrix (2018)

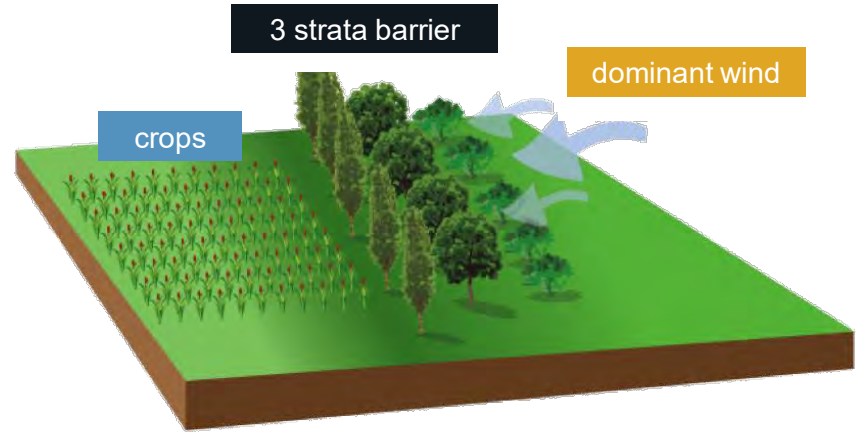
Method to
offset and
spread risk
(unknown
outcome)

WHAT IS HEDGING?

Originated
from
farming

Shield
against
wind

To
protect
crops



WHAT IS A HEDGE FUND?

WHAT COMES TO MIND?



POLL

What do you think when you hear 'hedge fund'?

WHAT IS A HEDGE FUND?



WHAT IS A HEDGE FUND?

NO
INTERNATIONAL
STANDARD
DEFINITION

Not all
hedge
funds are
the same

**'Money
management'**
rather than
traditional
investment
management

Invest
without
constraint

May use
derivatives
and/or **more
diverse risk** to
achieve returns

**Pooled
investment
vehicle**

The term
'hedge fund'
**doesn't tell
you much**

Partnership
between the
hedge fund
manager and
investor

THE START OF HEDGE FUNDS

Always use leverage

Always sell short

The manager gets
20% of profits

Alfred Winslow Jones

Started by Alfred Winslow Jones in the US in 1949 (others credit Benjamin Graham)

Australian **sociologist and journalist**

Harvard 1923 and PhD in Sociology from Columbia University

Worked for **Fortune Magazine** until 1946

Decided to **start a fund** while writing an article on investment trends in 1948

Raised money from four friends and launched **AW Jones & Co** with \$100,000 seed capital

Took advantage of exceptions in the Investment Company Act to avoid having to register with the SEC: **limited investors and 'qualified purchasers'**

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WHAT MAKES THEM SO SPECIAL?



**Traditional
mindset**



**Traditional
investment
tools**



**Private and
public
investment**



**Unconstrained
mindset**



**Degrees
of freedom**

Leveraging

Short-selling

Derivatives



**Private
investment**

WHAT MAKES THEM SO SPECIAL?

- 1 Close **alignment of interests** between portfolio manager and investors
- 2 **Correlation benefit** relative to traditional funds
- 3 **Tools of modern finance**
- 4 Ability to invest with **greater degrees of freedom**
- 5 Ability to produce **positive returns** regardless of the markets

Sr
Sequence Risk

Ir
Interest Rate

Ar
Average return

Fa
Fin Advisor

WHAT MAKES THEM SO QUESTIONABLE?

- Previous schemes:
Bernie Madoff

- Role in the
GFC

- “2 & 20”
high fees

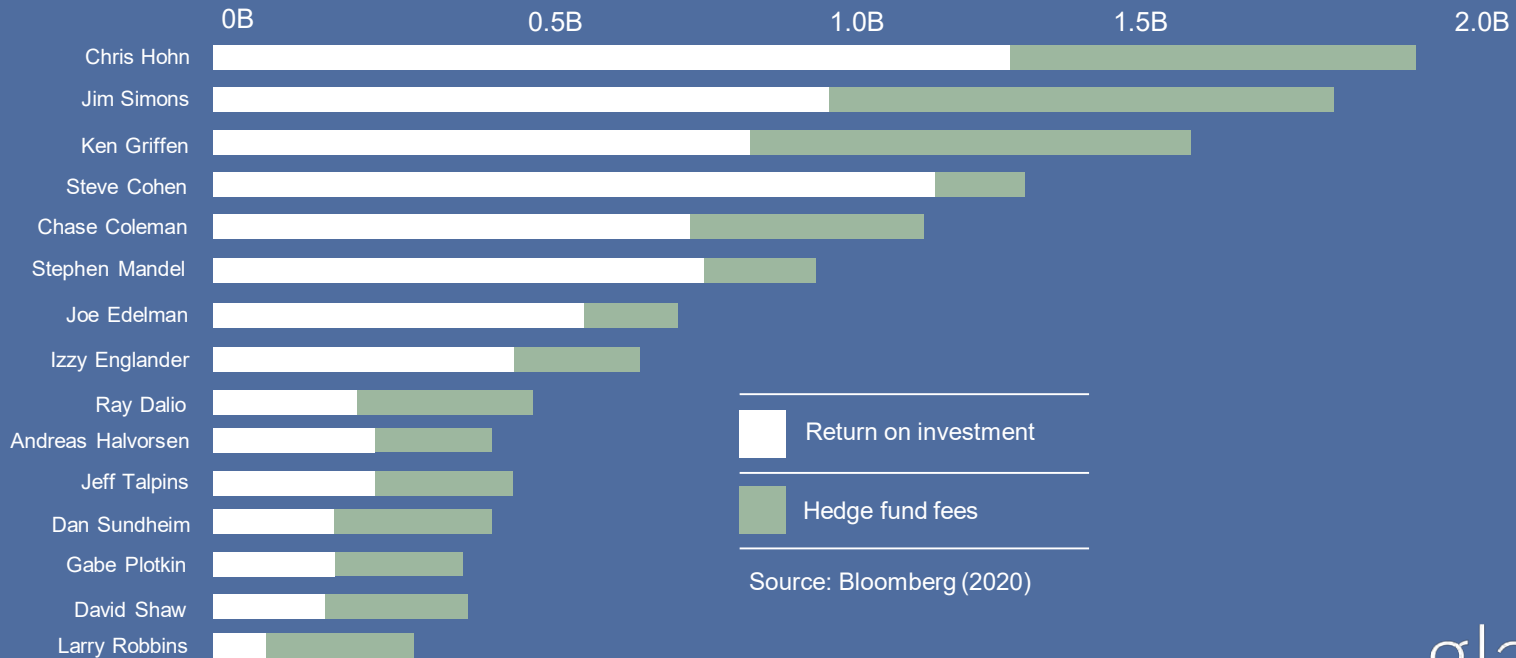
- Performance in a
bull market

- Traditionally poor
transparency

- Accessibility
restrictions
(‘lockups’)



HEDGE FUND MANAGERS INCOME



Source: Bloomberg (2020)



POPULAR TYPES OF HEDGE FUNDS

Fixed
income
arbitrage

Long/
short
equity

Market
neutral

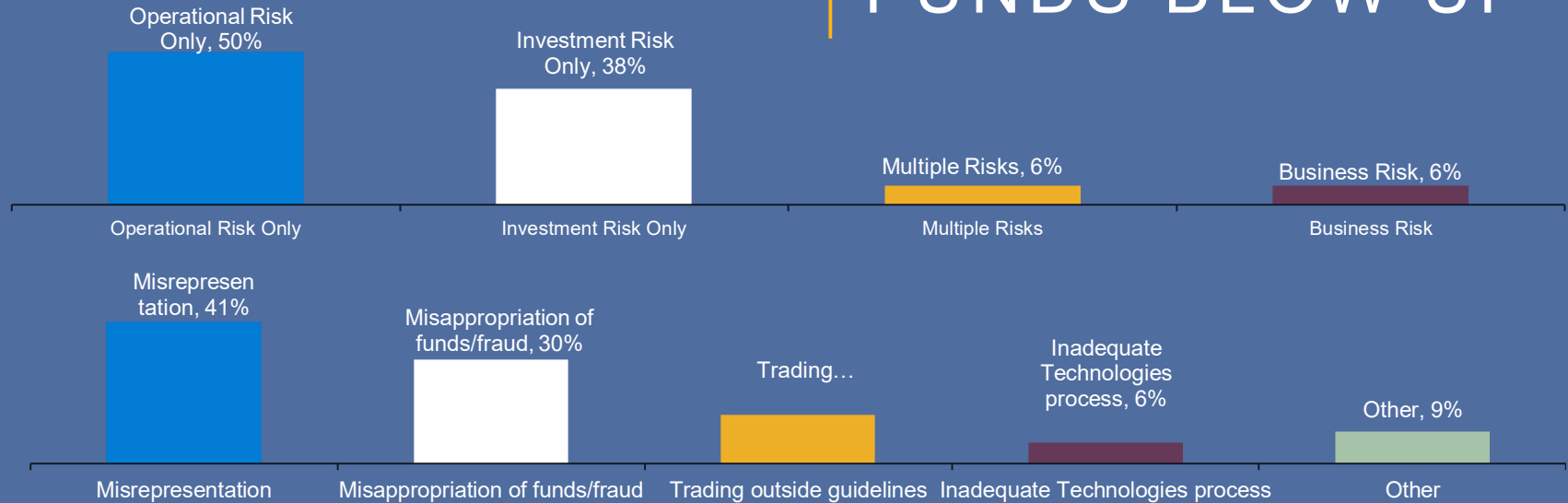
Global-
macro

Multi-
strategy

Credit

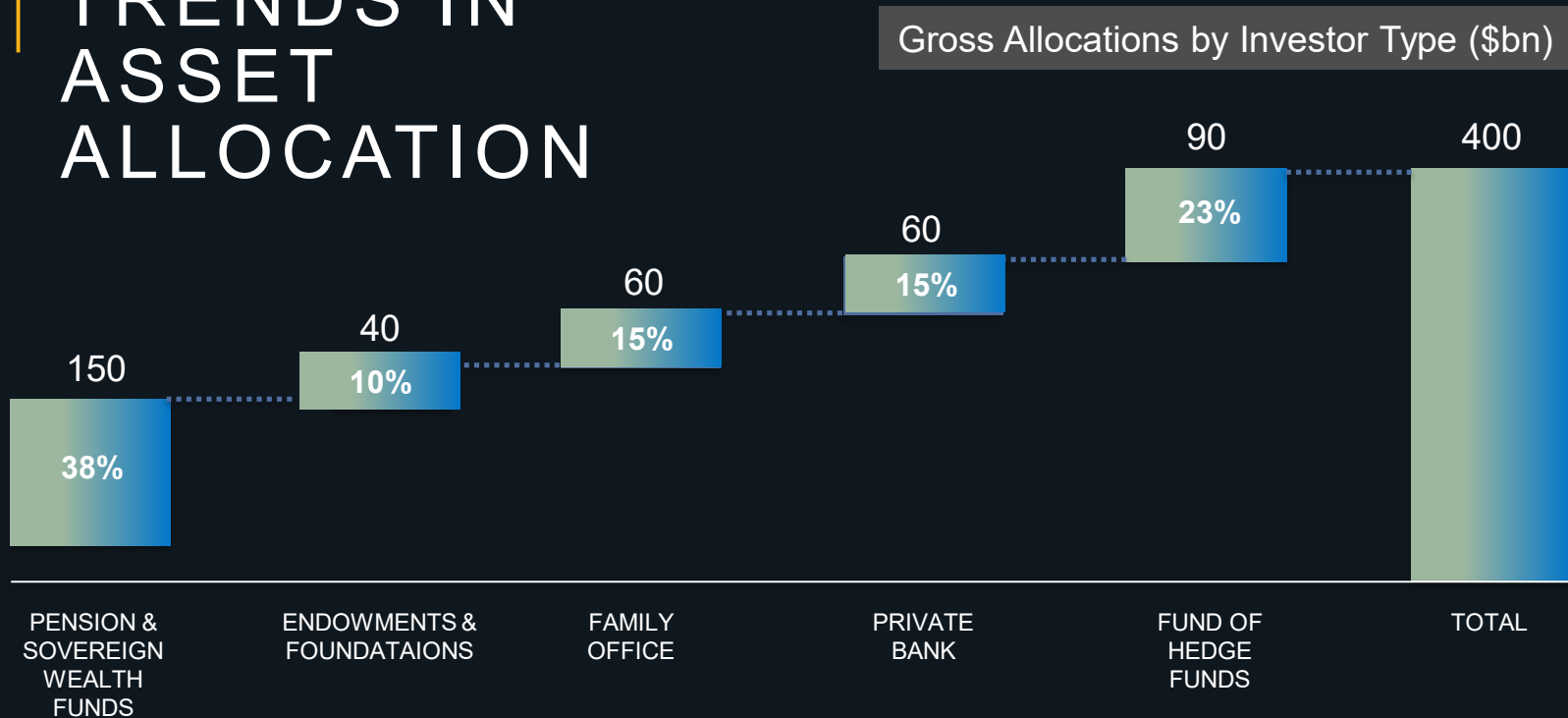
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WHY HEDGE FUNDS BLOW UP



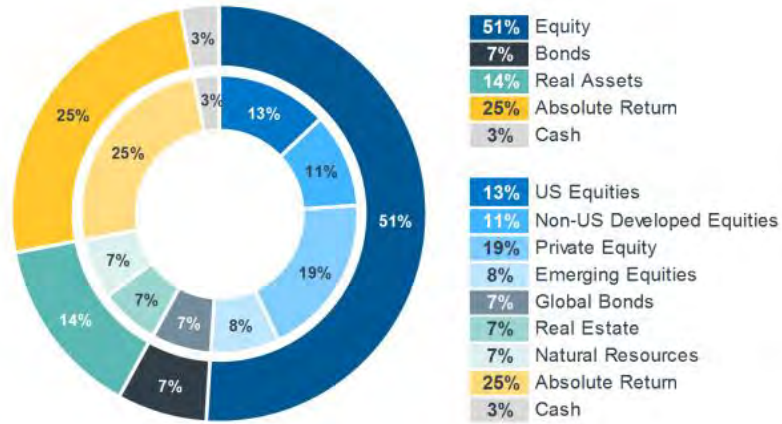
Source: Understanding and Mitigating Operational Risk in Hedge Funds, CAPCO (2003)

GLOBAL TRENDS IN ASSET ALLOCATION



Source: A new decade for hedge funds, Barclays (2020)

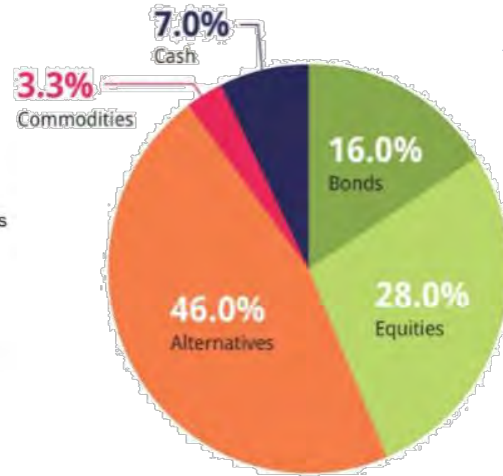
GLOBAL TRENDS IN ASSET ALLOCATION



>\$ 1 billion 2016

Top US Endowment Funds

Source: talkmarkets.com, State Street Global Advisors (2017)



Average family Office Portfolio

Source: The UBS/Campden Wealth Global Family Office Report 2018. * Asset Allocation mix totals to 100.3% due to rounding

EVOLUTION IN SOUTH AFRICA

1

Regulation 28 of the Pension Funds Act (10% hedge fund maximum).

2

Officially declared Collective Investment Schemes in 2015 under the **Collective Investment Schemes Control Act 45 of 2002**

3

Higher **transparency** and governance.

4

Access to **diversified sources of returns** in a weak economic backdrop.

5

Retail & Qualified Investor Hedge Funds (**RIHF's & QIHF's**).

6

Fighting bad perception from investors. **Increasing expertise, accessibility** and pressure on fees.

MANAGER
STRATEGY
SELECTION

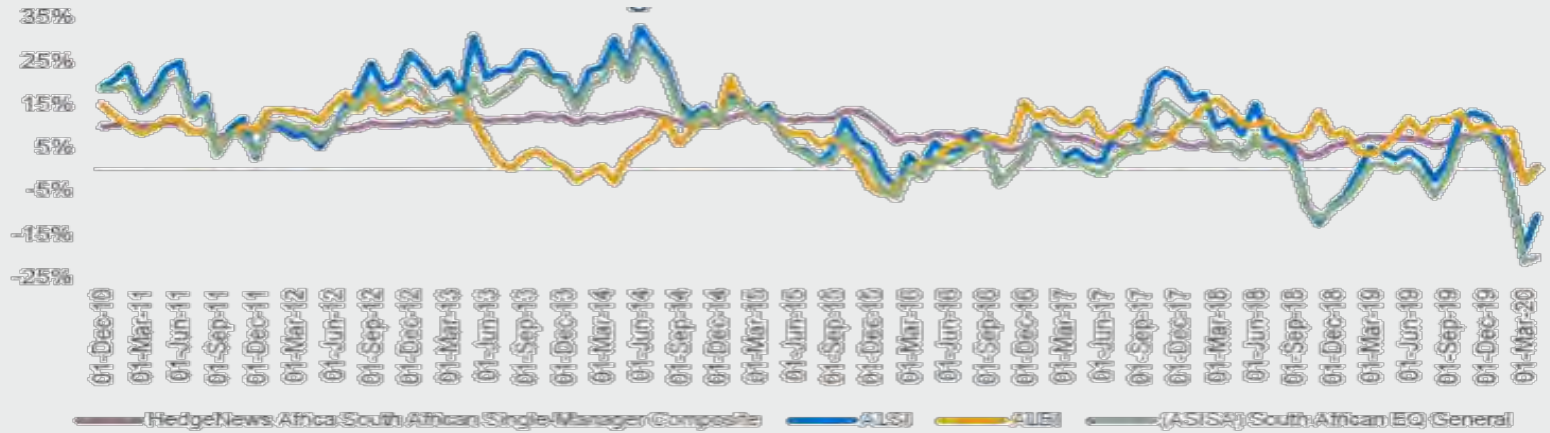
PURE ALPHA INVESTING



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BENEFITS OF PORTFOLIO CONSTRUCTION

Rolling 12 Month Performance

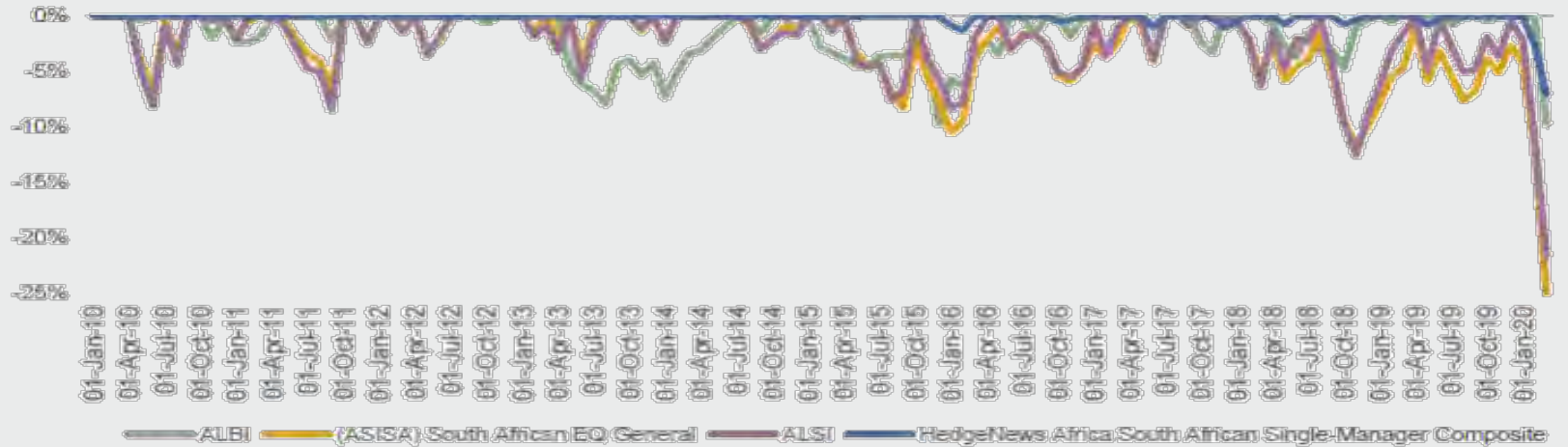


Performance of single managed hedge funds versus various indices. Source – HedgeNews Africa Database

BENEFITS OF PORTFOLIO CONSTRUCTION

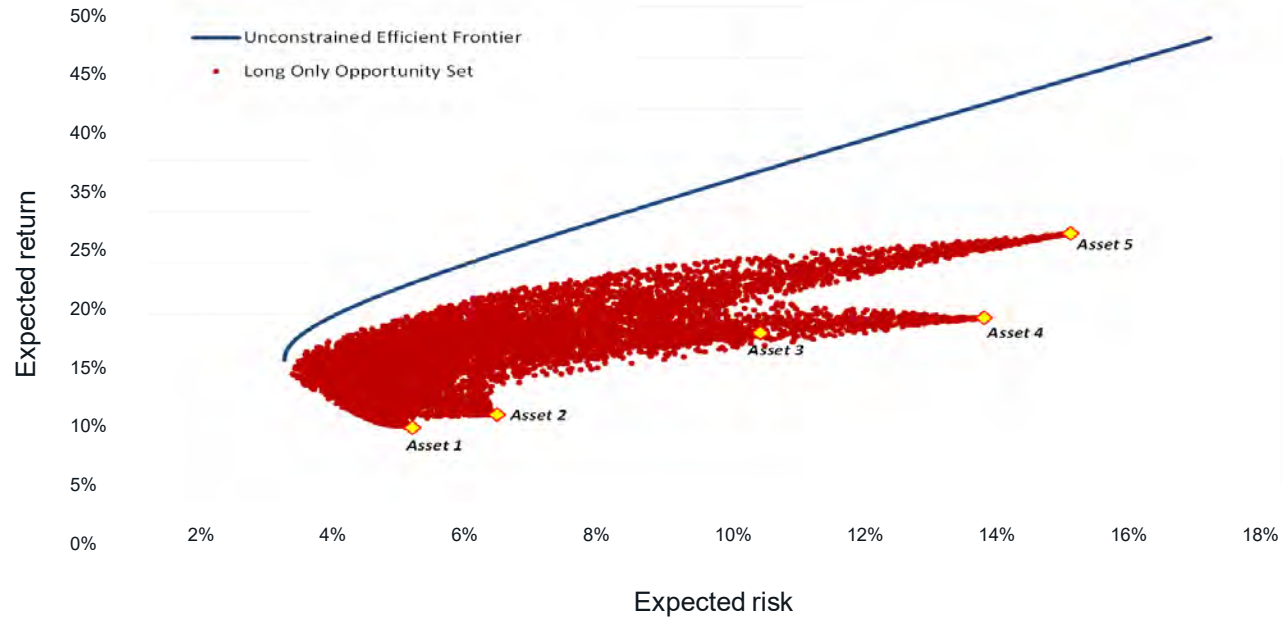
Drawdowns

The comparative drawdown profiles of indices.



Source: Hegde Africa Database

BENEFITS OF PORTFOLIO CONSTRUCTION



Source: Sanlam Investments Multi-Manager (2020)

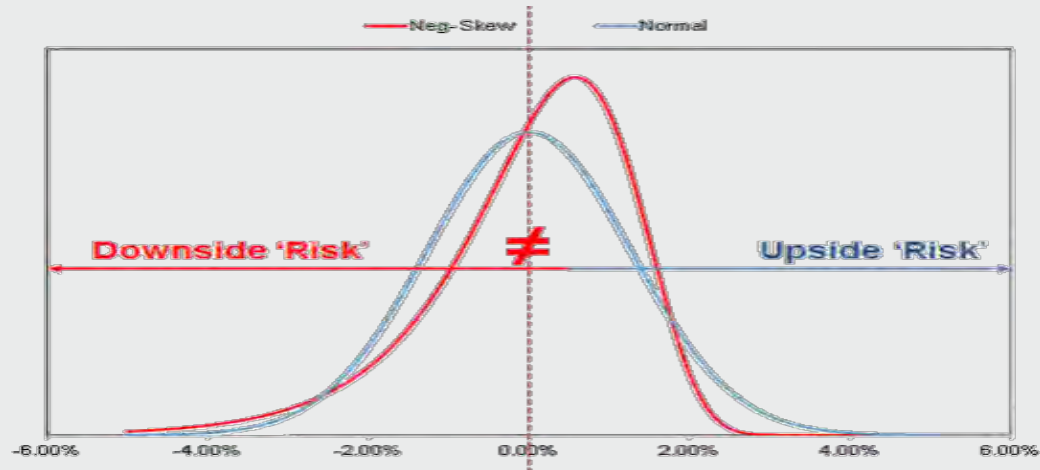
Drawdowns

BENEFITS OF PORTFOLIO CONSTRUCTION



Source: Sanlam Investments Multi-Manager (2020)

BENEFITS OF PORTFOLIO CONSTRUCTION



Source: Sanlam Investments Multi-Manager (2020)

Low
correlation

Portfolio
construction
benefits

Attractive
return
profile for
retirees

Selection
and risk
management
is key when
allocating

Partner
with an
allocator

IN CLOSING



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Glacier Financial Solutions (Pty) Ltd. | A member of the Sanlam Group | Private Bag X5 | Tyger Valley 7536 | Email client.services@glacier.co.za | Tel +27 21 917 9002 / 0860 452 364 | Fax +27 21 947 9210 | Web www.glacier.co.za | Twitter @GlacierBySanlam | Reg No 1999/025360/07 | Licensed Discretionary Financial Services Provider FSP 770, trading as Glacier Invest

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Cp

Capital Protect

Sr

Sequence Risk

Dc

Decumulation

Hf

Hedge Fund

Ar

Average Return

Th

Time Horizon

Ac

Accumulation

Lg

Longevity

Lg

Longevity

Sr

Seq Returns

Pc

Portfolio Construction

Lg

Longevity Risk

Ir

Interest Rate

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