

Why hedge funds should be part of your investment portfolio

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In an environment where traditional investment methodologies have struggled to generate strong returns, the advantages of hedge funds should not be ignored in a well-balanced portfolio. Recent events and persistently challenging global economic conditions have meant that most diversified portfolios with exposure to numerous markets, industries and asset classes have struggled to generate adequate returns.

One of the main goals of hedge funds is to generate absolute returns, which means generating positive returns regardless of overall market performance. Most established and reputable South African hedge funds have track records exceeding a decade or more. They are managed by experienced investment managers who employ various strategies and techniques to generate returns in bullish and bearish market conditions.

Investing in this alternative asset class continues to grow more mainstream locally and globally as investors continue their hunt for lower volatility, better returns, and capital preservation beyond traditional asset classes such as equities, fixed income and bonds. Hedge funds have

gained popularity among investors in recent years due to their ability to provide consistent long-term performance while reducing overall portfolio risk.

So, what is a hedge fund? A hedge fund is an investment class similar to a unit trust fund and governed by the same Collective Investment Scheme's Control Act, but has broader discretion in terms of the types of investments the fund manager can pursue and a more comprehensive set of tools that can be employed to generate returns and manage risk.

One of the basic components of hedge funds is the use of short selling, the practice of borrowing securities that are not currently owned by the fund and selling those securities today, with the expectation that the price will fall in the future. The fund aims to buy the securities back at a lower price than the price at which they were sold, return the borrowed shares to the lender, and profit from the difference. This strategy allows hedge funds to capitalise on market declines and potentially generate returns even when the overall market is falling.

Another common hedge fund strategy is the use of

'pair trades,' which involves buying one security and concurrently short-selling another security – generally in the same sector – that is expected to perform differently. The expected divergence between the price of the 'long' and that of the 'short' typically takes place because of a correction in relative valuations or fundamental outperformance of the long relative to the short. Pair trades can help hedge funds reduce overall portfolio risk by balancing potential losses in one security with gains in another without assuming any overall market exposure.

Hedge funds often attempt to construct portfolios that have a low correlation with the overall equity market. This means that the performance of these funds is not closely tied to the overall market's performance, which can help reduce the risk for an investor's overall investment portfolio. Investing in funds that have low or inverse market correlation reduces the volatility of the investor's returns, thereby smoothing the return profile generated by an investment portfolio over time.

For more information about the Peregrine Capital hedge funds, please visit www.peregrine.co.za.



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*** Fund performance:**

Returns are quoted net of fees
Annual management fee: 1.5%
Fee class status: Class: A, distributing

Fund performance provided as at 31 March 2023
Performance fee: 20% subject to High Water Mark
Source: Peregrine Capital

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Net asset value figures (NAV to NAV) have been used for the performance calculations, as calculated by the manager at the valuation point defined in the deed, over all reporting periods. The performance is calculated for the portfolio. Individual investor performance may differ, as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. Performance is based on a lump sum contribution and is shown net of all fund charges and expenses, and includes the reinvestment of distributions. Actual annual figures are available to the investor, on request at info@h4ci.co.za. A schedule of fees, charges and maximum commission is also available on request from the manager. The rate of return is calculated on a total return basis, and the following elements may involve a reduction of the investor's capital: interest rates, economic outlook, inflation, deflation, economic and political shocks or changes in economic policy. Annualisation is the conversion of a rate of any length of time into a rate that is reflected on an annual basis. Past performance is not indicative of future performance. This is a medium to high risk investment.

Fund Name	Inception date	Highest annual return	Lowest annual return	Rolling 12 month return
High Growth Fund	Feb 2000	53.01% (2004)	-11.98% (2008)	15.80%
FTSE/JSE Capped Swix All Share Index	Feb 2000	47.25% (2005)	-23.23% (2008)	0.22%
ASISA South Africa MA High Equity	Feb 2000	27.49% (2004)	-8.24% (2008)	7.06%

The 'JSE Capped Swix All Share Index' referenced is the index from December 2016 to date, before that the JSE All Share TR Index is used.