

ALTERNATIVE INVESTMENTS

Removing the constraints

In a traditional equity portfolio, fund managers can vote with their feet by excluding a share from their funds.

In practice, only one call makes a significant difference to portfolio performance: the active bet for or against Anglo American or BHP Billiton, as these shares each account for about 8% of the Alsi 40.

If a portfolio does not like one of the smaller shares in the Alsi 40, such as Netcare, this amounts to only a 1% active bet against the share.

One way around this long-only constraint would be to open a hedge fund, which can take short positions in shares, selling borrowed shares with the intention of buying them at lower prices.

But hedge funds operate outside the regulatory net: authorities are uncomfortable with the secrecy of these funds, as well as their ability to use borrowings to gear up their positions. They also have high fees, charging 2% plus 20% of any positive returns.

But a more cautious, controlled approach is the active extension fund, "or hedge funds lite". The European authorities have allowed unit trust companies to offer these funds.

These are usually referred to as 130/30 products, as they can take short positions in up to 30% of assets, and up to 130% in long positions. The market for these products in the US has increased by 77% over the past six months, to US\$85bn.

The Financial Services Board (FSB) in SA has not yet approved these funds for retail investors, but institutional investors can access 130/30 products. The first has been launched by the active quants team at Sanlam Investment Management (SIM), headed by Helena Conradie.

Conradie says the 130/30 fund still has the Alsi 40 benchmark, rather than the absolute return benchmark typical of hedge funds.

Conradie hardly has a racy hedge-fund background, as the majority of assets she manages are index funds (including Satrix) and enhanced index funds.

Risk models have been run for two years, under the eyes of first client Ad-



Heity Zantman

Helena Conradie Hedging your bets