

## ASISA HEDGE FUND CLASSIFICATION STANDARD

19 September 2019

## 1. INTRODUCTION

The classification of South African regulated collective investment scheme retail and qualified investor hedge fund portfolios ("CIS RHF and QIHF portfolios") provides a framework within which hedge fund portfolios with comparable investment objectives and investment universes are grouped together. It is a key tool for investors and their advisers in that it provides useful information during the consideration of investment choices.

## 2. OBJECTIVE OF STANDARD

The ASISA Standard on Fund Classification for South African Regulated Collective Investment Hedge Fund Portfolios ("ASISA Hedge Fund Classification Standard") establishes and maintains a classification system for CIS RHF and QIHF portfolios in South Africa.

The objectives of the ASISA hedge fund Classification Standard are to –

- Promote investor awareness and understanding of portfolio types;
- Assist with the comparison of portfolios within and across classification categories; and
- Assist with the assessment of exposures and the subsequent potential risks of investing in a particular type of CIS hedge portfolio;

The purpose of the ASISA Hedge Fund Classification Standard is to –

- Ensure that CIS hedge fund portfolios (including hedge fund of funds portfolios) specifically adhere to the classification category definitions;
- Standardise applications for approval of the classification of a CIS hedge fund or hedge fund of funds portfolio; and
- Facilitate the timely and appropriate classification and reclassification of CIS hedge fund and hedge fund of funds portfolios;

## 3. APPLICATION OF STANDARD

The ASISA Hedge Fund Classification Standard applies to collective investment schemes in hedge funds as contemplated in Board Notice 52 of 2015 of the Collective Investment Schemes Control Act, 2002 ("BN 52").

## 4. CLASSIFICATION

General notes:

- All percentages apply to total exposure or value at risk ("VAR"), as defined in BN 52 and apply at all times.
- Performance history is the track record of a CIS RHF or QIHF portfolio since its launch date or the date it was reclassified as a CIS RHF or CIS QIHF.

#### 4.1 First Tier of Classification

- **Retail Hedge Funds (RHF):** These are collective investment hedge funds that are available for retail investors as per the classification set out in BN 52.
- **Qualified Investor Hedge Funds (QIHF):** These are collective investment hedge funds that are available for qualified investors only as per the definitions set out in BN 52.

#### 4.2 Second Tier of Classification

- **South African Portfolios:** These are collective investment hedge fund portfolios that invest at least 60% of their total exposure in South African investment markets. These collective investment portfolios may invest a maximum of 30% of their assets outside of South Africa plus an additional 10% of their assets in Africa excluding South Africa.
- **Worldwide Portfolios:** These are collective investment hedge fund portfolios that invest in both South African and foreign markets. There are no limits set for either domestic or foreign assets.
- **Global Portfolios:** These are collective investment hedge fund portfolios that invest at least 80% of their total exposure outside South Africa, with no restriction to assets of a specific geographical country (for example the USA) or geographical region (for example Africa).
- **Regional Portfolios:** These are collective investment hedge fund portfolios that invest at least 80% of the total exposure in assets in a specific country (for example the USA) or geographical region (for example Africa) outside South Africa.

Note: For the purposes of this second tier of classification, inward-listed equities are deemed to be South African assets.

#### 4.3 Third Tier of Classification

This tier of classification is based on the manager's self-classification according to the objectives of the investment strategy. Where a CIS RHF portfolio or CIS QIHF portfolio has a prior track record and has been classified in a published survey, the category in which they have been published will be considered and any deviation from this will need to be justified by the manager.

- **Long Short Equity Hedge Funds:** These are portfolios that predominantly generate their returns from positions in the equity market. Regardless of the specific strategy employed, these funds will all over time look to the equity market for investment opportunities.

- **Fixed Income Hedge Funds:** These are portfolios that look to interest rate sensitives to generate their investment returns. They will over time predominantly invest in instruments and derivatives whose characteristics are determined by the interest rate market.
- **Multi-Strategy Hedge Funds:** These are portfolio that over time do not rely on a single asset class to generate investment opportunities but rather blend a variety of different strategies and asset classes with no single asset class dominating over time.
- **Other Hedge Funds:** These are portfolios that have a very specific strategy that does not fit into any of the other classification groupings,

#### 4.4 Fourth Tier of Classification

Applicable to those funds classified as Long Short Equity Hedge funds only.

- **Long Bias Equity Hedge Funds:** These portfolios are those that over time will have had or aim to have a net equity exposure in excess of 25%.
- **Market Neutral Hedge Funds:** These are portfolios that have had over time or expect to have over time very little directional exposure to the equity market. On average over time net equity exposure should be less than 25% but greater than -25%.
- **Other Equity Hedge Funds:** This category is for portfolios that follow a very specific strategy within the equity market such as listed property or sector specific strategies.

## 5. CREATION OF NEW CLASSIFICATION CATEGORIES

New categories of classification will be considered where there are five or more CIS RHF or QIHF portfolios with an identical or substantially similar portfolio objective, investment policy or restrictions applied by a CIS management company (CIS Manco). In such instances the past performance history of the portfolio will be included in the newly created category.

## 6. CLASSIFICATION TABLE

Tier 1	Tier 2	Tier 3	Tier 4
<b>Retail Hedge Funds</b>	SA portfolios	Long Short Equity Hedge Funds	<ul style="list-style-type: none"> <li>- Long Bias Equity Hedge Funds</li> <li>- Market Neutral Hedge Funds</li> <li>- Other Equity Hedge Funds</li> </ul>
		Fixed Income Hedge Funds	N/A
		Multi-Strategy Hedge Funds	N/A
		Other Hedge Funds	N/A
	Worldwide portfolios	Long Short Equity Hedge Funds	<ul style="list-style-type: none"> <li>- Long Bias Equity Hedge Funds</li> <li>- Market Neutral Hedge Funds</li> <li>- Other Equity Hedge Funds</li> </ul>
		Fixed Income Hedge Funds	N/A
		Multi-Strategy Hedge Funds	N/A
		Other Hedge Funds	N/A
	Global portfolios	Long Short Equity Hedge Funds	<ul style="list-style-type: none"> <li>- Long Bias Equity Hedge Funds</li> <li>- Market Neutral Hedge Funds</li> <li>- Other Equity Hedge Funds</li> </ul>
		Fixed Income Hedge Funds	N/A
		Multi-Strategy Hedge Funds	N/A
		Other Hedge Funds	N/A
	Regional portfolios	Long Short Equity Hedge Funds	<ul style="list-style-type: none"> <li>- Long Bias Equity Hedge Funds</li> <li>- Market Neutral Hedge Funds</li> <li>- Other Equity Hedge Funds</li> </ul>
		Fixed Income Hedge Funds	N/A
		Multi-Strategy Hedge Funds	N/A
		Other Hedge Funds	N/A

<b>Qualified Investor Hedge Funds</b>	SA portfolios	Long Short Equity Hedge Funds	<ul style="list-style-type: none"> <li>- Long Bias Equity Hedge Funds</li> <li>- Market Neutral Hedge Funds</li> <li>- Other Equity Hedge Funds</li> </ul>
		Fixed Income Hedge Funds	N/A
		Multi-Strategy Hedge Funds	N/A
		Other Hedge Funds	N/A
	Worldwide portfolios	Long Short Equity Hedge Funds	<ul style="list-style-type: none"> <li>- Long Bias Equity Hedge Funds</li> <li>- Market Neutral Hedge Funds</li> <li>- Other Equity Hedge Funds</li> </ul>
		Fixed Income Hedge Funds	N/A
		Multi-Strategy Hedge Funds	N/A
		Other Hedge Funds	N/A
	Global portfolios	Long Short Equity Hedge Funds	<ul style="list-style-type: none"> <li>- Long Bias Equity Hedge Funds</li> <li>- Market Neutral Hedge Funds</li> <li>- Other Equity Hedge Funds</li> </ul>
		Fixed Income Hedge Funds	N/A
		Multi-Strategy Hedge Funds	N/A
		Other Hedge Funds	N/A
	Regional portfolios	Long Short Equity Hedge Funds	<ul style="list-style-type: none"> <li>- Long Bias Equity Hedge Funds</li> <li>- Market Neutral Hedge Funds</li> <li>- Other Equity Hedge Funds</li> </ul>
		Fixed Income Hedge Funds	N/A
		Multi-Strategy Hedge Funds	N/A
		Other Hedge Funds	N/A

**HISTORY OF AMENDMENTS**

<b>Effective date</b>	<b>Amendments</b>
19 September 2019	None. Ratified by the ASISA Board

Responsible Senior Policy Advisor: Sunette Mulder