Media Release
Association for Savings and Investment South Africa (ASISA)
10 October 2019

Classification of SA hedge funds underway

South African hedge fund managers have begun the process of categorising their hedge fund portfolios in line with the provisions of the new Hedge Fund Classification Standard, which was recently introduced by the Association for Savings and Investment South Africa (ASISA). The new ASISA Hedge Fund Classification Standard comes into effect on 1 January 2020.

Sunette Mulder, senior policy adviser at ASISA, says the aim of classifying all hedge fund portfolios, including hedge fund of fund portfolios, into different categories is to make it easier for investors to assess and compare funds and to select hedge funds appropriate for their risk profiles and investment portfolios.

In April 2015 South Africa became the first country to put in place comprehensive regulation for hedge fund products. The regulations provide for two categories of hedge funds, namely Qualified Investor Hedge Fund portfolios and Retail Investor Hedge Fund portfolios. As a first step, this required the hedge fund industry to convert their hedge fund products to structures that conform to the provisions of the Collective Investment Schemes Control Act (CISCA).

Mulder says the next step is for hedge fund managers to classify all hedge funds in line with the provisions of the ASISA Hedge Fund Classification Standard.

"The Standard is a key tool for investors and their advisers in that it provides a framework within which hedge fund portfolios with comparable investment objectives and investment universes are grouped together. The ability to compare like with like when making investment choices is critically important."

The four tiers

The Standard provides for four tiers of classification. The first tier splits hedge fund portfolios into either Retail Investor or Qualified Investor portfolios.

The second tier classifies hedge fund portfolios according to their geographic exposure:

- **South African** portfolios invest at least 60% of their assets in South African investment markets.
- **Worldwide** portfolios invest in both South African and foreign markets. There are no limits set for either domestic or foreign assets.
- **Global** portfolios invest at least 80% of their assets outside South Africa, with no restriction to assets of a specific geographical country, for example the USA, or a geographical region, like Africa.
- **Regional** portfolios give investors at least 80% exposure to assets in a specific country, for example the USA, or a geographical region, like Africa, outside South Africa.

The third tier of classification is based on the manager's investment strategy:

- **Long Short Equity Hedge Funds** are portfolios that predominantly generate their returns from positions in the equity market regardless of the specific strategy employed.
- **Fixed Income Hedge Funds** are portfolios that invest in instruments and derivatives that are sensitive to movements in the interest rate market.
- **Multi-Strategy Hedge Funds** 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** are portfolios that apply strategies that does not fit into any of the other classification groupings.

The fourth tier of classification applies only to Long Short Hedge Fund portfolios. These portfolios are further categorised as follows:

- **Long Bias Equity Hedge Funds.** These portfolios will over time aim for a net equity exposure in excess of 25%.
- **Market Neutral Hedge Funds.** These portfolios are expected to have very little direct 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.

Mulder says new categories of classification will be considered when there are five or more hedge fund portfolios in either the Qualified Investor Hedge Fund or Retail Investor Hedge Fund categories with an identical or substantially similar objective and investment policy.

According to Mulder, once implemented, the new classification system will also make it possible for ASISA to collect its own reporting data on the hedge fund industry for the first time. ASISA currently collects and collates quarterly statistics for the Collective Investment Schemes (CIS) industry, excluding hedge funds.

The ASISA Hedge Fund Classification Standard is available here.

Ends

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Association for Savings and Investment South Africa (ASISA)

ASISA represents the majority of South Africa's asset managers, collective investment scheme management companies, linked investment service providers, multi-managers, and life insurance companies.