NOVARE®

ANNUAL SOUTH AFRICAN

HEDGE FUND SURVEY 2023

ACKNOWLEDGEMENT

We extend our heartfelt thanks to the fund managers for their participation in this survey. Your invaluable contributions, and your transparency, are instrumental in shaping the hedge fund industry and building wealth for all our clients.

“**Thank you** for your **dedication and openness** in this **collaborative effort.**”

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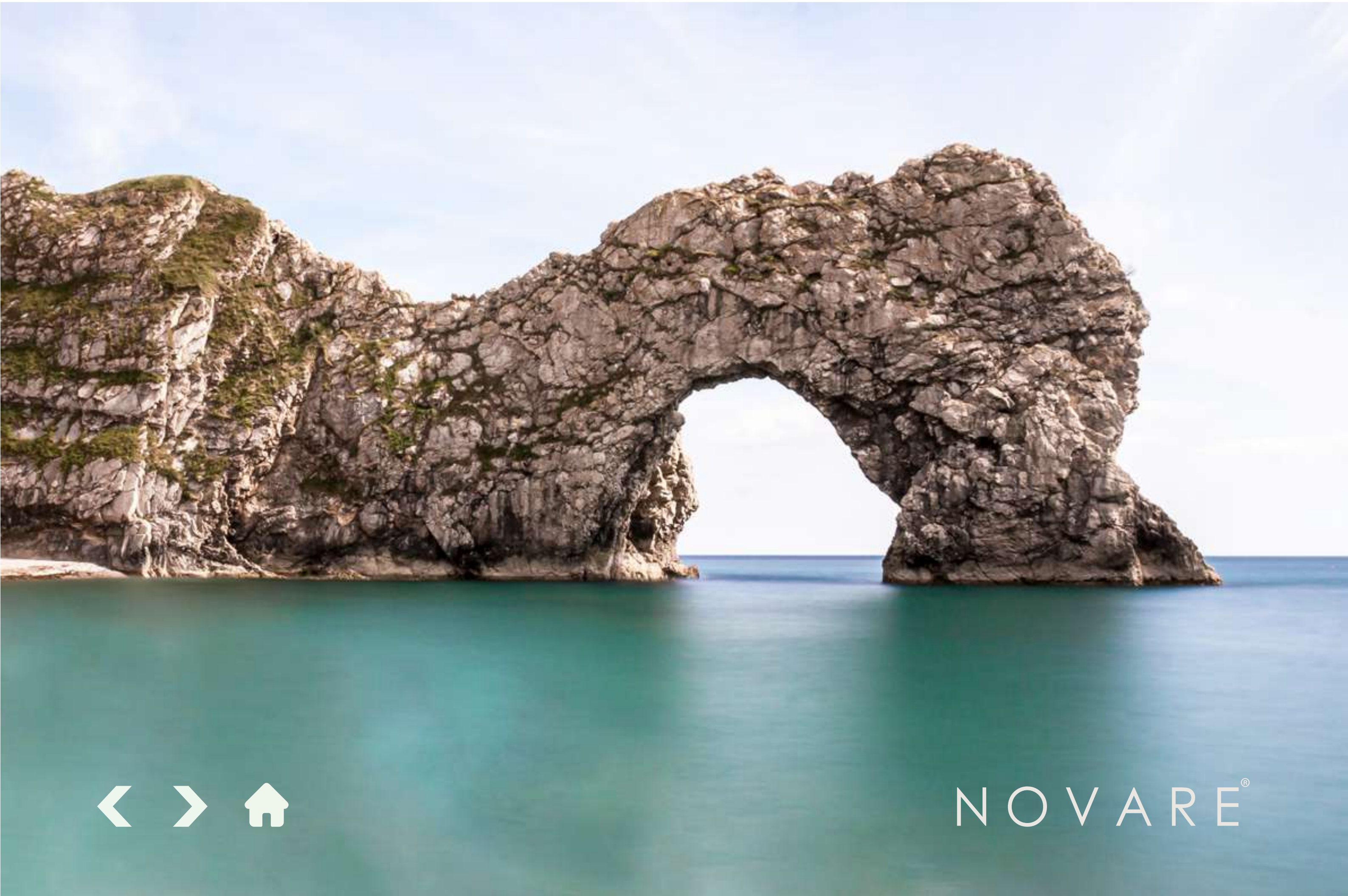


FOREWORD

We are pleased to present the 20th edition of the annual Novare South African Hedge Fund Survey. This landmark edition builds on two decades of committed research, offering a comprehensive view of the South African hedge fund landscape. The survey focuses on key aspects such as assets under management, investment strategies, and performance metrics, while also shedding light on qualitative and operational-related components.

We gathered insights from over **60** independent fund managers, who manage a total of **159** funds and hold a significant portion of the industry's assets. Their participation has been invaluable, and we extend our heartfelt gratitude to everyone who contributed. Your responses support our common quest for transparency and help to ensure that the domestic hedge fund industry is well understood by stakeholders and interested parties alike.

2023 marked an eight-year milestone of South African hedge funds being regulated under the Collective Investment Schemes Control Act. The year also saw notable regulatory updates from the Financial Sector Conduct Authority that included proposed amendments allowing collective investment schemes to invest in daily traded retail hedge funds. This development addresses a long-standing industry demand, signalling a shift towards greater accessibility and growth potential within the local market. Additionally, assets under management in South Africa's hedge fund sector remained steady, with encouraging growth from new flows, performance, new entrants and established players expanding their offerings in response to evolving investor needs.

The year was also marked by a complex interplay of challenges and opportunities in global financial markets. Inflationary pressures began to ease, yet central banks maintained higher interest rates to manage lingering concerns over what might happen to prices next.

The global economy faced persistent fears of a potential recession, particularly in advanced economies, while geopolitical tensions, especially the ongoing conflict in Ukraine, continued to impact energy prices and supply chains.

In equity markets, major indices showed varied performance, with technology stocks leading gains in the US, while European markets benefitted from stronger corporate earnings and easing inflation. Asian markets experienced mixed results, with Japan standing out with massive gains due to a weak yen and strong export demand.

Locally, the South African market demonstrated resilience despite ongoing economic challenges. The Johannesburg Stock Exchange saw gains, driven by the resources sector, while financials rallied on improved investor sentiment. However, the retail sector underperformed, hindered by subdued consumer spending and elevated interest rates. South African bonds offered competitive yields amid global uncertainty, although the rand faced pressure against a strengthening dollar.

Overall, 2023 was a year of modest recovery for both local and global markets, but risks remained elevated heading into 2024, with more than voters than ever going to the polls. At least 64 countries were poised to hold elections in 2024, including South Africa and the US, amid ongoing global uncertainties likely to influence market sentiment.

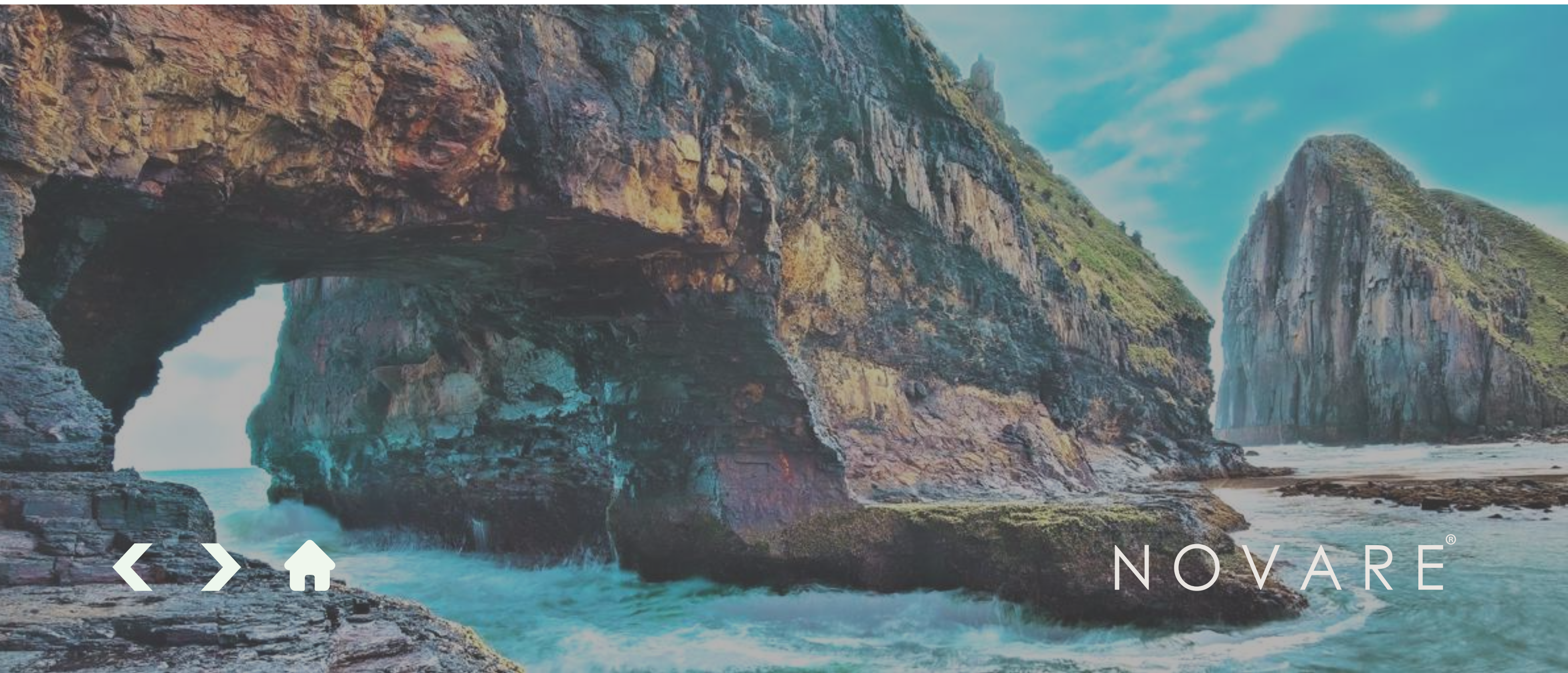
We hope this survey provides valuable insights and aids in informed decision-making for all stakeholders in the South African hedge fund industry. Thank you for your continued support and participation.

For more information, feel free to visit www.novare.com or email NovareHedgeFundSurvey@novare.com.

"Ever since its debut in 2004, the Novare Annual South African Hedge Fund Survey has become renowned as a market-leading survey that provides an objective and up-to-date overview of the local hedge fund industry. To achieve this, we collate first-hand insights from more than 60 independent fund managers across the country into a concise report. We aim to help drive informed decision-making for optimal management of hedge funds domiciled in South Africa."

ABBREVIATIONS

ALBI	- All Bonds Index
ALSI	- All Share Index
ALSI (TR)	- All Share Index Total Return
ASISA	- The Association for Savings and Investment South Africa
AUM	- Assets under management
B-BBEE	- Broad-Based Black Economic Empowerment
BN	- Board notice
CIS	- Collective investment scheme
CISCA	- Collective Investment Schemes Control Act, No.45 of 2000
DFM	- Discretionary Fund Manager
ECP	- En commandite partnership
ETF	- Exchange-traded fund
FAIS	- Financial Advisory & Intermediary Services
FI	- Fixed income/interest
FoF	- Fund of funds
FoHF	- Fund of hedge funds
FSCA	- Financial Sector Conduct Authority
FSP	- Financial Services Provider
GDP	- Gross Domestic Product
HNWI	- High-net-worth individuals
JSE	- Johannesburg Stock Exchange
LISP	- Linked Investment Service Provider
LLP	- Limited liability partnership
LS	- Long-short
MANCO	- Management company
MAP	- Managed account platform
MDD	- Minimum disclosure document
MN	- Market neutral
MS	- Multi-strategy
MSCI	- Morgan Stanley Capital International
MTPS	- Medium Term Budget Policy Statement
NAV	- Net asset value
QI	- Qualified investor
QIHF	- Qualified investor hedge fund
RI	- Retail investor
RIHF	- Retail investor hedge fund
SARB	- South African Reserve Bank
SWIX	- Shareholder-weighted Index
TER	- Total expense ratio
VAR LIMIT	- Value-at-risk limit
ZAR	- South African Rand



HIGHLIGHTS

R12.8 billion

The industry saw a notable increase of R12.8 billion in AUM, driven by strong performance gains and positive net flows. Hedge fund managers with AUM between R1 billion and R2 billion emerged as the top performers, while smaller managers lagged far behind.

R94.0 billion in 2022 to R106.8 billion in 2023

Total AUM reached R106.8 billion, the highest since the first Novare Annual Hedge Fund Survey in 2004.

R6.1 billion

Retail Investor Hedge Funds enjoyed a healthy net inflow of R6.1 billion, showing that individual investors are increasingly interested. Retail funds are increasingly capturing market share from the larger Qualified Investor Hedge Funds segment.

Top 10

The top 10 hedge fund managers manage R69.9 billion of industry assets, representing 65.4% of the total hedge fund assets.

Growth in AUM

13.7%

The 13.7% growth in AUM was the slowest post 2019 as closed or dissolved funds and consolidation within the industry resulted in some outflows. It also follows stellar growth of more than 20% in the prior two years.

Less than

50%

Less than half of the hedge fund managers participated in the transformation section of the survey. Of those who responded, 41% had a level 1 B-BBEE rating, while 30% were non-compliant with current B-BBEE requirements.

Most funds are clustered around the 1% to 2% fee range, with 40.3% or 64 of funds in this range, reflecting a balanced approach that appeals to both managers and investors. Only one fund charged above the 2.5% p.a. range.

75%

male-dominance

The industry remains male-dominated with 75% of senior management positions held by men. White individuals make up 62.4% of senior managers; highlighting a continued lack of diversity at the top level.

WHAT ARE **HEDGE FUNDS?**

Hedge funds 101

Hedge funds are financial partnerships that pool capital from investors and utilises various sophisticated strategies to deliver optimal returns while minimising risk. Hedge funds employ unique approaches such as derivatives, short selling, and leveraging, with the goal of achieving positive financial returns in both rising and falling markets. While they may invest in the same asset classes as traditional unit trust funds, hedge funds have access to a wider range of investment tools, allowing them to generate additional sources of return. Due to their typically low correlation with traditional stock and bond portfolios, hedge funds serve as effective diversification instruments.

Under the Collective Investment Schemes Control Act (CISCA), hedge funds are classified into two categories: retail investor hedge funds (RIHFs) and qualified investor hedge funds (QIHFs). RIHFs are subject to stricter regulatory oversight, while QIHFs operate under more flexible regulations.

According to Financial Sector Conduct Authority (FSCA) Notice 52 of 2015, a qualified investor is defined as an individual or entity who invests a minimum of R1 million per hedge fund and either:

a. Possesses demonstrable knowledge and experience in financial and business matters, enabling them to assess the merits and risks of a hedge fund investment; or
b. Has appointed a Financial Services Provider (FSP) with the requisite expertise to advise on the merits and risks of hedge fund investments.

RIHFs, on the other hand, are designed for broader market participation and adhere to the more stringent regulatory framework set out by the FSCA. Some of the other characteristics of RIHFs and QIHFs are tabulated below:

	Retail Investor Hedge Funds	Qualified Investor Hedge Funds
Investors	Available to general public (varying minimums)	Only available to qualified investors (>R1 000 000)
Gross exposure limit	< 200%	Not defined
VAR limit	< 20%	Not defined
Disclosure to clients	Monthly	Quarterly
Max equity holdings	< 10% per security	Not defined
Investor liquidity	Daily and Monthly	90 Days
Risk management	Daily	Daily
Marketing	Able to solicit investments from all investors	Only solicit and accept investments from restricted pool of qualified investors

TAKING A LOOK AT INDUSTRY REGULATION

In the wake of the 2008 Global Financial Crisis, the Group of Twenty (G20) committed to strengthening the regulation and oversight of private pools of capital, including hedge funds. As a G20 member, South Africa undertook the necessary steps to introduce regulatory frameworks for hedge funds. This process involved comprehensive consultations between the FSCA, National Treasury, and key industry stakeholders to better understand the local hedge fund landscape and establish an efficient regulatory approach.

Given that many hedge funds in South Africa operate as collective investments, it was decided that hedge fund regulation should be harmonised with existing collective investment scheme (CIS) frameworks. As a result, hedge funds are now regulated by National Treasury under Collective Investment Schemes Control Act 45 of 2002 (CISCA), which also governs the unit trust industry. The primary objective of hedge fund regulation is to monitor and mitigate systemic risk while strengthening product requirements to safeguard investor interests.

Other regulatory benefits include:

- **Independent trustee appointment:** Hedge funds are required to appoint an independent trustee, typically a bank unaffiliated with the unit trust company or asset manager.
- **Independent risk management and compliance:** Additional risk management and compliance oversight of hedge funds are conducted independently from the asset manager, enhancing objectivity.
- **Ongoing FSCA supervision:** The FSCA provides continuous supervision to ensure that hedge fund regulations remain in alignment with those of the local unit trust industry.
- **Promotion of industry integrity:** Regulatory frameworks foster increased integrity within the hedge fund sector.
- **Enhanced transparency for investors:** Investors benefit from improved transparency, particularly regarding fees and portfolio turnover ratios, which are disclosed more frequently.

A central requirement in this regulatory environment is that all hedge funds must appoint a management company (Manco) to handle administrative, operational and risk monitoring functions. The appointed Manco must be approved by the FSCA, aligning with the setup of a unit trust fund.

STRATEGIES

Different types of strategies

Long/short equity:
This strategy aims to generate positive returns by taking both long and short positions in the equity market, thereby reducing market risk while retaining company-specific risk. Most local equity long/short funds tend to be long biased. The strategy involves holding long positions in stocks expected to appreciate in value and short positions in stocks expected to decline. The goal of a long/short equity strategy is to minimise overall market exposure, while profiting from gains in the long positions and price declines in the short positions.

Market neutral:
A market neutral equity strategy involves taking similarly sized long and short positions within related equity sectors to offset directional market risk. The goal is to generate profit from both rising and falling prices. This strategy is often achieved by holding matching long and short positions in different stocks, allowing the fund to capitalise on mispricing. By doing so, it seeks to deliver positive returns from both long and short stock selections while minimising exposure to broad market movements.

Fixed income:
This strategy seeks to capitalise on arbitrage opportunities in interest rate securities. A fixed income arbitrage approach involves taking offsetting positions in the market to take advantage of small price discrepancies, while mitigating interest rate risk. This strategy can include various techniques such as basis trading (e.g. cash vs futures), yield-curve arbitrage, credit spread trading, and volatility arbitrage in fixed income markets. The goal is to generate returns while hedging against significant interest rate risk, typically through matched long and short positions in related securities.

Statistical arbitrage:
This strategy uses quantitative models and statistical techniques to identify market inefficiencies and establish short-term positions across a broad universe of securities. By analysing historical data, price patterns, and correlations, statistical arbitrage seeks to profit from price movements that deviate from historical relationships or expected trends. Positions are often market neutral, aiming to exploit temporary mispricings rather than directional market moves.

Volatility arbitrage:
Volatility arbitrage aims to capitalise on discrepancies between the implied volatility of an option (or other derivative) and the expected, or realised, volatility of the underlying asset. The strategy often involves taking positions in options or derivatives where the trader believes the market has mispriced future volatility. By going long or short on volatility across various assets, this strategy seeks to profit from volatility-driven price differences, regardless of the directional movement of the underlying assets.

Multi-strategy:
A multi-strategy hedge fund deploys capital across a diverse range of investment strategies, often spanning multiple asset classes and trading styles. By combining approaches such as equity long/short, credit arbitrage, macro, and statistical arbitrage, the fund aims to achieve diversified, risk-adjusted returns. This flexible approach allows the manager to adapt to different market conditions and capitalise on opportunities across various strategies.

Commodities:
Funds that predominantly invest in soft or hard commodities. These funds can follow several different strategies to obtain returns that beat their benchmarks from this asset class, including trend-following or non-directional market neutral strategies.

Practical Example of Long and Short

Long position

A long position involves buying a security, such as a stock, commodity, or currency, with the expectation that its value will increase over time. When an investor holds shares of a stock, they are said to be long in that stock, anticipating that the price will rise to generate a profit.

Example - Long position
An investor buys 10 shares of "Stock Water" at R100 per share, expecting the price to appreciate.

- Initial investment: R100 x 10 shares = R1,000
- If the share price rises to R135 per share:
    - o New portfolio value: R135 x 10 shares = R1,350
- Profit when selling:
    - o New portfolio value - initial investment = R1,350 - R1,000 = R350 (or R35 per share)

This gain results from the increase in share price, fulfilling the long position's goal of profiting from price appreciation.

Short position

A short position involves selling a borrowed security, commodity, or currency with the expectation that its value will decline. The strategy is to repurchase the asset at a lower price, allowing the investor to profit from the price difference.

Example - Short position
An investor borrows 10 shares of "Stock Maone"; and sells them on the open market at R100 per share expecting the price to drop in value.

- Initial sale value: R100 x 10 shares = R1,000
- If the share price declines to R75 per share:
    - o Cost to repurchase: R75 x 10 shares = R750
- Profit when repurchasing:
    - o Initial sale value - repurchase cost = R1,000 - R750 = R250 (R25 per share)

This profit arises from the share's decline in price, fulfilling the short position's objective of buying back at a lower cost than the sale price.

THE EVOLUTION OF SOUTH AFRICAN HEDGE FUND INDUSTRY

1998

The first South African single manager hedge fund is established.

2003

The first fund of hedge funds (FoHF) is created.

2007

The FSCA commences with regulation of hedge fund managers, requiring that they hold a CAT II A licence.

2011

The amended Regulation 28 of the Pension Fund Act is issued to introduce a 10% investment allocation limit to hedge funds. Previously, the regulation did not explicitly refer to hedge funds.

2012

The FSCA and National Treasury embark on a process to enhance and expand the scope of regulation and oversight over hedge funds.

Draft regulations were issued for public comment in 2014.

2015

National Treasury and the FSCA finalise the regulation of hedge funds.

Subsequently, SA hedge funds are regulated under the existing Collective Investment Schemes Control Act, No.45 of 2002.

2020

The Association for Savings and Investment South Africa (ASISA) issues the Hedge Fund Classification Standard.

2021

National Treasury proposes amendments to Regulation 28 of the Pension Fund Act.

One of those relates to splitting hedge funds and other alternative assets (which were previously collectively referred to as a single asset class), to classify hedge funds as a standalone asset class.

2023

The FSCA releases a draft amendment to Board Notice 90. One of the amendments it proposes is that managers of collective investment schemes **must be allowed to invest in actively managed exchange-traded funds (ETFs) and hedge funds**, which are managed under the Pension Funds Act Regulation 28.

REVIEW METHODOLOGY

Who we review:

SA-Domiciled Managers

Single-Managed Funds

Registered and Unregistered Funds

Funds of Hedge Funds (FoHFs)

Multi-Managed Funds

External Sub-Delegated or Mandated Funds

Offshore-Domiciled Funds

Included

- **SA-Domiciled Managers**
  These are South African-based hedge fund managers, managing funds domiciled within the country and in the local currency (ZAR).
  Reason for inclusion: The focus on South African-domiciled managers provides a comprehensive view of the domestic hedge fund landscape, highlighting local market practices, regulatory compliance, and performance. By limiting the scope to SA-based local managers, we ensure that the data reflects the South African industry's unique characteristics and dynamics.
- **Single-Managed Funds**
  These are funds managed by a single investment manager or team, typically following a specific investment strategy.
  Reason for inclusion: Single-managed funds allow for a clearer assessment of strategy-specific performance, avoiding the complexity of multi-manager contributions. This focus on single-manager funds provides a more straightforward view of individual fund manager performance and decision-making processes.
- **Registered and Unregistered Funds**
  The survey includes both funds registered under South African regulatory bodies, such as the CISCA and FSCA, and those that operate outside standard regulatory frameworks.
  Reason for inclusion: Incorporating both registered and unregistered funds provides a holistic view of the industry, capturing the full range of fund types and strategies in the South African hedge fund market regardless of regulation limitations.

Excluded

- **Funds of Hedge Funds (FoHFs)**
  Funds of hedge funds invest in a portfolio of multiple hedge funds.
  Reason for exclusion: FoHFs are excluded to avoid double counting in AUM, as the underlying funds in which they invest are often already included in the survey. This exclusion enables a more accurate representation of industry assets and avoids inflating AUM figures.
- **Multi-Managed Funds**
  Multi-managed funds are structured with multiple managers under one fund, often blending various strategies for diversification.
  Reason for exclusion: Multi-managed funds can also lead to double counting in AUM figures, as assets may already be reported by single-managed funds as segregated mandates. By excluding these, the survey maintains clarity on AUM reporting and reduces redundancy in data.
- **External Sub-Delegated or Mandated Funds**
  These are funds where assets are sub-delegated to external managers or held as part of broader mandate agreements. They are often used as building blocks internally by FoHFs or used as a separate vehicle marketed separately from the main strategy.
  Reason for exclusion: Sub-delegated or mandate funds often include assets already counted by single-managed funds as part of their segregated mandates, leading to potential AUM inflation. Where it is not clear, these are listed separately.
- **Offshore-Domiciled Funds**
  These funds are domiciled outside South Africa, often in jurisdictions with different regulatory or tax environments. ASISA and CISCA allow local managers to set up these structures in different jurisdictions for their clients.
  Reason for exclusion: Offshore funds are excluded to keep the survey focused on the South African hedge fund market. Including them would introduce additional regulatory and market complexities, detracting from the survey's focus on the local industry.

What we review:

1. Assets under management

This component considers the industry's growth in AUM since 2002, general growth in AUM since 2010, and net annual changes. The main drivers of AUM growth have varied over time, but the survey aims to provide a comprehensive picture of these drivers each year.

2. Strategy assets

This is a representation of strategy as a portion of the total AUM. Assets are viewed by net flows and by growth in strategy. The aim is to measure which strategy houses the bulk of the assets.

3. Investors

This section investigates the type of investors in hedge funds, and possible new trends in new investors and/or allocators.

4. Operations

This covers the operational aspects of the hedge fund industry. The survey was grouped according to Manco responsibilities and non-Manco responsibilities. The aim is to provide insights into hedge funds' operational efficiency, transparency, capability and resources.

5. Structure

This section examines the legal structure of a hedge fund to determine liability in instances of extreme losses.

6. Fees

This section covers how fees are calculated and the latest cost trends.

7. Performance

Here we investigate the performance of the industry across different strategies and fund sizes, to determine how industry returns are generated.

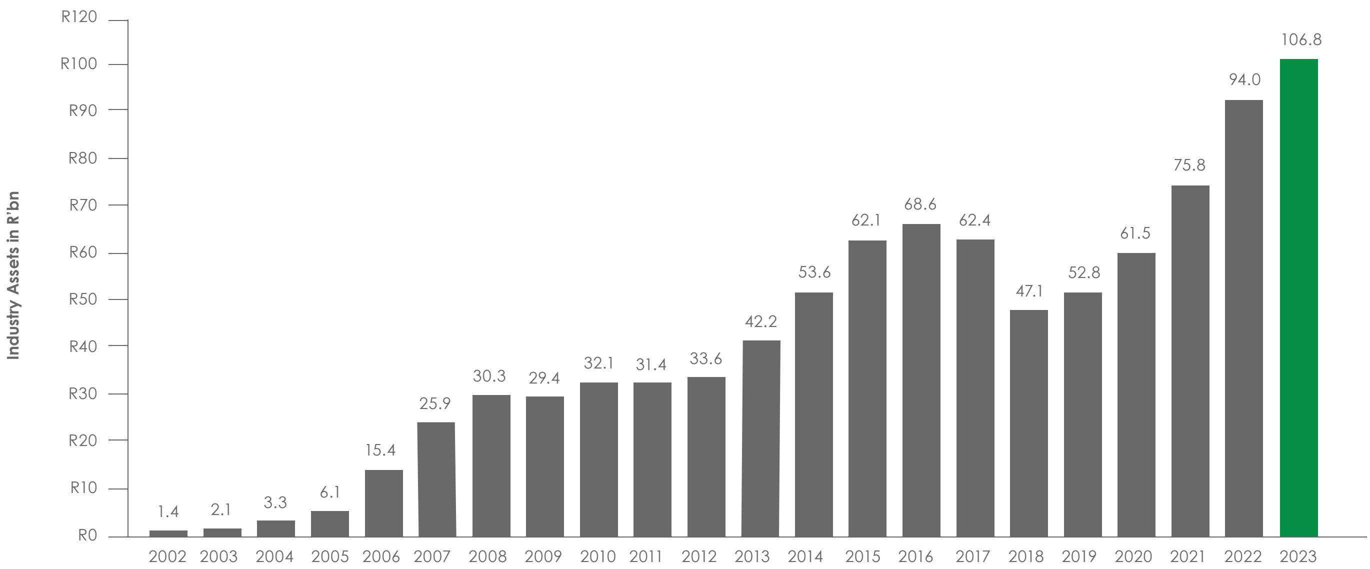
8. Transformation

This section investigates hedge fund managers' level of compliance with Broad-Based Black Economic Empowerment requirements and the diversity of their teams, especially in senior management.

ASSETS UNDER MANAGEMENT

Hedge fund industry AUM

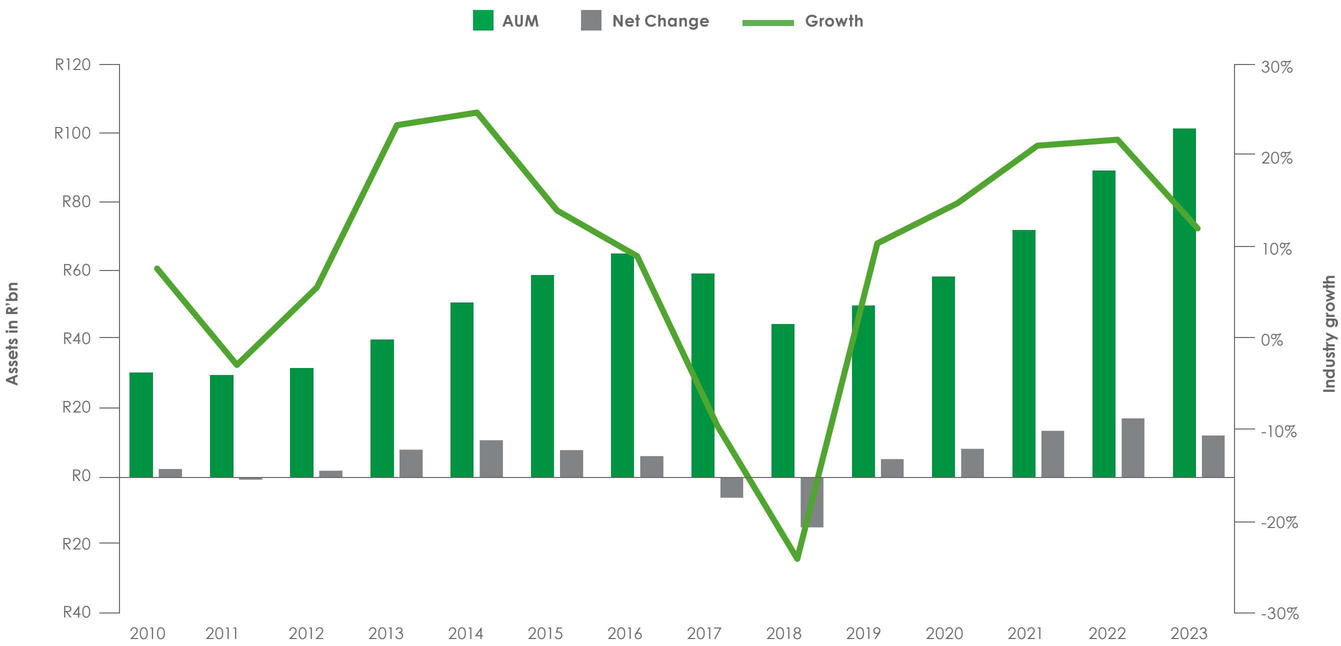
Chart 1: Hedge fund industry assets under management (2002 to 2023)



In 2023, the South African hedge fund industry's AUM grew from R94.0 billion to R106.8 billion, representing a net increase of R12.8 billion. While this reflects a slowdown in the growth rate compared to the previous year, it marks the highest AUM recorded since the inception of the Novare Annual Hedge Fund Survey in 2004.

AUM growth

Chart 2: Growth of assets under management since 2010



The 13.7% growth in AUM was the slowest pace since the post-COVID-19 period. In summary, the increase in AUM was driven primarily by performance gains and positive net flows, despite some reductions from closed/dissolved funds and industry consolidation. Overall, the change reflects healthy growth in AUM for 2023.

Breakdown of asset growth

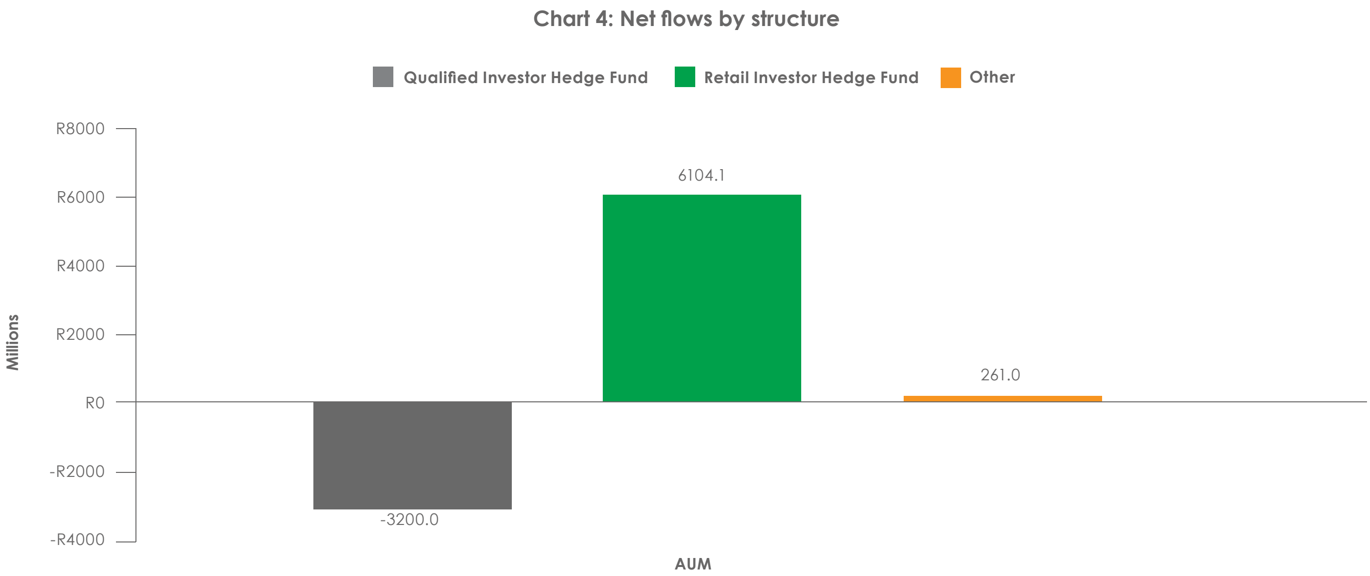
Chart 3: Breakdown of contributing factors to assets under management growth

Based on the data collected, the intermediate factors that contributed to the change in AUM in 2023 were:

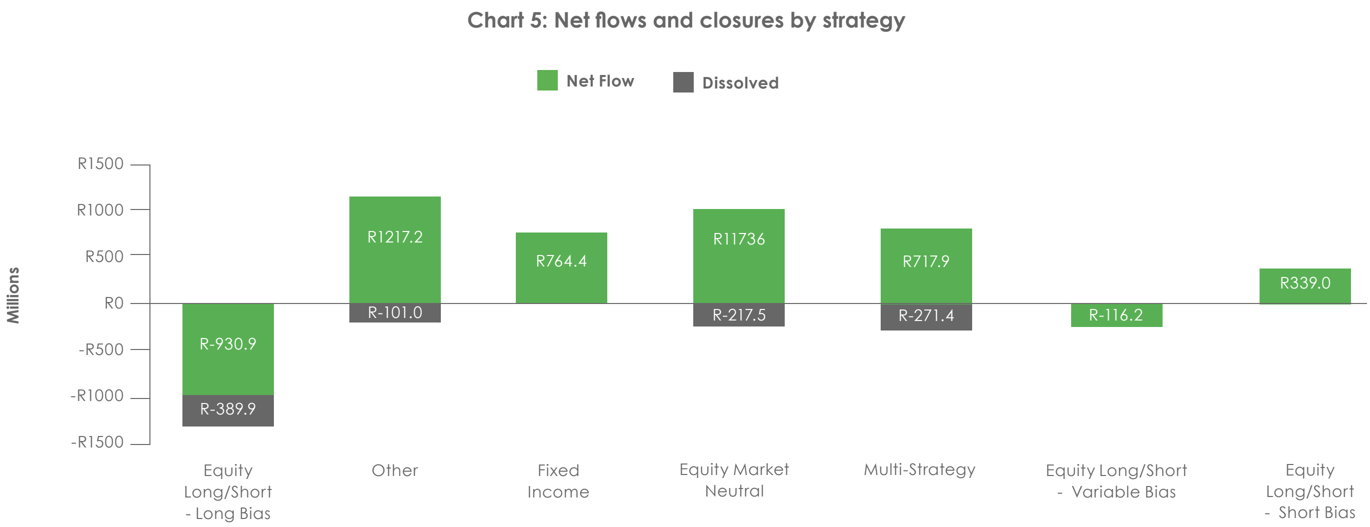
- **2022 AUM:** The starting value for AUM in 2022 was **R94.0 billion**.
- **Closed/Dissolved:** There was a **R979.8 million** reduction in AUM due to funds being closed or dissolved. A total of 14 funds were closed in the year 2023.
- **Consolidated:** A further decrease of **R140 million** was seen due to fund consolidation activities.
- **Net flows:** The industry attracted a healthy net inflow worth **R3.2 billion** in 2023. This represents new capital that entered the industry for the year 2023.
- **Launch of new funds:** Though we cannot ascertain whether the seed assets for newly launched funds were from within the industry, 2023 saw 10 new CISCA-regulated hedge funds being launched by eight hedge fund companies contributing **R665.5 million** to the total industry assets.
- **Excluded:** A small reduction of R20 million was noted from exclusions. These are due to the mandate change to a Fund of Hedge Fund product (the Novare survey excludes Fund of Hedge Funds assets).
- **New addition:** These numbers do not necessarily reflect new flows into the industry but rather assets not previously reported in the survey. Due to new participants in the 2023 survey, additional assets to the value of **R964.4 million** were recorded.
- **Performance:** A notable increase of **R9.2 billion** is attributed to performance gains, showing positive returns on the underlying assets.
- **2023 AUM:** The final industry AUM in 2023 is **R106.8 billion**.

While we strive to include every hedge fund asset available in South Africa in this survey, we are highly reliant on the voluntary participation of hedge fund managers and publicly available information.

Net flows by strategy



Of the R3.2 billion net inflows in the industry, Qualified Investor Hedge Funds (QIHFs) experienced significant net outflows of R3.2 billion, indicating that institutional and high-net-worth individuals (HNWI), who would be considered as qualified investors, withdrew capital from these structures in 2023. In contrast, Retail Investor Hedge Funds (RIHFs) saw strong net inflows of R6.1 billion, highlighting growing interest from individual investors. The "Other" category, which includes funds not registered with CISCA, such as external capital providers (ECPs) and segregated



Key Takeaways:

- **Strongest performers:** The "Other" and "Equity Market Neutral" strategies recorded the highest net inflows in 2023, attracting R1.2 billion and R1.17 billion, respectively. The consistent capital influx into the "Other" category highlights the growing demand for less conventional approaches in the industry. In this category, some funds do not exhibit the full characteristics of a traditional hedge fund. These funds utilise the hedge fund structure for tax benefits and to meet the liquidity, regulatory, and transparency requirements of their investors.

- **Challenged categories:** The Equity Long/Short - Long Bias strategy faced the most significant outflows in 2023, with a net loss of R930.9 million and the highest number of fund closures, indicating a difficult year for long-biased hedge funds. Additionally, the Equity Long/Short - Variable Bias category faced modest outflows of R116.2 million.

- **Steady demand for Fixed Income and Multi-Strategy:** Both strategies attracted solid inflows, with Fixed Income drawing R764.4 million and Multi-Strategy gaining R717.9 million in assets during 2023. Notably, the Fixed Income category saw no fund closures throughout the year.

- **Short Bias:** Although less popular than other strategies in the country, Equity Long/Short - Short Bias hedge funds attracted positive inflows of R339 million.

Total assets by manager profile

Chart 6.1: Percentage of hedge fund assets

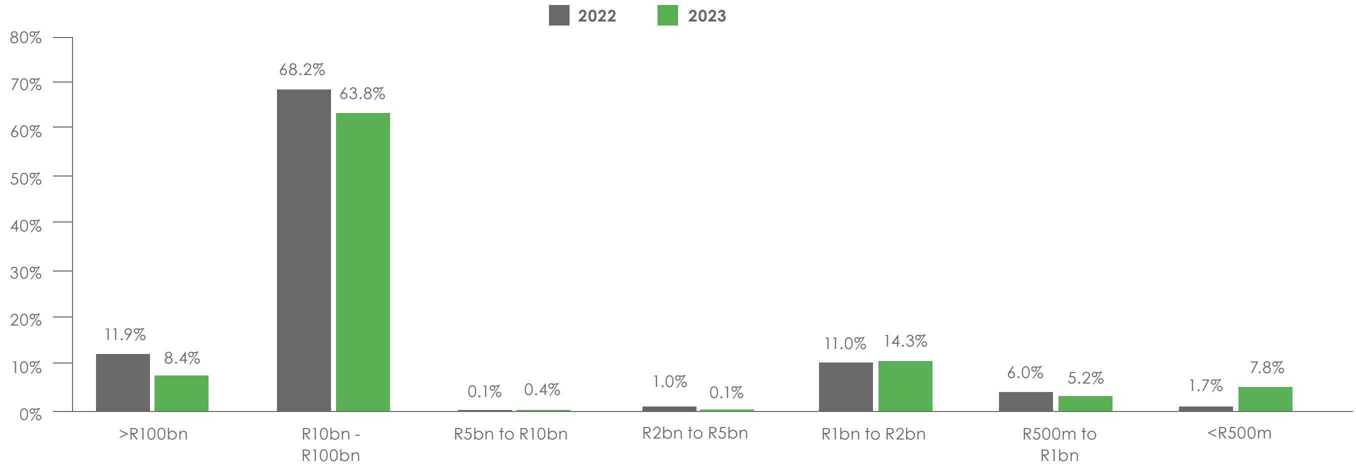


Chart 6.1 illustrates the proportion of hedge fund assets across South Africa's asset management industry, categorised by asset manager size (including traditional long-only assets and other alternatives).

The 2023 survey reveals that majority of hedge fund assets (72.2%) are managed by large investment houses with AUM of R10 billion and more.

- The largest proportion of hedge fund assets continues to be managed by firms in the R10 billion to R100 billion AUM category, although there is a slight decrease from 68.2% in 2022 to 63.8% in 2023.
- The proportion of assets managed by firms with over R100 billion AUM also declined from 11.9% in 2022 to 8.4% in 2023.

Stable representation of smaller firms (R500 million to R2 billion):

Firms with assets in the R1 billion to R2 billion and R500 million to R1 billion categories have maintained relatively stable proportions over the years. The R1 billion to R2 billion range saw an increase from 11.0 % in 2022 to 14.3% in 2023.

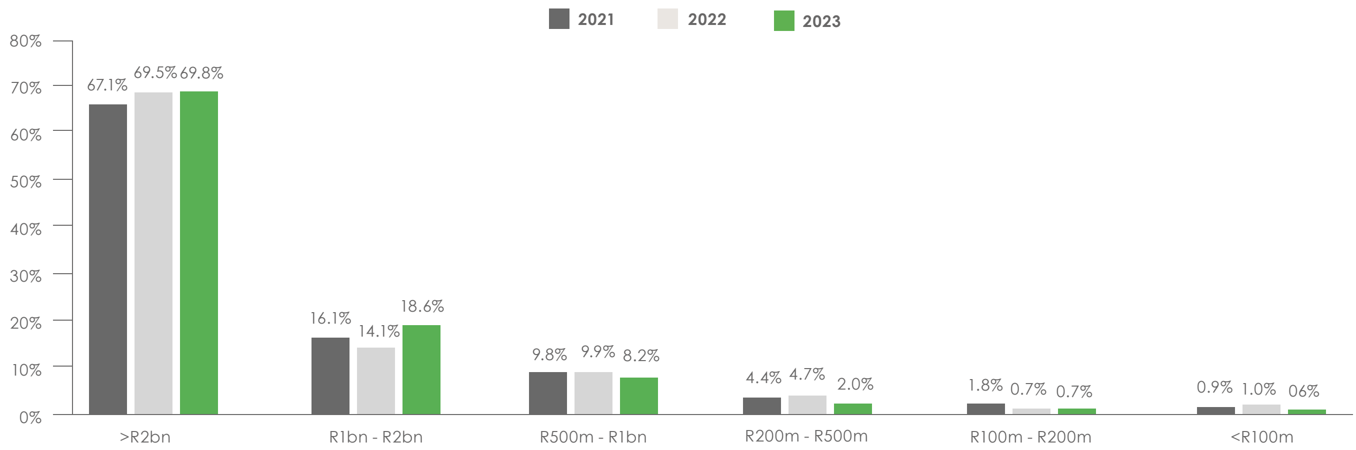
Additionally, there was a notable rise in hedge fund assets managed by firms with AUM of less than R500 million, surging from 1.7% to to 7.8% in 2023 after previous periods of decline. This growth is largely driven by managers establishing their own firms and launching independent hedge funds.

Decline in mid-sized firms

Over the years, firms with AUM between R5 billion to R10 billion and R2 billion to R5 billion have experienced a sharp decline in their representation of hedge fund assets, particularly from 2021 onwards, with their proportions dropping to near-zero levels. In 2023, firms in these AUM ranges contributed minimally to the overall hedge fund asset pool, with very low proportions of 0.4% and 0.1% respectively.

Industry share of assets

Chart 6.2: Total assets by hedge fund manager size



Charts 6.2 and 6.3 illustrate the proportion of hedge fund assets and asset flows in 2023, categorised by asset manager sizes. These figures focus exclusively on hedge fund assets, excluding traditional assets and other alternatives.

In terms of asset concentration, there were no significant changes in the local hedge funds industry from 2022 to 2023, as the largest hedge fund managers still account for the biggest share of assets. Some of the notable changes include:

- Large hedge fund managers with AUM of more than R2 billion still dominate the industry, and the assets managed by this category slightly increased from 69.5% to 69.8%.
- Assets managed by the category of hedge fund managers with AUM of between R1 billion and R2 billion increased in 2023 to 18.6% from 14.1% the previous year.
- Hedge fund managers with AUM between R200 million and R500 million dropped to 2% of the industry's assets in 2023.
- Assets managed by hedge fund managers with assets valued between R500 million and R1 billion decreased from 9.9% to 8.2% in 2023.
- Other categories that had marginal changes in their share of industry assets were:
  - Assets managed by hedge fund managers with AUM valued between R100 million and R200 million were unchanged at 0.7%.
  - Hedge fund managers with AUM of less than R100 million decreased slightly from 1% in 2022 to a 0.6% share in 2023.

Chart 6.3: Total assets by hedge fund manager size

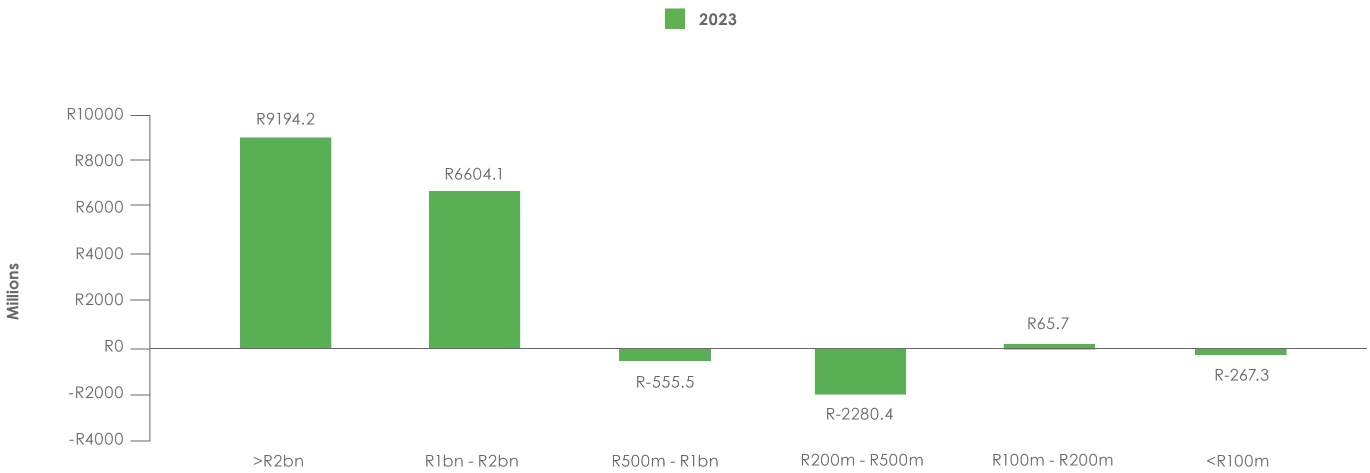


Chart 6.3 shows the net change in assets managed by local hedge fund managers categorised by size.

- **Large funds (>R2 billion):** The largest funds, with AUM greater than R2 billion, experienced a significant positive change of R9.2 billion in 2023. This increase highlights the continued dominance of larger, more established funds. This is attributed to their track record, perceived stability, and consistent performance across various market cycles.

- **Medium to large funds (R1 billion - R2 billion):** Funds in the R1 billion to R2 billion category saw a notable increase in AUM, with an inflow of R6.6 billion. While this is lower than the inflows of the largest hedge funds in the country, it still reflects the stability and strong presence of managers within this range in the industry.

- **Mid-sized funds (R500 million - R1 billion):** Mid-sized funds in the R500 million to R1 billion range experienced outflows of R555.5 million. Despite the outflows, the majority of funds fall within this range.

- **Small- to mid-sized funds (R200 million - R500 million):** Funds in the R200 million to R500 million category experienced significant outflows of R2.3 billion, indicating a challenging year for this segment.

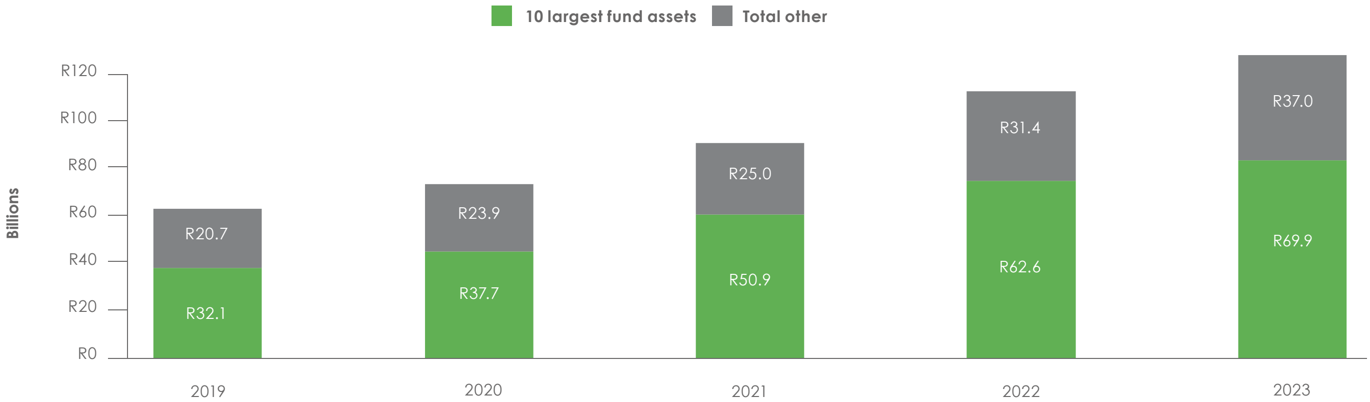
- **Small Funds (R100 million - R200 million):** Funds in the R100 million to R200 million category saw a small net inflow of R65.7 million, reflecting relative stability in this range. Despite the outflows, the majority of funds by number fall into this category.

- **Very small funds (<R100 million):** The smallest hedge funds, with AUM less than R100 million, experienced outflows of R267.3 million. These outflows indicate that very small funds faced the greatest challenges, consistent with the previous years of the Novare Hedge Fund Survey. This segment has historically been impacted by fund consolidation, performance-related issues, and closures due to limited capital inflows.

The total AUM change across all fund sizes for 2023 was a positive **R12.8 billion**. This indicates that while certain categories saw significant outflows, particularly in the mid-sized and smaller funds, the inflows into the largest funds outweighed these losses, leading to an overall increase in assets for the industry. This includes net flows, performance and new additions to the survey.

Industry concentration

Chart 7: Ten largest hedge funds as a percentage of the total industry assets under management



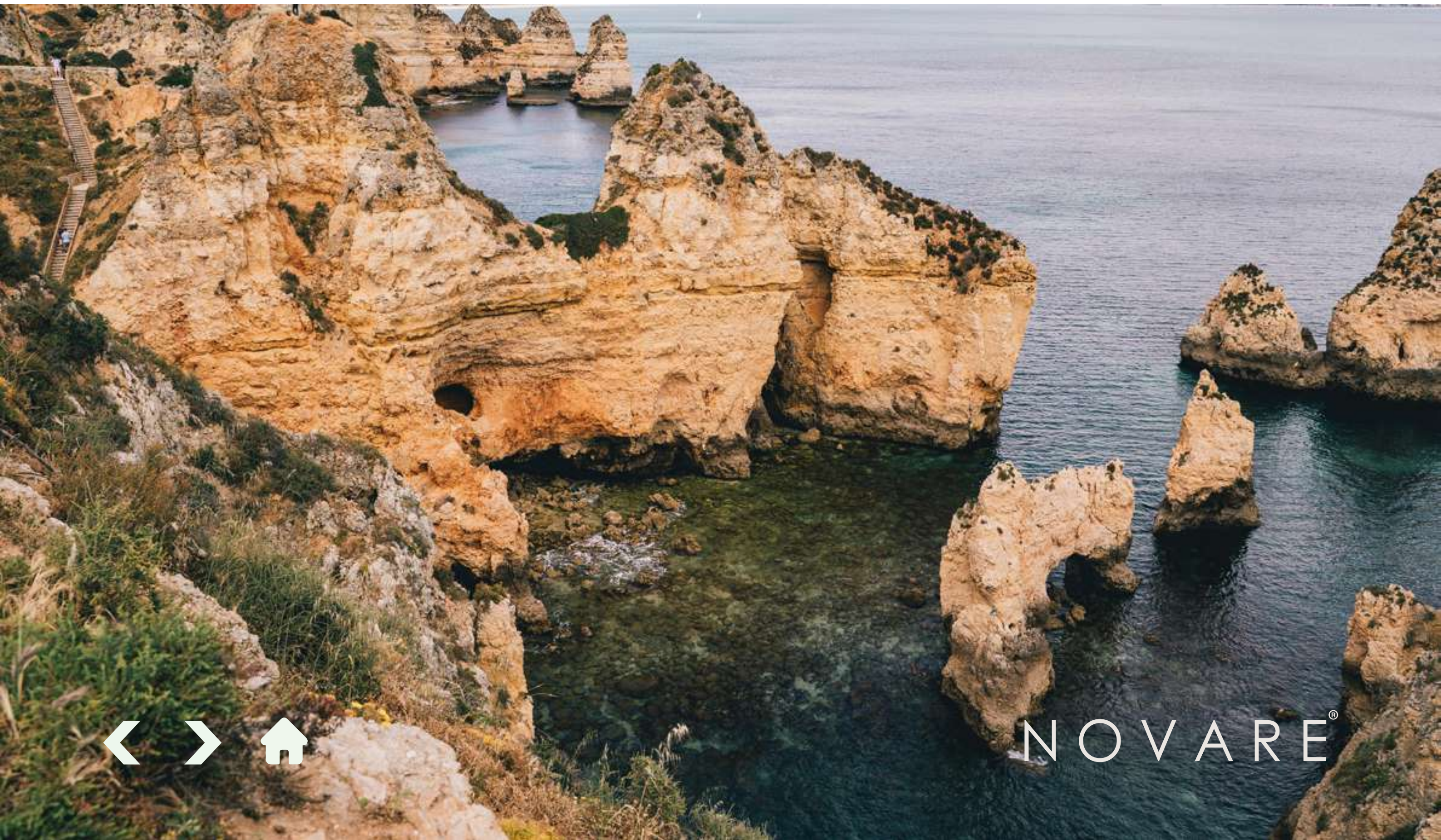
As shown in the previous charts, a few large hedge fund managers continued to dominate the local hedge fund industry:

- The current top 10 hedge fund managers manage R69.9 billion of industry assets, which represents 65.4% of total hedge fund assets. This is an increase of R7.3 billion from the previously reported R62.6 billion in 2022.
- There was a slight increase in the percentage of assets managed by the category of hedge fund managers who do not form part of the top 10, up to 33.4% or R37.0 billion from R31.4 billion in 2022.

Fund launches and closures

In 2023, 10 new hedge funds were launched, adding a combined R665.5 million to the industry's assets under management by the end of December. The new entrants comprised four Multi-Strategy (MS) funds, five Equity Long/Short (LS) funds with a Long Bias, and one Market-Neutral fund.

During the same period, fourteen hedge funds were dissolved or were in the process of liquidation, representing R978.8 million in assets. Among these closures were five Equity LS funds, five Multi-Strategy funds, and three Market-Neutral funds.



Asset management strategies

Chart 8.1: Strategies for management of industry assets by percentage

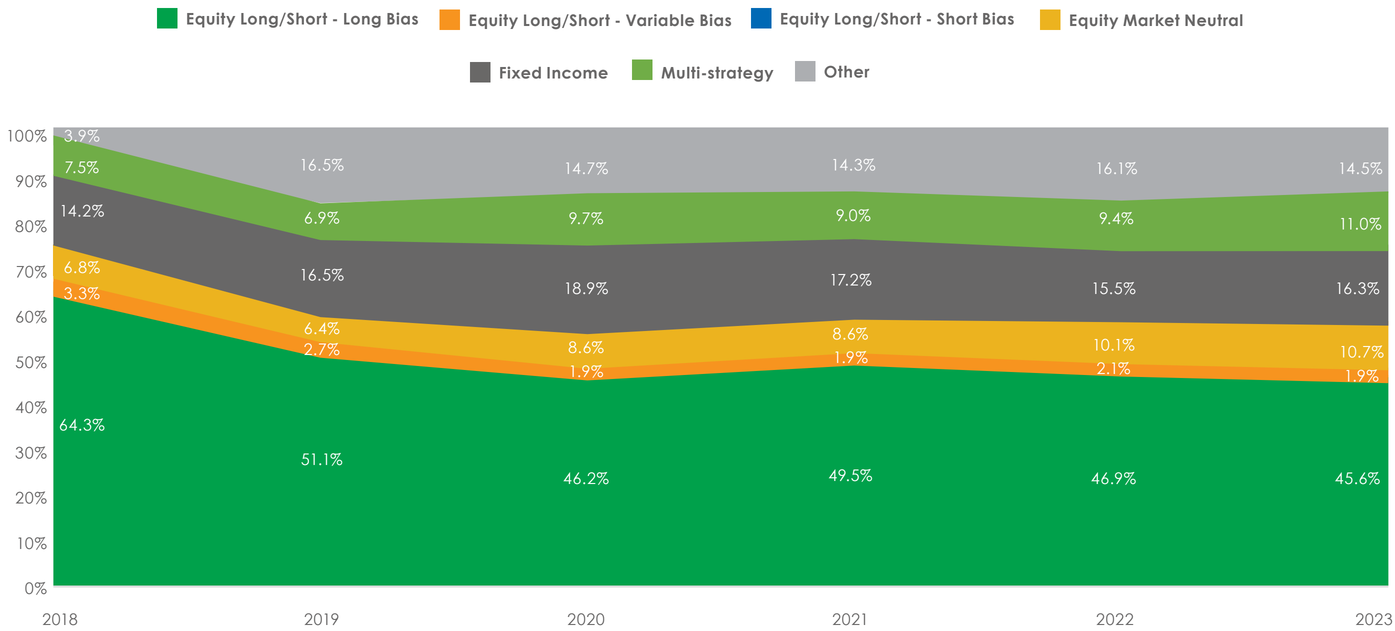


Chart 8.1 represents the percentage allocation of industry assets across various hedge fund strategies from 2018 to 2023. This aligns with the introduction of these classifications by the Association for Savings and Investment South Africa (ASISA), following the adoption of CISCA regulations for the hedge fund industry in South Africa in 2016.

Equity Long/Short - Long Bias:
This strategy consistently held the largest share of assets throughout the period, though its dominance declined from **64.3%** in 2018 to **46.9%** in 2022 and **45.6%** in 2023.

Equity Long/Short - Variable Bias:
There was a slight decrease in the allocation to this strategy, from **2.1%** in 2022 to a mere **1.9%** in 2023.

Equity Long/Short - Short Bias:
This strategy consistently represented a small portion of industry assets, with a minor presence of around **0.3%** in 2023. Only one manager was identified in the short-biased category in the 2023 survey.

Equity Market Neutral:
Market Neutral managers saw modest growth over the years, rising from **6.8%** in 2018 to **10.1%** in 2022 and slightly increasing to **10.7%** in 2023.

Fixed Income:
Fixed Income strategies saw steady growth, rising from **14.2%** in 2018 to a peak of **18.9%** in 2020, before declining to **15.5%** in 2022 and slightly increasing in 2023 to **16.3%**. The strategy peaked in 2020 due to the performance of managers during the pandemic.

Multi-Strategy:
Multi-Strategy funds gained prominence, growing from **7.5%** in 2018 to **9.4%** in 2022 and **11.0%** in 2023. The increase reflects a preference for diversified, multi-asset approach driven by the need for flexibility in current market conditions.

Other Strategies:
Funds categorised as "Other" grew in prominence, from **3.9%** in 2018 to **14.5%,** reflecting a rising trend toward less conventional or niche strategies that fall outside traditional classifications. The "Other" category in chart 8.1 includes, but is not limited to, activist funds, event-driven or special situation funds, and other non-hedge funds that utilise the hedge fund structure.

Chart 8.2: Strategies for management of industry assets by percentage – first tier classification type

55.7% QIHF

42.9% RIHF

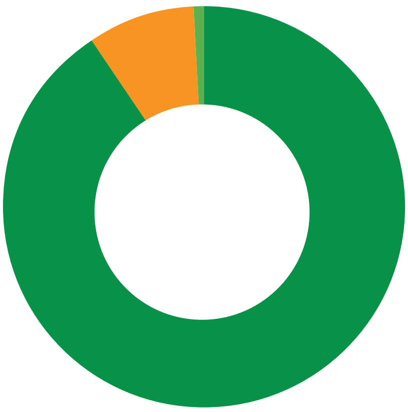
1.4% Other

Retail investor hedge funds (RIHFs) continued to attract more assets than qualified investor hedge funds (QIHFs), even though a substantial amount of industry assets is still managed under the latter.

- Qualified Investor Hedge Funds: Assets under QIHFs amounted to R59.5 billion, representing 55.7% of the industry's total assets, which is 4.5% less than in 2022.
- Retail Investor Hedge Funds: The percentage of assets managed under RIHFs increased from 38.5% in 2022 to 42.9% in 2023, totaling R45.9 billion.
- Other funds: Less than 2% (1.4%) of the industry assets, valued at R1.4 billion, were managed by funds categorised as neither QIHFs nor RIHFs.

Chart 8.3: Strategies for management of industry assets by percentage – second tier classification – geography

Funds set up to invest at least 60% of their total exposure in South Africa were in the majority in both the number of funds and the value of the assets they manage.



90.7% South Africa

8.7% Worldwide

0.6% Global

In terms of assets

- R96.9 billion (90.7%) of the industry's assets are managed by South African portfolios that invest at least 60% of their total exposure in South African investment markets.
- 9.2 billion (8.7%) of the industry's assets are managed by worldwide funds with no limits for domestic or foreign assets.
- Only R656.0 million or 0.6% of the industry's assets are managed by fund portfolios that invest at least 80% of their total exposure outside South Africa (global funds).

Chart 8.4: Strategies for management of industry assets by percentage – third and fourth tiers classification – managers' self-classification

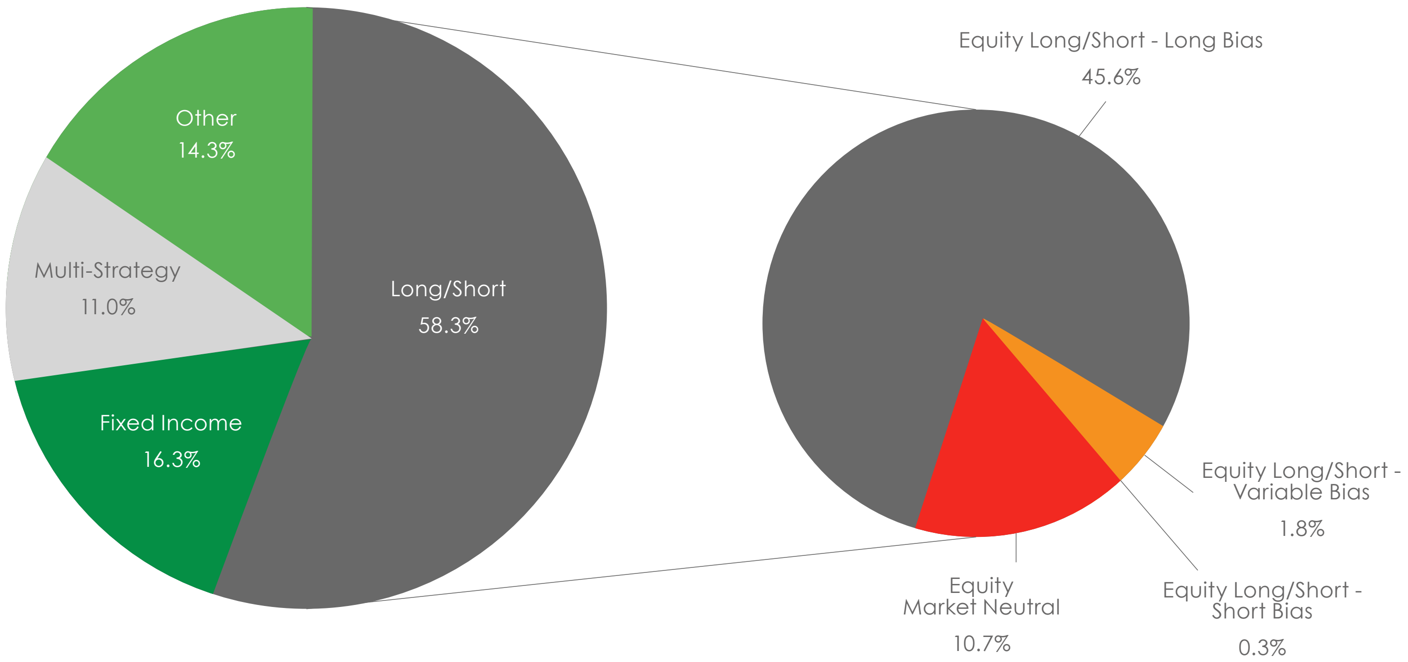


Chart 8.4 illustrates the ASISA strategy allocation standard, breaking down the allocation of assets across various hedge fund strategies. The classifications are based on managers' self-classification into specific strategies.

Long/Short Strategies:

- **Total Long/Short** strategies dominate the allocation, with a combined share of 58.3%, or R62.3 billion in assets.
- **Equity Long/Short - Long Bias** holds the largest share, accounting for 45.6%, making it the single largest strategy. In nominal terms, this is a total of R48.7 billion.
- **Equity Long/Short - Variable Bias** contributes a small share of 1.8% or R1.9 billion, and Equity Long/Short - Short Bias is negligible at 0.3%, reflecting minimal use of a predominantly short strategy among managers.
- **Equity Market Neutral** managers accounted for 10.7% of the industry's assets or R11.4 billion.

Fixed Income:

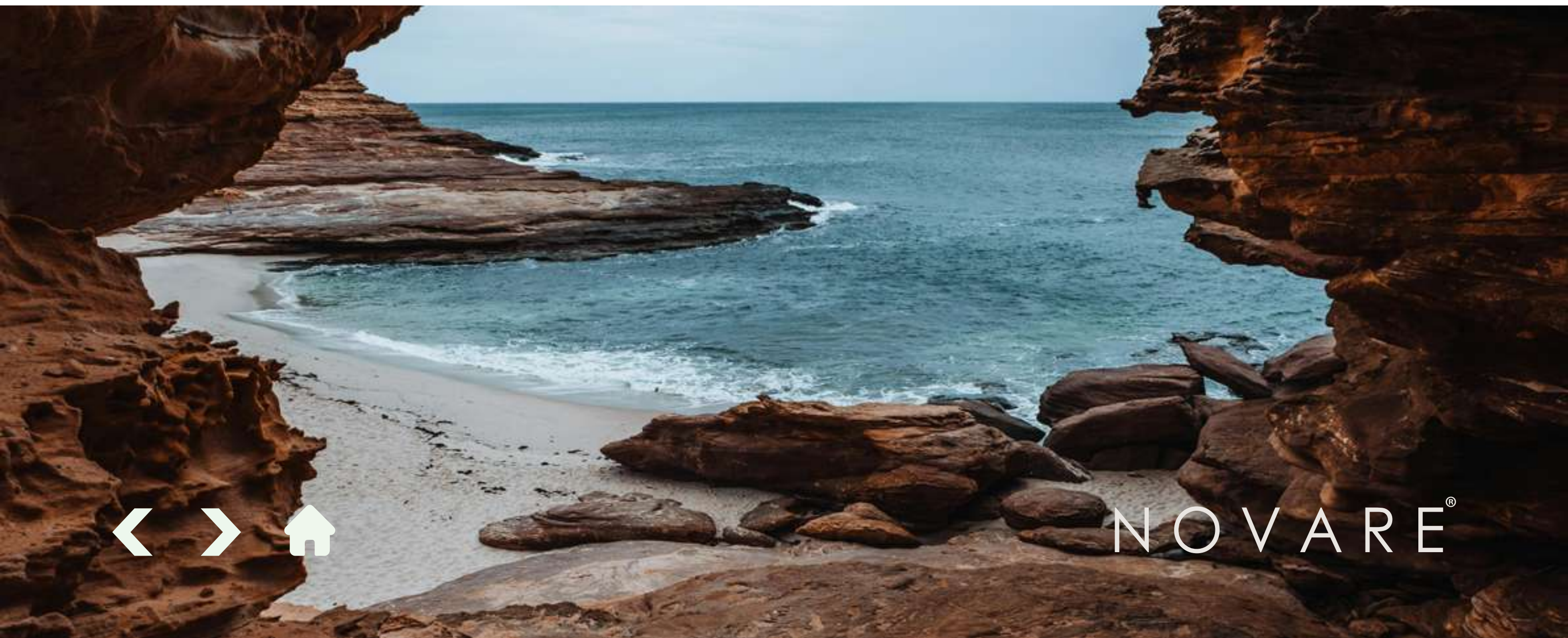
- Fixed Income funds represent 16.3% of total industry assets.

Multi-Strategy:

- Multi-Strategy funds account for 11.0% of assets, reflecting a growing interest in diversified, multi-asset approaches.

Other Strategies:

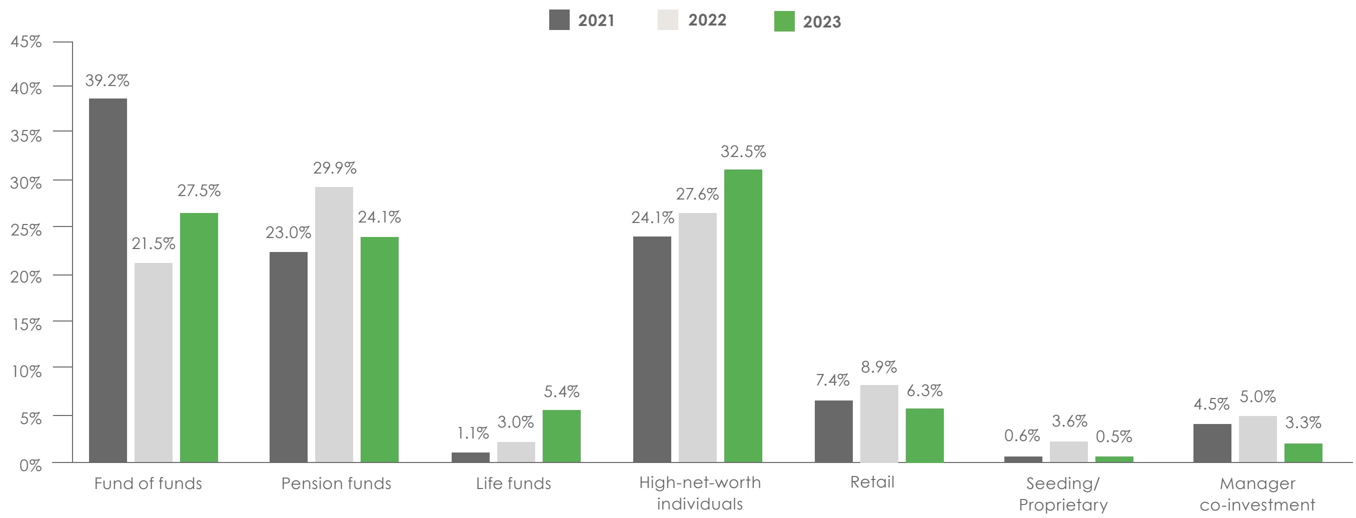
- The "Other" category represents 14.3% of assets, indicating that a notable portion of the industry is allocated to less conventional or niche strategies that do not fall under the traditional classifications.



> **Funds set up to invest at least 60% of their total exposure in South Africa were in the majority in both the number of funds and the value of the assets they manage.**

INVESTORS

Chart 9: Asset allocators/main investors



The data represents the distribution of assets by investor type for South African hedge funds from 2021 to 2023. Here are the key insights and factual observations:

Decline in funds of funds:
The allocation from funds of funds has declined sharply, decreasing from 39.2% in 2021 to 21.5% in 2022, followed by a modest recovery to 27.5% in 2023. This shift suggests a marked reduction in participation from this investor category.

Pension funds as stable investors:
Pension funds have remained relatively stable, with a slight decrease from 29.9% in 2022 to 24.1% in 2023, compared with 23.0% in 2021. Despite the marginal fluctuation, this group continues to be a substantial source of assets, signifying the ongoing importance of pension money in hedge fund allocations.

Growth in high-net-worth individuals:
The allocation from high-net-worth individuals shows a clear upward trend, growing from 24.1% in 2021 to 32.5% in 2023. This indicates that affluent individuals have been increasingly committing capital to hedge funds, perhaps attracted by the flexibility and potential returns in the current market environment.

Consistent decrease in retail investors:
This share of retail investors has steadily declined from 8.8% in 2021 to 6.7% in 2023. This decline may be due to the way some managers and Linked Investment Service Providers (LISP) firms classify retail investors - possibly lumping them in with high-net-worth individuals, skewing the figures.

Life funds as a minor player:
Life funds remain a small portion of total assets, with slight fluctuations, increasing from 1.1% in 2021 to 3.0% in 2022 and 5.4% in 2023. This suggests a gradual but minimal uptake by life insurers or LISPs.

Marginal role of seeding and proprietary capital:
The contribution from seeding and proprietary capital remains very low, with only 0.5% in 2023, slumping from 3.6% in 2022. This points to a lack of significant initial capital investment or proprietary capital supporting hedge funds, possibly due to risk considerations or a mature market.

Stable manager co-investment:
The share of manager co-investment has been relatively stable, hovering between 4.5% and 5.4% across the years, reflecting ongoing alignment between managers and investors.

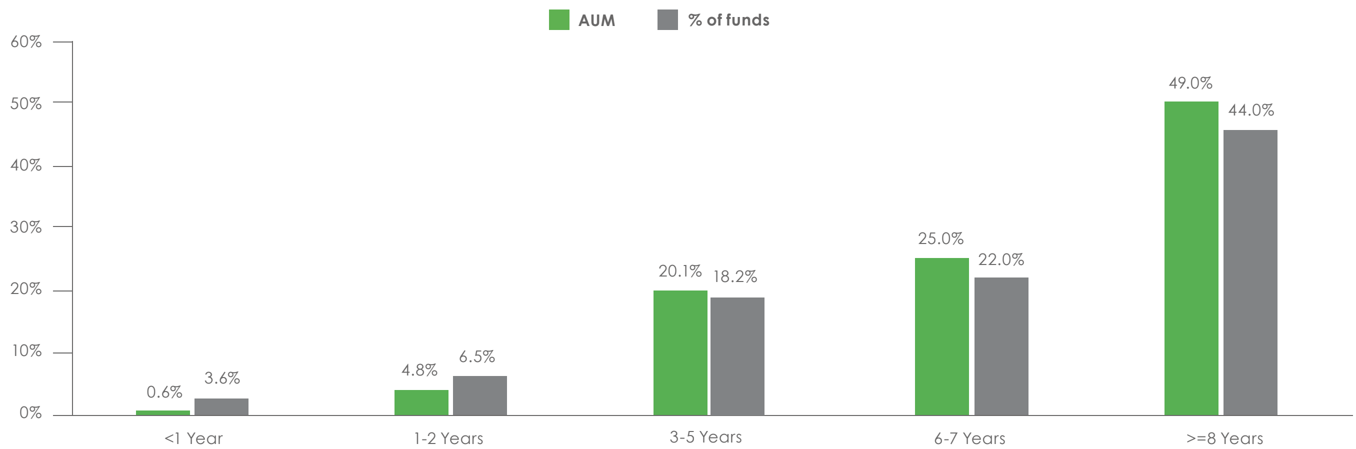
> Overall, there is a clear trend towards increased allocations from high-net-worth individuals, while the influence of funds of funds has been on a decline. Pension funds remain a consistent and important investor category.

TRACK RECORD

Manager track record

The South African hedge fund industry continued to mature, with a substantial percentage of assets managed by experienced fund managers. Chart 10 illustrates the track record of funds managed by seasoned portfolio managers and investment teams.

Chart 10: Fund track record and representation of assets under management



The following figures show that at least 134 of the 159 funds reviewed have a track record of more than 3 years:

- 29 or 18.2% of industry funds have a track record of at least 3 to 5 years.
- 35 or 22.0% of industry funds have a track record of at least 6 to 7 years.
- 70 or 44.0% of industry funds have a track record of more than 8 years.

The following figures show that at least R101.1 billion or 94.7% of the local hedge fund industry assets are managed by funds that have a track record of at least 3 years:

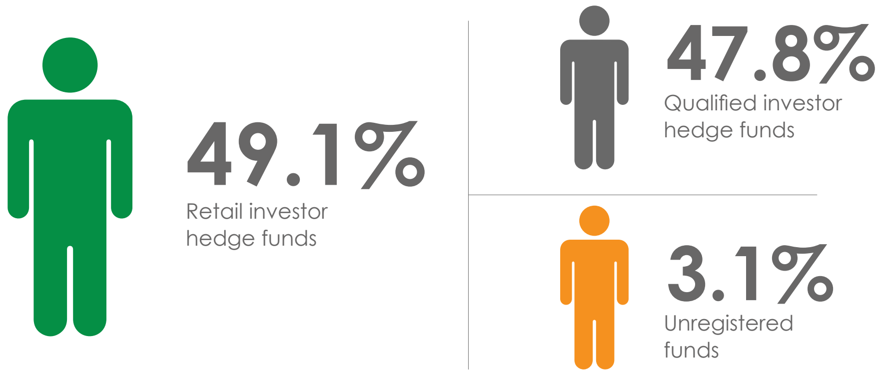
- R21.5 billion, or 20.1% of industry assets, are managed by funds with a track record of at least 3 to 5 years.
- R26.7 billion, or 25.0% of industry assets, are managed by funds with a track record of at least 6 to 7 years.
- R52.3 billion, or 49.0% of industry assets, are managed by funds with a track record of more than 8 years.

> Of the funds with a track record of more than 8 years, 34 funds have a track record of at least 15 years, and 10 have existed for over 20 years. There were 10 new and emerging funds during 2023, accounting for 0.7%, or R665.5 million, of the total assets in the industry.

STRUCTURE

Schemes

Chart 11: Collective Investment Scheme Type



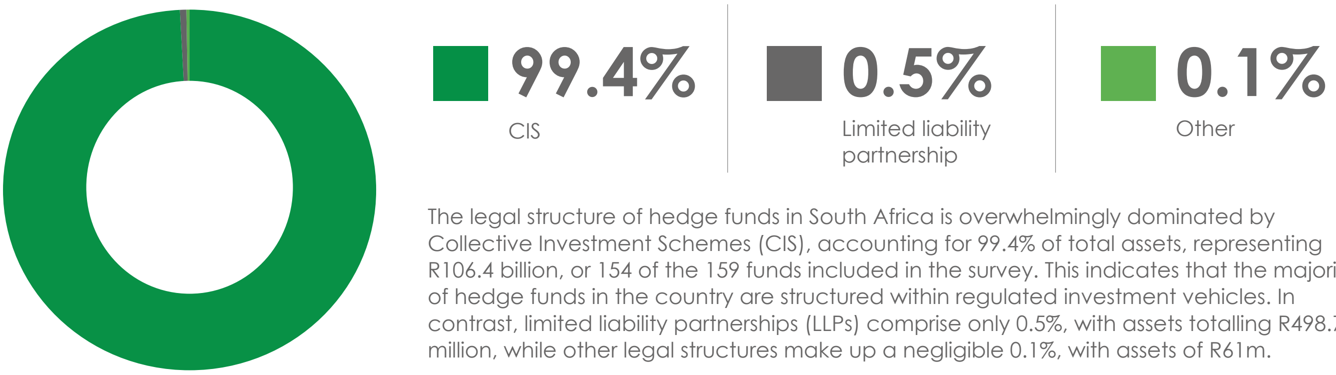
As of the end of 2023, 96.9% of the industry assets have been allocated to RIHFs or QIHFs, and the number of RIHFs has grown considerably compared to QIHFs.

Seventy-eight, or 49.1% of the 159 funds assessed, are registered as RIHFs, while 76, or 47.8%, are registered as QIHFs.

Only 3.1%, or five funds included in the Novare survey, were reported as unregistered, including some of the segregated funds that may otherwise mirror QIHFs or RIHFs.

Legal structures

Chart 12: Legal structures



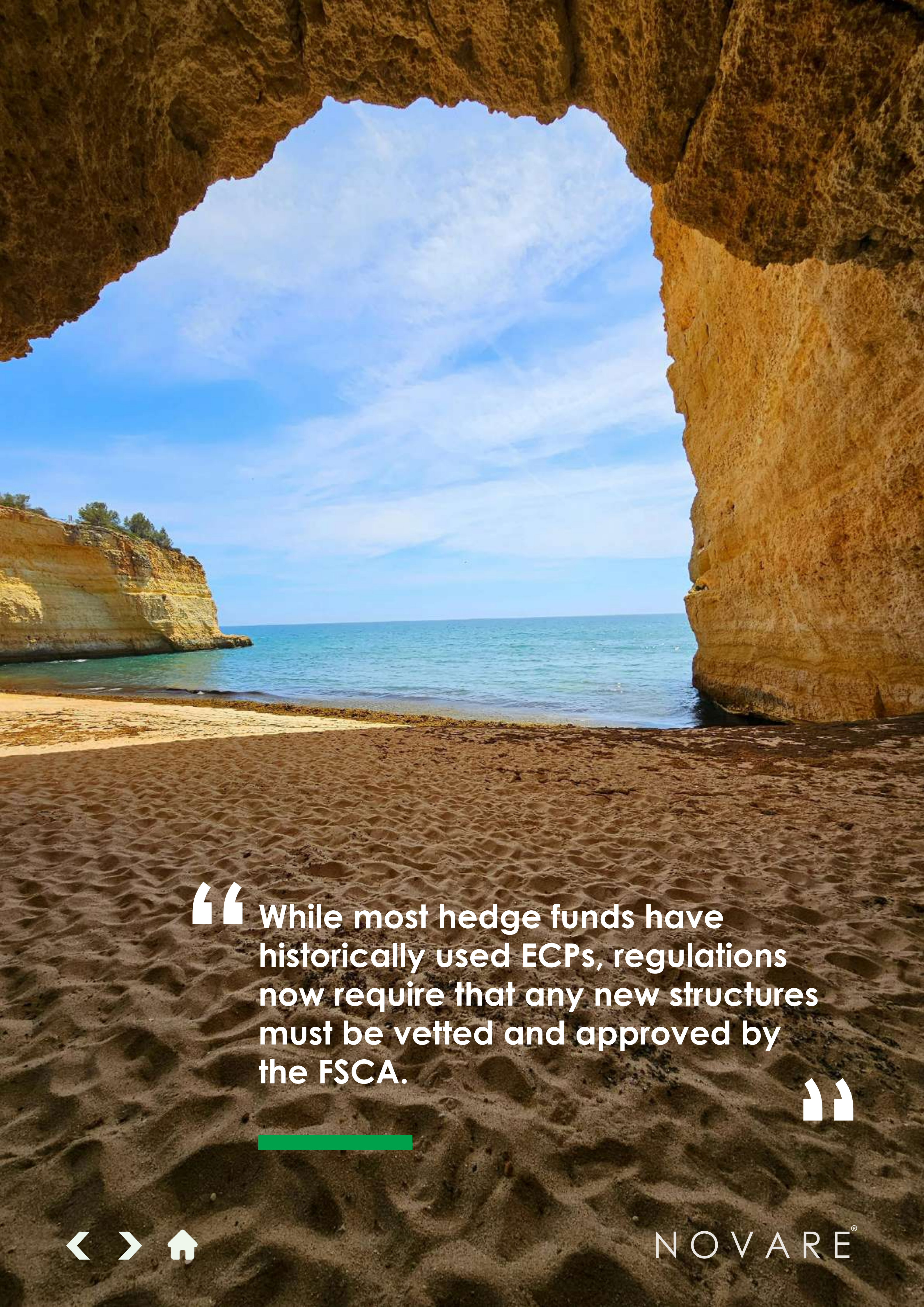
The legal structure of hedge funds in South Africa is overwhelmingly dominated by Collective Investment Schemes (CIS), accounting for 99.4% of total assets, representing R106.4 billion, or 154 of the 159 funds included in the survey. This indicates that the majority of hedge funds in the country are structured within regulated investment vehicles. In contrast, limited liability partnerships (LLPs) comprise only 0.5%, with assets totalling R498.7 million, while other legal structures make up a negligible 0.1%, with assets of R61m.

Based on regulatory requirements, only certain structures are allowed within the CIS environment, and a portfolio may only use the following structures for the investment of its hedge fund assets:

- A CIS trust arrangement as stipulated by the Collective Investment Schemes Control Act or
- An en commandite partnership (ECP), also known as an LLP.

In an ECP, the liability of the en commandite partner (whose name remains undisclosed) towards co-partners is limited to the specified capital amount contributed or committed by the en commandite partner. As a result, the en commandite partner is not at risk of suffering a loss or liability that is greater than their investment or commitment.

While most hedge funds have previously utilised ECPs, regulations stipulate that any new structures must be vetted and approved by the FSCA. Novare attempts to include both CIS and ECP funds in the survey to capture the true essence of the hedge fund landscape in the country. However, because ECPs fall outside the oversight of CISCA regulations, identifying and reporting on these funds is increasingly challenging. They are typically private and not allowed to market publicly. However, occasionally, existing funds or managers will be added to the survey and categorised as "new additions" in the AUM report breakdown.



> While most hedge funds have historically used ECPs, regulations now require that any new structures must be vetted and approved by the FSCA.

OPERATIONS

Pricing

Regular or daily dealing and pricing frequency in hedge funds is one way of enhancing transparency, as it enables investors to easily monitor fund performance and risk.

Chart 13: Daily pricing

40.2% Daily priced

25.8% No

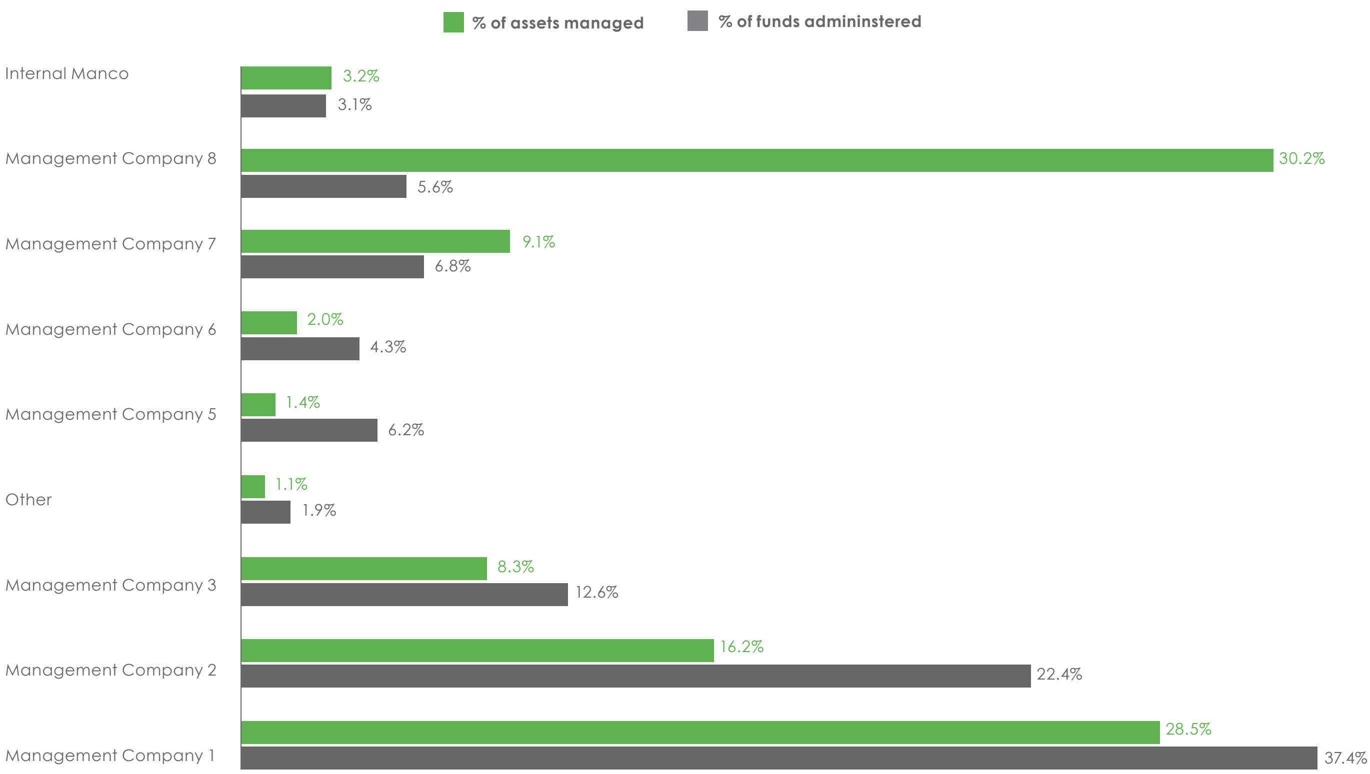
34.0% No answer

- Sixty-four funds, or 40.2% of the 159 funds in the survey are priced daily, an increase from 34.9% in 2022. With the proposed regulatory changes to Board Notice 90 of 2014 (BN90) underway, this category of funds is becoming increasingly significant for the industry. The number of funds offering daily liquidity also increased.
- The rise in the number of funds classified as Retail Investor Funds (RIFs) launching on LISP platforms, aimed at capturing the growing retail market appetite for hedge funds, has been proportional to the increase in daily-priced funds as this is one of the requirements.
- Unfortunately, a significant number of funds left this section unanswered. A total of 54 funds did not provide an answer to this section, while 41 answered "no".

Management companies

South African hedge fund regulations require hedge funds to appoint a management company (Manco) to handle all administrative, operational, and risk-monitoring responsibilities. The FSCA must approve the appointed Manco. This requirement has helped reduce the operational risks associated with hedge funds.

Chart 14: Hedge fund industry management companies



The two largest Mancos (Management Company 1 and 2), in terms of the number of funds managed, manage 96 funds or 60.4% of the 159 funds included in the survey. They represented 44.8% or R47.8 billion of the total industry assets in 2023.

- Management Company 1 is the largest Manco in terms of the number of funds under its stable, managing 60 funds (37.4% of the country's hedge funds), with a 28.5% share of assets, amounting to R30.5 billion.

- Management Company 2 manages 16.2%, or R17.3 billion, of total assets, while administering 36 funds, or 22.4% of the 159 surveyed funds.

- Manco 8 is an outlier in terms of the share of the hedge fund assets they administer. While the company only looks after nine funds (6%), it has the largest share of hedge fund assets, overseeing R32.3 billion, or 30.2% of the industry's assets.

- Management Company 3 is responsible for 8.3%, or R8.9 billion, of assets, and administers 20 hedge funds, 12.6% of its players.

Management Company 5, 6 and other:

- These companies have a much smaller presence in both areas:
    - Funds under other represent those not using a typical Manco or using unique structures, accounting for 0.8% of assets and administering 1.3% of funds.
    - Management Company 5 manages 1.4% of assets and administers 6.2% of funds.
    - Company 6 manages 2.1% of assets and administers 4% of funds.

- Management Company 7 manages R9.7 billion in assets or 9.1%, while it administers 11 funds or 6.8% of the industry's funds. It is the fourth largest in funds administered and the fourth largest in assets managed.

- Five funds used internal Mancos in 2023, managing 3.2% or R3.5 billion of industry assets. These are typically big investment firms with enough capacity to handle fund administration in-house as part of their product offering. However, hedge funds are not their main focus.

FEES

Regulations compel hedge fund managers to compile and regularly update minimum disclosure documents ("MDDs"), disclosing their funds' total expense ratios (TERs). This includes but is not limited to the funds' management and performance fees over 12 months. In cases where the fund has more than one fee class, the highest fee class is reported.

Management fees

Chart 15: Industry management or fixed fees

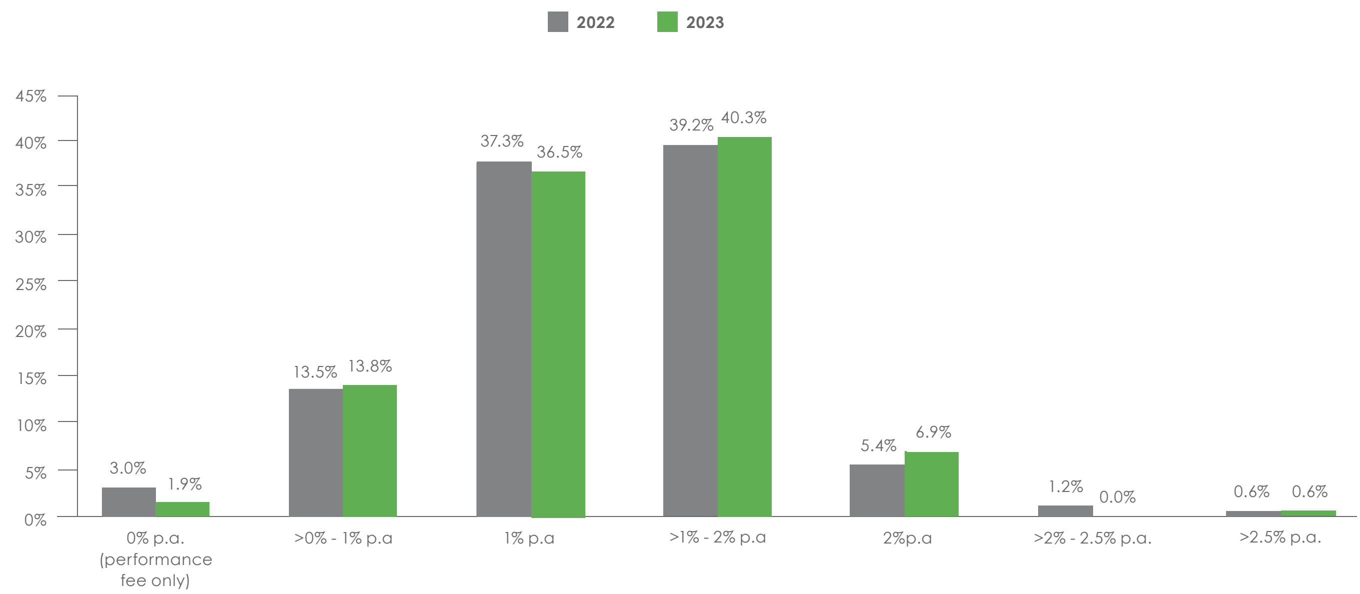


Chart 15 shows the number of hedge funds by the management fees they charge from 2022 to 2023 - excluding VAT.

The percentage of hedge funds by management fees from 2022 to 2023 is as follows:

- **0% per annum (performance fee only):**
  The number of funds charging only a performance fee dropped slightly from 3.0% in 2022 to 1.9% in 2023, indicating a continued preference for funds with a basic management fee.

- **>0% - 1% per annum:**
  The funds charging management fees in this range saw a marginal increase, from 13.5% in 2022 to 13.8% in 2023. This suggests a stable but slightly increasing preference for lower management fees.

- **1% per annum:**
  This fee class remained relatively stable, with 37.3% of funds in 2022 and 36.5% in 2023. The minor decrease suggests that this fee level remains popular among fund managers, but a slight shift to other fee classes may be occurring. 58 hedge funds charged the standard 1% p.a. fee out of the total of 159 assessed in the survey.

- **>1% - 2% per annum:**
  Funds in this range grew slightly from 39.2% in 2022 to 40.3% in 2023, representing the most common fee structure among hedge funds. This may reflect market acceptance of moderate fees as a balance between affordability and value. A total of 64 funds were in this segment.

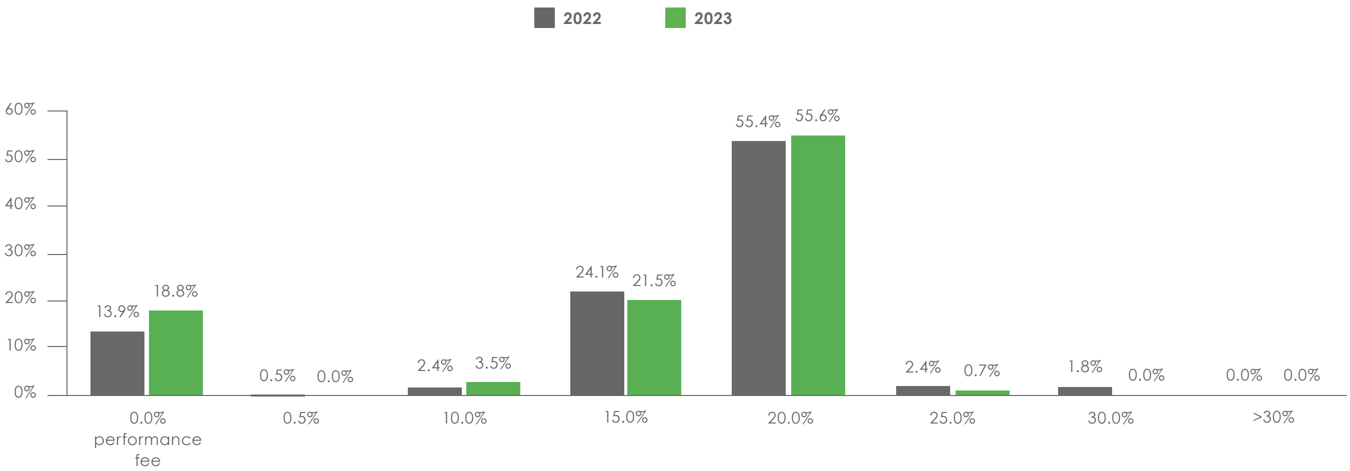
- **2% per annum:**
  The proportion of funds charging 2% p.a. increased from 5.4% in 2022 to 6.9% in 2023. This shift may indicate that a segment of the industry is moving towards higher management fees, potentially to cover increased operational or research costs.

- **>2.5% per annum:**
  There was no change in funds charging between 2% and 2.5% p.a., with 1.2% in 2022 and none in 2023. The number of funds charging more than 2.5% also remained constant at 0.6% in both years, suggesting that very high fee structures are generally not prevalent. Only one fund was present in this category of fees, representing a niche strategy with multiple fee classes.

> Overall, the data indicates that most funds are clustered around the 1% to 2% fee range, reflecting a balanced approach that appeals to both managers and investors.

Performance fees

Chart 16: Industry incentive or performance fees



The 2023 survey reveals that 77.1% of the industry's assets were managed by fund managers charging performance fees of between 15% and 20%, down from 79.5% in 2022.

- **Shift towards lower or no performance fees:**
  There has been an increase in the number of hedge funds charging 0% performance fees, rising from 12.4% in 2021 to 18.8% in 2023. This suggests that more hedge funds are moving towards structures that appeal to fee-sensitive investors.

- **Gradual adoption of moderate performance fees:**
  Funds charging a 10% performance fee have risen steadily from 1.2% in 2021 to 3.5% in 2023.

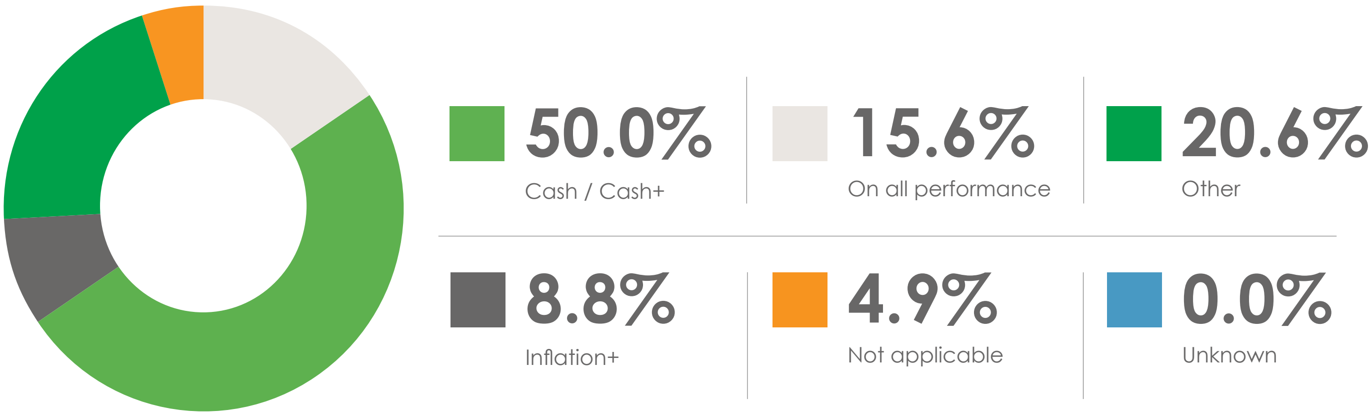
- **Dominance of the 20% performance fee:**
  Although its prominence declined from 61.5% in 2021 to 55.6% in 2023, the 20% performance fee structure remains the most common and the industry standard for most hedge funds.

- **Decline in high-performance fees (25% or more):**
  Funds with high-performance fees have seen a sharp decline. By 2023, only 0.7% of funds charge 25% performance fees, and 30% fees have been eliminated.

> While funds in other categories may charge fees exceeding 20%, the absence of pure hedge funds charging over this amount indicates a significant shift away from high-performance fees, driven by growing investor demand for more cost-efficient fee structures. Since the industry was first regulated under CISCA in 2016, both the industry and its fees have remained a topic of ongoing discussion.

Performance fee hurdle

Chart 17: Different hurdle rates employed by the industry in 2023



Of the 159 funds assessed, the majority of managers made use of a cash-related hurdle rate and employed a high watermark when considering performance fees to investors.

- **On all performance:**
  The proportion of funds using all performance as the hurdle rate was 15.6%. These are managers who charge performance fees from 0%. In some cases, these are separate fee classes offered by hedge fund managers, allowing potential investors to choose their preferred fee structure.

- **Cash/Cash +:**
  The number of managers who use Cash/Cash + as a hurdle remained the dominant measure at over 50% of funds in 2023.

- **Inflation +:**
  The number of managers using inflation-related hurdles grew from 5.4% in 2022 to 8.8% in 2023. This aligns with global inflationary pressures, indicating that funds are increasingly aiming to beat inflation by a set margin, ensuring real returns for investors.

- **Other:**
  The proportion of funds who use "Other" hurdle rates was 20.6% in 2023.

- **Not Applicable:**
  The number of funds where a hurdle rate was not applicable was 4.9% during the year. These are funds that do not employ a performance-based fee model in their fee structure.

PERFORMANCE REVIEW FOR 2023

In 2023, financial markets experienced a year of mixed fortunes as the global economy navigated a complex set of challenges and opportunities. Unlike the turbulence of 2022, inflationary pressures showed signs of easing, but several key factors shaped the market landscape:

- Central banks continued to maintain higher interest rates to manage inflation, though at a more measured pace.
- Persistent concerns over a potential global recession, particularly in advanced economies.
- Geopolitical tensions, especially the ongoing conflict in Ukraine, continued to weigh on energy prices and supply chains.
- Renewed uncertainty over China's economic trajectory, despite the easing of COVID-19 restrictions.
- Technological advancements and shifts in energy policies, particularly around green energy, spurred sector-specific
- movements.

Global equity markets reflected these dynamics, with the MSCI World Index closing the year up 23.8% in dollar terms. US markets performed strongly, led by technology stocks, as the NASDAQ surged by 43.4% The S&P 500 gained 24.2%, while the Dow Jones returned 13.7%. Inflation in the US cooled significantly, allowing the Federal Reserve to slow its rate hiking cycle, with a final increase of 25 basis points in December, bringing interest rates to a range of 5.25%- 5.5%.

In Europe, the DAX 40 climbed 20.31%, while the CAC 40 rose 20.14%, supported by stronger corporate earnings and easing inflation. The European Central Bank also adopted a more moderate rate hike cycle in 2023, with a final increase of 25 basis points in December. The UK's FTSE 100 saw a more modest gain of 7.9% as the economy continued to grapple with Brexit impacts and rising living costs.

In Asia, China's Hang Seng Index had a difficult year, closing 11.9% down as the country faced a slow economic recovery despite easing its zero-COVID policies. The Shanghai Composite fell 9.1%. Japan's Nikkei 225 was a standout, posting a 30.9% gain as the country benefitted from a weak yen, improving corporate governance, and strong export demand.

Commodity markets exhibited mixed performance. Brent crude oil prices closed the year down 10.3%, while gold surged 13.10%, highlighting its role as a safe-haven asset during times of economic uncertainty. In contrast, platinum experienced a significant decline of 38.6%.

Locally, the South African market showed resilience. The JSE All Share Index gained 9.2%, lifted by strong performances in the resources sector, while the Capped SWIX increased by 7.9%. The financial sector rallied on improved investor sentiment in the final quarter. Industrials, particularly those with global exposure, delivered mixed results, while the retail sector lagged due to lower consumer spending and high interest rates. South African bonds performed well, with the All-Bond Index returning 6.9% as investors sought higher yields in the local market. However, the rand struggled against a stronger dollar, ending the year at R18.25. Despite persistent load shedding and economic challenges, the inflation rate moderated slightly, ending the year at 5.4%, down from the highs of 2022. Concerns around energy security and policy uncertainties continued to cloud the outlook for 2024.

South Africa's large fund managers delivered positive returns in 2023. Coronation Fund Managers, Ninety One, Allan Gray and Old Mutual Investment Group all posted respectable performances. Coronation's Balanced Plus Fund returned 14.9%, while Ninety One's Global Franchise Fund, with its international exposure, achieved a 26.8% gain. Allan Gray's Equity Fund returned 13.9%, benefiting from its value-oriented strategy, while Old Mutual's Balanced Fund posted a 10.9% return. The ASISA Multi-Asset High Equity category averaged 12.3%, while the Multi-Asset Low Equity category returned 11.1%. The ASISA General Equity category also saw moderate gains of 7.3%, as fund managers continued to favour rand-hedge stocks (domestic stocks with exposure to international markets), benefiting from a weaker rand in the first half of the year.

Local hedge fund managers navigated the volatile market well, with the HedgeNews Africa Index gaining 6.3% for the year. This was largely driven by long/short equity strategies, which benefited from stock-picking opportunities in the volatile local equity market. Managers also capitalised on dislocations in fixed-income and relative value trades within the fixed-income space.

> Overall, 2023 was a year of modest recovery for both local and global markets, but risks remained elevated heading into 2024, with South Africa's general elections in the second quarter of the year and the ongoing global uncertainty likely to influence market sentiment.

Average performance by asset manager size

Chart 18: Average performance in relation to asset sizes

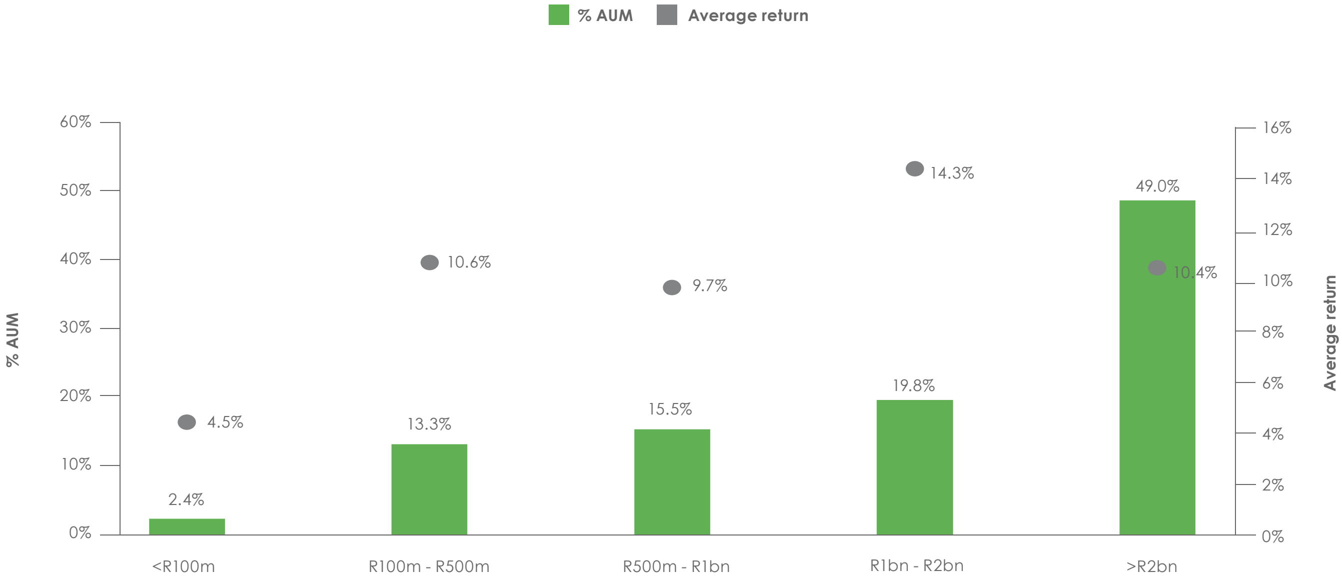


Chart 18 displays the percentage of assets under management (% AUM) and average return performance of South African hedge funds by manager size, categorised by AUM ranges.

- **Strong performance from the largest managers:**
  Managers with over R2 billion in AUM account for the largest portion of assets, controlling over 50% of the total AUM. This category also delivers an impressive average return of about 10.4%.

- **Mid-sized managers deliver stand-out returns:**
  Managers in the R100 million to R500 million and R1 billion to R2 billion ranges stand out for achieving the highest returns, with both exceeding 10.6% on average. These funds appear to offer the best balance between performance and growth potential.

- **Smaller managers (<R100 million) lag in AUM and performance:**
  Funds managing less than R100 million represent the smallest portion of AUM - under 10%, and have one of the lowest average returns, around 4.5%. This suggests that smaller managers struggle to attract assets and generate returns compared to their larger counterparts.

- **Moderate AUM brackets:**
  Managers in the R500 million to R1 billion AUM range control a moderate portion of the market, yet their average returns are lower, sitting below 10%. This group falls behind in performance relative to both the mid-sized and larger funds.

Strategy performance: January to December 2023

The box and whisker plot illustrates the performance of various hedge fund strategies in South Africa for 2023. Each box represents the range of returns for a specific strategy, with the median indicated by a line inside the box and the average performance denoted by a black dot. Outliers are marked as individual points.

Chart 19: Average performance in relation to strategies

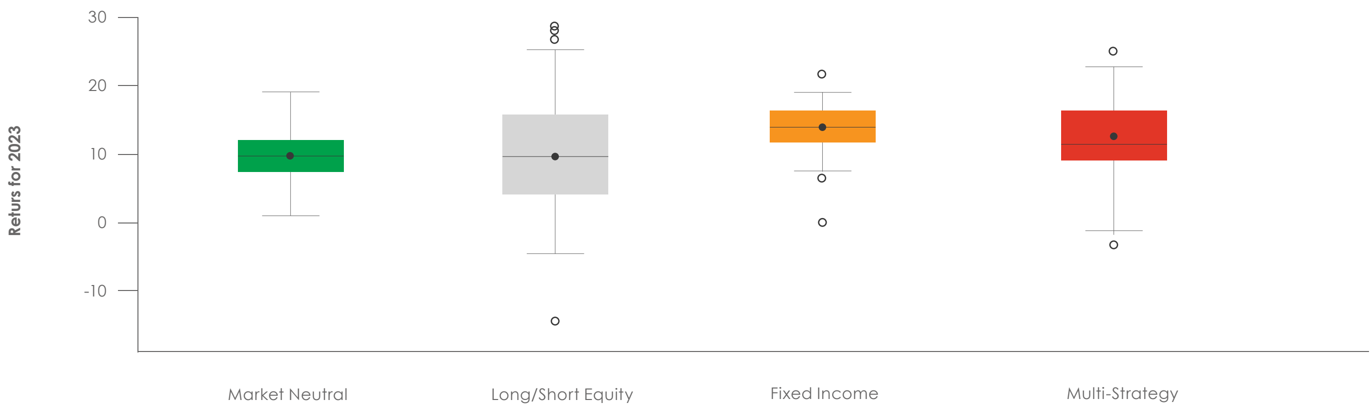


Chart 19 illustrates that the average return across all strategies in 2023 was positive, with some outliers observed in the Long/Short Equity, Fixed Income, and Multi-Strategy funds.

Market Neutral

This strategy exhibits a stable performance, with returns clustering between 5% and 15%. The distribution is tight, indicating consistent returns with minimal outliers. The average performance was around **10.5%**, which is steady but slightly lower compared to Fixed-Income and Multi-Strategies.

Long/Short Equity

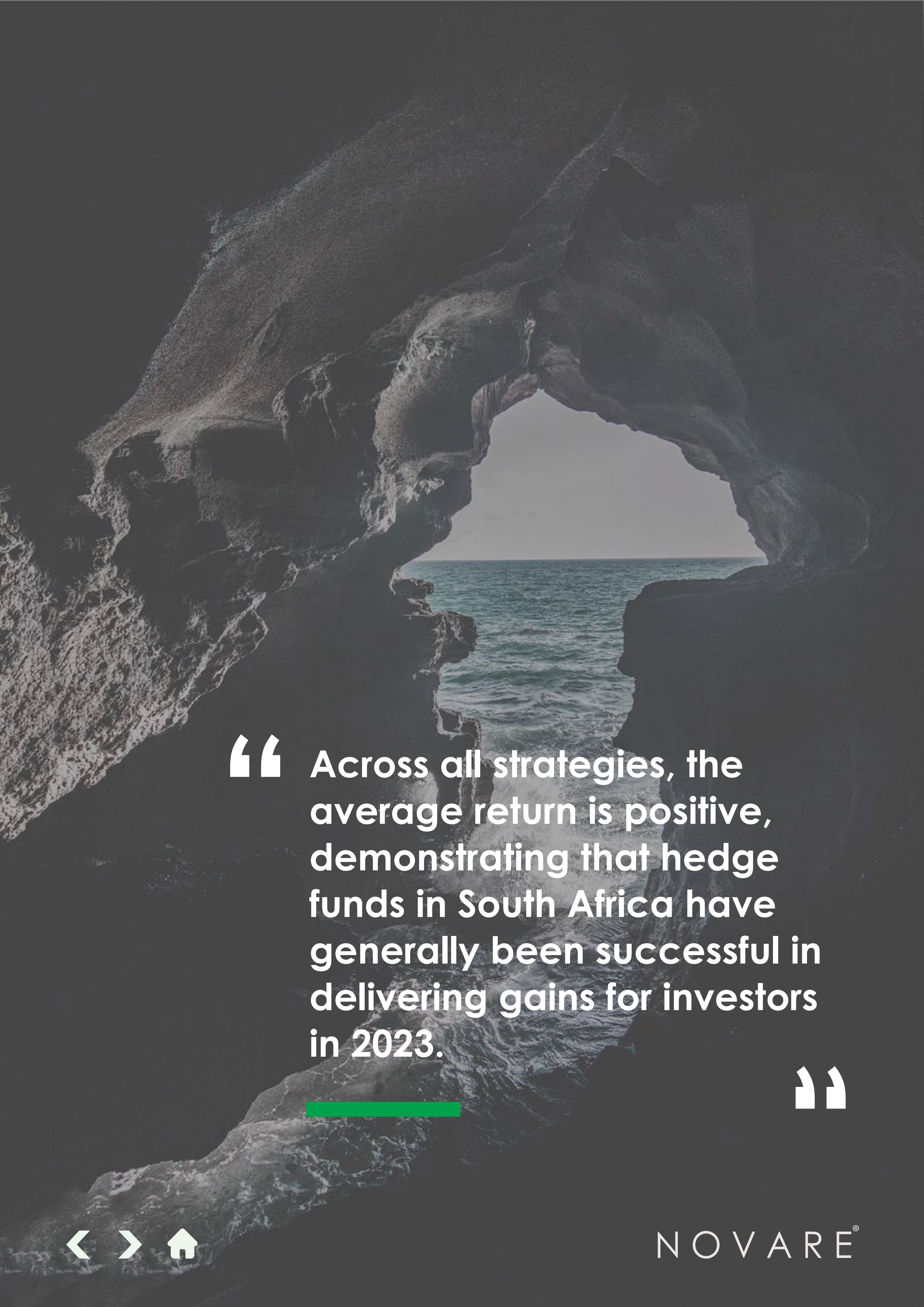
The strategy showed a wider range of performance, with returns extending from just below 0% to almost 30%. The median performance is about **8.9%**, though there were several outliers on the higher end, indicating that some managers in this strategy can outperform their peers. This approach offers the highest potential for returns, but also comes with higher variability, as it is also the biggest strategy by assets in the SA hedge fund industry.

Fixed Income

Fixed-Income strategy returns showed relatively low variability, with returns generally ranging from 5% to 15% and an average return close to **12%**. Despite some outliers on both the low and high ends, the majority of funds in this methodology performed within a narrow range, reflecting a more conservative, predictable return profile.

Multi-Strategy

Multi-Strategy funds have a diverse return profile, with the median at about **10.8%**. The overall range, however, stretches from 0% to over 20%. There are several high-end outliers, indicating that certain multi-strategy funds achieved exceptional results in 2023. This strategy offers a balance between risk and reward by being flexible in allocation from equities to fixed-income instruments. Skilled managers were able to identify opportunities in both asset classes and capitalised on them.



> Across all strategies, the average return is positive, demonstrating that hedge funds in South Africa have generally been successful in delivering gains for investors in 2023.

TRANSFORMATION

Industry B-BBEE compliance

Only 27 out of 66 managers participated in this section of the survey, meaning 39 (59.1%) managers did not provide data on their B-BBEE status.

Chart 20: B-BBEE rating of hedge fund managers

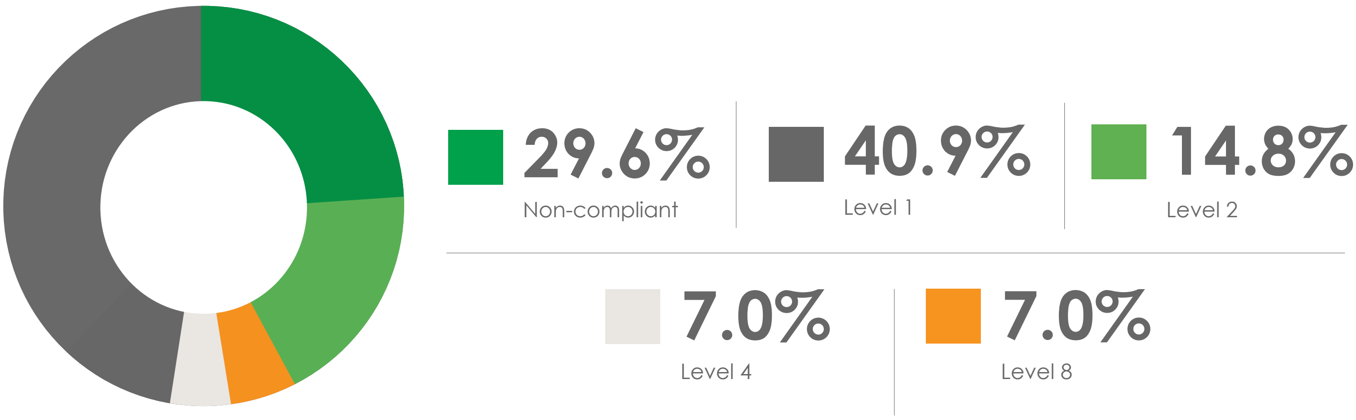


Chart 20 provides a high-level overview of the B-BBEE status of local hedge fund managers.

Here are the survey results from 40.9% of managers who answered this section:

- Eight, or 29.6% of the hedge fund managers who responded, were non-compliant with current B-BBEE requirements.
- Of the 27 respondents, 40.7%, or 11 managers, had a level 1 B-BBEE rating in 2023.
- Four of the survey's respondents had a level 2 B-BBEE rating.
- At least 7% of the industry's hedge fund managers each reported a level 4 and level 8 B-BBEE rating.

Senior management

Chart 21: Proportion of senior management by ethnicity

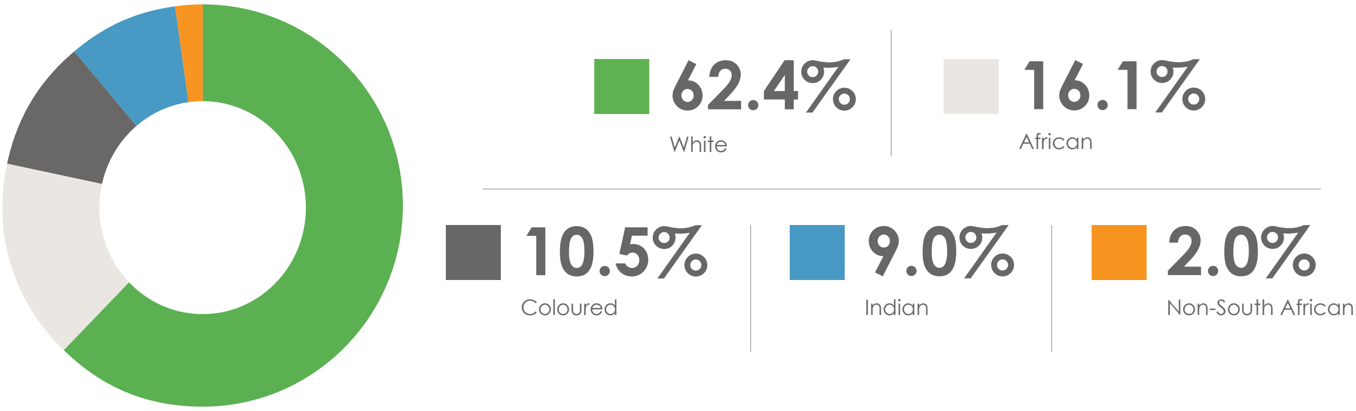


Chart 21 provides an ethnic breakdown of senior managers in the South African hedge fund industry for 2023, based on responses from 27 out of 66 managers surveyed.

- **White representation:**
  62.4% of senior managers in the local hedge fund industry are White, making this the dominant ethnic group by a large margin. This high percentage highlights the continued lack of diversity at the top level.

- **African representation:**
  16.1% of senior managers are African, reflecting some progress in increasing representation. However, given South Africa's broader demographics, this figure suggests that there is still significant room for improvement in enhancing African participation in senior leadership roles.

- **Indian and Coloured representation:**
  9% of senior managers are Indian, while 10.5% are Coloured. While these figures show some diversity within the management structure, they are still significantly lower compared to the White demographic.

- **Non-South African representation:**
  2% of senior managers are non-South African, reflecting a minimal presence of foreign nationals in senior roles.

Chart 22: Proportion of senior management by gender

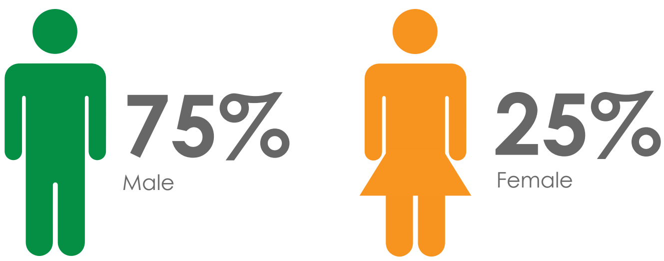


Chart 22 shows the gender split of senior management in the industry.

- **Male dominance:**
  The hedge fund industry remains heavily male-dominated, with 75% of senior management positions held by men.

- **Female representation:**
  Women occupy 25% of senior management roles in the industry, based on data from 27 of the 66 managers who responded. indicating some progress in gender diversity. While this indicates some progress in gender diversity, the percentage remains relatively low, suggesting that more efforts are needed to improve female leadership representation.

> Transformation in the senior management ranks of South Africa's hedge fund industry in 2023 reveals a significant imbalance in both gender and race. However, the industry has come a long way and made strides in addressing transformation.

CONCLUSION

The 2023 Novare Hedge Fund Survey provides a comprehensive overview of the South African hedge fund industry, which continues to evolve and adapt to changing market dynamics and investor needs. This year's findings highlight the resilience and adaptability of local hedge funds, with positive average returns across various strategies despite the challenging market conditions. However, this success was not without risks, emphasising the importance of risk management, strategy selection and active management.

A significant development this year was the emergence of Linked Investment Service Providers (LISPs) and the growth of Discretionary Fund Managers (DFMs), enabling greater access to Retail Investor Funds (RIFs). High-net-worth individuals, in particular, are increasingly allocating to RIFs as these platforms simplify access to a broader range of funds, including hedge fund options.

To meet this growing demand, managers have had to expand their offerings with solutions tailored to meet investor needs. The introduction of daily-priced versions of RIFs aims to attract the interest of DFMs and Independent Financial Advisers (IFAs) on LISP platforms, which allow investors to access a variety of investment options and manage their portfolios, reflecting the industry's commitment to transparency and flexibility.

Furthermore, the launch of multi-managed and building-block funds further addresses longstanding concerns about fees in the industry, allowing investors to seamlessly incorporate hedge funds into their portfolios.

In conclusion, the South African hedge fund landscape is evolving positively, with regulatory updates and a diversified product offering that can cater to a wider range of investors. We anticipate continued growth in the industry, supported by the adaptability of hedge fund managers, regulation and the infrastructure improvements introduced through LISPs and DFMs. The collective efforts to improve accessibility, affordability, and transparency are steps forward towards a more robust and inclusive industry.

We extend our sincere gratitude to all participants in the 2023 Novare Annual Hedge Fund Survey. The results of this edition, along with those of previous surveys, reflect our collective commitment to information sharing, transparency and educating stakeholders who may otherwise find it challenging to understand industry trends.

We are honoured to have the opportunity to collate essential data on behalf of our hedge fund managers and present it in a way that helps bridge the knowledge gap. We emphasise that none of this would have been possible without the collaboration and support from all the various industry participants, especially the hedge fund managers who continue to participate through the years.

TECHNICAL TERMS

A **collective investment scheme (CIS)** is an investment product that allows many different investors to pool their money into a portfolio. Unit trusts were the first CIS that was offered to investors in South Africa and remains the most popular form of CIS in the country.

A **multi-manager fund** combines multiple professionally managed investment funds into a single offering. Multi-manager funds provide a cost-effective way to achieve breadth in an investment portfolio, without having to constantly re-evaluate the holdings.

Regulation 28 of the Pension Funds Act imposes limits on the investments of retirement funds. These were intended to protect funds against making imprudent investments. For example, a retirement fund can only invest up to 75% in equities, 25% in property, and no more than 10% of the fund's assets in hedge funds.

A **Financial Advisory & Intermediary Services (FAIS) CAT II licence holder** is an authorised financial services provider (FSP) that renders intermediary services of a discretionary nature about the choice of a particular financial product.

A **FAIS CAT IIA licence holder** is an authorised hedge fund and FSP that renders intermediary services of a discretionary nature about a particular hedge fund of hedge funds (FoHF), in connection with a particular financial product.

A **lock-up period** refers to a window of time or a period within which hedge funds or other closely held investment vehicles are not allowed to redeem or sell shares.

Asset administration is an important function of all investment firms. This function is generally responsible for administrative tasks such as performance reports, compliance duties, risk monitoring and analysis reports.

The **Financial Advisory and Intermediary Services (FAIS)** is a division within the FSCA responsible for administering the FAIS Act, 37 of 2002. FAIS registers Financial Services Providers (FSPs) after confirming they meet the fit and proper requirements, supervises these providers on an ongoing basis to ensure compliance with the Act, and takes necessary regulatory action against non-compliant entities or individuals, including unregistered ones.

The **prime broker** provides a consolidation service, including services such as custody of securities, loaning of securities for short sales, margin financing, and back-office technology and reporting.

Fund administrators are service providers whose main responsibility is to provide certain accounting and back-office services to a hedge fund.

An ***en commandite partnership*** **(ECP)** is created when parties agree to carry on the partnership in the name of one or some of the partners, while the partners whose names are not disclosed are known as en commandite partners.

The **hurdle rate refers** to the rate of return that a fund manager must beat to collect performance fees.

The **hard hurdle** is only calculated on returns above the hurdle rate, while the opposite of that is a soft hurdle, which is calculated on the whole return.

Using **"cash as a hurdle"** means that the performance of the hedge fund is compared to that of the performance of cash investments, thereby comparing and determining whether the hedge fund performance is above the hurdle rate. The 20% performance, or incentive, fee may only be charged when the performance of the hedge fund is above the hurdle rate.

Gross exposure is the absolute level of a fund's investments. It indicates the total exposure to financial markets, thereby providing insight into the amount of risk the investment is subject to, due to possible market fluctuations. The higher the gross exposure, the greater the potential loss or gain.

Net exposure is the percentage difference between a hedge fund's long and short exposure.

NAV refers to **net asset value**. This is the value per share of a fund on a specific date or time. The value per share amount is based on the total value of all the securities in its portfolio, any liabilities the fund has, and the number of fund shares outstanding.

Retail investor hedge funds (RIHFs)* are collective investment hedge funds that are available for retail investors as per the classification set out in BN 52.

Qualified investor hedge funds (QIHFs)* are collective investment hedge funds that are available for qualified investors only as per the definitions set out in BN 52.

South African portfolios* 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 45% of their assets outside of South Africa.

Worldwide portfolios* 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* 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 US) or geographical region (for example Africa).

Regional portfolios* are collective investment hedge fund portfolios that invest at least 80% of the total exposure in assets in a specific country (for example the US) or a geographical region (for example Africa, outside South Africa).

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

Long-bias equity hedge funds* are portfolios that will have had or aim to have a net equity exposure in excess of 25%, over time.

Market neutral hedge funds* are portfolios that have had, or expect to have, very little directional exposure to the equity market over time. On average, the net equity exposure should be less than 25% but greater than -25%. They aim to minimise market risk by balancing long and short positions.

Other equity hedge funds* is a category for portfolios that follow a very specific strategy within the equity market, such as listed property or sector-specific strategies.

*As described by ASISA (More details on these classifications were published on .9.September 2019 and are available on ASISA's website: www.asisa.org.za).

ABOUT NOVARE

Who we are

Novare is a leading investment solutions provider with a strong presence across the African continent, offering a diverse range of services including Real Estate Funds, Impact Investing Funds, Multi-Managed Funds, and Implemented Investment Consulting across various asset classes. With a vision to be Africa's premier provider of investment solutions.

Our capabilities in hedge fund management stand out as a key area of expertise, underscored by a track record of innovation, regulatory compliance, and industry recognition. Novare was the first investment firm to launch a regulated Fund of Hedge Funds (FoHF) under CISCA in 2016, setting a benchmark in South Africa's hedge fund landscape. We manage one of the country's longest-running Funds of Hedge Funds, with over 20 years of consistent performance that demonstrates our expertise and adaptability through changing market cycles.

Recognised by industry peers as an award-winning investment house, Novare's robust investment philosophy prioritises risk-focused, diversified sources of alpha, which supports our clients in achieving risk-adjusted returns. As a transformed entity, majority black-owned and independently operated, Novare champions diversity and innovation in financial services.

Furthermore, Novare has been the custodian of industry trends, publishing the Novare Annual Hedge Fund Survey for 20 years, providing essential insights and guidance to the market. Our comprehensive offering includes an in-house MANCO and a wide array of investment products, enabling us to deliver holistic solutions tailored to our clients' unique needs.

Through our leadership, commitment, and deep industry expertise, Novare continues to be a leading provider of investment solutions in Africa, cementing our role as a trusted partner for investors seeking performance, resilience, and meaningful impact.

Our Corporate Social Responsibility

At Novare, we believe that empowering future leaders is key to fostering a brighter, more inclusive future. Through our partnership with Imagine Scholar, we're committed to supporting young people from underprivileged communities in developing the skills, integrity, and resilience they need to lead and impact their world meaningfully. Imagine Scholar's innovative approach nurtures extraordinary talent in youth, creating spaces where potential is discovered and cultivated. Together, we're investing in tomorrow's leaders who are equipped to make a lasting difference.

Our involvement goes beyond financial support. We provide hands-on opportunities for students to gain real-world experience by job-shadowing our staff, offering them a glimpse into professional environments. Additionally, our team visits the Imagine Scholar program to conduct interactive workshops, offering one-on-one career guidance, skill-building, and mentorship. We're dedicated to making a difference by helping these future leaders unlock their potential and navigate their educational and career paths with confidence and purpose.

www.imaginescholar.org

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