

The Rise of Hedge Funds in South Africa

A guide to understanding this asset class

**Peregrine
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In the landscape of South Africa's financial market, Peregrine Capital is the oldest hedge fund manager. We are often asked to explain what a hedge fund is. In layman's terms, hedge funds function by pooling investors' money and appointing qualified investment professionals to manage investments across various asset classes, including shares, bonds, and real estate instruments, in accordance with the fund's investment objective and investment mandate. What distinguishes hedge funds is their capacity to employ diverse strategies that yield returns regardless of market trends. Unlike traditional funds, hedge funds are not solely reliant on bull markets to generate profits.



Kavita Patel, Investment Specialist at Peregrine Capital

The roots of modern hedge fund history trace back to Alfred Winslow Jones, who established one of the first hedge funds in 1949, initially designed to safeguard investment portfolios against unforeseen shocks. Over time, there has been a growing interest in incorporating hedge funds into investment portfolios globally. Their ability to mitigate risks, reduce market correlation, and potentially outperform equity markets underscores their role in enhancing investment strategies.

Contrary to popular belief, hedge fund managers aren't exclusively risk-takers catering solely to ultra-high net worth individuals seeking high-risk, high-return strategies. In South Africa, hedge funds align more closely with Jones' original intent – offering protection against downside risks and fortifying overall portfolio defences.

It's crucial to note the distinctions between South African hedge funds and their offshore counterparts. While offshore hedge funds often operate with less regulation, South African hedge funds operate within a highly regulated framework overseen by the Financial Sector Conduct Authority (FSCA). This regulatory environment ensures that retail hedge funds adhere to strict investment and risk guidelines, safeguarding investor capital.

At Peregrine Capital, our focus lies in mitigating risk and providing investors with a smoother, more consistent return profile while delivering risk-adjusted returns. Over the past 26 years, this strategy has led to steady compounded returns and enduring partnerships with investors.

In South Africa there are various Hedge Fund strategies available to the retail market. Currently there are 213 Hedge Funds in South Africa, under the management of 11 Hedge Fund management companies. There are 39 retail Hedge Funds available for you to invest in on one or more of the key LISP platforms. South African hedge funds attracted record net inflows of R6.24 billion in 2023 and grew the assets under management to R137.9 billion (excluding fund of funds), according to [ASISA](#).

Comparatively, the global hedge fund industry boasts over 3,460 funds with \$2.6 trillion in assets. The global hedge fund industry ended the first quarter of 2024 with a record \$4.3 trillion in assets as investors seek to generate returns in an environment with unprecedented geopolitical risks and macroeconomic uncertainties.

The Harvard Endowment outperformed many peers in 2023, with a 31% to Hedge Funds. A significant allocation to hedge funds is a character trait of most of the best performing global endowments, due mainly to their understanding of the enhanced risk adjusted returns on offer from the asset class. Source: [Global Market Insights](#).

Despite the strides made by South African and global hedge funds, there is still ample room for growth and understanding among investors and advisors regarding their potential within broader investment frameworks.

Advisors wanting to learn more can visit our website for more information or read this [Hedge Fund 101](#) here.

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