Hedge Funds - Clarity, Capacity, and Client Alignment

Following a series of nationwide roadshows engaging with financial advisors, we are excited to see the increased interest and usage of hedge funds, which have been unloved and underutilised for many years in South Africa. Following these engagements, while the role and benefits of hedge funds in diversified portfolio is clear, Laurium Capital has also gained valuable insights into the common concerns and questions that continue to surround hedge fund investing in South Africa. Topics such as how and where to include hedge funds in a portfolio, legislation around hedge funds, fee structures, transparency, risk management, and fund capacity remain top-of-mind for many investors and advisors alike.

As one of South Africa's leading independent hedge fund investment managers, with R5 billion in hedge fund assets under management, Laurium Capital welcomed the opportunity to provide clarity on these issues—and to reaffirm our commitment to transparency, performance, and alignment with our clients.

Understanding Hedge Funds: A Valuable Tool in Diversified Portfolios

One of the most frequent questions we encountered during the roadshow was how hedge funds should be used in a broader investment portfolio. Hedge funds, offer valuable diversification benefits. Their ability to generate returns that are uncorrelated with traditional asset classes can provide downside protection and smoother return profiles over time. True diversification in hedge funds comes from understanding the distinct sources of return—from market-driven exposure to idiosyncratic opportunities. At Laurium, we categorise these return drivers across several dimensions:

Return Source	Risk	Nature
Net investment in long book	General Market Risk	Benchmark agnostic Materially different vs. Index
Relative outperformance of pair trades Long vs. Short book	Idiosyncratic risk	Idiosyncratic return
Event Driven	Idiosyncratic risk	Idiosyncratic return
Interest on cash	Counterparty Credit Risk	Influenced by rate cycle

By actively managing these different return streams, we construct portfolios that are **less dependent on market direction** and more resilient across cycles.

Hedge funds can serve a range of **risk and return objectives**, depending on their **net and gross exposure.** This flexibility allows them to be effectively used across different investment goals:

- **Growth/Accumulation Portfolios** – where the focus is on **maximising returns**, hedge funds with higher net exposure can provide meaningful alpha, for example the **Laurium Enhanced Growth Prescient RI Hedge Feeder Fund.**
- **Portfolios** with annuity drawdowns – such as **living annuities**, where the emphasis is on **capital preservation and risk management**, low-net exposure strategies offer smoother, more stable outcomes, for example the **Laurium Market Neutral Prescient RI Hedge Fund.**

Importantly, both **high-net equity** and **low-net equity** strategies bring diversification benefits by tapping into **multiple return sources** - whether through directional bets, relative value trades, or event-driven positions. Understanding and managing these sources of return is key to building **resilient, protected portfolios.**

At Laurium, our focus is on delivering **risk-adjusted returns**, not just top performance. Our hedge funds are designed to enhance portfolio resilience, particularly in volatile or uncertain market conditions. We believe hedge funds are not only appropriate for high-net-worth individuals but also increasingly relevant for institutional portfolios, retirement funds, and financial advisor-managed client accounts.

Fee Structures: Transparency and Fairness

Another common area of discussion relates to fees. While hedge fund fees in South Africa are typically higher than traditional long-only funds, they remain significantly lower and more competitive than those charged by international hedge fund managers. Hedge funds are also more complex, reflecting the active management, risk controls, and specialist skill sets required to run these strategies effectively. Importantly, investors should focus not just on fees in isolation, but on the net returns and diversification benefits, after fees, which can meaningfully enhance overall portfolio outcomes.

At Laurium, we maintain fee structures that are **aligned with performance and value creation,** ensuring that we only succeed when our clients do. Our funds are structured with both management and performance fees, and we are transparent about how these fees work and when they are applied.

Capacity and Scalability and Alignment of Interests

Capacity is a critical factor in the hedge fund space, especially when it comes to maintaining performance and flexibility. We were asked during the roadshow whether Laurium has the capacity to scale its hedge fund offering without compromising returns.
The answer is a confident yes—but with important qualifications.

The answer is a confident **yes** - but with important qualifications.

Given the current liquidity and depth of the South African market, Laurium believes we could manage at **least R15 billion** in hedge fund assets without impacting our investment style or execution. However, our guiding principle remains clear: **we will not pursue asset growth at the expense of performance.**

Should we approach a point where additional assets begin to constrain our ability to generate risk-adjusted returns, we would **cap our funds.** We are more concerned about maintaining the integrity of our investment process and delivering consistent returns than chasing asset growth.

As an **independent, staff-owned business,** Laurium Capital is built on a foundation of alignment. Our team is not only deeply involved in managing the business but also heavily invested in our own funds. This means our financial success is directly tied to that of our clients - creating a powerful alignment of interests and a culture of accountability.

Our independence also allows us to remain nimble, client-focused, and free from the conflicts of interest that can sometimes arise in larger institutions.

Risk Management: Central to Everything We Do

In hedge fund investing, **risk management is not an afterthought—it is central to the strategy.** Laurium employs robust and disciplined risk management processes, which are integrated into every step of our investment decision-making. This includes stress-testing portfolios, monitoring liquidity, managing exposures, and maintaining a diversified base of positions to ensure no single factor can dominate returns.

Closing Thoughts: Educating and Empowering Advisors

We thank all the financial advisors who participated in our roadshow sessions. Your questions and engagement reaffirm the growing interest in hedge funds as a valuable tool in modern investment strategies. As the South African hedge fund industry continues to evolve, Laurium remains committed to **educating advisors, simplifying complexity, and delivering performance through discipline and alignment.**

Whether markets are calm or volatile, our goal remains the same: to deliver consistent, risk-adjusted returns that help clients meet their long-term financial goals.

For more information on our hedge funds, please contact us.

Kim.zietsman@lauriumcapital.com
Mike.titley@lauriumcapital.com
ir@lauriumcapital.com