

## Time to look differently

A 'one-product-fits-all approach' blindfolds investors to a wide range of other opportunities

**T**HERE'S A GENERAL PERCEPTION among investors that most offshore funds of hedge funds are the "same".

The reason is that the large majority of the 10 to 15 offshore fund of hedge fund managers that offer their products in South Africa have typically followed a "one-product-fits-all approach".

Long/short equity as a hedge fund strategy will typically be greater than 50% of the product – quite a significant exposure, bearing in mind that there are more than 15 offshore hedge fund strategies to potentially include in the product. Global macro, managed futures and emerging market hedge fund strategies will typically be excluded from this product.



Focus on  
tailmade  
offshore  
solutions.  
**Duncan Theron**  
(left) and  
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Any investor analysing their products will notice how similar the performance and risk results are. Investors would therefore typically argue why then pick more than one or perhaps two of those offshore fund of hedge fund managers?

Surely an investor will only be duplicating rather than diversifying risk by selecting more than one or two! A "one-product-fits-all approach" is flawed and blindfolds an investor to a wide range of different opportunities in the offshore hedge fund market.

What are the features of this one product fits all approach? The product typically targets offshore cash (typically US dollar cash) plus 2% or 3%, with standard deviation or risk of 3% to 4%. The product will typically furthermore offer 90-day liquidity, monthly pricing, an initial lock-up of approximately six months with the actual underlying managers investing in a limited number of hedge fund strategies.

Though a 6% to 7% return solution is a conservative proposition and is in line with most retirement fund investors' objectives, investors need to understand that there are various methods of constructing such a solution and that their specific requirements could be incorporated in the solution.

For example, an investor requiring a 6% to 7% return could also require more liquidity: namely, 65 days rather than 90 days, less focused bets in specific strategies, single hedge fund managers and currencies. The investor may also require some exposure to emerging markets, such as China and India. The answer to all of this: solutions should be tailmade to clients' requirements rather than offering all clients the same standard product.

An investor might, for example, consider a higher return requirement of 8% to 10%, with a standard deviation or risk of 5% to 6%.

Obviously, the 6% to 7% product would not be adequate. But then how does the investor go about selecting one or more moderate offshore fund of hedge funds if the majority of the offshore fund of hedge funds offering products in SA only have a "conservative and one product fits all solution" available?

The Octane investment option is unique. It's based on the fund of hedge fund model, but instead of researching the more than 10 000 single offshore hedge funds and combining them into a well-diversified fund of hedge fund solution, we research the universe of 2 300 offshore funds of hedge funds.

Depending on client specific requirements, we then combine this fund of hedge funds, as advisers to Octane, into a well-diversified solution. If client requirements motivate the inclusion of a single offshore hedge fund manager we'd incorporate those managers within the solution.

Therefore, Octane only focuses on tailmade offshore fund of hedge fund solutions for clients rather than selling "off the shelf" products. Each investor has his own particular requirements: notably, performance objectives, risk budgets, liquidity requirements, transparency, currency exposures, reporting requirements and more.

In addition, it's important to understand that Octane only includes and combines smaller boutique offshore funds of hedge funds. That's based on our proprietary research, which shows smaller funds generally outperform their larger counterparts.

Our unique business model also allows Octane to add more underlying "smaller" fund of hedge funds as the business grows without compromising our flexibility and solution performance numbers.

Furthermore, it provides us with the ability to invest across a wider range of hedge fund strategies, a broader opportunity set of underlying hedge fund managers and more diversified geographical exposure.

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