

# Despite uncertain outlook for markets, investors remain optimistic on prospects for hedge funds

The outlook for markets is uncertain – with continuing geopolitical tensions, frictions over tariffs and trade issues, and various concerns from sticky inflation to weak growth to potential ‘bubble’ conditions in certain sectors such as artificial intelligence (AI).

But according to our latest survey, investors remain remarkably positive about the ability of hedge funds to manage the risks as well as capture the opportunities in the short to medium term – and to thrive over the longer term.

Investors responding to this year’s survey expressed general satisfaction with the performance of hedge funds this year – at least over the three quarters of 2025.

And they viewed the opportunity set in a positive light across a range of core strategy areas from long/short equity to fixed income, as well as areas they would like to see the industry grow further – such as commodities.

There was not a great deal of change in the sort of factors investors say they take into account in deciding whether to allocate or to redeem from a manager. And there was continuing enthusiasm for allocating to adjacent alternative investment areas such as private debt/private credit alongside hedge funds.

But there was a great deal of confidence that the industry can and will be able to grow substantially in the coming years.

**Global macro factors in 2025 continue to affect prospects for investor portfolios. What is your macro outlook at present? What can we expect from key global markets and economies?**

Respondents highlighted a mixed picture for the global macro outlook into next year – not least given geopolitical risks, plus tensions and uncertainties over the outlook for tariffs and trade. But many also felt this may not be without potentially positive implications for both developed and emerging markets



Mbali Nzima

broadly – including South Africa.

As George Herman of Citadel Investment Services put it: “We expect the global economy to slow down into mid-2026. This is as tariffs weigh on consumption expenditure in the US and the property slump in China drags down the consumer.”

However, he added: “Inflation fears in the US should prove temporary as China is still exporting deflation to the rest of the world. Equities are crashing higher as tech earnings keep surprising on the upside – whilst central banks are getting ready to cut interest rates.”

Nevertheless, Herman felt it was important to be on guard against potential reversals: “This is a peculiar cocktail of events, which we approach with caution,” he added.

Adam Bulkin of Edify Fund Managers took up similar themes: “We think the US is going through a soft patch of economic growth and labour growth is under pressure, but at the same time we do not see major inflationary pressures. Therefore, we expect the Fed to stimulate if necessary, driven by fundamentals.

“From an equity perspective, valuations are clearly high but have been driven by robust and strong Q2 earnings, especially in the US. Therefore,

while the US may be vulnerable to a correction, we do not see high probabilities for a major recession or stock market crash.”

As for emerging markets, Bulkin said Edify continued to be cautiously positive: “In EM, prices have reacted to a weaker dollar and some stimulus, for example in China. We think the opportunity in EM will continue and we are somewhat overweight versus our strategic asset allocations, but the relative upside has moderated. Overall, we are cautiously pro-risk, but there are some vulnerabilities after a very strong bull run.”

Mbali Nzima of Alexforbes had the following take: “Overall, 2025 should bring lower but positive global growth, disinflation, and selective opportunities across regions. Asia, particularly India and parts of ASEAN, offers strong structural growth. China’s recovery is patchy, policy support has stabilised housing and credit markets, but long-term growth headwinds persist.”

Nzima felt that commodity demand remains a swing factor for both global and South African assets: “Oil remains volatile amid Middle East tensions, while precious metals benefit from safe-haven demand and potential US dollar weakness as policy eases. For South Africa, rand volatility will remain tied to both global risk sentiment and local fiscal credibility.

“The European outlook is mixed – manufacturing and exports remain under pressure, while fiscal consolidation limits stimulus. The ECB is likely to cut earlier and faster than the Fed, supporting bonds but leaving equity markets dependent on global trade flows.”

Anthony Hall of Corion Capital largely concurred: “Global growth in 2025 is steady but slowing relative to 2024, led by the US moving into a late-cycle phase with signs of labour market weakness and softer consumption momentum. The IMF still projects around 3% global growth, but Europe remains subdued, and China continues to underperform, while India and parts of Asia stand out positively.

"Inflation is gradually easing but remains sticky in places, keeping central banks cautious," Hall continued. "Trade tensions, protectionism and elevated policy uncertainty are ongoing headwinds, while high government debt levels limit fiscal flexibility. Finally, we expect US dollar weakness to persist (albeit at a slower pace than seen year to date) as valuations remain expensive relative to historical averages."

Jacques de Kock of MitonOptimal said his investment team remains cautiously optimistic entering the final quarter of 2025, yet firmly anchored in a defensive stance.

"Global equity markets are buoyed by persistent US exceptionalism, strong corporate earnings, and resilient consumer demand, but narrow market breadth and elevated valuations raise concerns," he said. "A weakening US dollar is emerging as a structural trend, supporting commodities and offering tailwinds for emerging markets, particularly China and resource-linked economies. At the same time, volatility from tariffs, geopolitical flashpoints, and shifting central bank policies underscores the need for agility."

"Within South Africa, political uncertainty persists, but resource stocks and global-exposed companies continue to underpin local equity performance," de Kock continued. "The team favours a barbell strategy – maintaining exposure to global growth drivers like AI and technology, while balancing with commodities, gold, and selective EM value. Elevated cash levels and short-dated bonds provide flexibility to capture opportunities as market pullbacks or policy shifts unfold."

Given Phaladi said Regive Capital anticipated the continuation of current macroeconomic trends, including escalating geopolitical risks: "Tensions are expected to extend beyond the ongoing conflicts in the Middle East and the Russia-Ukraine war," he predicted.

There could also be rising global economic friction, Phaladi foresaw: "Trade tensions may intensify, particularly in light of protectionist policies such as tariffs proposed by President Trump."

On the other hand, there would also be sustained investment in AI, and capital would continue to flow into initiatives that support its integration and advancement.

Like other respondents, Phaladi also anticipated a gradual decline in interest rates, suggesting that central banks were likely to ease rates slightly in efforts to stimulate economic activity.

There was also China's expanding global influence: "China is expected to



Adam Bulkin

strengthen its presence in regions where US relations have weakened, particularly in Africa, the Middle East, and parts of Europe," he predicted.

"We expect volatility to persist, which is good for the hedge fund industry," added Kagiso Mathole of Momentum Investments.

Policy uncertainty and persistent geopolitical tensions, among other factors, present obstacles to meaningful and sustained global economic growth, Mathole argued: "The global economy is navigating significant policy shifts, with growth becoming more uneven across regions and inflation dynamics diverging, particularly between the US and other major economies."

"While caution should be exercised, opportunities in previously undervalued regions and sectors, including select emerging markets, do exist," he continued. "Therefore, diversification across asset classes, regions, and sectors remains very important, and a greater focus should be actively on sectors aligned with current macro trends, such as defence, AI technology and financials – in regions with fiscal expansion."

There were also some interesting comments from respondents who opted to keep their replies anonymous for this year's survey.

According to one: "Although 2025 has been tumultuous, and central banks have cut rates, we are nowhere close to returning to the pre-pandemic situation. Globally, interest rates have normalised and there is a cost of capital again."

"The invasion of Ukraine by Russia and increased state regulation saw an increase in supply-chain localisation and diversification – creating a higher cost base. US trade policy has also increased the cost of business and while these initial costs have been absorbed by businesses, the consumer will eventually bear them."

"The US political stance has certainly put a pause to US exceptionalism. In Europe, after years of muted fiscal spend governments are opening their pockets and this should remain positive for the region's equity markets. The yields on offer will also be more attractive. Emerging markets should continue to benefit from the weakening dollar."

"Locally, nothing has materially changed, but the weakening of the US dollar has unlocked value in local bonds and for many rand hedge shares. Inflation remains muted and interest-rate cuts have given the local consumer some breathing room and encouraged spending. The return to a four- or five-day work week should mean we have seen the bottom of office vacancies in the property sector. South Africa remains a low-growth nation, but this will gradually improve as supply-side reforms take hold."

According to another respondent: "Global macro in 2025 is likely to remain defined by slower growth, sticky inflation in pockets, and policy divergence. Key themes to watch include continued normalisation of monetary policy in some regions, real-rate differentials that support capital flows into higher-yielding markets, and persistent geopolitical risk."

"Equity markets may go higher on liquidity and earnings resilience, but returns will be more uneven across regions and sectors. Fixed income will be sensitive to the path of inflation and central bank messaging, real yields and curve moves will drive performance and opportunity sets for credit managers."

Global macro conditions in 2025 remain defined by a delicate balancing act between disinflation and growth resilience, added another respondent. "Major central banks are treading carefully. They are hesitant to cut rates too quickly amid lingering inflation pressures. The US economy shows moderate strength, supported by consumption and investment in AI and infrastructure, while Europe faces uneven growth despite fiscal support and energy cost normalisation."

"China's recovery remains fragile, constrained by property sector weakness and softer external demand, though parts of Asia continue to benefit from supply-chain diversification and digital transformation."

This macro landscape implies the need for selective risk-taking and diversification, as elevated real rates, structural inflation, and geopolitical fragmentation argue for a balanced approach. "Overall, our outlook is one of cautious optimism: growth remains positive but uneven, policy remains data-dependent,

and markets are likely to reward agility, quality and strategic flexibility rather than broad risk-on positioning. The right combination of hedge funds is an essential part of this environment.”

**Markets have been complex this year, amid ongoing geopolitical pressures, yet key indices and sectors have pushed higher. What are the downside risks for investors?**

Respondents highlighted a number of potential risks going forward – from big-picture geopolitical factors to market-specific issues like over-valuation or over-concentration in certain sectors to potential policy mistakes by central banks.

“This year’s environment has been marked by resilience in equities despite lingering uncertainty,” noted Kagiso Mathole of Momentum. However, investors face several downside risks worth monitoring, he cautioned, including escalation in ongoing conflicts (such as Ukraine-Russia, the Middle East, and US-China rivalry) which could disrupt supply chains, energy markets and global trade.

Another worry might be protectionist policies, especially from the US, Mathole suggested. Although inflation has cooled, it remains sticky – which may result in central banks keeping rates higher for longer.

“Stretched equity market valuations in selective sectors and regions (predominantly in US large caps) pose a significant risk for investors as any growth disappointment or renewed rate volatility could trigger sharper corrections,” warned Anthony Hall of Corion. “This is exacerbated by the increasing weight of these sectors and regions in global indices.

“From a macro perspective, the main risks are a resurgence of inflation, potential policy missteps by central banks, and escalating geopolitical tensions that could disrupt supply chains and trade,” Hall continued.

“Elevated and accelerating debt burdens in both developed and emerging markets also pose risks, especially if funding costs stay high amid a stickier inflation environment. These factors suggest a potential steepening of yield curves globally – putting long-duration assets at risk.”

Adam Bulkin of Edify argued that the downside may be earnings disappointments in the US, particularly in tech, given high multiples.

“Geopolitically, there is also a risk that one or other country may over-step and



George Herman

increase conflict,” Bulkin added. “Countries are certainly more on edge and the alliances and fault lines between regions have been hardening. Inflation globally may also surprise to the upside, but we assign a low probability to this.”

Mbali Nzima of Alexforbes noted that market gains have been narrow, driven by a handful of sectors (notably tech and commodities). “A reversal in these leadership areas could amplify downside,” she said.

“There are several latent risks in the system, any of which could trip over the current risk-on sentiment,” argued George Herman of Citadel. “The most front-of-mind risk right now is that bond yields in the developed world go sharply higher as fiscal pressure puts pressure on issuance. This could be a repeat of 2022.”

According to one respondent, a key worry is indeed that interest rates remain elevated – so the cost of doing business has risen, and growth has slowed – while the multiple on the US equity index has remained above historical norms.

“This has been primarily because of the global services companies that dominate the index and the AI wave taking these companies even higher. Many investors may be lulled into the AI story now, and lofty growth expectations are embedded for many of these companies. But based on valuations, you can expect that their long-term return will be lower than the last decade.

“The elephant in the room remains government debt – and with rising interest rates on the long end, the cost of borrowing for these countries is continually increasing,” this respondent added.

“Politically, there is a general reluctance to make difficult decisions, and everyone is kicking the can down the road. Any spillover in the global sovereign debt market would create additional downside risk.”

Given Phaladi of Regive noted that markets have largely moved in unison led by resources stocks, which has limited opportunities for hedge funds seeking dislocations. “However, it has been a strong year for high-beta strategies and a select group of fundamental stock pickers,” he said. “Looking ahead, investors should be mindful that current market valuations may not be sustainable – especially as geopolitical pressures continue to intensify. Diversification is the first line of defence.”

Turning to the market in SA, respondents highlighted the fact that the local equity market had been primarily driven this year by precious metals prices. “Ongoing global tensions, trade wars and political instability have prompted investors to seek the safety of something tangible like precious metals to store value,” one respondent argued. “Central banks all over the world continue to buy gold aggressively as reserves, rather than holding dollars like in the past.”

“But our hedge fund allocation does not have a significant exposure to the surge in precious metals. Although it may be seen as a missed opportunity, the lower allocation to resources is intentional. Although potential returns may be high, losses may also be significant and sudden. A lower allocation ensures stability and balance across other sectors, with risk carefully managed in the hedge fund allocation rather than concentrated in one area.

“A traditional equity or balanced fund allocation would naturally have a higher exposure to precious metal opportunities, but also to their risks. Our strategy would strongly complement this through our shorter-term protection of capital and longer-term compounding. One does not always win by attacking; one can also win by staying in control and avoiding large losses.”

**Which asset classes offer upside for investors in the current climate? Should hedge funds be part of the mix?**

There was quite a lot of consensus among investors about which asset classes were of most interest in the current climate, with many citing equities – including emerging market and local South African equities in particular – as well as plenty of appetite for both local and global fixed income, plus some mention of commodities. There was widespread support for using hedge funds to access and manage the opportunity set.

“In the current climate, equities and fixed income both offer upside, but in very different ways,” said Mbali Nzima

# Investor survey 2025 data

2024, 2023, and 2022 survey results are in light blue

**1** Do you expect the industry to grow in the next 12 months?



**2** If so, where do you expect investor inflows to come from in the next 12 months?



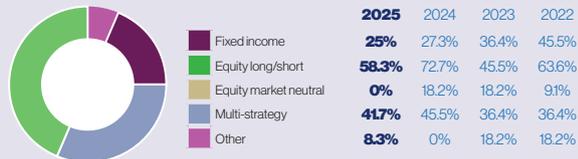
**3** Where do you think the growth will be directed?



**4** How will the industry grow in the next 12 months?



**5** What kinds of strategies do you think will come to market in the next 12 months?



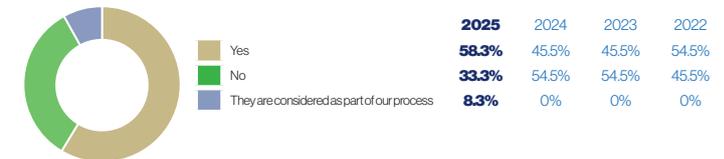
**6** Does the South African industry have sufficient capacity to double in size (from current AUM levels of around R130 billion in single-manager assets)?



**7** Are higher barriers to entry restricting growth in the hedge fund industry?



**8** Are you allocating to early-stage managers?



**9** Are fee levels in the South African hedge fund industry:



**10** In your opinion, are manager and investor interests aligned?



**11** Are you seeing sufficient new talent coming to market?



**12** Do you expect current and prospective investors to:



**13** Have you exited hedge fund investments this year based on return?



**14** Are you confident that hedge funds can meet their stated objectives in the next 12 months?



\*HedgeNews Africa received responses from 12 fund of funds, advisers and consultants to this year's investor survey, which was undertaken in September/October 2025. We thank them for taking the time to participate in this important research: Alexforbes, Citadel Investment Services, Corion Capital, Edify Fund Managers, Graphite Asset Advisory, Momentum Investments, MiltonOptimal, Novare, Regive Capital, ThinkCapital, Sanlam Investments Multi Manager, Symmetry.

of Alexforbes. “Global equities continue to benefit from earnings resilience and structural themes while local equities present selective opportunities, particularly in SA Inc names geared to lower inflation and policy stability.”

She added that fixed income remains attractive given elevated real yields and the potential for curve dislocations as monetary policy evolves.

“However, pure beta exposure comes with heightened volatility and policy risk,” Nzima cautioned. “This is where hedge funds play a critical role. Equity long/short and long-biased strategies can participate in equity upside while actively managing risk through shorts, hedges, and exposure discipline.”

Jacques de Kock of MitonOptimal said that emerging market equities offer skewed upside in the current climate, with continued pressure on the US dollar and interest rates on a cutting trend globally. “Hedge funds do deliver a differentiated source of alpha and should therefore always be a part of any asset class mix independent of economic climate,” he said.

“We are still positive EM and South African assets,” added Adam Bulkin of Edify. “Bonds in SA, while having performed decently, may have more upside if the fiscus improves because of higher tax collection and if demand for gold and other commodities continues.

“SA Inc shares, which have not performed particularly well this year (as opposed to the resource sector) also have some upside, if only from undemanding valuations,” Bulkin added. “Hedge funds are a strategic allocation for us and will always be part of the mix.”

There were, however, also some words of caution including from Given Phaladi of Regive, who said: “Equities have performed strongly, and emerging market equities appear well-positioned to follow suit. However, currency risk remains a key factor that could dampen overall returns in emerging markets.”

From a primarily valuation perspective, Anthony Hall said Corion sees upside in emerging market equities (and SA in particular), as well as local and global bonds. “EM equities on a forward PE basis look cheap relative to history as well as DM peers, with broadening global growth adding to the upside,” he said.

“For local bonds, the benign inflation environment, high real yields and improving fiscal metrics are all tailwinds to support strong real returns from the asset class. On the global front, we prefer short- to medium-dated US bonds amid a rate-cutting cycle and their attractive starting yields – while avoiding longer-duration bonds globally given fiscal concerns. Global bonds also offer protection should equity markets



Given Phaladi

come under pressure given their stretched valuations.”

Hall argued that hedge funds should always be part of the mix – due simply to the added tools at their disposal that traditional long-only managers aren’t able to access: “These additional tools – such as shorting and utilising leverage – mean hedge funds have the opportunity to do well in all market conditions, which obviously includes the current climate.”

“Where markets have surprised on the upside despite persistent risks, the key is identifying asset classes with resilient drivers of return while balancing against stretched valuations,” argued Kagiso Mathole of Momentum. “Therefore, equities, fixed income, and alternatives can’t be ignored. In our environment, we are privileged to have a variety of hedge fund managers that don’t rely solely on market beta, which is critical when valuations are stretched.”

Some respondents highlighted commodities and real assets – including metals and agricultural products – as asset classes of interest.

George Herman of Citadel noted: “Equities and PGMs [platinum group metals] are the top themes right now. These are running like levered plays as central banks diversify their reserve holdings. Hedge funds are in play too – as the best portfolio now is a barbell between high and low risk.”

***Hedge fund returns are positive this year, with the HedgeNews Africa South African Single-Manager Composite adding a median 9.89% so far this year to the end of September while global markets have climbed amid significant volatility. Are you satisfied with the way hedge fund managers are performing?***

Investors were mostly very satisfied with returns from hedge funds for the first three

quarters of 2025 – even though industry averages may have lagged an equity market driven higher by rising commodity prices and resources/mining stocks.

As Anthony Hall of Corion put it: “Generally, hedge fund managers thrive in liquid markets with broad participation and elevated volatility. This has not been the case in the South African equity market this year, where returns have been dominated by the resource sector and more specifically the gold counters.

“Against this backdrop of narrow breadth in the local market, elevated equity valuations across most global markets and heightened geopolitical risk, we believe a median return of 9.89% [to end-September] is a more than satisfactory outcome for the *HedgeNews Africa* SA Single-Manager Composite – especially given that most local hedge managers operate with an absolute-return mindset.”

Kagiso Mathole of Momentum largely concurred: “Hedge funds are meant to produce risk-adjusted returns with downside protection,” he stated. “Given the significant level of volatility seen in the first half, and considering that a typical investor might achieve an annualised return of 12% net of fees, [this] is something one can’t ignore.”

“Performance has been in line with expectations,” added Mbali Nzima of Alexforbes. “Importantly, managers have not only participated in the upside but also provided the risk management and draw-down protection we expect from the asset class.”

“We are largely satisfied,” agreed Adam Bulkin of Edify. “We think many, if not most, equity-focused hedge funds in South Africa are unlikely to invest heavily in the resource sector, and therefore the performance of this segment of the hedge fund market is in line with our expectations.”

One respondent with a more nuanced view was Given Phaladi of Regive, who explained: “Overall, it’s been a mixed outcome for us. While we were disappointed with the performance of one or two equity strategies – and managers behind them – who underperformed despite a strong market backdrop, we are generally pleased with the results delivered by the majority of our managers.”

George Herman of Citadel argued that hedge funds had, indeed, done very well overall – if measured by the appropriate standard: “Hedge funds shouldn’t be compared to pure equities from the shoulder,” he said. “Hedge funds have far less risk and serve a different purpose in a portfolio. They have done far better than bonds and that’s exactly their place – between equities and bonds.”

Jacques de Kock of MitonOptimal

gave a fuller explanation: “We do a lot of due diligence and fund manager reviews during the year to really get to grips with what each manager has to offer,” he stated. “We also have discussions with managers that underperform AND outperform our expectations to really understand their strategies and how they differ in various market conditions. Because of this (and a long track record of doing this), we are very satisfied with the way the managers (in our solutions) are performing.”

### **Which hedge fund strategies offer the most potential in current market conditions, and why?**

There was plenty of enthusiasm from investors for equity strategies – from long-biased to more market-neutral approaches, plus those focused on corporate actions – but also some appetite for fixed income and multi-strategy as well as strategies focused on resources and commodities.

Given Phaladi of Regive was among those arguing that high beta, momentum and fundamental stock-picking strategies should do well in the current environment: “Volatility has come down significantly making it difficult for market-neutral strategies to do well in these current market conditions of fewer dislocations,” he said.

Jacques de Kock of MitonOptimal took a similar view – so long as current trends continue: “Given that equity markets are doing well and indices are leading the pack, long-biased hedge funds, using their short book as leverage, should do well. If the trend changes, however, market-neutral managers should see their funds outperforming on a relative basis.”

Anthony Hall of Corion had more to say on the same theme: “If equity markets continue their upward trajectory, long/short strategies with higher net equity exposure are likely to sustain their strong year-to-date performance. Conversely, should we see a pull-back in equities alongside a continuation or even acceleration of the rate-cutting cycle, fixed income managers will have opportunities to add value through a combination of long-duration positioning, relative-value strategies and curve trades.

“Meanwhile, if interest rates continue to fall, market neutral and other strategies holding large cash balances will need to ensure these positions are actively managed so that cash does not become a drag on performance.”

Kagiso Mathole of Momentum was another who highlighted the potential for less long-biased and more market-

neutral approaches as well as other strategy areas: “I generally believe that the hedge fund strategies with the most potential at any given time are those that are agnostic to market direction but that thrive on volatility, dispersion, and dislocation,” he explained.

“For the current market conditions, low directional equity strategies and fixed income arbitrage strategies are likely to be the beneficiaries,” he continued. “Especially those that incorporate global macro themes, funds that can trade around commodity price swings affecting mining stocks, and relative-value fixed income arbitrage plays that take advantage of opportunities in South African bonds, due to elevated volatility.”

Mathole also highlighted event-driven approaches – particularly those with a focus on corporate actions (such as M&A, spin-offs and corporate structure arbitrage).

“The ultimate key differentiator will be the manager’s skill,” Mathole concluded. “I’ve been told a few times that this year is a ‘stock-picker’s market’. High dispersion means the gap between the performance of stocks is wide. A skilled long/short manager can generate alpha by being long the winners and short the losers regardless of the overall market direction.”

Mbali Nzima of Alexforbes highlighted the importance of equity long/short with a disciplined approach to net exposure: “Equity markets remain narrow and cyclical, with pronounced divergence between SA Inc and rand-hedge counters,” she argued. “Skilled stock-pickers can extract alpha from this dispersion while using hedges to contain downside.”

George Herman of Citadel felt equity strategies exposed to gold and tech and those with the highest beta may do well in the current market – but emphasised this was not what he was seeking from hedge funds: “We don’t invest in these though as our use of hedge funds is for volatility reduction, not return maximisation,” he explained.

Other respondents also highlighted the apparent attractions of resources and commodities but argued that market neutral and/or multi-strategy approaches may be more appropriate for hedge fund allocations.

Adam Bulkin of Edify was another highlighting perhaps less apparent equity-based opportunities in small caps where there may be event-driven corporate actions: “One phenomenon we have observed is the de-listings and other corporate actions on the JSE, given the low multiples many of the mid/small caps

trade at,” he argued. “Strategies which can take advantage of this environment can profit from these corporate actions.”

“Fixed income managers may also perform well if they can navigate this cycle,” Bulkin added. “Those equity-focused hedge fund managers who have skill in the resource sector will also be able to generate returns.”

### **What do you look for when allocating to a hedge fund manager, and what will cause you to redeem from a manager?**

Investors cited a number of characteristics they seek in a manager – ranging from differentiated skillsets and processes to track record and risk controls. Similarly, redemptions might be prompted by factors like style drift, loss of key personnel and, of course, poor performance.

Mbali Nzima described the Alexforbes’ approach as follows: “When allocating to hedge fund managers, we look for a balance between investment skill and business strength. Our focus is on managers who demonstrate a disciplined, repeatable investment process supported by sound governance and operational resilience. We believe long-term success depends on more than just performance, it requires the right scale, robust research capability, strong relationships that promote transparency, and effective governance through the right people, systems, and processes. Together, these elements create the foundation for sustainable and responsible hedge fund investing.”

Jacques de Kock from MitonOptimal said: “Differentiation is the key here. We look for managers that are uncorrelated with their peers and with the specific funds that we currently use. A decent track record and a good management team is also important.

“We would sell out of a fund if the manager deviates from what the fund is supposed to do, or if the performance and fund data is not updated regularly or inaccurately.”

Adam Bulkin of Edify made similar points, amplifying further: “We look for a differentiated but repeatable process where we can understand the market inefficiency or structure that enables the manager to generate asymmetrical returns.

“An operationally sound business is also important,” Bulkin added. “We would prefer a manager who is experienced, with a credible track record, although we do allocate to new managers on occasion. We also prefer focused managers with high alignment to investors (where they are heavily invested in

the fund they manage, or are shareholders in the firm)."

Kagiso Mathole of Momentum also cited experience, idea generation and risk controls: "A number of factors are considered when allocating to a hedge fund manager, including but not limited to: consistent philosophy and process; relevant experience (especially in key staff); idea generation; conviction and implementation or execution of ideas; better risk controls; the use of hedge fund tools for the purposes of both hedging and performance enhancement; transparency (access to data that allows for risk assessment) and reasonable fees."

Better risk-adjusted returns – delivering consistent performance with well-managed drawdowns – was important, Mathole said, but not the only consideration: "Since we are in an ever-changing world, I believe it would also be fair to allocate to managers who have demonstrable ability to adapt as conditions change," he added.

"Redemption from a manager may be due to style drift; risk control failures; unexplained underperformance and not meeting funds' objectives; inconsistent philosophy and process; and key staff loss (unless replaced by equally capable investment professionals)," he added. "Sometimes it may be due to the discovery of a better manager competing in the same strategy who would likely add more value to the implemented strategy on our end."

George Herman of Citadel said he looked for non-correlation to the equity market. "The less correlated, the lower the beta, the better. Good, solid long-term returns with little correlation to equities is the holy grail. We will redeem from a manager due to style drift, specialist errors or poor risk management."

Consistency in decision making was also a key factor for Given Phaladi of Regive, who added: "Any consistent disparity of information will cause us to redeem the manager, but we have done strategy rotations within the same houses rather than outright termination."

Anthony Hall said Corion assessed and rated numerous factors: "One: the portfolio manager – how experienced, passionate, focused, invested, and motivated are they? Two: track record – has the manager performed as expected? Three: strategy – is the strategy clearly defined and articulated, and does it offer something different? And four: alignment – are the interests of the manager aligned with those of the investors?"

"On a single-manager level, we will redeem if any of the above factors are compromised," Hall added. "On a fund level, we will redeem if our tactical asset



Jacques de Kock

class/hedge strategy weighting changes and we believe that there are better opportunities in the current climate in a different asset class or hedge strategy – one the current manager isn't accessing."

#### **What types of hedge fund strategies would you like to see come to market in South Africa?**

As in previous years, respondents in general said they would like to see a further broadening out in the range of hedge fund strategies available in South Africa – given that the market is still so heavily dominated by long/short equity, market neutral and fixed income funds.

"We currently have a sufficient range of strategies to work with. However, managers should consider broadening their market exposure [not least] as the JSE continues to contract," said Given Phaladi of Regive.

Investors offered a range of ideas on ways they felt the local industry might innovate and diversify further – with several suggesting multi-strategy, commodities and global equity or global macro, with one or two also calling for more systematic/AI driven or other approaches.

George Herman of Citadel was one who called for more multi-strategy hedge funds that may be able to diversify away from pure market beta: "These would be great competition for, and an addition to, long-only flexible multi-asset funds," he said.

Adam Bulkin of Edify called for both more multi-strat and more commodity-focused funds: "There are not many commodity managers or multi-strat managers in South Africa. It would be good to be presented with more choice in these market segments."

Mbali Nzima of Alexforbes also highlighted multi-strategy as well as more flexible fixed income funds: "Looking

ahead, the South African hedge fund industry could benefit from broadening beyond its current concentration in equity long/short and traditional fixed income relative value," she said.

With more aggressive multi-strategy funds, Nzima argued managers "would have the ability to allocate dynamically across equities, credit, derivatives and relative-value opportunities. Such flexibility would allow for more effective alpha capture across shifting market regimes while smoothing return profiles."

And with more flexible fixed income strategies, she suggested approaches that may "extend beyond carry and curve positioning" to include basis trades, cross-currency opportunities, and distressed or special-situation credit. Given South Africa's volatile rates environment and fiscal dynamics, this area presents fertile ground for sophisticated arbitrage and opportunistic strategies.

"These developments would enhance the local toolkit, providing investors with a deeper pool of diversifying, risk-conscious strategies that complement existing offerings and strengthen the resilience of multi-asset portfolios," Nzima concluded.

Jacques de Kock of MitonOptimal offered perhaps the most novel suggestion for a new strategy area that may be of interest, calling for "more long-biased, heavily geared, all-out growth, high-vol funds!"

There was broader support for more global equity, global macro and systematic strategies.

"For our hedge fund industry to grow meaningfully, managers need to start looking beyond the South African market," said Anthony Hall of Corion. "That said, this is a nuanced point: we are not suggesting that managers with a proven edge locally should shift offshore for its own sake. Instead, we encourage managers to evaluate opportunities globally and allocate only where they can demonstrate a clear, defensible edge – a far more challenging task than it may appear."

Kagiso Mathole of Momentum also argued that there was scope for more global macro funds as well as systematic/AI-driven hedge funds: "While there are still opportunities available in the South African market, I believe some of the policy divergence across the globe, foreign-exchange volatility and rate uncertainty (particularly short-end volatility), as well as commodities (particularly energy and metals) may present more opportunities for macro traders," he suggested.

"With advanced technology potentially adding other alpha sources, while

saving on costs, systematic/AI-driven hedge funds may be interesting to watch,” Mathole added.

### ***Is the South African industry making progress on ESG (environmental, social and governance) factors?***

Investors offered a range of views on progress with ESG in the South African hedge fund world – with most suggesting there had been significant progress on governance factors, but with more to do on environmental and social aspects – and others offering no comment on the issue.

As one anonymous respondent put it: “Progress is visible but uneven. ESG is being integrated more into due diligence, reporting and product documentation, and some managers have formal policies and reporting. However, practical integration in hedge strategies is challenging – as shorting and relative-value trading create complications on standard ESG screens. Governance is the easiest and most adopted pillar; environmental and social integration is more variable.”

Some, such as Given Phaladi of Regive, felt that progress was indeed being made: “While hedge fund managers face constraints in how and where they can integrate ESG considerations, we are encouraged by the efforts being made and are satisfied with the progress so far,” he stated.

“On the governance front, progress has been the most tangible,” agreed Mbali Nzima at Alexforbes. “Hedge funds operate within a strong regulatory framework (CISCA, BN52) and institutional clients increasingly demand transparency around exposures, risk and reporting. Most managers have formalised governance structures, compliance frameworks and independent oversight, which align with international best practice. ESG adoption is no longer optional in South African hedge funds.”

“Governance is well embedded, social and environmental integration is advancing, and investor demand is accelerating the pace,” Nzima continued. “We have seen asset managers demonstrate how ESG integration adds value not only reputationally but also in risk management and long-term return delivery.

On the environmental and social side, integration is also improving, Nzima added: “Many managers now embed ESG into their research and portfolio construction processes,” she argued. “This includes screening sectors with material ESG risks (such as with coal or tobacco), incorporating carbon and

resource-use data into valuations, and factoring governance quality into stock selection.

“Long/short managers often use ESG as part of their risk assessment, shorting companies with poor governance or unsustainable business models, while credit managers incorporate ESG covenants in lending terms.”

Adam Bulkin of Edify agreed that governance was the area where most progress was being made: “There have been a number of opportunities in the market that have arisen because of poor governance and/or management decisions,” he argued. “We think that hedge fund managers are – and need to be – deeply aware of governance issues and can make money out of management engagements which drive corporate changes.

“At the same time, hedge fund strategies are niche and usually exploit particular sectors or assets. As such, they do not have to confront or manage ESG factors in the same ways as long-only equity managers,” Bulkin added.

Others highlighted continuing areas of concern – and need for further progress. Anthony Hall of Corion, for instance, said: “The industry has mainly made progress on the governance factors. However, we feel there is still much more that can be done on the social factors. This is particularly important in the South African context, where we continue to grapple with deep-rooted challenges reflected in our troubling Gini coefficient – one of the starkest measures of inequality globally.”

Kagiso Mathole echoed that, saying: “I have not seen much data relating to ESG processes and activities that are exclusive to hedge funds, so I believe one may need to rethink what progress would look like for much better judgment. The fact that there is little about this subject in the context of a local hedge fund may mean that the progress is slower than expected.”

According to another anonymous respondent, this progress will likely be driven most by requirements from institutional investors – but also by how they are implemented. As she put it: “A risk to progress in applying ESG factors is that there is strong institutional participation, but that metrics that can be easily quantified and thus measured become the institutional benchmarks.

“For instance, impact is often measured by carbon credits, or by the number of women on a company’s board. However, broad-based social impact outside the walls of the company is much harder to quantify, and may be left by the wayside.

“A practical way we are trying to change this is through quantification,” this respondent added. “We are developing an impact measurement tool that we can use to measure broad-based social impact. We acknowledge that not everything in investments is easy to quantify, but quantification can give structure to a concept and help people understand it better.”

### ***Is the South African hedge fund industry making progress on transformation?***

As with ESG, there was some consensus among investors that progress has been made on the thorny issue of transformation in hedge funds in South Africa, but also some differences about how much and how fast – and how much more to do.

Some respondents, including George Herman of Citadel and Jacques de Kock of MitonOptimal, were forthright in suggesting progress had been substantial and significant.

Mbali Nzima of Alexforbes largely agreed: “There are stories of progress in talent development programmes, mentorship, and new entrants. Some firms are deliberately cultivating young diverse talent, and there is rising awareness among investors that transformation isn’t just regulatory box-ticking but part of long-term competitiveness.”

Adam Bulkin of Edify noted: “Yes we have observed transformation in investment teams and the empowerment credentials of hedge fund firms across the industry, albeit it at a more constrained level than in other parts of the financial market.”

Other contributors generally agreed – but also felt the progress had been slow.

“Many firms do have a B-BBE score and some expect improved BEE scores,” said one. “But transformation is a multi-year project and the industry still needs more representation at senior management and ownership levels. As we continue to highlight some of these challenges, we hope the industry addresses them as it matures.”

Given Phaladi of Regive was one who disagreed that progress so far was substantive, suggesting: “I think there is a minimal effort and lack of intentionality in addressing transformation by the underlying fund managers.”

Kagiso Mathole of Momentum took a similar view: “There is some visible progress made by a few hedge fund managers,” he suggested. “One must note, however, that there is still a long way to go. Transformation policies by some industry allocators may well be one of the

effective ways towards better progress in this regard.”

Anthony Hall of Corion described the state of play as follows: “Yes, there has been progress, and it is encouraging to see a concerted effort by hedge fund managers to address transformation.

“However, progress remains constrained by the structural barriers to entry within the industry – particularly challenges around capital flows, assets under management, and the difficulty of building profitable hedge fund businesses at low AUM levels.”

### ***Do you invest in private debt/credit and what is the opportunity set?***

A clear and large majority of the respondents confirmed they do invest in the private credit/private debt asset class – with most viewing it as an important and growing aspect of the alternative investment universe. There was, however, a minority who said they did not, preferring to stick purely with hedge funds.

Mbali Nzima confirmed Alexforbes’ interest and commitment to the space: “The opportunity set in South Africa is both attractive and expanding, given the structural funding gap left by traditional banks and the strong demand for non-bank financing across corporates, infrastructure projects, and developmental sectors.

“For multi-asset investors, private credit sits between liquid hedge fund allocations and illiquid private equity – offering mid-duration yield with controlled risk,” she continued. “The current macro backdrop, with banks constrained by regulation and corporates seeking flexible funding, makes this a compelling entry point.

“In our view, private credit will continue to grow as an essential sleeve of alternative allocations in South Africa, delivering both attractive returns and measurable impact,” Nzima added.

Given Phaladi talked about Regive’s involvement through its recently launched Soweto Private Debt Fund: “The opportunity set is substantial,” he argued, “driven by diverse funding needs across the underlying investee companies.”

Adam Bulkin of Edify said: “We are strong supporters of this asset class, particularly in the offshore market. In the local market, the number of credible managers is limited, but there are still good opportunities.”

Kagiso Mathole said Momentum looked at private debt/credit within its private markets programme. “The opportunities and outcomes are worth all



Anthony Hall

the effort and time the team is dedicating to this sector,” he said.

George Herman confirmed that Citadel also liked the space, seeing it as a way of “creating ring-fenced assets with a clear and quantifiable risk profile. This is far superior to buying SOE paper where governance is a joke,” he added.

As with other strategy areas, some respondents highlighted that taking exposure did not come without risk – which needed to be managed.

As Anthony Hall of Corion put it: “The opportunity set continues to expand, especially in the SME [small and medium-size enterprise] sector, which remains under-served by traditional banks. However, there is no such thing as a free lunch: with credit spreads continuing to narrow without a commensurate decline in risk, careful sizing of commitments to this sector is critical.”

### ***Do you invest in private equity and other alternatives? What do these asset types have to offer within a broader alternative asset allocation?***

Unlike with the private credit/debt, fewer investors said they were also active in private equity – leaving closer to a 50/50 split overall between those who allocate and those who don’t.

Those who do not allocate to PE cited factors such as illiquidity, lack of transparency and high fees as factors that deterred them.

Of those involved, the attractions were mostly similar. As one anonymous respondent explained: “It is an additional uncorrelated source of returns. In the private markets space, there is an additional competitive advantage for managers because deals do not have public participation, and material non-public information can often be utilised. The winning managers tend to win in the future.

“We like private market alternatives because there is less of a relationship to traditional markets,” this investor added. “Underlying managers can drive the outcomes of underlying investments and there is often an inflation hedge built in.”

This was echoed by Kagiso Mathole at Momentum, who said: “We have a dedicated team of investment professionals within our alternative investments business that tirelessly researches and invests in private markets. The team has been able to access good opportunities across a number of sectors and strategies.

“The returns are great, uncorrelated, and are therefore good diversifiers, delivering on the private market risk premia such as illiquidity and complexity,” Mathole added.

Anthony Hall said while Corion doesn’t currently invest in private equity, it acknowledges its many potential benefits. “Given that private equity is traditionally a long-term investment with liquidity constraints, Corion takes this into consideration when assessing the suitability for its retail hedge funds,” he said. “In terms of other alternatives, Corion makes extensive use of structured notes to access alternative exposure to traditional assets with asymmetrical payoff profiles.”

Given Phaladi said Regive’s private equity strategies are designed to deliver long-term impact by unlocking value and generating sustainable returns to support clients’ retirement goals. “Additionally, we manage protected equity portfolios using customised pay-off profiles through structured products, offering downside protection while maintaining market participation,” he said.

Mbali Nzima confirmed that Alexforbes too, invests across the spectrum of alternatives – including hedge funds, private equity, infrastructure, unlisted credit, and direct property – “because each sleeve contributes differently to portfolio construction”.

### ***In your view what is the optimal blend of alternatives – including hedge funds, private equity, private debt etc – in a broader investment portfolio?***

Respondents generally agreed that there was no single set of proportions that worked for every client – with most pointing out that the appropriate approach would vary by client, mandate, time horizon and risk profile, among other factors.

As Jacques de Kock of MitonOptimal said: “It very much depends on individual client needs and understanding.”

One anonymous respondent put it as follows: “There isn’t an optimal blend. There are several things that must be considered, including: client time horizon; client risk profile and liquidity requirements; and client fee budget. The above will inform what the ‘optimal’ blend is. There are several ways to achieve inflation-beating returns. Alternatives are an additional tool to achieve it.”

“There is no one-size-fits-all,” agreed another respondent. “Allocation should be calibrated to liabilities, liquidity needs and risk tolerance.”

Nevertheless, this investor did suggest hedge funds should generally get an allocation of 10% for downside protection and low-correlation alpha; private equity 5-15% for long-term return enhancement; and private credit/private debt 3-10% for income and spread. She also suggested infrastructure or real assets should get 5-15% for inflation and cash-flow protection.

Given Phaladi of Regive said that modelling hedge funds alongside private market portfolios is inherently challenging due to differences in liquidity, investment terms, fee structures, and benchmarking. “While some subjectivity in allocation across these asset classes is inevitable, the long-term benefits of diversifying into alternatives remain clear,” he said.

Anthony Hall of Corion said the appropriate allocation ultimately depends on both the portfolio’s risk profile and the fee sensitivity of investors. “It is undeniable that many investors, allocators and trustees remain fixated on fees, often overlooking the after-fee returns of a fund. Given that hedge funds typically charge higher fees than traditional long-only strategies, this fee focus frequently results in hedge funds and other alternatives being excluded from portfolios.

“Yet, because of the diversification benefits hedge funds provide, most optimisation models tend to allocate up to the maximum exposure permitted by regulation,” Hall continued. “In fact, when no explicit constraints are placed on hedge fund allocations, optimisation results often indicate allocations of more than 20% – particularly to funds of hedge funds – owing to their lower volatility relative to equities, equity-oriented multi-asset portfolios and even bonds.”

Another anonymous respondent was more definitive in putting the appropriate average figure for hedge funds at 20% of a typical portfolio.

Adam Bulkin of Edify said: “We think that hedge funds should always be a significant allocation to a portfolio,

but to the extent that regulation and operational aspects (for instance, platform availability for retail investors) apply. However, this is dependent on the mandate and other requirements of the end-investor.

“For example, an investor who is extremely fee sensitive may not be comfortable with an allocation to hedge funds,” Bulkin continued. “We consider private debt allocations, but only where the sophistication and liquidity requirements of the end-investor allow.”

Kagiso Mathole of Momentum said the alternatives allocation should be considered in the context of the broader portfolio. “For investors that have a longer time horizon, one can increase exposure to private market strategies so that the investor is able to unlock the illiquidity premium and see the benefit of the term,” he said. “Hedge funds, being more liquid investment strategies, can play a core role in a portfolio.”

George Herman said that Citadel only uses hedge funds and other liquid alternatives – on portfolios that typically hold anything between 5% and 25% in these products.

Offering a more detailed reply, Mbali Nzima of Alexforbes said: “In South Africa, we find that hedge funds often act as the ‘bridge’ between liquid public markets and illiquid private markets offering smoother real returns and daily pricing while still capturing alpha from dispersion and dislocation. The opportunity is to structure portfolios so that hedge funds cover the liquidity and volatility budget, while private equity and private debt deliver illiquidity premia and long-term growth.

“Ultimately, the optimal blend is not static,” she went on. “It should be calibrated to investor objectives, regulatory limits, and macro conditions. There is no single ‘optimal’ blend of alternatives that works for all investors. It depends on liability structure, liquidity needs, and return targets.”

### ***Do you invest in both global hedge funds and domestic hedge funds? If so, does your approach differ?***

Most of the investors responding to the survey said they only invest in locally managed funds – though some pointed out that can be through managers who also invest globally. Of those that did allocate both locally and globally, some said their approach was the same – others that it differed.

One anonymous respondent said: “For us, the approach stays the same –

to access different sources of return to improve risk-adjusted returns.”

By contrast, George Herman of Citadel said: “Our approach differs – as the opportunity set and manager availability are very different. In SA we invest in a much more concentrated way in managers we know and trust. Globally, we diversify dramatically with up to 30 different managers in a product.”

Mbali Nzima of Alexforbes was one who pointed out that access and exposure to global opportunities can also be achieved through allocations to locally based managers: “As a multimanager running hedge fund of funds, it’s the local managers who provide global exposure,” she pointed out. “Through positions in global-facing counters and indices across the US and Europe, we access international themes while still benefiting from the transparency, liquidity, and regulatory alignment of the domestic hedge fund universe.

“Direct offshore hedge fund allocations tend to be more selective, focused on niche strategies unavailable locally (such as global macro, merger arbitrage or distressed credit). These play a complementary role, enhancing diversification and expanding the return drivers in our portfolios.

“The distinction lies in emphasis,” Nzima added. “Local managers are our gateway to both South African dispersion and offshore growth stories, while global funds broaden strategy access and deepen resilience across cycles.”

Anthony Hall of Corion said: “We currently only invest in local hedge funds. However, a couple of our underlying hedge fund managers do invest globally and have global strategies within their local hedge funds.”

Of those that currently invest only in locally managed funds, some also said they were certainly thinking about allocating more globally in future. Given Phaladi of Regive, for instance, said: “Our current mandates restrict us to local hedge funds, but we are actively working on expanding our offerings to include global hedge funds.”

Jacques de Kock of MitonOptimal also said: “Because our model portfolios can only invest into hedge funds that are on local LISPs, we prefer local hedge funds, but we are very open to changing that once the opportunity arises.”

And Adam Bulkin of Edify said: “Currently we only invest in local hedge funds, but we do advise clients where they have a demand for offshore hedge fund allocations. We consider this a growth opportunity but we are [currently] constrained by regulation

and platform availability with respect to retail investors.”

**What is your outlook for the South African hedge fund industry in the next five years? In your view, what are the most pressing issues that need to be addressed? And what is the greatest opportunity?**

Investors were mostly very positive about the outlook for the hedge fund sector in South Africa – though also pointing to various issues that need to be addressed, mostly on the regulatory side.

The industry is well placed to double in size, according to one anonymous respondent. “It will be a combination of return-related growth and flows,” this investor predicted.

“The retail market is growing more interested in the investment proposition. The major issue is understanding expectations. Retail investors are attracted to performance, and it is important that their understanding is improved and expectations are managed. There is also an education process that needs to occur to understand the role hedge funds can play in a portfolio.”

There is certainly plenty of capacity for growth, this investor added: “The greatest opportunity is the [current] lack of market penetration. Exposure to hedge funds both in the institutional and retail space has plenty of room for growth.”

“We are bullish on the outlook,” agreed Adam Bulkin of Edify. “We think that the uptake across the industry will increase and will benefit the broader industry. Flows have been dominated by larger managers, so we are hopeful that this will broaden. From a retail perspective, more manager choice on the platforms would be helpful. As investor knowledge improves, this will also drive inflows. Regulatory limits are also a constraint.”

This was echoed by George Herman at Citadel: “The SA industry will go from strength to strength as retail becomes mainstream. Regulation relevance is the most pressing issue. The greatest opportunity lies with digital assets becoming part of the investment universe.”

“We remain exceptionally positive about the outlook for the South African hedge fund industry, which boasts world-class investment talent,” said Anthony Hall of Corion. “With valuations stretched across most traditional asset classes, the need to protect capital has become increasingly important in

the current environment. Hedge funds, particularly those with an absolute-return mindset, are well positioned to play a significant role in meeting this need for investors.

“The most pressing challenges at present lie within the regulatory landscape – from restrictions on who can invest in hedge funds, to the administrative requirements, to the taxation of gains,” Hall added. “A key example is the current prohibition on traditional collective investment schemes (CIS) investing in hedge fund CIS vehicles, a restriction that makes little sense and continues to hold the industry back.”

Kagiso Mathole of Momentum took up a similar theme, highlighting possible regulatory changes regarding tax treatment on CIS hedge funds, and the amendment to Board Notice 90 allowing CIS to invest in hedge funds: “While the tax issue is likely to be detrimental to the industry if the National Treasury goes ahead as initially planned, the latter would be positive.

“If one were allowed to add one more thing that may need to be addressed, it would be that the allocation limits be revised. An increase from the 10%, 5% and 2.5% allocation limits may be very positive for the industry,” Mathole continued. “As the size of long-only CIS assets increases faster than that of hedge funds, the current hedge fund allocation limits may not make sense to most clients managing long-only assets.

“Retail investors will continue growing and eventually account for more assets in the industry,” he added. “The importance of education and information sharing among stakeholders and potential clients will lead to hedge funds being widely accepted as an asset class that should always be considered in all investment portfolios.”

Given Phaladi of Regive highlighted three separate developments he felt were needed to maintain growth in the industry – related to transformation, hurdle rates and minimum investment levels.

“We must proactively drive transformation efforts to attract institutional clients – otherwise, regulatory mandates may force these changes,” Phaladi warned. He also argued that hurdle rates should be re-evaluated – to move away from zero hurdle rates to a minimum benchmark such as the SteFi plus rate, which he felt essential to better align interests with investors. “Current minimum investment thresholds [also] remain relatively high for most retail investors and smaller retirement funds. Reducing these barriers will help

broaden participation.”

The most detailed reply came again from Mbali Nzima at Alexforbes, who said: “The next five years in the South African hedge fund industry will reward process quality, robust risk management, and capacity discipline more than bold narratives. Asset managers who combine institutional-grade transparency with truly diversifying alpha engines are best placed to compound investor trust and AUM through multiple market cycles.

“A central opportunity lies in owning the ‘volatility budget’. South African markets remain structurally volatile, but that volatility creates dispersion that skilled managers can monetise. Those who can systematically convert recurring dislocations across rates, FX, SA Inc versus rand-hedge equities, and credit into repeatable, capacity-aware alpha while maintaining strict drawdown control will become indispensable components of multi-asset portfolios.”

Several themes underpin this view, Nzima argued, including policy credibility – with the SARB’s evolving inflation-targeting stance compressing risk premia unevenly across the curve – adding: “This creates fertile ground for curve, basis, and swap-spread relative-value strategies.”

As equity breadth remains narrow and cyclical, concentrated in a handful of sectors, she also argued: “Market-neutral and long/short stock-picking approaches can monetise cross-section dispersion without being hostage to the index path.”

Retirement solutions demanding smoother real returns were a further aspect Nzima highlighted: “Hedge funds that act as shock absorbers delivering smaller left tails and faster recovery profiles will attract mandates as investors prioritise capital preservation alongside growth.”

“The industry’s greatest challenge is to expand access, transparency, and comparability. Broader participation particularly within retirement platforms requires clear reporting on exposures, liquidity buckets, leverage, and stress scenarios. Aligning fees with net outcomes and protecting capacity integrity are equally critical.

“Ultimately, the industry’s greatest opportunity is to position hedge funds as essential portfolio risk-balancers, not niche alternatives. By demonstrating resilience, consistency, and true diversification benefits, South African managers can secure a permanent place in institutional and retail solutions over the coming five years.”