Symposium 2022 Global markets under pressure signal volatility and dispersion ahead

Topics of debate included the prospect of stagflation; the economic outlook post Covid pandemic; climate change and the effects of the war in Ukraine

The 13th annual *HedgeNews Africa* Symposium, held on March 9 at the Vineyard Hotel in Cape Town, brought a welcome return to in-person programming, with a group of high-quality speakers and panellists covering a range of hot-button topics - from the outlook for the equity and fixed income markets, to the dominant themes affecting hedge fund businesses today (ranging from from ESG to transformation), and on to investor views on these strategies and what they have delivered in recent times.

GLOBAL MARKETS – STAGFLATION, CLIMATE CHANGE, COVID, CRYPTO AND UKRAINE

This year's Symposium began with a panel to set the scene exploring global market opportunities. It brought together a range of different perspectives from Andre Breedt of Capital Fund Management in Paris, Wilhelm Hertzog of Rozendal Partners, Claire Rentzke of Sukha & Associates and Matthew Thomson of Peregrine Capital.

Topics for debate included the heightened prospect for stagflation given the macro outlook post the Covid pandemic; climate change and the demand for greater environmental, social and governance (ESG) criteria in the investment environment; the increasing adoption of cryptocurrencies and decentralised finance (DeFi); and of course the effects of the unfolding war in Ukraine.

Rentzke highlighted how prospects for stagflation had increased, while Hertzog noted how the 'green economy' and ESG requirements were likely to impact capital allocation across many industries.

Breedt pointed out that CFM was very focused on sustainability and trying to identify likely beneficiaries from the energy transition, but also argued that some investment in hydrocarbons and hence commodities was clearly still needed. Thomson noted how the latter might drive specific opportunities in certain areas, including even coal.

Thomson also said a lot of top investment talent was now focusing on crypto – and how the decision to block Russia from using the western payments system might well further stimulate demand for Bitcoin and other cryptocurrencies.

Rentzke noted how the risks of investing in Russia itself had risen ever since the invasion of Crimea in 2014 and had now reached the point where Russia was completely uninvestable.

Speakers highlighted a range of specific investment ideas in this current macro environment, ranging from Hertzog focusing on uranium to Breedt highlighting commodities in general.

Breedt added that tail risk management – and predicting or estimating future volatility – had become more important than ever.

Thomson observed that market impacts from geopolitical events were potentially similar to those from Covid, which he described not as a 'black swan' event but as a 'grey rhino' event – or the 'known unknown' – presumably implying that one should see them coming.

Platinum partner

Investec

Diamond partner

RMB

Partners

absa

PERESEC

Associate partners

BlackRock

enfusion

LEONTEQ

Maitland Fund Services

Ninety One

Prescient Fund Services

SS&C ADVENT

In conclusion, Hertzog argued that investors needed to learn how to accept uncertainty: "You can't know everything," he said. "You need to learn when you have enough information to make an informed decision."

Global macro outlook 2022 panel: from left, Claire Rentzke, Sukha & Associates; Wilhelm Hertzog, Rozendal Partners; Matthew Thomson, Peregrine Capital; André Breedt, Capital Fund Management. Moderator: Kobus Esterhuysen, Peresec.

LEE ROBINSON: FROM CARBON TO CRYPTO – AND EVERYTHING IN BETWEEN

The first keynote conversation of the day was an interview with Lee Robinson, a hedge fund veteran and founder of Altana Wealth, which runs over US$500 million in assets across a range of specialist strategies from carbon futures and offsets to long-only equity, fixed income, FX, social impact, distressed debt and cryptocurrency and digital assets.

Robinson spent some time explaining his enthusiasm for the rapidly evolving carbon offsets market, in which he predicted growth from both the mandatory and voluntary segments.

It was still very much a niche market opportunity, he agreed, but with enormous potential in the coming years – as well as the potential to overshoot.

The cost of carbon had been forced up already from the mandatory side – driven by new legal and regulatory requirements around the world. But from the voluntary side too – though currently still very small – Robinson also foresaw the scope for massive growth given so many new buyers seeking carbon offsets.

Given the need for the 'energy transition' to reduce carbon emissions, the oil and gas sector – which would still be needed for many years to come – had also been so starved of capital expenditure that it had become incredibly cheap, Robinson argued.

Given the rising demand for ESG investing, oil and gas companies needed to be encouraged to reduce their carbon footprints – which could be achieved by investing in the sector but with a 'carbon wrapper'.

While that sort of capital may be forthcoming for oil and gas – where there was clearly potential for large profits – it might be more difficult for other industries such as cement or farming, he noted.

This took him neatly on to crypto – and the rising potential for carbon tokens, building on the success and strong performance of Bitcoin and Ethereum in 2021.

Robinson concluded with his take on the global macro picture, and predicted a more volatile year ahead – with opposing trends from rising inflation but recovering capacity, post the Covid pandemic. It would be a difficult environment for the central banks – not least given the war in Ukraine and its potential impact on certain important markets, such as food production.

DAVID BERMAN: THE STATE OF THE US CONSUMER

The keynote address for this year's event was given by US retail and consumer sector guru David Berman, previously of the hedge fund groups Steinhardt Partners and Kingdon Capital, who has run his own Berman Capital business for more than 15 years.

Berman began with a review of the macro picture, noting how inflation in the US was officially about 7-8% but was in reality probably more like 10% - higher even than in South Africa, quipping that it was probably a good time to be buying property in Cape Town.

In understanding the macro picture, understanding the rate of retail sales growth was key, Berman suggested, given that some two-thirds of the US economy was in the consumer sector.

He went on to note how his approach to gathering data had identified the levels and direction of inventories as a key indicator – with a high level of inventories one quarter indicating they were likely to go down the next.

In all the years he had tracked retail data, the US economy had never before been so "on fire" as it was today, Berman suggested. In previous times, the US had averaged growth of 3-4% a year – not bad, he said,

Keynote conversation: Lee Robinson, Altana Wealth

Keynote address: David Berman, Durban Capital for a developed economy. But in the era of the Trump administration, additional stimulus had pushed it on to a range of 5-8% a year – which he described as like a "train crash waiting to happen".

And then, in response to the Covid pandemic, yet more fuel had been poured onto the fire – leading to unprecedented year-on-year retail sales growth of more like 12-13%. Too much demand, he cautioned, could lead to runaway inflation. On the other hand, inventories were also very high – which might also be bad for retail sector profits this year.

South African equities 2022 panel: from left, Hannes Van Den Berg, Ninety One; Murray Winckler, Laurium Capital; Busi Ngqondoyi, Old Mutual Multi-Managers; Shane Watkins, All Weather Capital. Moderator: Will Ridge, Investec Markets Limited.

SOUTH AFRICAN EQUITIES: GLASS HALF-FULL?

This panel brought together a range of perspectives on a core sector of the South African hedge fund industry, including some of the biggest and best established managers and allocators.

Nosibusiso Ngqondoyi of Old Mutual Multi-Managers set the scene by arguing there had been something of a return of interest in hedge funds from the retail side – as strong returns from the strategy area had continued.

But Murray Winckler of Laurium Capital observed that the hedge fund industry was still very small in SA – and was still under-represented given that returns had been pretty decent.

Hannes van den Berg of Ninety One argued that this was perhaps because the industry had not been pitched correctly to local investors – who still needed to learn how it delivered more alpha and with less volatility.

Shane Watkins of All Weather Capital noted that this was still against a background where the number of listed stocks was falling – and local investors were still looking to take more of their investments offshore.

Ngqondoyi called this a good environment for hedge funds that are good stock pickers, though van den Berg and Winckler noted how supply chain disruptions and recent geopolitical effects had altered the investing environment – and Watkins argued that the most important thing now was to focus on position sizes.

The panel debated the current demand for ESG – and how that had arguably been altered by the war in Ukraine.

From a macro perspective, however, the panel generally agreed that recent developments had been good for SA – with commodity prices sharply up and the current account suddenly swinging from a large deficit into a large surplus.

At the specific stock level, there was also general agreement on a more positive outlook for Naspers – with the share price discounted so heavily that arguably the ongoing governance issues were already priced in.

THE CRYPTO CONVERSATION: TO ETHEREUM AND BEYOND

This panel discussed topics ranging from blockchain to why the opportunity set in cryptocurrencies appears to have become so compelling.

Chris Becker, a crypto specialist at Investec, described the evolution of the crypto landscape from blockchain to Bitcoin to Ethereum, tokens and Stablecoins.

And Ebrahim Patel, head of future markets and sustainability at RMB, went on to discuss the opportunities for new payment systems that this opened up.

Heiko van Wyngaarden of Optis Investment Management described blockchain as a disruptive technology akin to the Internet. While the short-term outlook may be hard to predict, in the long term it was here to stay – and the impact will be pervasive, he argued.

Becker noted how tokens can be used to incentivise, and how open source protocols can be used to develop decentralised finance (DeFi) – and how this may well change financial markets in ways one can't anticipate.

Van Wyngaarden talked about his enthusiasm for Ethereum in particular, given how he estimated it was only valued at about 20 times earnings – cheap if viewed

The crypto conversation panel: from left, Dr Ebrahim Patel, RMB; Chris Becker, Investec; Heiko van Wyngaarden, Optis Investment Management. Moderator: Emlyn Flint, Peresec.

Keynote conversation Kevin Gundle, Aurum Fund Management like a tech company. This looked very attractive relative to traditional assets like equities and bonds given the current macro outlook.

Ethereum also looked attractive relative to both traditional 'store of value' assets like gold and other cryptocurrencies like Bitcoin, given that it has more utility and could be less environmentally unfriendly.

KEVIN GUNDLE: THE IMPORTANCE OF ESG WITH IMPACT

The investor keynote conversation at this year's event was with Kevin Gundle, a founder and chief executive officer of Aurum Fund Management, founded back in 1994 with a focus on capital protection and uncorrelated growth primarily through low-beta hedge fund strategies.

Based in London, Gundle has also been a co-founder of three international charities – Ark, the Seneca Trust and the One to One Children's Fund – all of which have made significant investments into South Africa's health systems to address HIV, AIDS and other humanitarian challenges.

This background had fed directly into Aurum's current approach of investing in 'ESG with impact', Gundle explained. The scope of that ranged from appointing a head of ESG at Aurum who could calculate the firm's total carbon footprint, and how to offset it – to many specific projects, such as reforestation in Borneo.

The discussion moved on to the potential for local solutions in SA, with Gundle highlighting his interest in restoring the rail infrastructure – including the replacement of stolen tracks and rolling stock that had been destroyed – as well as the potential for solar panels and water purification projects.

'Greenwashing' was, Gundle admitted, still a problem with ESG – given the continuing lack of established standards and measuring tools, which he argued had led to a lot of 'grandstanding' that confronts investors.

Initiatives like the UN Strategic Development Goals (SDGs) were a good starting point, but still left a lot of work to be done on measurement and reporting.

When it came to hedge funds, Gundle argued that while some strategies were well suited to a sharp focus on the governance aspect of ESG, many were still often incompatible with the long-term approach needed for impact investing.

That said, he argued that hedge fund strategies were still very relevant for investors – not least to generate profits that could then be put into impact investing.

Looking at the outlook for markets, Gundle felt that, after many years since 2008 when long-only approaches had been a good route for investing, we were now at an inflection point – with "very little juice" left in bonds, equities under pressure, and the likelihood of much more volatility and dispersion going forward.

Fixed income panel: from left, Jacobus Lacock, Fairtree; Johan Roos, Oakhaven Capital; Sollie van der Linde, Matrix Fund Managers. Moderator: Kim Silberman, RMB.

SA FIXED INCOME: FLAVOUR OF THE YEAR IN EMS?

The outlook for South African fixed income was a little more upbeat this year than it has been for some time.

Moderator Kim Silberman of RMB noted at the start how a recent roadshow in the US, UK, Europe and elsewhere had given a sense that SA was "flavour of the year" – certainly among emerging markets – given that the outlook for commodities was good, the currency looked stable and risks seemed lower.

Jacobus Lacock of Fairtree noted how the real yield pick-up was in fact now much better in rands with inflation at only 3% than in many other currencies, and that this was making SA fixed income look a very attractive asset class.

Johan Roos of Oakhaven Capital also pointed to the global inflation and political risk environment, particularly at a time when there are clearly major issues with other big emerging markets like Russia and Turkey.

Khoabane Phoofolo introduces the Blackrock Masterclass, focusing on trends in private markets

Sollie van der Linde of Matrix Fund Managers agreed that SA was looking cheap relative to other EMs, but also warned against over-confidence about the potential for sell-offs – as these would often hit the most liquid markets first, like SA.

There was some debate about the recent and ongoing rise in oil and gas prices and how this may affect the market, but general consensus that higher commodity prices were looking like a strong net positive.

Amid further debate about the outlook for stagflation in the US and developed world, all three speakers agreed that the SARB had generally done a good job of staying ahead of the curve on inflation expectations.

The debate then went on to whether government spending might run out of control – as had seemed to happen the last time there was such a windfall after the global financial crisis in 2008.

Van der Linde argued that this time looked different – and that although there appeared to be an increase in government spending, the outlook for growth was more positive and that there was no need for an austere budget even if structural reforms were still needed.

Panellists agreed Eskom was still a significant problem, with van der Linde arguing it was still seen as a government liability.

Although potentially important developments were planned for Eskom, such as through the climate finance funding initiative, Roos argued that investors still needed to see real evidence of change.

BLACKROCK MASTERCLASS: TRENDS IN PRIVATE MARKETS

The BlackRock masterclass this year fo-

Private debt panel: from left, Philippa Owen, GraySwan; Carl Combrinck, Chrysalis Capital; Kasief Isaacs, Mergence. Moderator: Rory Ord, 27four Investment Managers.

cused on private markets – an area which has seen enormous growth in recent years.

The session was delivered jointly by Jim Barry, CIO at BlackRock Alternative Investors, in tandem with Mark Everitt, the group's head of investment research and strategy.

Barry began by noting the incredible momentum and capital accumulation in private markets in recent years, with the addition of a new record of over $2.7 trillion a year just last year alone – and no sign yet of an end to the trend, with Preqin predicting the amount invested overall to reach $17 trillion by 2025.

This was all driven by a major pivot from public to private markets, Barry argued, as investors have been seeking new ways to find returns. That in turn meant there was also more competition for investment opportunities – but a competition in which BlackRock was well equipped to succeed, given its multiple points of contact with markets.

This huge wall of capital, Everitt conceded, was also leading some to fear that returns may be compressed. However, he urged investors to keep the faith – arguing that over time, investors had done well by continuing to allocate to private markets over different vintages.

Barry also took up the themes of sustainability, decarbonisation and digitisation – secular trends all well suited to private investing, he suggested, which would be driving the opportunity set for many years going forward.

Decarbonisation, he argued, would require something like an industrial revolution but in half the time – posing many challenges for investors, not least in sectors such as cement and steel, aviation and shipping, where solutions were not yet clear.

Everett also touched on the theme of technology – and how technological change was everywhere and would impact everything – as well as real assets including infrastructure, and data.

PRIVATE DEBT: STILL ON THE UPSWING

One growing segment of the local industry in recent years has been private credit/ private debt, with an increasing subset of funds stepping in to disintermediate the banks and lend directly to the corporate sector. Echoing the international trend, returns have been encouraging – which has in turn been encouraging further growth in the strategy area.

Philippa Owen of GraySwan noted how this strategy area had become an attractive way to diversify and without leverage, through a variety of different types of structures – though emphasising it was important for clients to understand that the good returns on offer were only possible because they could lock capital away.

Carl Combrinck of Chrysalis Capital talked about how his firm went about it as a team of ex-bankers who could provide a premium product to companies through a bespoke model.

Kasief Isaacs of Mergence highlighted the need to understand the requirements of borrowers – and to respond by structuring with more flexible terms and pricing models that could match those needs.

There was some discussion about themes and sectors of interest, from digital assets to clean energy, with Isaacs noting how this strategy area was well suited to impact investing; and most appropriate ways to benchmark performance – versus yardsticks like Jibar and CPI.

Panellists also discussed risks in the strategy – the most obvious being potential for default – and what risk mitigation measures could be put in place, with Combrinck highlighting some of the security and covenants often deployed.

Participants argued that private debt strategies had performed very credibly through the pandemic – despite the sudden drop of 3% or so in interest rates.

Isaacs noted how this had led to a lot of borrowers asking for a restructuring – though that had usually resulted in extended terms rather than bigger problems.

Combrinck said the pandemic period had demonstrated the strength of the client base.

And Owen argued that the investor side had emerged from the pandemic period with an extra level of confidence in the strategy from the experience.

THE INVESTOR CONVERSATION: HEDGE FUNDS UP THE AGENDA

This year's Symposium agenda saved one of the most important sessions to last, bringing together three of the industry's more important allocators in recent years.

Yonela Makwetu of AIP Capital Management noted how the local hedge funds industry, with assets of only around R73 billion according to the last survey, is still pretty tiny – with most of the growth in recent years coming purely from perfor-

The investor conversation panel: from left, Yonela Makwetu, AIP Capital Management; Lebo Thubisi, Alexander Forbes; Ndabezinhle Mkhize, Independent; Moderator: Vuyolwethu Nogantshi, Absa.

HedgeNews Africa Symposium 2022

mance and not from net new money coming in.

While Makwetu noted that there had been a rise in retail interest in the sector, she said there was also more interest rising now among institutional investors.

Lebo Thubisi of Alexander Forbes noted that there was still a large pool of institutional capital that was not yet invested at all in the hedge fund space.

Ndabezinhle Mkhize, chair of the Asset Owners' Forum and until recently CIO at the Eskom pension fund, said new regulations – spelling out separate limits on allocations for different types of alternative investments including infrastructure and real estate as well as hedge funds – might make it easier to allocate going forward.

There was discussion about the appropriate role for hedge funds in a portfolio, with Mkhize noting how Eskom had been one of the first pension groups to take a quant-based approach.

The panellists all noted a continuing need for the industry to further educate investors – given the very different levels of knowledge about hedge funds and their strategies across the investor base.

The panel also touched on the role of ESG in hedge funds – another area in which investors needed further education, they felt, about what hedge funds are doing; and on fees, where some progress had been made but more was needed.

Finally, the panel also touched on the issue of talent – and how to identify it, attract it to the hedge fund sector and nurture it.

Thubisi argued there had indeed been some progress over the years on gender and racial diversity – but with more still needing to be done.