Symposium 2023
Decoding global markets – inflation, interest rates, equities and commodities

This year's Symposium began as usual with a panel to set the scene exploring global market opportunities. It brought together a range of different perspectives from André Breedt of Capital Fund Management in Paris and Nigel Hikmet of Lansdowne Partners in London, plus Carmen Nel of Matrix Fund Managers and Hannes van den Berg of Ninety One, moderated by Jeff Gable of Absa.

The panel began with discussion of geopolitical risks, with Van den Berg noting how markets had not been as spooked by the Ukraine war as may have been expected – as they had been before by Brexit and the election of Donald Trump.

Nel highlighted inflation as a big issue and asked whether it had now peaked, while also querying the outlook for equities given an inverted yield curve. That usually points towards recession, though she wondered whether central banks might 'blink' again if unemployment rises.

Hikmet noted how many companies had curbed investment through the long period of austerity – and so had a need to invest now, which he argued would continue to drive equity markets. With interest rates up but back to more normal levels historically, he suggested, valuations were going to matter again.

Like Hikmet, Van den Berg noted how US equities were looking expensive relative to Europe – though in fixed income he felt the best opportunities might be in emerging markets.

Nel also noted how real interest rates were going into positive territory, which might lead to a 'bumpy' next 12 months. Defaults may occur in the US, she predicted – accurately, as it turned out, with her comments swiftly followed by news of the collapse of Silicon Valley Bank. That may also affect access to markets for some EMs, Nel said, though she did not expect it to be a systemic issue.

Coming from a big firm with a strong quant dimension, Breedt noted how the reset in expectations for inflation was going to drive opportunities across various markets including in commodities – where the energy transition was also going to be a major factor.

Diversification would be key, Breedt added, including the ability to access markets globally and to deploy a full range of strategies and techniques to exploit opportunities.

ESG was also a talking point, with both Breedt and Hikmet noting how investors had become increasingly aware of the nuances – which would probably point towards more dispersion in investment outcomes.

Asked for top ideas for the year ahead, Breedt said monetary policy would be key – and that dislocations would likely create opportunities across all asset classes.

Hikmet highlighted any areas where companies had pricing power – which might include banks and resources and in ex-US markets.

Van den Berg also liked resources – adding that strong commodity markets

Platinum partner

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RMB

Partners

absa

PERESEC

APEX

Associate partners

BlackRock.

FACTSET

LEONTEQ

Ninety One

Prescient FUND SERVICES

SS&C ADVENT

should be good for South Africa.

Nel again highlighted inflation – and pointed towards inflation-linked bonds like TIPS as well as oil and the energy complex.

MARCUS STORR: SEEKING TALENT IN NEGLECTED MARKETS

The first in a series of keynote conversations at this year's Symposium began with Marcus Storr, head of alternative investments at FERI, one of the largest investment firms in Germany and a specialist in alternative investments, who was interviewed by Jean Turner, head of the Investec Prime Services team.

Storr began by noting how German investors were notoriously conservative, often seeking only to generate 3.5-4% a year – though in recent years the low interest rate environment had forced even them to look more seriously at alternative investments including hedge funds to generate any sort of return.

And hedge fund performance had been good last year, he noted, with gains of 1-3% looking healthy at a time when bonds and equities had both struggled.

Storr noted how FERI was happy being in offshore vehicles, with Cayman as the default domicile.

FERI liked to have some allocation in South Africa, he said, as he viewed SA as having very well-developed capital markets with a lot of investment talent – but was neglected by investors relative to other emerging markets.

Asked what he looked for when assessing a manager, Storr said the key thing was to look beyond standard due diligence and ask 'the difficult questions' – that took a manager out of their comfort zone.

Storr was also asked about ESG – which he said was a difficult area but important, as shown in Germany itself last year with the exposure of the Wirecard fraud highlighting again the centrality of governance issues.

Global macro outlook 2023 panel: from left, Nigel Hikmet, Lansdowne Partners; Hannes van den Berg, Ninety One. Carmen Nel, Matrix Fund Managers; André Breedt, Capital Fund Management. Moderator: Jeff Gable, Absa.

South African equity panel: from left, Rayhaan Joosub, Sentio Capital Management; Jean Pierre Verster, Protea Capital Management. Clarissa van der Westhuyzen, Fairtree; Jacques Conradie, Peregrine Capital. Moderator: Anthony Hall, Corion Capital.

Keynote conversation Marcus Storr, FERI, in conversation with Jean Turner, Investec.

SOUTH AFRICAN EQUITIES – OPPORTUNITIES LONG AND SHORT, AND BEYOND SA INC

This panel brought together some top managers in the South African hedge fund industry, including Jacques Conradie of Peregrine Capital, Rayhaan Joosub of Sentio Capital Management, Clarissa van der Westhuyzen of Fairtree and Jean Pierre Verster of Protea Capital Management, moderated by Anthony Hall of Corion Capital.

Verster was quick to note that while there were a lot of opportunities on the long side in the current market, hedge funds could also differentiate themselves by what they do on the short side – and there was plenty of discussion of short side opportunities during the session.

Van der Westhuyzen noted how the JSE index should not be confused with 'SA Inc' – given that only 30% of the index reflects domestic exposure. Within that wide JSE universe, she foresaw areas of opportunity arising from three main factors: the reopening of China; the energy transition – which should stimulate demand for certain commodities like copper; and in global consumer stocks like Richemont.

Joosub said the current variety of both positive and negative factors – from the reopening of China to loadshedding in SA – presented a number of good pair-trading opportunities, which were well suited to the sort of balanced long/short portfolio construction favoured by Sentio.

Conradie argued that the market was responding well again to earnings rather than sentiment or momentum, citing British American Tobacco as a good example.

Verster pointed out how not all hedge funds were the same – as could be demonstrated by their often-divergent views and positions on big stocks like Naspers. He also highlighted the recently announced regulatory changes that propose allow-

Keynote conversation Sonja Saunderson, Eskom Pension and Provident Fund, in conversation with André Steyn, Steyn Capital Management.

ing certain types of unit trusts to buy into hedge funds, which would be welcomed.

When asked for top picks for the coming year, Joosub highlighted platinum stocks among other things, as did both Verster and van der Westhuyzen, though she also cited the property sector on the short side.

Conradie argued that inflation may be stickier than many people think, but felt Arcelor Mittal could be one to outperform in the coming year.

SONJA SAUNDERSON: DOING THE RIGHT THING BY PENSIONERS

The second keynote conversation of the day featured Sonja Saunderson, chief investment officer of the Eskom Pension and Provident Fund (EPPF), interviewed by leading hedge fund manager André Steyn, founder of Steyn Capital Management.

Steyn started by asking her about how she got the job. One key thing, she said, had been to emphasise the central task, which was to 'do right' by members of the pension fund. Being such a big and long-running pension fund, it still had a large defined benefit component, she pointed out, though also a growing defined contribution portion.

Diversification was key, she said, to achieving the required outcome in terms of performance for pensioners – which started with risk budgeting, and working out the probabilities of adding value with different approaches. "We will forfeit the chance for great returns to get more reliable returns," she stressed.

Saunderson felt this should be possible to achieve with a combination of single-manager and multi-manager allocations, aided by the advice of consultants.

The EPPF would also be looking out for managers' strategies for transformation – and would assist, where possible, in helping managers expand and grow into new areas, including globally ex-SA.

Hedge funds currently represent only a tiny 0.1% or so of EPPF's assets – so Steyn thought it natural to ask if Saunderson planned to grow that?

Hedge funds can add a lot of value, Saunderson agreed, in terms of both diversification and return enhancement – so it seems logical to assume that she will seek to grow the hedge fund allocation, though by how much and in what directions is not yet clear. "We are working on it – with no decision yet on the scale or percentage of the portfolio," she said.

One problem remains fees, which trustees still view as very high in hedge funds – though perhaps due to a lack of understanding that can be addressed by more education.

She was also asked whether the EPPF was looking at expanding further into Africa ex-SA – given not least that it looked so cheap in historic terms.

Yes, she said, though timing remained a big issue and there would need to be a hard currency component – plus the need to be mindful that there continue to be a lot of strong but tightly held family-owned businesses that are probably 'value traps' for investors.

SOUTH AFRICAN FIXED INCOME – HOW TO ADD VALUE WITH HEDGE FUNDS

The SA fixed income panel brought together three top players in the space – Jeleze Hattingh of Southchester Investment Managers, Grant Hogan of Independent Alternatives and Nomathibana Okello of Terebinth Capital.

Moderator Kim Silberman of Rand Merchant Bank began by asking whether the last 15 years of unprecedentedly low interest rates would be looked back on as an aberration or whether it represented the new normal – and whether high real interest rates could be maintained going forward in a low-growth environment.

With political uncertainty as well, would growth not become as important as inflation and currency values? she asked.

Okello said a slowdown in inflation looked like it was coming, but that central banks nevertheless also had a strategic long-term role in supporting the economy – which might mean that some would 'decouple' from the approach of the US Federal Reserve if the Fed maintained a high interest-rate policy.

Hogan argued that markets looked like they were 'correcting' and that we could be entering a new period of 'normalisation' – though whether that was indeed the case might depend on how long inflation stayed high.

Hattingh noted it had indeed been a long time since there had been a Fed 'hiking' cycle.

There was then some discussion of how and why hedge funds could add value in fixed income markets and could complement traditional long-only funds – as many demonstrably had done during 2022.

Hattingh argued that the tools available to hedge funds were different to long-only funds – allowing them to add value in different ways. The job was all about managing volatility and controlling draw-

The South African fixed income panel: from left,: Nomathibana Okello, Terebinth Capital; Grant Hogan, Independent Alternatives; Jeleze Hattingh, Southchester Investment Managers. Moderator: Kim Silberman, Rand Merchant Bank.

downs, she said.

Hogan agreed that hedge funds could add a lot to the toolset for investors – with their ability to dial risk up and down through leverage and to use short positions and relative-value strategies to hedge risks. The aim was to identify and exploit asymmetric opportunities, he said.

Okello said education was key for investors – so there should be no nasty surprises in the return profile delivered by managers.

CATO BRAHDE: FROM TANGLED CHAINS TO THE ENERGY TRANSITION

Cato Brahde, CIO of European hedge fund firm Oceanic Investment Management, was the next keynote participant, adding the perspective of a seasoned specialist in shipping and energy following the tumultuous period of the Covid pandemic and Ukraine conflict.

He talked in detail about the data in a number of key aspects of the global economy – from container shipping and tankers and shipping fleet expansion to carbon emissions and alternative energy as well as the oil and gas sector.

Brahde highlighted data which showed how container shipping prices had spiked following the disruption to supply chains during the pandemic, but then fallen off sharply in the past year. This mirrored data on the 'congestion rate' – the proportion of the fleet idle at any one time – which had surged from historic levels of about 10% to more than 20% by early 2022.

He highlighted how markets were now normalising, but that Chinese exports did not appear to have fully recovered yet – while Transatlantic trade remained robust. And this at a time when the shipping fleet was expanding rapidly, with deliveries of new ships increasing.

On the tanker side, the trade had been very different during and post the Covid period. After a brief collapse in 2020, the data on tonne-miles of oil and gas being moved had risen, particularly since the Ukraine conflict – reflecting a similar amount of oil being traded but being shipped further, with Europe not wanting to be reliant on Russian fuel.

Adam Reeves introduces the Absa Fund-Linked Solutions lunch workshop: Strategies for managing risk and return.

Inflation numbers, Brahde also showed, were already falling for goods and commodities, but service-sector inflation remained high – and showed little sign of falling yet.

Brahde demonstrated how shipping emissions had fallen significantly in the past decade or so – down 20% or so despite a 30%+ increase in the size of the fleet, following the introduction of more fuel-efficient vessels.

On the alternative energy side, he highlighted data which predicted a 'hockey stick' style surge in investment in solar power – as well as continuing growth in wind power, boosted not least by the new Inflation Reduction Act (IRA) in the US.

The IRA, he suggested, was essentially a protectionist measure – copying Chinese moves previously to subsidise solar panels. And this would doubtless stimulate reactions from both Europe and China – which would effectively turbo-charge investment in alternative energy.

At the same, after a period of decline between 2014 and 2020, oil and gas investment was now rising as well, Brahde pointed out. Together, this points to the prospect of a simultaneous rise in investment in oil and gas as well as alternative energy and shipping.

A potential recession is usually bad for shipping and for energy markets, but Brahde felt the China reopening would probably be the biggest factor for global markets this year – and the next decade an exciting one for both new energy and a huge renewal of the fleet in shipping.

DUREKA CARRASQUILLO: HEDGING FOR A COOLER CLIMATE

The next keynote conversation was with Dureka Carrasquillo, formerly of Canada Pension Plan Investments (CPPI) and now CIO of London-based hedge fund 1.5 Degrees, which is backed by Alliance Bernstein. As the name 1.5 Degrees suggests, Carrasquillo focuses on the theme of investing in ways to combat climate change.

She had started, she explained, as a tech investor – which led her to focus on a number of structural themes in the mar-

Keynote conversation Cato Brahde, Oceanic Investment Management

Keynote conversation Dureka Carrasquillo, 1.5 Degrees kets which presented opportunities and risks, climate change emerging as the biggest one.

With global temperatures already 1.1 degrees above pre-industrial levels, the world was already well on the way to breaching the targeted limit of 1.5 degrees, Carrasquillo pointed out. And this highlighted the need for dramatic technological advancements to accelerate ways to combat it.

The rise in greenhouse gases was not just about carbon, she added. Carbon was important, but only one of five such gases that were a problem, methane being another important one. Patterns of consumption were both unsustainable and arguably unethical, she added.

There were five ways to address these challenges through investing in technology, Carrasquillo argued. One was through materials technology – such as in finding ways to replace plastics.

A second would be through engineering technology – such as finding ways to address rising sea levels and promoting energy efficient building construction.

Third would be through transportation technology – which was not just about electric vehicles but also in areas like the maritime sector.

Fourth would be in power technology – such as in renewables.

And fifth would be in 'green consumption' technology – such as in developing alternative proteins.

Carrasquillo argued that having the toolset of a hedge fund – also enabling short positions to discourage unhelpful behaviour – made it possible to have a greater impact as an investor, especially in key areas like the oceans.

Despite the difficulties in getting countries to come together to tackle climate change, there were very significant strides being made around the globe, she argued – noting developments like the Inflation Reduction Act (IRA) in the US, the 'green deal' in the EU and other things happening in China. Collectively, these initiatives would be pushing more than $1 trillion globally into tackling climate change, she said.

ALTERNATIVE INVESTMENTS AND THE CLIMATE OPPORTUNITY

Discussion of investment themes and opportunities related to addressing climate change continued to be a major theme of the day on a panel featuring Jarred Houston of All Weather Capital, Kasief Isaacs of Mergence Investment Managers and Motshidisi Mazibuko of Sanlam Investments, moderated by Eugene Visagie of Optimum Investment Group.

Houston noted how there were multiple

Alternative investments and the climate opportunity panel: from left, Kasief Isaacs, Mergence Investment Managers; Jarred Houston, All Weather Capital; Motshidisi Mazibuko, Sanlam Investments. Moderator: Eugene Visagie, Optimum Investment Group/AIP Capital Management.

ways to invest in climate-focused solutions like solar panels and that many investors were now doing it, in listed markets as well as private markets – including 'indirect plays'.

Mazibuko highlighted how private credit approaches can be particularly well suited to impact investing.

Isaacs noted how ESG had become such a major factor for investors generally.

Companies had become more responsive to the need for feedback in these areas, agreed Houston – though there was then some discussion of 'greenwashing' and how much 'tick-boxing' there was.

Mazibuko argued that, whatever factors you tried to take into account, whatever you were doing also had to make investment sense.

ALBOURNE AND AURUM – IMPLEMENTING ESG

The final keynote conversation of the day was a thought-provoking double-header featuring Emily Forsyth-Davies, head of ESG at Aurum Group, and Emlyn Ade Palmer, head of sustainable investing at Albourne Partners, both based in London.

The participants were asked about how they looked at ESG at both the company level as well as at the investment level.

Palmer, for instance, highlighted how Albourne itself has a top-down approach to training in ESG and sustainability for its own leadership team and discloses its own environmental footprint – as well as being mindful of the footprint it creates through its investment advice.

Similarly, Forsyth-Davies noted how ESG is embedded in Aurum's approach both to the way it runs its own business as well as in its approach to investment and impact.

She then talked about what Aurum expects to see from an ESG perspective in a well-run company – in terms of an ethos that is well-supported by key members of staff and stakeholders.

Palmer talked about how rising awareness of ESG issues had created new sources of risk for investment companies that were probably not an issue 40 years ago – but that these days could not be ignored and needed to be addressed.

This had created the need for companies to establish an ESG and sustainability framework, he argued, with appropriate processes and procedures to implement it.

There was then some discussion about whether the conflict in Ukraine had perhaps moved the goalposts for ESG – and, if so, how and in what ways – or if it had merely underscored its importance.

Palmer highlighted how the conflict had arguably thrown a 'curve ball' by elevating energy prices and stimulating debate about the weapons industry – given the need for Ukraine and others to be armed to defend themselves.

Nevertheless, both Palmer and Forsyth-Davies argued this was not necessarily a bad thing as it had, for instance, brought

ESG and Alternatives keynote conversation with Emlyn Ade Palmer, Albourne and Emily Forsyth-Davies, Aurum

Rob Bird presents the BlackRock Masterclass: 2023 Private Markets Outlook, A new era for investors.

Making the grade panel: from left, Dr Taddy Blecher, Imvula Securities; Craig French, Visio Fund Management; Nosibusiso (Busi) Ngqondoyi, Old Mutual Multi-Managers. Moderator: Werner Gerber, Apex Group.

forward discussion about ways to accelerate investment in renewables – and Europe had already done very well to move away from Russian gas.

There was also debate about whether investment approaches should rely on exclusions of certain factors; greenwashing; new regulatory requirements in Europe and elsewhere; and how well ESG criteria could be applied across the strategy range – which was clearly somewhat more difficult in some hedge fund strategies than in others.

BLACKROCK MASTERCLASS: PRIVATE MARKETS OUTLOOK

This year's BlackRock Masterclass focused on private markets, with presenter Rob Bird stating that the "great moderation" was over, referring to the period of steady growth and inflation that supported a sustained stocks-and-bonds bull market for decades, bringing about very low cost of capital.

Bringing inflation down to central bank targets entailed crushing demand to meet constrained supply and this foretold recessions, in BlackRock's view.

As a result, private markets were gaining greater prominence, growing at a compound annual growth rate of 9% and 20% respectively in 2020 and 2021, compared with a respective 7% and 12% from the rest of the industry.

Private assets were estimated to reach 19% of all industry assets by 2026, up from 17% in 2021.

Private markets – which included infrastructure, private equity, real estate and private credit – also offered resilience when it came to tapping into global mega trends such as decarbonisation, digitalisation, demographics, convergence and deglobalisation, and this would be supported in various macroeconomic situations.

Bird added that private equity vintages that invest during downturns tend to outperform, and urged allocators to not miss out on upcoming vintages, cautioning that the mix of private market exposures will have to evolve to reflect the new macro environment.

MAKING THE GRADE

In a session convened by Werner Gerber of Apex, panellists discussed how boutique businesses can gain and maintain an edge on the investment, operational and business fronts.

Craig French of Visio Fund Management noted that it was people and their passion for investing that would ultimately convince investors to allocate.

As a service provider, Taddy Blecher of Imvula Securities noted that best-in-class execution was non-negotiable, while Nosibusiso Nqgondoyi of Old Mutual Multi Managers stressed that company culture and deep industry relationships were key, providing sustainable and repeatable long-term outcomes.

Achieving transformation in the investment industry was a central discussion point, and one that panellists stressed required attention, effort and education as it would continue to play a massive role in the next five years.

Panellists acknowledged that BEE was becoming more of an imperative in the industry, and companies faced greater pressure to transform. If undertaken effectively and for the right reasons, this could add huge value to a company in many areas, despite the cost and complexity.

Nqgondoyi stressed that it was important to strike a balance. "Engaging with managers is really vital for us," she said. "There may be a manager that ticks the investment boxes but falls short on transformation. We need to make sure that we bring them along on the journey because it doesn't help anyone disinvesting."

She added that OMMM valued both big organisations and boutiques, which often came with entrepreneurial spirit and innovative ways to solve problems, and managers should be able to clearly articulate what it is that they brought to the table.

Imvula's Blecher said shared value partnerships would help companies get ahead, helping asset managers to achieve BEE milestones. As a stockbroker, Imvula's edge was that it brought empowerment solutions to South African firms, and it was also investing in education to foster the next generation.

Ultimately service providers had the same expectations as their clients when it came to transformation, empowerment and ESG and this required working together as an industry.

THE PERENNIAL POTENTIAL OF HEDGE FUNDS

The final session of the day convened various industry players to discuss the perennial potential of a hedge fund allocation.

Moderator Neil Wilson began by asking if investors had been happy with hedge fund performance last year.

Elmien Wagenaar of THINK.CAPITAL said the answer depended very much on where you were invested, with a wide dispersion in hedge fund returns last year and varying degrees of volatility.

Kamini Naidoo of Momentum Alternative Investments added that 2022 offered a good opportunity for hedge funds to outperform traditional beta and generate good returns across strategies.

"The stand-out last year for me was on the equity side," she said. "Managers did really well to be able to flex their net exposures in a market that was quite volatile."

It was good to see market neutral and relative-value type trades come back in to play, as expected in a rising interest-

The great hedge fund debate panel: from left, Elmien Wagenaar, THINK.CAPITAL; Kamini Naidoo, Momentum Alternative Investments; Lebo Thubisi, Alexander Forbes Investments; Matthew Pouncett, Laurium Capital. Moderator: Neil Wilson, Wilson Willis Management.

rate environment, and some fixed income strategies also did well, despite a wide dispersion in returns.

Lebo Tubisi, at Alexander Forbes Investments, said it was important to assess hedge fund performance against inflation, and this had been encouraging over a 12-month period as hedge funds had actually outperformed.

Matthew Pouncett of Laurium Capital said the performance of larger players in the long/short space had been highly additive to portfolios, particularly on a risk-adjusted basis when compared against ASISA, low, medium and high equity categories.

In the current environment, Naidoo said she expected macro-thematic type funds to do well, both equity and fixed income, and also those that trade actively, while Wagenaar said it was important to assess what types of risks managers were taking, pointing out that when used well, leverage can be less risky than beta exposure.

As a single-strategy fund manager, Laurium was relatively cautious right now, avoiding highly concentrated or large bets on certain sectors or factors as a risk management stance, doing a lot of work to identify companies with idiosyncratic upside while putting protection in place.

Investors noted that they put a lot of time and effort into understanding the process and the philosophy behind each manager and strategy. Deviation from process or performing in unexpected ways were red flags, as well as any management changes.

Changes at portfolio level, rather than individual manager performance, sometimes drove an investors' decisions, such as forward-looking views around diversity or diversification.

What does the manager of the future look like?

Thubisi stressed that it was incumbent on allocators to help shape the industry's future direction, and this included early-stage allocations to up-and-coming managers. In an ageing industry, succession planning, skills transfer and developing younger talent were critical.

Panellists agreed that it was important to see new managers and new strategies come to market to foster longevity and diversity in the industry, combined with consistent performance from existing managers and education around contentious issues, such as fees.