

**FOOD FOR**



**returns**  
**COMPLEXITY**  
**COSTS**





**90%**

**of active members**



**concerned that they are investing too conservatively.**

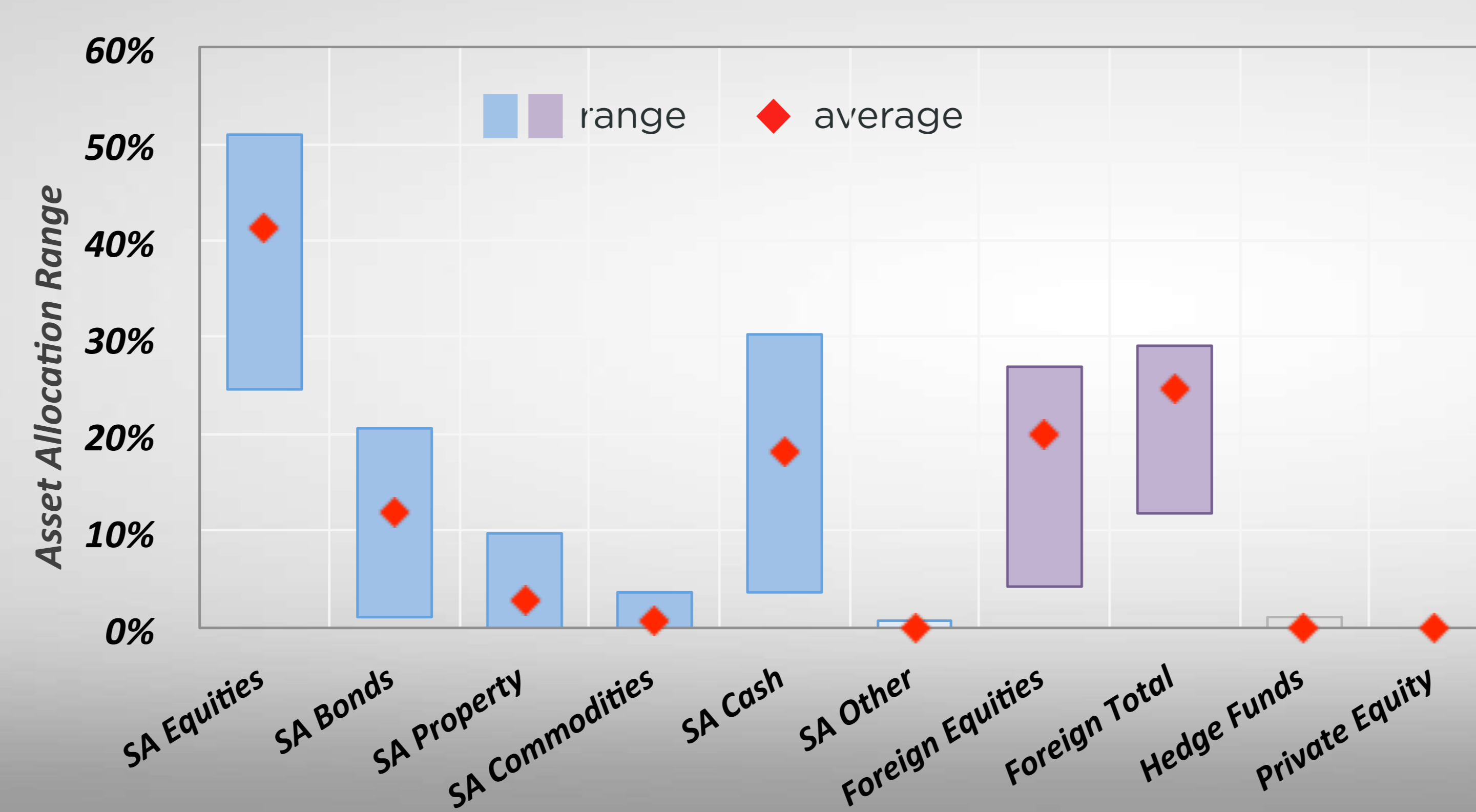


an opportunity to shape investment strategy

# REGULATION 28



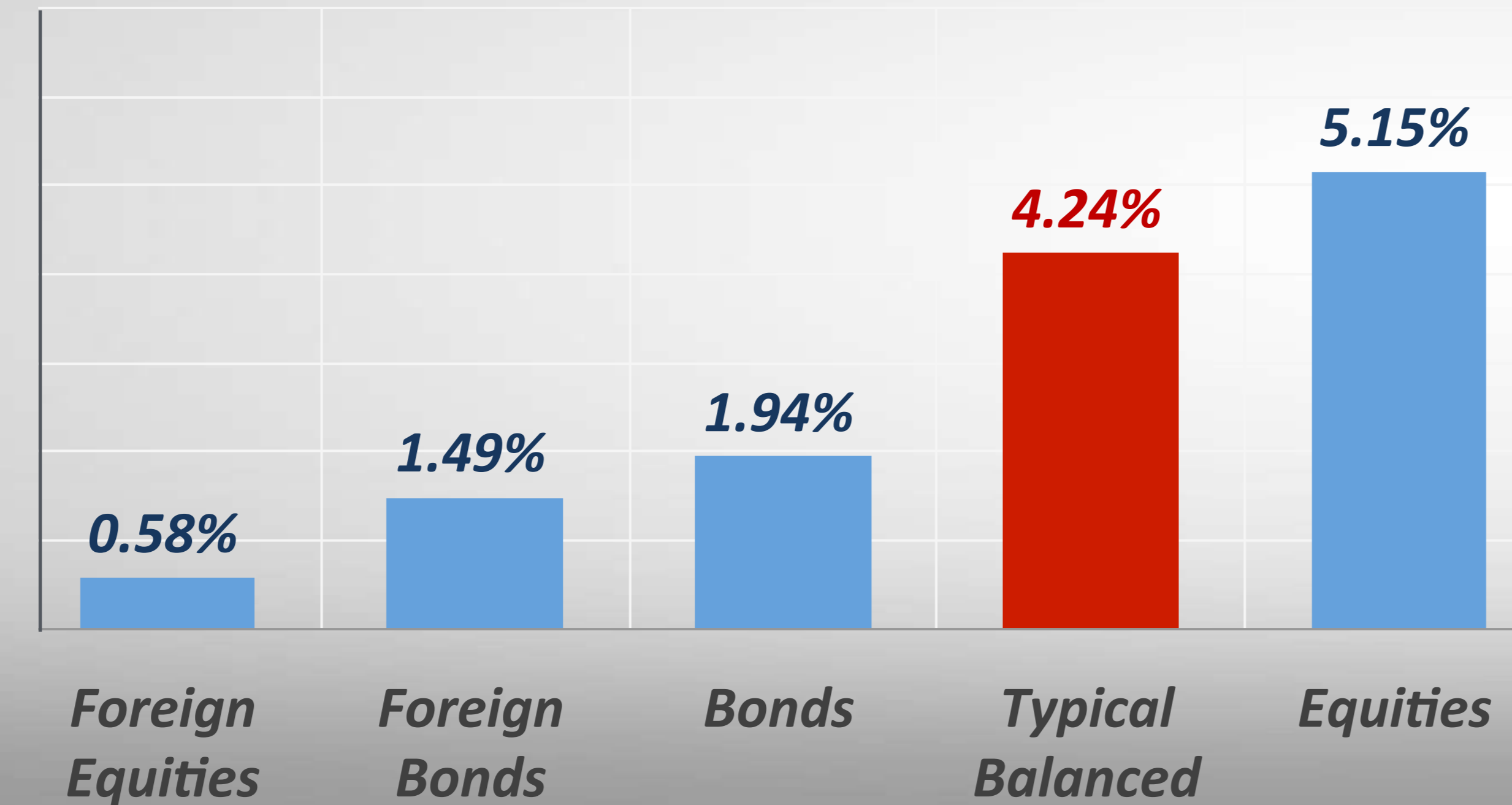
# typical Reg 28 balanced fund construct ...



	average
SA Equities	41.38%
SA Bonds	12.03%
SA Property	2.85%
SA Commodities	0.77%
SA Cash	18.24%
SA Other	0.05%
Foreign Equities	19.96%
Foreign Total	24.59%
Hedge Funds	<b>0.08%</b>
Private Equity	<b>0.00%</b>

# performance illustration - of typical balanced fund

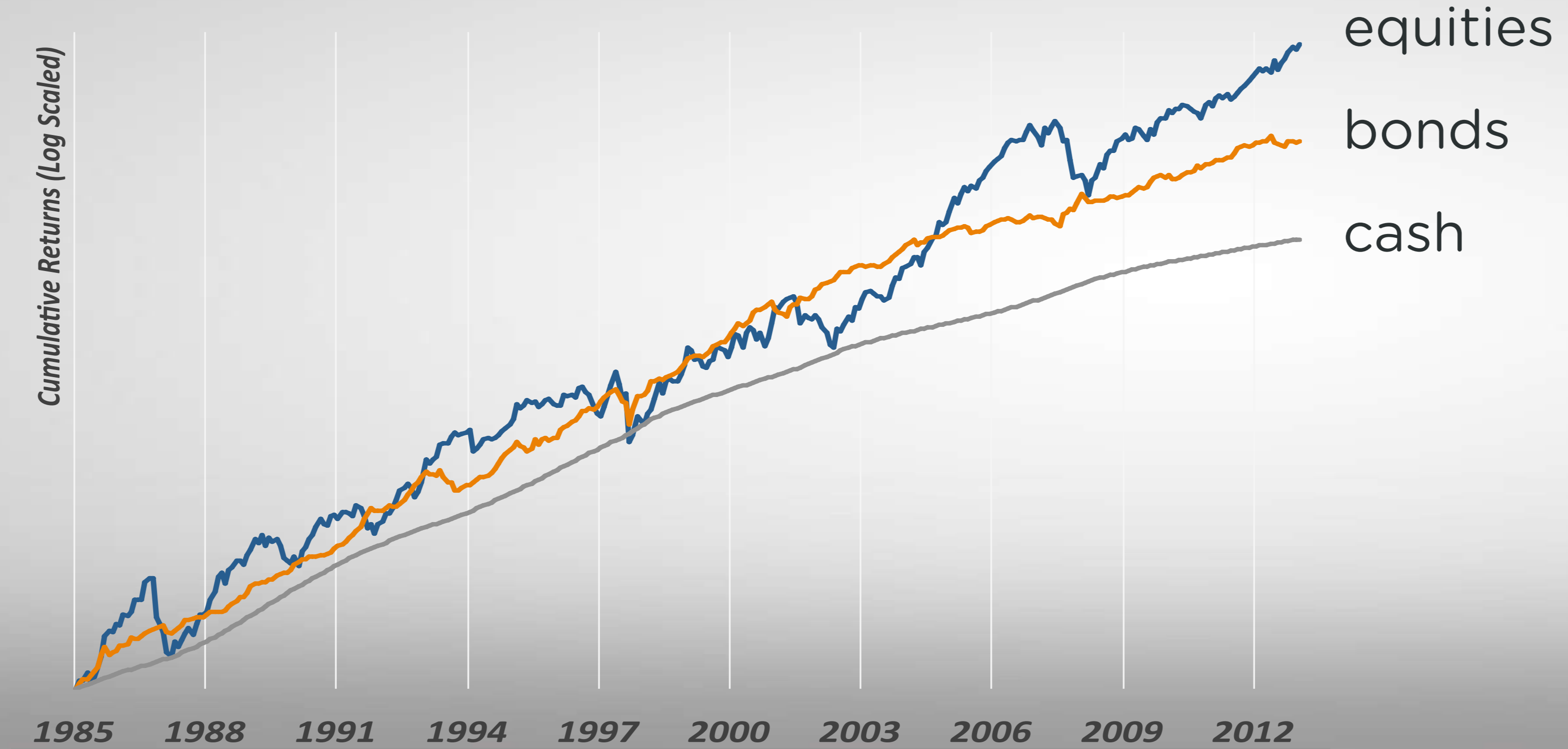
return



Years	Equities
5	8.51%
10	36.86%
15	119.74% (1.2 times)
20	345.81% (3.5 times)
25	936.38% (9.4 times)

in general we should be trying to maximize exposure to equities over the long-term

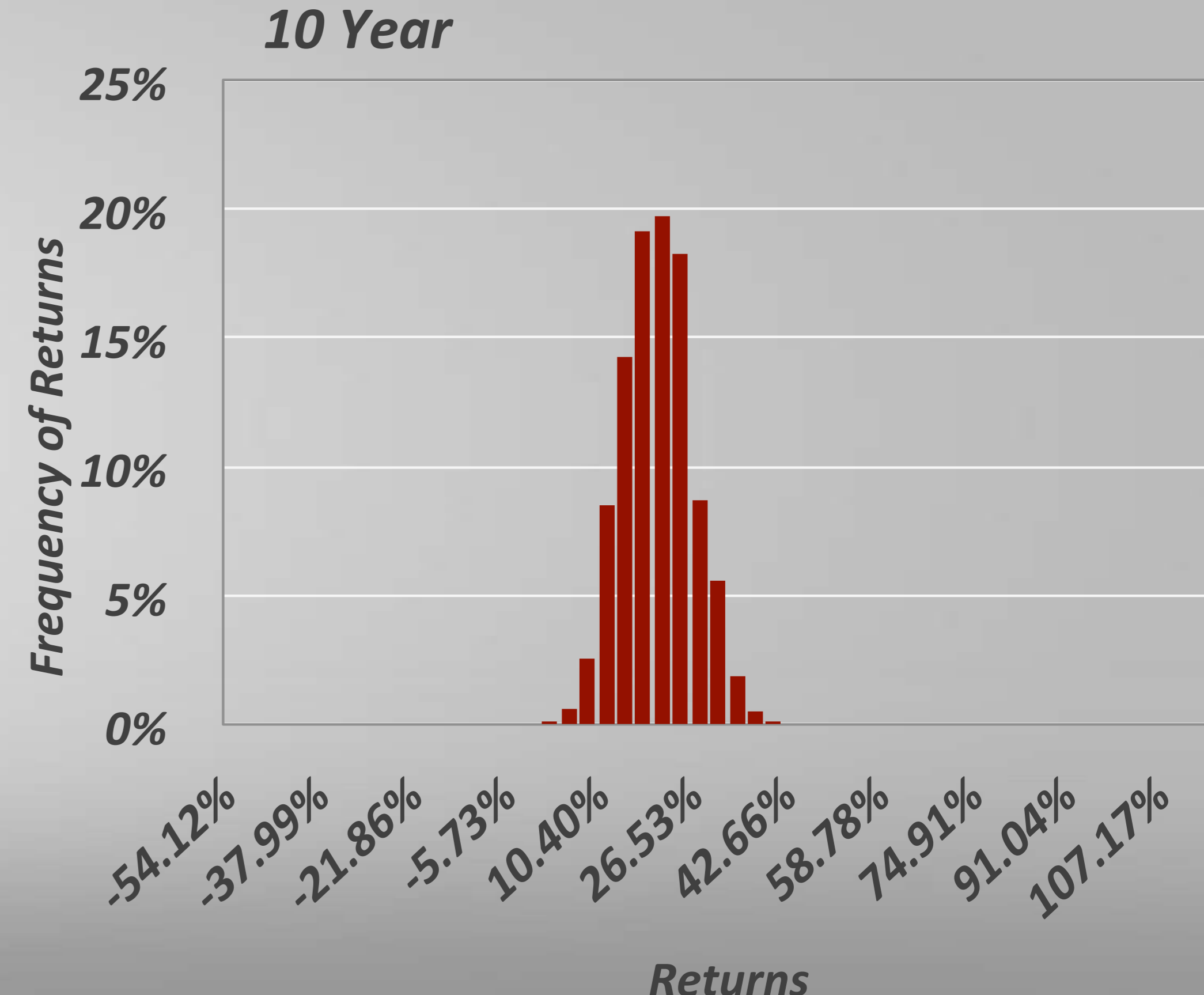
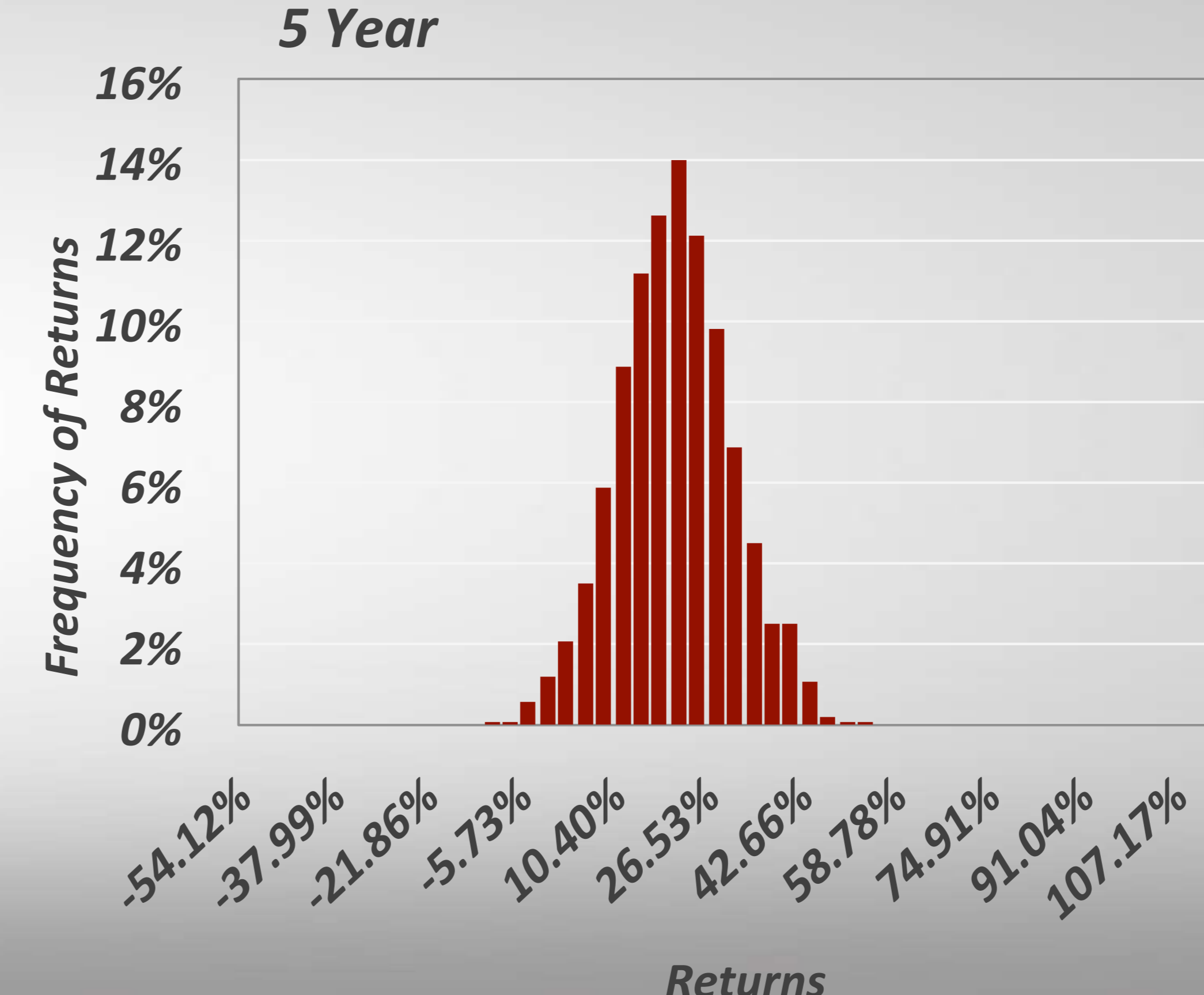
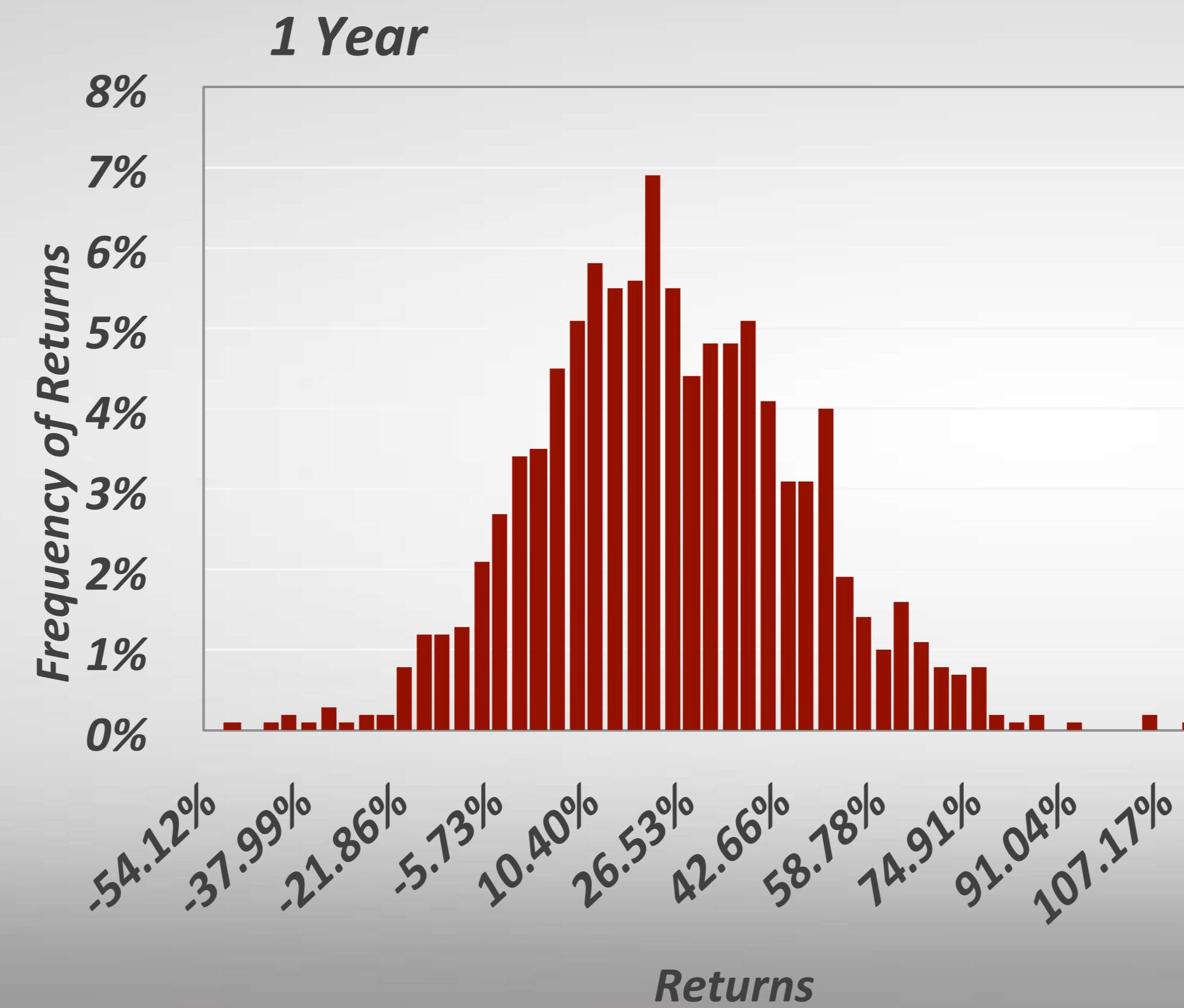
# equities will outperform in the long-term ...



equities  
bonds  
cash

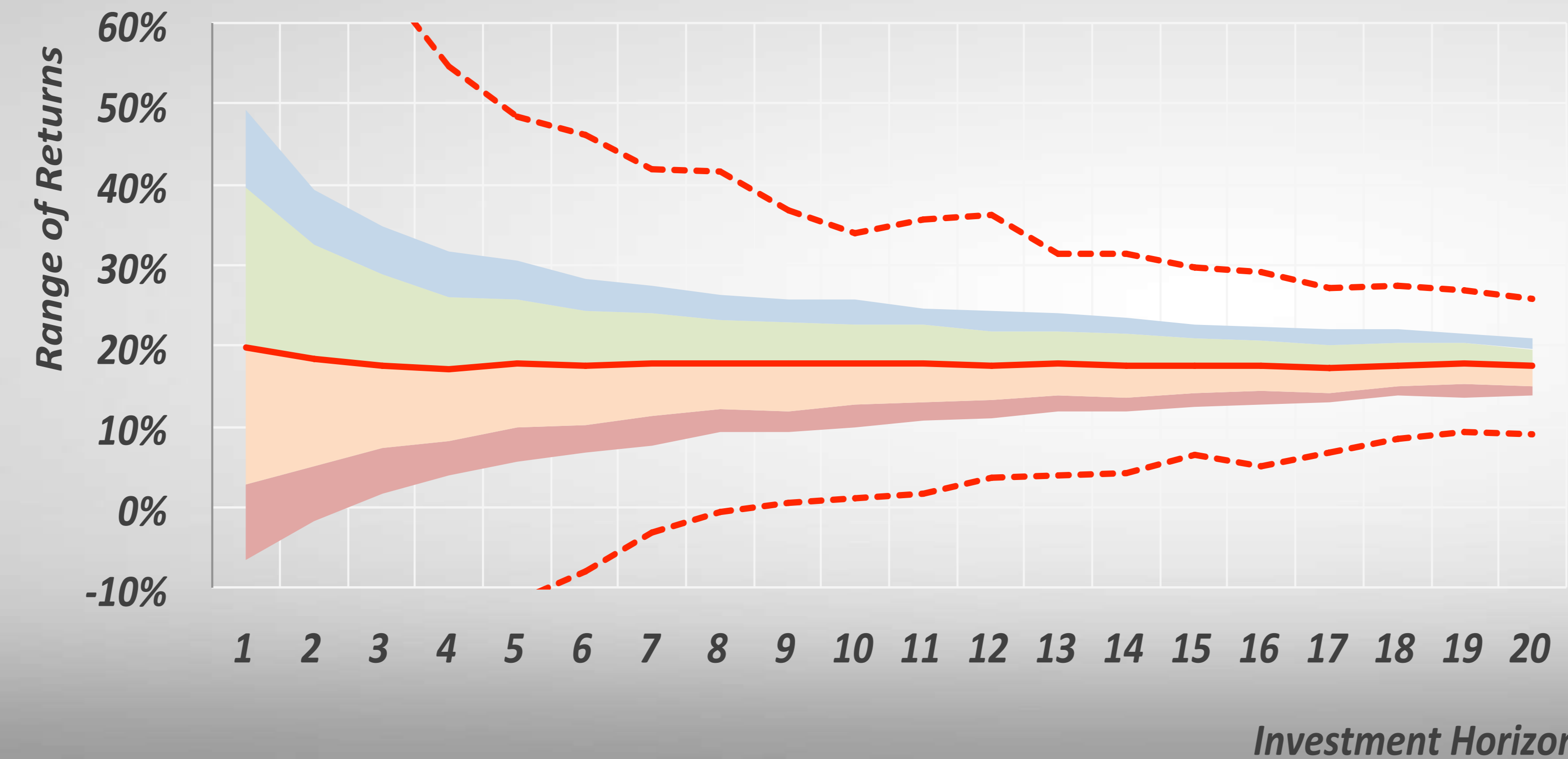
but what about equity risk?

# investment horizon matters ...

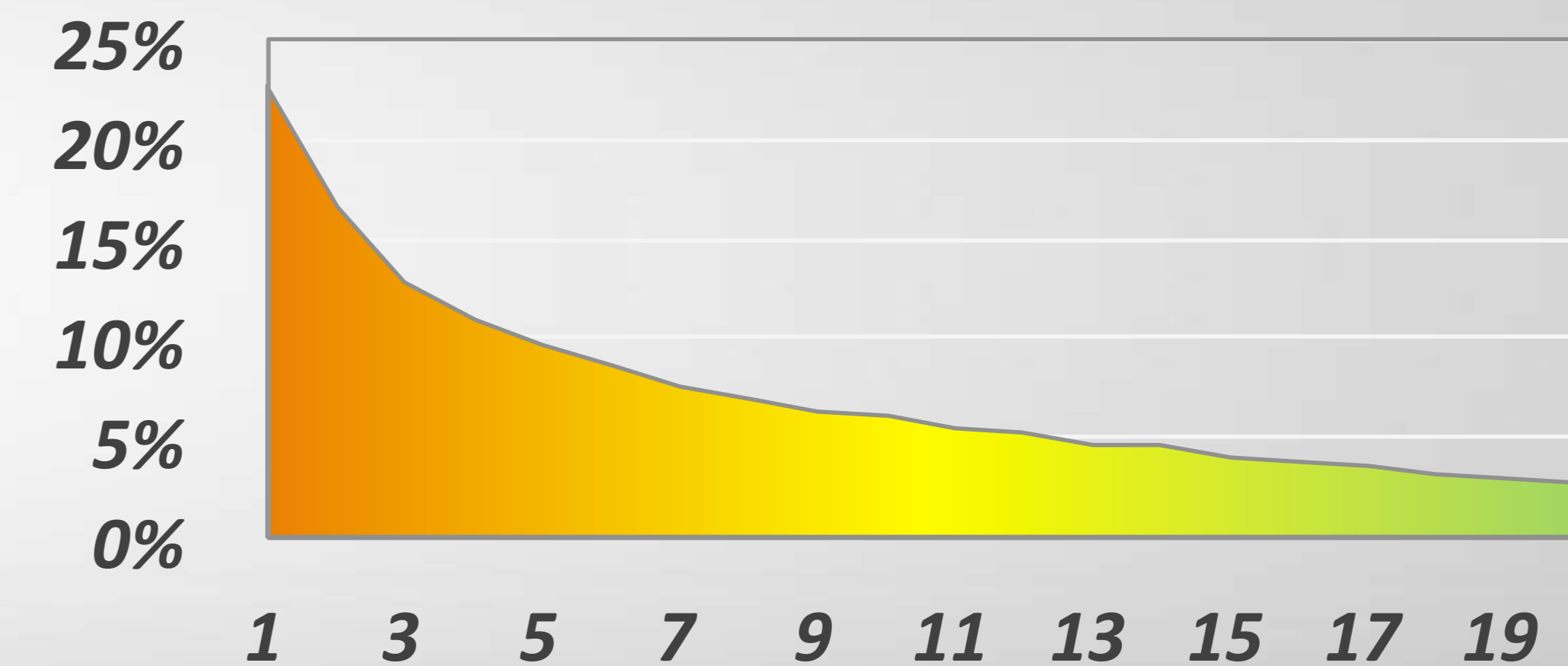




# investment horizon matters ...

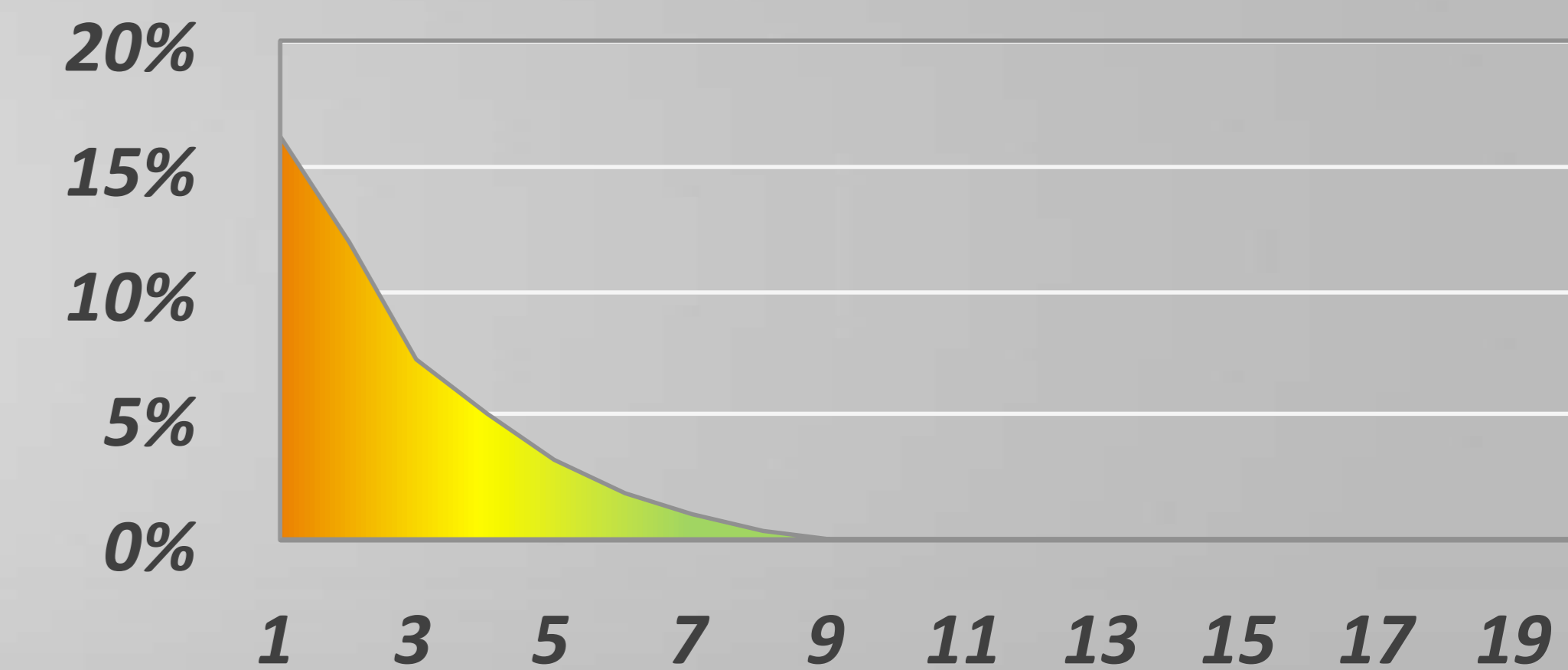


*St. Deviation*



*Investment Horizon*

*Prob. Of a Loss*



*Investment Horizon*

as long as you have a  
long-term outlook risk of  
capital loss should not be  
a concern in equities

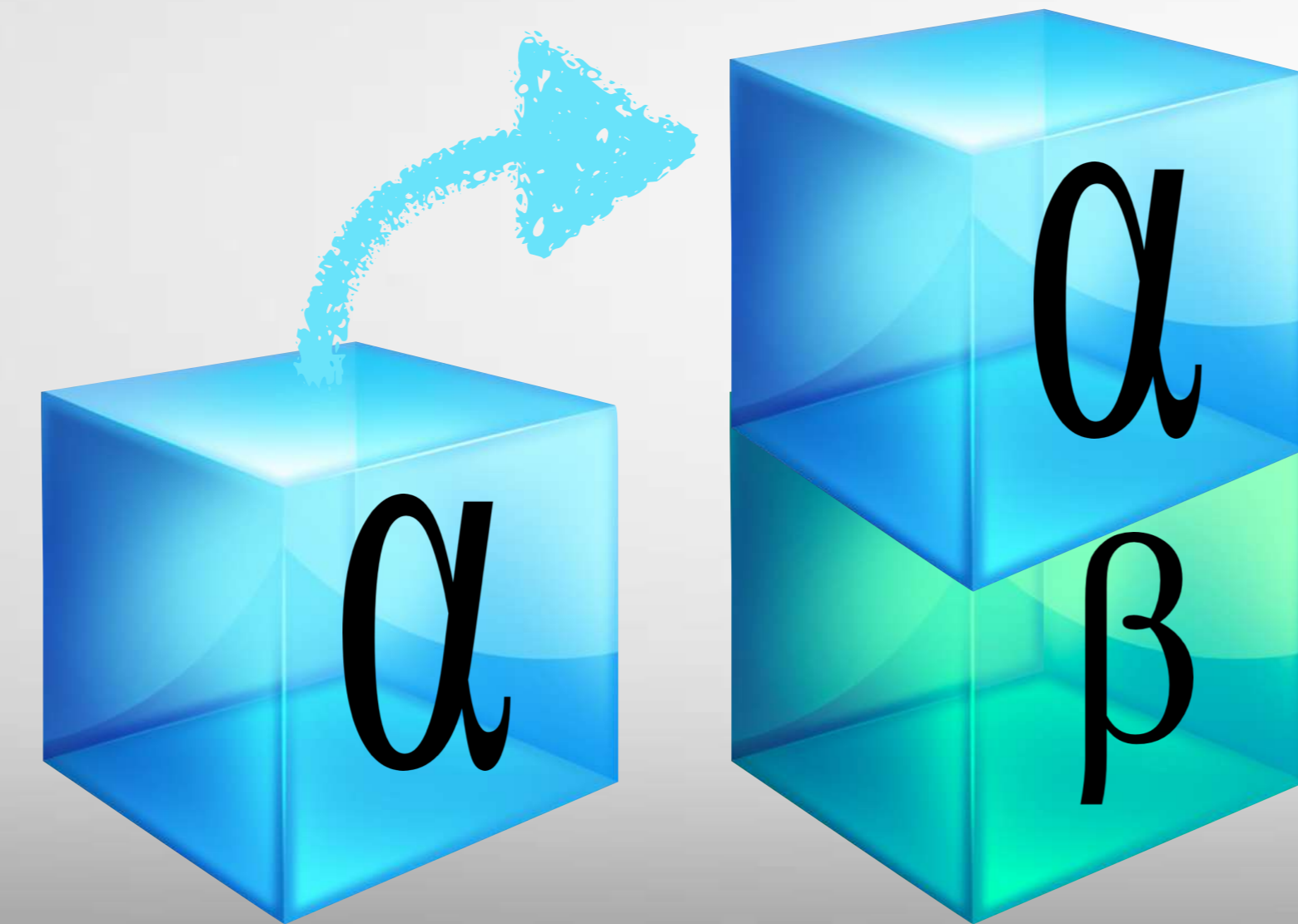
**BUT ...**  
Reg 28  
Max 75% Equities

can we get more  
equity exposure?

$\alpha \beta$

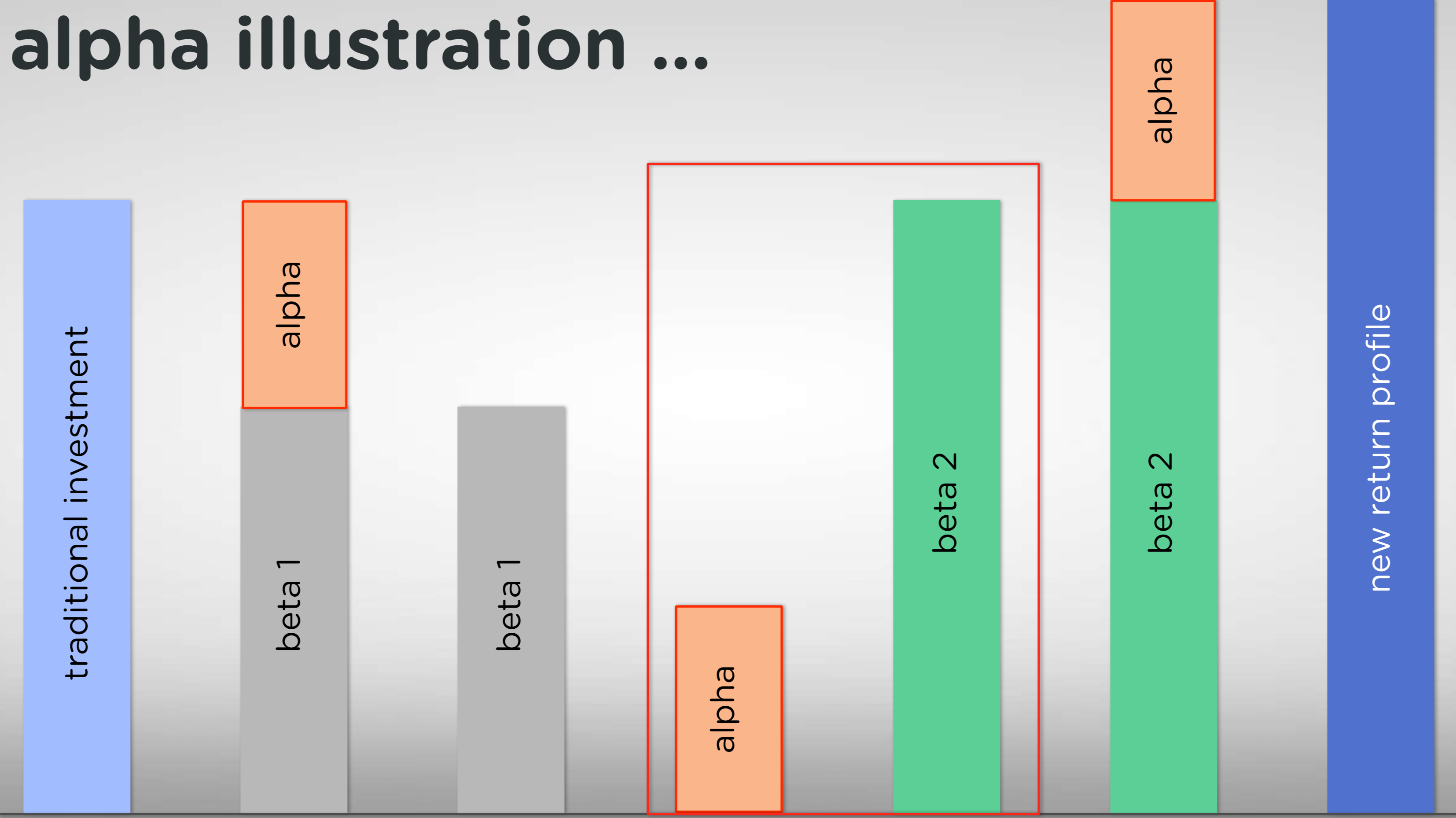
**SEPARATING ALPHA AND BETA**

CONCEPT ...



‘ USING HEDGE FUND ALLOCATION TO CREATE MORE EQUITY EXPOSURE THROUGH PORTABLE ALPHA ’

# portable alpha illustration ...





**20%**

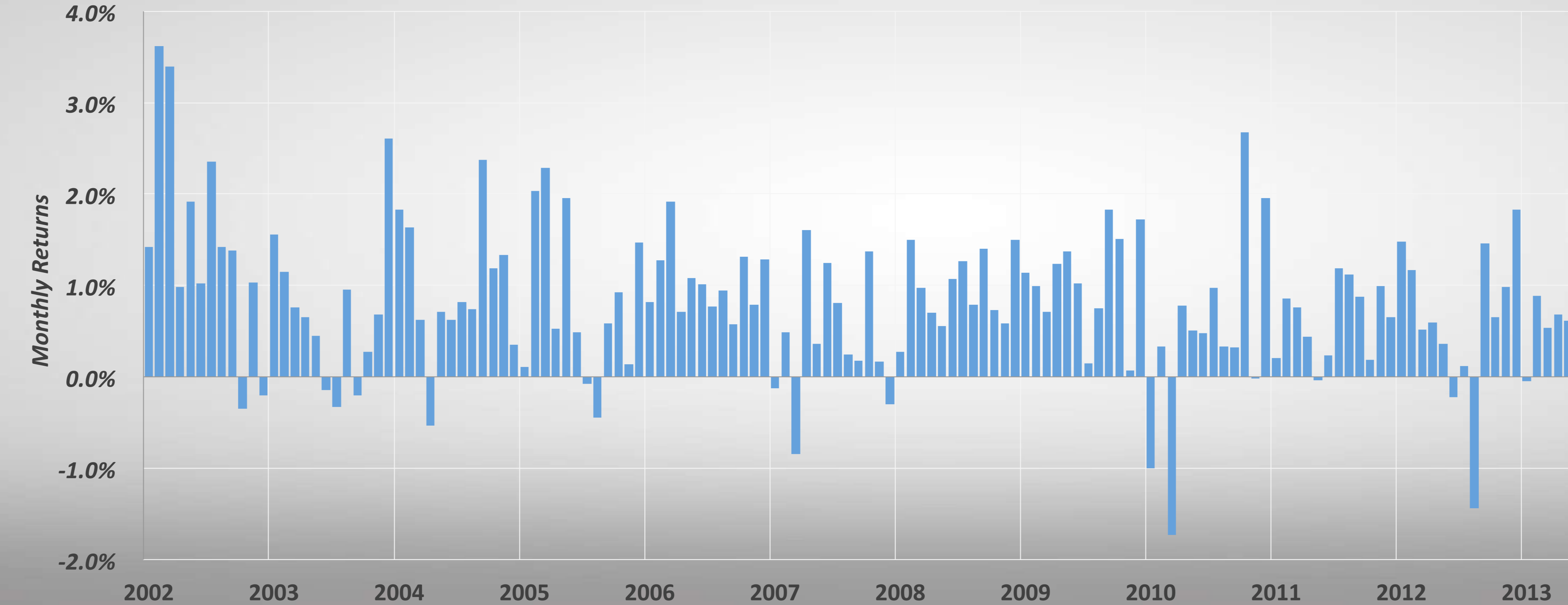
**of stand alone funds**



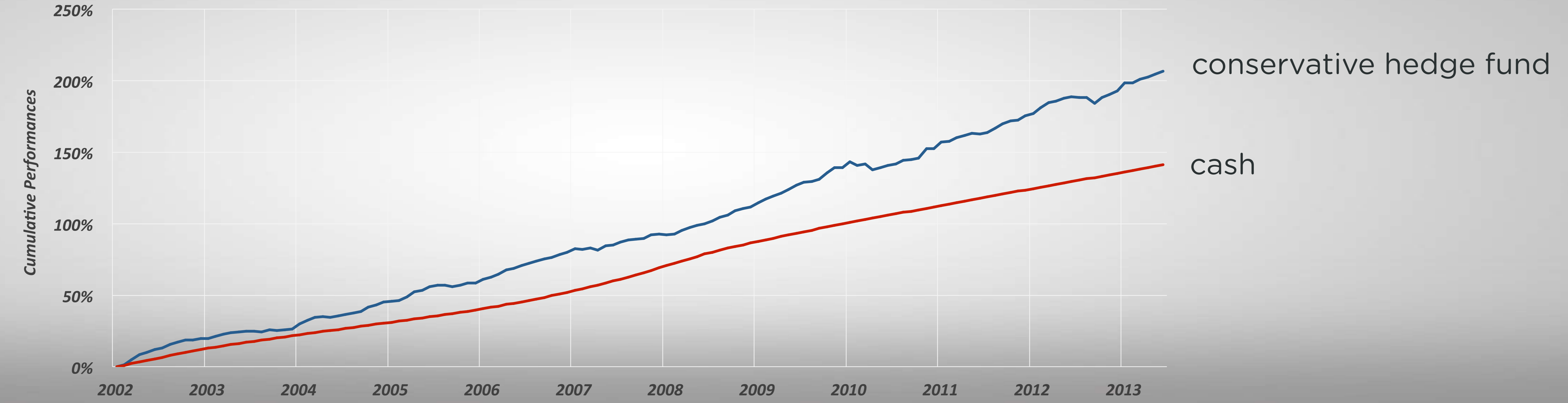
**trustees see hedge funds as having good / very good  
ability to provide stable returns**



# conservative hedge fund performance .. the alpha source



# long-term alpha ...

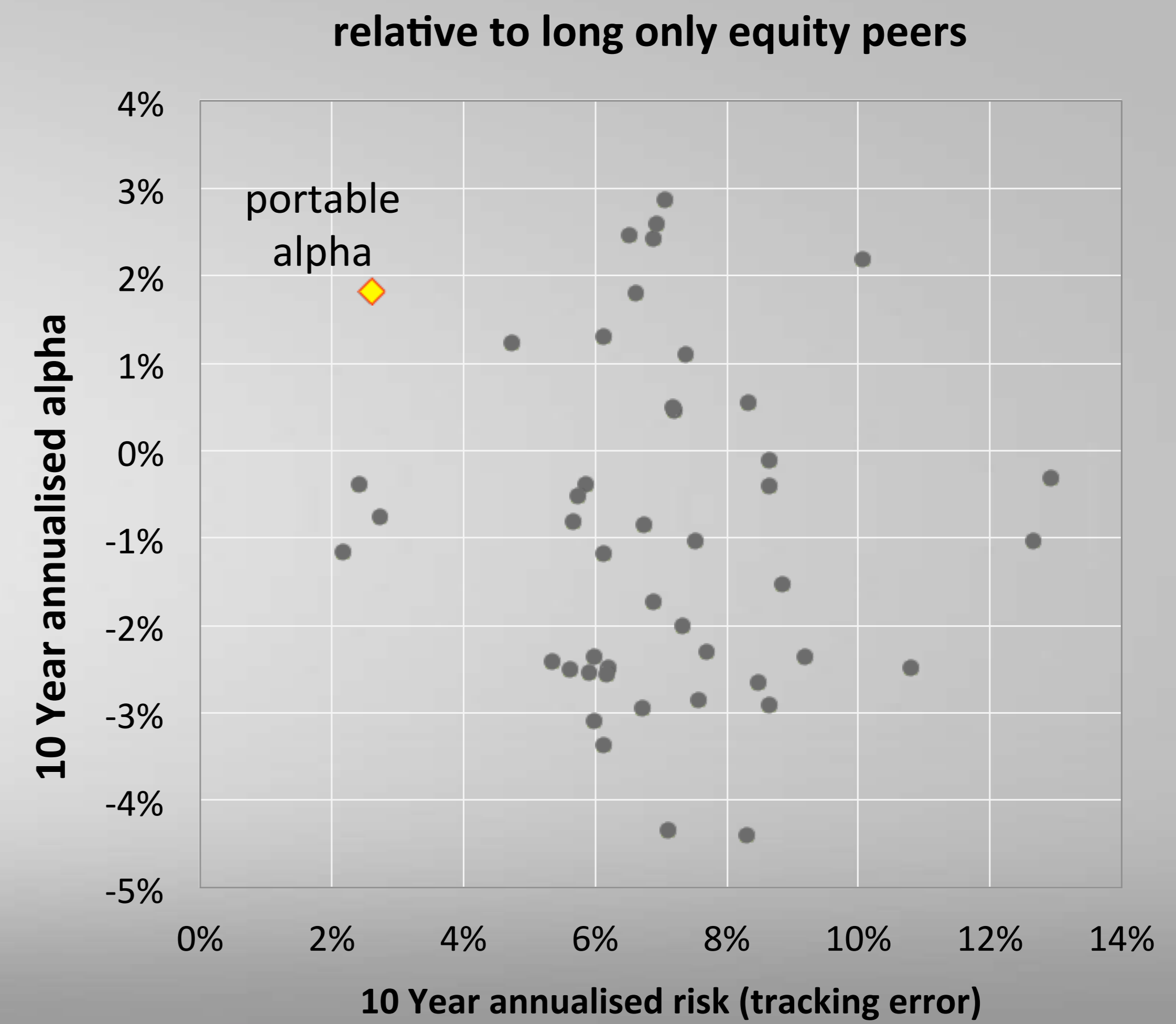




# equity portable alpha track record

Reg 28 allows 10% allocation to hedge funds and therefore portable alpha

	portable alpha	ALSI	relative
1 Year	24.28%	23.57%	0.71%
2 Years	25.91%	23.02%	2.89%
3 Years	20.74%	17.62%	3.12%
4 Years	19.14%	17.00%	2.14%
5 Years	24.92%	21.98%	2.95%
6 Years	13.08%	11.58%	1.50%
7 Years	12.53%	11.51%	1.01%
8 Years	15.58%	14.49%	1.09%
9 Years	20.54%	18.61%	1.93%
10 Years	21.35%	19.53%	1.82%



an opportunity to shape investment strategy

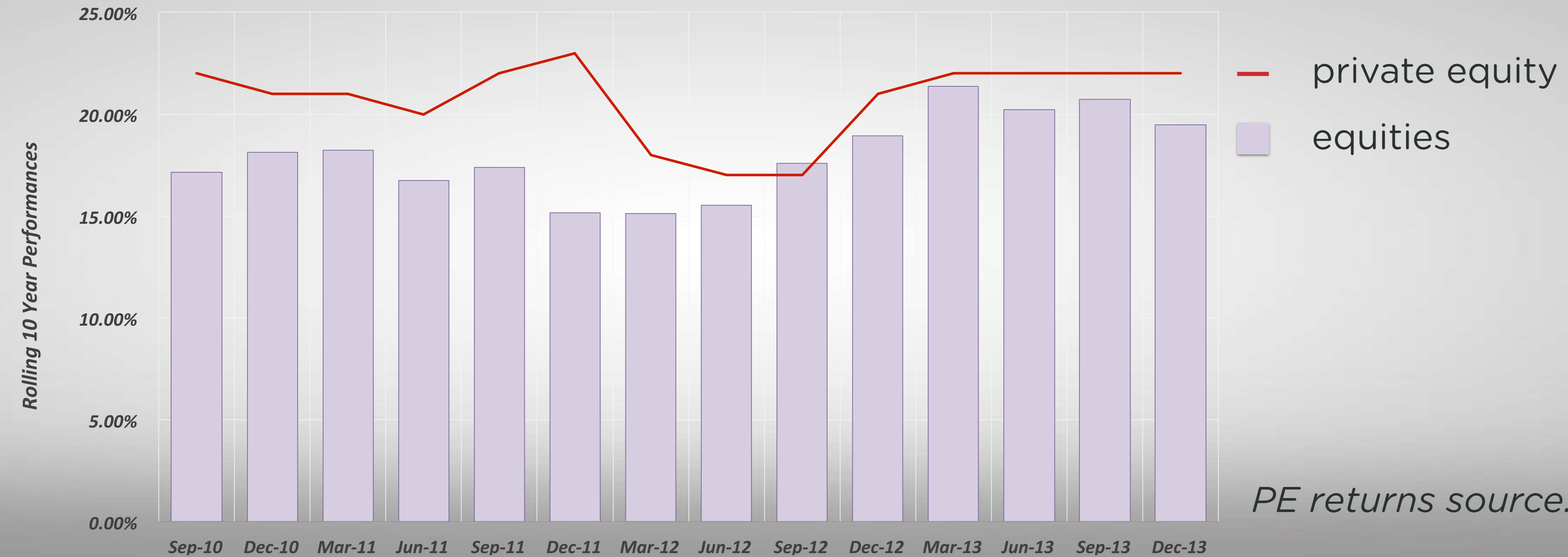
# REGULATION 28

**10%** hedge fund allowance

**10%** private equity allowance

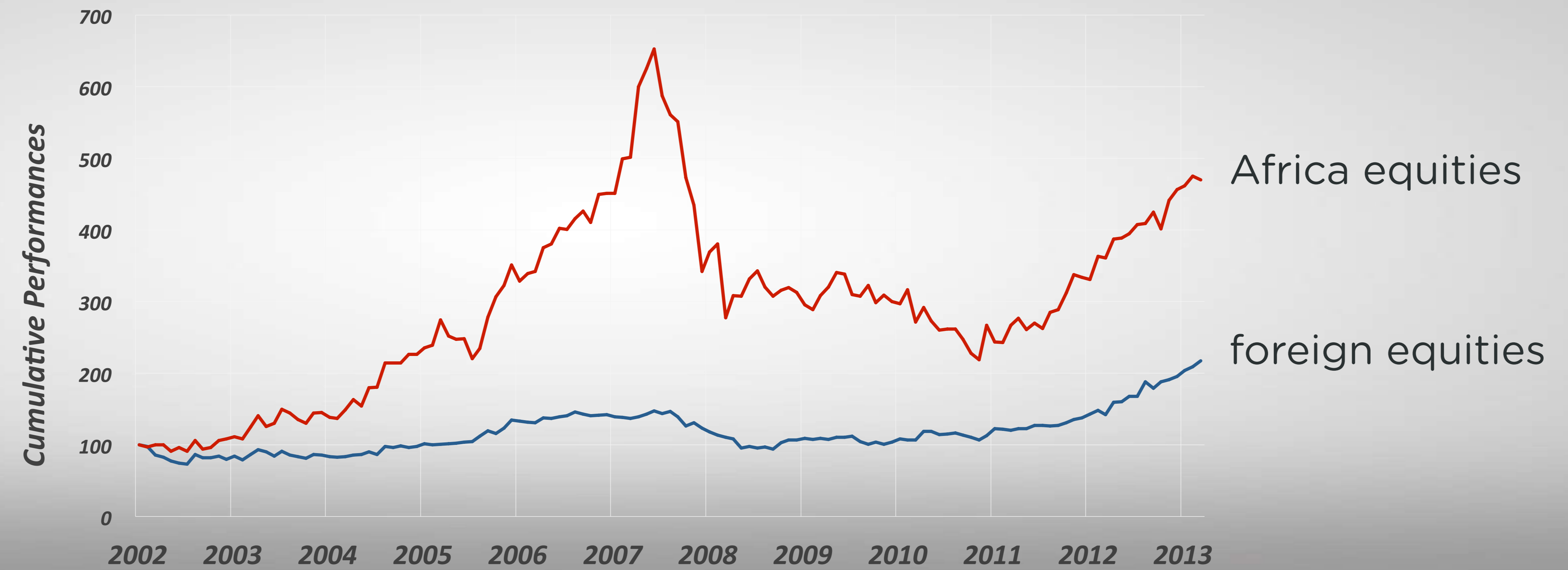
**5%** Africa allowance

# private equity long-term performance ...



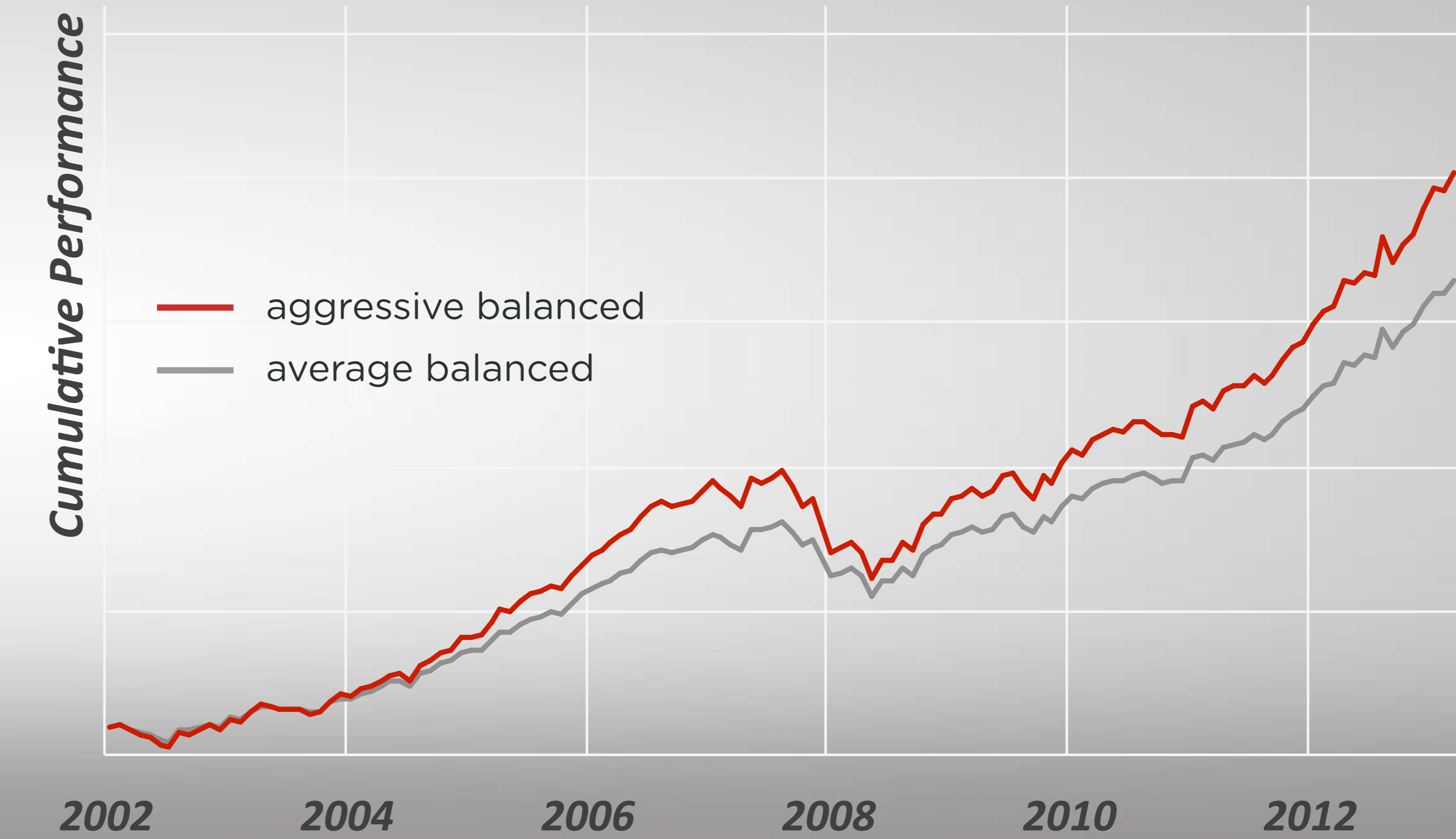
*PE returns source: Riscura*

# Africa equity long-term outperformance of developed equity ...



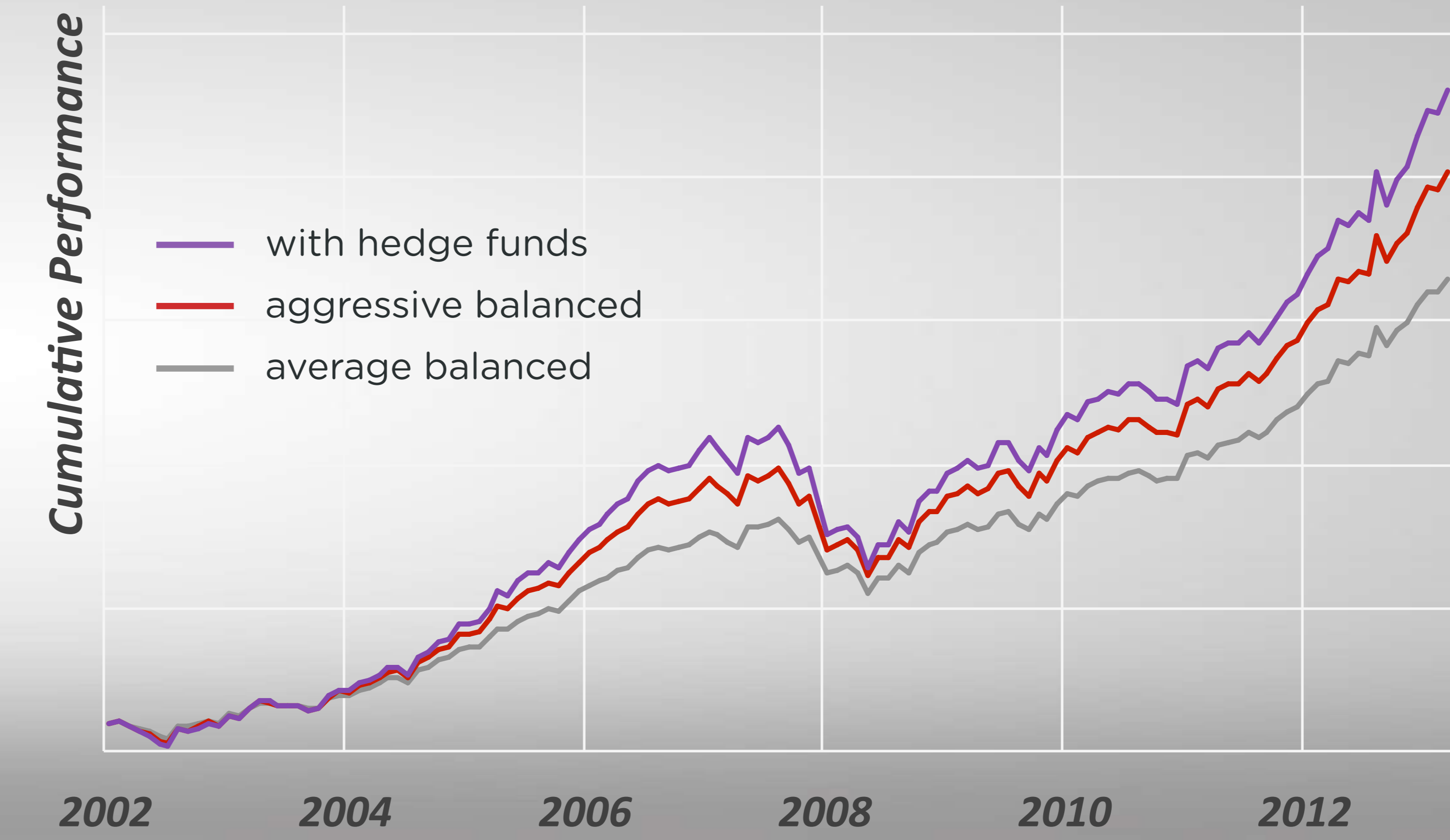
# let's take a look at the results ...

	Aggressive Balanced
SA Equities	55%
SA Bonds	10%
SA Property	5%
SA Cash	5%
Developed Equities	20%
Developed Bonds	5%
Hedge Funds	-
Private Equity	-
Frontier Markets	-



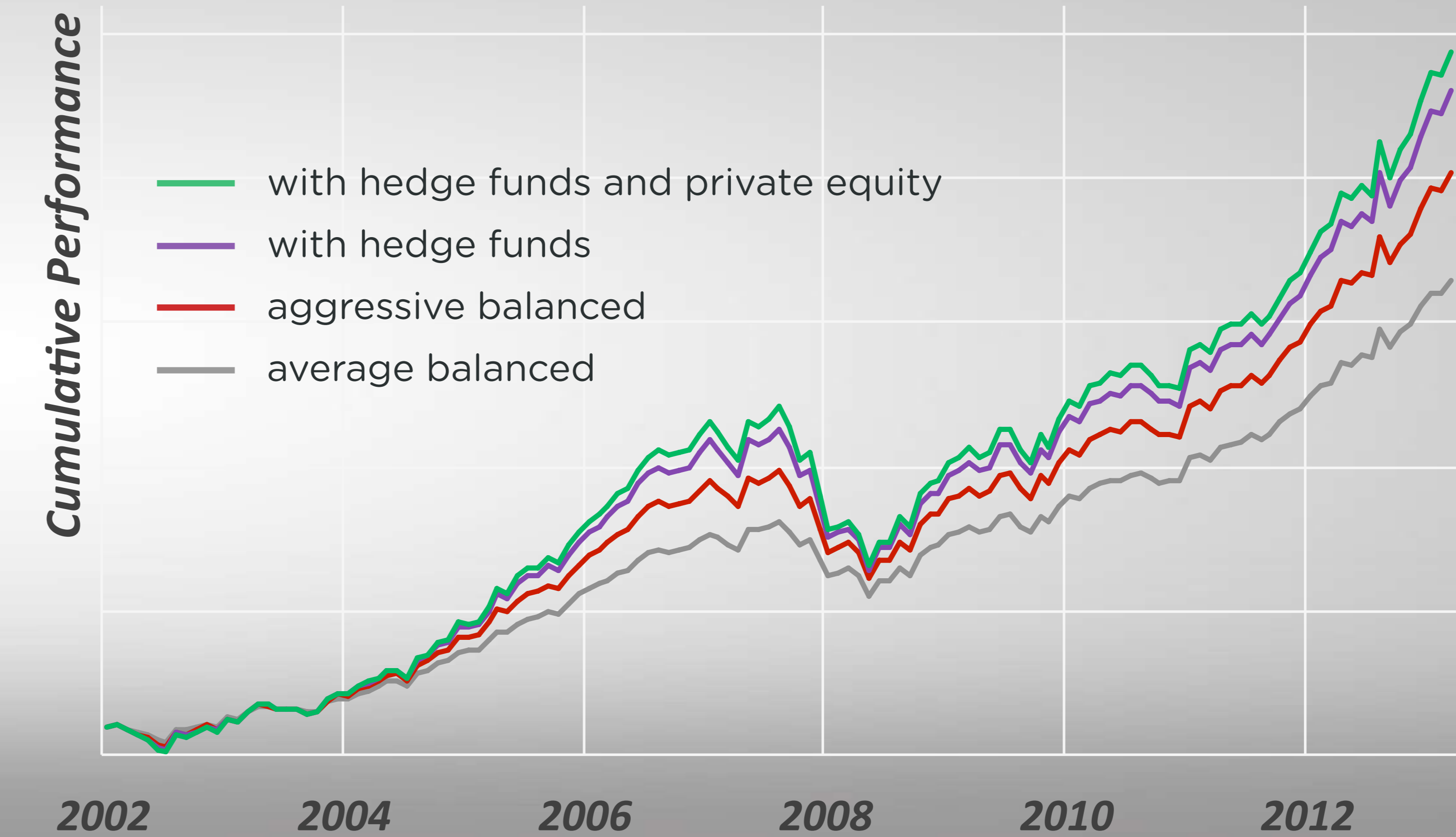
# let's take a look at the results ...

	Aggressive Balanced	With HF
SA Equities	55%	55%
SA Bonds	10%	5%
SA Property	5%	5%
SA Cash	5%	-
Developed Equities	20%	20%
Developed Bonds	5%	5%
Hedge Funds	-	10%
Private Equity	-	-
Frontier Markets	-	-



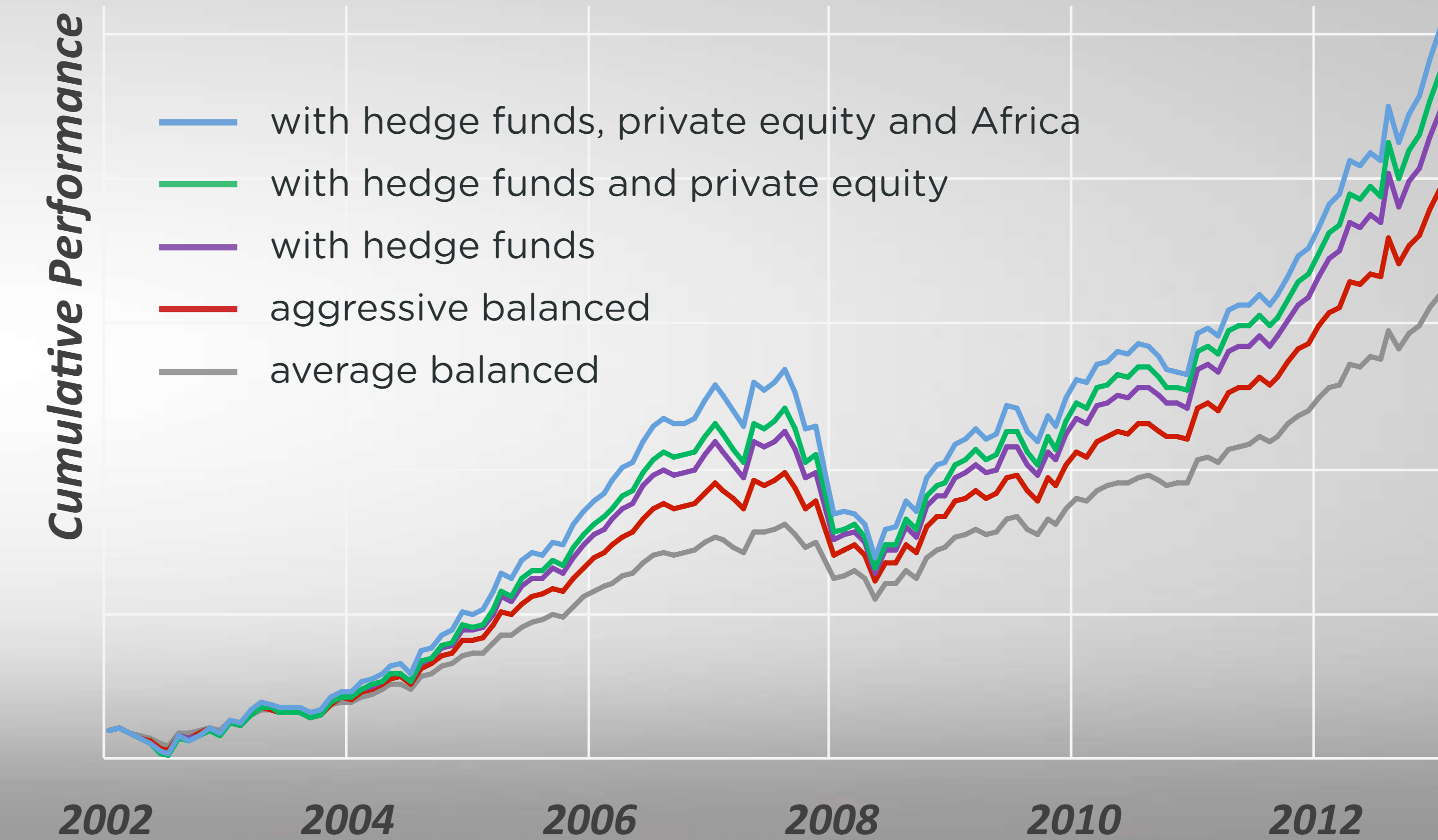
# let's take a look at the results ...

	Aggressive Balanced	With HF	With HF + PE
SA Equities	55%	55%	55%
SA Bonds	10%	5%	-
SA Property	5%	5%	5%
SA Cash	5%	-	-
Developed Equities	20%	20%	20%
Developed Bonds	5%	5%	5%
Hedge Funds	-	10%	10%
Private Equity	-	-	5%
Frontier Markets	-	-	-



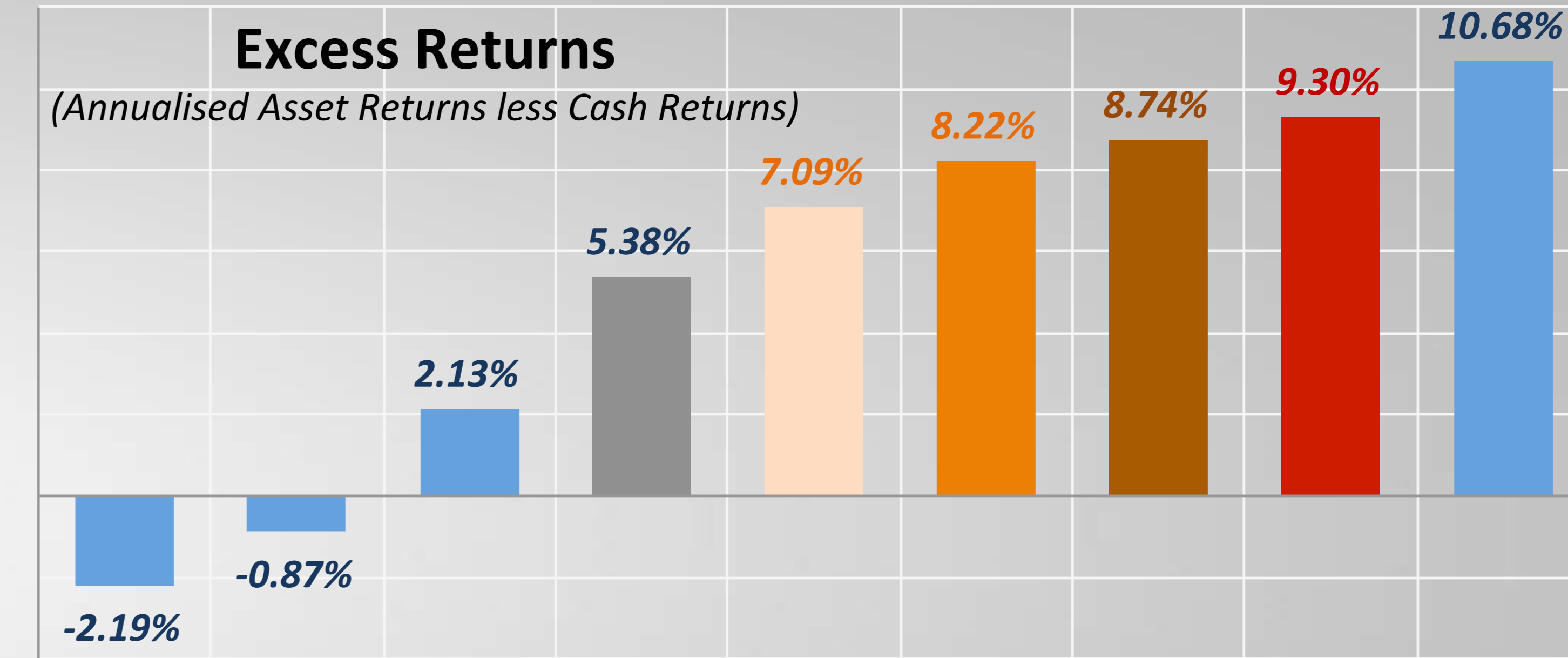
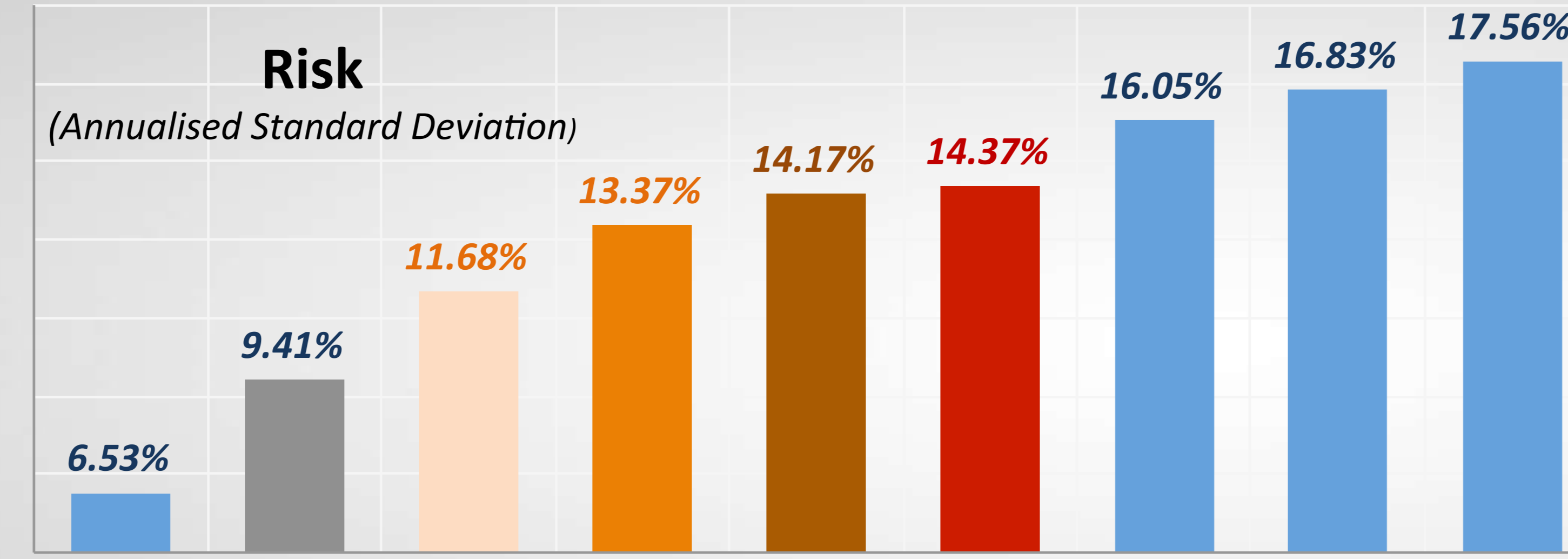
# let's take a look at the results ...

	Aggressive Balanced	With HF	With HF + PE	With HF + PE + Africa
SA Equities	55%	55%	55%	55%
SA Bonds	10%	5%	-	-
SA Property	5%	5%	5%	5%
SA Cash	5%	-	-	-
Developed Equities	20%	20%	20%	20%
Developed Bonds	5%	5%	5%	-
Hedge Funds	-	10%	10%	10%
Private Equity	-	-	5%	5%
Frontier Markets	-	-	-	5%





almost double the excess return →



Bonds  
Average Balanced  
Aggressive Balanced  
With Hedge Funds  
With Hedge Funds +  
With HF's + PE + Africa  
Foreign Equities  
Equities  
Foreign Bonds

Foreign Bonds  
Foreign Equities  
Bonds  
Average Balanced  
Aggressive Balanced  
With Hedge Funds  
With Hedge Funds + Private Equity  
With HF's + PE + Africa  
Equities

## why aren't most active managers investing this way?



access to  
skills / capacity



risk of  
differentiating  
from herd



short-termism  
in manager  
evaluation



no demand  
from clients /  
intermediaries

an opportunity to shape investment strategy

# REGULATION 28

