HOW TO INVEST IN A HEDGE FUND?

"Navigating Uncertainty" is a dynamic finance series designed to demystify the complexities of hedge funds. We provide clarity on intricate concepts, ensuring accessibility to readers of all backgrounds.

COBUS POTGIETER
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HOW DOES ONE INVEST IN A HEDGE FUND?

Historically, hedge funds were exclusive to major institutions and high-net-worth individuals. However, with increased regulation, hedge funds have become accessible to retail investors, making it as straightforward to invest in them as in any other unit trust.

WHAT ARE THE AVAILABLE AVENUES FOR ACCESSING HEDGE FUNDS FOR INVESTMENT PURPOSES?

Most investors access hedge funds through their financial advisors, who incorporate them into diversified portfolios hosted on major independent investment platforms such as Allan Gray, Ninety One, and Glacier. While these platforms readily accommodate hedge funds, access depends on your advisor's qualifications and regulatory capabilities.

Advisors must hold the necessary regulatory category to recommend hedge funds, so it's important to ensure your advisor is capable of effectively integrating hedge funds into your portfolio. If you're not currently invested in hedge funds, consider discussing your advisor's perspective on hedge funds or their ability to include them in your investment strategy.

SHOULD I OUTSOURCE MY INVESTMENTS TO A DISCRETIONARY FUND MANAGER, IF MY FINANCIAL ADVISOR DOES NOT SPECIALISE IN HEDGE FUNDS?

Similarly, advisors who delegate investment decisions to discretionary fund managers should ensure these managers possess strong research capabilities and a comprehensive understanding of hedge funds.

The current regulatory regime allows investors to invest up to 10% of their capital in hedge funds for retirement annuity preservation or pension fund assets, and any amount they please in discretionary or post retirement investments.

WHAT IS SOUTHERN CROSS CAPITAL'S VIEW ON HEDGE EXPOSURE IN A PORTFOLIO?

While there are no specific limitations on hedge fund exposure within discretionary or post-retirement portfolios, our model and core belief in diversification advocate allocating between 20% and 30% of a portfolio to hedge funds for optimal risk management and potential returns.