





## **Using Hedge Funds to Enhance Low Risk Returns**

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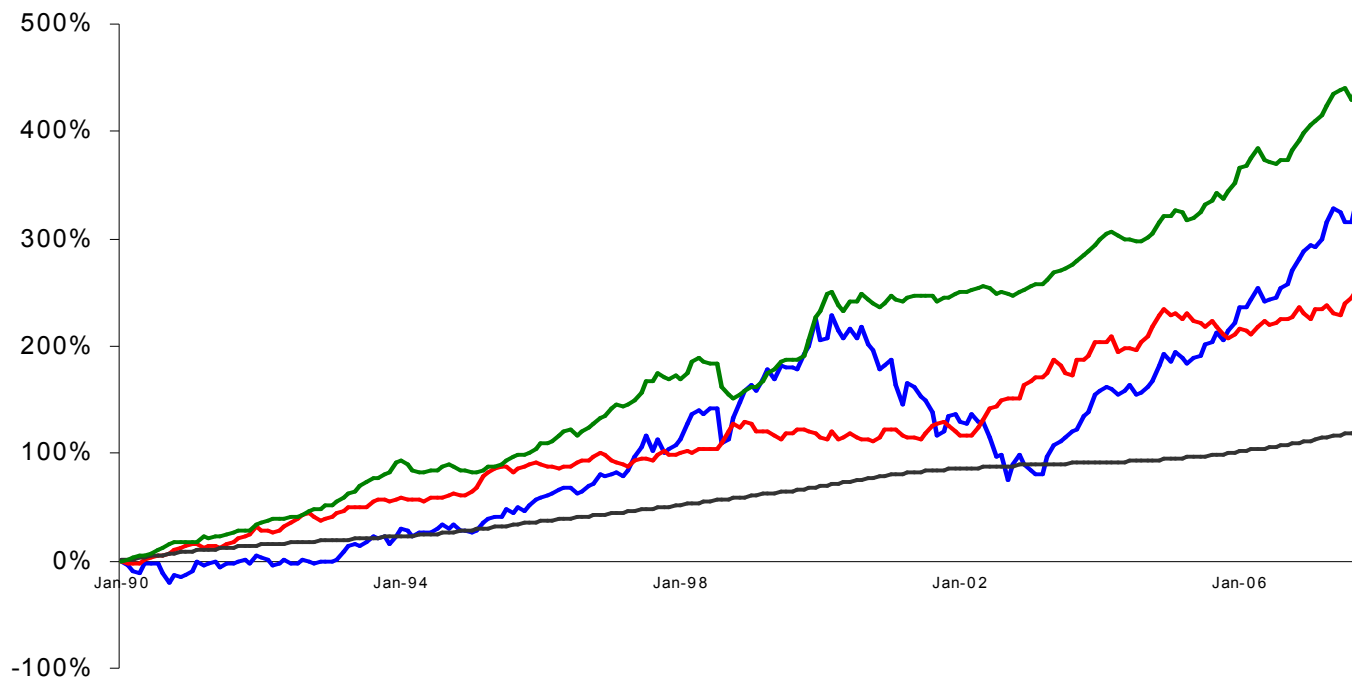
### **Introduction to Hedge Funds**

**How can Hedge Funds enhance cash and bond allocations?**

## What are Hedge Funds?

	<b>Traditional Investments (e.g. equities, bonds)</b>	<b>Hedge Funds (on average)</b>
<b>Investment Objective</b>	<b>Outperform a market benchmark</b>	<b>Absolute Real Return</b>
<b>Primary Source of Returns</b>	<b>Market Based</b>	<b>Manager Skill</b>
<b>Risk Objectives</b>	<b>Varies according to asset class</b>	<b>Generally aim for low risk, consistency</b>
<b>Manager Compensation</b>	<b>Based on AUM</b>	<b>Based on AUM &amp; Performance</b>

## Historic Risk:Return Profile of Hedge Funds



— Global Equities — Global Bonds — US\$ Cash — Hedge Funds

	Global Equities	Global Bonds	US\$ Cash	Hedge Funds
Annual Return	8.79%	7.42%	4.54%	10.10%
Volatility (risk)	13.71%	6.42%	0.52%	5.45%



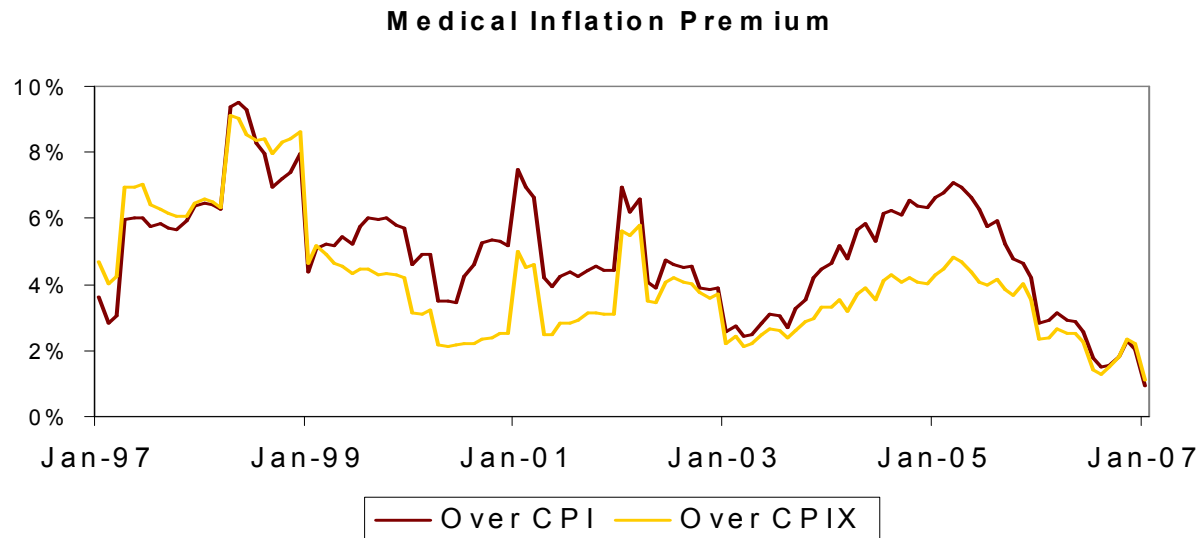
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### **Introduction to the Hedge Fund Industry**

**How can Hedge Funds enhance cash and bond allocations?**

## Conundrum for Medical Schemes

- Medical inflation has exceeded general inflation
- Due to nature of liabilities a significant portion of assets are held in cash-related assets
- Returns on most cash-related assets are not competitive in inflation-adjusted terms



## Can Hedge Funds assist in addressing this challenge?

IF STRUCTURED AS LOW RISK FUND OF HEDGE FUNDS...

### **Positives**

- Can add to returns, without adding significantly to risk
- Potential to beat medical inflation
- Diversify schemes' assets

### **Negatives**

- Liquidity lower (monthly)
- More complex arena

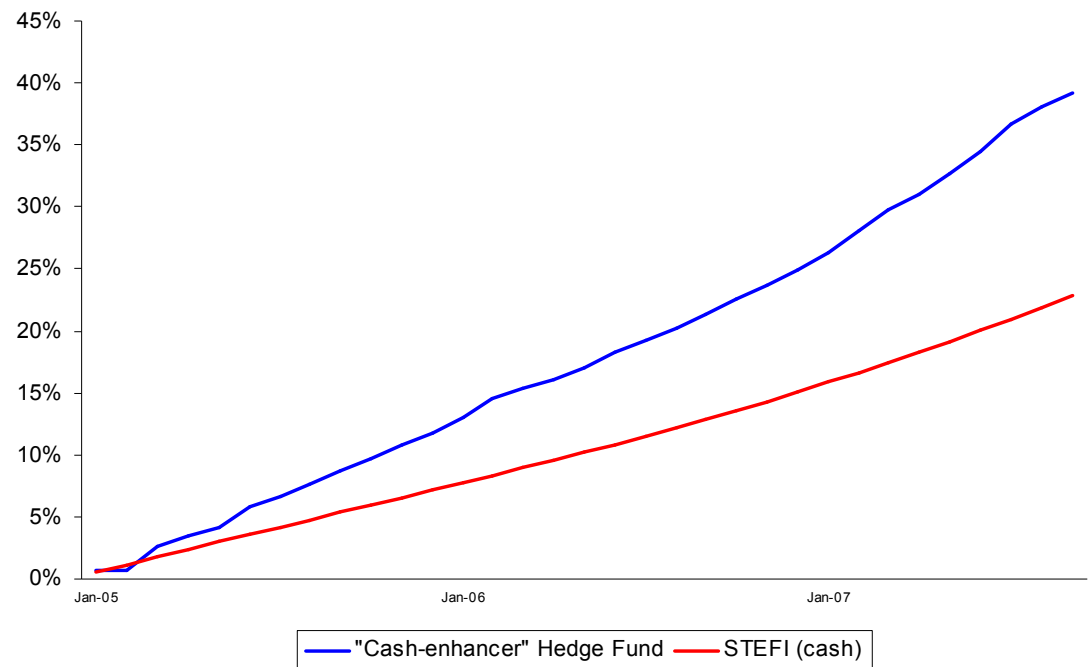
## Generic profile of cash-enhancer SA Hedge Fund solution

### Performance Target

- Cash + 2% over any rolling 6 months (net of fees)

### Risk Target

- Annualised volatility of 50% of bond volatility
- Maximum drawdown 5%



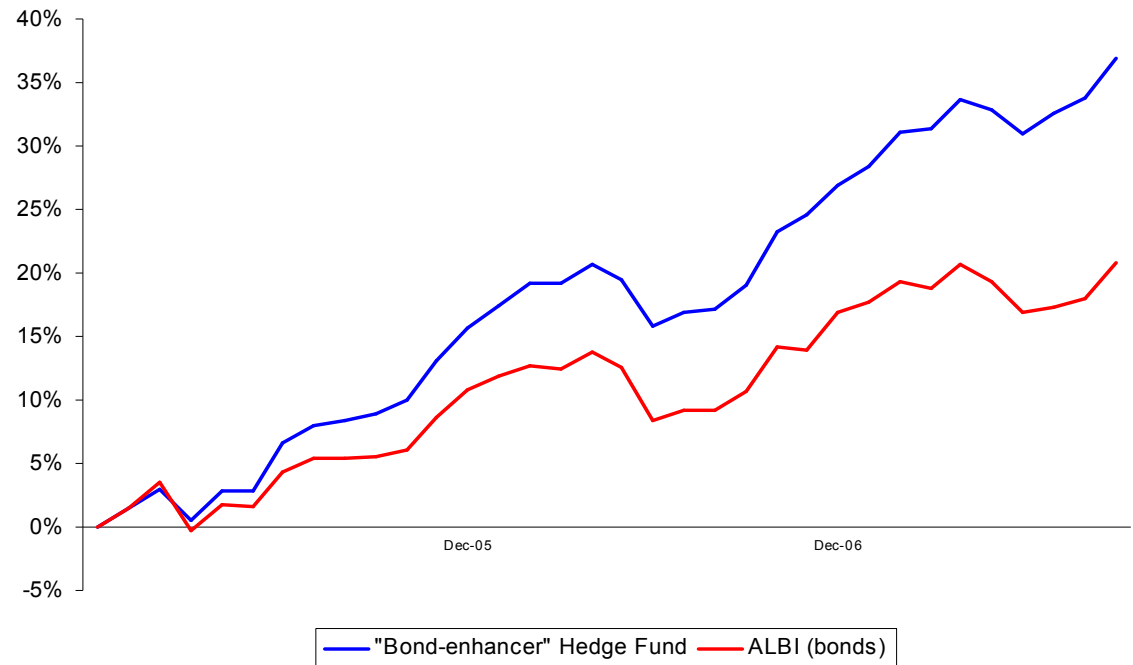
## Generic profile of bond-enhancer SA Hedge Fund solution

### Performance Target

- Bonds + 2% over any rolling 6 months (net of fees)

### Risk Target

- Annualised volatility in line with bond volatility
- Maximum drawdown 7.5%



## Conclusion

- Most Hedge Funds are structured as low risk investments
- Over time Hedge Funds have proven their risk:return attractions
- **Right type** of Hedge Fund can be an additional tool for Medical Schemes to enhance cash/bond returns without significantly increasing portfolio risk