

# THRIVE

## STRIVING TO PRESERVE CAPITAL AND CREATE WEALTH YEAR ON YEAR

### MARKET REPORT

## A STRONG YEAR ENDS QUIETLY, BUT QUESTIONS REMAIN UNANSWERED

December saw markets finish on a positive note, with the All Share Index up 2.92% for the month and the All Bond Index up 1.2%. This finishes off a strong year for the equity market, with the All Share up 32.13% for the year. The bond market however had a rather anaemic year, posting a -0.99% loss for the 12 months.

The final month of the year is often fairly quiet, characterised by low levels of liquidity, news flow and volatility. This December was no exception with realised volatility on the month being only 11.12% (the lowest in the past three years) and turnover quiet, particularly over the last two weeks of the month. On the news front, there was nothing for the market to get too excited about, though with Abu Dhabi bailing out Dubai and better than expected unemployment numbers out of the US, what scant news there was, was biased to the positive side.

Perhaps the most noticeable move over December was direction change seen in the currency markets. For months now the world has seen a depreciating Dollar, particularly against the Euro and the Yen. This swung around quite sharply in the month with the Dollar/Euro price moving from \$1.4976/€ to \$1.4331/€ - a move of 4.31%, while the Yen moved from ¥86.31/\$ to ¥93.14/\$ - a move of 7.9%. While this had little apparent affect on the equity markets (surprisingly!), gold fell by over 6%, in what was largely a direct reaction to the stronger Dollar.

**“The last few years have again proven the importance of getting one’s asset allocation correct and working out which will be the best performing asset class in the coming year is going to be the key decision investors must make.”**

2010 looms as a potentially very tricky year for investors, with a number of difficult questions to be answered. The last few years have again proven the importance of getting one’s asset allocation correct and working out which will be the best performing asset class in the coming year is going to be the key decision investors must make. Among the questions that must be considered when coming to the conclusion as to where to place one’s money are:

- Will the global economic recovery continue in 2010 or are we in for a “double dip” recession?
- Will the US remain in a deflationary environment or move to an inflationary environment?
- Will commodity prices continue their strong upward surge on the back of continued demand from China?
- Will the Dollar continue to depreciate?
- Can SA inflation be kept within the Reserve Bank’s target range?
- Will earnings come through to justify equity price multiples?

Getting these answers right holds the key to investing success in 2010. ■

### The Blue Ink funds produced the following performance to Dec 2009

	1 Month	12 Months	3 Years
Evergreen	0.95%	11.71%	31.25%
Redwood	1.05%	9.34%	23.33%
Blue Sky	1.37%	9.14%	14.20%
Blue Ink-ubator	0.76%	19.20%	Not Applicable
Big Oak	1.25%	24.34%	31.37%
ALSI	2.92%	32.14%	20.89%
Cash	0.61%	9.13%	33.28%

### Dear Clients



*“Good resolutions are simply cheques that men draw on a bank where they have no account.”*  
~ Oscar Wilde

The much-anticipated 2010 is finally here and there certainly seems to be an optimistic buzz evident in South Africa.

The start of a new year is always an opportune time to re-evaluate your financial plans. This should include both your short and long term goals, cash flow needs and risk appetite. One of the consequences of the financial crisis in 2008 has been a longer period of higher inflation and therefore a lower real return on less risky assets. Having realistic expectations of your investments is central to any financial plan.

At Blue Ink Investments we are equally optimistic about 2010 – we expect the positive impact of the changes that have been made over the past year to be evident throughout the business:

- The enhanced investment process has already yielded improved returns over the past six months.
- The move to the new administrator has been finalised and we will continue to improve processes and reporting to our clients.

If you have any questions or comments please send them to [editor@blueink.co.za](mailto:editor@blueink.co.za) or give us a call.

Until next month!

**Esmarie Strydom**

Chief Executive Officer, Blue Ink Investments



## FYI... NEW INVESTMENTS



As part of the initiative to stay in line with the requirements of the wealth management market, Blue Ink has decided to implement minimums on lump sum investments and on our recurring monthly contributions. Therefore, with effect from 1 January 2010, the initial minimum investment will be R25,000.00 and minimum monthly contributions will be R1,000.00

Please note that this does not affect existing arrangements with Blue Ink.

The fund fact sheets were amended accordingly to reflect these changes. Please feel free to view our fund fact sheets on Blue Ink Investments website. ([www.blueink.co.za](http://www.blueink.co.za)) ■

## GOING GREEN

Blue Ink Investments is committed to the sustainability of the environment. We encourage any clients who have access to electronic communication infrastructures such as email or internet browsing, to opt for their monthly statements and periodic newsletters to be sent in such a format only. Blue Ink is capable of sending statements and newsletters in any combination of the following four formats:

- Printed and posted
- E-mailed as an Adobe PDF attachment
- Links to the web pages containing the information
- Fax

To implement this eco-friendly option on your portfolio is as simple as sending an email to [clientservices@blueink.co.za](mailto:clientservices@blueink.co.za) and quoting "Going Green" in the subject line. The body of the email should contain the portfolio name/s with the respective option/s viz. FAX, POST, EMAIL or WEB. Your instruction will be implemented with immediate effect. Newsletters will automatically share the same option as your statements unless otherwise specified in your email. Alternatively, you may communicate your preferences telephonically on 021 673 3333 and ask for client services or your portfolio manager. ■

**UPDATE:** Many readers reacted positively to the above article, published in the August 2009 edition of Thrive, and immediately opted for electronic versions rather than printed media. We encourage the electronic option in a joint effort to sustain the environment.

## INVESTMENT NEWS



### SANLAM INVESTMENTS INCREASES HEDGE FUND INVESTMENT

Sanlam Investments, the investment division of diversified South African financial service group Sanlam, has increased its shareholding in Blue Ink Investments, a local fund of hedge fund manager, from 50% (which it acquired in 2007) to 75%.

The aim of this deal is to strengthen Sanlam Investments' global hedge fund offering. Johan van der Merwe, Chief Executive Officer of Sanlam Investments, says that Sanlam's continued strong belief in the hedge fund industry had provided the strategic impetus for this purchase. ■

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## WHO'S WHO AT BLUE INK: ALOYSIUS JACOBS



### Tell us how you got into the hedge fund industry?

Ubuntu-Botho Investment Holdings (UBIH), a black empowerment investment company, was approached to be Blue Ink's BEE partner last year. UBIH accepted the deal and as a result of the transaction I was nominated to be on Blue Ink Investments' Board of Directors and Investment Committee.

### Run us through some highlights of your first year in the industry.

After UBIH was approached by Blue Ink to become their BEE partner, I had to educate myself on the hedge fund industry and it

was extremely interesting to understand the methodology of the underlying fund managers and to have the opportunity to interact with them.

### What are the challenges you face in this industry?

Knowledge - the broader investment community does not always understand what a hedge fund is. Understanding the environment and the unique characteristics of hedge funds is critical.

### Which industry were you previously involved in?

After completing the last few months of my articles in America, I joined Sanlam Investment Management (SIM) Global as an analyst in June 2004, first covering international financial stocks and then also non-financial stocks. In 2006, I also took on all the operational responsibilities of SIM Global as well as retaining my analyst responsibilities.

In February 2009, I moved to UBIH to be the financial manager of the company, which entails evaluating and structuring transactions and helping to grow the underlying businesses.

The strategy of UBIH is to invest in companies requiring empowerment credentials which have high growth potential. UBIH therefore aims to bring huge leverage to the Blue Ink Investment business, and to enhance the size

and returns. UBIH is backed by Ubuntu-Botho Investments and Sanlam, and therefore offers significant credibility to the business as a black empowerment partner in the market.

### What responsibilities do you currently have at Blue Ink Investments?

I am currently a non-executive director on the Board of Directors of Blue Ink Investments and I have also been nominated to be on the Investment Committee.

### What advice can you give to investors at this time in the economic cycle?

Stick to the basics. If you don't understand the investment that you are getting yourself into, seek advice from investment professionals.

### How do you define success?

Achieving your defined goals without having to sacrifice any of your morals.

### Senior executives have tremendous demands upon their time, the biggest challenge is achieving work / life balance. How do you cope with this?

I make sure that I have some 'me time' during the day, even if I just walk to the mall for a cup of coffee. Try and switch off from work when you are at home otherwise your beautiful life might pass you by. ■

## MARKET UPDATE

### HEDGE FUNDS LIKELY TO ATTRACT SIGNIFICANT PRIVATE CLIENT INFLOWS IN 2010

By Kevin Ewer, Portfolio Manager of Blue Ink Investments



Hedge fund managers are confident that current market conditions are likely to result in significant flows of capital into alternative asset classes during 2010, as investors look for inflation beating returns at relatively low levels of risk.

According to Kevin Ewer, portfolio manager at Blue Ink Investments - there are still massive amounts of money sitting in money market funds, which in the current interest rate environment, are not earning sufficient returns. "Also, with the equity markets having run

extremely hard in the last few months of 2009, a lot of financial planners are concerned about the risks of a pullback and are looking for alternative options for their clients."

Ewer however cautions that legislation remains a stumbling block to both further institutional and private client flows. "While significant progress has been made, we are not going to see the big changes that we are hoping for. At least though, the groundwork has been done and the FSB is aware of how and what it wants to do. Now it is just a case of finding the right method of implementation."

Ewer believes that conditions are favourable for hedge funds to outperform other asset classes in 2010.

"Cash rates are likely to remain low and the massive issuance in the bond market is a major headwind for that asset class. From a long only side in equities, the easy money has been made. The equity market is likely to see increased volatility and to differentiate between quality companies and companies that have simply rallied despite underlying problems. This provides opportunities for hedge fund managers that are good stock pickers, with both the long

and short portions of the fund being potential profit centres. Hedge fund managers also have more tools at their disposal to handle more volatile markets than long only funds. We are confident that we will be able to meet our target returns in 2010."

He adds though that he does not expect hedge fund managers to position their portfolios overly aggressively. "Managers remain keenly aware that liquidity is king in a more volatile environment and that good returns can be made without using much leverage. The extremes of 2008 and 2009 should also have left the successful managers with confidence in the models and methods they use in constructing their portfolios, leaving them well equipped to handle whatever 2010 may throw at them."

Finally, Ewer believes that 2010 will remain a difficult environment for new entrants into the hedge fund market and believes that we are more likely to see consolidation than a spate of new funds. "However, if 2010 proves to be a good year and capital starts to flow more freely, new entrants are likely to emerge in 2011. ■

# MYTHS VS REALITIES

## HEDGE FUNDS: SEPARATING FACT FROM FICTION

Often maligned and misunderstood, hedge funds are a bit like the Batman of the financial world. But like the dark knight comic hero, most of the myths surrounding hedge funds are unfounded. In the second instalment of our hedge fund series we tackle yet another common misconception surrounding hedge funds.

**MYTH: The unregulated nature of the hedge fund industry means it is risky and open to abuse by charlatans.**

### REALITY

Hedge funds are regulated, albeit not on a product level but on a manager level. Today all hedge fund managers in South Africa have to be licensed in terms of FAIS, with a Category IIA license.

These licenses aren't simply handed out. The "fit and proper" requirements published by the FSB, determine that hedge fund manager's experience and qualifications are heavily scrutinised and need to be of a higher standard than that of any other investment manager. Moreover the FSB will from 2011 also require that hedge fund managers have larger amounts of working capital available in their businesses, to ensure operationally integrity and sustainability.

These rules are again more stringent for hedge fund managers than for any other investment manager managing a vanilla long only fund. As far as a regulated structure is concerned, talks are currently on-going

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with the hedge fund industry and the FSB, with the goal of having a regulated product in place that would be approved and sanctioned by all relevant regulatory bodies.

On the hedge fund side these bodies now include AIMA (Alternative Investment Management Association), ASISA (The Association for Savings and Investment South Africa) and a recently formed Hedge Fund of Fund Forum. ■

## BLUE INK IN THE MEDIA

In January, Blue Ink educated audiences about the current legislation issues around hedge funds in South Africa, as well as communicating a positive outlook for the hedge fund industry in 2010, via the media

**BUSINESSREPORT**  
Belief in industry shown' by increased shares in two managers and founding of a management firm. Sanlam snaps up hedge fund stakes.

**Share Prices (WHL and PKI)**  
Line chart showing share prices for WHL and PKI from 2007 to 2009. WHL shows a significant peak in late 2008 followed by a sharp decline, while PKI remains relatively stable.

**BUSINESS BRIEFING**  
**Sanlam Investments buys Swiss fund manager Octane**  
FINANCE | Sanlam Investments, the investment division of diversified financial service group Sanlam, has acquired full ownership of Swiss-based international fund of hedge fund manager Octane Investments. Sanlam Investments previously held 50% of the company, which it acquired in 2002. As part of the deal, Sanlam also raised its shareholding in Blue Ink Investments, in 2007 to 75%. The aim was to strengthen Sanlam Investments' global hedge fund offering. It also strengthened and diversified its international offering to clients. Edward West

**Latest hedge fund composite shows asset class offers stability in a volatile climate**  
The latest Blue Ink hedge fund composite shows that hedge funds offer stability in a volatile climate. The composite has performed well since its inception in 2007, demonstrating the resilience of the asset class during market downturns.

**Sanlam snaps up hedge fund stakes**  
'Belief in industry shown' by increased shares in two managers and founding of a management firm. Sanlam Investments has acquired a 20% stake in Octane Investments, a Swiss-based specialist alternative assets manager. The acquisition is part of Sanlam's strategy to diversify its investment portfolio and strengthen its global hedge fund offering.



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