

THRIVE

STRIVING TO PRESERVE CAPITAL AND CREATE WEALTH YEAR ON YEAR

MARKET REPORT

EUROPEAN DEBT THREATENS RECOVERY

The battle between bulls and bears was in full cry during February, with South African equity markets first under pressure, then rallying and finally falling back to finish around flat for the month. Such a tug-of-war is not surprising given the amount of global news the markets are dealing with at present.

In Europe the debt situation in Greece remains the key driver of markets. While most seem convinced some sort of bailout is inevitable, the uncertainty of the consequences of such action means market sentiment is changing from day to day. While Greece represents around 2.5% of the Eurozone GDP and a bailout can probably be reasonably handled, what happens if one of the larger PIIGS (Portugal, Italy, Ireland, Greece and Spain), such as Spain, requires a default? And what are the political consequences from Angela Merkel's German government if the German taxpayer is required to fund a Greek bailout?

In the US, it was mixed economic signals which caused the market to flip between a bear and bull phase. While the unemployment rate surprised on the upside, initial jobless claims and continuing claims continued to remain high. On the housing side, new home sales made fresh lows and housing indices failed to advance as the stimulus

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effects wore off. Consumer confidence also surprised on the downside. Finally the market also had to deal with the Federal Reserve raising the discount rate, though Ben Bernanke was quick to reassure markets that this did not mean that a tightening phase had begun.

And somewhere amidst all this market noise, South African equities bobbed around like a cork floating in the ocean.

While we did make some news of our own - good Q4 GDP numbers, decent inflation numbers, confirmation of the 25%+ Eskom price increase from Nersa - these were of little influence to overall market direction.

Investors should expect the markets to continue in this roller-coaster fashion over the next few months. There is likely to be much contrasting data as to the health of economies globally, with resultant higher volatility in the markets. Such markets are likely to create great opportunities for future returns and it is important at times like these to find those opportunities and have the patience to allow them to deliver on their full potential. ■

Dear Clients



"The intuitive mind is a sacred gift and the rational mind is a faithful servant. We have created a society that honours the servant and has forgotten the gift."
- Albert Einstein

In this issue of Thrive, Thomas Schlebusch discusses the Blue Ink-ubator Fund in a bit more detail. He explains the investment philosophy behind incubation and why this type of fund is different to our other products.

We have also started a new regular feature in Thrive where we invite one of our underlying managers to share their investment philosophy and outlook for the markets with our clients. Choosing the correct managers for our products is a crucial step in the investment process and key to our success. The investment team spends many hours with an underlying manager before a decision is made to invest with them. They analyse not only the investment style, but also the expected risks and return profile of the manager. Once a manager is appointed, ongoing monitoring occurs through daily information obtained from an independent third party on the portfolio, periodic phone calls and monthly meetings.

We trust that these articles will give you some insight into the managers that make the day to day investment decisions on your funds and we invite you to send us any questions or comments in this regard.

An equally important step in the investment process is the strategy allocation, i.e. how much a product should be exposed to fixed interest versus equity strategies. We will be covering this topic in more detail in our next issue.

Until next month!

Esmarie Strydom

Chief Executive Officer, Blue Ink Investments

The Blue Ink funds produced the following performance to 28 February 2010

	1 Month	3 Months	6 Months	12 Months	3 Years
Big Oak	1.55%	4.57%	8.34%	31.49%	26.77%
Blue Ink-ubator	1.08%	3.60%	7.76%	18.41%	-
Blue Sky	0.51%	2.13%	3.69%	10.07%	8.59%
Evergreen	1.19%	2.84%	6.03%	12.02%	30.38%
Redwood	0.88%	2.59%	5.07%	10.43%	19.28%
ALSI	0.37%	-0.31%	8.21%	48.31%	12.85%

Blue Ink-ubator Fund Wins Awards

Opinion piece by Thomas Schlebusch - Chief Investment Officer at Blue Ink Investments



Winning awards are always great, but winning an award for providing the best returns to our investors must surely make for happy clients as well as for a very proud Blue Ink Investment team! What gives us even more pride was the fact that this achievement was delivered after many “naysayers” dismissed the idea of an incubation and seeding fund, back in 2007 when the fund was launched.

At the recent HedgeNews Africa awards ceremony, the Blue Ink-ubator fund won the prize for the Best Fund of Hedge Funds for 2009; delivering a return of 19.42% for the period 1 January to 31 December 2009. This was after being placed second in 2008 whilst in 2007 Blue Ink had three funds in the running for the spot of best fund of funds.

What makes the recent award even more deserved was the fact that the Blue Ink-ubator fund outperformed its closest competitor by a full 3.12%. That is of course if we were to exclude our very own Big Oak fund from the competition. What makes us extremely proud, but is something that is not widely publicised, was that the Blue Ink-ubator fund actually came second in the race, topped only by the Blue Ink Big Oak fund which gave a return of 24.39% for 2009. (The Big Oak fund was however not considered for the award due to the fact that the fund did not meet the R50 million qualification criteria placed on assets under management).

In this month’s publication we thought it would be good to recap what it is that the Blue Ink-ubator fund does and how it hopes to extract returns.

The Blue Ink-ubator Diversified Fund targets investments in early stage or start-up managers. The first question investors ask is why would we invest with managers who don’t have a proven track record?

Firstly, while we invest in funds without a track record one of the most important criteria is that the manager of such a fund must have a very long proven track record, either in a previous fund, or in managing a proprietary book at a bank. Some of the other reasons we target early stage managers are the following:

International as well as our own local analysis and research has shown that early stage funds tend to outperform funds with

longer track records. This could be due to several reasons which could include some or all of the following:

- Early stage funds are generally small and the manager is therefore quite agile many smaller opportunities versus their larger counterparts.
- In many cases the early stage managers are “hungry” to grow their asset base and are therefore willing to negotiate fee discounts for larger captive assets to manage. These fee reductions are then passed back to the fund and ultimately the investor.
- Very often new start-up managers are managers who have identified neglected strategies or strategies where “crowding” of specific trades by the rest of the market has not yet reduced the size of the benefits they could potentially harvest.

In the Blue Ink-ubator fund we try to harvest from a combination of these additional return sources, together with the ability of the manager to simply invest wisely. Thus in terms of manager size we tend to ignore any funds that have more than around R500 million under management or have track records of longer than 12 months. In most cases we want to be the first investor in the fund. Where these managers are good, in our view, we then try to secure the limited capacity in these funds, for the rest of the Blue Ink suite of funds. ■

Benefits to Managers

- Stable long term capital
- Enhanced credibility
- Access to investors
- Independent operational oversight
- Capital raising



BLUE INK-UBATOR

Benefits to Investors

- Access to exceptional managers
- Targeted access to new strategies
- Investments in ring-fenced fund with early stage “flavour”
- Ring-fenced risk & operational controls
- Access to sources of return
 - Asset based returns
 - Enhanced rights returns
 - Neglected strategies

NOTICE BOARD

Redemption notifications

In order to ensure a seamless payment process, we require you to furnish us with proof of banking details when submitting a redemption request. Please note that **NO** payments will be made to third party accounts (i.e. bond or money market accounts) unless the party concerned has signed a special limited power of attorney that forms part of the Blue Ink Mandate.

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 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 this article, which was first 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.

FUND MANAGER PROFILE: PATRICE MOYAL



Blue Ink have had investments with Patrice Moyal and Visio Capital since September 2001 when the company provided the seed capital for Patrice to start up his hedge fund business. Since that date, the Visio Capital funds have been a key investment for Blue Ink across the fund of hedge fund portfolios. Patrice's track record is arguably the finest in the South African hedge fund industry with his Blue Ink Dynamic fund annualizing at 41.5% over the past eight and a half years.

Patrice joined Mercantile Bank in 1995 after his accounting articles and attained the position of senior manager of finance and administration, Retail Banking. In 1997 he joined Liberty Asset Management (LIBAM) as a Research Analyst and Assistant Fund Manager. In July 1998 Patrice joined Peregrine Capital, a subsidiary of Peregrine Holdings Limited as Director and Fund Manager until December 2000. In early 2001 Patrice was appointed Head of Corpcapital Bank's hedge fund operation. Patrice started and managed the Corpcapital hedge fund from February 2001 until May 2003. Patrice left Corpcapital and founded Visio Capital Management Pty (Ltd) in June 2003 with R20 million of funds under management and has remained the sole director to date.

How long have you been in the investment/hedge fund industry?

I started my investment career at Liberty Asset Management in 1997 and have been managing hedge funds since 1998. Visio Capital was formed in June 2003.

Do you have a strategy or motto for investing?

We like to "keep it simple" and "stick to the basics". Our

team spends a lot of time on the road, whether it is at meetings with company management teams, results presentations, industry conferences or networking with unlisted companies. We use the information we gather to maintain our own models.

What do you like about the hedge fund industry?

It is always an exciting and ever-changing environment. Investment opportunities in the hedge fund environment stretch across all asset classes: equities, fixed income and commodity ETF's. Our team has an absolute return mentality and we consider investments in any instrument that provides a return with an appropriate level of risk.

Would you invest your own money in the hedge fund industry?

Hedge funds provide the potential for attractive returns whilst offering a degree of downside protection which I believe makes them an attractive investment vehicle. All of our investment professionals are invested in the hedge funds with a significant portion of their liquid assets invested in Visio's hedge funds. The flexibility of our mandates allows us to take advantage of opportunities that arise from time to time that traditional investment products do not allow for. For example, in early 2009 we invested as much as 20% of the long short hedge funds in offshore South African corporate bonds which were offering very attractive returns because of forced selling by offshore investors at that time.

What is your view on possible hedge fund regulation?

The main players in the SA hedge fund industry have imposed a good degree of self regulation with the involvement of independent administrators and prime brokers. Also, many of them such as ourselves are licensed with the Financial Services Board. Should a more formal regulatory framework be adopted it can only be good for the long term future of the industry. It would provide a certain level of comfort to investors and prospective investors and it would further strengthen the image of the industry. Also, given current regulatory limits on the allocation of pension funds to alternative investments, a strong hedge fund regulatory framework might pave the way for a greater allocation to alternative investments including hedge funds.

How does the SA hedge fund industry compare with offshore peers?

The SA industry is much smaller but is nevertheless characterised by some highly skilled managers, who for the most part I would say are conservative by nature. I think the key ingredients for a successful operation are to have focused high conviction ideas and a good team of bright individuals. In South Africa we are lucky enough to have access to such highly skilled people. We are able to stick to our convictions and due to the size of our economy, we are able to be more generalist in our approach – we cover almost the whole SA market. This is reflected in the makeup of our team: we have ex bankers, corporate financiers, engineers and actuaries. All of these collective ideas are put to good use and we cover the whole market, which would be more difficult to do in a larger economy. In SA fund managers also have the good fortune of frequent access to different company management teams which is of great value in a focused fund.

SA hedge fund industry is now 10 years old - do you believe it has come of age?

No, not yet as I think that the industry has many years of growth ahead of it. The industry has attracted some highly skilled money managers and with increasing regulation it will make the industry more acceptable as an alternative investment class. Our market is reasonably liquid and therefore there is scope for good growth in the size of the industry.

What advice do you have for investors right now?

We are treading cautiously but still see opportunities in certain counters that either have a recovery theme or an exceptionally good balance sheet. We will be monitoring developments in China very closely given their importance to the global economy, two of our team members are travelling to China in June both of whom are going for the second time. We do not try and call the direction and would rather remain focused on company fundamentals. Managing downside risk and having appropriate protection in all of our portfolios is key. All we can do is more of the same, which is "stick to the basics". ■



Jason Helman, IT Manager at Blue Ink Investments

Tell us about your position at Blue Ink Investments.

I design, implement and maintain the entire technical infrastructure within Blue Ink. I manage much of the integration between departments on systems. I headed up the graphic design until recently and am now in the process of overseeing the outsourcing of it.

How long have you been with the company?
Essentially since inception. Just before the original director of Blue Ink was contemplating a move from Johannesburg to Cape Town we met through a common client and rest is history.

Run us through some of your daily responsibilities and tasks.
Amongst other things, I project manage new and

improved system implementations through the group, help the odd user with a complex excel task and analyse some random historic data for the ops team.

What are the challenges you face in this industry?

One must keep abreast in the most dynamic industry ever known to man. If you don't keep researching and studying, the IT world could appear old and outdated overnight.

What do you enjoy most about your job?

My closest working colleague is arguably the most cutting edge software architect in the country. Our investment team won the leading hedge fund of fund award during one of the most debilitating global recessions ever. It is very fulfilling to work with such a high calibre team.

Tell us about your working environment at Blue Ink Investments.

Highly dependent staff on stable robust and lightning fast infrastructure who demand support within the minute. It keeps one on one's toes.

Tell us about your past experience and jobs.

I have managed a few companies and also owned my own IT company which outsourced to a few exclusive high-end clients.

What do you like about the Hedge Fund industry?

Leading innovations and alternative lateral strategies which make it dynamic and interesting.

What is your philosophy?

Do not do unto others that which you would not have them do unto you.

What are your key life learnings?

Negotiate upfront and all actions have ramifications.

What is your greatest achievement?

Having 2 kids in less than 16 months and still standing.

How do you spend your time on weekends?

Playing with my kids, catching up on some sleep and eating chocolate on the sly. Unless I have a gig which starts with a carload of instruments and means returning home at 2am.

What big decision are you currently wrestling with?

How to fit in the upgrade to a major part of the technical infrastructure, whilst having many other projects on the go all with very high priority.

What are your favourite activities outside of work?

Performing live jazz. Playing soccer with my boy. Summertime braai and swimming with family and friends.

What are your extra mural interests/activities?

Playing music, tennis, soccer, DIY, learning languages and waiting for Liverpool to win. ■

BLUE INK IN THE MEDIA

Media in March included coverage of our latest award-winning success - the Blue Ink-ubator fund being named the best Fund of Hedge Funds at the 2010 *HedgeNews Africa* awards.

Hedge Funds - Separating Fact From Fiction
Kevin Ewer, Portfolio Manager at Blue Ink Investments

Hedge funds likely to attract significant private client inflows in 2010

The hedge hogs are coming

SA Hedge Fund Performance (Sep 2001 to Apr 2009)

BLUE INK INVESTMENTS
Alwyn Jacobs has been appointed as a non-executive director on the board of directors of Blue Ink Investments - the Sanlam-owned manager of fund of hedge funds in South Africa. Jacobs, who has also been nominated to participate in Blue Ink's Investment Committee, is currently the financial manager of Ubutu-Batho Investment Holdings (UBIH), a black empowerment investment company. He has more than five years' experience in the finance industry and was previously employed as an analyst at Sanlam Investment Management.



BLUE INK
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