NOVARE INVESTMENTS

SOUTH AFRICAN HEDGE FUND SURVEY
OCTOBER 2007

INTRODUCTION

This report proudly marks the fourth edition of Novare Investments' comprehensive annual survey on the South African hedge fund industry.

Our survey takes a snapshot of the industry as at 30 June 2007 and comments on changes over the past 12 months as well as longer term trends.

The purpose of this survey is to provide all parties with an interest in the burgeoning local hedge fund industry with relevant information. The focus is not on the historical performance of hedge funds, but rather to gauge how the industry is positioned in terms of its size, strategies used, levels of leverage and market exposure employed and capacity available in open funds.

Over the past four years we have had a remarkable response from all industry players. Novare Investments wishes to extend its warmest appreciation to all the hedge fund managers and service providers that participated in the survey.

We highly value your input and ongoing support.

"I can calculate the motions of the heavenly bodies, but not the madness of people."

- Sir Isaac Newton, who sold out profitably during the South Sea Bubble but was tempted back in and lost 20,000 pounds

Contents

KEY FINDINGS

- The total amount of assets under management in the South African hedge fund industry continued to show astonishing growth over the past 12 months. The total assets under management in the industry have increased to R25.9bn as at 30 June 2007. This figure excludes assets in unit trusts that employ leverage, which would increase the assets under management to R29.6bn.

- The total size of the local hedge fund industry is still less than one percentage point of the local equity market - as a percentage of the market capitalisation of the FTSE/JSE All Share Index, total hedge fund assets have increased from 0.5% to 0.6% in the 12 months ending 30 June 2007.

- The estimated capacity left in open funds has escalated to more than R30bn. Current managers thus estimate that there is scope to at least double the size of the industry, given current market conditions and strategies employed.

- The majority of hedge fund assets are still managed in equity long/short and equity market neutral strategies. A total of 72% of all hedge fund assets are managed in these two strategies - a slight decrease from 74% last year.

- Multi-strategy funds have continued to increase their assets under management. At 30 June 2007, 14% of all hedge fund assets have been invested in these funds. This is almost double the 7.6% of assets managed in this style 12 month's ago.

- Funds of funds are still the largest investors in hedge funds, having invested nearly 60% of all hedge fund assets.

- The strong influx of new hedge funds continues. No less than 33 new hedge funds launched during the last 12 months participated in our survey. Prime brokers and local hedge fund administrators have added 49 and 48 new hedge funds respectively to their client lists over this period.

- The number of hedge funds that outsource their fund administration has increased from 71% to 78%. These funds represent 79% of total hedge fund assets and this signals a definite move towards implementing global best practices.

WHO WE INCLUDED IN OUR SURVEY

For the purposes of this survey, Novare Investments classified funds that have both the following two characteristics as a "hedge fund":

- The funds utilise some form of short asset exposure or short selling.
- The funds use some form of leverage, measured by gross exposure of underlying assets exceeding the amount of capital in the fund.

Note that we have *not* included absolute return funds in this survey. In the past, we did include unit trusts that used leverage in their portfolios in our definition of hedge funds (this leverage was as a result of short exposure obtained through derivative positions).

However, for the 2007 survey we focused on hedge funds that do not fall under the Collective Investments Schemes bill and restated previous years' figures accordingly*. The total assets in the unit trusts that we have tracked over the past three years have grown to more than R3.7bn.

Only rand denominated and South African domiciled hedge funds were included. Offshore domiciled hedge funds that mirror local hedge funds managed by the same manager to offer an investment vehicle to offshore investors were excluded. We also grouped together managed accounts and pooled funds that share the same mandate, even though prime brokers and administrators count these as separate funds.

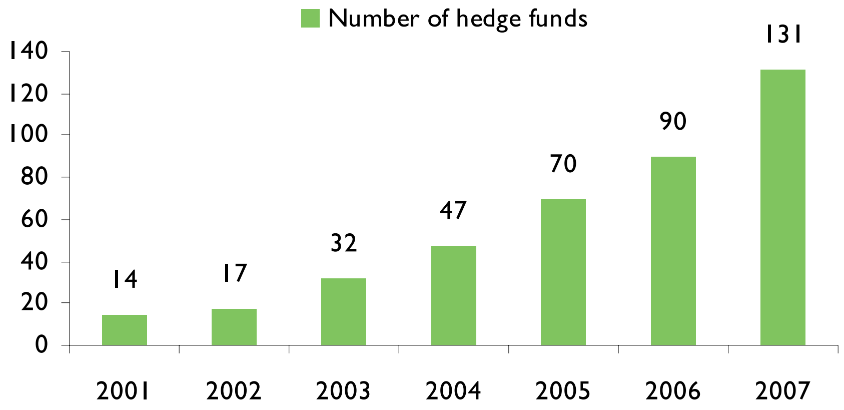
Using these specifications, we sent out questionnaires to 78 hedge fund managers that collectively manage more than 130 hedge funds. We received feedback from more than 92% of these fund managers and thus believe that this year's survey portrays an accurate overview of the industry as at 30 June 2007.

* Graphs including prior years' figures have also been redrawn, except where specifically indicated that unit trusts' assets were included. All other graphs show figures as a percentage of total assets under management **excluding** unit trusts' assets.
The following graphs have been included for comparative purpose: 8b, 12b, 18b. These graphs will not be included in future surveys.

Section 1 - Size of industry

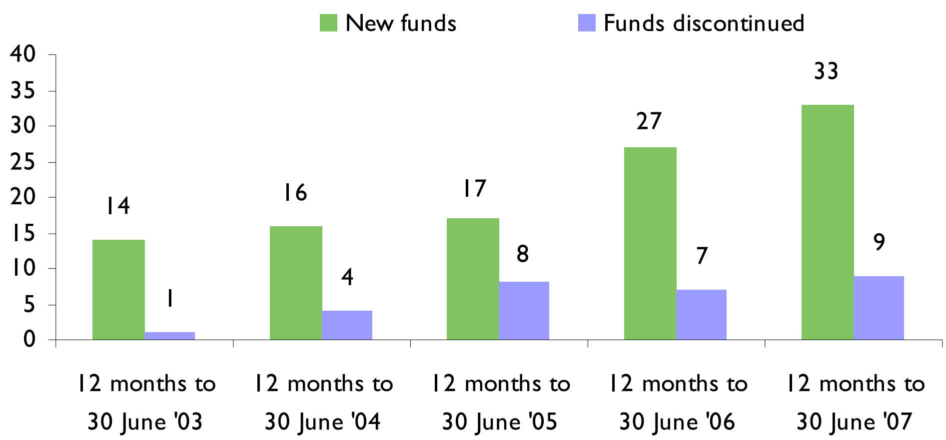
Number of funds

Graph 1: ***Single strategy hedge funds in South Africa***



We estimate that there are more than 130 single strategy hedge funds currently being managed by more than 78 managers in the South African market. Mirror funds or managed accounts that are managed concurrently with a larger pooled fund, but with the same mandate, were grouped together for the purposes of this survey. Given the high participation rate (92% of the fund managers approached), we believe that this survey accurately reflects the local hedge fund industry as at 30 June 2007.

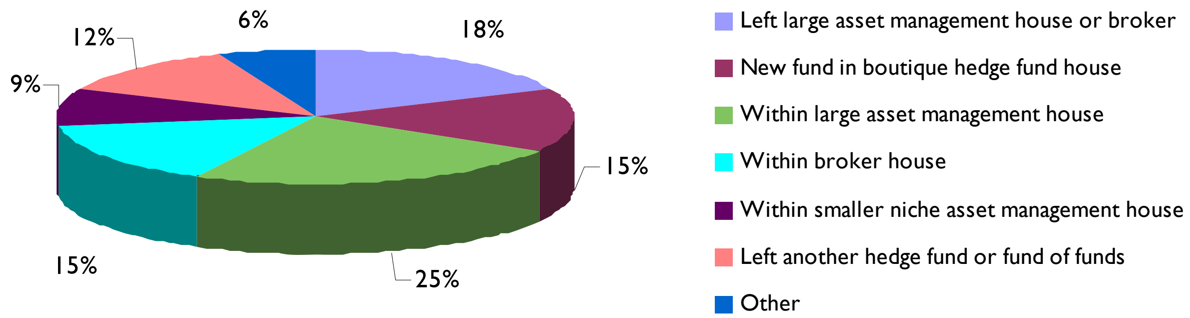
Graph 2: ***Number of new and discontinued funds***



Over the past year, at least 33 new hedge funds were launched. In previous years, most of the new hedge funds were set up by managers who left large asset management companies to start their own hedge fund businesses. However, during this past year most of the start-ups were launched within already established asset management companies (including large asset managers, boutique hedge fund houses and niche asset management companies) as an expansion of their product offering. These funds jointly attracted 12% of all inflows into the industry (which equates to 40% of inflows into the new funds) over the past 12 months.

Hedge funds that were started within broker houses attracted nearly 9% of all inflows into the industry (equating to 28% of the inflows into new funds).

Graph 3: ***Background of new hedge fund managers (as percentage of new funds)***

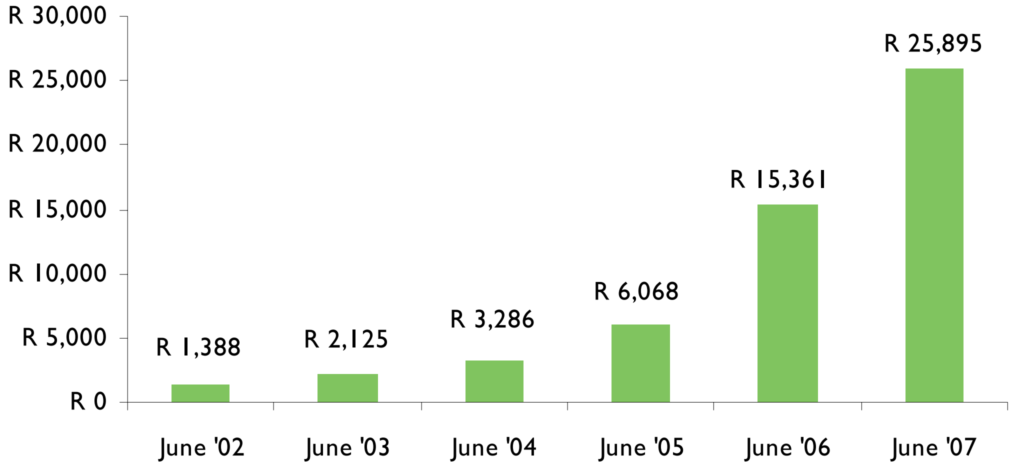


The 12 months to 30 June 2007 also witnessed the closure of nine funds. The majority of these fund closures were due to seed money being withdrawn during the year and thus could not attain a sustainable size. One of the funds closed down following severe losses suffered in one month. The other funds were dissolved because the fund manager either joined another hedge fund or another team within the company.

ASSETS UNDER MANAGEMENT

The total assets under management in local hedge funds have increased to R25.9bn as at 30 June 2007. This amount excludes unit trusts that also use leverage (those who have some short market exposure by means of derivatives). The assets held in these unit trusts have grown to more than R3.7bn over the past year. When these assets are excluded from the 2006 survey figures, hedge fund assets have increased by more than R10.5bn over the last 12 months.

Graph 4: ***Assets under management in Rm***

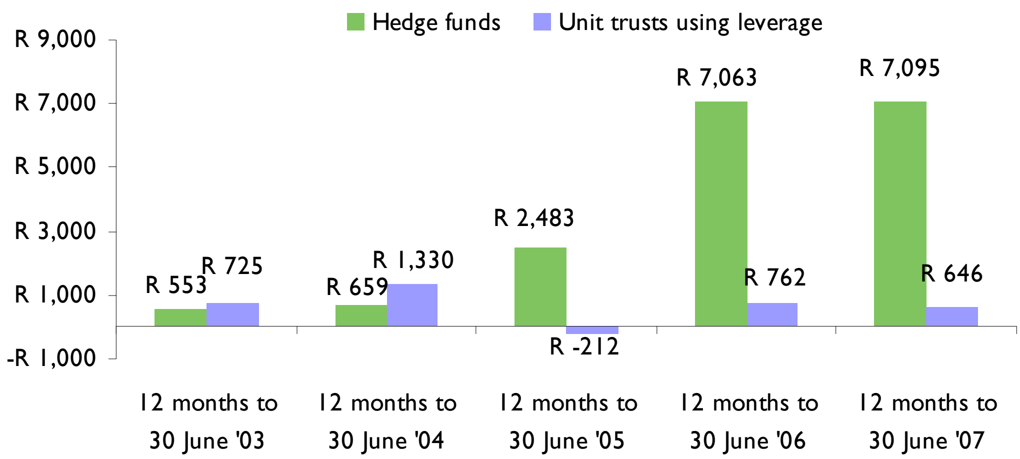


Inflows

Inflows into South African hedge funds were similar in magnitude to inflows during the previous survey period. This implies that more than R3bn of the increase in assets under management over the past year resulted from performance (on average, hedge funds have achieved net returns of >20% over the past year).

An amount of R2.2bn flowed into hedge funds that were launched over the past year - representing 31% of all inflows over this period.

Graph 5: ***Net inflows in Rm***

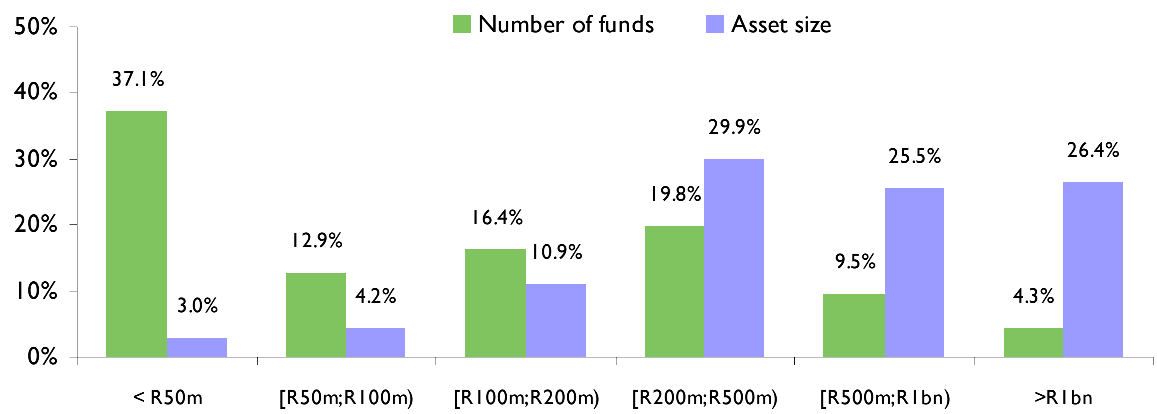


Concentration of industry assets

The 10 largest hedge funds together manage 40% of all hedge fund assets as at 30 June 2007. Around 26% of industry assets are managed by the "Billion Rand Club" – hedge funds that are larger than R1bn in size. (Currently seven hedge fund managers manage in excess of R1bn across all their single strategy hedge fund products.)

A further 30% of all the industry assets are being managed in hedge funds that range between R200m and R500m in size. Less than 7.5% of the industry assets are being managed in hedge funds that were smaller than R100m at 30 June 2007. These assets in funds smaller than R100m are being managed by exactly half of all the participating hedge funds.

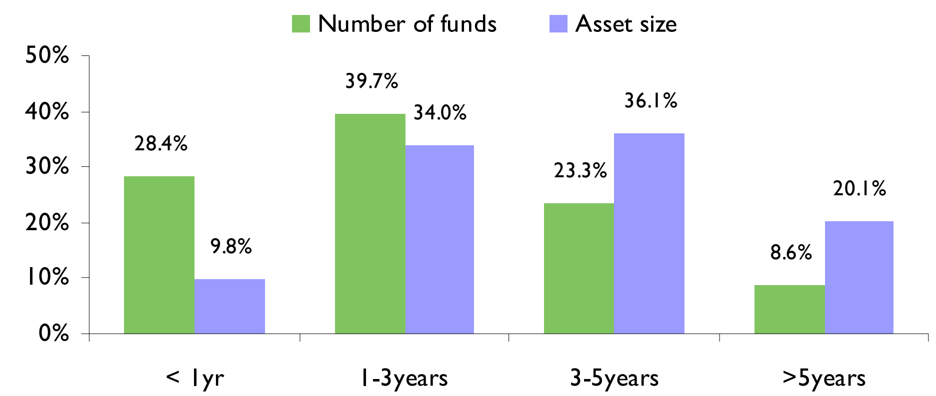
Graph 6: ***Concentration of industry***



LENGTH OF TRACK RECORD

About 6% of the participating hedge funds have a track record exceeding six years. These funds comprise 15% of the total assets in the industry as at 30 June 2007. Funds that were launched in the past year held nearly 10% of the total assets in the industry at 30 June 2007.

Graph 7: ***Average length of track record***



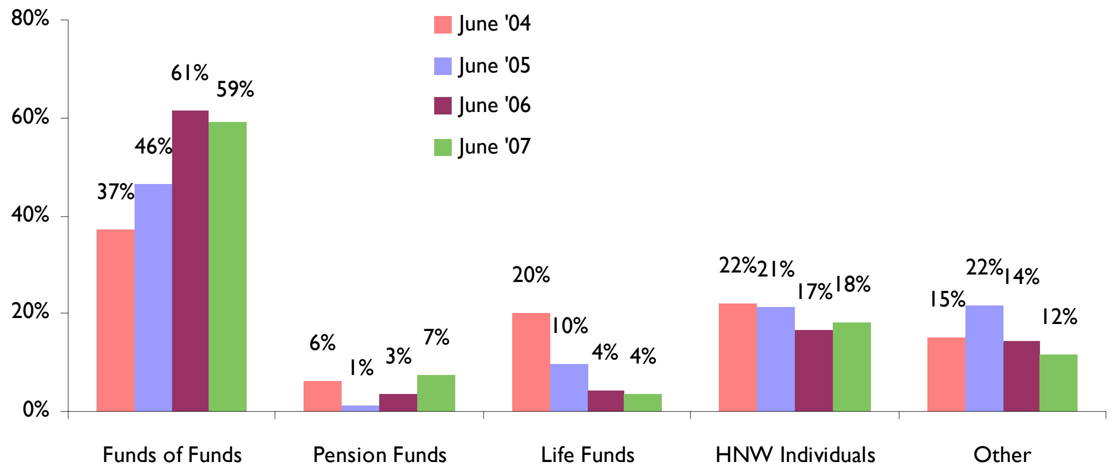
PROFILE OF INVESTORS

Funds of hedge funds continue to be the largest investor group in local hedge funds and holds nearly 60% of all investments in single strategy hedge funds. However, the amount of assets in new hedge funds held by funds of funds have fallen from the previous year's 79% to 42%. This could be due to funds of funds now demanding a longer track record from new start-ups before investing.

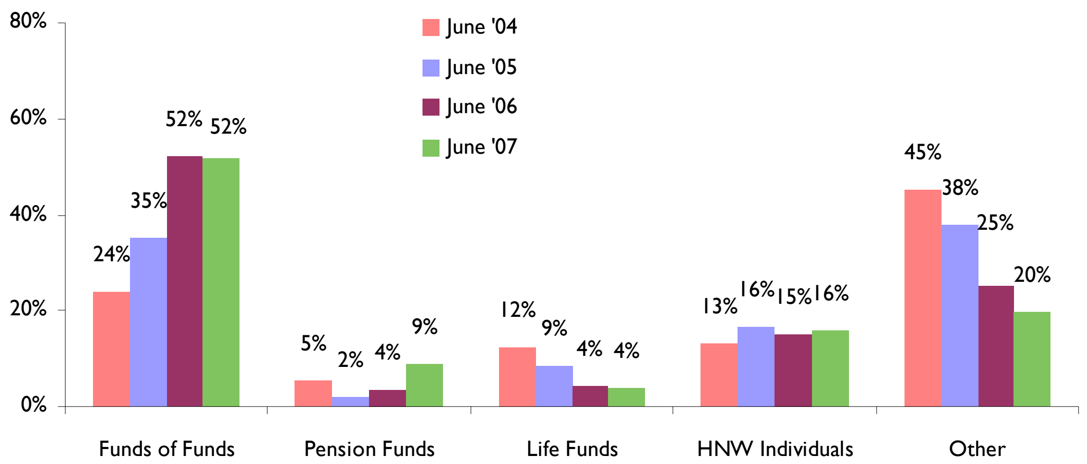
High net worth individuals now form the second largest group of investors in hedge funds. At 30 June 2007 they held 18% of all hedge fund assets. Of the R25.9bn total hedge fund assets, only 1.2% is held by offshore investors. The trend is for local hedge fund managers rather to set up a separate legal entity through which offshore investors can invest, and which is then managed concurrently with the local domiciled fund. This survey excludes assets held in these structures.

The graph below depicts the percentage of hedge fund assets held by the different investor groups over the past four years. "Other" includes investments made by retail investors.

Graph 8a: *Profile of investors – excluding unit trust assets*



Graph 8b: *Profile of investors – including unit trust assets*

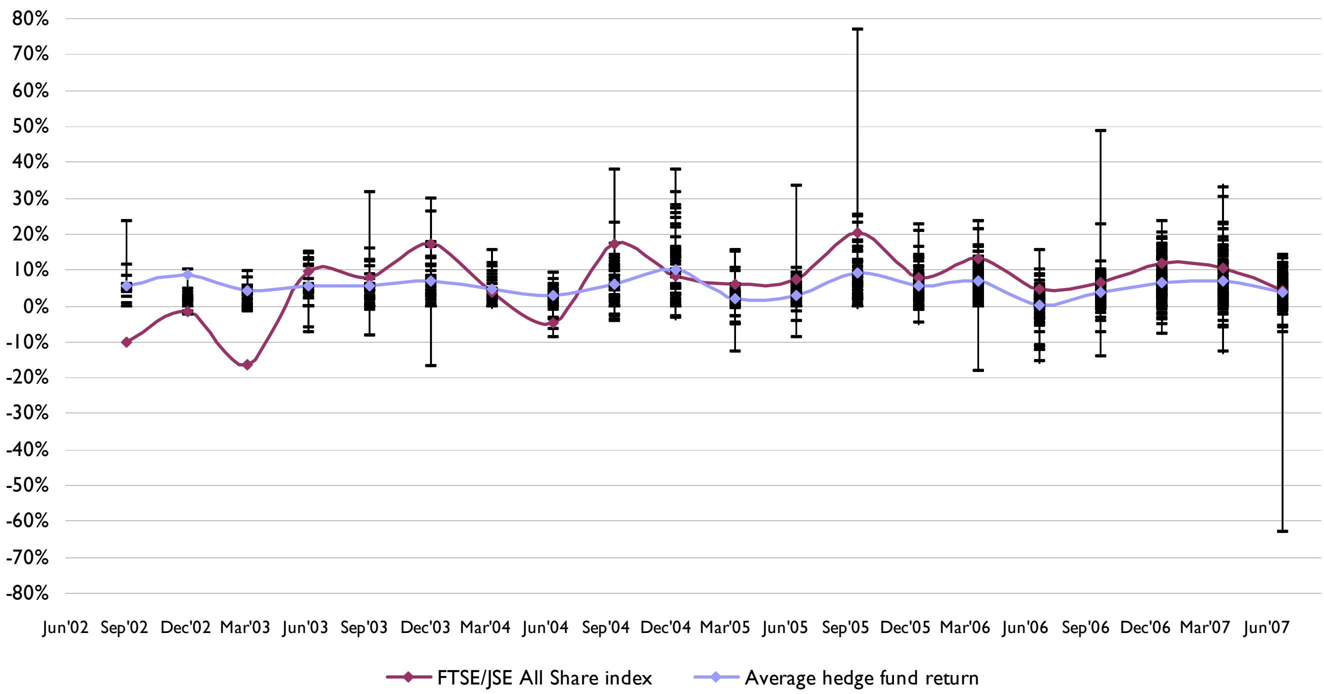


SECTION 2 – PERFORMANCE OF SOUTH AFRICAN HEDGE FUNDS

Local hedge funds continued to produce solid returns over the past year, with quarterly returns concentrated between 0% and 10% for the quarters ending Sep'06 and between 0% and 20% in the quarters ending Dec'06 and Mar'07. Returns for the quarter ending Jun'07 were lower, with one hedge fund having a severe drawdown.

However, the average hedge fund return (*note: returns have not been weighted by fund size*) have been positive in all quarters spanning the measurement period, whereas the FTSE/JSE All Share index dipped below zero in four of the 20 quarters.

Graph 9: ***Dispersion of quarterly returns***



SECTION 3 – STRATEGIES USED BY SOUTH AFRICAN HEDGE FUNDS

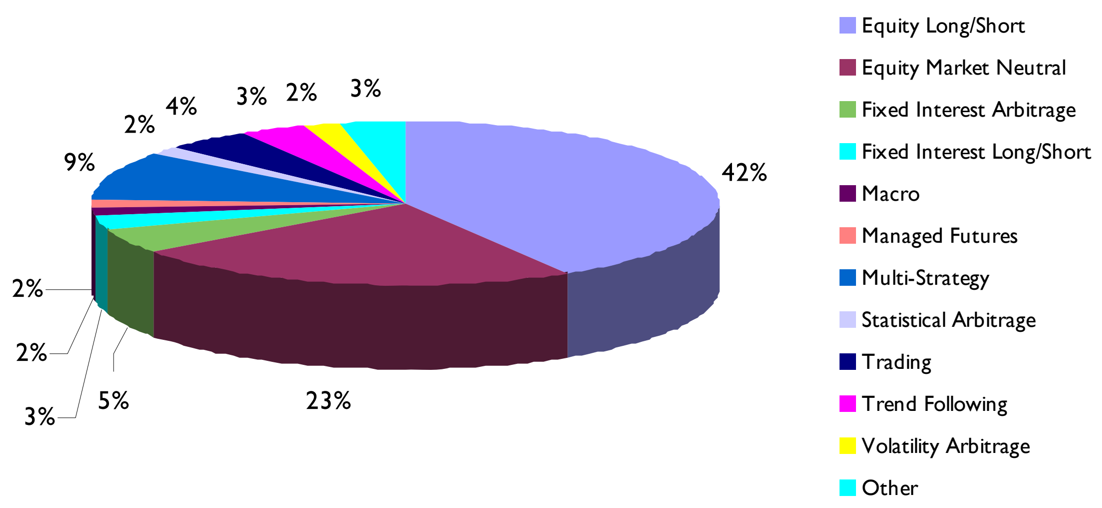
NUMBER OF FUNDS

Equity long/short and equity market neutral strategies continue to dominate the local hedge fund industry - both in terms of number of funds following these strategies and value of assets managed. In fact, 65% of participating hedge funds fall in one of these two categories. This is in line with the number of funds in the previous survey period, albeit slightly higher than last year's 62%. The majority of new hedge funds (52%) employ equity long/short strategies, followed by equity market neutral and multi-strategy, with 12% each.

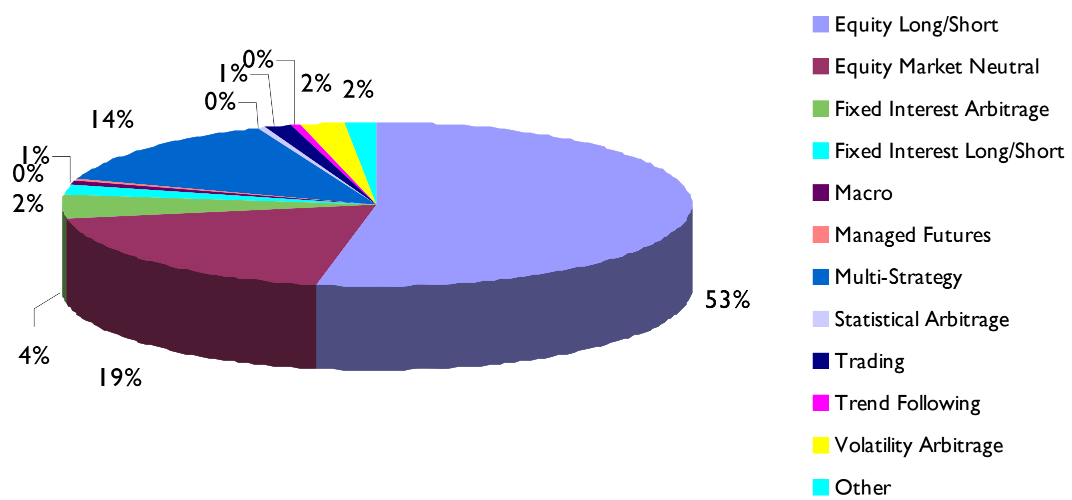
Multi-strategy is the third most popular strategy among all participating funds, employed by 9.5% (eleven funds in comparison with four last year) of the funds.

Almost 8% of the hedge funds follow one of the two fixed interest strategies.

Graph 10: ***Breakdown of strategies per number of funds***



Graph 11: ***Breakdown of strategies per assets under management***

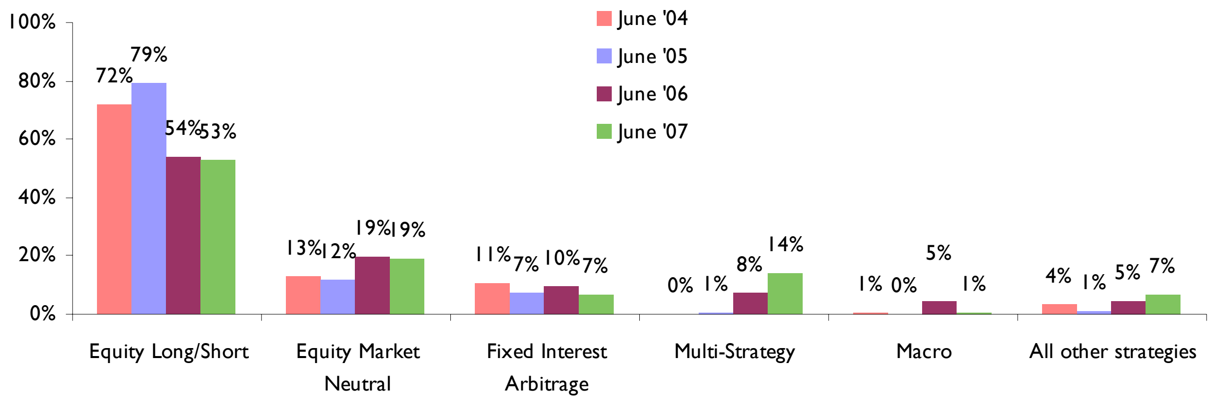


ASSETS UNDER MANAGEMENT

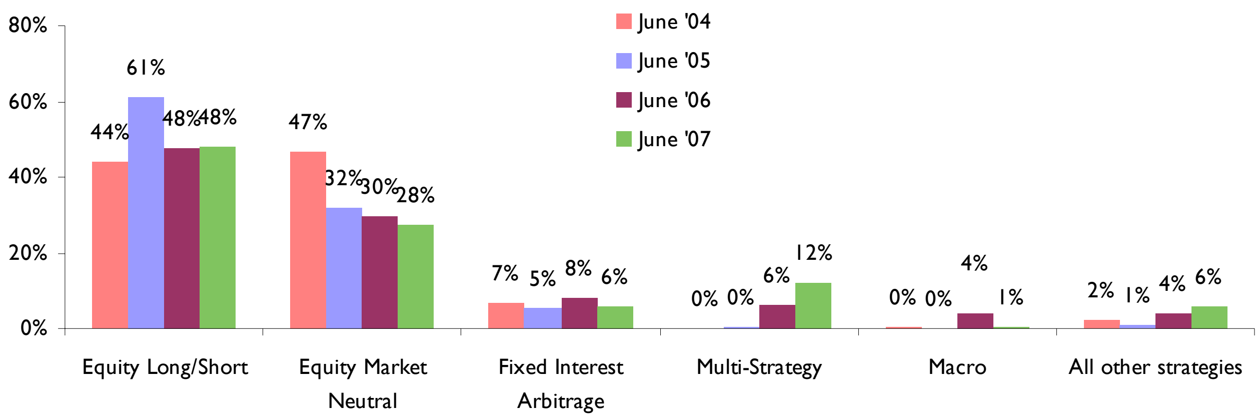
The majority of the assets are still being managed in the equity long/short strategy category. Equity market neutral continues to be the second most popular strategy, both in terms of size and number of funds following this approach. These two strategies jointly manage more than 72% of the total industry assets as at 30 June 2007: a slight decrease from 74% last year, but much lower than the 91% of assets that were concentrated in these two strategies in 2005.

However, the total assets in multi-strategy funds have almost doubled: from 7.6% of hedge fund assets last year, to 13.9% of hedge fund assets at 30 June 2007.

Graph 12a: ***Change in assets under management per strategy - excluding unit trust assets***



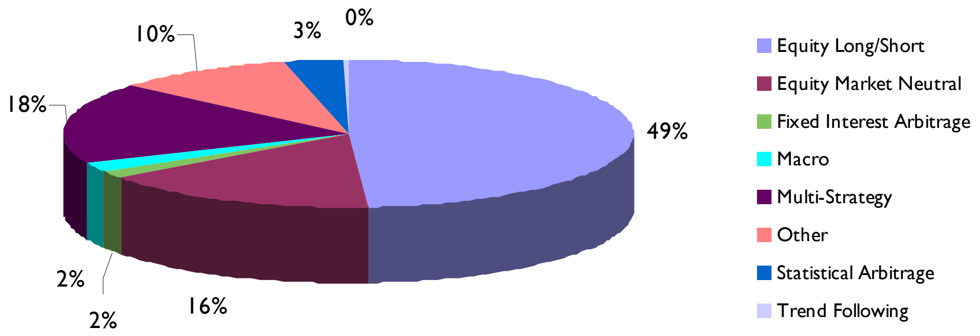
Graph 12b: ***Change in assets under management per strategy - including unit trust assets***



STRATEGIES USED BY NEW FUNDS

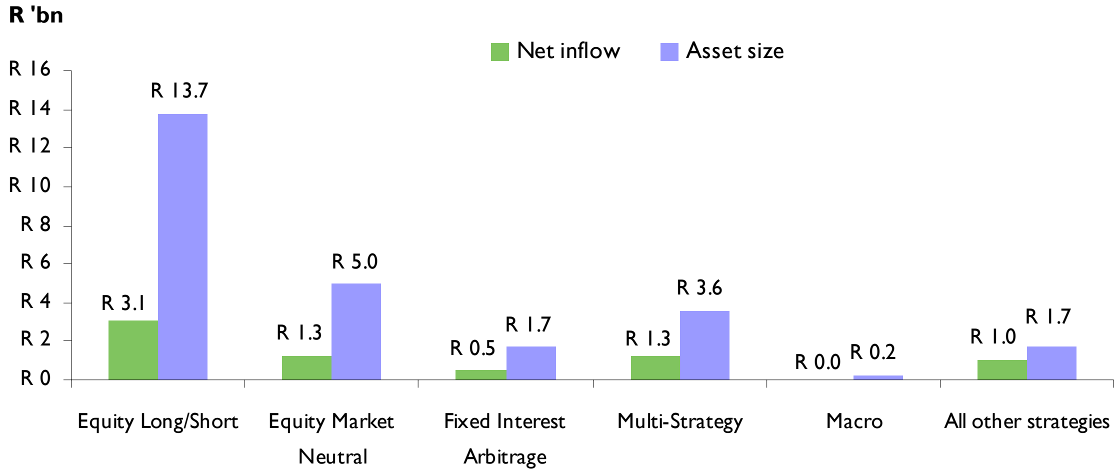
The majority of new start-ups were equity long/short funds, comprising 49% of all assets in the new hedge funds. The graph below shows how the assets under management in the new hedge funds launched over the past 12 months are split between the different strategies. Interestingly, the second largest strategy by size is multi-strategy, with four new funds collectively managing 18% of all new hedge fund assets.

Graph 13: *Strategies per assets under management of new hedge funds*



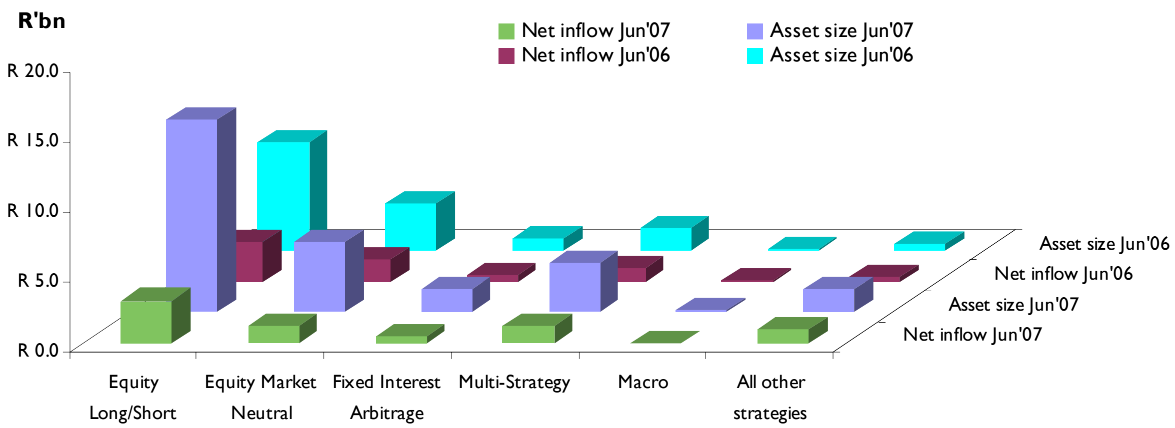
INFLOWS

Graph 14: *Inflows vs. asset size at 30 June 2007*



43% of all inflows into hedge funds over the past year were into equity long/short funds. Equity market neutral and multi-strategy both received 18% of all inflows. The macro strategy did not gain nearly as much of the inflows as in the previous survey period. Total assets in the macro strategy now comprise less than 1% of total hedge fund assets as at 30 June 2007. This is not a result of funds closing down, but rather due to two funds reclassifying themselves in other categories for this year's survey.

Graph 15: *Inflows vs. asset size over the past two years*



Funds employing multi-strategies saw impressive growth in inflows over the past year. Inflows into funds with equity market neutral strategies have slowed down somewhat and were marginally lower than inflows the previous year. Inflows into the funds with the most prevalent strategy, namely equity long/short, were similar in magnitude to inflows in the previous survey period.

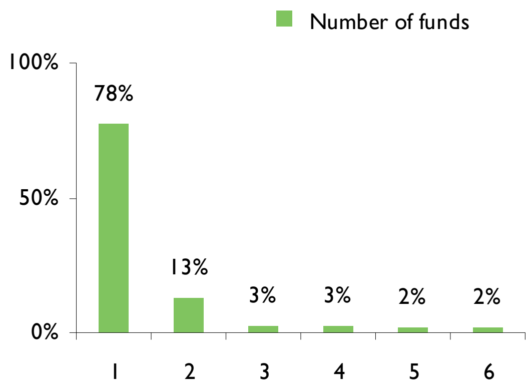
SECTION 4 – LEVERAGE AND EXPOSURES OF SOUTH AFRICAN HEDGE FUNDS

Even though the majority of hedge funds use the same definition for the calculation of leverage, there are still a significant number of funds that use alternative definitions or measures of exposure. The fixed interest hedge funds in particular make use of bond equivalent exposure calculations or a Value at Risk (VaR) measure to gauge gross exposure across their portfolios.

For the purpose of this survey, we distinguish between "leverage" where funding is provided via shorting of physical shares or futures, and "gearing", where money is borrowed from a bank to obtain more exposure to the market.

The graph below illustrates the most common formulas used for the calculation of leverage.

Graph 16: *Definition of leverage used*

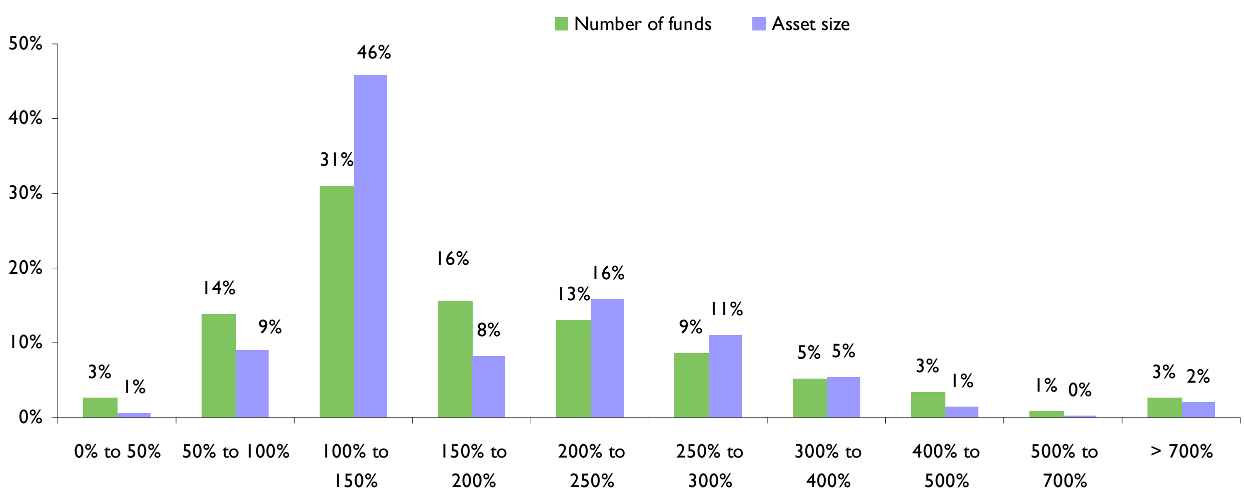


1 = [Σ Longs + Σ Abs(Shorts)] ÷ Fund Value
2 = [Σ Longs + Σ Abs(Shorts) + Cash] ÷ Fund Value
3 = [Max (Σ Longs, Σ Abs(Shorts), Fund Capital)] ÷ Fund Value
4 = VAR
5 = bond equivalent measure
6 = other

In order to compare across all funds, the levels of leverage reported in this survey are calculated using the first formula above:

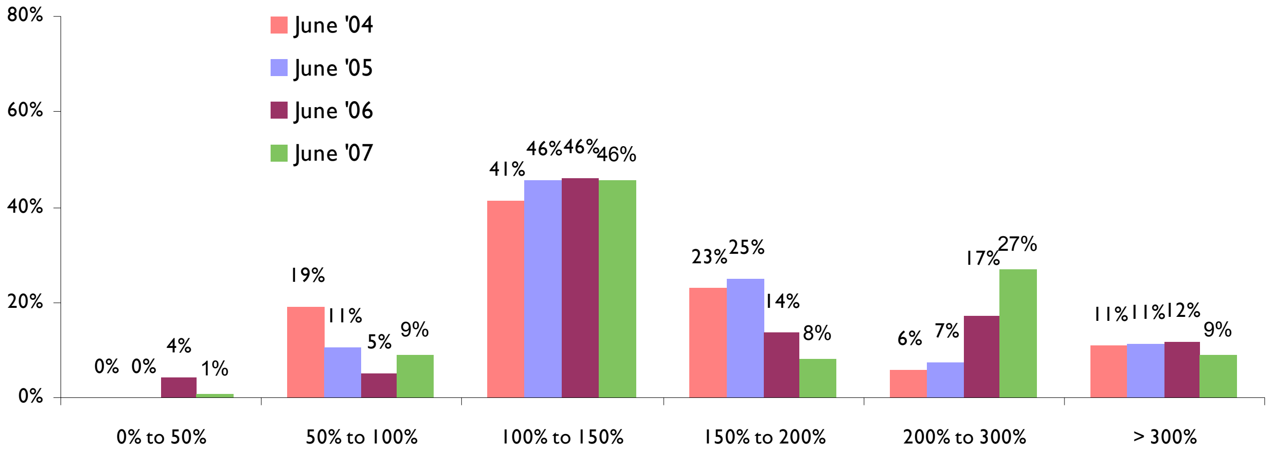
[∑ Longs + ∑ Abs(Shorts)] / Fund value

Graph 17: *Average leverage of all funds*

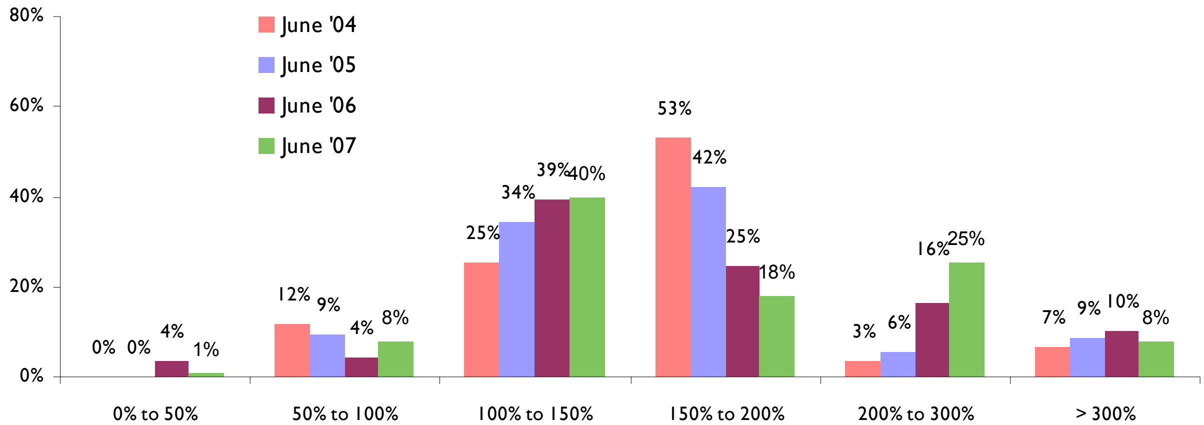


The majority of local hedge fund assets are leveraged between 1x and 2x fund capital. However, there has been a significant increase in the amount of assets leveraged more than 2x. Half of the assets in the new start-ups are leveraged more than 2x. Only the fixed interest hedge funds are leveraged more than 7x fund capital.

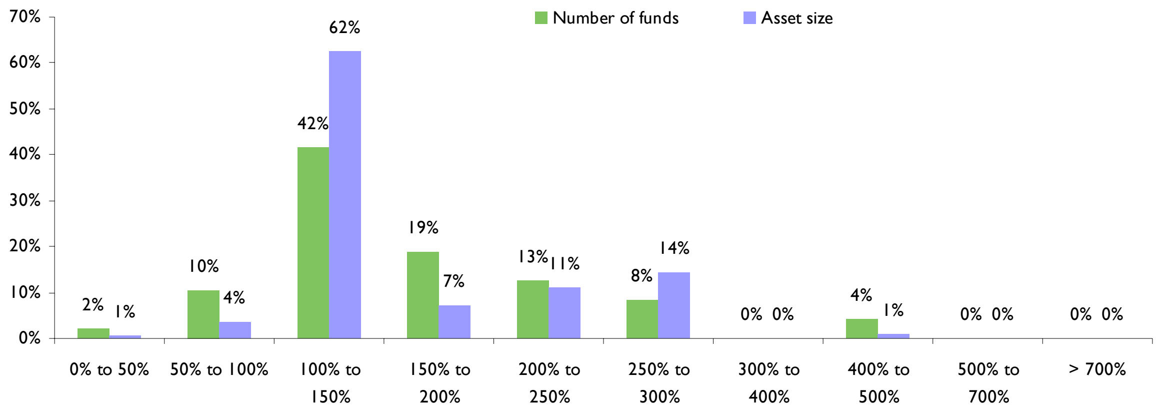
Graph 18a: ***Change in leverage of all funds over past 4 years - excluding unit trust assets***



Graph 18b: ***Change in leverage of all funds over past 4 years - including unit trust assets***

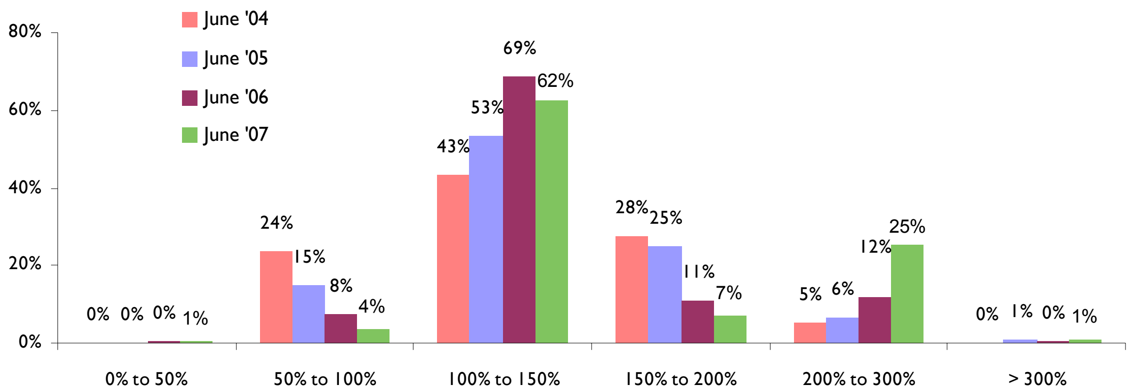


Graph 19: ***Average leverage of Equity Long/Short funds***

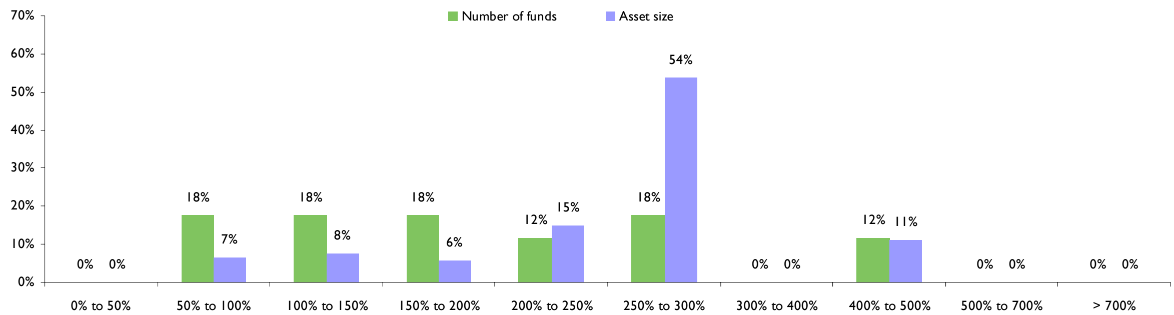


The majority of the assets in equity long/short hedge funds are leveraged between 1x and 1.5x fund capital. However, there has been an increase in the amount of assets being leveraged between 2x and 3x fund capital. This is partly attributed to the newly launched equity long/short funds - the majority of these assets are leveraged higher than the existing funds with 54% of their assets leveraged between 2.5x and 3x. This is in line with established boutique hedge fund houses launching more aggressive versions of their long/short funds in the past year (the so-called "speed-boat vs. mothership" phenomenon).

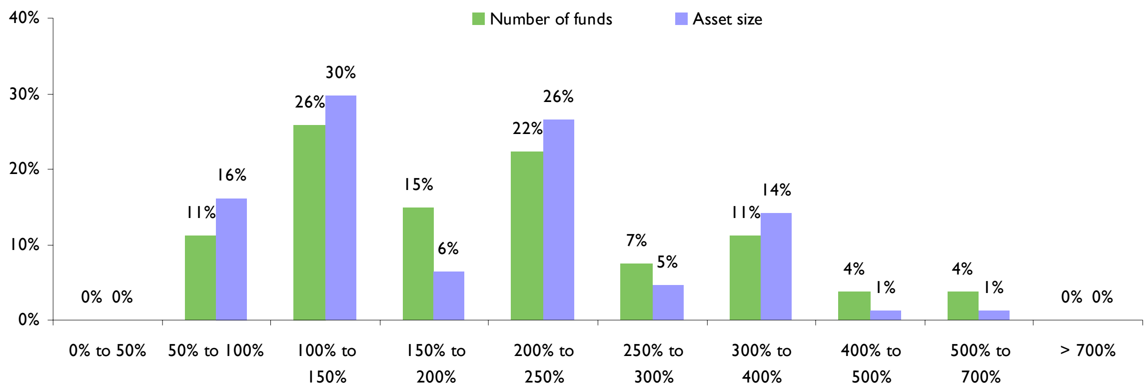
Graph 20: ***Change in average leverage of Equity Long/Short funds***



Graph 21: ***Average leverage of newly launched Equity Long/Short funds***

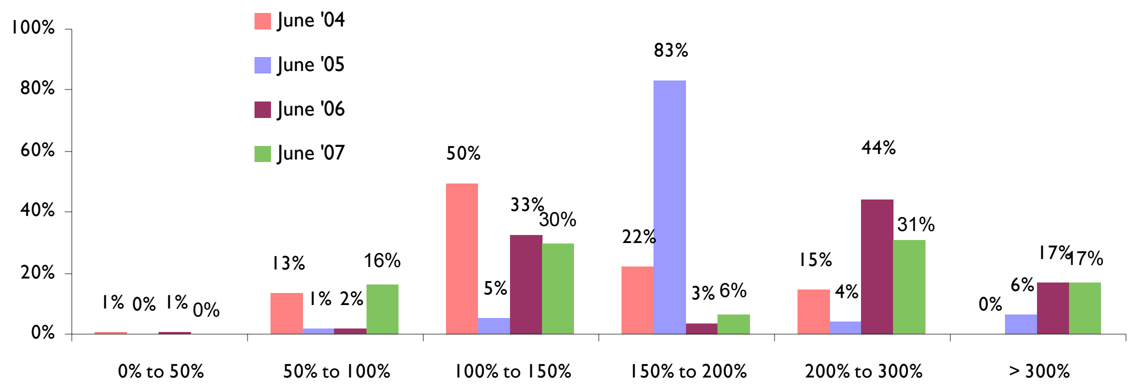


Graph 22: *Average leverage of Equity Market Neutral funds*

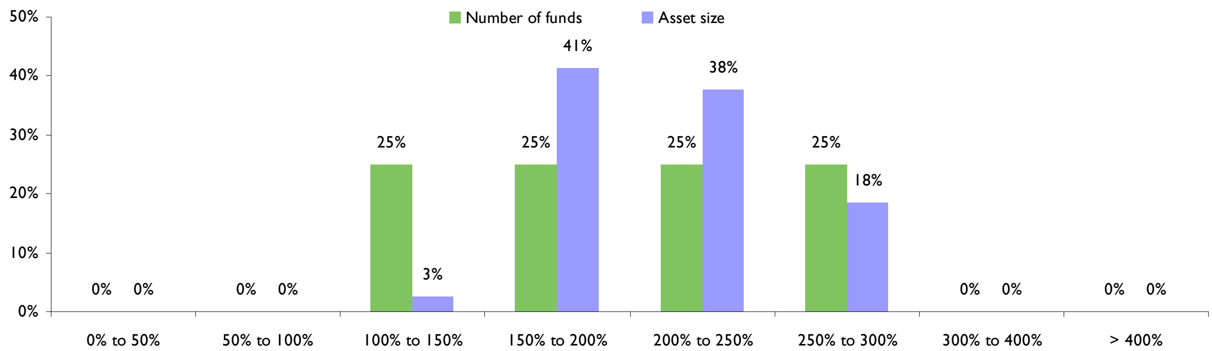


On average, the equity market neutral hedge funds are still leveraged somewhat higher than the equity long/short funds, with almost half of these assets leveraged more than 2x fund capital. Also, whereas no equity long/short funds were leveraged more than 5x fund capital, a small portion of equity market neutral assets was leveraged between 5x and 7x fund capital. However, levels of leverage in the equity market neutral funds are slightly lower than last year. Just over half of the assets in existing market neutral funds are leveraged up to 2x fund capital, whereas the new equity market neutral funds have a much higher concentration of assets being leveraged between 2x and 3x fund capital.

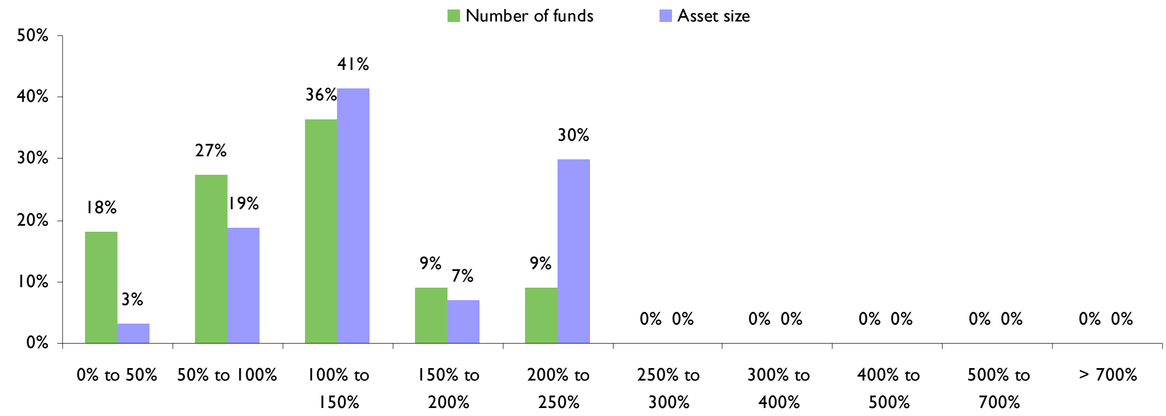
Graph 23: *Change in average leverage of Equity Market Neutral funds*



Graph 24: *Average leverage of newly launched Equity Market Neutral funds*

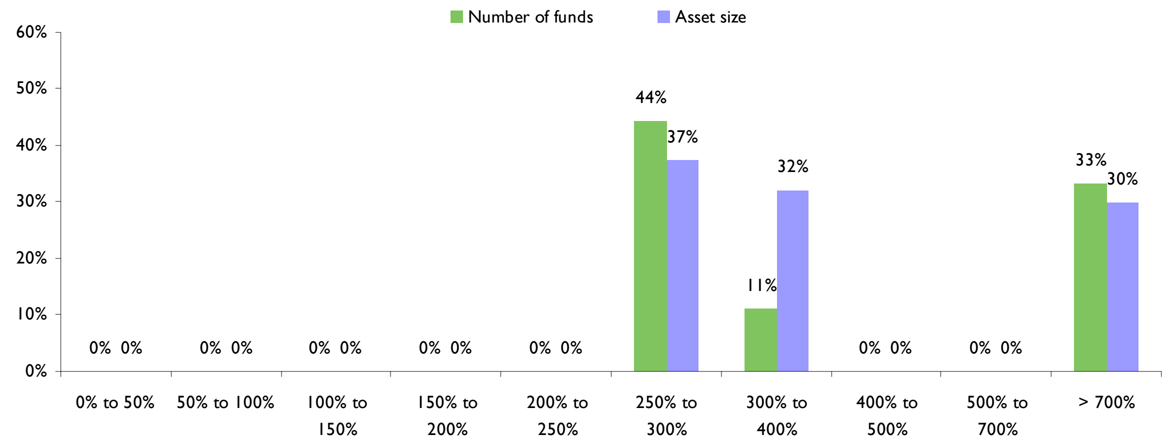


Graph 25: *Average leverage of Multi-Strategy funds*



Multi-strategy is now the third most popular strategy among local hedge funds, both by asset size and number of funds. Those assets in this strategy that are leveraged between 2x and 2.5x fund capital have increased from 13% to 30% of all multi-strategy assets. However, 22% of the multi-strategy assets are leveraged less than 1x fund capital. Interestingly, where existing multi-strategy hedge funds have a high concentration of assets leveraged between 1.5x and 2.5x fund capital, none of the newly launched multi-strategy hedge funds are leveraged more than 1.5x. In fact, 96% of the assets of newly launched multi-strategy funds are leveraged between 1x and 1.5x fund capital.

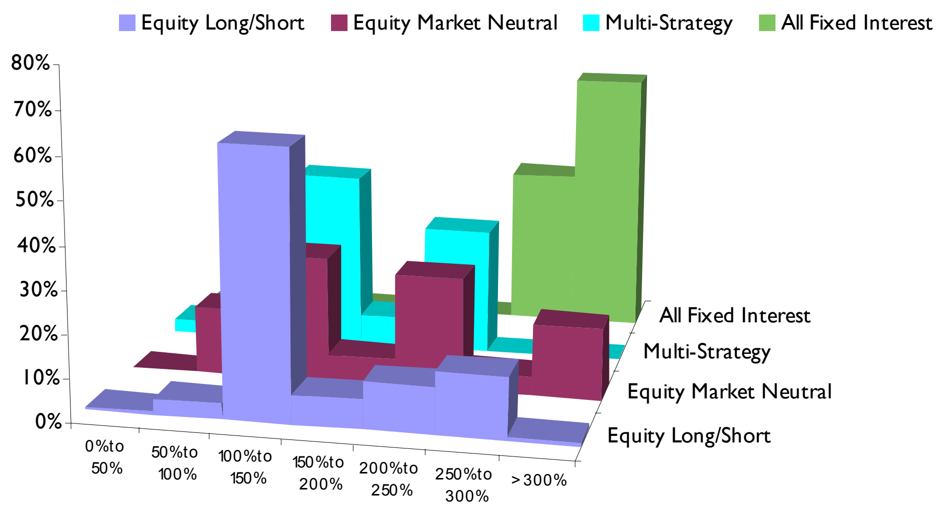
Graph 26: *Average leverage of Fixed Interest hedge funds*



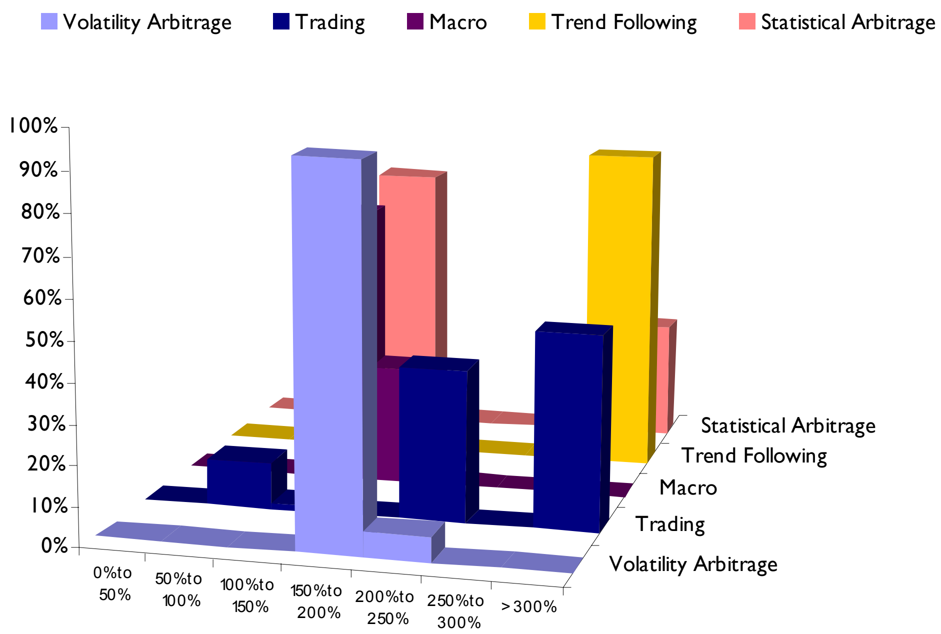
Moving from being the third largest strategy to the fourth largest, fixed interest hedge funds on average have much higher levels of leverage than equity hedge funds: 30% of all fixed interest assets are leveraged more than 7x fund capital.

The graphs below show the ranges where the average levels of leverage for the different strategies are typically concentrated. Among all other strategies, the trading and trend following funds are much more highly leveraged than the volatility arbitrage, macro and statistical arbitrage funds.

Graph 27a: *Levels of leverage employed by strategies*

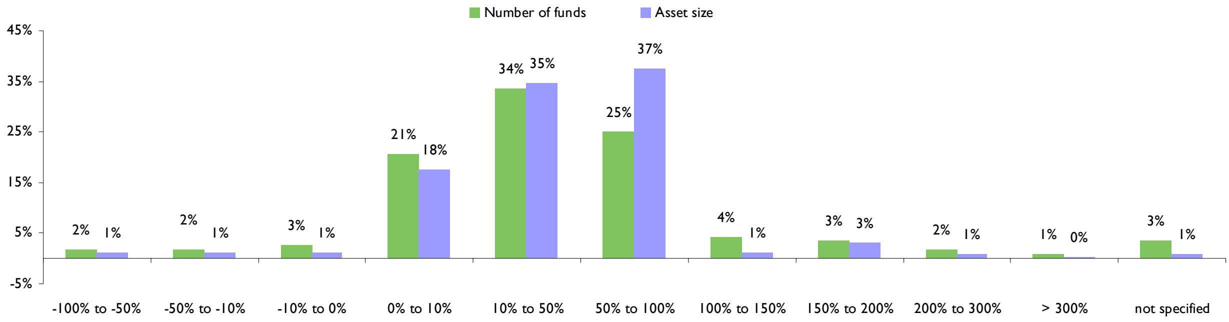


Graph 27b: *Levels of leverage employed by strategies*



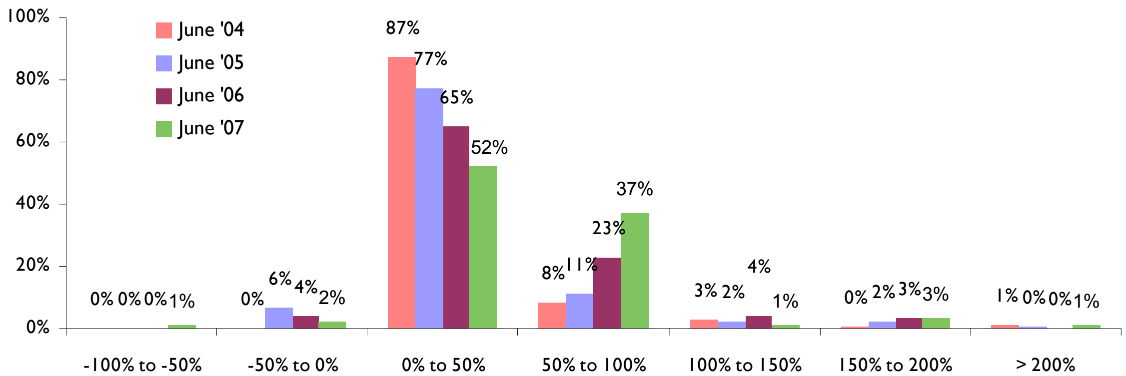
AVERAGE NET EXPOSURE

Graph 28: *Average net exposure of all funds*

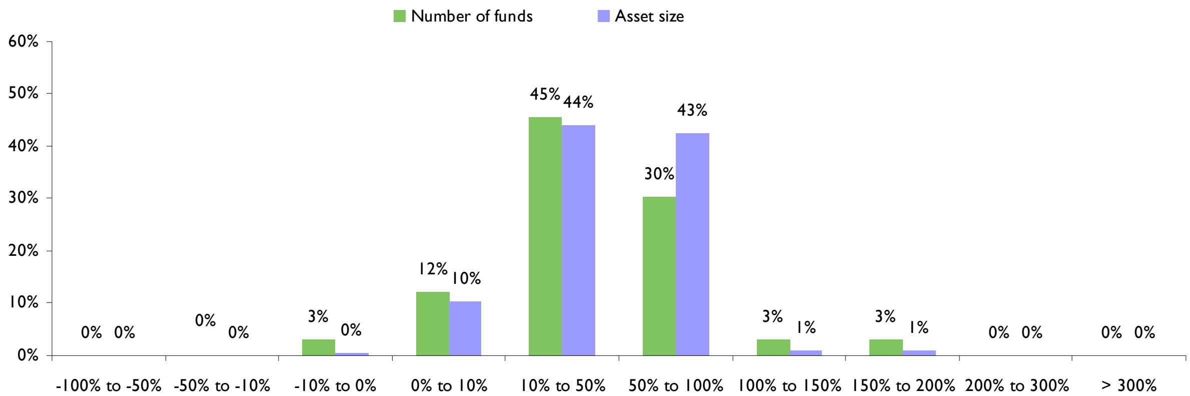


Almost 90% of all hedge funds assets maintained a net exposure of between 0% and 100% over the past year - an increase from the previous year's 86%. Less than 4% of all assets had, on average, a net short exposure to the market - slightly lower than the 5% of assets in the previous assessment period. Only 5.5% of all hedge fund assets had a net exposure of more than 100% - a decrease from last year's 8.5%.

Graph 29: *Change in average net exposure over past four years*



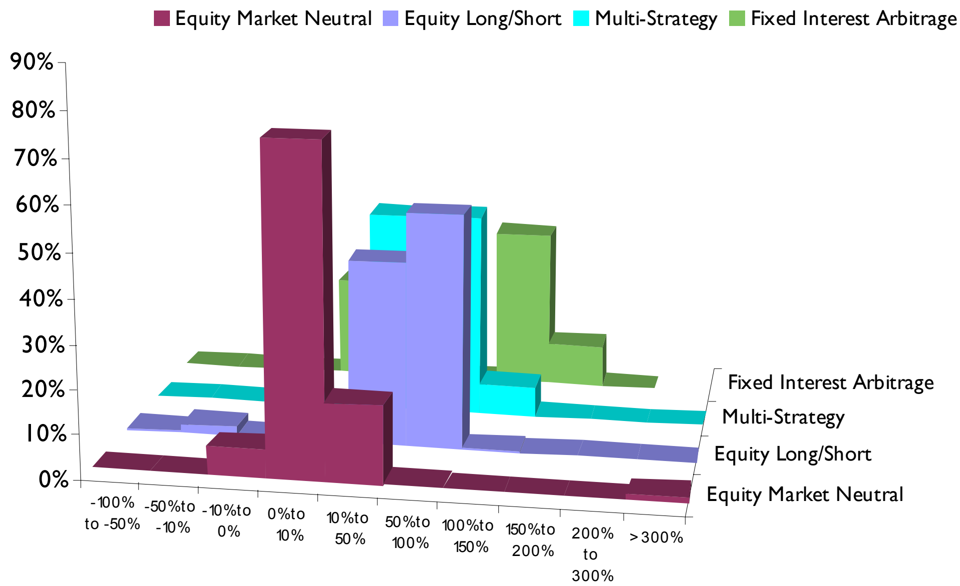
Graph 30: *Average net exposure of newly launched hedge funds*



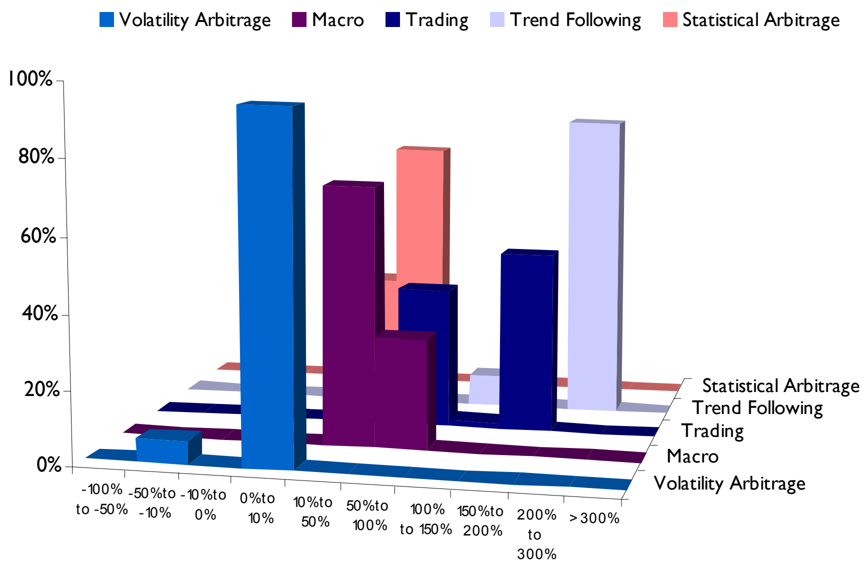
The net exposure to the market of newly-launched hedge funds ranges from -10% to +200%, whereas some of the existing hedge funds had an exposure of more short than 10% of the market or more long than 200% of the market.

The graphs below depict where the net exposures of the different strategies were concentrated. The trading and trend following strategies employed higher net exposure than in the previous assessment period. Last year, 95% of assets in the trading category had a net exposure ranging between +10% and +100% of the market. This year, the majority of assets in the trading category had a net exposure of between +100% and +200% of the market. The trend following funds had on average an even higher net exposure to the market, albeit less than +300%.

Graph 31a: *Comparison of net directional exposure of strategies*

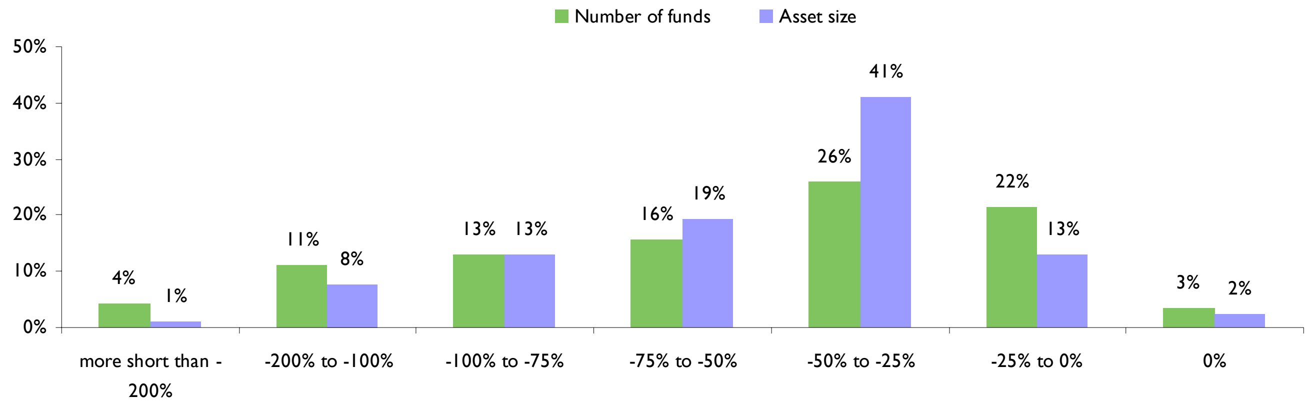


Graph 31b: *Comparison of net directional exposure of strategies*



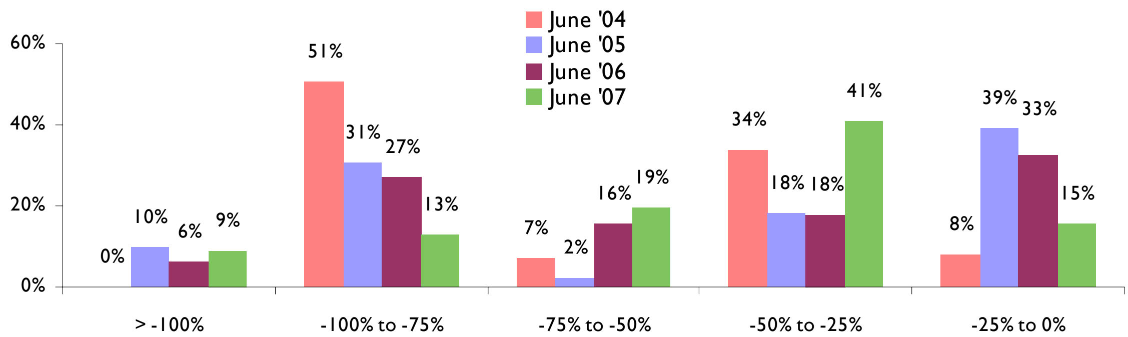
Average Gross Short Exposure

Graph 32: *Average gross short exposure of all funds*



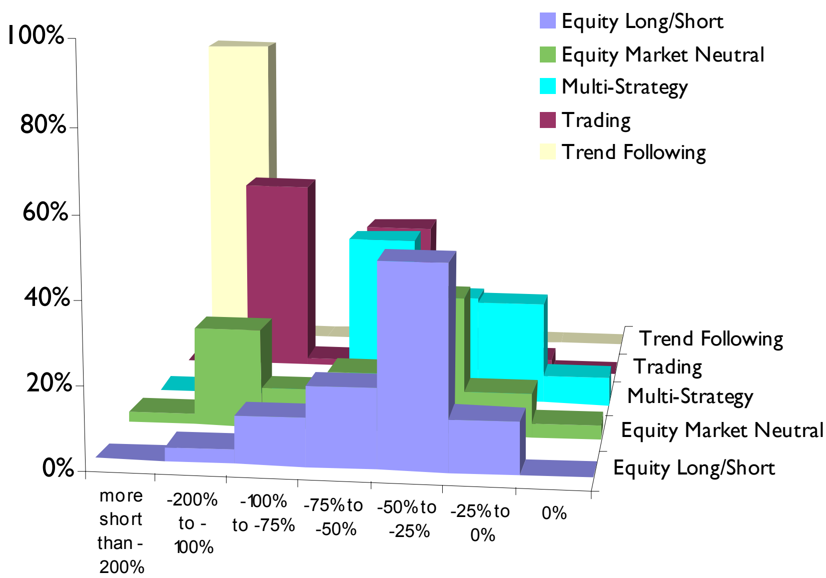
A total of 73% of all hedge fund assets had a gross short exposure of between -25% and -100% of the market, an increase from the previous year's 61%. Only 6% of hedge funds launched during the last 12 months have a gross short exposure of more than -100% to the market, whereas 9% of funds with a track record exceeding one year have a gross short exposure of more than -100% to the market.

Graph 33: *Change in average gross short exposure over past four years*

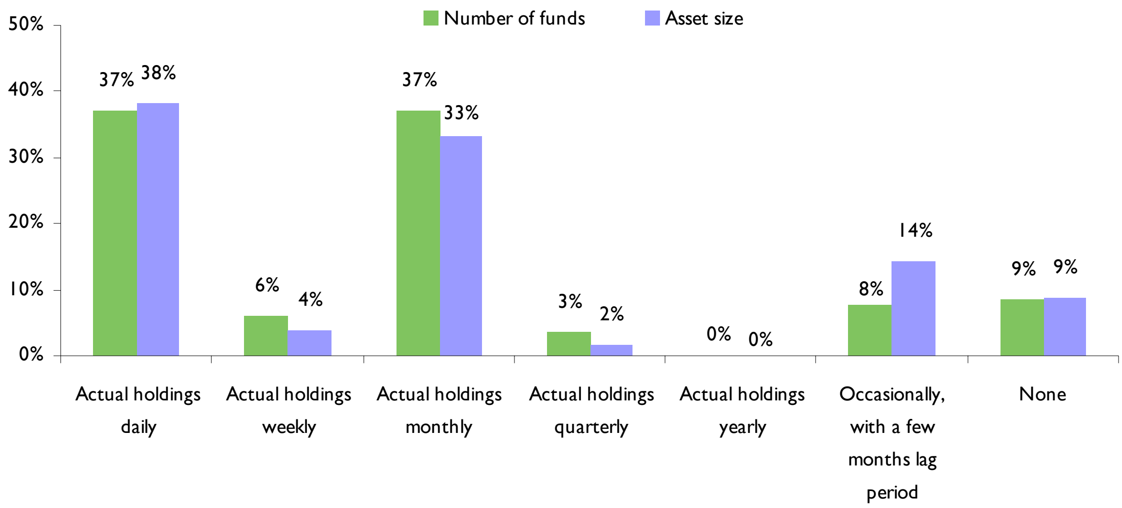


As expected, the equity market neutral funds have a higher gross short exposure to the market on average than the equity long/short funds. Where 4% of the equity long/short assets have a gross short exposure exceeding -100% of the market, 27% of the equity market neutral assets fall in this range. The multi-strategy hedge funds maintained a gross short exposure of between 0% and -75% of the market. While 94% of assets in the volatility arbitrage category had a gross short exposure of between -75% and -100% to the market, 82% of assets in the trend following strategy had on average a gross short exposure of more than -200% of the market, as depicted in Graph 34 below.

Graph 34: *Comparison of gross short exposure of strategies*



Graph 35: *Portfolio holdings transparency*



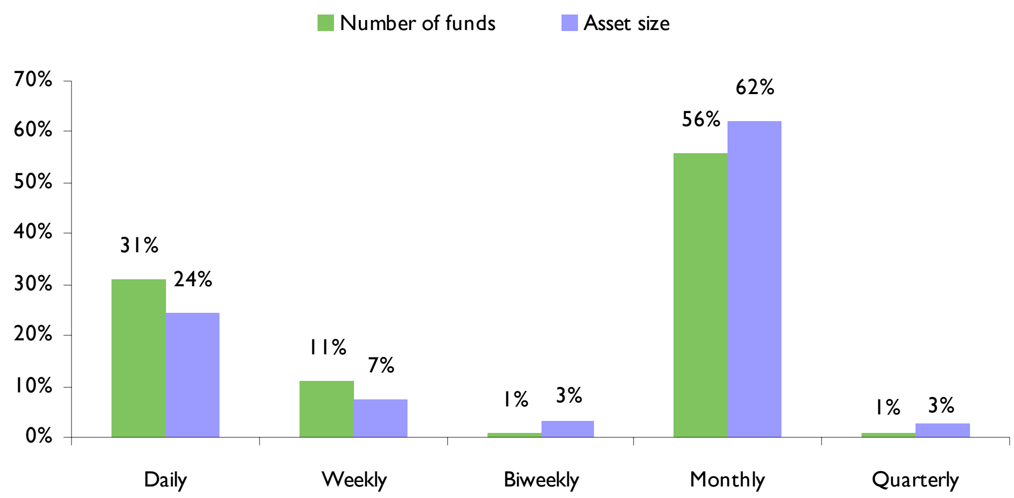
There has been a marked improvement in the daily transparency offered to hedge fund investors. A full 37% of all funds now provide their daily portfolio holdings to investors, which represents a significant increase from the 27% last year. These funds cover 38% of all industry assets.

For 75% of all hedge fund assets, investors would receive the portfolio holdings at least monthly - an improvement from 70% in the previous assessment period. A quarterly portfolio snapshot is given to only 2% of hedge fund assets - substantially less than the 6% in the previous survey period. Last year, 2% of hedge funds provided a portfolio snapshot only once a year; this year there were no such funds. The number of funds that do not offer any portfolio holdings transparency has decreased from 13% to 9%. However, there has been a slight increase in the number of funds that provide portfolio holdings occasionally (with a few months lag period) from 7% to 8%. This represents 14% of the total industry assets.

45% of hedge funds launched in the last 12 months provide daily portfolio holdings transparency, and 33% of them provide investors with a monthly portfolio holdings report, while 9% of the new funds do not provide any portfolio holdings transparency.

Overall, the industry has moved towards a higher standard of more regular portfolio holdings reporting to their investors. This is a definite move towards global best practice and a very positive sign for potential investors.

Graph 36: ***Frequency of NAV reporting***



Even though the number of hedge funds that provide their investors with a daily NAV has improved over the past year (up to 31% from 21%), the assets being managed in these funds comprise only 24% of the total size of the industry. This is much lower than the 32% from the previous survey period.

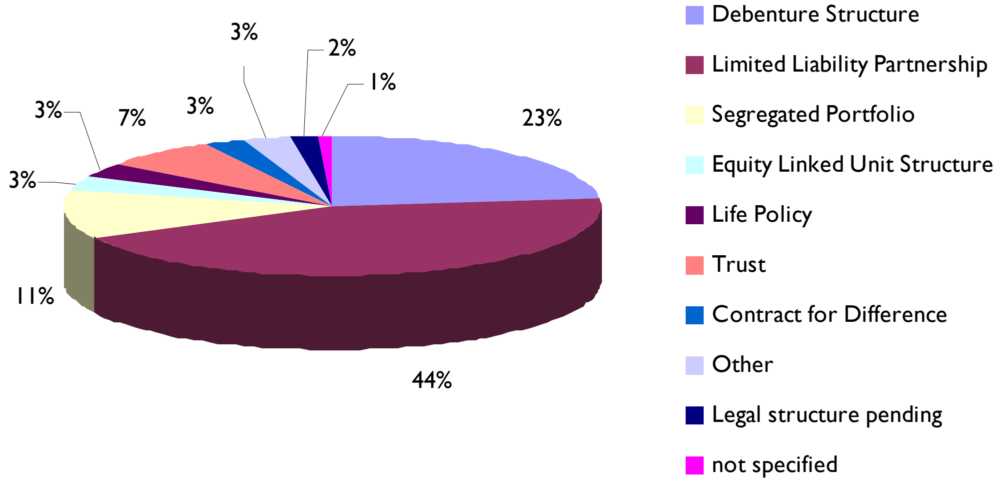
The majority of hedge funds provide monthly NAVs. There has been a considerable increase in the assets on which NAVs are reported monthly – 62% as at 30 June 2007, which is considerably higher than the 50% of the previous year.

Among the hedge funds launched in the past 12 months, 61% provide a monthly NAV, with the remainder providing either weekly or daily reports.

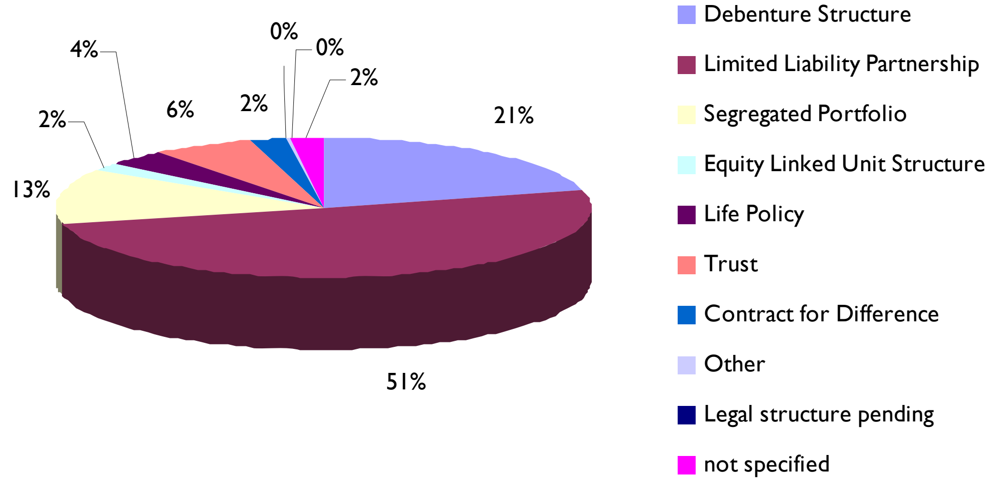
Section 6 – Operational issues

Legal structures used by hedge funds

Graph 37: *Legal structures used by number of funds*



Graph 38: *Legal structures used by asset size*

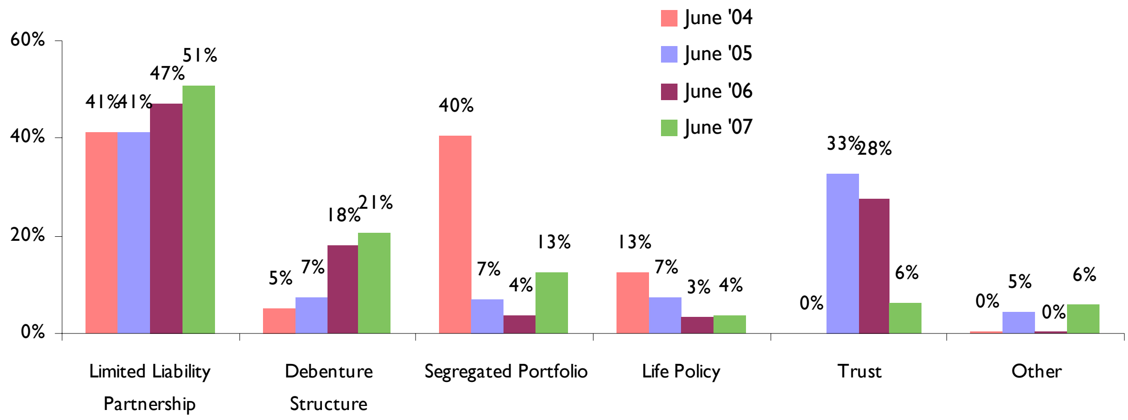


The limited liability partnership remains the most popular structure used by local hedge funds. Assets being housed in this structure have increased over the past year from 47% to 51%.

The second most popular structure is, yet again, the debenture structure. Assets in this structure have also witnessed strong growth, up from 18% to 21% as at 30 June 2007.

There has been a significant increase in the assets being managed in a segregated portfolio – up from 4% to 13%. This is in line with the global trend where funds of funds prefer assets being managed in a segregated portfolio or so-called managed account, instead of a pooled fund.

Graph 39: ***Change in legal structures used by asset size - excluding unit trust assets***



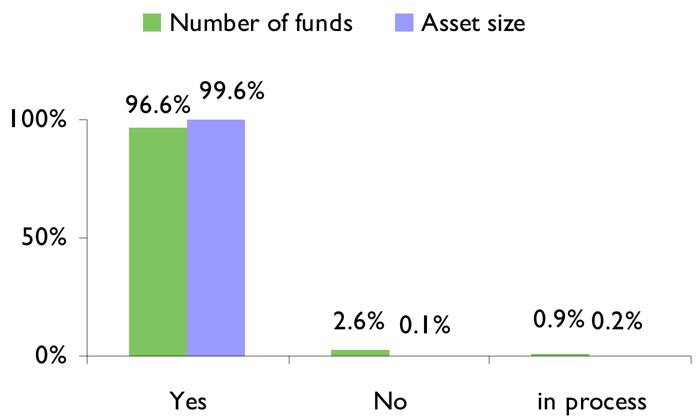
It is interesting to note that the most popular structure used by the new hedge funds launched in the past year is the debenture structure. Almost 40% of the new funds have this structure, whereas 30% of the new funds use the limited liability partnership.

Managers registered with the Financial Services Board (FSB) under FAIS

Almost 97% of participating hedge fund managers are registered with the Financial Services Board as authorised financial services providers or as authorised representatives of authorised financial services providers. This is a significant increase from the 93% of managers in the previous survey period. A small percentage of managers are currently in the process of being registered.

The FSB has recently published regulations with the specific purpose to regulate hedge fund managers. This entails additional fit and proper requirements as well as a focus on hedge fund managers' experience and qualifications, in addition to the current FAIS requirements. All current hedge fund managers wishing to comply with these new regulations must apply within eight months following the publication of the new regulations.

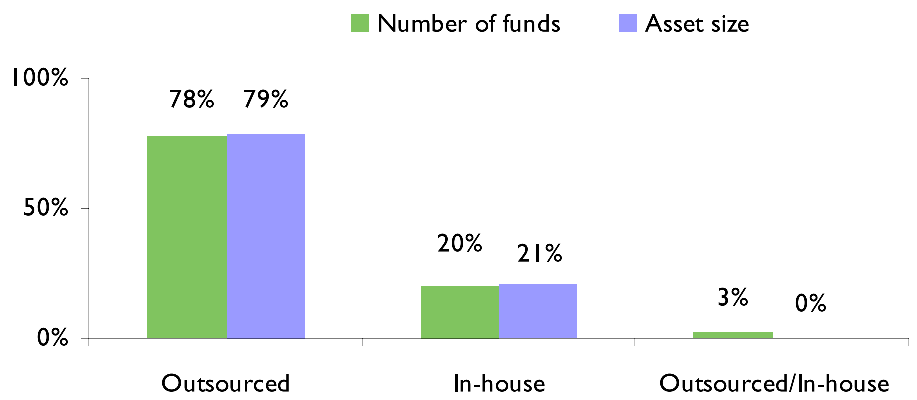
Graph 40: *Managers registered under FAIS*



Administration outsourced or in-house

The local hedge fund industry is also moving towards globally accepted best practice in terms of the outsourcing of the administrative functions to third party administrators. Both the number of funds outsourcing this function and the amount of assets has increased from last year. The number of funds has increased to 78% from 71%, whereas the amount of assets that are being administered by a third party administrator have increased to 79% from 71%. Among the hedge funds launched in the past year, 76% outsource their administration.

Graph 41: *Who is responsible for fund administration?*

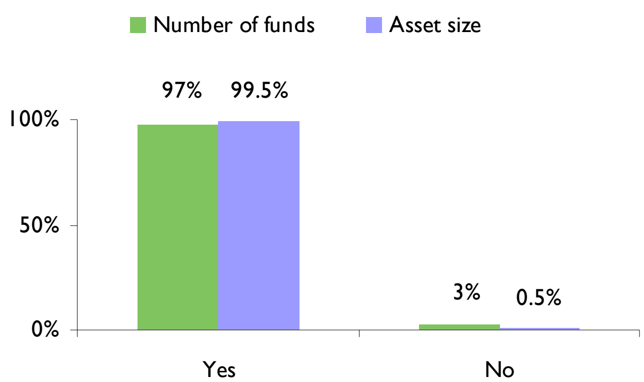


There are currently five administrators in South Africa offering specialised services to local hedge funds. They collectively administer more than R20.5bn in assets as at 30 June 2007 and service more than 119 funds. The administrators do not offer risk measuring and/or risk reporting services, since funds are typically only priced at month-end. All of the local administrators can produce a final month-end NAV within five business days after month-end, under ideal circumstances.

Independent auditor

Almost all of the current hedge fund assets are audited by independent auditors. This has improved to 99.5% from the previous year's 97.4%.

Graph 42: *Does the fund have an independent auditor?*



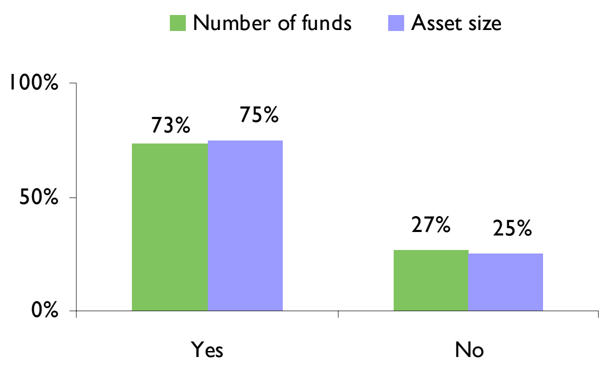
PRIME BROKERS

There are currently six prime brokers offering specialised services to South African hedge funds, with a couple of global prime brokers considering to enter the local market in due course. One of the six specifically focuses on fixed interest hedge funds.

At 30 June 2007, these prime brokers serviced more than R20.9bn of local hedge fund assets. A total of 73% of the participating hedge funds indicated that they make use of a prime broker. This is equivalent to 75% of all hedge fund assets as at 30 June 2007. Of the 25% assets for which a prime broker is not used, the majority is being managed by large asset management companies that have internal trading desks. The remainder makes use of several brokers instead of one dedicated prime broker.

Among the funds launched in the past year, 82% use a prime broker.

Graph 43: ***Does the fund use a prime broker?***



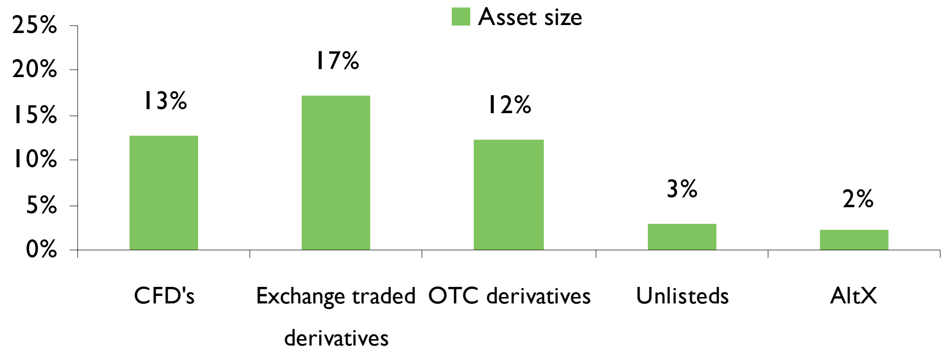
All of the prime brokers offer some form of risk reporting or risk measurement tool to their clients, but typically cannot take full responsibility for mandate compliance monitoring, as they might not be aware of all legs of a trade at any particular point in time.

EXPOSURE TO CERTAIN INSTRUMENTS

There has been a slight increase in the amount of assets exposed to unlisted instruments and equities listed on AltX. Exposure to unlisted instruments has increased from 1% to 3% over the past year, whereas 2% of all hedge fund assets had exposure to AltX on 30 June 2007 - up from 0.6% the previous year.

Interestingly, hedge funds launched in the past year have a higher exposure to these instruments – of the combined assets in the new funds, 5% is held in unlisted instruments and 4% are exposed to AltX.

Graph 44: *Effective exposure*



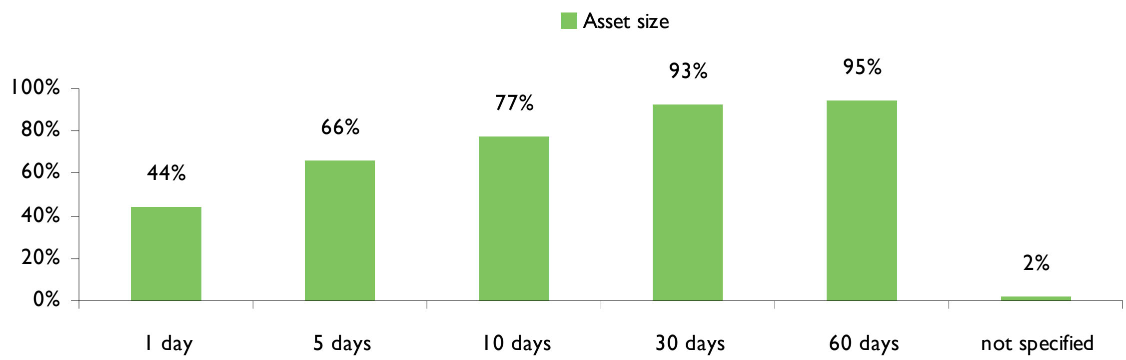
LIQUIDITY PROFILE OF PORTFOLIOS

Contrary to popular belief, the majority of hedge funds do not have excessive exposure to illiquid instruments. We polled local hedge funds to gauge how quickly they estimate that, given current market conditions, they can liquidate their portfolios.

Given the managers' estimates, 44% of hedge fund assets are currently invested in instruments that can be liquidated within one trading day. It would theoretically be possible to liquidate two thirds of portfolios within one week, 77% within two weeks and 93% of all portfolio holdings within one month. Only 3% of current hedge fund assets would take more than two months to liquidate.

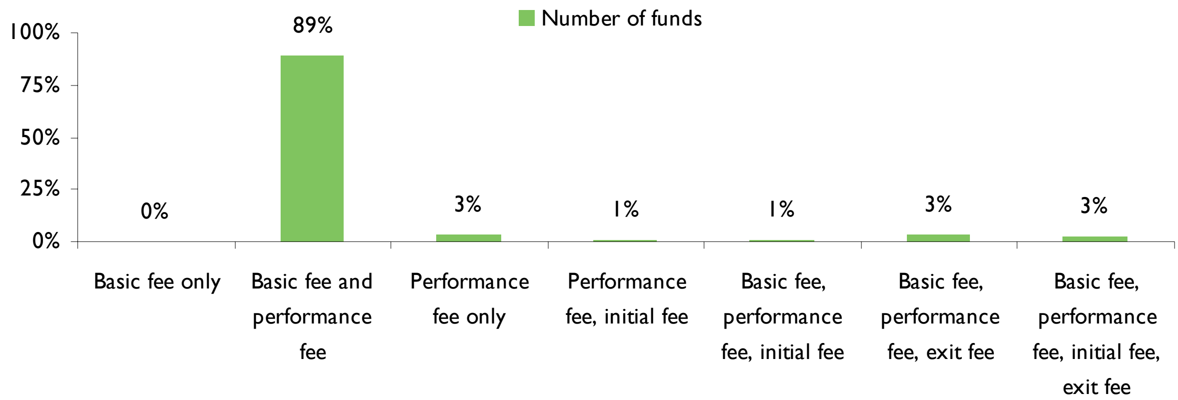
Overall the liquidity profile of hedge funds looks favourable.

Graph 45: *What percentage of total assets can be liquidated within:*



FEE STRUCTURE

Graph 46: *Fees charged*

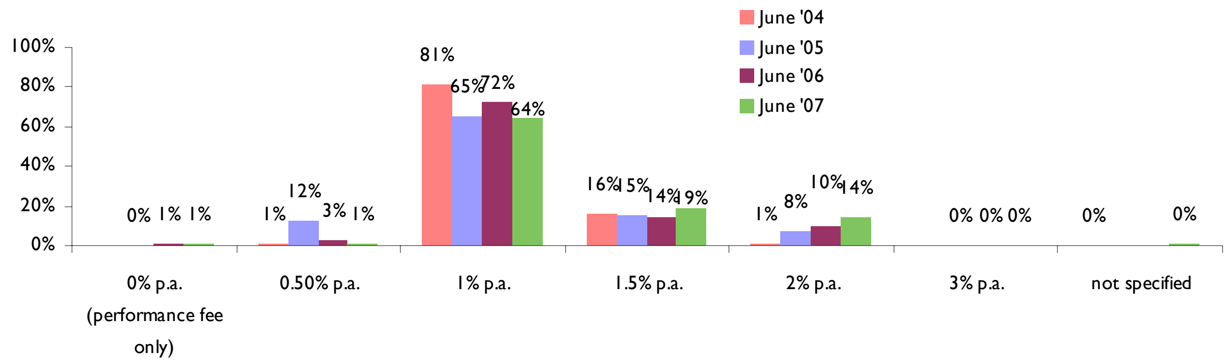


The majority of local hedge funds charge both a basic and performance fee. The number of funds charging only a performance fee has reduced to 3% from last year's 6%.

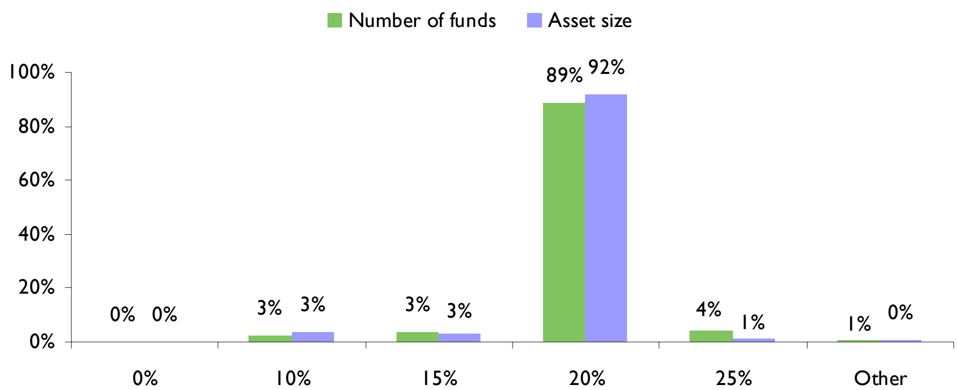
For the majority of all local hedge fund assets a basic fee of 1% p.a. is charged. This percentage is, however, lower than the 72% of assets on which a basic fee of 1% p.a. was charged last year. Interestingly, the amount of assets for which a basic fee of 2% p.a. is charged, has increased from 10% to 14% and the amount of assets for which a basic fee of 1.5% p.a. is charged, has increased from 14% to 19%.

A third of the hedge funds launched in the last year charge a basic fee of 2% p.a., while 27% of the new funds charge a basic fee of 1.5% p.a. and 33% a basic fee of 1% p.a. One new fund is charging a basic fee of 3% p.a.

Graph 47: *Basic fee charged over the past four years - excluding unit trust assets*

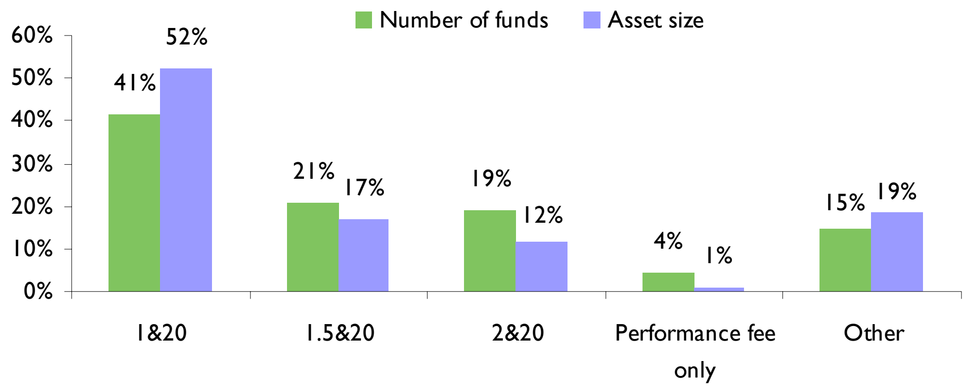


Graph 48: *Level of performance fees charged*



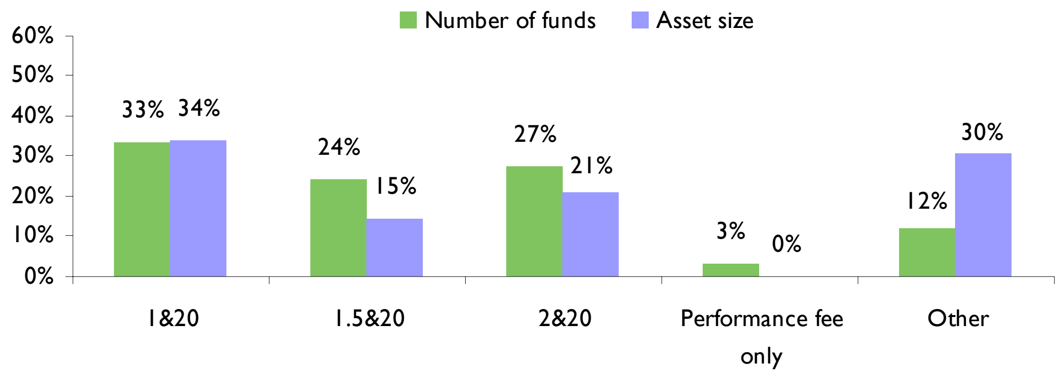
Almost 90% of all hedge funds charge an annual performance fee of 20% - a slight increase from the 87% of hedge funds in the previous assessment period. The majority (52%) of all hedge fund assets is thus subjected to the "1&20" fee structure. This is somewhat lower than the 64% of all hedge fund assets last year. In the previous assessment period, 10% of all hedge fund assets were subjected to "2&20". This has slightly increased to 12% of all hedge fund assets as at 30 June 2007. The amount of assets subjected to "1.5&20" has also increased over the past year, from 11% to 17% for the current assessment period.

Graph 49: ***Basic fee and performance fee combinations – all funds***

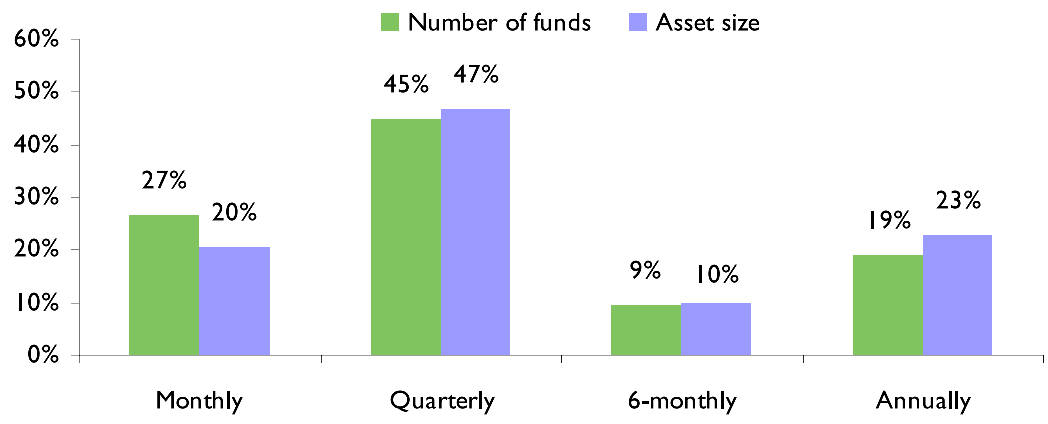


The majority of hedge funds launched in the past 12 months charge a fee structure of either "1.5&20" or "2&20". In comparison, only 35% of funds with a track record longer than a year charge these fees, and 45% of these existing funds charge "1&20". Only a third of newly launched funds charge "1&20".

Graph 50: ***Basic fee and performance fee combinations – new funds***



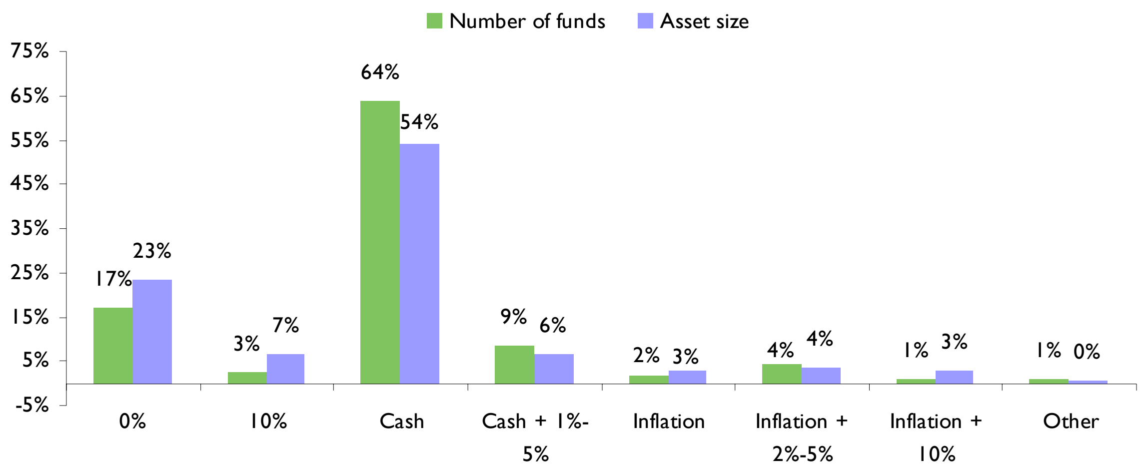
Graph 51: Crystallisation of performance fees



For almost half of all hedge fund assets, a performance fee is paid on a quarterly basis. For 23% of assets, a performance fee is only paid annually, but for 20% of all assets a performance fee is calculated and paid on a monthly basis.

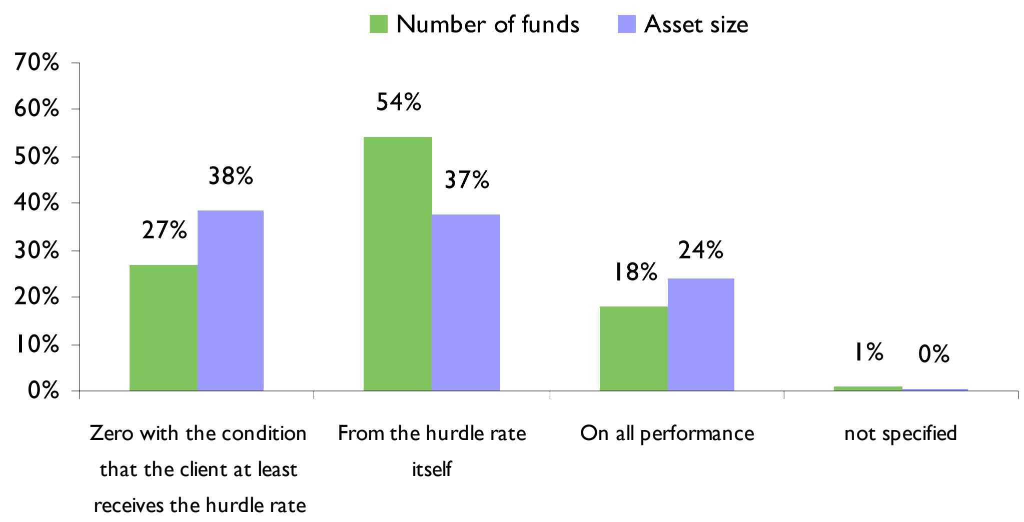
All of the participating hedge funds use the high water mark principle, where any underperformance below the hurdle in a particular calculation period must first be made up in subsequent periods before a performance fee will be taken.

Graph 52: *Hurdle rate used*



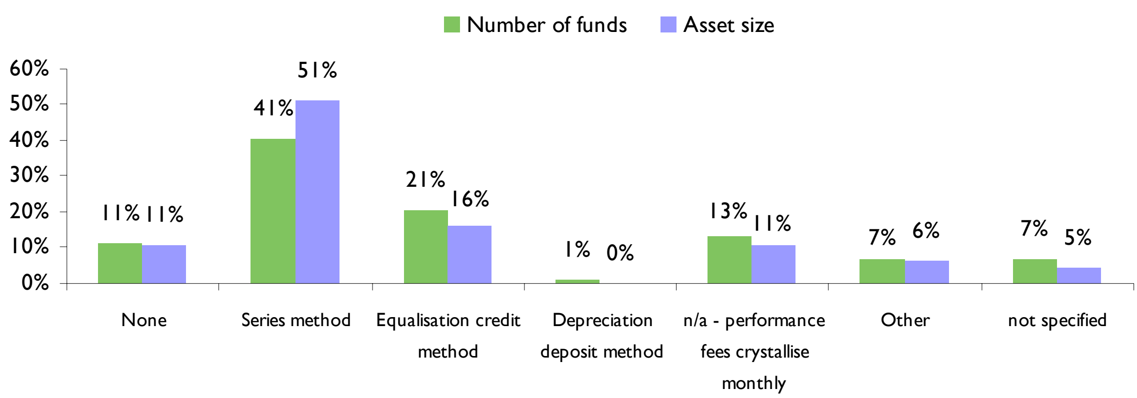
Return on cash remains the most commonly used hurdle. Among the funds started in the last year, 70% also use cash as the hurdle rate. The number of funds that do not use a hurdle rate but take a performance fee on all positive performance, have increased to 17% from 12%, even though the assets subjected to this calculation method is in line with that in the previous assessment period. Only 15% of new funds do not use a hurdle rate in the calculation of performance fees.

Graph 53: *Starting point of performance fee*



There have not been significant changes to the starting point from which a performance fee is taken. For almost a quarter of assets, the performance fee is calculated on all performance. However, the majority of hedge funds (54%) still calculate the performance fee on out-performance of the hurdle rate. There has been a slight increase in the amount of assets for which the performance fee is taken on all performance, but with the condition that the client receives at least the hurdle rate: 38% at the end of June 2007, up from 35% in the previous assessment period.

Graph 54: *Method of equalisation used*

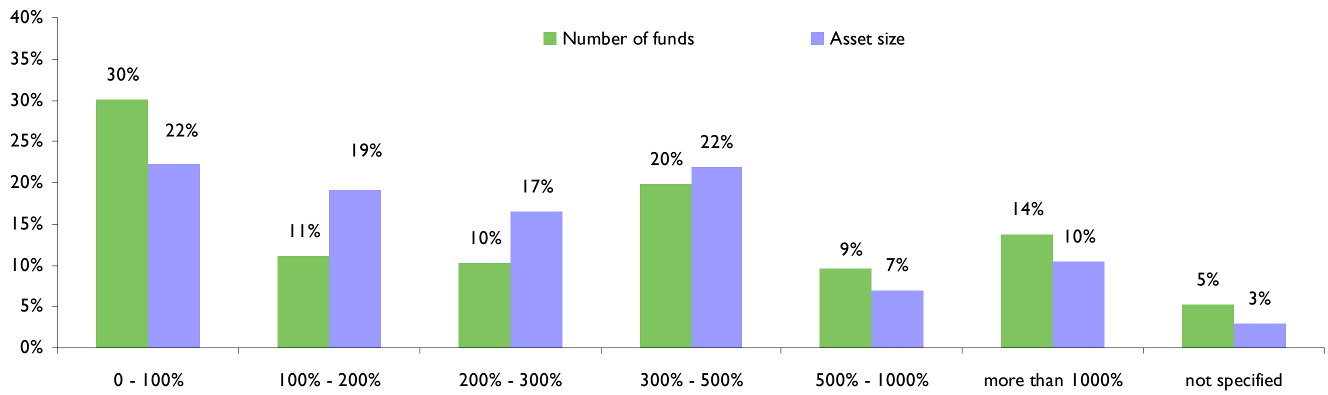


For the majority of hedge fund assets, the series method is used to ensure all clients are treated fairly. This is a significant increase from the 34% of hedge fund assets in the previous year. Considerably fewer assets are subjected to the equalisation credit method: 16% - down from 30% last year. This might be a reflection on the simplicity of the series method, in comparison with the administration-intensive and less intuitive alternative methods of equalisation.

SECTION 7 – TURNOVER OF PORTFOLIOS

The average turnover of a portfolio gives an indication of how actively the fund is trading. The graph below indicates that 14% of funds turn their portfolios over more than 10 times in a year. These funds represent 10% of all hedge fund assets - a minor increase from 9% in the previous survey period. A majority of 58% of all assets are turned over less than three times per year - an increase from the 47% of last year.

Graph 55: ***Average turnover per 12 month period***



Interestingly, for the newly-launched hedge funds, 57% of all their assets are turned over less than once a year, in comparison with 22% of all hedge fund assets. 16% of new hedge fund assets are turned over between once and five times per year and 24% of these assets are turned more than 10 times per year.

SECTION 8 – AVAILABLE CAPACITY

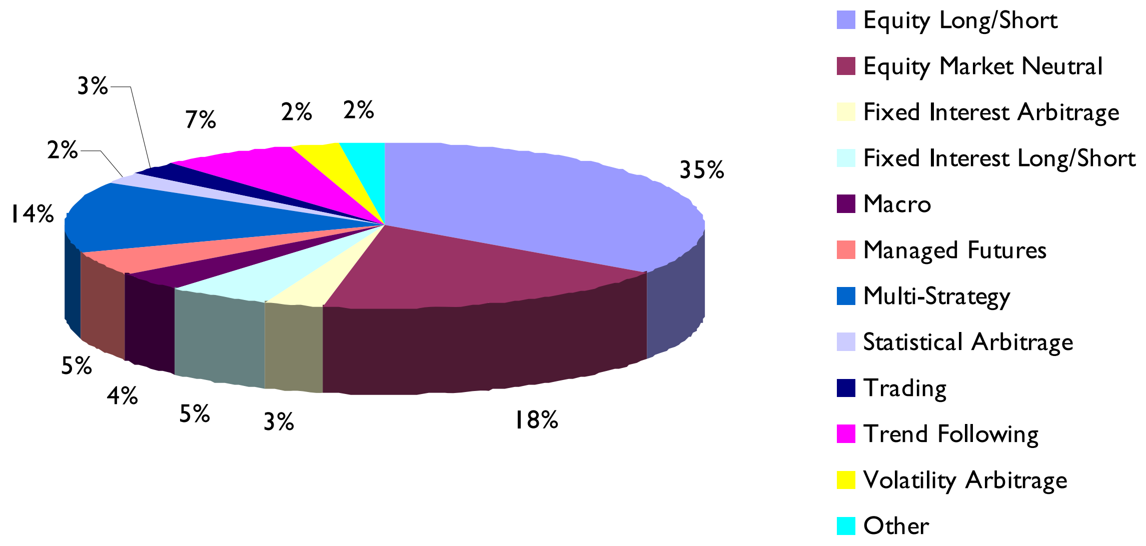
Participating hedge fund managers estimate that they have capacity in excess of R30.5bn left in currently open funds. This implies that the size of the hedge fund industry can grow to at least double its current size, given current market conditions.

At 30 June 2007, 20 participating hedge funds were already closed to new investors. These 20 funds represented 33.5% of the total asset size of the industry at 30 June 2007.

Hedge funds that were launched in the last 12 months have R11.4bn capacity available. The majority of the available capacity is thus being offered by funds with a track record of more than a year.

The graph below depicts how the total estimated available capacity is split between the different strategies.

Graph 56: *Capacity from current funds per strategy*



IN CLOSING…

The local hedge fund industry has consciously been moving towards a high level of self-regulation over the past few years. More hedge funds are now outsourcing their fund administration to third party administrators, and more than three-quarters of all hedge fund assets are serviced by established prime brokers that specifically cater for local hedge funds.

A large number of local hedge funds now have an established track record spanning more than three years. The industry continued to grow strongly over the past year with a record number of new hedge funds being launched.

Further peace of mind to potential investors should be the high percentage of hedge fund assets being invested by funds of funds. Funds of funds investments now make up almost 60% of hedge fund assets, which takes care of most of the monitoring and compliance checking functions that are so crucial to an industry that is moving towards increased regulation by government bodies.

Fees charged by local hedge funds are still below global benchmarks, with local hedge funds offering generous reporting and transparency to their investors. Increased transparency should also be comforting to potential investors and give more credibility to an industry that is still young, yet sophisticated when measured against global peers.

Hedge funds can no longer be ignored by institutions, individuals or corporates – indeed by all potential investors. The new hedge fund manager regulation by the FSB is a step in the right direction, and yet another confirmation that this industry is here to stay.

"I don't try to jump over 7-foot bars, I look around for 1-foot bars that I can step over."
- Warren Buffett

GLOSSARY

Absolute Return Fund Funds with a broad mandate allowing the investment manager to actively manage the asset allocation in order to minimise downside risk and preserve capital. These funds have a benchmark related to cash or inflation. Derivatives can be utilised extensively, but no leverage is employed, differentiating these funds from hedge funds.

CFD An Equity Contract For Difference is an over the counter (off exchange) agreement (made between two parties) to exchange, at the closing of the contract, the difference between the opening and closing prices, multiplied by the number of shares detailed in the contract.

Equity Long/Short Strategies that generate positive returns by being both long and short in the equity market. "Market risk" (systematic risk) is thus significantly reduced whilst specific risk is retained. In general, these funds are long biased even though short positions are taken. Leverage is used to increase the exposure to a particular position. Funding for leverage purposes is normally obtained via shorting physical equities, CFD's or futures.

Equity Market Neutral Long and short positions in related assets are taken with the effect that directional market risk is (almost) completely offset.

Event Driven/Structured Finance Event driven funds tend to take advantage of pricing anomalies resulting from corporate transactions and special situations. The success of Event Driven funds depends on their ability to assess the probability of failure/success of such corporate events.

FAIS The Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002).

Fixed Interest Arbitrage Strategies that aim to profit from price anomalies between related interest rate securities. Because of the small profits per trade made in this way, extensive leverage is used to increase the exposure to a particular position.

Fixed Interest Long/Short Strategies that generate positive returns by being long and short across the yield curve and between government and corporate debt. These funds can be either net long or net short positioned. Managers make use of significant leverage to increase their exposure to particular positions.

Gross Short Exposure The total effective market value of only the short positions in the portfolio.

Hurdle Rate The minimum investment return a fund must exceed before a performance or incentive fee can be taken.

Leverage The practice of borrowing money to add to an investment position when one believes that the return from the position will exceed the cost of borrowed funds. Hedge funds utilise leverage in order to increase returns. Leverage can have the effect of magnifying the returns as well as the losses.

Long Position Holding a positive amount of an asset.

Macro A global macro strategy involves opportunistically allocating capital among a wide variety of strategies and asset classes. Strategies may be directional or non-directional. This strategy is the most flexible of investment strategies, with the manager often taking a top-down thematic approach and investing on an opportunistic basis, moving between countries, markets and instruments.

Managed Futures Strategies where positions in the derivative market are taken. Derivatives are instruments whose values depend on the value of an underlying asset, and can increase the effective exposure to the specific underlying asset. Due to the nature of these securities, significant leverage may be obtained. The risk associated with these strategies may be significant, depending on the particular mandate and views taken by the managers of the fund.

Multi-Strategy An investment philosophy allocating investment capital to a variety of investment strategies, although the fund is run by one management company.

Net Exposure The total value of the long positions less the total value of the short positions. This represents the portfolio's directional exposure to the market.

Short Position Holding a negative amount of an asset, whereby assets are sold without owning them.

Statistical Arbitrage Proprietary, quantitative models are typically used to identify market opportunities and establish positions, including the size of positions and the risk control. As a group, these managers are trend followers. They seek to identify a trend or pattern and position themselves to stay invested as long as it persists.

Trading Strategies where the managers use fundamental analysis, computer systems or a combination of both to identify profitable trades. Concentrated positions are held for very short periods of time. In general, this tends to be the highest risk and highest return strategy within the universe of hedge funds.

Trend Following A strategy where technical analysis rules are used to recognise trends in different markets. Managers normally aim to spot trends or momentum direction early on in order to capitalise on behavioural over- or under reaction by other market players.

Volatility Arbitrage A strategy to exploit mispricing between similar instruments where the mispricing is the result of different volatility assumptions by price makers.

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