

# BEE.conomics



## MEASURING THE IMPACT OF TRANSFORMATIONAL INITIATIVES IN THE SA FUND MANAGEMENT SECTOR

SEPTEMBER 2009



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INVESTMENT MANAGERS

### CONTACT DETAILS:

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27four is an authorised Financial Services Provider



## THE SEED

### Why we embarked on this project

27four Investment Managers recently conducted an industry wide survey of fund managers in South Africa that meet specific minimum criteria in terms of Black Economic Empowerment. The purpose of this assignment is to provide institutional investors with tangible data and statistics to effectively understand this universe of fund managers and to monitor the progress of transformational initiatives undertaken by the investment community. Whilst there is widespread engagement amongst industry participants including fund managers, asset consultants, retirement funds and trade unions regarding the democratisation of investment capital in SA, there exists very little, if any, substantial data to ably evaluate this sector.

The findings that we present to you in this report will allow the investor and policy decision makers to assess the many challenges experienced and celebrate the many achievements realised, thereby providing a foundation upon which future strategy can be developed.

### Criteria for participation

27four extended an invitation to fund managers that meet the following minimum criteria in terms of Black Economic Empowerment:

- a. minimum of 50% black ownership and;
- b. minimum of 50% black representation at Board level and;
- c. minimum of 50% black individuals in Senior Fund Management positions

where Black is defined as per the dti Codes of Good Practice.

The universe of managers invited included traditional long-only managers (across all asset classes), hedge fund managers and private equity managers.

### Methodology used to present our findings

The approach we used was purposefully basic and uncomplicated so that outcomes can be meaningfully represented and translated. A simple survey was designed and **21 fund managers** were invited to complete the survey. Participation was voluntary. This research report presents the outcome of our findings following the collation of data received through the completion of the survey.

The simplicity of the questionnaire ensured that respondents were easily able to complete the questionnaire. Where questions were left blank 27four followed up with the respondents. The response cut-off date was **31 July 2009**. In the case of participants that did not respond in time, 27four made several attempts to contact them and provide them the opportunity to participate. The final cut-off date was 14th August 2009. 27four is pleased with the response rate achieved.

Outcomes are presented per category. Participating firm profiles are provided in the last section of this report.



## Use as a monitoring tool

We hope that our findings will be used as a tool by institutional investors and policy decision-makers to measure the impact of transformational initiatives and to constructively implement a strategy to integrate the participating firms into the mainstream industry to create a level playing field. The upside is that we offer you the scope to broaden your investment opportunity set by tapping into the changing demographics and talent that is emerging in a post apartheid SA. At the same time we also showcase the strengths and capabilities of participating firms.

We would also like to take this opportunity to thank all participating firms for their effort in completing the survey. Without you this would not have been possible! 27four will continue to build on its already strong value proposition in this sector through the provision of meaningful research and product.

Please feel free to send your feedback and comments to: [info@27four.com](mailto:info@27four.com). A copy of this report is also accessible on [www.27four.com](http://www.27four.com).

Yours Sincerely



Fatima Vawda  
Managing Director  
27four Investment Managers (Pty) Ltd



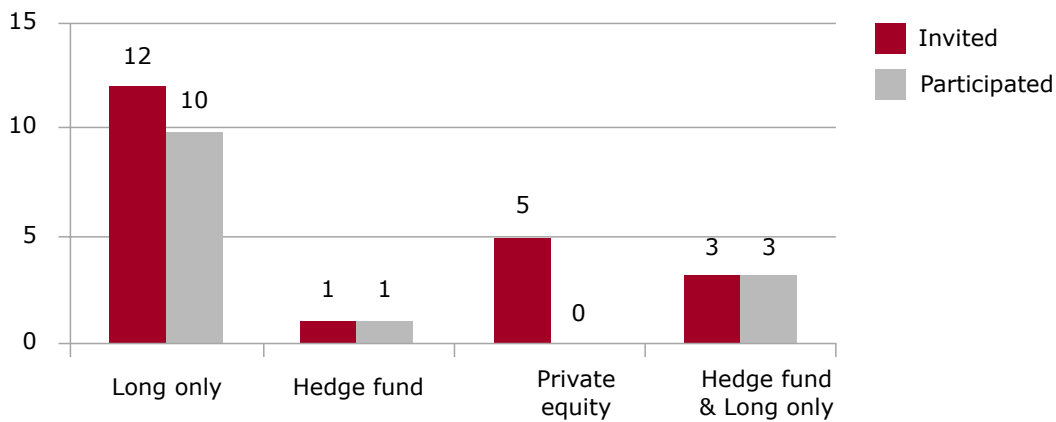
## SUMMARY OF FINDINGS

**16 fund managers (long only and hedge fund) were invited to participate. We received 14 responses, an 88% participation rate.**

- 71% of respondents are based in Cape Town.
- None of the sampled firms existed prior to 1994, SA's first democratic elections.
- Total respondent assets under management = R91.4 billion.
- 1 firm manages 39.64% of the total pool of assets. 3 firms manage 71.38% of the total pool.
- 11 firms representing 76% of the universe share R26 billion.
- 36% of the respondents are signatories to the UN Principles for Responsible Investment.
- The majority of the respondents make use of externally approved compliance officers.
- The majority of the respondents make use of third party fund administrators.
- One third of the respondents GIPS compliance is verified by an external third party.
- The majority (86%) of the firms focus on specialist equity mandates.
- 14% of the respondents invest offshore.
- 43% of the respondents manage between 2 and 5 mandates.
- Most of the managers follow more than one investment philosophy and strategy. However, the predominant core philosophy employed is a value-based approach. Other philosophies are utilised to support and back the "value" call.
- 57% of the respondents have unit trusts registered under CISCA.
- All the respondents prefer a performance-based fee structure.
- 71% of the respondents have in excess of 80% black ownership.
- Only 1 firm is 100% owned by a single black female.
- 93% of the firms are predominantly owned by black males.
- Overall female board representation is poor.
- Overall female participation in senior management roles is very poor.
- Males dominate the roles of Portfolio Managers and Investment Analysts whereas women dominate the administrative and compliance roles.
- It is impressive to note that all the firms, even the smaller, newer firms, contribute towards skills development, preferential procurement, enterprise development and socio-economic development.

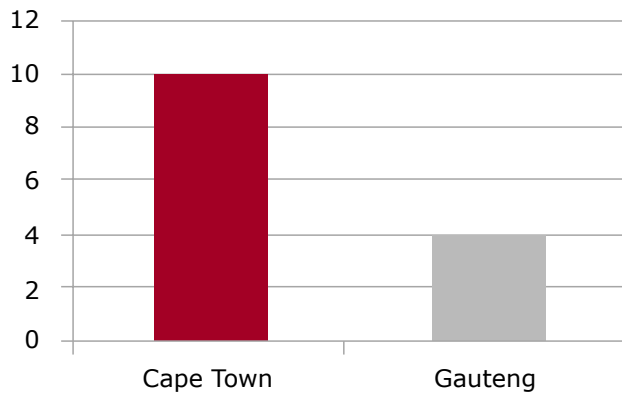
# PARTICIPATION STATISTICS

## a. Participation by investment strategy



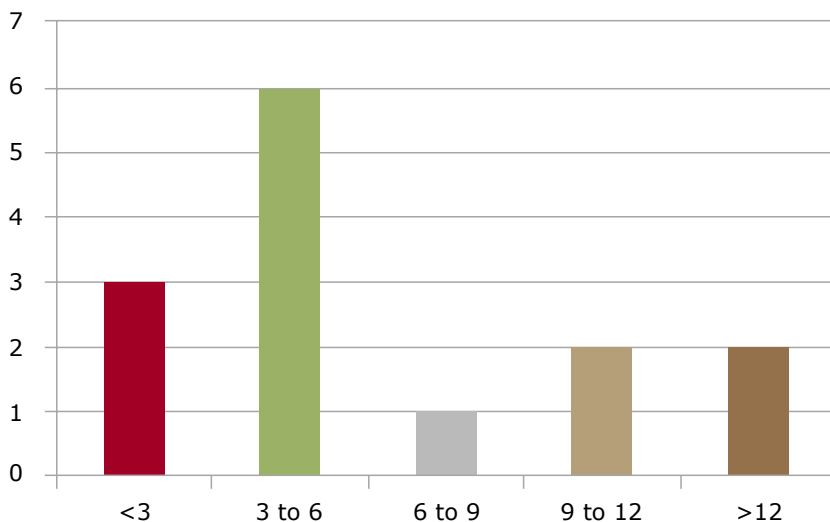
- **21 firms in total** were invited to participate.
- **14 firms** responded, all of them being long-only and hedge fund managers.
- The response rate amongst the long-only and hedge fund managers was very pleasing, providing a viable sample set to conduct our research.
- The response by private equity firms was very poor. None of them responded.

## b. Participation by province



- Cape Town maintains its advantage as the home of fund management in SA, even with BEE fund managers.

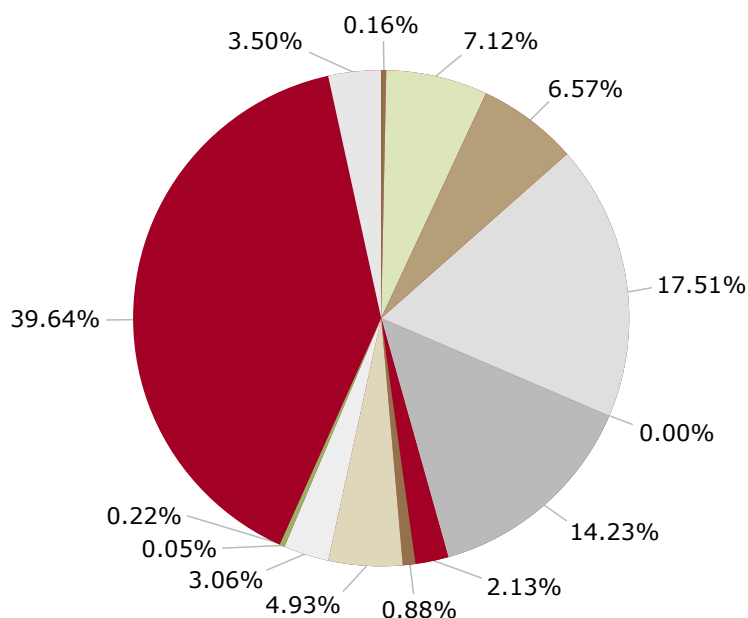
### c. Years in operation



- 43% of the firms have been active for between 3 and 6 years.
- 29% of the firms have been active for greater than 9 years.
- None of the firms were established before 1994, SA's first democratic elections.
- 2 firms are in operation for less than 1 year.

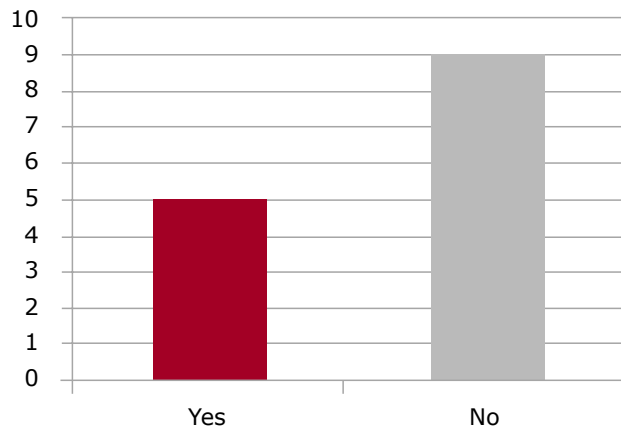
### d. Assets under management

Total respondent Assets Under Management (AUM): R 91.4 Billion



- Total AUM is skewed towards a single manager.
- 60% of the assets are managed by 13 managers.
- 11 managers share R26 billion.
- 2 firms manage assets below R100 million.
- The split in AUM by manager is disproportionate to the number of years in operation.

## SIGNATORY TO THE UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

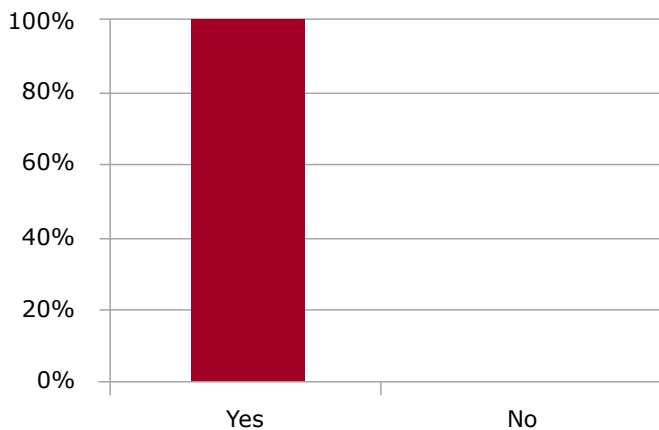


- 36% of the respondents are signatories to the UN Principles.
- Smaller businesses tend to want to reach a level of critical mass before subscribing to the Principles.

## COMPLIANCE

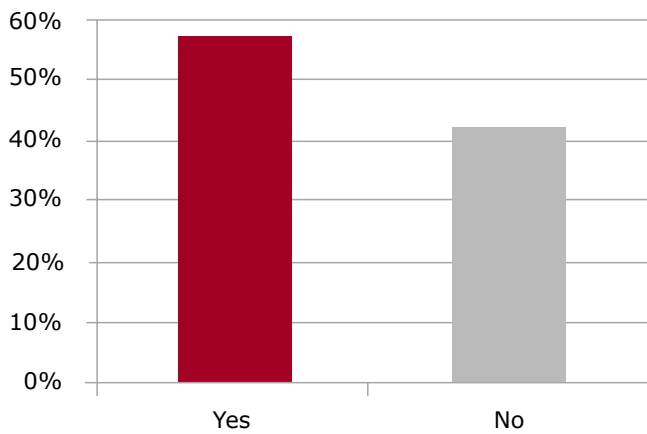
### a. FSB compliance

#### i. Managers with Category II license.



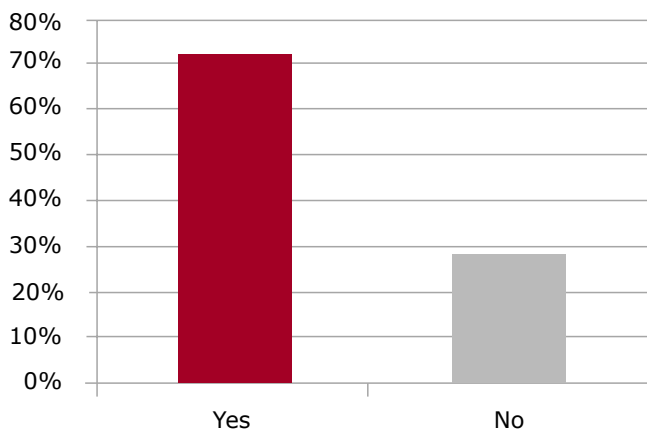
- None of the firms are representatives of other licensed firms.

**ii. Managers with Category IIA license.**



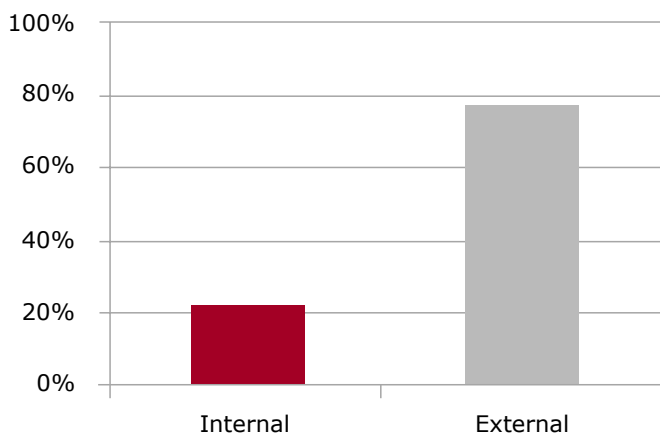
- All of the firms managing hedge fund assets hold a Category IIA license.

**iii. Managers with 13B license.**



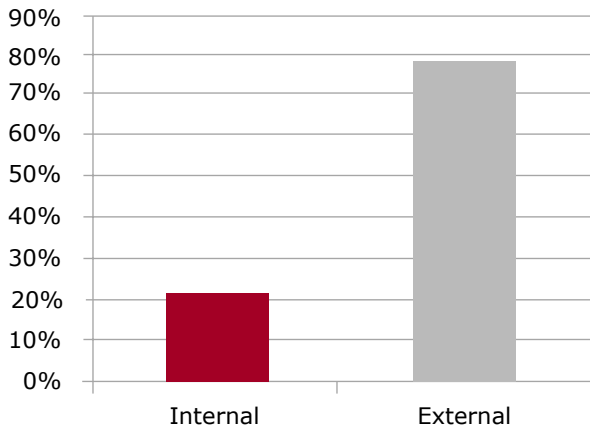
- 70% of the respondents hold an administrative license.

**b. Compliance officer**



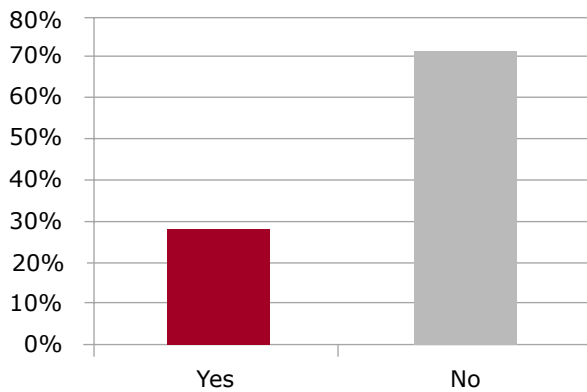
- The majority of respondents make use of externally approved compliance officers.

### c. Fund administration



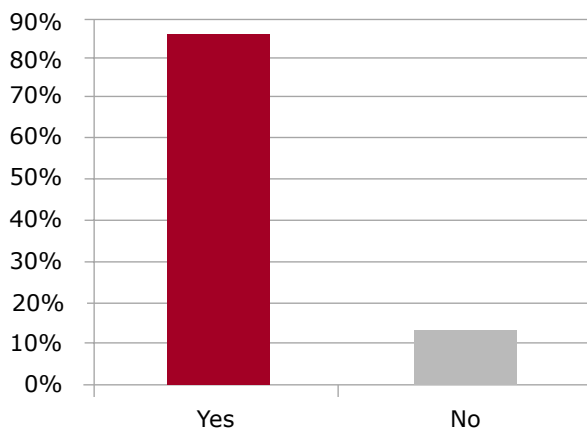
- The majority of respondents make use of third-party fund administrators.

### d. GIPS compliance verified by 3rd-party



- One third of the respondents' GIPS compliance is verified by an external third-party.

### e. Insurance cover

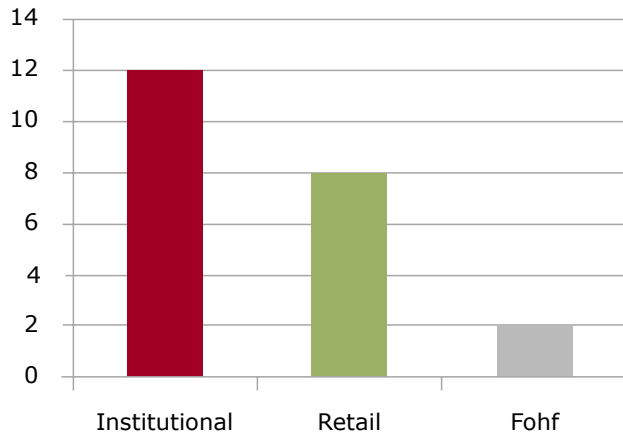


- In excess of 80% of the sample hold the minimum risk cover (Directors and Officers Liability, Professional Indemnity, Fidelity) as recommended by the FSB.
- Two start-up managers with track records of less than a year and AUM of less than R100 million have not reached a level of critical mass to afford insurance cover.

# INVESTMENT MANDATES

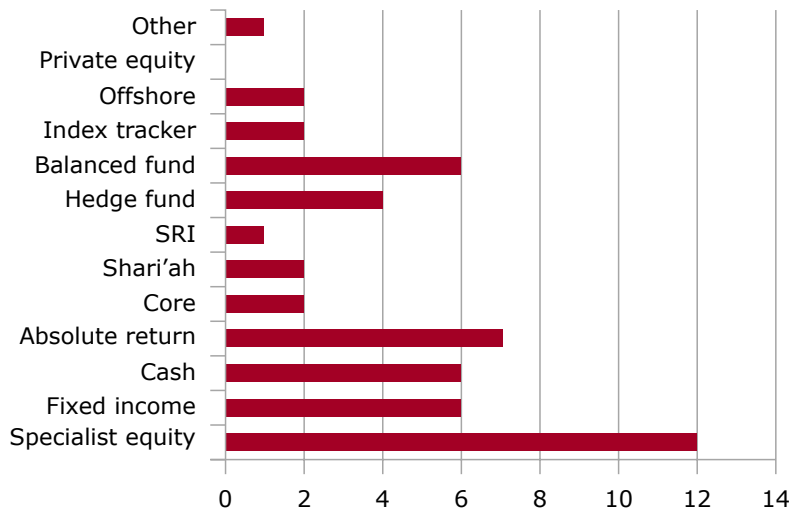
The information presented in this section is based per manager as opposed to percentages. The universe comprises 14 fund managers in total.

## a. Investor base



- 12 of the 14 respondents target the institutional investor. 66% of these firms offer retail products as well.
- 2 of the 14 respondents focus entirely on sourcing assets from fund of hedge fund managers. These firms only manage hedge fund products.

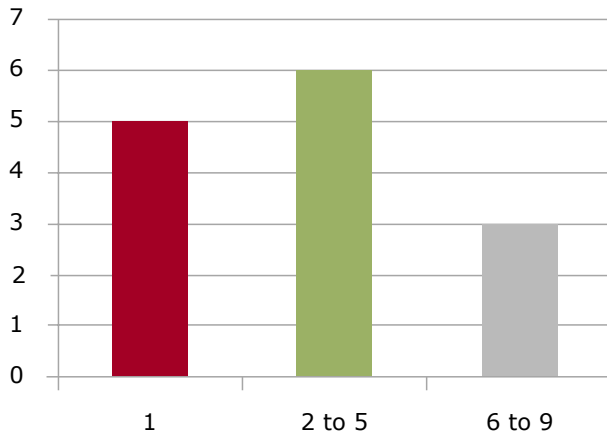
## b. Mandates currently managed



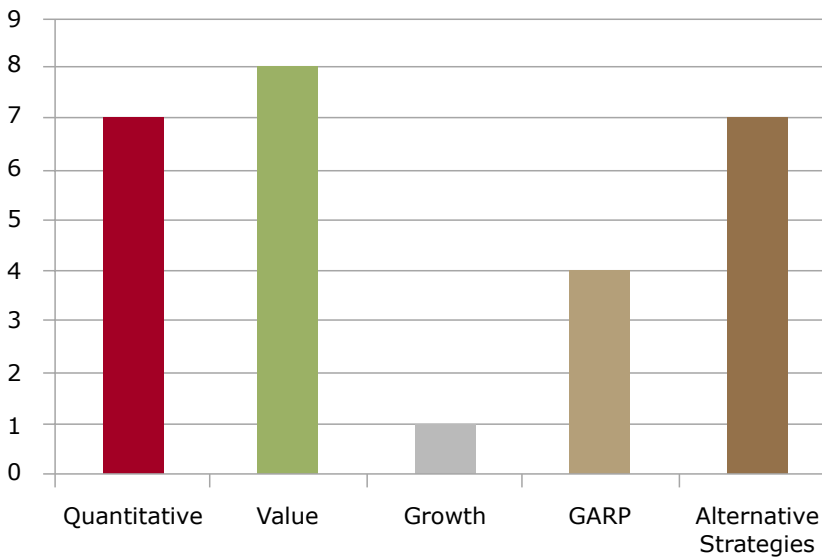
- The majority (86%) of the firms focus on specialist equity mandates.
- Only 1 firm has a Socially Responsible Investment offering.
- 29% of the firms offer single strategy hedge fund products.
- The one manager that falls under "other" offers a Tactical Asset Allocation mandate.
- 14% of the respondents invest offshore.

### c. Participants managing multiple mandates

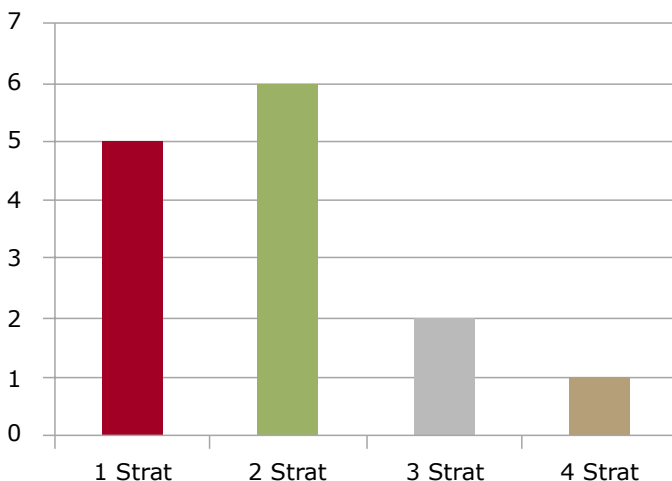
- 36% of the respondents focus on managing 1 mandate only.
- 43% of the respondents manage between 2 and 5 mandates.
- 21% of the respondents manage between 6 and 9 mandates.



### d. Investment philosophy

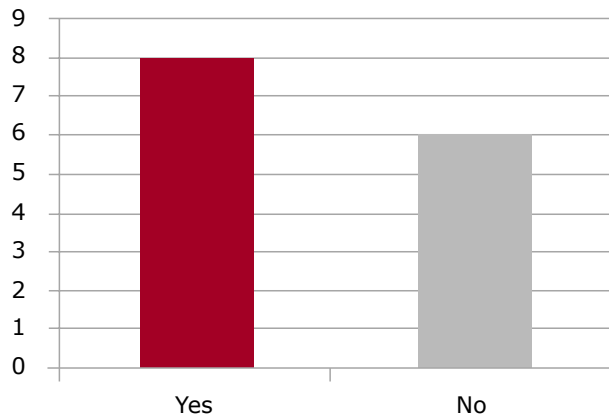


### Multiple philosophies employed:



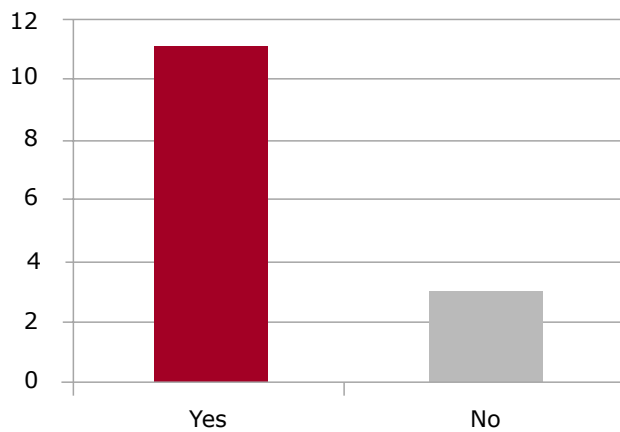
- Most of the managers follow more than one investment philosophy and strategy. However, the predominant core philosophy employed is a value based approach. Other philosophies are utilised to support and back the "value" call.
- Alternative strategies include hedge fund type strategies, tactical asset allocation, price indifferent investing etc.

### e. Unit trusts



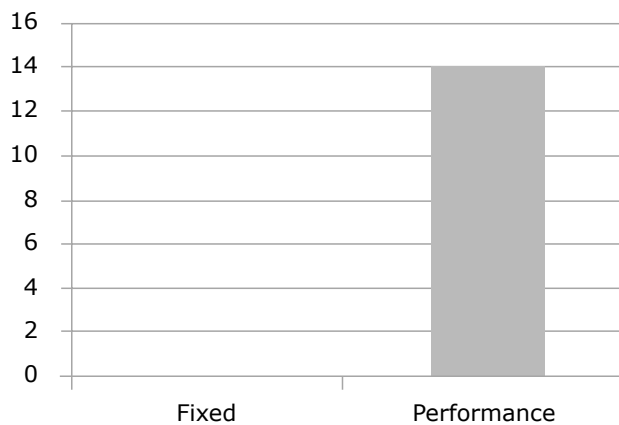
- 57% of the respondents have unit trusts registered under CISCA. These vehicles are used to source retail investments and to manage small institutional flows.

### f. Investment by principals of the firm



- 79% of the respondents invest their own monies into their funds.

### g. Fee structures



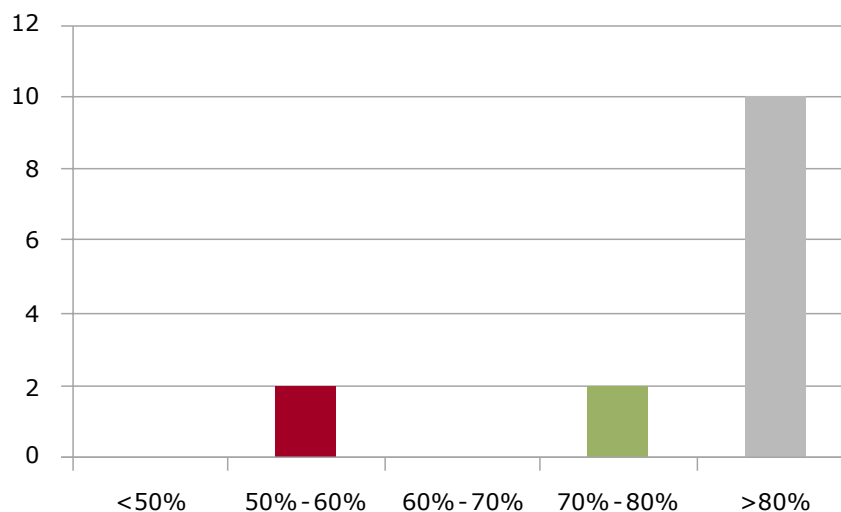
- All the respondents prefer a performance-based fee structure.

# BEE CREDENTIALS

The information presented in this section is based per manager as opposed to percentages. The universe comprises 14 fund managers in total.

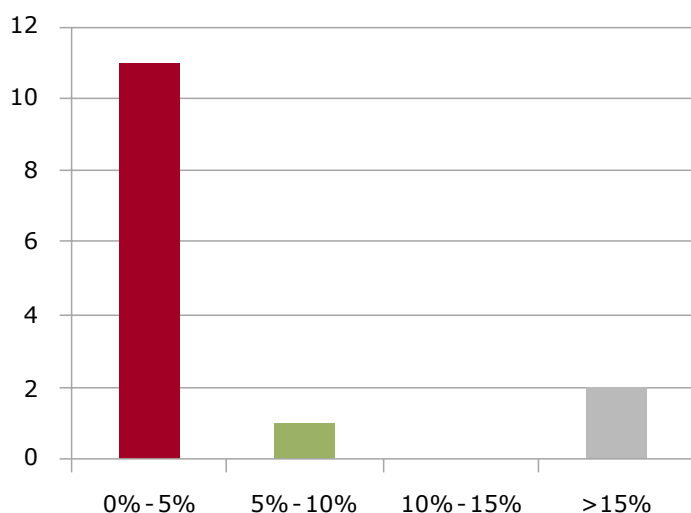
## a. Ownership

### Black



- 71% of the respondents have in excess of 80% black ownership.

### Black female



- The level of black female ownership amongst the respondents is very poor. 93% of the firms are predominantly owned by black males.
- Of the two firms with black female ownership greater than 15%, 1 firm is 100% owned by a single black female, while the other has 17% black female ownership.

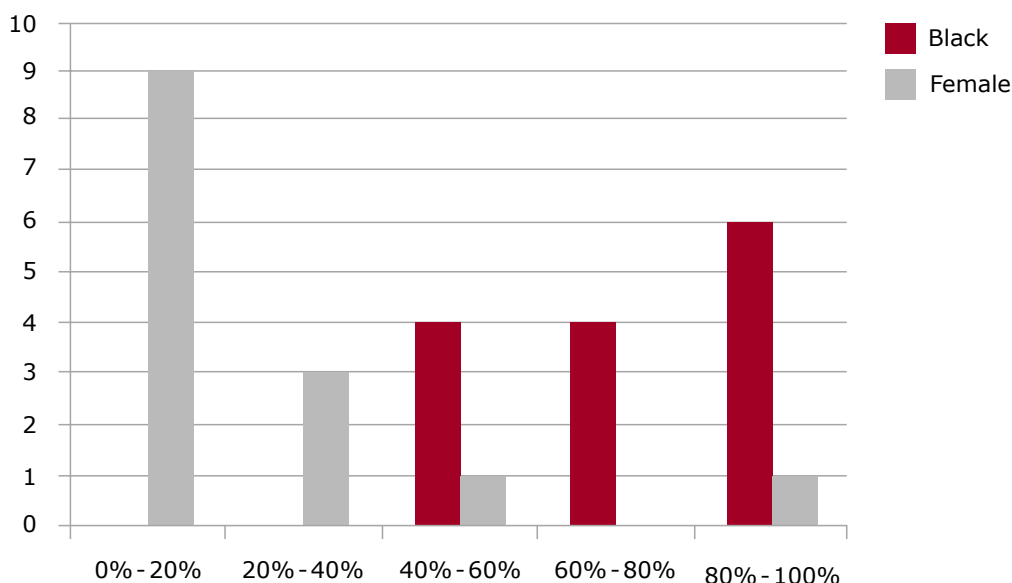
## b. Management

For this section we define black and female as follows:

Black - African, Indian and coloured across both male and female

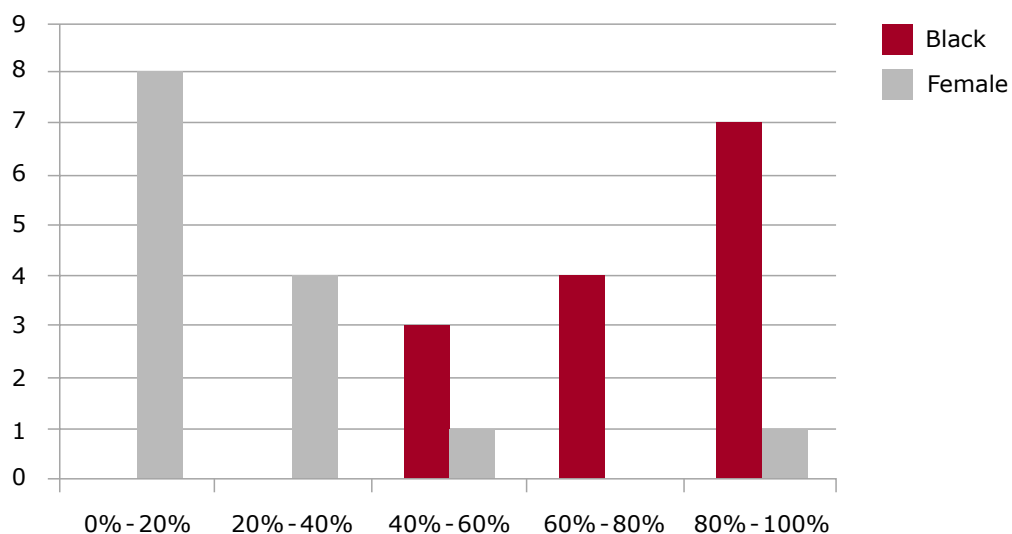
Female - All black and white females

### Board representation



- 8 of the 9 firms that fall within the 0%-20% category have no female board representation. 1 of the 9 managers in this category has 17% female board representation.
- 1 firm has 50% female board representation.
- 1 firm has 100% female board representation.
- 5 of the 6 firms within the 80%-100% category have 100% black board representation.
- 3 out of the 14 respondents only just meet the minimum 50% black board representation requirement.
- Overall female board representation is poor.

### Senior management

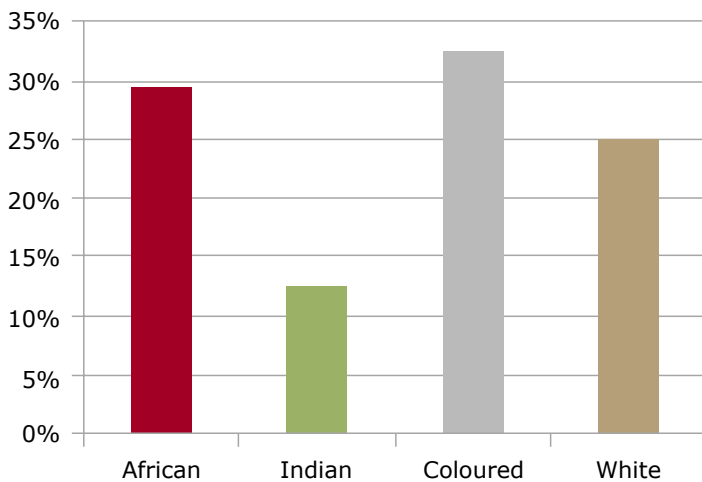


- 5 of the 8 firms in the 0%-20% category have no females in senior management roles.
- 6 of the 7 managers in the 80%-100% category have 100% black representation in senior management roles.
- Overall female participation in senior management roles is very poor.

### c. Employment equity

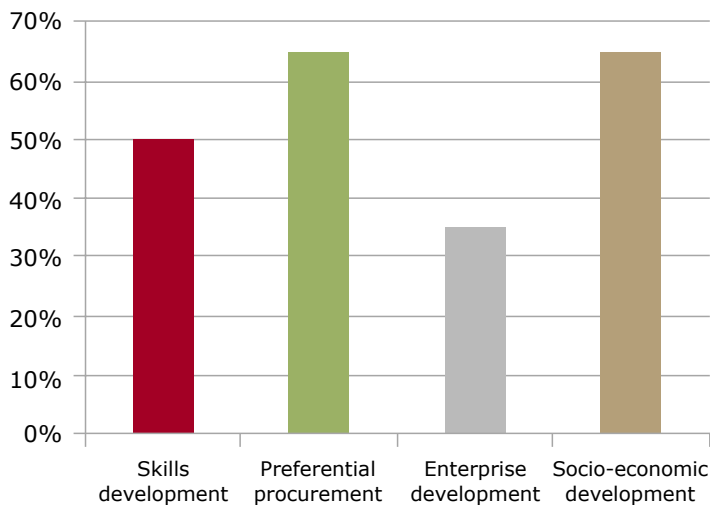
	<b>African</b>	<b>Indian</b>	<b>Coloured</b>	<b>White</b>	<b>Total</b>
Male	24	14	24	27	<b>89</b>
Female	21	5	26	11	<b>63</b>
<b>Permanent Employees</b>	<b>45</b>	<b>19</b>	<b>50</b>	<b>38</b>	<b>152</b>

- The total number of permanent employees employed by the 14 respondent firms is 152.
- There is significant overlap between the role of Directors and Portfolio Managers.
- Males dominate the roles of Portfolio Managers and Investment Analysts whereas females dominate the administrative and compliance roles.



- The high percentage of coloured employees is representative of the demographics of Cape Town.

### d. Minimum dti targets for skills development, preferential procurement, enterprise development and socio-economic development



- It is impressive to note that all the firms, even the smaller, newer firms, contribute towards skills development, preferential procurement, enterprise development and socio-economic development.
- These components generally improve as businesses grow.

## FIRM PROFILES OF PARTICIPATING FUND MANAGERS

<b>Name of company:</b>	<b>Aeon Investment Management (Pty) Ltd</b>
Date of inception:	Dec-05
Website:	www.aeonim.co.za
Address:	4th Floor, MontClare Place, Cnr Campground and Main Roads, Claremont, 7708, Cape Town, South Africa
Telephone:	+27 21 670 5297/8
Email:	asief.mohamed@aeonim.co.za or rashaad.tayob@aeonim.co.za
Contact person:	Asief Mohamed or Rashaad Tayob
Title of contact person:	Asief - CIO & Director, Rashaad - Portfolio Manager & Director

<b>Name of company:</b>	<b>Afena Capital (Pty) Ltd</b>
Date of inception:	Nov-05
Website:	www.afenacapital.com
Address:	5th Floor, MontClare Place, Cnr Campground and Main Roads, Claremont, 7708, Cape Town, South Africa
Telephone:	+27 21 657 6240
Email:	info@afenacapital.com
Contact person:	Tebogo Naledi
Title of contact person:	CEO

<b>Name of company:</b>	<b>Argon Asset Management (Pty) Ltd</b>
Date of inception:	Apr-05
Website:	www.argonassetmanagement.com
Address:	18th Floor, Metropolitan Centre, 7 Coen Steytler Avenue, Foreshore, Cape Town, 8000, South Africa
Telephone:	+27 21 441 2466 or +27 82 678 0596
Email:	Letshego@argonasset.co.za
Contact person:	Letshego Keikelame
Title of contact person:	Business Development Manager

<b>Name of company:</b>	<b>Element Investment Managers (Pty) Ltd</b>
Date of inception:	Jun-98
Website:	www.elementim.co.za
Address:	8th Floor, 125 Buitengracht Street, Cape Town, 8001, South Africa
Telephone:	+27 21 426 1313
Email:	info@elementim.co.za
Contact person:	Ian Jones
Title of contact person:	Chief Operating Officer

<b>Name of company:</b>	<b>H1 Capital</b>
Date of inception:	Nov-08
Website:	www.H1capital.com
Address:	1st Floor, The Hudson, 28 Hudson Street, De Waterkant, 8051
Telephone:	+27 21 405 2500
Email:	info@H1capital.com
Contact person:	Neil Horne
Title of contact person:	Director

<b>Name of company:</b>	<b>Kagiso Asset Management (Pty) Ltd</b>
Date of inception:	Jun-01
Website:	www.kagisoam.com
Address:	5th Floor, MontClare Place, Cnr Campground and Main Roads, Claremont, Cape Town, 7708
Telephone:	+27 21 673 6306
Email:	mismay@kagisoam.com
Contact person:	Michelle Ismay
Title of contact person:	Business Development Manager

<b>Name of company:</b>	<b>Mazi Capital (Pty) Ltd</b>
Date of inception:	Jun-06
Website:	www.mazicapital.co.za
Address:	1 Sandton Drive, Sandton, 2146
Telephone:	+27 11 245 8909
Email:	Malungelo@mazicapital.co.za
Contact person:	Malungelo Zilimbola
Title of contact person:	Managing Director

<b>Name of company:</b>	<b>Meago (Pty) Ltd</b>
Date of inception:	Jul-06
Website:	www.meago.co.za
Address:	3 3rd Avenue, Parkton North, 2193
Telephone:	+27 11 447 3658
Email:	thabor@meago.co.za
Contact person:	Thabo Ramushu
Title of contact person:	Director

<b>Name of company:</b>	<b>Mergence Africa Investments (Pty) Ltd</b>
Date of inception:	Aug-04
Website:	www.mergence.co.za
Address:	6th Floor, The Equinox, c/o Main and Milton Road, Sea Point, 8060
Telephone:	+27 21 433 2960
Email:	luisl@mergence.co.za
Contact person:	Luis Levy
Title of contact person:	Chief Operating Officer (COO)

<b>Name of company:</b>	<b>Pan-African Asset Management (Pty) Ltd</b>
Date of inception:	Jul-97
Website:	www.pam-asset.co.za
Address:	6 on Blackpool Road, Bryanston, 2157
Telephone:	+27 11 463 0300
Email:	Zelda@pam-asset.co.za
Contact person:	Zelda Spies
Title of contact person:	Money Market Dealer

<b>Name of company:</b>	<b>Prowess Investment Managers (Pty) Ltd</b>
Date of inception:	Dec-08
Website:	www.prowessinvestments.com
Address:	21A Arcadia Road, Fresnaye, 8005
Telephone:	+27 21 439 9782
Email:	kmoloko@mweb.co.za
Contact person:	Kelebogile Moloko
Title of contact person:	Chief Executive Officer

<b>Name of company:</b>	<b>Sentio Capital Management (Pty) Ltd</b>
Date of inception:	Aug-07
Website:	www.sentio-capital.com
Address:	1st Floor Hyde Gate, Hyde Park Lane, Hyde Park
Telephone:	+27 11 325 0821
Email:	mmayet@sentio-capital.com
Contact person:	Mohammed Mayet
Title of contact person:	Managing Director

<b>Name of company:</b>	<b>Taquanta Asset Managers (Pty) Ltd</b>
Date of inception:	Sep-99
Website:	www.taquanta.com
Address:	P.O. Box 23540, Claremont, 7700
Telephone:	+27 21 681 5100
Email:	Stephen.Roberts@taquanta.com; Stephen.Rogers@taquanta.com
Contact person:	Stephen Roberts or Stephen Rogers
Title of contact person:	Joint Managing Directors

<b>Name of company:</b>	<b>Trilinear Investment Managers (Pty) Ltd</b>
Date of inception:	Dec-96
Website:	www.trilinear.co.za
Address:	2 Long Street, 16 Floor, Cape Town, 8001
Telephone:	+27 21 410 1300
Email:	info@trilinear.co.za
Contact person:	Zandie Mlambo
Title of contact person:	Business Development Director



**Contact us for more information on 27four's BEE.conomics product suite.**



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