fund profile

Laurium Aggressive reaches 10-year mark with stellar record of returns

Laurium's hedge funds use long equity positions as the building blocks then add short positions to take advantage of special situations and broader trends

The Laurium Aggressive Long Short Prescient QI Hedge Fund has reached the 10-year mark, delivering a strong 2022 to cement its longevity in the market, with a net annualised return of 16.1% since inception in 2013.

"No one can predict what the market is actually going to do – we're all making educated guesses," says Laurium's Murray Winckler, reflecting on this year's complicated conditions. "The last five years have been all about macro conditions and there are always curve balls."

Last year, Laurium's equity franchise, the building block of its business, performed extremely well in generating over 6% alpha versus the benchmark, accounting for the bulk of its R50 billion in total assets.

"Our core asset base relies on getting SA equity right," says Winckler, who co-founded the firm with Gavin Vorwerg in 2008. "All our funds were in the top decile last year. It was pleasing to see."

Based on fundamental, bottom-up research, good decisions last year included selling out of mobile telecoms giant MTN, which involved going to zero in its long-only funds and shorting in the hedge funds. The team also bought luxury goods company Richemont mid-year, seeing its undervalued share price make decent gains. Similarly, the team acquired private hospital group MediClinic, which was 'way too cheap' at the time.

Resource exposure was also a positive contributor to performance in 2022, including the likes of diversified resource company Glencore and thermal coal producer Thungela, as well as exposure to some big banking names such as financial services group Absa.

"In our hedge funds, we use our long equity positions as building blocks and then add short positions, including quite a few special situations," says Winckler. "Last year we were very negative on the US and relatively bullish on South Africa. Our hedge funds were able to take advantage of these broader trends, including broad-based shorting of the S&P 500."

The 18-strong investment team has proven skills in trading and researching special situations, which last year included the RMH/RMI unbundling as well as the Naspers/Prosus complex.

Murray Winckler

Gavin Vorwerg

"If you'd held the index weight of media company Naspers and its subsidiary European-based technology firm Prosus last year, you would have generated a 1.3% return while the Capped SWIX did 4.4%. One stock was up and the other was down," says Winckler. "We played quite a bit in that space, for example shorting Chinese internet giant Tencent, which is Naspers' main asset with a 29% shareholding, and going long Prosus. It's an active approach."

> **"Many investors want to allocate to big institutional names rather than boutiques. We've been around for almost 15 years now and have a solid team and a strong track record. We believe firms like ourselves can comfortably compete with any of the major players."**
>
> *Murray Winckler*

In its hedge fund range, the Laurium Market Neutral Prescient RI Hedge Fund added a net 14.08% last year and its flagship long/short strategy, the Laurium Long Short Prescient RI Hedge Fund, added 16.8%. The Laurium Aggressive fund gained a net 23.24% while the FTSE JSE All Share Index (total return) added 3.58%.

On the long-only side, Laurium's high equity fund has a seven-year record, generating an annualised 8.4% including 3.9% last year. It is ranked fifth out of over 200 funds, with assets of around R4 billion.

At the end of July, Laurium will celebrate its 15th year as a business. Its first product, the long/short fund, has returned a net annualised 10.9% since inception in August 2008, while the market-neutral fund has gained a net annualised 14% since January 2009 and the aggressive fund has added a net annualised 16.1% since January 2013.

"The aggressive fund takes more risk and we can take bigger high-conviction positions, but it is not done in a highly geared, speculative fashion," says Winckler. "We are extremely pleased the fund has returned double the market with just 10% more volatility since launch, if you look at our standard deviation versus the Capped SWIX."

The Aggressive Long Short fund is also a standout performer amongst Laurium's array of products, which ranges from flexible income through to higher-risk equity mandates as well as global and broader pan-African products.

"If we look back over the last decade, the Aggressive Long Short fund has been our best performer, generating higher returns than any of our other products," says Winckler.

In its latest hedge fund commentary, Laurium notes that considerable uncertainty remains around the global and local environment going into 2023, notably around inflation, interest-rate policy, the ongoing conflict in Ukraine, China's economy, as well as domestic power and political issues.

They note that the global market rally in the fourth quarter and subsequent quick start to 2023 has removed some of the valuation "margin of safety" that existed just a few months ago, and they retain their relatively defensive stance, diversification across sector, factor and geography, and protection on both local and global indices.

That said, they are positive on the opportunities on offer and their ability to generate healthy absolute returns in 2023, with South African assets embedded with high risk premiums which augur well going forward.

The team remains highly motivated by the opportunities it sees in the market, seeking to capture returns via undervalued domestic companies which stand to navigate macro conditions or have idiosyncratic earnings opportunities. They retain a position in South African long-dated bonds, which offer high real return, and also see good opportunity for well-correlated pair trades given relative mispricings in a volatile, low-valuation environment where high levels of corporate action are expected to persist.

With just under R1 billion in its aggressive long/short fund and a total of R4 billion across its hedge fund range, Laurium believes the team could easily manage R10 billion in hedge assets.

"Hedge funds face ongoing scepticism from investors. Fees are a stumbling block – and we would urge institutions, IFAs and DFMs to look at net returns (after fees). Similarly, many investors want to allocate to big institutional names rather than boutiques. We've been around for almost 15 years now and have a solid team and a strong track record. We believe firms like ourselves can comfortably compete with any of the major players."

"We believe that hedge funds should be included in a well-diversified portfolio, and especially in current market conditions."

FUND FACTS

Laurium Aggressive Long Short Prescient QI Hedge Fund

Strategy: South African long/short equity
Portfolio managers: Gavin Vorwerg, Murray Winckler, Matthew Pouncett
Fund inception date: January 2013
Administrator: Maitland (an Apex company)
Prime brokers: RMB, Standard Bank, JP Morgan
Manco: Prescient
AUM: R963 million
Open to investment: Yes