

White Truffle's 'hogs' sniff out big gains for their market-neutral fund targeted at institutions

To complement Truffle Asset Management's flagship Black Truffle fund, which caters for individuals, managers Louis van der Merwe and Charles Booth have carved out their long/short strategy to create the White Truffle fund, with institutions in mind

Johannesburg-based Truffle Asset Management's White Truffle Fund has gained 13.98% in the three months since being rolled out to institutional investors on October 1.

The market-neutral South African equity fund is the second hedge fund from the firm, whose flagship Black Truffle Fund targets only sophisticated individuals.

Black Truffle, managed by Truffle co-founders Louis van der Merwe and Hannes van der Westhuyzen, is a multi-strategy fund with a discretionary mandate investing across all asset classes in a prop-desk style. It uses three major strategies – pairs trading, equity long/short and a volatility arbitrage strategy.

White Truffle, which Van der Merwe manages together with Charles Booth, launched in mid-May, gaining 50.85% in the seven months since inception. The fund uses a similar long/short strategy to the flagship fund, creating a market-neutral product designed with institutions in mind.

The company takes its name from the prized, and often inaccessible, edible fungi, the truffle. The close-knit team has worked together in blue-chip institutions for many years in varying capacities and they self-deprecatingly refer to themselves as "truffle hogs", the specially trained pigs with the skills to unearth hidden treasures – in this case from the markets rather than the forest floor.

Besides the hedge funds, the team also runs long-only money, providing asset management and customised solutions to corporate and individual clients.

Co-founders Van der Merwe and Van der Westhuyzen each have more than 20 years' experience, working together early on at RMB and remaining firm friends since then.

Van der Merwe was most recently CEO of RMB Asset Management, while Van der Westhuyzen was head of global markets at Nedbank Capital. They left the corporate world in 2008 to set up their own firm.

Booth spent 15 years at RMB Asset Management, becoming CIO in 2002, at the same time as Van der Merwe was CEO, while SJ du Preez also worked closely with Booth and Van der Merwe during six years at RMBAM as part of the institutional business development team, before heading institutional sales at the Old Mutual Investment Group. Braam van Heerden joined the team on November 1, after 15 years at RMB, most recently as joint-head of equities covering the stockbroking, derivatives, structuring, securities lending and alternative investments divisions.

"The main driver of our business is to do what we did for corporations in our previous roles – to optimise capital on behalf of our co-investors. Having co-investors enables us to use strategies that we would not be able to if it was only our own money invested," says Van der Merwe.

"If we didn't have any clients we would still be doing this," adds Du Preez. "We all have our own money invested in the funds and this is what we like to do."

The Truffle team already has a solid client base, with around R170 million under management after less than two years.

Seeded with R3 million in partner capital, White Truffle has capacity for around R500 mil-

lion, and will initially soft-close at R200 million.

The fund's track record includes double-digit gains in July and August (a respective 19.65% and 12.69%) when the fund mandate allowed leverage up to six times. This has been scaled back to a maximum of four times as of August, with the fund dropping 5.25% in September followed by gains of a respective 5.87%, 2.52% and 5.59% in October, November and December.

The White Truffle portfolio is constructed using a fundamental valuation process designed by Booth, which values listed South African companies according to a ranking table over various time frames. Van der Merwe then applies those rankings to portfolio construction.

About 70% of the positions are sector related – for example, the fund may be long Investec and Nedbank in the financials sector and short Santam and ABIL.

The remaining 30% comprises stocks that are either high or low on the ranking table, namely under- or overvalued counters. These are based on fundamental valuations, and the allocations are then actively managed on a risk-weighted basis.

"With our pairs trading book, the high volatility of external factors can be matched within sectors," says Van der Merwe. "But with allocations that are non sector-related it is important for us that most variables are controlled by management. For example, we might avoid oil or gold companies and choose industrials or financials."

The team sees the White Truffle Fund as a high-return target fund, believing that depending on market conditions it can produce returns of money market plus 10–20% per annum, without taking directional views.

"Fundamentally we feel the market is relatively fully priced but there are still relative opportunities everywhere we look," says Van der Merwe of the investment outlook in 2010. "We are not saying that the market could come tumbling down, but earnings could surprise."

FUND FACTS

White Truffle Fund

Inception date: June 2009

Strategy: Equity market neutral

Currency: Rand

Domicile: South Africa

Fund managers: Louis van der Merwe, Charles Booth

Administrator: IDS

Prime broker: RMB Prime Broking

Minimum investment: R1 million

Open to investment: Yes