MINIMUM DISCLOSURE DOCUMENT

REALFIN collective investments

RCIS DIVERSIFIED EQUITY RETAIL HEDGE FUND

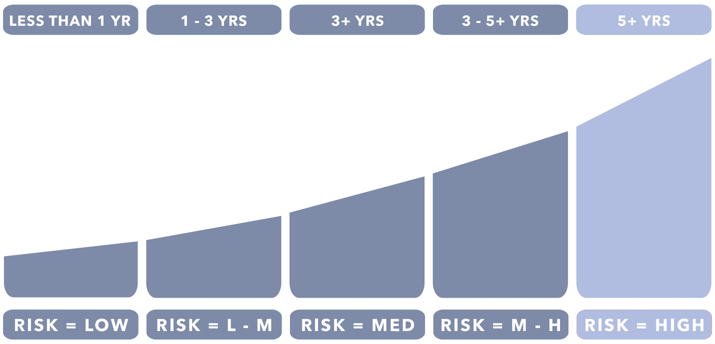
31 DECEMBER 2023

GENERAL INFORMATION

Investment Manager	Steyn Capital Management Proprietary Limited
Management Company	RealFin Collective Investment Schemes (RF) Proprietary Limited ("RCIS")
Inception Date	01 November 2014
CIS Establishment Date	01 October 2016
Fund Class	Class C1
Fund AUM	R109.514 Million
NAV Price	23 201.9508 (CPU)
Fee Class Units	182 359.88
Fund Category	CIS Retail Hedge Fund
Structure	Registered SA CIS in Hedge Funds
ASISA Category	SA Portfolio | Long Short Equity Hedge Funds | Long Bias Equity Hedge Funds
Risk Profile	High
Benchmark	STFIND on a rolling 12 month basis
Minimum lump sum	R 100,000.00
Additional lump sum	R 20,000.00
Subscriptions	Monthly
Redemptions	1 calendar month notice
Portfolio Currency	ZAR
Portfolio Valuation	23h00 of the last day of each month
Transaction Cut-Off Time	12h00 on 2nd last business day of the month
Initial Fee	None
Annual Management Fee	0.00% (ex VAT)
Annual Performance Fee	15.00% (ex VAT) of the total performance above the high watermark
Total Expense Ratio (TER)	1.22%
Transaction Cost (TC)	0.39%
Total Investment Charge (TIC)	1.61%
Income Distribution	First day of March of each year
Value Distributed	1,097.9789 cents (1 March 2023)
Administrator	Apex Fund Services Proprietary Limited
Prime Broker	Investec
Trustee	FirstRand Bank Limited (RMB Trustee Services Division)
Auditor	PriceWaterhouseCoopers

* TER, TC and TIC as at 31/12/2023
* Prices are made available daily on a T + 1 basis via Finswitch

RISK RATING



High

- Generally these portfolios hold more equity exposure than any other risk profiled portfolio's and therefore tend to carry higher volatility.
- Expected potential long term returns could be higher than other risk profiles, in turn potential losses of capital could be higher.

INVESTMENT OBJECTIVE

The Fund primary objective is achieving high absolute rates of return over the long term, while reducing the risk of capital impairment, relative to the stock market.

INVESTMENT STRATEGY AND MANDATE

The Fund is a value orientated long/short portfolio investing into South African listed equities with an average daily trading volume exceeding R 1 million at the time of initial investment. The portfolio follows a bottom-up stock selection approach.

The investment strategy is to maximise investor capital by buying securities with trading values materially lower than their intrinsic values, and by selling short securities with trading values materially higher than their intrinsic values.

The Manager may create leverage in the Portfolio by borrowing funds, using short positions or engaging in derivative transactions

INVESTMENT RESTRICTIONS AND LIMITS

- The portfolio is not permitted to invest in offshore investments.
- The Value At Risk approach will be used to calculate total exposure at a 99% confidence level and potential loss over the following month will not exceed 20% of the Portfolio's net asset value.

CONTACT INFORMATION

MANAGEMENT COMPANY

Realfin Collective Investment Schemes (RF) (Pty) Ltd	
Registration Number	2013/170284/07
Physical Address	347 Main Road, Kenilworth, 7708
Telephone Number	+27 21 701 3777
Email Address	clientservices@realfin.co.za
Website	www.realfin.co.za

INVESTMENT MANAGER

Steyn Capital Management Proprietary Limited	
Registration Number	2008/018143/07
Physical Address	Verdi House, D'Aria Estate, 97 Jip de Jager Drive, Bellville, 7530
Postal Address	PO Box 5673, Tygervalley, 7530
Telephone Number	+27 21 001 4682
Email Address	info@steyncapitalmanagement.com
Website	www.steyncapitalmanagement.com
FSP Number	37550

TRUSTEE

FirstRand Bank Limited (RMB Trustee Services Division)	
Physical Address	3 Merchant Place, Ground Floor, Cnr Fredman & Gwen Streets, Johannesburg, 2001
Telephone Number	+27 87 577 8730
Email Address	trusteeservices@rmb.co.za
Website	www.rmb.co.za

RCIS DIVERSIFIED EQUITY RETAIL HEDGE FUND 31 DECEMBER 2023

INVESTMENT COMMENTARY

The Fund returned 4.19% net for the year. While we had some success on the long side with Sun International, and on the short side with shorts in Transaction Capital and Pick n Pay, the bulk of our core high conviction long positions did very little in 2023, despite reporting solid results. We believe this sets the stage for a much stronger return in 2024.

Our long positions contributed 7.4% to gross performance during the year and our short positions detracted 2.0%. Our short portfolio nevertheless generated alpha by outperforming the inverse of the market while also providing substantial market insurance against our long book.

'SA Inc' opportunity (77% of NAV)
As we have written about extensively in our last several quarterly letters, the opportunity-set for stock pickers within 'SA Inc' businesses remains exceptional. 'SA Inc' businesses have suffered from a trifecta of global investor aversion, capital outflow following Reg 28 changes, and the resulting lower liquidity. This is particularly true among SA midcaps, which periodically traded below their Global Financial Crisis levels during the last twelve months. Experience (even as recently in 2020/21) has shown that when market extremes like this reverse, the reversal can occur rapidly. There is, in our view, a higher than consensus probability that some of the key concerns investors have, such as the local electricity crisis, upcoming election uncertainty and high interest rates, will begin to unwind in the coming year. The most acute of these worries - the energy crisis - is the key factor impacting current valuations, and warrants some reflection in this letter. Our fundamental view is that a business is worth a 50-year stream of its future free cash flows. While the coming quarters will continue to bear the weight of loadshedding on business operations and the economy, the current valuations of many 'SA Inc' stocks would suggest that the current crisis continues unabated in perpetuity. Our assessment is that domestic power generation is being de facto privatized by a wave of investment in private generation. The long-term viability of Eskom, its fiscal impact and the risk of unexpected breakdowns all remain valid risks, but our base case is that the significant contribution of private generation and the return of key generation units to the fleet will materially improve loadshedding starting in 2024. Even in a scenario of limited near-term improvement, many businesses have already made significant investments to enable continuity, and investors are being very well compensated for the near-term uncertainty.

From this cohort of cheap 'SA Inc' businesses, we have assembled a portfolio of highly compelling opportunities falling squarely into our favoured 'Quality-Value' bucket. Our favourite ideas exhibit most or all of the following characteristics: high-quality businesses (quasi-monopoly, irreplaceable assets, strong business franchise), attractive valuations, earnings growth, cash flow generation, and shareholder return through buybacks or dividends. Without downplaying the serious challenges facing South Africa, there are management teams that have been navigating the domestic environment skillfully, and some (like Grindrod, Advtech) even benefit from the public sector dysfunction. The risk/reward proposition, given the level of pessimism already discounted in the current stock prices of our holdings, is exceptionally compelling, and we believe (as we did in Covid) that it bodes extremely well for forward investment returns.

Short opportunity (-42% of NAV)
The challenging domestic operating environment has created a large dispersion among SA businesses. The resulting pressure to meet earnings expectations has provided ample incentive for the less scrupulous to engage in accounting chicanery to meet consensus expectations, with some very notable earnings blow-ups occurring in the last 12 months. The aim with our detailed forensic accounting focus is to identify as short sale candidates those companies stretching or manipulating earnings, and to short them ahead of the inevitable earnings disappointment that arises when all the accounting levers have been exhausted. This is well illustrated by our successful short position in Transaction Capital earlier this year, which was the second largest short position in the fund in early March, ahead of a major earnings disappointment. The full extent of the business deterioration at Transaction Capital caught many investors by surprise, leading to an almost 90% drop in the share price from peak to trough last year.

The elevated size of our short book is a reflection of both the opportunity-set on the short side, which we believe is likely to be a source of significant alpha prospectively, and a recognition of the elevated macro and political risk in the current environment. Despite our enthusiasm for the 'SA Inc' opportunity and our current base-case that the most pressing issues driving the dislocation (load-shedding, Transnet) are improving, we recognise the risk that conditions continue to deteriorate. Our sizeable short book provides a hedge against this outcome.

SA 'Rand hedge' and special situations (39% of NAV)
We have 31% of investor capital invested in companies listed in South Africa, but with substantially non-Rand earnings drivers. These companies are included in our portfolio based on bottom-up attractiveness and not the 'Rand hedge' nature of their earnings, but they do nevertheless provide a hedge against domestic macro and currency volatility.

As we have previously commented, the elevated amount of corporate action on the JSE has provided ample opportunity to deploy investor capital into event-driven special situations with low market beta and attractive internal rates of return. At year end, we have approximately 8% of investor capital invested in attractive merger arbitrage and preference share special situations.

Contributors
The biggest contributor to portfolio performance in the year was our long position in Sun International, which reported robust results ahead of consensus expectations, driven by its rapidly scaling online platform, Sunbet, and a robust recovery in its Resorts and Hotels division. Another significant contributor to returns was our short position in Transaction Capital, our second largest short position coming into this year, which declined precipitously following a shocking March trading statement, surprising the market with the extent and depth of the operational and credit deterioration in its SA Taxi business, and profit decline in its WeBuyCars business. Our short position in Pick n Pay also contributed meaningfully to returns, as several profit warnings and poor interim results exposed the extent of the challenges facing the business. Other contributors included our event-driven investment in Fortress, as the company moved forward with a proposal to collapse its historical dual share-class structure and our long position in Outsurance which reported strong results in the fourth quarter.

Detractors
The biggest detractor to returns in the year was our long position in Aveng, which traded down following the announcement of details around a COVID-impacted problem-contract in South East Asia (which has since been resolved). We continue to believe the company is severely undervalued, trading at under 2x EV/EBIT on normalised earnings, with prospects that are stronger than the market anticipates. Other detractors included a long position in RECM and Calibre Preference shares, which traded down in the period on a disappointing NAV update. This was driven primarily by the mechanical way in which the company calculates its NAV, based on the rolling 12-month earnings from its largest investment – Goldrush – which was negatively impacted by load shedding in its LPM/Bingo business. We expect that NAV will increase significantly in the year ahead, as we anticipate loadshedding will likely subside when compared to 2023.

Portfolio positioning
At year end, we held 38 long positions with long exposure of 116% and 25 short positions for short exposure of 42%, for a gross exposure of 158% and a net exposure of 73%. The beta-adjusted net exposure of the portfolio is 21%. The portfolio is well positioned for a variety of macro and economic outcomes, and we have rarely been as excited.

RCIS DIVERSIFIED EQUITY RETAIL HEDGE FUND

31 DECEMBER 2023

MONTHLY RETURNS SINCE INCEPTION (NET OF FEES)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD	BM
2023	-0.96%	-0.32%	2.43%	-0.79%	-2.05%	1.63%	0.90%	1.98%	-0.17%	-1.85%	3.08%	0.39%	**4.19%**	8.03%
2022	1.05%	1.02%	3.67%	0.83%	0.21%	-2.40%	1.90%	2.88%	2.06%	0.59%	2.59%	0.83%	**16.18%**	5.19%
2021	2.79%	4.58%	5.55%	2.25%	4.37%	1.93%	1.94%	3.84%	2.36%	8.49%	-1.54%	3.40%	**47.68%**	3.81%
2020	-1.07%	-9.90%	-17.61%	-0.62%	-6.39%	16.98%	-2.15%	4.45%	1.85%	3.22%	11.23%	6.79%	**1.99%**	5.39%
2019	0.68%	4.87%	3.45%	1.24%	-2.28%	-0.80%	2.82%	-1.64%	4.39%	-1.35%	-0.47%	4.32%	**15.94%**	7.29%
2018	-0.99%	-5.23%	-2.48%	3.16%	-1.70%	2.80%	-3.00%	1.52%	0.17%	-2.44%	2.97%	-0.16%	**-5.63%**	7.31%
2017	0.74%	-1.60%	1.40%	2.82%	2.63%	-0.94%	1.21%	-0.01%	-0.13%	4.22%	1.46%	-8.87%	**2.34%**	7.48%
2016	-1.89%	1.60%	1.37%	-3.59%	6.12%	-2.06%	-3.26%	2.20%	0.33%	-4.90%	-3.07%	-2.18%	**-9.44%**	7.42%
2015	2.95%	3.70%	7.69%	1.54%	1.36%	0.39%	6.37%	0.68%	3.92%	2.48%	2.92%	2.41%	**38.69%**	5.90%
2014											0.35%	4.05%	**4.41%**	1.03%

* *Returns prior to the CIS establishment (October 2016) have been shaded in grey, and refer to the unregulated environment.*

RETURN ANALYSIS	FUND	BENCHMARK
1 Month Return	0.39%	0.65%
3 Month Return	1.57%	2.07%
12 Month Return	4.19%	8.03%
Since Inception (Annualised)	11.70%	6.48%
Since Inception (Cumulative)	175.63%	77.74%
Highest Annual Return (Rolling 12 Month Return)	80.74%	8.03%
Lowest Annual Return (Rolling 12 Month Return)	-26.70%	3.77%

* Annualised Return - The average rate earned by the investment over a year in the period measured.

ASSET ALLOCATION*	%
SA Cash & Cash Collateral	26.27%
SA Equity (Long)	115.82%
SA Equity (Short)	-42.39%

* Net exposure as a percentage of net asset value at month end.

COUNTERPARTY EXPOSURE	%
JSE Trustees Ltd	26.26%
FirstRand Bank Ltd	0.01%

ADDITIONAL RISK DISCLOSURES

As required in terms of Section 27 of Board Notice 52. Any questions pertaining to the technical nature of the disclosures may be directed to clientservices@realfin.co.za

RISK METRICS

Leverage:	The providers of leverage are the fund’s prime broker(s).
VAR (limit 20%):	11.62%
Max VAR for quarter:	14.36%
Assets encumbered as collateral:	2%
Re-hypothecated assets:	Re-hypothecation of the fund’s assets is prohibited.
Changes in liquidity:	The fund’s redemption period remained unchanged.
Stress testing:	Stress testing was conducted to assess the fund’s sensitivity to stressed market conditions.

DEFINITIONS & METHODOLOGIES

Collateral - Collateral is the placement of an asset with a counterparty in order to secure an obligation.
Counterparty exposure - Counterparty (credit) exposure represents the potential loss the Fund would experience in the event a counterparty defaults on its obligations.
Leverage - Leverage is a strategy used to increase the Fund’s exposure beyond the capital employed.
Re-hypothecated assets - Re-hypothecation is the re-use of collateral by the prime broker.
Stress Testing - To assess the Fund’s sensitivity to various market conditions, stress scenarios are created by simulating the impact of historic financial crises, increasing investor repurchase levels and decreasing liquidity of the fund’s underlying assets.
VAR - Value at risk (VAR) is a statistical measure of a fund’s financial risk over a specific period. VAR is calculated using historical data to determine the maximum potential loss over a month, 99% of the time.

MINIMUM DISCLOSURE
DOCUMENT

REALFIN
collective investments

IMPORTANT INFORMATION

RealFin Collective Investment Schemes (RF) Proprietary Limited ("RCIS") is registered and approved by the Financial Sector Conduct Authority (FSCA) as a manager of Collective Investment Schemes approved in terms of the Collective Investment Schemes Control Act. This document is for information purposes only and does not constitute or form part of any offer to issue or sell or any solicitation of any offer to subscribe for or purchase any particular investments. The information contained in the MDD does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act, and should be read in conjunction with the RCIS Fund Information Document which can be found on the RCIS website www.realfin.co.za. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable directly or indirectly to the use of or reliance upon the information.

DISCLOSURES

1. Collective Investment Schemes are generally medium-to long-term investments.
2. The **RCIS Diversified Equity Retail Hedge Fund** should be considered an investment with a time horizon of longer than a year.
3. The value of participatory interests (units) may go down as well as up.
4. Past performance is not necessarily a guide to future performance.
5. Where different classes of participatory interests apply to certain Portfolio's, they would be subject to different charges.
6. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending.
7. A schedule of fees and charges and maximum commissions, is available on request from RCIS.
8. RCIS does not provide any guarantee in respect to the capital or the return of the portfolio.
9. RCIS may suspend repurchases for a period, subject to regulatory approval, to await liquidity.
10. RCIS may borrow up to 10% of the market value of the portfolio where insufficient liquidity exists in a portfolio, or where assets cannot be released to withdraw or cancel participatory interests.
11. RCIS reserves the right to close the fund to new investors if we deem it necessary to limit further inflows in order for it to be managed in accordance with its mandate.
12. Forward pricing is used.
13. In terms of the Collective Investment Schemes Control Act, No.45 of 2002 (CISCA), RMB Custody and Trustee Services (A division of FirtsRand Bank Limited) has been appointed by RCIS as the Trustee of **RCIS Diversified Equity Retail Hedge Fund.**
14. The portfolio is valued at **23H00 on the last day of each month.**
15. Investment and Redemption Instructions will be processed according to: The transaction cut-off time as well as the Subscription and Redemption guidance stipulated within the General Information section of the Minimum Disclosure Document.
16. Any capital gain realised on the disposal of a participatory interest in a collective investment scheme is subject to Capital Gain Tax (CGT).
17. A money market portfolio is not a bank deposit account. The price of a participatory interest is a marked-to-market value. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument, in most cases the return will merely have an effect of increasing or decreasing the daily yield. In the case of abnormal losses it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals from a money market portfolio may place the portfolio under liquidity pressure and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed.
18. Where foreign securities are included in a portfolio, this may impose potential constraints on liquidity and the repatriation of funds. The portfolio can be impacted by macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks and potential limitations on the availability of the market information. Fluctuations or movements in exchange rates may cause the value of underlying offshore investments to go up or down.
19. A Fund of Funds Portfolio only invests in other portfolio's of collective investment schemes which levies its own charges, which could result in a higher cost structure for these portfolios.
20. RealFin Collective Investment Schemes (RF) Proprietary Limited has entered into a co-naming agreement with and delegated the investment management function to **Steyn Capital Management Proprietary Limited (FSP 37550)**
21. RCIS retains full legal responsibility for **RCIS Diversified Equity Retail Hedge Fund** and performs Risk Management oversight.
22. Application forms can be obtained via the RCIS website www.realfin.co.za and any additional information can be requested from RCIS at manco@realfin.co.za
23. The RCIS complaints policy is available on the RCIS website www.realfin.co.za
24. RCIS has a Conflict of interest policy, Protection of Personal Information Policy and Treating Clients Fairly Policy which is available on request.
25. Annual report is available upon request.

TRANSACTION CUT-OFF TIMES

In order for a monthly **Investment Instruction** to be processed, your Investment form must to be sent **before 12h00** on the **2nd last business day of the month ("Cut Off Date")** for your Investment application to be processed on the **1st business day of the following month**. Your funds need to be reflecting in our bank account **before 12h00 ("Cut off")** on the **1st business day** of the preceding month and proof of payment sent to **clientservices@realfin.co.za.** Any funds received after the Cut Off shall be retained by the Manager in a separate account and shall be invested (together with any interest which has accrued thereon) on the next available Investment Date.

In order for your participatory interests in the Portfolio to be redeemed at the relevant request date **("Redemption Date")**, your Redemption instruction must be submitted to RCIS **before 12h00** on the **2nd last business day** of the month for processing at the **end of the following calender month** (For Hedge Funds which have a 1 Calender month's notice period) such date being the Redemption Date.

Hedge fund redemptions are processed at the end of each month. All redemptions must be submitted in writing and will be executed following receipt and acceptance of such instruction. Please note in the case of Monthly traded Hedge Fund redemptions, settlement may take up to **15 business days.**

PERFORMANCE CALCULATION

CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Performance has been calculated using NAV to NAV figures with actual portfolio ongoing fees taken into account. Income is reinvested at the reinvestment date. Different classes of participatory interests apply to these portfolio's and are subject to different fees and charges. Actual Investment performance will differ based on the initial advice fee, ongoing advice fee, investment date, the date of reinvestment of distributions and dividend withholding tax. Initial advice fees have not been taken into account. Cumulative performance figures are calculated using lump sum investment amounts. Income distributions, prior to the deduction of applicable taxes, are included in the performance calculation. Performance calculations are available on request from RCIS.

PERFORMANCE FEES

Performance fees shall be calculated separately for each class at each Valuation Point. Performance fees are accrued and are payable at the end of the relevant Performance Fee Measurement Period. The calculation is based on whether the respective Class has achieved a return greater than the Fee Hurdle and where applicable, above the high watermark. A detailed description of how performance fees are calculated and applied for this portfolio is available on request from RCIS.

TER

The Fund's Total Expense Ratio (TER) reflects the percentage of the average Net Asset Value (NAV) of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. Calculations are based on actual data where possible and best estimates where actual data is not available.

TC

Transaction Costs are a necessary cost in administering the Financial Product and impacts Financial Product returns. It should not be considered in isolation as returns may be impacted by many factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager and the TER.

HEDGE FUND RISK DISCLOSURE

The risks and characteristics within represent some of the more general risks and characteristics prevalent in hedge fund portfolios. The list below should not be seen as exhaustive. As more risks and characteristics are identified that were not initially mentioned, these will, as they become more prevalent, be included herein.

Investment strategies may be inherently risky - Hedge fund strategies may include leverage, short-selling and short-term investments. In addition, hedge fund portfolios often invest in unlisted instruments, low-grade debt, foreign currency and other exotic instruments. All of these expose investors to additional risk. However, not all hedge fund managers employ any or all of these strategies and it is recommended that investors consult their advisors in order to determine which strategies are being employed by the relevant manager and which consequent risks arise.

Leverage usually means higher volatility - Hedge fund managers may use leverage. This means that the hedge fund manager borrows additional funds, or trades on margin, in order to amplify his investment decisions. This means that the volatility of the hedge fund portfolio can be many times that of the underlying investments. The degree to which leverage may be employed in any given hedge fund portfolio will be limited by the mandate the client has with the manager. The limits laid down by the mandate should be carefully reviewed in making an investment decision.

Short-selling can lead to significant losses - Hedge fund managers may borrow securities in order to sell them short, in the hope that the price of the underlying instrument will fall. Where the price of the underlying instrument rises, the client can be exposed to significant losses, given that the manager is forced to buy securities (to deliver to the purchaser under the short sale) at high prices.

Unlisted instruments might be valued incorrectly - Hedge fund managers may invest in unlisted instruments where a market value is not determined by willing buyers and sellers. The hedge fund manager may have to estimate the value of such instruments, and these estimates may be inaccurate, leading to an incorrect impression of the fund's value. Investors should ensure that objective valuations are performed for all instruments in a portfolio and that the manager utilises the services of a competent administrator.

Fixed income instruments may be low-grade - Hedge fund managers may invest in low-grade bonds and other fixed interest investments. These investments are more likely to suffer from defaults on interest or capital. They are also more likely to have volatile valuations when the market changes its view on credit risk. The mandate should also limit the extent (i.e. lowest acceptable rating and maximum percentage exposure) to which low-grade debt can be acquired by the client. Investors should review the mandate to gain an appreciation of the maximum possible exposure applicable to the relevant mandate.

Exchange rates could turn against the fund - A hedge fund manager might invest in currencies other than the base currency. For example, a South African hedge fund manager might invest in UK or US shares. The portfolio is therefore exposed to the risk of the rand strengthening or the foreign currency weakening.

Other complex investments might be misunderstood - In addition to the above, hedge fund managers might invest in complex instruments such as, but not limited to, futures, forwards, swaps, options and contracts for difference. Many of these will be derivatives, which could increase volatility. Many will be "over-the-counter", which could increase counterparty risk. Many exotic instruments may also be challenging for the manager to administer and account for properly. Investors should inquire into how these instruments are objectively and independently valued.

The client may be caught in a liquidity squeeze - Given their often short-term nature, hedge fund managers need to be able to disinvest from or close certain positions quickly and efficiently. But market liquidity is not always stable, and if liquidity were to decrease suddenly, the hedge fund manager might be unable to disinvest from or close such positions rapidly or at a good price, which may lead to losses.

The prime broker or custodian may default - Hedge fund managers often have special relationships with so-called "prime" brokers. These are stockbrokers that provide the required leveraging and shorting facilities. Prime brokers usually require collateral for these facilities, which collateral is typically provided using assets of the relevant client, and consequently such collateral might be at risk if the prime broker were to default in some way. A similar situation could occur with the custodian of the client's funds.

Regulations could change - Legal, tax and regulatory changes could occur during the term of the investor's investment in a hedge fund portfolio that may adversely affect it. The effect of any future legal, tax and regulatory change or any future court decision on a hedge fund portfolio could be substantial and adverse.

Past performance might be theoretical - Hedge fund portfolios are on occasion marketed using theoretical or paper track records. Past performance is seldom a reliable indicator of future performance. Theoretical past performance is often an even less reliable indicator, and investors should place a lower significance on these.

The manager may be conflicted - The hedge fund manager might be managing other hedge fund portfolios or other traditional investment funds. The investor should ensure that sufficient controls are in place to manage any conflicts of interest between the different funds.

Hedge fund structures are often complex - As mentioned above, hedge fund structures are not fully regulated and they are often housed in legal structures not originally meant for pooled hedge funds, for example partnerships and companies. Given the many risks listed above, investors need to ensure that any structure is robust enough to contain any unlimited losses.

Manager accountability may be vague - Hedge fund portfolios are often managed by specific individuals and investors should ensure that sufficient controls are in place for the times when the manager is being covered for by colleagues. In addition, a hedge fund structure (for example, a fund of funds) and its managers or advisors may rely on the trading and/or investing expertise and experience of third-party managers or advisors, the identity of which may not be disclosed to investors. This constitutes an additional risk for investors, which they must take into account.

Fees might be high - Hedge fund structures' fees may be significantly higher than the fees charged on traditional investment hedge funds. Investments should be made only where the potential returns justify the higher fees.

Fees might be performance-based - Hedge fund manager's fees are usually performance-based. This means that the managers typically get a higher fee when their portfolios outperform specified performance targets, which might lead to riskier positions being taken. Investors need to ensure that performance fees allow for a fair sharing of both the good and the bad.

Transaction costs might be high - Given the often short-term nature of investment positions, hedge fund portfolios are often traded more aggressively. This implies more stockbroking commission and charges being paid from the portfolio, which is ultimately for the client's account. Again, investments should be made only where the potential returns make up for the costs.

Transparency might be low - A hedge fund manager's performance is often the result of unique proprietary strategies or contrarian investment positions. For obvious reasons, managers will want to keep these confidential. Managers are therefore less likely to disclose trades to their investors, and holdings might be disclosed only in part or with a significant delay.

Dealing and reporting might be infrequent - A hedge fund manager's performance can often be disturbed by irregular cash flows into or out of the hedge fund structure. For this reason, hedge fund managers often limit the frequency of investments and withdrawals. Similarly, the manager may choose to report infrequently on performance and other statistics. Investors should ascertain, prior to investing, the nature and frequency of reporting.

Withdrawals might not be easy - As mentioned above, the frequency of withdrawals might be limited to monthly or quarterly dates. In addition, the manager may impose notice periods or lock-ins in order to ensure that they have the necessary time for their investment positions to deliver their desired returns.