



RCIS STABLE EQUITY RETAIL HEDGE FUND

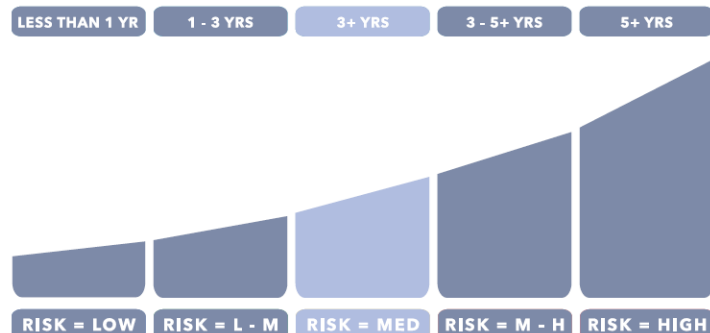
31 March 2024

GENERAL INFORMATION

Investment Manager	Abax Investments Proprietary Limited
Management Company	RealFin Collective Investment Schemes (RF) Proprietary Limited ("RCIS")
Inception Date	01 February 2015
CIS Establishment Date	01 October 2016
Fund Class	Class D1
JSE Code	RCSD1
ISIN Number	ZAE000262325
Fund AUM	R124.845 Million
NAV Price	161.4381 (CPU)
Fee Class Units	43 304 804.39
Fund Category	CIS Retail Hedge Fund
Structure	Registered SA CIS in Hedge Funds
Risk Profile	Medium
Benchmark	South African Short Term Fixed Interest Rate - Call Deposit Index (STEFOCAD) on a rolling 12 month basis
Minimum lump sum	R 100,000.00
Additional lump sum	R 20,000.00
Subscriptions	each business day
Redemptions	each business day
Portfolio Currency	ZAR
Portfolio Valuation	each business day
Transaction Cut-Off Time	12h00 on each business day
Initial Fee	None
Annual Management Fee	1.00% (ex VAT)
Annual Performance Fee	20.00% (ex VAT)
Total Expense Ratio (TER)*	3.16%
Transaction Cost (TC)*	0.56%
Total Investment Charge (TIC)*	3.72%
Income Distribution	First day of March of each year
Value Distributed	4.1045 cents (1 March 2024)
Administrator	Apex Fund Services (Pty) Ltd
Prime Broker	RMB
Trustee	FirstRand Bank Limited (acting through its RMB Trustee Services Division)
Auditor	PricewaterhouseCoopers

* TER, TC and TIC as at 31/12/2023
* Pricing is available daily via Finswitch

RISK RATING



Medium

- These portfolios generally hold more equity exposure than low risk portfolios but less than high risk portfolios.
- In turn the expected volatility is higher than low risk portfolios, but less than high risk portfolios.
- The probability of losses are higher than that of the low risk portfolios, but less than the high risk portfolios.
- Expected potential long term investment returns could therefore be lower than high risk portfolios due to lower equity exposure, but higher than low risk portfolios.

INVESTMENT OBJECTIVE

RCIS Stable Equity Retail Hedge Fund is a low volatility Long/Short South African Equity Fund. The Portfolio may invest in the participatory interests of hedge fund portfolio's in any retail investor collective investment scheme ("Underlying Funds"); and in any other securities (including, without limitation, derivative instruments), financial products and assets, subject to the requirements of the Act read with the Hedge Fund Requirements. The portfolio is permitted to invest in offshore investments. The Manager may create leverage in the Portfolio by borrowing funds, using short positions or engaging in derivative transactions.

INVESTMENT STRATEGY AND MANDATE

The aim of the Portfolio is to achieve consistently superior risk adjusted returns, through exploiting equity based opportunities in South Africa markets. Further the Portfolio aims to exhibit low correlation between its investment performance and that of the market. Whilst it is envisaged that the Underlying Funds will be predominately established and domiciled in South Africa, the Portfolio may, from time to time, subject to applicable exchange control regulations, invest in funds established and domiciled outside of South Africa, where in the opinion of the Investment Manager such funds will ultimately enhance the absolute return of the portfolio. The manager may create leverage in the Portfolio by borrowing funds, using short positions or engaging in derivative transactions.

INVESTMENT RESTRICTIONS AND LIMITS

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) Proprietary Limited	
Registration Number	2013/170284/07
Physical Address	347 Main Road, Kenilworth, Cape Town, 7945
Telephone Number	+27 21 701 3777
Email Address	clientservices@realfin.co.za
Website	www.realfin.co.za

INVESTMENT MANAGER

Abax Investments Proprietary Limited	
Registration Number	2000/008606/07
Physical Address	2 nd Floor, Colinton House, The Oval, 1 Oakdale Road, Newlands
Postal Address	Postnet Suite 255, Private Bag X1005, Claremont, 7735
Telephone Number	+27 21 670 8960
Email Address	marius@abax.co.za
Website	www.abax.co.za
FSP Number	856

TRUSTEE

FirstRand Bank Limited (RMB Trustee Services)	
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



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INVESTMENT COMMENTARY

Market Commentary

Despite still high interest rates, developed markets continued to rally strongly during the first quarter of 2024. The main US indices (S&P 500 Index, Dow Jones Industrial Average and the Nasdaq) all broke record highs, as did Europe's broad STOXX 600 Index and the Japanese Nikkei. The records haven't been limited to stocks, with Bitcoin and gold also notching up new all-time highs.

The timing and extent of interest rate cuts, which dominated market talk last year, has become less of a focal point on account of the strength of the US economy and resilience of its labour market. On the monetary policy debate, there is broad agreement that interest rates have peaked, but there is still uncertainty on the path forward as can be seen in the repricing of interest rate expectations since the start of the year. At the start of the year, markets were pricing in six 25 basis point reductions from the Fed over 2024; markets now only expect 3 cuts.

While developed markets continue to steam ahead, the picture differs for many emerging markets - the MSCI Emerging Market Index remains approximately 30% below its all-time high, with MSCI China over 50% off its high. The Chinese economy has faced both external (US-China antagonism, Taiwanese animosity) and internal challenges (real-estate funding crisis, disruptive regulation, restrained consumer spending) resulting in a deterioration of the economic growth outlook. While these issues shouldn't be underestimated, we believe that the economic performance in China is not as dire as commonly perceived with narratives reflecting overwhelming bearishness among investors and the mainstream media. There are signs of a recovery as evidenced by the spike in holiday travel during the Chinese New Year (travel and room nights now well above 2019 levels) and other cyclical activity indicators (electricity production, retail sales) also continued to recover since the second half of 2023. Despite these green-shoots, further measures are required to stabilize the domestic economy (particularly the residential property market) to stimulate demand and strengthen consumer confidence – for which statistics are no longer made public.

In South Africa, elections remain a significant focus point. The country faces its most important election since 1994, with the latest polls pointing to sharply lower support for the ANC and substantial support for the new uMkhonto Wesizwe (MK) party. Although we are mindful that these polls are notoriously inaccurate, the ANC is likely to lose its national majority, which will necessitate some form of coalition agreement with other parties, adding uncertainty to the policy outlook.

The domestic economic environment remained challenging in the first quarter. Whilst inflation is back within the South African Reserve Bank's target range, a combination of 14-year high interest rates, muted GDP growth and a high unemployment rate continue to place consumers and businesses under pressure. We expect some relief in the second half of the year with the SARB set to embark on a rate cutting cycle - however economists only expect a shallow cutting cycle (c.100bps). The SA government is not providing a supportive environment for business with flailing Eskom, Transnet, water supply, etc. – self-provision of these essential bulk services comes at a cost to businesses and hence investors. We are fortunate to have some very well managed listed businesses that have not only grown resilient, but also expanded beyond our borders to provide better diversification. In the first quarter of 2024, the JSE All Share Index (ALSI) declined -2.3%, extending its losing streak. The weakness was broad based; SA Financials declined 6.1%, SA Resources declined 1.6%, whilst Industrials were just positive at +0.6%. Property was the best performing sector at +3.8%. The Rand depreciated by 2.8% against the US Dollar.

Portfolio Commentary

The top contributors over the quarter included the Fund's short positions in Kumba Iron Ore and Spar, as well as its long position in Richemont. On the short side, Kumba's -24.8% decline was driven by the sharp drop in global iron ore prices as concerns started to build around cyclical and structural risks of the Chinese Property sector. 2023 has been a year to forget for Spar with allegations of racism, leadership changes, disastrous SAP implementation, funding problems and ongoing challenges in Poland, all of which manifested in a very weak financial result with margins under pressure in SA, earnings falling in all regions, banking covenants breached and the dividend suspended - the share price was minus 25% in Q1. It was pleasing to see the solid performance from Richemont during the quarter (+12.5%); a business with a strong global franchise, a portfolio of unique brands with a strong retail presence. Over the last few years (coming out of COVID) the business has become leaner and smarter, improved its portfolio and market positioning, and generates strong cash flows. It remains attractively valued and future earnings and cash flow growth will be supported in a declining global interest rate environment.

The broad concerns around the SA economy continue to weigh heavily on SA stocks, thus it is not surprising that the top detractors for the quarter included our domestic holdings in MTN (-19%) and Absa (-9%). The long position in BHP should be viewed in context of the Fund's short position in Kumba.

MTN continues to leverage its dominant market position, benefitting from structurally higher demand for data services and fintech across its operations; but the investment case has been dominated by macro risks in Nigeria (its largest market). The full effect of the FX devaluation in Nigeria has taken longer to complete than we had expected and will still be felt over the next year, but we believe that the risks are discounted in the share price with MTN well placed to benefit once that currency settles. It's a well-run business in a very tough neighbourhood. Absa underperformed given a weaker than expected FY23 result and cautious outlook for FY24, both due to still-high credit impairments. The share continues to offer fundamental value, trading on a < 6x prospective PE and offering a > 9% dividend yield, but investors will likely want to see more evidence of an improving credit and growth outlook before we see a re-rating – we think this is likely in the second half of 2024.

Current Positioning and Outlook

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MONTHLY RETURNS SINCE INCEPTION (NET OF FEES)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD	BM
2024	1.12%	1.32%	0.49%										2.96%	1.96%
2023	2.29%	0.94%	1.20%	1.44%	-0.88%	2.37%	1.33%	1.17%	0.75%	-1.61%	2.14%	1.31%	13.12%	7.78%
2022	-1.68%	2.68%	0.74%	3.35%	0.89%	-0.38%	1.75%	0.37%	-0.02%	-0.44%	2.42%	-0.84%	9.08%	4.90%
2021	2.61%	5.09%	6.10%	-0.08%	1.60%	-2.27%	1.33%	2.00%	1.47%	2.72%	1.90%	2.22%	27.37%	3.53%
2020	-1.15%	-3.74%	-20.86%	6.69%	2.29%	3.84%	0.04%	1.84%	2.58%	-2.64%	5.19%	1.63%	-7.19%	4.52%
2019	1.15%	2.19%	5.00%	0.51%	-3.76%	-0.01%	0.47%	1.35%	4.23%	0.83%	0.18%	3.24%	16.20%	7.08%
2018	0.30%	0.39%	-0.60%	0.97%	-2.19%	0.39%	1.15%	0.74%	0.42%	-1.57%	-1.98%	-0.28%	-2.31%	7.31%
2017	1.11%	0.66%	0.42%	1.02%	-0.08%	-0.12%	-0.18%	1.44%	-0.05%	1.29%	1.74%	1.06%	8.60%	7.48%
2016	0.12%	2.27%	1.36%	1.33%	-0.83%	0.74%	1.72%	1.37%	-0.63%	-0.66%	1.50%	0.63%	9.24%	7.42%
2015		0.28%	0.43%	0.52%	1.93%	-0.17%	2.11%	0.75%	-0.57%	3.31%	0.15%	-0.87%	8.08%	5.90%

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

** Benchmark was amended from STFIND to STEFOCAD in September 2019

RETURN ANALYSIS	FUND	BENCHMARK
1 Month Return	0.49%	0.61%
3 Month Return	2.96%	1.96%
12 Month Return	11.45%	8.03%
Since Inception (Annualised)	8.91%	6.31%
Since Inception (Cumulative)	118.59%	75.26%
Highest annual return (rolling 12 months - since inception)	41.01%	8.03%
Lowest Annual Return (rolling 12 months - since inception)	-19.38%	3.50%

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

ASSET ALLOCATION*	%
SA Cash & Cash Collateral	27.39%
SA Equity (Long)	89.28%
SA Equity (Short)	-16.63%
SA Equity Derivatives (Short)	-27.48%

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

COUNTERPARTY EXPOSURE	%
FirstRand Bank Limited	9.08%
JSE Clear Pty Limited	2.06%

ADDITIONAL RISK DISCLOSURES - AS AT QUARTER ENDED 31 MARCH 2024

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) and the JSE through its listed derivatives platform.
VAR (limit 20%):	7.63%
Max VAR for quarter:	11.75%
Assets encumbered as collateral:	100.00%
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.



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

- Collective Investment Schemes are generally medium-to long-term investments.
- The **RCIS Stable Equity Retail Hedge Fund** should be considered an investment with a time horizon of longer than a year.
- The value of participatory interests (units) may go down as well as up.
- Past performance is not necessarily a guide to future performance.
- Where different classes of participatory interests apply to certain Portfolio's, they would be subject to different charges.
- Collective investments are traded at ruling prices and can engage in borrowing and scrip lending.
- A schedule of fees and charges and maximum commissions, is available on request from RCIS.
- RCIS does not provide any guarantee in respect to the capital or the return of the portfolio.
- RCIS may suspend repurchases for a period, subject to regulatory approval, to await liquidity.
- 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.
- 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.
- Forward pricing is used.
- In terms of the Collective Investment Schemes Control Act, No.45 of 2002 (CISCA), RMB Custody and Trustee Services (A division of FirtRand Bank Limited) has been appointed by RCIS as the Trustee of **RCIS Stable Equity Retail Hedge Fund**.
- The portfolio is valued **each business day**.
- 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.
- Any capital gain realised on the disposal of a participatory interest in a collective investment scheme is subject to Capital Gain Tax (CGT).
- 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.
- 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.
- 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.
- RealFin Collective Investment Schemes (RF) Proprietary Limited has entered into a co-naming agreement with and delegated the investment management function to **Abax Investments Proprietary Limited (FSP 856)**
- RCIS retains full legal responsibility for **RCIS Stable Equity Retail Hedge Fund** and performs Risk Management oversight.
- 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
- The RCIS complaints policy is available on the RCIS website www.realfin.co.za
- RCIS has a Conflict of interest policy, Protection of Personal Information Policy and Treating Clients Fairly Policy which is available on request.
- Annual report is available upon request.

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.

TRANSACTION CUT-OFF TIMES

In order for an **Investment Instruction** to be processed, your Investment form must be sent **before 12h00 on each business day** ("Cut Off Date") for your Investment application to be processed on the **current business day**. Your funds need to be reflecting in our bank account **before 12h00** ("Cut off") on the **current business day** 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 business day.

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 current business day** ("**Cut Off**") for your investment to be transacted at the current day's price. All redemptions must be submitted in writing and will be executed following receipt and acceptance of such instruction. Please note in the case of daily traded Hedge Fund redemptions, settlement may take up to **5 business days**.

Investors wishing to redeem units amounting to more than 5% of the total market value of the relevant portfolio must provide the manager with at least 7 business days' written notice of such redemption. If this notice is not received by the manager, the manager may treat such withdrawal as only having taken place on the 7th business day after such instruction is received. However, where the amount to be redeemed exceeds 10% of the total market value of the portfolio, the parties shall determine the actual date of withdrawal through mutual agreement between them.

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.

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.