



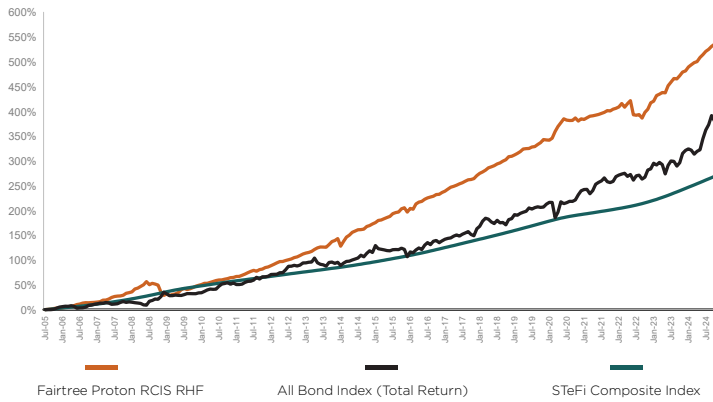
Fund Profile

The Fairtree Proton RCIS RHF aims to provide superior risk-adjusted returns over and above cash, irrespective of market conditions. The fund has a targeted return of cash plus 6% over a rolling 3-year period.

Portfolio Strategy and Mandate

The portfolio is managed by balancing fixed income relative value exposures with credit exposures, in a way that minimises market risk and allows the portfolio to achieve its targeted return over the medium term. We believe that the markets are not always efficient and therefore present mispriced assets which can be taken advantage of to generate excess returns. A disciplined approach to fundamental and quantitative analysis helps to identify these mispriced assets. We believe that a team-based fundamental approach to the valuation of assets, combined with cutting-edge quantitative techniques in portfolio construction and risk management help build a fund to achieve the objectives of superior risk-adjusted returns. The manager may create leverage in the Portfolio by borrowing funds, using short positions or engaging in derivative transactions.

Cumulative Performance Since Inception



Fund Source: Apex Fund and Corporate Services SA as at October 2024

Index Source: Bloomberg as at October 2024

The investment performance is for illustrative purposes only; the investment performance is calculated by taking the actual initial fees and all ongoing fees into account for the amount shown; assuming income is reinvested on the reinvestment date.

Return Analysis (Annualised)

	Fund	All Bond Index	STeFi Composite
1 Year	11.09%	21.29%	8.53%
3 Years	8.25%	10.49%	7.00%
5 Years	7.78%	9.43%	6.14%
10 Years	9.03%	8.45%	6.65%
Since Inception	10.08%	8.50%	7.02%

All performance figures are net of fees.

Risk Analysis

	Fund	All Bond Index	STeFi Composite
Sharpe Ratio	0.58	0.21	n/a
Sortino Ratio	0.75	0.35	n/a
Standard Deviation	4.98%	7.51%	0.51%
Best Month	4.34%	7.27%	1.04%
Worst Month	-9.53%	-9.75%	0.28%
Best Rolling 12 Months	25.70%	26.14%	11.79%
Worst Rolling 12 Months	-10.50%	-5.61%	3.78%
Largest Cumulative Drawdown	-17.96%	-9.79%	n/a
% Positive Months (Since Incept.)	87.45%	67.97%	100.00%
Correlation (ALBI Index) Monthly	-0.05		
Value at Risk (VaR) 95%	1.60%		

The above benchmark(s) are for comparison purposes with the fund's performance. The fund does not follow the benchmark(s).

\*Please note that performance figures include returns earned during the relevant periods prior to the portfolio being regulated under CISCA. The investment performance is for illustrative purposes only and is calculated by taking actual initial fees and all ongoing fees into account for the amount shown; and income is reinvested on the reinvestment date. The annualised total return is the average return earned by an investment each year over a given time period. Annual figures are available from the manager on request. The highest and lowest 1 year returns represent the highest and lowest returns achieved during any single calendar year since the original launch date of the portfolio.

Fund Details

Risk Profile:	Low - Medium
Portfolio Manager:	Paul Crawford, Louis Antelme
Fund size: (in Millions)	R 1 014.85 m
NAV Price (as at month end):	2.68
Number of Units:	345 097 377.07
ISIN Number:	ZAE000271516
Inception Date:	August 2005
CISCA Inception Date:	1 September 2016
Fund Structure:	CISCA (Retail Hedge Fund Portfolio)
Fund Category:	Multi - Strategy
Benchmark:	STeFi Composite Index
Portfolio Currency:	ZAR

Cost Ratios (incl. VAT)

Total Expense Ratio (TER%):	2.67%
Transactions Costs Ratio (TC%):	0.01%
* Total Investment Charges (TIC%):	2.68%
Performance Fee (PF) Included in TER:	1.19%
*Total Investment Charges (TIC%) = TER (%) + TC (%) Prices are made available via Finswitch on a T + 1 basis	
Minimum Investment:	R 50 000 Lump sum
Additional Lump Sum	R 10 000

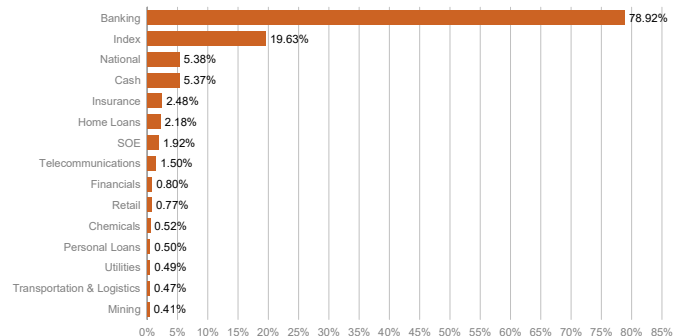
Fee Breakdown

Initial Fee:	None
Service Fee:	1.09% (ex VAT)
Performance fee (uncapped):	20.00% (ex VAT)
Subscriptions:	Daily
Redemptions:	Daily
Portfolio Valuation:	15h00 each business day
Transaction Cut-Off Time:	12h00 each business day
Income Distribution (Declaration):	First day of March
Investment Manager contact details	Fairtree Asset Management (Pty) Ltd
Telephone Number:	+27 86 176 0760
Website:	www.fairtree.com
Management Company:	RealFin Collective Investment Schemes (RF) Pty Ltd ("RCIS")
Administrator	Apex Fund and Corporate Services SA
Trustee	FirstRand Bank Limited (Acting through its RMB Trustee Service Division)
Auditor	Price Waterhouse Coopers

Portfolio Restrictions and Limits

2\* GOVI MD, other CISCA restrictions

Sector Allocation





Increase in NAV Attributable to Investors

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
2005								0.77%	0.53%	1.02%	0.73%	-0.53%	2.54%
2006	0.99%	0.80%	1.35%	0.66%	1.57%	2.11%	0.82%	1.77%	0.60%	-0.10%	0.36%	0.35%	11.86%
2007	0.63%	0.64%	2.60%	0.16%	1.77%	2.65%	1.59%	0.57%	0.27%	1.13%	3.03%	0.92%	17.12%
2008	1.19%	4.31%	1.15%	2.38%	2.31%	4.34%	-4.06%	1.87%	-1.03%	-1.30%	-9.53%	-4.80%	-4.06%
2009	2.11%	-2.29%	1.73%	0.70%	2.22%	4.18%	1.82%	-1.58%	1.08%	1.67%	1.98%	1.24%	15.73%
2010	1.09%	1.60%	-0.07%	1.26%	1.12%	1.28%	0.70%	0.16%	0.81%	0.79%	1.14%	0.27%	10.62%
2011	1.16%	0.12%	1.39%	1.41%	1.64%	1.46%	1.17%	-0.91%	1.77%	0.64%	1.63%	0.70%	12.85%
2012	1.39%	1.50%	1.53%	1.24%	0.14%	0.98%	0.80%	0.79%	1.37%	0.70%	1.28%	1.49%	14.03%
2013	0.94%	0.59%	0.93%	1.76%	1.47%	0.82%	-0.10%	-0.14%	2.36%	2.64%	0.87%	1.63%	14.64%
2014	-6.31%	4.20%	3.72%	1.58%	2.25%	1.06%	0.96%	0.15%	0.37%	1.99%	0.72%	1.22%	12.16%
2015	0.97%	1.57%	0.34%	0.93%	0.88%	0.77%	1.91%	0.74%	0.42%	2.12%	0.69%	-2.82%	8.77%
2016	2.50%	-0.55%	3.53%	1.15%	0.44%	1.37%	0.86%	0.53%	0.52%	0.98%	0.17%	1.11%	13.32%
2017	0.76%	1.22%	1.14%	0.49%	0.65%	0.79%	0.66%	0.84%	0.79%	0.19%	0.51%	1.65%	10.12%
2018	1.24%	0.77%	0.90%	1.23%	0.54%	0.60%	0.91%	0.52%	0.88%	0.73%	1.54%	0.20%	10.53%
2019	0.66%	0.73%	0.91%	1.21%	0.21%	0.05%	0.69%	0.22%	0.98%	0.87%	1.42%	-0.16%	8.04%
2020	-0.13%	0.93%	3.02%	2.19%	1.62%	1.65%	-0.55%	-0.16%	0.03%	1.04%	-1.28%	0.92%	9.61%
2021	-0.25%	0.71%	0.64%	0.18%	0.25%	0.29%	0.43%	0.42%	0.70%	-0.12%	0.71%	0.34%	4.38%
2022	0.53%	1.36%	-1.43%	1.41%	1.16%	-5.46%	-0.17%	0.25%	-1.42%	2.35%	1.28%	2.58%	2.20%
2023	0.62%	2.20%	0.49%	0.63%	-0.12%	2.66%	1.30%	1.34%	-0.14%	1.13%	1.30%	0.40%	12.44%
2024	1.33%	0.79%	0.71%	0.35%	1.41%	0.93%	1.07%	0.66%	0.95%	0.67%			9.22%

Please note the fund returns shaded above from August 2005 - October 2016 were achieved prior to the portfolio being regulated under CISCA.

- The NAV of the fund gained 0.67%, bringing the total return to investors to 535.40% and the average annualised return to 10.08%.
- The annualised standard deviation is 4.98% and compares favorably with that of the All Bond Index (Total Return) at 7.51%.
- The downside deviation of the fund is 1.11% compared to 1.30% for the All Bond Index (Total Return).
- The excess return per unit risk, as measured by the Sharpe Ratio, decreased to 0.58, whilst that of the All Bond Index (Total Return) decreased to 0.21.

Additional Risk Disclosures as at the last quarter end

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%)	2.99%	
Max VAR for quarter	4.17%	
Assets encumbered as collateral	100%	
Re-hypothecation of 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	
	FirstRand Bank Limited	23.01 %
	ABSA Bank Limited	14.65 %
	The Standard Bank Of South Africa Ltd.	14.23 %
	Investec Bank Limited	14.01 %
	Nedbank Limited	13.36 %

Definitions and 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-hypothecation:	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.

Asset Allocation\*

SA Money Market	55.95 %
SA Fixed Income	38.45 %
SA Cash & Cash Collateral	4.65 %
SA Fixed Income Derivatives	-4.34 %

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



## Market Commentary

### Market dynamics

After September's reconstitution of the iTraxx Crossover, we shouldn't be surprised that the index volatility calmed down during October. The spread ended September at 311 basis points (bps) and finished October a whopping 2 bps higher at 313 bps. All in all, it was sort of a non-event as far as capital risk was concerned. Even the intra-month range was a rather sleepy affair, with the index plumbing the depths of 299 bps and hitting an intra-month high of only 319 bps, which is not exactly inspirational on either side of the fence. But I suppose at the end of the day, investors should be quite content with merely accruing interest while avoiding all that capital volatility malarkey and giving yet another 0.45% return. The index shows a rather healthy 5.95% year-to-date and 14.1% year-on-year, which should keep the credit bears quiet.

No defaults were reported by Markit during the month, although the Atos recovery auction took place on 9 October. Atos only formed part of iTraxx XOver Series 40 but was not reselected, forming no part of Series 41 or the new on-the-run Series 42. The pre-auction market showed recovery expectations at 7.875%, while the final auction cleared a bit lower at 3%.

Eventually, some respite was had in the more recent South African bond bull run, with the All Bond Index shedding some 2.20% in total return during October. That's the first negative month since March, and although a 2.20% loss is not to be sneezed at, it does pale into insignificance when one considers that the bull market, which started in April, had shown investors 18.81% to the end of September. Now that is an impressive six-month return. In fact, out of 280 rolling six-month periods, the April-Sep 2024 period is the second-best six-month performance since the index's inception in January 2001.

The yield curve steepened during the month with ultra longs (R2053 sold off 58 bps) underperforming intermediates (R2030 sold off 44.5bps), while the 3m JIBAR decreased by 3.3 bps to end the month almost flat to Repo at 8.017%.

### Performance

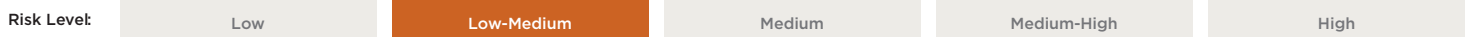
It was Groundhog Day for Proton during October, with the fund delivering a non-inspiring 0.67% on an after-all fees basis. Considering that STeFI produced 0.68%, it was rather disappointing that the fund did not put in a better shift. Drilling into the attribution, we saw that interest rate risk added around 20 bps of alpha, but unfortunately, our credit book detracted around 7 bps, while cash drag pulled the overall fund back to STeFI. On the positive side, our short volatility positions paid off rather well, while our rates of risk remain positive theta.

Looking to November, it will all be about the aftermath of the US elections, which will be known by the time you read this. It's pretty pointless making a prediction then, but I think there will be fireworks either way. The Blues plan to turn the US around again after the last four mediocre years, while the Reds plan to turn it around after the last four mediocre years. Bizarre but true.

Once all that dust settles, it'll be time for the SARB to cut interest rates again by another 25 bps at their meeting on 21 November. A 50 bps cut is not outside the realms of possibilities, but 25 bps will show a more measured approach to local monetary policy.

**Please Note:** The above commentary is based on reasonable assumptions and is not guaranteed to occur, unless it has already happened.

## Risk Profile



The risk category shown is not guaranteed and may change over time. The lowest category does not mean the investment is risk free. There may be other special areas of risk relating to the investment including liquidity risk, credit risk, market risk, and settlement risk. RealFin Collective Investment Schemes (RF) Pty Ltd, ("the manager"), and the Investment Manager do not render financial advice. Our risk indicator does not imply that the portfolio is suitable for all types of investors. You are advised to consult your financial adviser.

## Contact Information

Investment Manager (FSP)		Manager		Trustee	
<b>Fairtree Asset Management Pty Ltd</b>		<b>RealFin Collective Investment Schemes (RF) Pty Ltd</b>		<b>FirstRand Bank Limited (Acting through its RMB Trustee Service Division)</b>	
Registration Number	2004/033269/07	Registration Number	2013/170284/07	Physical Address	3 Marchant Place, Corner Floor Cnr Fredman & Gwen Streets Johannesburg 2001
Physical Address	Willowbridge Place, Cnr. Carl, Cronje Drive & Old Oak Road, Bellville Cape Town, 7530	Physical Address	347 Main Road, Kenilworth, Cape Town 7708	Telephone Number	+27 87 577 8730
Telephone Number	+27 86 176 0760	Telephone Number	+27 21 701 3777	Email Address	trusteeservices@rmb.co.za
Email address	clientservices@fairtree.com	Email address	clientservices@realfin.co.za	Website	www.rmb.com
FSP Number	25917	Website	www.realfin.co.za		
Website	www.Fairtree.com				





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 RealFin website www.realfin.co.zw. 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.

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.

Disclosures

- 1. Collective Investment Schemes are generally medium-to long-term investments.
2. The Fairtree Proton RCIS 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, charges, minimum fees, 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 FirstRand Bank Limited) has been appointed by RCIS as the Trustee of Fairtree Proton RCIS Retail Hedge Fund.
14. The portfolio is valued at 17:00 of each business day.
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-managing agreement with and delegated the investment management function to Fairtree Asset Management Pty Ltc (SAM 2317).
21. RCIS retains full legal responsibility for Fairtree Proton RCIS Retail Hedge Fund and performs Risk Management oversight.
22. Application forms can be obtained via the RCIS website www.rcis.co.zw and any additional information can be requested from RCIS at m3n3c@realfin.co.zw
23. Should you have any complaints, Please send an email to complaints@rcis.co.zw. Our Complaints policy is available on our website: www.rcis.co.zw.
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 and Actual annual figures are available to the investor upon request.
26. Prices are available on a T +1 basis via Finswitch.

Transaction Cut-Off Times

TRANSACTION CUT-OFF TIMES
In order for a daily Investment Instruction to be processed, your Investment form must be sent before 17:00 on each business day (Cut-Off Date) for your Investment application to be processed on each business day. Your funds need to be reflecting in our bank account before 17:00 (Cut-Off) on the each business day of the preceding month and proof of payment sent to clientservices@realfin.co.zw. 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 in by 17:00 on each business day for processing at the end of each business day.

Hedge fund redemptions are processed at the end of each day. 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 redemptions, settlement may take up to 5 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.

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 divest 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 divest 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.