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# PORTFOLIO SUPPLEMENT - HEDGE COLLECTIVE INVESTMENT SCHEME PORTFOLIOS

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## 1. Definitions

### 1.1. Business Day

A Business Day is any day other than a Saturday, Sunday or South African public holiday. In this document day and Business Day have the same meaning. We only operate on Business Days.

### 1.2. Collective Investment Schemes Management Company (Manager/We)

A registered Manager of Collective Investment Schemes (or "CIS") in terms of the Collective Investment Schemes Control Act.

### 1.3. Commitment approach (Referred to within each portfolio Minimum Disclosure Document)

A methodology for calculating exposure that considers the effective exposure of derivatives to, and takes an aggregate view of securities with the same or similar underlying exposure, where the total commitment is considered to be the sum of the absolute value of the commitment of each individual position, including derivatives after taking into account netting and hedging.

### 1.4. Credit Risk

The risk of default on debt instruments and occurs when the borrower is not able to adhere to re-payments.

### 1.5. Custodian

Is a financial institution that holds securities in safe custody for QIHF and RHF Portfolios.

### 1.6. Daily Dealing Portfolio(s)

These portfolios are priced/valued daily.

### 1.7. Derivative Instruments

An instrument where a contract exists between two parties and the value thereof is based on a specific or group of financial instruments.

### 1.8. Hedge Fund/Portfolio Manager

Is an approved Financial Services Providers in terms of the Financial Advisory and Intermediary Services Act 37 of 2002, acting as the investment manager for these Portfolios.

### 1.9. Hedge CIS Portfolios

This is an arrangement that enables investors to pool their money and have it professionally managed and invested in a range of underlying assets. The underlying assets of a Hedge CIS Portfolios vary depending on the Portfolio's investment objective. The investment mandate of the Hedge CIS Portfolio determines the selected assets.

Hedge Unit Trusts make use of strategies or takes any position which could result in the arrangement incurring losses greater than its aggregate market value at any point in time, and which strategies or positions include but are not limited to leverage or net short positions.

In this document, the terms "Hedge CIS Portfolio(s)" and "Portfolio(s)" shall be used interchangeably. Portfolios available for investment purposes can be found on the latest Portfolio List available on our website or from your Financial Advisor.

### 1.10. Investment Mandate (Mandate)

A document describing the main characteristics, objectives and investment limits of a CIS Portfolio.

### 1.11. Leverage

Leverage is the use of various financial instruments or borrowed capital, to increase the potential return of an investment.

### 1.12. Monthly Dealing Portfolio(s)

These portfolios are priced/valued monthly. This is ordinarily around the 15th of each month depending on the Investment Manager, for value date the end of the previous month.

### 1.13. Netting arrangements

Netting entails offsetting the value of multiple positions or payments due to be exchanged between two or more parties, and it can be used to determine which party is owed remuneration in a multiparty agreement.

### 1.14. Over-the-counter

This phrase can be used to refer to instruments traded via a dealer network as opposed to a central exchange.

### 1.15. Prime Broker (also referred to as Counterparty in this document)

Investment banks or security companies that offer a package of services to Unit Trust Portfolio that require securities or cash to be borrowed.

### 1.16. Qualified Investor Hedge Fund (QIHF)

A hedge fund in which only qualified investors may invest.

### 1.17. Qualified Investor

Any person, who invests a minimum investment amount of R1 million per Hedge CIS Portfolio, and who has demonstrable knowledge and experience in financial and business matters which would enable the investor to assess the merits and risks of a Hedge CIS Portfolio investment; or who has appointed a FSP who has demonstrable knowledge and experience to advise the investor regarding the merits and risks of a Hedge CIS Portfolio investment.

### 1.18. Retail Hedge Fund (RHF)

A hedge fund in which any investor may invest.

### 1.19. Short selling

Sale of a security that is not owned by the seller, or that the seller has borrowed.

### 1.20. Value-at-risk (VAR) (Referred to within each portfolio Minimum Disclosure Document)

A measure of a maximum expected loss of a Portfolio at a given confidence level over a specified time period.

## 2. Portfolio Restrictions Relating to your Hedge CIS Portfolio(s)

### 2.1. Recurring Debit Orders

May only be made into a daily traded RHF.*

### 2.2. Phase-ins

You may not phase out from a monthly dealing Portfolio.*

### 2.3. Recurring Withdrawals

You may not elect to have a regular withdrawal from a monthly dealing Portfolio.*

* Please refer to the Minimum Disclosure Document for dealing frequencies.

## 3. Risks Related to Hedge CIS Portfolio(s)

It should be noted that investment involves risk. The price (or value) of investments can fluctuate (and the investor may not necessarily receive back the original amount invested). When investments are made in overseas securities, movements in exchange rates may have an effect that is unfavourable as well as favourable. Past performance is not necessarily a guide to future performance. Certain investments may not be easily realisable and this may require that the investments be held for longer than anticipated.

**Please note:**

The risks and characteristics contained in this schedule and outlined immediately hereunder represent some of the more general risks and characteristics prevalent in Hedge CIS Portfolios. The list below should not be seen as exhaustive. As more risks and characteristics are identified that were not initially mentioned in this schedule, then such risks and characteristics will, as they become prevalent, be included herein.

### 3.1. Investment strategies may be inherently risky

Hedge CIS Portfolio strategies may include leverage, short-selling and short term investments. In addition, Hedge CIS Portfolio 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 Financial Advisors or the Manager in order to determine which strategies, types and sources of leverage, and maximum levels of leverage are being employed by the relevant Hedge Fund Manager and which consequent risks are associated with the leverage, as well as further information with regards to any restrictions on the use of leverage and any collateral and asset re-use arrangements.

### 3.2. 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 CIS Portfolio(s) can be many times that of the underlying investments. The degree to which leverage may be employed in any given Hedge CIS 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.

### 3.3. 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 if the underlying instrument will fall. Where the price of the underlying instrument rises, the investor can be exposed to significant losses, given that the Hedge Fund Manager is forced to buy securities (to deliver to the purchaser under the short sale) at high prices.

### 3.4. 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 Portfolio's value. Investors should ensure that the objective valuations are performed for all instruments in a Portfolio and that Manager utilises the services of a competent administrator.

### 3.5. 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. the lowest acceptable rating and maximum percentage exposure) to which low grade debt can be acquired by the investor. Investors should review the mandate to gain an appreciation of the maximum possible exposure applicable to the relevant mandate.

### 3.6. Exchange rates could turn against the Portfolio

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.

### 3.7. 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 would increase counterparty risk. Many exotic instruments may also be challenging for the Manager to administer and account for properly. Investors should enquire into how these instruments are objectively and independently valued.

### 3.8. The investor may be caught in a liquidity squeeze

Given their often short term nature, the Hedge Fund Manager needs to be able to disinvest from or close certain positions quickly or 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 fair price, which may lead to losses.

### 3.9. The Prime Broker or Custodian may default

Hedge Fund Managers often have special relationships with so-called "Prime" Brokers. These are stock-brokers 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 investor's funds.

### 3.10. Regulations could change

Legal, tax and regulatory changes could occur during the term of the investor's investment in a Hedge CIS Portfolio(s) that may adversely affect it. The effect of any future legal, tax and regulatory change or any future court decision on a Hedge CIS Portfolio(s) could be substantial and adverse.

### 3.11. Past performance may be theoretical

Hedge Unit Trust 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.

### 3.12. The Hedge Fund Manager may be conflicted

The Hedge Fund Manager might be managing other Hedge CIS Portfolios or other traditional investment Portfolios. The investor should ensure that sufficient controls are in place to manage any conflicts of interest between the different Portfolios.

### 3.13. Hedge CIS Portfolio structures are often complex

Investors need to ensure that any structure is robust enough to contain any unlimited losses.

### 3.14. Manager accountability may be vague

Hedge CIS Portfolios are often managed by specific individuals and investors should ensure the sufficient controls are in place for the times when the Hedge Fund Manager is being covered for by colleagues. In addition, a Hedge CIS Portfolio 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.

### 3.15. Fees might be high

Hedge CIS Portfolio structures fees may be significantly higher than the fees charged on traditional investment Portfolios. Investments should be made only where the potential returns justify the higher fees.

### 3.16. 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 favourable and the unfavourable times.

### 3.17. Transaction costs might be high

Given the often short term nature of investment positions, Hedge CIS Portfolios are often traded more aggressively. This implies more stock-broking 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.

### 3.18. Transparency may be low

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

### 3.19. Dealing and reporting might be infrequent

A Hedge Fund Manager's performance can often be distorted by irregular cash flows into or out of the Hedge CIS Portfolio structure. For this reason, Hedge Fund Managers often limit the frequency of investments and withdrawals.

### 3.20. 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 he has the necessary time for his investment positions to deliver their desired results.

## 4. Additional Hedge Fund Information

### 4.1. Procedures surrounding a change in investment strategy and/or investment policy

In order to change either the investment strategy or investment policy contained in the supplemental deed of the Portfolio, the Manager will adhere to the processes outlined in the Collective Investment Schemes Control Act and approved by the Financial Services Board. For further information, please contact the Manager.

### 4.2. Manager arrangements with Prime Brokers

#### 4.2.1 Managing conflicts of interest

The Hedge Fund Manager, Manager and the appointed Prime Broker are subject to separate governance structures, independent oversight and internal controls, as well as regulatory oversight from the Financial Services Board. Both parties shall strive to avoid any conflict of interest between them, exercising due care and skill in their dealings. However, should any such conflict arise, the parties shall adhere to their conflict of interest policies currently in place.

#### 4.2.2 Level of counterparty exposure

The Portfolio will comply with the counterparty exposure limits as set out in Board Notice 52 of 2015.

#### 4.2.3 Counterparty exposure methodology

Counterparty exposures shall be calculated in terms of section 8(2) of Board Notice 52 of 2015.

### 4.3. Delegated administration & conflict of interest management

The Manager has appointed Global Independent Administrators (Pty) Ltd as the Administrator. Both parties shall strive to avoid any conflict of interest between them, exercising due care and skill in their dealings. However, should any such conflict arise, the parties shall adhere to their conflict of interest policies currently in place.

### 4.4. Valuation and pricing methodologies

Portfolios shall apply the portfolio valuation and asset pricing policies of the Manager. Such policies shall be consistently applied and meet the requirements as set out in Board Notice 52. For further information, please contact the Manager.

### 4.5. Liquidity risk management & repurchase rights

#### 4.5.1 Repurchase of participatory interests

Investors should insure that Repurchase notifications are received at least one calendar month prior to the repurchasing date with regards to monthly trades Hedge CIS Portfolios.

#### 4.5.2 Liquidity management

The Portfolios shall be managed in such a way so as to ensure that the liquidity of securities included in a given Portfolio does not compromise the liquidity of the Portfolio itself. Liquidity management is facilitated through real time monitoring. Liquidity levels will be maintained to facilitate repurchases of participatory interests.

### 4.6. Suspension of repurchases

The manager may, under certain circumstances suspend the repurchase of participatory interests. Repurchases may be suspended if/when the repurchase exceeds 5% of the Portfolio's market value, provided that:

- The proposed repurchase exceeds R50 000 (fifty thousand).

Any suspension of a repurchase must have the consent of the given Portfolio's Custodian or Trustee. The Manager shall provide the investor with the opportunity to withdraw the repurchase application or accept assets equivalent in value to the offer of repurchase.

No other restrictions apply.

### 4.7. Special repurchase arrangements or investor rights

None.

### 4.8. Treating Customers Fairly (TCF)

The Manager observes and adheres to the principles of TCF. These principles are inherent in the Manager's business practices and informs all business dealings with the Manager. For further information on the principles of TCF, or the policies currently in place, please contact the Manager.

### 4.9. Investor preferential treatment

No investor will receive preferential treatment.

### 4.10. Rules specifically related to QIHF's

It is of utmost importance that you are aware of the fact that you are investing in a QIHF(s).

- You have to invest at least R 1 million per QIHF.

You must have the required, demonstrable knowledge and experience in financial and investment matters to assess and select an investment into a QIHF, you further have to be aware of the nature and risks of the investment in a QIHF. There are risk associated with the investment into a Hedge CIS Portfolio and there are no performance guarantees.

OR

Your appointed Financial Advisor has to have demonstrable knowledge and experience to advise you regarding the merits and risks of a QIHF investment and that your Financial Advisor must explain this investment to you, you further have to be aware of the nature and risks of the investment in a QIHF. There are risk associated with the investment into a Hedge CIS Portfolio and there are no performance guarantees.

## 5. Valuation and trade timelines

### 5.1. Unit Pricing

Hedge CIS Portfolio prices are calculated on a net asset value (NAV) basis. The single price per unit reflects the total assets of a Hedge CIS Portfolio, less permissible deductions, divided by the number of units in issue. The unit prices of daily valued portfolios are calculated daily at close of business and are available the following morning after 11h00. The unit price of monthly valued Portfolios are calculated at close of business on the last day of the month and are available on or before the 15th of the following month.

These time lines may be affected by delays in the underlying fund price distribution.

### 5.2. Processing Timelines:

The Manager will make every effort to meet the timelines reflected in the below table once complete and correct instructions have been accepted for processing:

#### Daily dealing Portfolios

The Manager will make every effort to meet the timelines reflected in the below table once complete and correct instructions have been accepted for processing (assuming all Portfolios are valued daily).

| Business cut-off: 14h00 | Process the instruction | Unit Price Received form The Manager | Investor Statement Reflects Instruction |
|---|---|---|---|
| Before cut-off (Business Day 1) | Business day 1 | Business day 1 | Business day 2 |
| After cut-off (Business Day 1) | Business day 2 | Business day 2 | Other Funds: Business Day 3 |

#### Monthly dealing Portfolios

| Purchases<br>Business cut-off 14h00, 3 working days prior to month end, to enable processing for the 1st business day of the following month | Process the instruction | Unit Price Received form The Manager | Investor Statement Reflects Instruction |
|---|---|---|---|
| Before cut-off | 1st Business Day following of following month | Value Date of the 1st Business Day (received on or before the 15th of the month following a calendar months' notice) | 2nd Business Day Cash in transit until prices are received |
| After cut-off | All trades and timelines will be adjusted by one month. | | |

| Withdrawals<br>Business cut-off 14h00, 3 working days prior to month end, to enable processing for the 1st business day following a calendar months' notice. | Process the instruction | Unit Price Received form The Manager | Investor Statement Reflects Instruction |
|---|---|---|---|
| Before cut-off | 1st Business Day following a calendar months' notice. | Value Date of the 1st Business Day (received on or before the 15th of the month following a calendar months' notice) | 2nd Business Day Cash in transit until prices are received |
| After cut-off | All trades and timelines will be adjusted by one month. | | |

Typically withdrawals from a monthly dealing Portfolio requires 30 calendar days' notice, with instructions being received 3 working days prior to month end and payment made within 48 hours post receipt of the monthly price. For example:

A withdrawal must be received by the 28th of June, to make dealing date 1st August. The price of which is expected around the 15th August.

Please refer to your selected Portfolio(s) MDD(s) for trading notice periods.

Please note that although a redemption will reflect on your Investor Statement after 3 or 4 Business Days, it will take longer to reflect in your bank account.

### 5.3. Switching between Portfolios

A switch between Hedge CIS Portfolios with the same dealing frequency will be processed and you will receive the same day's unit price for both the sell and purchase portions of the transaction.

A switch between Hedge CIS Portfolios with different dealing frequencies will be processed as separate sale and purchase and will be subject to the timelines for those individual transactions.

A switch between a Hedge CIS Portfolio and a different Portfolio type will result in a sale and a purchase and will be subject to the timelines of this individual transaction types.

In order for the switch to be processed a Switch Instruction Form.

## 6. Portfolio Specific fees and charges

In addition to the product specific, annual administration and financial advice fees you may be charged additional fees as disclosed in the MDD(s) of your elected Portfolio(s).