

Fairtree Proton RCIS Retail Hedge Fund Minimum Disclosure Document - Class A

31 October 2019

Portfolio Objective

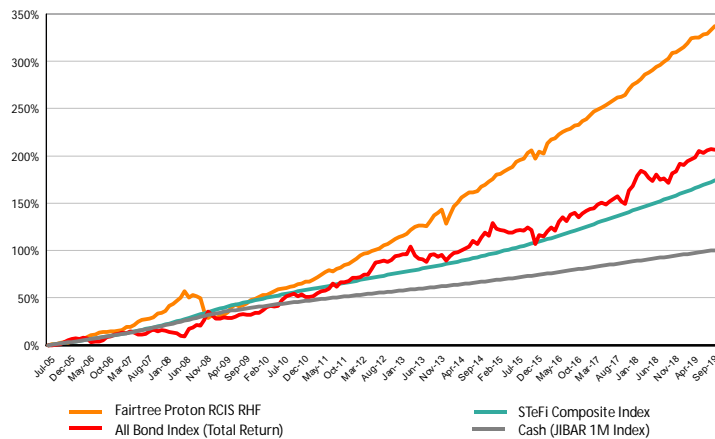
The Fairtree Proton RCIS RHF aims to provide superior risk-adjusted returns over and above cash, irrespective of market conditions.

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.

Cumulative Performance Since Inception



Return Analysis

	Fund	All Bond Index	STeFi
1 Month	0.87%	-0.35%	0.59%
3 Months	2.08%	1.14%	1.77%
6 Months	3.04%	3.32%	3.62%
1 Year	8.56%	12.96%	7.33%
3 Years	31.54%	27.89%	23.86%
5 Years	63.20%	43.41%	41.34%
Since Inception (Annualised)	10.90%	8.17%	7.33%
Since Inception (Cumulative)	336.97%	206.39%	173.90%

Risk Analysis

	Fund	All Bond Index	STeFi
Sharpe Ratio	0.63	0.13	n/a
Sortino Ratio	0.81	0.23	n/a
Standard Deviation	5.22%	6.93%	0.48%
Best Month	4.34%	7.27%	1.04%
Worst Month	-9.53%	-6.67%	0.39%
Best Rolling 12 Months	25.70%	21.23%	11.79%
Worst Rolling 12 Months	-10.50%	-5.61%	5.16%
Largest Cumulative Drawdown	-17.96%	-9.78%	n/a
% Positive Months (Since Inception)	90.64%	67.25%	100.00%
Correlation (ALBI Index) Monthly	-0.12		
Value at Risk (VaR) 99%	1.83%		

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
Fund size (in Millions):	R 297.7
NAV Price (as at month end):	R 2.68
Number of Units:	103,731,572.52
JSE Code:	FPRA1
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%):	1.78%
Transactions Costs Ratio (TC%):	0.03%
* Total Investment Charges (TIC%):	1.81%
Performance Fee (PF) Included in TER:	0.57%
Minimum Investment:	R 50 000 Lump sum
Additional Lump Sum	R 10 000
Fees	
Initial Fee:	None
Management Fee:	1.00% (ex VAT)
Performance fee (uncapped):	20.00% (ex VAT)
Subscriptions:	Monthly
Redemptions:	1 calendar months notice
Portfolio Valuation:	23h00 of the last day of each month
Transaction Cut-Off Time:	10h00 on the last business day of the month
Income Distribution (Declaration):	First day of March
Distribution Total for the past 12 months:	n/a
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	Sanne Fund Serviss SA (Pty) Ltd
Trustee	FirstRand Bank Limited (acting through its RMB Custody and Trustee Service Division)
Auditor	Price Waterhouse Coopers

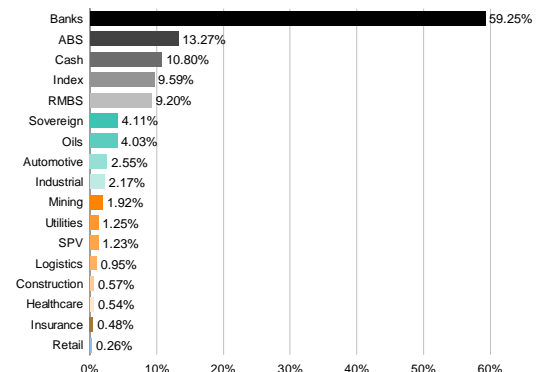
*Total Investment Charges (TIC%) = TER (%) + TC (%)

Prices are made available via Finswitch on a T + 1 basis

Portfolio Restrictions and Limits

2* GOVI MD, other CISCA restrictions

Asset Allocation



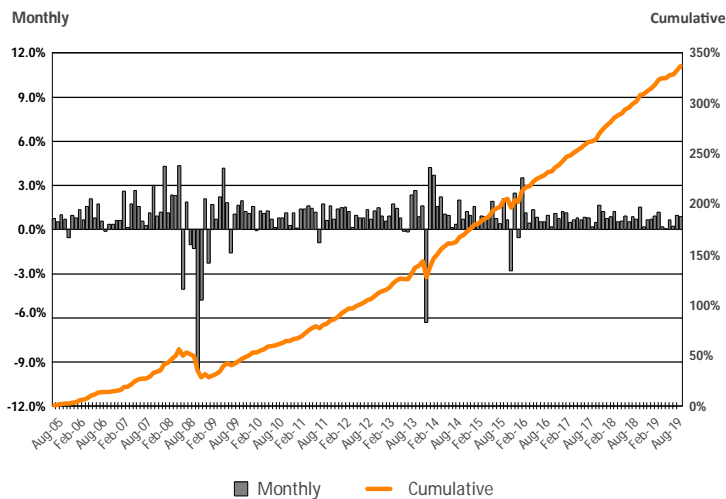
Increase in NAV Attributable to Investors

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	STeFi
2005								0.77%	0.53%	1.02%	0.73%	-0.53%	2.54%	2.87%
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%	7.39%
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%	9.40%
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%	11.70%
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%	9.13%
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%	6.93%
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%	5.71%
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%	5.55%
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%	5.18%
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%	5.90%
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%	6.46%
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%	7.42%
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%	7.54%
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%	7.25%
2019	0.66%	0.73%	0.91%	1.21%	0.21%	0.05%	0.69%	0.22%	0.98%	0.87%			6.70%	6.07%

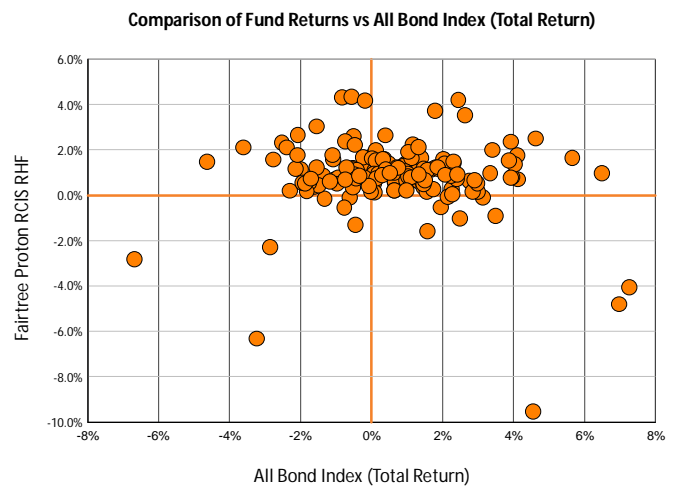
Please note the fund returns shaded above from August 2005 - October 2016 were achieved prior to the portfolio being regulated under CISCA.

- The NAV of the fund gained 0.87%, bringing the total return to investors to 336.97% and the average annualised return to 10.90%.
- The annualised standard deviation is 5.22% and compares favorably with that of the All Bond Index (Total Return) at 6.93%.
- The downside deviation of the fund is 1.19% compared to 1.14% for the All Bond Index (Total Return).
- The excess return per unit risk, as measured by the Sharpe Ratio, increased to 0.63, whilst that of the All Bond Index (Total Return) decreased to 0.13.

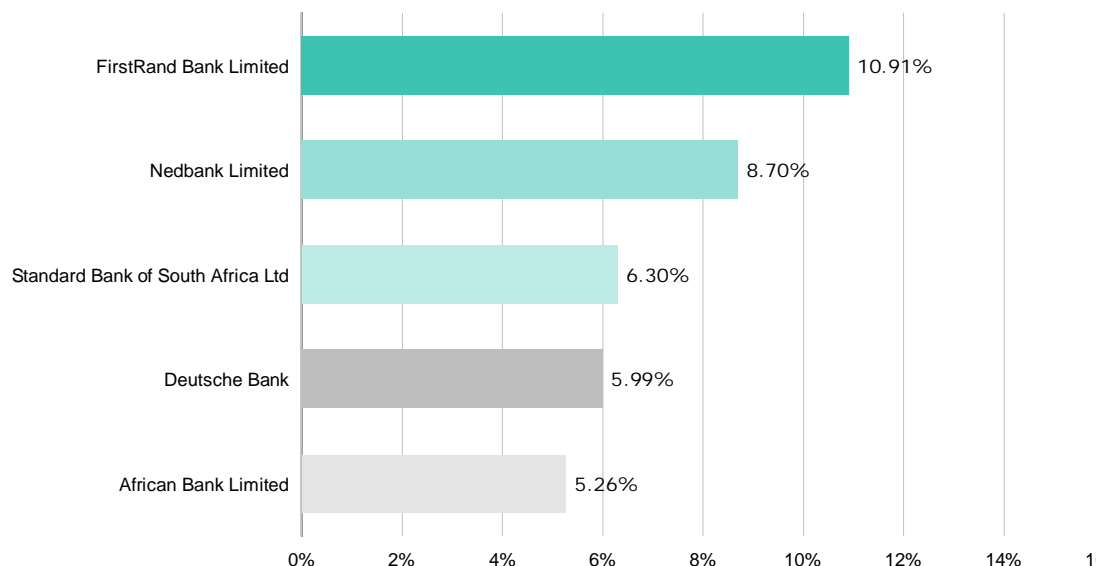
Monthly Returns and Cumulative Returns (Net of Fees)



Comparison of Fund returns



Counterparty Exposure



Market Commentary

Market Dynamics:

In the interests of the minimisation of carbon footprints, doing our bit for the environment and not falling foul of the supporters of the Extinction Rebellion movement, I'll keep this month's commentary as brief as possible. Basically European credit underperformed absolutely as well as relatively speaking from a risk adjusted perspective. The iTraxx Crossover 5 year Total Return Index delivered a rather flaccid -0.23% which at the end of the day is neither here nor there. The numbers look particularly bad when we move up the risk spectrum to European equities where we witnessed the large capitalisation index SX5E producing some 0.98% during the month. North American equities continued their surge with the S&P 500 producing a saliva inducing 2.17% in total return. The domination of equities over credit over the course of 2019 has been startling. The S&P500 has produced some 23.2% return so far this year whilst even the European Large Cap equivalent hasn't been that far behind at 20.1% in local currency. The laggards have been credit and government bonds, with German bonds bearing the brunt of the revaluation of the asset class. The German 5 year Bond Index has produced some 1.51% on a year to date basis, but methinks negative nominal yields will continue to pummel risk adverse investors unless they are speculating that bond yields go more negative. Although nothing in life is obvious, it does appear that room for an extension of the bond rally is rather limited. Some investors have suggested that credit is in a "bubble", I would counter that if credit is in a "bubble" then the bubble is even more inflated in government bond space. Contrary to popular opinion, by avoiding the historic sources of risk and focussing on "safe haven" assets, investors might be opening themselves up to hereto unforeseen risks.

There was one credit default auction during the month, where the results of the Thomas Cook Group were published at 10.125%. In other words debt financiers are expected to receive some 10.125% of their original investment. That's not a particularly good outcome for those who believe that debt is fully backed by balance sheet assets. Perhaps this firm should have gone out of business quite some time ago - at least debt holders would have gotten more of their money back.

Moving to the South African bond market it was all about the Medium Term Budget Policy Statement. The rather sombre month was turned upside down after the Minister delivered an address that painted a rather dire picture for the credit metrics of the country going forward. Unfortunately the address was long on issuance and short on a delivery plan. The market reacted viciously, selling off some 40 basis points from the lows. The All Bond Index delivered -0.35% during the period which is not calamitous but is staring to take the shine off the year on year numbers that have been delivered of late. The 3.87% performance of November 2018 falls off the year on year numbers at the end November so I wouldn't be surprised is investors, who are inherently backward looking, begin to trim back their positions in the asset class. Couple this with the vertigo inducing Government issuance numbers, and the market does look primed for a leg higher in yields. Caution is sometimes warranted, even in "risk free" markets.

Performance

The month of October produced the 44th straight positive return to investors with the fund delivering 0.87% on an after all fees basis. Slightly down on the previous months showing, but still producing some 28 bps of excess performance to STeFI over the period. As we have been saying of late, the annual excess return of 1.20% isn't exactly going to blow your hair back, but at the end of the day the reduced excess return has been accompanied with a reduction in the volatility of that excess return. In other words the risk adjusted Sharpe Ratio is still looking healthy and over the longer periods investors certainly have been well rewarded for any incremental risk they have assumed. Unfortunately it does look as if we are going to miss our targeted 3% alpha production during 2019, but investors can take comfort in the fact that we will not be "swinging for the fences" looking to make up for lost ground. The other fact that needs to be stated is that we are not sitting on our hands whilst opportunities go by, we are constantly seeking arbitrage and relative value opportunities that do occur from time to time, which does reduce our reliance on any delta one type risk.

Looking to November, we expect focus to shift from internal variables such as Moody's, Eskom and the budget to the market concentrating on more pertinent global influences such as US/China trade relations, Brexit, US Treasury yields as well as the continued global risk rally that has paid investors handsomely over the course of 2019. The fund remains largely defensively positioned although the delta position is augmented with a positive theta underpin. Let's not forget that we will also be witnessing the final meeting of the South African Reserve Bank's Monetary policy Committee when they will be deliberating what exactly they should be doing the repo rate. We've pencilled in a continuation of their previous conclusions i.e. no move but the market can expect a severe talking to about them not hesitating to raise interest rates if need be. Given the dearth of local capital, a burgeoning of the fiscal deficit as well as an ever diminishing current account, we think the governor is running out of cutting space.

Oh and let's not forget, Eskom will be announcing their new CEO appointment "soon"..... Whatever that term even means.

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

Risk Profile

Risk Level: **Low** **Low-Medium** **Medium** **Med-High** **High**

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	
Fairtree Asset Management Pty Ltd		RealFin Collective Investment Schemes (RF) Pty Ltd		FirstRand Bank Ltd (acting through its RMB Custody & Trustee Services Division)	
Registration Number	2004/033269/07	Registration Number	2013/170284/07	Physical Address	Cnr Jeppe & Simmonds Streets, 3 First Place, Mezzanine Floor, Bank City, Johannesburg, 2001
Physical Address	Willowbridge Place, Cnr. Carl, Cronje Drive & Old Oak Road, Bellville Cape Town, 7530	Physical Address	1st Floor, 4 Silverwood Close, Steenberg Office Park, Tokai Cape Town, 7945	Telephone Number	+27 87 577 8730
Telephone Number	+27 86 176 0760	Postal Address	Suite 25, Private Bag X16, Constantia, 7848	Email Address	trusteeservices@rmb.co.za
Email address	clientservices@fairtree.com	Telephone Number	+27 21 701 3777	Website	www.rmb.com
FSP Number	25917	Email address	clientservices@realfin.co.za		
Website	www.Fairtree.com	Website	www.realfin.co.za		

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.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 **Fairtree Proton RCIS 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 Portfolios, 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 avoid 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 **Fairtree Proton RCIS Retail Hedge Fund**.
- The portfolio is valued at **23h00 of the last day of each month**
- 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 **Fairtree Asset Management Pty Ltd (FSP 25917)**
- RCIS retains full legal responsibility for **Fairtree Proton RCIS 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.

Transaction Cut-Off Times

TRANSACTION CUT-OFF TIMES

In order for a monthly **Investment Instruction** to be processed, your Investment form must be sent before **10h00 on the 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 10h00 ("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 10h00 on the last business day** of the month for processing at the **end of the following calendar month** (For Hedge Funds which have a 1 Calendar 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, STI, 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.