



## RCIS DIVERSIFIED EQUITY RETAIL HEDGE FUND

30 JUNE 2019

### GENERAL INFORMATION

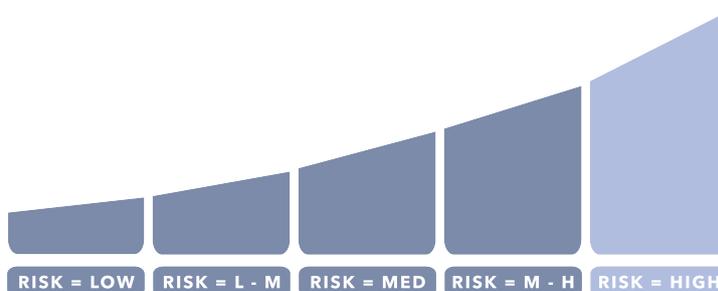
Investment Manager	Steyn Capital Management Proprietary Limited
Management Company	RealFin Collective Investment Schemes (RF) Proprietary Limited ("RCIS")
Inception Date	01 November 2014
CIS Establishment Date	01 October 2016
Fund Class	Class C1
Fund AUM	R 48.365 Million
NAV Price	12,825.5250 (CPU)
Fee Class Units	191,501.44
Fund Category	CIS Retail Hedge Fund
Structure	Registered SA CIS in Hedge Funds
Risk Profile	High
Benchmark	STFIND on a rolling 12 month basis
Minimum lump sum	R 100,000.00
Additional lump sum	R 20,000.00
Subscriptions	Monthly
Redemptions	1 calendar month notice
Portfolio Currency	ZAR
Portfolio Valuation	23h00 of the last day of each month
Transaction Cut-Off Time	12h00 on 2 <sup>nd</sup> last business day of the month
Annual Management Fee	0.00% (ex VAT)
Annual Performance Fee	15.00% (ex VAT) of the total performance above the high watermark
Total Expense Ratio (TER)*	0.98%
Transaction Cost (TC)*	0.89%
Total Investment Charge (TIC)*	1.87%
Income Distribution	First day of March of each year
Value Distributed	397.8128 cents (1 March 2019)
Administrator	Realfin Fund Services Proprietary Limited
Trustee	FirstRand Bank Limited (acting through its RMB Custody and Trustee Services Division)
Auditor	Price Waterhouse Coopers

\* TER, TC and TIC as at 30/06/2019

RETURN ANALYSIS	FUND	BENCHMARK
1 Month Return	-0.80%	0.55%
3 Month Return	-1.85%	1.80%
12 Month Return	6.06%	7.29%
Since Inception (Cumulative)	39.78%	37.99%
Highest Annual Return	45.07%	7.67%
Lowest Annual Return	-15.12%	6.40%

### RISK RATING

LESS THAN 1 YR    1 - 3 YRS    3+ YRS    3 - 5+ YRS    5+ YRS



#### High

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

### INVESTMENT OBJECTIVE

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

### INVESTMENT STRATEGY AND MANDATE

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

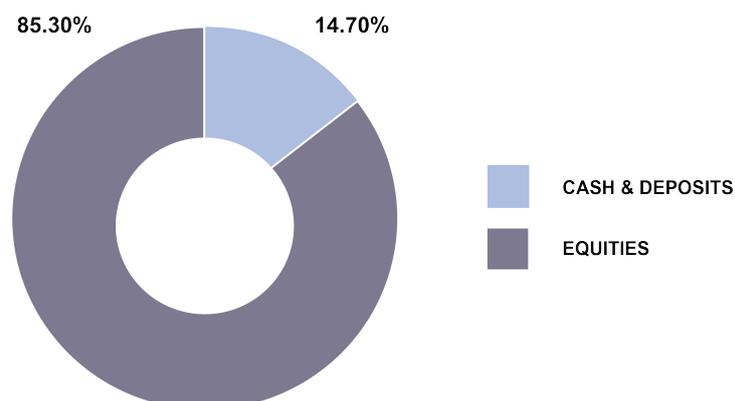
The investment strategy is to maximise investor capital by buying securities with trading values materially lower than their intrinsic values, and by selling short securities with trading values materially higher than their intrinsic values.

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

### INVESTMENT RESTRICTIONS AND LIMITS

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

### ASSET ALLOCATION\*



\* Asset Allocation as at 30/06/2019

# MINIMUM DISCLOSURE DOCUMENT



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## RCIS DIVERSIFIED EQUITY RETAIL HEDGE FUND

30 JUNE 2019

### MONTHLY RETURNS SINCE INCEPTION (NET OF FEES)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD	BM
2019	0.68%	4.87%	3.45%	1.24%	-2.28%	-0.80%							7.20%	3.56%
2018	-0.99%	-5.23%	-2.48%	3.16%	-1.70%	2.80%	-3.00%	1.52%	0.17%	-2.44%	2.97%	-0.16%	-5.63%	7.31%
2017	0.74%	-1.60%	1.40%	2.82%	2.63%	-0.94%	1.21%	-0.01%	-0.13%	4.22%	1.46%	-8.87%	2.34%	7.48%
2016	-1.89%	1.60%	1.37%	-3.59%	6.12%	-2.06%	-3.26%	2.20%	0.33%	-4.90%	-3.07%	-2.18%	-9.44%	7.42%
2015	2.95%	3.70%	7.69%	1.54%	1.36%	0.39%	6.37%	0.68%	3.92%	2.48%	2.92%	2.41%	38.69%	5.90%
2014											0.35%	4.05%	4.41%	1.03%

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

### INVESTMENT COMMENTARY

Our fund declined 1.85% net for the quarter ended 30 June 2019 and has returned 7.20% for the year to date. The portfolio was negatively impacted by a long position in a Construction company, which continues to battle a weak construction market and announced a large provision in the May trading statement related to a contract with Eskom. Given the slew of competitors that have left the market in recent times, we believe this company stands to benefit from the dearth of capacity when the cycle turns. The portfolio was also hurt by a Tobacco long, which traded down alongside negative sentiment following increased regulatory uncertainty in the US. We continue to believe that the current share price imputes several worst-case scenarios and consequently represents compelling value. An investment holding company long also detracted from performance, trading down alongside its primary underlying investment despite management's stated intention to sell or unbundle its underlying assets and consequently unlock the substantial discount to the sum-of-its-parts.

The portfolio benefited in the quarter from a Real Estate short, which continues to struggle with elevated gearing and weak underlying property fundamentals in the UK Retail sector in which it operates, as well as our holding in African Phoenix, which completed a scheme of arrangement to repurchase its preference shares, thereby simplifying the capital structure. After the company completes a mooted sale transaction, it will contain only cash and an investment in a private equity fund. We believe it still represents compelling value, given it continues to trade at a discount to the sum-of-its parts, consisting of cash or near cash. Two other preference share holdings, which were acquired at very attractive yields, also benefited the portfolio in the quarter.

The short book performed well in the quarter and benefited from several large earnings misses from companies which, in our view, had been exhibiting fundamental weaknesses not fully appreciated by the market. Particularly where these companies are over-leveraged, the subsequent impact on share prices has been severe. In this vein, we see trouble ahead in some parts of the property sector, where fundamentals are weak and debt is high, leaving limited options to de-gear.

The local trading environment continues to be exceptionally difficult, evidenced by the tone and content of trading updates issued in the period, in particular from SA industrial and consumer facing businesses. While the JSE ALSI has had a relatively better year-to-date performance, the performance of small and mid-caps - in particular those with predominantly SA earnings streams - has continued to lag. In recognition of the value currently on offer in this sector of the market, we have taken advantage of selected opportunities. When the economic cycle turns, or things turn out to be better than their bargain-basement multiples would imply, these companies stand to benefit handsomely. We thus continue to look for opportunities in this segment of the market, favouring those companies exhibiting higher quality characteristics and free cash flow.

However, "SA Inc." is not the only area of the market where opportunities are to be found. Stock-specific and idiosyncratic news flow surrounding several of the traditional 'Rand hedge' stocks has also pushed their valuations well below our estimation of intrinsic value, despite the current negative SA sentiment elevating the valuations of many other companies with non-Rand earnings streams. In our opinion, the market's short term focus is excessively negative and we expect this to abate over time and for these companies to trade closer to our estimation of intrinsic value. The addition of these companies to the portfolio at attractive valuations serves also as a hedge against any worsening local macro-political volatility.

Apart from the opportunity sets described above, we've found value in selected preference shares, trading at wide discounts to par, with attractive yields and with upside in the event of repurchases, which remain a strong possibility given changing capital requirements. We've also found opportunities to invest in a number of investment holding companies trading at exceptional discounts to the sum of their relatively conservatively valued parts. There is an inherent asymmetry in opportunities like these, where the closing of historically wide discounts at a holding company level can accompany an upward revaluation of the underlying parts themselves as conditions improve, and where a wide discount and conservative valuations provide a margin of safety if they do not. As we've noted before, the irrationality of this phenomenon is well demonstrated by African Phoenix, a cash-shell which continues to trade at a wide discount.

The portfolio remains broadly diversified at a sector level, however with limited exposure to SA property and banks, where we remain skeptical of many, given fundamental weaknesses. The local economic environment is no doubt difficult, but the current sentiment has on the other hand created a very fertile environment for value investors, where valuations have in many instances become detached from underlying fundamentals. We have taken full advantage in the portfolio positioning and continue to be enthused with the portfolio and its prospects.

### CONTACT INFORMATION

#### MANAGEMENT COMPANY

Realfin Collective Investment Schemes (RF) (Pty) Ltd	
Registration Number	2013/170284/07
Physical Address	1st Floor, 4 Silverwood Close, Steenberg Office Park, Tokai, Cape Town, 7945
Postal Address	Suite 25, Private Bag X16, Constantia, 7848
Telephone Number	+27 21 701 3777
Email Address	clientservices@realfin.co.za
Website	www.realfin.co.za

#### INVESTMENT MANAGER

Steyn Capital Management Proprietary Limited	
Registration Number	2008/018143/07
Physical Address	Oude Westof Village Square, Block 3, Unit 13-14, 5 Van Riebeeckshof Road, Oude Westof, Bellville, 7530
Postal Address	PO Box 5673, Tygervalley, 7530
Telephone Number	+27 913 2846
Email Address	info@steyncapitalmanagement.com
Website	www.steyncapitalmanagement.com
FSP Number	37550

#### TRUSTEE

FirstRand Bank Limited (RMB Custody & Trustee)	
Physical Address	Cnr Jeppe & Simmonds Streets, 3 First Place, Mezzanine Floor, Bank City, Johannesburg, 2001
Telephone Number	+27 87 577 8730
Email Address	trusteeservices@rmb.co.za
Website	www.rmb.co.za

# MINIMUM DISCLOSURE DOCUMENT



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## 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 Hedge Fund Information Document"/"RCIS Fund Information Document". 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 Diversified 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 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 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 FirsRand Bank Limited) has been appointed by RCIS as the Trustee of **RCIS Diversified Equity Retail Hedge Fund**.
- The portfolio is valued at **23H00 on 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 market-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 **Steyn Capital Management Proprietary Limited (FSP 37550)**
- RCIS retains full legal responsibility for **RCIS Diversified Equity Retail Hedge Fund** and performs Risk Management oversight.
- Application forms can be obtained via the RCIS website [www.realfin.co.za](http://www.realfin.co.za) and any additional information can be requested from RCIS at [manco@realfin.co.za](mailto:manco@realfin.co.za)
- The RCIS complaints policy is available on the RCIS website [www.realfin.co.za](http://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.

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

In order for your participatory interests in the Portfolio to be redeemed at the relevant request date ("**Redemption Date**"), your Redemption instruction must be submitted to RCIS **before 12h00 on the 2nd last business day** of the month for processing at the **end of the following 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, 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.