Sentio Plato Multi-Strategy RCIS RHF

Minimum Disclosure Document

30 November 2021

SENTIO

Fund Information

Investment Manager	Sentio Capital Management Proprietary Limited
Management Company	RealFin Collective Investment Schemes (RF) Pty Ltd ("RCIS")
Inception Date	02 December 2019
CIS Establishment Date	30 September 2019
Fee Class Inception Date	1 May 2020
Fund Class	Class B1
JSE Code	SPSRB1
ISIN Code	ZAE000279972
Fund AUM	R 58.203 Million
NAV Price (cpu)	11,584.2628
Fee Class Units	100,105.14
Fund Category	CIS Retail Investor Hedge Fund
Structure	Registered SA CIS in Hedge Funds
Risk Profile	Medium
Benchmark	STeFI + 3%
Performance Fee Hurdle Rate	STeFI
Minimum Investment	R 10,000.00
Additional Lump Sum	R 1,000.00
Subscriptions	Daily
Redemptions	Daily
Portfolio Currency	ZAR
Portfolio Valuation	17h00 each business day
Transaction Cut-Off Time	12h00 each business day
Initial Fee	None
Annual Management Fee	0.80% (ex VAT)
Annual Performance Fee	20.00% (ex VAT)
Total Expense Ratio (TER)	3.62%
Transaction Costs (TC)	0.66%
Total Investment Charge (TIC)	4.29%
Income Distribution	First day of March of each year
Value Distributed	11.4451 cents (1 March 2021)
Administrator	Realfin Fund Services Proprietary Limited
Prime Broker	RMB
Trustee	FirstRand Bank Limited (acting through its RMB Trustee Services Division)
Auditor	PriceWaterhouseCoopers

* TER, TC and TIC calculations as at quarter end 30 September 2021

** Pricing is available on Finswitch on a T+1 basis.

Contact Us

Sentio Capital Management | Client Service

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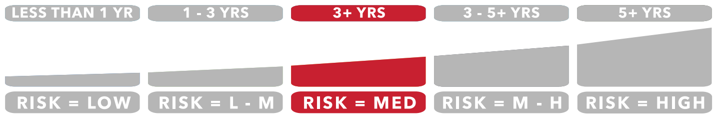
2196

Risk Rating



Medium

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

Fund Objective

The Sentio Plato Long Short RCIS Retail Hedge Fund aims to generate returns using fundamental analysis supported by quantitative techniques to identify over an under priced securities. The Portfolio aims to deliver absolute returns in excess of the return on the quoted Short Term Fixed Income Benchmark ("STeFI") plus 3% per annum.

Fund Strategy & Mandate

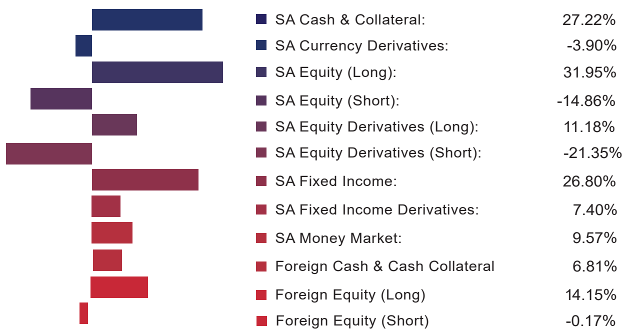
The Portfolio aims to generate asymmetric returns by preserving capital in negative market conditions and to participate positively in upward markets. The Portfolio aims to generate returns regardless of market direction.

The Manager may create leverage in the Portfolio by borrowing funds, using short positions, or engaging in derivative transactions. The Portfolio shall be entitled to lend or borrow script.

Fund Investment Restrictions and Limits

- The Portfolio is subject to exposure limits in respect of an asset as set out in the Hedge Fund Requirements.
- Investment in Offshore Assets and Offshore Funds is subject to Applicable Law.
- Leverage - The investment manager shall use the value at risk approach to calculate the portfolio's total exposure in accordance with the requirements and limits stipulated in the Act read with the Hedge Fund Requirements.

Asset Allocation



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

Fund Performance and Statistics

Statistic	Fund	Benchmark
1 Month Return	0.70%	0.58%
3 Month Return	0.58%	1.68%
12 Month Return	10.33%	6.79%
Since Inception (Annualised)*	9.81%	7.16%
Since Inception (Cumulative)	15.96%	11.57%
Highest Annual Return (12 Month Rolling Return)	13.23%	7.34%
Lowest Annual Return (12 Month Rolling Return)	9.30%	6.77%

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

Investment Commentary

This time last year, optimism was broad based that 2021 would see a market change to the outlook for the pandemic due to the availability of vaccines and that the world would return back to normality. Looking back, instead we were handed another four quarters of 2020, with variants of the Covid-19 virus continuing to play havoc with the re-opening of the global economy, trade and mobility and giving rise to concerns around inflation and the trajectory of interest rates. As now 2021 comes to a close, investors worry what the new year might have in store?!

Key questions for 2022 and our views:

Will the pandemic continue to foil the world's vaccination efforts by producing ever more deadly variants?
We don't think so, at least not indefinitely. Any organism's (or virus') aim is to survive and spread. It is therefore counterproductive to "kill the host environment", i.e. be excessively lethal. Thus the typical development of a virus is that it becomes more contagious (to spread) over time, while at the same time less deadly. The common flu is here a good example.
With the emergence of the very contagious Omicron variant, we might just witness a step in that direction. While it is still too early to draw definitive conclusions, it seems that the strain, while highly contagious, leads to less severe outcomes than the Delta variant. Publication of research done by the medical field and to be published over the next few weeks should give us a better idea for what to expect, while our base assumptions of economies generally adapting to living with the virus remain. As we wrote back in August: "the reality might simply be that parts of the pandemic are here to stay, and will continue to be with us for the foreseeable future, thus impacting the way we live, consume and act".

Is Inflation now permanent and will there be a spiral?
We always maintained some parts of inflation are temporary, while others are more permanent: Key drivers of recent inflation clearly had their origin in the change of human behaviour coming out of pandemic related lockdowns and into re-openings of economies: supply chain bottle necks, border openings, all should be temporary, as consumption shifts back from products to services, Covid-Zero policies are abandoned, and container ports and other infrastructure is optimised. This in particular as and when our view of the pandemic as per above pans out,
However, in the same vein, some of the inflationary forces seem more long-term. As demand resurges, a number of commodity markets, which have not seen exploration capex since the Great Financial Crisis 13 year ago, might continue to see considerable tightness. Re-shoring of supply chains to avoid the geographical supply dependencies experienced in the pandemic, might add to inflation; this, as US and European workers demand higher wages than their Asian counterparts. The drive for "greenification" to combat climate change as well as a partial reversal of globalisation all further likely add to price pressures.
On the back of the above, we believe that inflation will stay somewhat elevated, however, core inflation should stay largely in check, not the least due to base effects coming in.

Interest rates - How much hiking can the world afford?
In last month's comments we described the "tug of war" between normalisation of rates and the dampening effect of disinflationary threats created in the last three decades, on the overall rate outlook: While "traditional" monetary policy (reluctantly) force Central Banks hands' to taper and ultimately hike rates, realities of the "financialisaton of assets" (the amount of wealth now tied to global capital markets), global demographics (an ageing population in the developed world plus China), disinflationary technological advances and global inequality (dampening demand growth) all tie Central Banks' hands to a degree, given economic ramifications.
We therefore believe that while lower rates are likely to endure, with higher rates simply being incompatible with the points raised above, limited short-term tightening will materialise, initially with some conventional tightening, but likely followed by Modern Monetary Theory (MMT), where a large part of liquidity management falls to the fiscus.
Interestingly, the Eurodollar futures market is already contemplating the possibility of Fed rate cuts in 2025. This is evident in the spread between December 2024 and December 2025 futures, which inverted at the beginning of December and have remained negative so far, thus essentially pricing a policy error.

Will the pandemic and the rise in interest rates be a threat to growth?
Potential global economic stagnation was implied earlier this year, as markets weighed the possibility of "Stagflation" in light of rising inflation. However, we would like to remind investors that while global growth is moderating, the conditions for weak growth or worse do not exist. Aside from the impact following unsustainable re-opening surges in spending, most of the current moderation is being caused by supply bottlenecks, that should eventually be resolved. If we are correct, and the pandemic slowly wanes and economies re-open fully ("living with the virus"), spending should boost the services sector, negatively impacted by the pandemic, in particular and thus bolster growth. Overall, we remain constructive on global growth, while there will be regional idiosyncratic differences.

China – the end of a global growth engine?
China's recent policies of "common prosperity" around tech, property, education, etc has made investors uneasy about the future growth trajectory of the world's second largest economy.
We are not expecting normalization, though we believe a number of factors will mitigate downside: a) The natural moderation in property and infrastructure investment as a percentage of GDP is part of the evolution of China's growth model. A shrinking working-age population and higher per capita income generally mean less scope for catch-up growth rates, and less demand for property, infrastructure and overall investment. However, China still does have further scope for urbanisation – its urbanisation ratio is 64% versus 83% in the US and 92% in Japan. In this context, we think that the process of slowing property and infrastructure investment can be measured rather than disruptive. A natural transition to a slower GDP growth path of will however be met by policy-makers through continued implementation of measures to move up the value chain and sustain technological progress, ensuring that China remains on the path to high-income status. b) We already argued the likelihood of China to be the first major economy to recognize the need to reverse course and start supporting its economy – fiscally and monetarily, with economic effect flowing into 2Q22. As it remains out of sync with the rest of the world (China eases when everyone else tightens), this should also lead to a weaker Rmb, supporting growth. c) While China's broad direction is unlikely to change, pragmatically it is more useful for policy shifts to come in waves and intertwine periods of extreme pressure with those of relative calm, particularly given the complexity of today's China. We therefore expect the current regulatory and policy wave to pause and resume into late '22. One of the reasons for this timetable is that Olympics, anniversaries and party events should be all over by 3Q22

How will Commodity Markets react?
Given historic underspending on exploration capex since the GFC, as well as the expected stimulus and infrastructure spending not only in China but also in the US, commodity markets should rebound from recent lows, while they are not expected to necessarily overheat in the same way we have seen over the past 12 months or so. China's "common prosperity" policy and a monetary tightening are likely to cap any excesses. Alas, some commodities such as PGM's and BEV materials, will continue to benefit from the secular drive into "greenification", while energy should also remain solid with economic re-opening..

What about geo-political risks?
The dark horse to a constructive outlook. Geo-political risks are inherently difficult to forecast and their impact correctly to predict. We remember that 2020 started with heightened US/Iran tensions as a leading figure in Iran's military and political hierarchy was killed by US forces in a drone attack. Expected conflict in the Middle-East or even sustained impact om oil markets were short-lived and a couple of months later the pandemic became the real threat to growth and markets. That means, that the current tensions on the Russian-Ukrainian border with the threat of a potential war, military incursions of China into Taiwanese waters/ airspace, ongoing conflict in the Middle East, etc all need to be watched, and catered for through a disciplined and sophisticated portfolio construction framework in order to protect portfolios while not overreacting either.

Domestic outlook – Good or Bad?
South African investors and market participants tend to be ultra-critical with their own backyard, often overlooking opportunities when focusing on the negatives.
Notwithstanding ongoing economic and socio-economic challenges, particularly through Eskom-induced power outages, high unemployment rates, and general economic reform delay, we still see a largely market friendly environment as rates are expected to rise only gradually. It is worth pointing out that many macro and micro indicators surprised to the upside, leaving the SA economy and markets in reasonable stead with some very attractive opportunities. Domestic corporate results reflected strength and resilience of the consumer leading to positive earnings revisions, while Resources and global industrials still benefit from a largely constructive global backdrop.

Overall outlook:
While we now expect an accelerated tapering by the Fed and an earlier start of hiking rates, we believe that the extent of hikes priced by markets is too aggressive and that some of the tightening in the West will be countered by easing measures and stimulus in China. This should be followed by a resumption of general easing measures as Demographics, Debt Dynamics and Disruption through technological progress drive disinflationary forces in the long run again.
In this scenario, still characterised by transition and uncertainty, volatility is likely to rise, while still substantial cash reserves on the side-lines looking to be invested should prevent any major correction for now. However, as risk is rising, we do expect less impressive returns for risk assets in line with a more mature cycle, with the best opportunities in macro divergence and cycle longevity after the synchronized rapid rebound this year.
Therefore, the fund is looking to adopt more of a bar-bell approach over time, taking advantage of expected volatility in a nimble fashion, and combining careful instrument picking with a robust portfolio construction process, designed to generate the desired returns while protecting them from the many risks emerging.

Monthly Returns Net of Fees (Since Inception of Fee Class)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YTD	BM
2021	0.90%	1.20%	0.80%	0.44%	1.06%	0.09%	2.03%	1.27%	-0.48%	0.36%	0.70%		**8.67%**	**6.20%**
2020	-	-	-	-	1.86%	0.23%	0.20%	0.77%	0.28%	-1.62%	3.34%	1.53%	**6.71%**	**5.05%**

Additional Risk Disclosures - As at Quarter Ended 30 September 2021

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 fund achieves leverage by borrowing funds, using short positions and engaging in derivative transactions.
VAR (limit 20%):	2.01%
Max VAR for quarter:	3.48%
Assets encumbered as collateral:	100.00%
Re-hypothecated assets:	Re-hypothecation of the fund's assets is prohibited.
Changes in liquidity:	The fund's redemption period remained unchanged.
Stress testing:	Stress testing was conducted to assess the fund's sensitivity to stressed market conditions.

Counterparty Exposure | Top 5 Ranked

FirstRand Bank Ltd	33.72%
Nedbank Group Ltd	8.34%
Republic of South Africa	6.73%
ABSA Group Ltd	6.57%
Investec Bank Ltd	5.74%

DEFINITIONS & METHODOLOGIES

Collateral - Collateral is the placement of an asset with a counterparty in order to secure an obligation.

Counterparty exposure - Counterparty (credit) exposure represents the potential loss the Fund would experience in the event a counterparty defaults on its obligations.

Leverage - Leverage is a strategy used to increase the Fund's exposure beyond the capital employed.

Re-hypothecated assets - Re-hypothecation is the re-use of collateral by the prime broker.

Stress Testing - To assess the Fund's sensitivity to various market conditions, stress scenarios are created by simulating the impact of historic financial crises, increasing investor repurchase levels and decreasing liquidity of the fund's underlying assets.

VAR - Value at risk (VAR) is a statistical measure of a fund's financial risk over a specific period. VAR is calculated using historical data to determine the maximum potential loss over a month, 99% of the time.

Contact Information

Management Company

RealFin Collective Investment Schemes (RF) (Pty) Ltd

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Email Address	clientservices@realfin.co.za
Website	www.realfin.co.za

Investment Manager

Sentio Capital Management (Pty) Ltd

Registration Number	2007/018379/07
Physical Address	Illovo Edge, Building 3, 1st Floor, 5 Harries Road, Illovo, Johannesburg, 2196
Telephone Number	+27 11 880 1994
Email Address	info@sentio-capital.com
Website	www.sentio-capital.com
FSP Number	33843

Trustee

FirstRand Bank Limited (RMB Trustee Services)

Physical Address	3 Merchant Place, Ground Floor, Cnr Fredman & Gwen Streets, Johannesburg, 2001
Telephone Number	+27 87 577 8730
Email Address	trusteeservices@rmb.co.za
Website	www.rmb.co.za

IMPORTANT INFORMATION

RealFin Collective Investment Schemes (RF) Proprietary Limited ("RCIS") is registered and approved by the Financial Sector Conduct Authority (FSCA) as a manager of Collective Investment Schemes approved in terms of the Collective Investment Schemes Control Act. This document is for information purposes only and does not constitute or form part of any offer to issue or sell or any solicitation of any offer to subscribe for or purchase any particular investments. The information contained in the MDD does not constitute financial advice as contemplated in terms of the Financial Advisory and Intermediary Services Act, and should be read in conjunction with the RCIS Fund Information Document which can be found on the RCIS website **www.realfin.co.za**. Opinions expressed in this document may be changed without notice at any time after publication. We therefore disclaim any liability for any loss, liability, damage (whether direct or consequential) or expense of any nature whatsoever which may be suffered as a result of or which may be attributable directly or indirectly to the use of or reliance upon the information.

DISCLOSURES

1. Collective Investment Schemes are generally medium-to long-term investments.
2. The **Sentio Plato Multi-Strategy 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 and charges 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 FirtsRand Bank Limited) has been appointed by RCIS as the Trustee of **Sentio Plato Multi-Strategy RCIS Retail Hedge Fund.**
14. The portfolio is valued at **23H00 on the last day of each month.**
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-naming agreement with and delegated the investment management function to **Sentio Capital Management Proprietary Limited (FSP 33843)**
21. RCIS retains full legal responsibility for **Sentio Plato Multi-Strategy RCIS Retail Hedge Fund** and performs Risk Management oversight.
22. 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
23. The RCIS complaints policy is available on the RCIS website www.realfin.co.za
24. 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

In order for an Investment Instruction to be processed, your Investment form must to be sent before 12h00 on each business day ("Cut Off Date") for your Investment application to be processed on the current business day. Your funds need to be reflecting in our bank account before 12h00 ("Cut off") on the current business day and proof of payment sent to clientservices@realfin.co.za. Any funds received after the Cut Off shall be retained by the Manager in a separate account and shall be invested (together with any interest which has accrued thereon) on the next available business day.

In order for your participatory interests in the Portfolio to be redeemed at the relevant request date ("Redemption Date"), your Redemption instruction must be submitted to RCIS before 12h00 on the current business day ("Cut Off") for your investment to be transacted at the current day's price. All redemptions must be submitted in writing and will be executed following receipt and acceptance of such instruction. Please note in the case of daily traded Hedge Fund redemptions, settlement may take up to 5 business days.

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

PERFORMANCE CALCULATION

CIS prices are calculated on a net asset basis, which is the total value of all the assets in the portfolio including any income accruals and less any permissible deductions (brokerage, STT, VAT, auditor's fees, bank charges, trustee and custodian fees and the annual management fee) from the portfolio divided by the number of participatory interests (units) in issue. Performance has been calculated using NAV to NAV figures with actual portfolio ongoing fees taken into account. Income is reinvested at the reinvestment date. Different classes of participatory interests apply to these portfolio's and are subject to different fees and charges. Actual Investment performance will differ based on the initial advice fee, ongoing advice fee, investment date, the date of reinvestment of distributions and dividend withholding tax. Initial advice fees have not been taken into account. Cumulative performance figures are calculated using lump sum investment amounts. Income distributions, prior to the deduction of applicable taxes, are included in the performance calculation. Performance calculations are available on request from RCIS.

PERFORMANCE FEES

Performance fees shall be calculated separately for each class at each Valuation Point. Performance fees are accrued and are payable at the end of the relevant Performance Fee Measurement Period. The calculation is based on whether the respective Class has achieved a return greater than the Fee Hurdle and where applicable, above the high watermark. A detailed description of how performance fees are calculated and applied for this portfolio is available on request from RCIS.

TER

The Fund's Total Expense Ratio (TER) reflects the percentage of the average Net Asset Value (NAV) of the portfolio that was incurred as charges, levies and fees related to the management of the portfolio. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. Calculations are based on actual data where possible and best estimates where actual data is not available.

TC

Transaction Costs are a necessary cost in administering the Financial Product and impacts Financial Product returns. It should not be considered in isolation as returns may be impacted by many factors over time including market returns, the type of Financial Product, the investment decisions of the investment manager and the TER.

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.