The Edge RCIS Absolute Return Retail Hedge Fund yielded 2.87% for June, relative to a STEFI yield of 0.47%. This brings the Fund’s YTD return to -4.3% relative to a STEFI yield of 3.2%.

The FTSE/JSE All Share (ALSI) increased by 7.74% on a total return basis as at 30 June 2020, whilst the All Bond Index decreased by -1.18%, and STEFI returned 0.47%. The JSE Top 40 index increased by 7.85%, Mid-Caps increased by 6.06%, and Small Caps increased by 11.33% during the month. The JSE benefited from renewed risk appetite as global economies gradually opened up after the virus lock-down. Non-residents remained net sellers of South African equities totalling R9.5bn in June. In the SA bond market, non-residents turned net buyers of local bonds, with an inflow of R7.6bn in June. National Treasury surprised the market by announcing an increase in the weekly bond auction following the supplementary budget. The SARB continued to provide additional liquidity, helping to stabilise financial markets.

From an attribution perspective, both our beta and alpha managers added to performance, with our beta managers slightly underperforming the strong equity market. Overweight positions in Naspers/Prosus and gold shares made the biggest contribution to return. Short positions in Sasol and Brait were the biggest detractors.

The divergence between economic developments and profit expectations on the one hand, and prices of equities on the other hand, continues to be high or has increased further. At the same time, there is considerable uncertainty as to whether the fiscal support measures will be extended sufficiently. In addition, the number of corona infections continues to increase worldwide. Central banks will continue to create a great deal of surplus money for the time being. This will largely flow to the financial markets. As long as long-term interest rates do not rise and growth prospects do not deteriorate, this could continue to support prices of riskier assets.
The portfolio may invest in the participatory interests of hedge fund portfolios in any retail investor collective investment scheme; in any other securities (including, without limitation, derivative instruments), financial products and assets, subject only to the requirements of the Act read with the Hedge Fund Requirements. The Portfolio is permitted to invest in offshore investments. The Portfolio may invest in other portfolios of The RCIS Retail Hedge Fund, provided that neither the Manager nor the Investment Manager accrues fees in respect of such investment by the Portfolio in such RCIS Retail Hedge Fund. The Manager may create leverage in the Portfolio by borrowing by relatively low positions or engaging in derivative transactions.

**INVESTMENT OBJECTIVE**

The objective is to identify and invest in a combination of underlying funds whose mandate is to seek out absolute returns. Whilst it is envisaged that the underlying funds will be predominantly invested and domiciled outside South Africa, the Portfolio may, from time to time, subject to applicable exchange control regulations, invest in funds established and domiciled outside South Africa, in the opinion of the Investment Manager, such funds will ultimately enhance the absolute return of the Portfolio.

**RISK PROFILE**

Low: Generally low risk portfolios have minimal equity exposure or no equity exposure, resulting in far less volatility than a more aggressive mandated portfolio and in turn the probability of capital loss (permanent/temporary) is less likely. However, expected potential long-term investment returns could be lower than the medium to long term.

**INFORMATION AND DISCLOSURES**

Collective Investment Schemes are generally medium to long-term investments. The value of participatory interests (units) may go down as well as up and past performance is not necessarily a guide to future performance. Collective investments are traded at ruling prices and can engage in borrowing and scrip lending. The manager may borrow up to 10% of the market value of the portfolio where insufficient liquidity exists. A schedule of fees and charges and maximum commissions, is available on request from RCIS.

Annualised performance figures represent the geometric average return earned by the fund over the given time period expressed as a percentage. Cumulative performance figures have been calculated on a fund by fund basis, using monthly returns and compounded annually Fund performance is expressed in a percentage format. RCIS does not provide any guarantee in respect to the capital or the return of the fund. 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. 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, 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. Forward pricing is used. 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. The Portfolios are third-party named portfolios, managed by Edge Capital Proprietary Limited, an authorised financial services provider. RCIS retains full legal responsibility for these Portfolios as manager in terms of CISCA.

Where foreign securities are included in a portfolio there may be potential constraints on liquidity and the repatriation of funds, macroeconomic risks, political risks, foreign exchange risks, tax risks, settlement risks; and potential limitations on the availability of market information. Fluctuations or movements in exchange rates may cause the value of underlying international investments to go up or down. The investor acknowledges the inherent risk associated with the selected investments and that there are no guarantees. Where you select a Portfolio which is a fund of funds portfolio, please note that a fund of funds is a portfolio that invests in portfolios of collective investment schemes that levy their own charges, which could result in a higher fee structure for the fund of funds. Excessive withdrawals from the fund may place the fund 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 all required documentation is not received before the stated cut-off time RCIS shall not be obliged to transact at the net asset value price as agreed to. Funds are priced monthly depending on the nature of the Fund. Prices are published daily and are available on the RCIS website. Performance has been calculated using net NAV to NAV numbers with income reinvested. Performance for each period shown reflects the return of the fund and have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request. The investment performance is for illustrative purposes only. The investment performance is calculated by taking the actual initial fees and all ongoing fees into account for the amount of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request. The investment performance is for illustrative purposes only. The investment performance is calculated by taking the actual initial fees and all ongoing fees into account for the amount of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request.

INVESTMENT MANDATE

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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 other so-called “dark” or complex investment strategies. Some forms of leverage are very difficult to unwind, as all leverage and other so-called “dark” or complex investments could lead to losses that are larger than the investor’s initial investment. Leverage usually means higher volatility and higher potential returns. This means that the volatility of the hedge fund portfolio can be many times that of the underlying investments.

Leverage usually means higher volatility - Hedge fund managers may use leverage. This means that the volatility and the associated risk of a hedge fund portfolio may be much higher than the volatility and the associated risk of the underlying investments. It should not be considered in isolation as returns may be impacted by many factors over time including market conditions, regulatory changes and other events.

Leverage usually means higher volatility - Hedge fund managers may leverage. This means that the hedge fund manager might be managing other hedge fund portfolios or other diversified investment portfolios. This might lead to conflicts of interest and other potential legal and regulatory risks. This might mean that the volatility of the hedge fund portfolio can be many times that of the underlying investments. The returns earned by investors in any given hedge fund portfolio will be based on the performance of the funds in which the client has invested. 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 short-sell or sell securities that they do not own. A hedge fund manager cannot sell or short a security if the manager does not own any of that security. This means that the client’s position in any given hedge fund portfolio will be based on the performance of the funds in which the client has invested. The limits laid down by the mandate should be carefully reviewed in making an investment decision.

Fixed income investments may be low-grade - Hedge fund managers may invest in low-grade bonds and similar debt instruments. These investments are 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 manager may not be able to sell these investments at a price that is at all close to their cost as it may not be possible to sell these investments in a timely manner at a price that is acceptable to the investor.

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 administrate and will be subject to regulatory restrictions. The manager may not be able to unwind these investments at a price that is close to their cost as it may not be possible to sell these investments in a timely manner at a price that is acceptable to the investor.

Transactions may be hard to unwind 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 might be very difficult to unwind if the currency’s value changes significantly. The manager might not be able to liquidate the fund at all or at a price that is close to the fund’s value.

The client may be caught in a liquidity squeeze - Given their often short-term nature, hedge fund managers might be caught between funding requirements and the need to pay investors. If the fund is not able to raise additional capital or sell assets, it might be unable to pay out to investors. This might result in the fund being unable to pay out to investors.

The prime broker or custodian may default - Hedge fund managers often have relationships with so-called “prime” brokers. These are stockbrokers that provide the required leveraging and shorting facilities. The prime broker or custodian may default, and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed. The client may be caught in a liquidity squeeze if the prime broker were to default in some way. A similar situation could occur with the custodian of the client’s funds.

Exchange rates could turn against the fund - Hedge fund managers might have exposure to foreign currencies and other exotic instruments. Exchange rates could turn against the fund and cause the fund to lose money. The fund’s performance might be impacted by changes in exchange rates.

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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 regulated and that any conflicts of interest are managed.

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 by colleagues. In addition, a hedge fund structure (for example, a fund of funds) and its managers or advisors may have a conflict of interest in that they might be managing other funds and other fixed interest investments. These investments are more likely to suffer from defaults on interest or capital. Investors should review the mandate to gain an appreciation of the services provided by the hedge fund.

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