GLACIER HEDGE FUND 101 & AVAILABLE FUNDS' DESCRIPTORS

Hedge funds have become an increasingly popular asset class in the recent past, with local investors showing an increased appetite for the portfolio construction benefits of alternative asset classes.

In pursuit of growing and preserving client wealth amidst a challenging economic environment, these asset classes have demonstrated the potential to enhance returns, generate income and add to diversification. Despite the potential benefits that hedge funds introduce to a conventional portfolio, large segments of the local investment fraternity have struggled historically to overcome skepticism around what has often been a misunderstood, and less-than-transparent industry.

As part of a strategic intent to make selective hedge funds more accessible to our clients, and to assist in reducing the opacity of this asset class, the aim of this document is to improve your understanding and answer your most pertinent questions.

In addition to an introduction to hedge funds, we also include a list of hedge funds which have been compiled by the Glacier Research team.

NB

These funds are available for Glacier endowments, post-retirement contractual solutions, and Glacier's Personal Portfolios Retirement Annuity and Preservation Funds.

What are hedge funds?

Hedge funds are pooled alternative investment vehicles designed to deliver absolute returns, regardless of whether markets are rising or falling. Hedge funds can invest in a wider variety of asset classes and instruments (depending on the mandate), often utilising more advanced trading strategies, portfolio construction methods and techniques, compared with traditional collective investment schemes. The use of leverage and derivatives (CFDs, futures, options, swaps etc.) is common and fund managers are often specialists within the strategies they run.

Are hedge funds regulated?

Hedge funds in South Africa have been regulated as collective investment schemes under the Collective Investment Schemes Control Act (CISCA) since 2016, offering investors enhanced disclosure and protection.

What type of fee structures are applied to hedge funds?

Hedge fund charging structures typically have a fixed and performance fee element. When it comes to performance fees, a hurdle rate as well as highwater mark policies are usually applied. These provisions mean a fund manager must earn a minimum rate before performance fees are applied to any relative outperformance, while a highwater mark protects investors from paying for the same performance twice.

What are the benefits of hedge funds?

Hedge funds were originally designed to protect or "hedge" against market shocks and limit capital losses. They have since evolved to the point where there are now a multitude of investment strategies and philosophies, offering investors unique return profiles which are generally uncorrelated to the market. As part of a well-balanced strategy, hedge funds can potentially enhance returns and lower overall portfolio risk. Importantly, however, hedge funds are far more diverse than traditional collective investment schemes, which in turn introduces an additional due diligence responsibility.

How risky are hedge funds?

A common generalisation about hedge funds is that they are all excessively risky. While this is not necessarily the case, there are certain risks to be mindful of. The use of leverage and derivative structures has the potential to amplify return but can lead to higher levels of volatility if not managed appropriately. For this reason, good risk management and prudent portfolio construction are some of the cornerstones of hedge fund management.

Regulations have added extra investor protection by introducing higher levels of transparency and disclosure requirements, as well as requiring management companies to have oversight responsibilities which include monitoring for any breaches of risk limits.

The risk and return profiles of various hedge fund strategies can differ greatly, thus it is important to understand the risk profile and philosophy of the fund before investing, so as to ensure it is aligned with the risk appetite of the investor.

What are the potential additional hedge fund risks?

Potential risks include practices such as short selling, which can lead to short-term losses if the prices of the underlying instruments increase. Also, some strategies may invest in illiquid or unlisted assets where the risk is that market values may have to be estimated or constraints in the market may prevent the fund manager from divesting in a short span of time (resulting in liquidity issues). Where scrip borrowing and/or lending strategies are employed, the fund may be exposed to counterparty risk should the prime broker or custodian default. The use of material leverage can lead to high levels of volatility and obligations for the above-mentioned practices.

The level of risk differs dramatically from one hedge fund to the next, with certain strategies exposing investors to less market risk than traditional long-only funds, while certain hedge funds will expose investors to materially more market risk. Where a particular fund sits on this spectrum, will be influenced by the type of strategy being used.

1 Long/short

One of the most common strategies in use today, long/short strategies, involves buying (going "long") assets which are considered undervalued and selling (going "short") assets which are viewed as overvalued. The strategy aims to generate returns by taking a directional view of markets or stock-specific ideas and profiting from them as the undervalued securities rise in price and the short-sold instruments fall in value. The strategy can also reduce overall risk by having the short positions offset the long exposure as the value of the short component will rise should markets fall and vice versa. Long/short strategies typically have net long bias. A common method of calculating total gross market exposure within a fund, is to add the long book and the short book (as a percentage of NAV). Net exposure can be calculated as long exposure, less short exposure.

2 Market-neutral

In contrast to the long/short strategy, which will usually have a material net long or short exposure, the market-neutral strategy targets a zero net-market exposure whereby long and short positions will have equal market value. The strategy seeks to exploit short-term mispricing between securities while hedging away overall market risks (beta). Consequently, these are usually lower risk hedge fund vehicles, targeting robust absolute returns. As investors are not compensated for taking on market risk, the success of this strategy will depend largely on the manager's stock-picking skills.

3 Global macro

Global macro strategies focus on identifying and capitalising on trends and broad economic and political outlooks of sectors, economies or countries by analysing economic variables and the impact they have on markets. The strategy will employ a variety of asset classes and instruments to take views on indices, equities, bonds, interest rates, currencies and commodities.

4 Fixed-income arbitrage

Fixed-income arbitrage aims to profit from pricing differentials or inefficiencies in the fixed income sector, often using derivative exposure to bonds, interest rates and other debt instruments.

5 Multi-strategy

Multi-strategy funds use a wide variety of investment strategies in combination to generate returns. Due to the diversified nature of these funds, returns are often more stable, and volatility is reduced.

6 Statistical arbitrage

Statistical arbitrage strategies seek to profit and limit risk by exploiting pricing inefficiencies in markets using quantitative models. The strategy is focused on the short term and will often involve large diversified portfolios.

GLOSSARY OF HEDGE FUND TERMS

Term	Description
Alpha	The excess return from a portfolio measured against a suitable benchmark over a period of time. This is the value added by the fund manager.
Beta	A measure of systematic (non-diversifiable) risk which captures the volatility of a security compared to the market or benchmark.
Benchmark	A standard or measure, usually a market index or rate, against which performance of a portfolio is measured.
CFD	Contract for Differences (CFDs) is a derivative instrument where investors profit from price movements without owning the underlying asset. It utilises leverage which can amplify gains or losses.
Counterparty risk	Counterparty risk is the risk that one or more parties involved in a transaction fails to meet their contractual obligations.
Default risk	Default risk is the risk that one or more parties are unable to make payments on their debt obligations.
Derivatives	Financial instruments whose performance is linked to an underlying asset. Derivatives are used to transfer risk or negotiate the future sale or delivery of an investment and may involve the use of leverage.
Futures contract	A futures contract is a standardised contract to buy or sell an underlying asset at a specified price for delivery in the future. Futures can be used to speculate on prices or as a risk management tool to hedge against unfavorable price movements.
Highwater mark	The highest level of relative outperformance of the fund, over the hurdle rate, since inception of the fund.
Hurdle rate	This is the level of performance the fund must achieve prior to performance fees being charged. It is usually linked to the performance fee benchmark, e.g. money market rate +3%.
Leverage	A form of borrowing used to increase exposure. If the rate of return on the investment exceeds the cost of borrowing, leverage can magnify the gain. Conversely, leverage can also magnify losses.
Option contract	An option gives the buyer the right, but not the obligation, to buy or sell an asset at a specified price at a future date. Options can be used for speculation, income or hedging purposes.
Performance fee	The fee charged by a fund manager as a percentage of profits, on positive returns above a benchmark or hurdle rate.
Scrip borrowing/lending	Scrip borrowing/lending is an arrangement where investors can borrow shares temporarily from a lender. In return, the lender receives collateral and earns borrowing fees.
Short selling	The process of borrowing securities from a stockbroker and selling them in the market, with the aim of purchasing the shares at a lower price to return to the broker, and profiting from the difference between the sale and purchase prices.
Swap contract	An agreement by two parties to exchange currencies, commodities, interest payments, or investment returns periodically until expiration of the contract. They are often used to swap out uncertain cash flows or returns for more certain returns.
Unlisted instruments	Instruments that are not publicly traded on a formal exchange. Unlisted instruments are often traded in the over-the-counter (OTC) market and are generally more illiquid than listed instruments.

GLACIER: AVAILABLE HEDGE FUND LIST

Laurium Market Neutral Prescient RI Hedge Fund

Laurium follows a bottom-up, fundamental and valuation-driven investment philosophy that is augmented by a top-down macro analysis process. The process is further designed to exploit short-term market inefficiencies, which are capitalised on via thorough research and efficient trading and implementation systems. In the context of their hedge fund vehicles, this Fund can be considered conservative. The Fund is managed by Gavin Vorwerg and Murray Winckler, and aims to generate an absolute monthly return, with the main objective of returning SA inflation +5% on an annual basis. Leverage will be conservative, with targeted net-market exposure of less than 15%, while risk is minimised through disciplined hedging, a strong focus on liquidity and minimising concentration risk. The result is a return profile with low correlation to the local equity market.

Peregrine Capital Pure H4 Retail Hedge Fund ("Pure Hedge Fund")

Peregrine follows a fundamental, bottom-up and valuation-driven approach to investing. With the business having been founded in 1998, Peregrine is the oldest and one of the most respected names in the South African hedge fund industry. The Pure Hedge Fund is a flagship offering at Peregrine and is a market neutral fund with the goal of delivering inflation- beating returns over time. It can make use of a variety of assets (including offshore allocations), but Peregrine is primarily an equity focussed manager and will thus allocate most research to this area. The Fund has been a stellar performer since inception in 1998, having never experienced a negative year of performance. This is an endorsement of the Fund's main objective, which is to manage downside risk. Risk is carefully managed by hedging out most market exposure through short index positions. Typical gross exposure (short positions plus long positions) is 120% to 160%, while typical net exposure is 30% to 50% (when including exposure to bonds, property etc. The portfolio managers on the Fund are David Fraser, Jacques Conradie and Justin Cousins.

Obsidian SCI Multi-Asset Retail Hedge Fund

Obsidian Capital is a boutique fund manager with extensive experience in the hedge fund arena. With the retail market perhaps most familiar with their successful long-only High Equity Fund, this hedge fund employs the very same multi-asset approach but with the added ability to short. Philosophically they are known as being relatively style agnostic, although there is a large emphasis on marrying their bottom-up valuations with the macro-economic cycle. Consequently, there will be a significant macroeconomic influence in portfolio construction. The portfolio managers, and founders of the business, are Richard Simpson and Royce Long. They are both very experienced asset allocators and are supported by a small team of equity researchers who are responsible for idea generation. The Fund aims to outperform CPI+3%, has not experienced a negative year since 2007, and has previously reached a maximum net equity exposure of 30%. Traditionally, average net exposure is lower than this and consequently this is not a high-octane hedge fund offering - downside protection and suitable portfolio construction is emphasised.

36ONE SNN Retail Hedge Fund

This is one of the larger hedge funds in the country (including QI assets), as measured by AUM size and is a long/short fund. As a long/short fund, it requires higher risk tolerance – though the Fund is not overly aggressive when compared to other long/short funds. Gross exposures tend to be around 120%, with net exposure between 50 and 60% on average. The Fund is managed by Cy Jacobs and Evan Walker, who are both very experienced portfolio managers. In addition, the philosophy of the business is not focussed on building portfolios in line with a particular style, but rather on looking to manage risk by reducing concentration levels across sectors and/or business models. Amongst 36ONE long-only funds, positions will typically consist of a significant portion of quality businesses, with opportunistic holdings in cyclical and mid-cap businesses. In the hedge funds, structures are often applied to indexes and certain single stocks in order to protect or express a view. The Fund has a strong track record, delivering performance in excess of the ALSI, since inception, with much lower levels of volatility.

Protea South Africa SNN Retail Hedge Fund

This is a systematic long/short hedge fund and requires a high level of risk tolerance. The engine behind this offering is a proprietary quantitative model that Jean-Pierre Verster, portfolio manager, has developed and refined over many years, to analyse stocks and generate ideas for the portfolio. These ideas are further scrutinised on a fundamental basis, whereby company management is evaluated and engaged with. It must be mentioned, however, that the systematic model is sophisticated and scrutinises companies on a line-by-line financial forecasting basis. The process will look to combine various successful investment philosophies (i.e. Lynch, Buffett, Graham) and as a result will not favour a specific style of investing. The core of the portfolio will be in high conviction dependable companies, with shorter-term views and short positions being expressed around these positions. The Fund typically runs at 100-130% gross, while net exposure ranges between 30 and 75%. The Fund is differentiated and provides great correlation benefits to peers.

Laurium Long Short Prescient RI Hedge Fund

This is a long/short hedge fund and requires a high level of risk tolerance. Laurium follows a bottom-up, fundamental and valuation-driven investment philosophy that is augmented by a top-down macro analysis process. The process is further designed to exploit short-term market inefficiencies, which are capitalised on via thorough research and efficient trading and implementation systems. This Fund can be considered more assertive than its market-neutral counterpart, although it is not the most aggressive offering that Laurium manages. The Fund is managed by Gavin Vorwerg and Murray Winckler, and aims to generate SA inflation +7% on a rolling three-year basis. Leverage use will be moderate, with a focus on liquidity and minimal risk of capital loss. The Fund also aims to produce volatility levels lower than that of the JSE ALSI Index. Typical gross exposure is around 140%, while net exposure is in the region of 40-60% on average.

Obsidian SCI Long Short Hedge Fund

This is a long/short hedge fund and requires a high level of risk tolerance. Obsidian Capital is a boutique fund manager with extensive experience in the hedge fund arena. With the retail market perhaps more familiar with their long-only Equity Fund, this hedge fund employs a similar approach but with the added ability to short overvalued stocks. Philosophically, Obsidian is known as being relatively style agnostic, although there is a large emphasis on marrying their bottom-up valuations with the cycle. There will be a significant macroeconomic influence in portfolio construction. The portfolio managers, and founders of the business, are Richard Simpson and Royce Long. They are both very experienced asset allocators and are supported by a small team of equity researchers who are responsible for idea generation. The Fund aims to outperform CPI+5% over time.

Peregrine Capital High Growth H4 Retail Hedge Fund ("High Growth Fund")

Peregrine follows a fundamental, bottom-up and valuation-driven approach to investing. With the business having been founded in 1998, Peregrine is the oldest manager in the local hedge fund industry. The High Growth Fund is more aggressive than the Pure Hedge strategy discussed above but is also a flagship fund at Peregrine. It may include a variety of assets, although equities will make up the majority of the Fund. The Fund's main objective is not to manage downside risk, but to generate exceptional long-term returns. As a result, position sizes will be more concentrated than with the Pure Hedge strategy; this includes both long and short positions, which can be up to a maximum of 10% for a single stock. While this Fund can use increased gearing, and thereby amplify market exposure – positioning will typically remain net long in the region of 60-90%, while typical gross exposures are between 120 and 180%. Investors should consider a time horizon of at least three years and have the ability to take on material market exposure. The portfolio managers on the Fund are David Fraser, Jacques Conradie and Justin Cousins.

X-Chequer SNN Market Neutral Retail Hedge Fund

This is a low-risk hedge fund, with the objective of delivering consistent and incremental alpha over time. X-Chequer was established and founded in 2007 by Werner Prinsloo, who manages the strategy alongside Eugene Prinsloo. They have a wealth of hedge fund management experience and have delivered a very strong track record in managing market neutral strategies over the past 12 years. A relative value approach is used when constructing this portfolio, where equity pairs are widely used to express ideas, exploit opportunities, and reduce market risk. The Fund will maintain exposure to fundamental investment cases through time, while also allocating portions of the Fund to shorter term trading and special opportunities. The Fund targets 10% net equity exposure through time, with a maximum limit of 30%. Gross exposure is typically in the region of 125% on average. The strategy has not experienced a negative calendar year, since the Fund's inception in 2006.

Fairtree Silver Oak Equity Long Short SNN Retail Hedge Fund

The portfolio is a directionally biased long / short equity South African portfolio which will not hesitate to capture equity market beta as conditions dictate. The portfolio is managed as a long/short hedge fund focused on extracting beta and alpha returns from the South African equity market. The fund's returns are delivered through fundamental knowledge of South African equities vis-à-vis economic growth and broad economic themes as well as medium to long-term relative valuation opportunities, generating the largest portion of its returns through its directional bias. Relative value pairs, together with absolute longs and shorts seek to stabilise returns in turbulent market conditions, supported by the adjustment to the net exposure. The portfolio aims to achieve consistent returns above the Capped SWIX All Share Total Return Index through investment in long/short equities-based strategies. In order to achieve this objective, the portfolio will invest in a diverse range of instruments.

AMPLIFY HEDGE FUNDS

Amplify SCI Real Income Retail Hedge Fund

This is a fixed-income-focused hedge fund suitable for cautious investors with a long-term investment horizon. It aims to provide uncorrelated and superior, risk-adjusted returns through the dynamic implementation of investment strategies across a variety of underlying asset classes, primarily fixed-income securities. This strategy is managed by *Marble Rock Asset Management*, an experienced fixed-income and commodities hedge fund manager whose team of multi-strategy portfolio managers pursues uncorrelated returns through macro-heavy strategies and within a wide universe of markets from their own unique location. Although fixed-income hedge funds are not necessarily synonymous with lower risk investing as is the case in the long-only universe, this strategy is the most cautious across the Amplify hedge fund range.

Amplify SCI Diversified Income Retail Hedge Fund

The strategy is managed by *Terebinth Capital*, which manages hedge funds through the application of quantitative and qualitative methodologies across three disciplines: structural/strategic, technical and tactical analysis. This strategy is actively managed with a focus on risk management, designed to provide investors with a high degree of confidence regarding liquidity. This is a cautious to moderate fixed-income-focused hedge fund concentrating on macro strategies. The aim is to provide returns in excess of 5% over cash on an average annual basis over rolling 36-month periods with a low degree of volatility. The strategy is primarily concentrated in the most liquid areas of the broader income spectrum, with a strong focus on risk management.

Amplify SCI Absolute Income Retail Hedge Fund

The Fund is managed by *Acumen Capital*, an owner-managed asset manager with a core focus on the South African interest rate environment. Their philosophy is based on the premise that the fixed-income market is misunderstood and, as such, there are several inefficiencies which they can take advantage of, across the yield curve. Comprehensive analysis of cash-flow valuations enables *Acumen Capital* to exploit these inefficiencies using diversified investment strategies. This is a fixed-income-focused hedge fund strategy suitable for moderate to aggressive investors. It aims to achieve positive returns over the long term, regardless of the direction of interest rates, and capitalise on inefficiencies that occur as a result of supply and demand.

Amplify SCI Income Plus Retail Hedge Fund

This is an aggressive fixed-income-focused hedge fund, which pursues opportunistic, directional, relative value and correlation strategies in the South African fixed-income and related derivative markets. It aims to achieve net annualised returns of cash +8% over rolling three-year periods. This strategy is managed by *Matrix Fund Managers*, a diversified asset manager with a team of highly qualified, multi-skilled investment managers boasting more than 140 years' collective experience. *Matrix Fund Managers* identifies hedge fund investment opportunities through macroeconomic forecasting and rigorous analysis of the term structure of interest rates. The Fund is appropriate for investors who are seeking uncorrelated returns to the market, but who have a very high-risk tolerance.

Amplify SCI Multi-Strategy Retail Hedge Fund

This is a multi-asset hedge fund with a moderate risk profile. The strategy is managed by *Obsidian Capital*, and views will be expressed along the lines of the manager's long only High Equity fund, with the added ability to short. The manager places emphasis on marrying their bottom-up valuations with the macro-economic cycle. Consequently, there will be a significant macroeconomic influence in portfolio construction. The portfolio managers, and founders of the business are Richard Simpson and Royce Long. They are both very experienced asset allocators and are supported by a small team of equity researchers who are responsible for idea generation. The Fund aims to outperform CPI+3%, has not experienced a negative year since 2007 and has previously reached maximum net equity exposure of 30%. Traditionally, average net exposure is lower than this and consequently this is not a high-octane hedge fund offering.

Amplify SCI Enhanced Equity Retail Hedge Fund

This Fund is a cautious to moderate multi-asset hedge fund, which will mostly exercise views using equities, but has a strong focus on managing downside risk. The strategy is managed by *Peregrine Capital* and follows a fundamental, bottom-up and valuation-driven approach to investing. The strategy is modelled on the manager's Pure Hedge Fund, a market neutral fund with the goal of delivering inflation-beating returns over time. It can make use of a variety of assets (including offshore allocations), but Peregrine is primarily an equity-focussed manager and will thus allocate most research to this area. Risk is carefully managed by hedging out most market exposure through short index positions. Typical gross exposure (short positions plus long positions) is 120% to 160%, while typical net exposure is 30% to 50% (when including exposure to bonds, property etc. The portfolio managers on the Fund are David Fraser (executive chairman), Jacques Conradie (managing director at Peregrine) and Justin Cousins (portfolio manager).

Amplify SCI Managed Equity Retail Hedge Fund

This is an aggressive equity-focused hedge fund managed by *OysterCatcher Investments*. The fund manager was founded by Jonathan du Toit in 2019, and prior to this he was an integral member of the Truffle Asset Management team and the management of the Truffle High Growth Hege Fund. The philosophical focus of the manager is in expressing ideas by emphasising the intrinsic worth of companies, thereby the majority of the investment process is geared towards bottom-up fundamental valuation. In addition, there will be a preference for quality companies in the strategy to improve the risk/reward characteristics of the Fund. Although equities are the main focus, lower risk fixed income can also be used in an effort to add alpha. The strategy is willing to take on material leverage to generate returns - on average the gross equity levels have been 130%, with net exposure of 100%. If including fixed income exposure, the average gross exposure of the Fund is 190%.

Fairtree Worldwide Multi-Strategy Flexible SNN Retail Hedge Fund

This fund represents Fairtree's best opinion on growth in a balanced view. Its focus is to provide maximum long-term growth by investing in a diversified blend of worldwide assets including equities, bonds, property, preference shares, money market instruments, listed and unlisted financial instruments. The fund also has a diversified blend of investment strategies, with many levers to pull to generate returns throughout varying market conditions. The objective is to provide competitive above-inflation annualised returns which are measured in rand over a 7-year period. The fund is a solution for South African investors to invest in a fund that generates equity-like returns.

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Protea Global SNN Retail Hedge Fund

The fund is a global long/short equity hedge fund, domiciled in South Africa, with the objective of generating above-average returns by following a 'quantamental' investment approach, combining traditional fundamental analysis with quantitative investment techniques. The investment manager systematically identifies individual mispriced securities whilst ensuring sufficient diversification to guard against inappropriate risk concentration. The fund focuses on listed securities in developed markets outside of South Africa and has a net equity exposure of 35-70% at most times, with a maximum gross exposure of 200% (i.e. maximum 2x leverage). The portfolio is managed as a long/short hedge fund, focused on extracting alpha returns from equity markets outside of South Africa. Its core strategy is to be long undervalued equities and short overvalued equities whilst ensuring that there is sufficient diversification to guard against inappropriate risk concentration. The "quantamental" investment approach combines a traditional fundamental understanding of the fair value of listed equity shares with analysis of the business's competitive environment, economic growth, broad economic themes and relative valuations

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