AMPLIFY

Hedge funds unlocked. And amplified. The guide.

This guide offers a candid and practical exploration of key themes financial advisers face in the retail hedge fund landscape.

INTELLIGENT IMPACT THAT MATTERS

01

Transparency

Is it really a black box? For too long, hedge funds were seen as secretive and complex. But in South Africa, that perception is now a myth.

- **Regulation:** South Africa was the first country globally to regulate hedge funds under the Collective Investment Schemes Control Act (CISCA) in 2015.
- **Stricter Disclosure:** Retail Hedge Funds (RHFs) are subject to stricter rules on disclosure, asset eligibility, and leverage limits compared to Qualified Investor Hedge Funds (QIHFs). They must provide ongoing disclosure to both investors and regulators.
- **What RHFs Disclose:** Funds now disclose granular details like gross and net exposure, liquidity metrics, valuation methodologies, and leverage levels.
- **Implication for Advisers:** This improved transparency allows for more robust due diligence and better client communication.

Retail Hedge fund risk Leverage vs VAR

Leverage

- **Gross exposure**
  - Long Exposure + Short Exposure
- **Net exposure**
  - Long Exposure - Short Exposure
- **Limit**
  - Gross market exposure < 200%

Value at Risk

- **Limit:**
  - 1Month 99% VAR < 20% potential loss
- 99% chance that you do not lose more than 20% over any given month

02

Liquidity

Can I access my money? Liquidity is no longer a barrier. RHFs have been structured to provide the access advisers and their clients need.

- **Regulatory Safeguards:** RHFs are regulated under CISCA, which mandates daily valuation and allows for repurchase policies of no longer than one month. RHFs must also maintain liquidity buffers. Daily Liquidity: All Amplify RHFs offer daily liquidity and pricing, similar to unit trusts.
- **Platform Integration:** RHFs are increasingly available on mainstream platforms, making access seamless.
- **Implication for Advisers:** Daily liquidity allows you to rebalance portfolios more efficiently and respond to market changes.

Can I access my money?

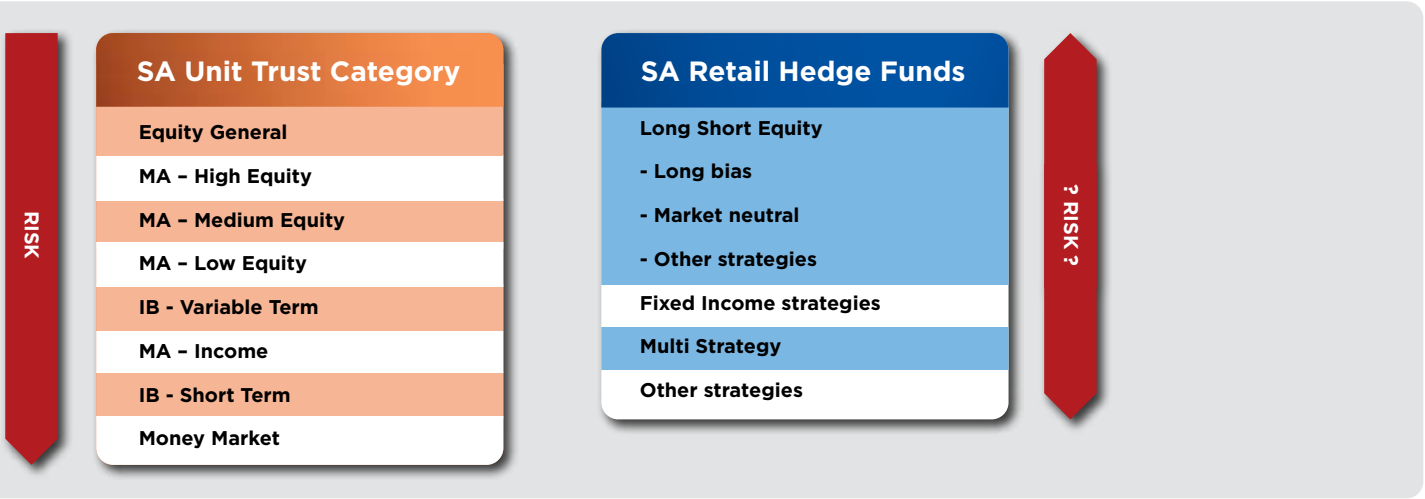
03

Risks and Returns

Is it an all-or-nothing bet? Hedge funds are not a single, high-risk category and not all strategies are created equal.

- **Risk Controls:** While hedge funds may use leverage, short selling, and derivatives , RHFs are regulated under CISCA and are subject to leverage limits and asset eligibility rules.
- **Low correlation in returns: Various hedge fund strategies provide different sources of risks and returns i.e.:**
  - **Market Neutral –** Targeting absolute returns and hedging away overall market risk (Beta)
  - **Long/Short Equity –** Focussed on outperforming equity markets by buying (going long) undervalued assets and selling (going "short") overvalued assets
  - **Fixed Income –** Seeks to take advantage of price differentials between fixed income instruments and using derivative exposure to bonds, interest rates, and other debt instruments
  - **Multi-strategy –** Uses a wide variety of investment strategies, fixed income instruments, commodities, foreign investments, and related derivatives
- **Implication for Advisers:** Advisers must assess strategy-specific risks, not just the "hedge fund" label, especially when comparing hedge fund to each other and to long only funds.
- You can use hedge funds to reduce overall portfolio volatility and enhance risk-adjusted returns.

SA Unit Trust Category - SA Retail Hedge Funds



04

Benchmarks & Fees

Are fees fair? Hedge fund fees are often misunderstood. They are clearly defined and tied to performance. Ours are intentionally priced for retail investors.

- **Strategy Alignment:** Certain hedge fund strategies, like market-neutral or or fixed income, use a cash benchmark (e.g., STeFI) to reflect their objective of delivering positive absolute returns regardless of market direction. Some hedge funds use ALSI as a benchmark as its goal is to provide returns above an equity benchmark.
- **Fee Fairness:** Fees are structured with a hurdle rate and a high-water mark. A hurdle rate is the minimum return a fund must achieve before a performance fee is charged. A high-water mark ensures a fee is only paid on new gains, not on the recovery of past losses. Performance fee caps on Amplify funds are also used to treat customers fairly.
- **Implication for Advisers:** It is crucial to assess whether the benchmark truly reflects the strategy's risk and whether performance fees are justified relative to that benchmark.

High-Water Mark.