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THINK Flexible Growth RCIS Retail Hedge Fund

RCIS THINK Growth QI Hedge Fund

BEYOND BASICS: Portfolio construction - Where do hedge funds fit in?

Traditional asset allocation generate real returns through participation in economic growth and directional risk premia.

The right combination of hedge funds may generate real returns through relative value opportunities, flexibility, and structural asymmetry and match the compounding effect of positive inflation through more regular absolute returns.

The question is not where hedge funds “fit” in a pie chart.

The better question is:

How much of your real return objective should depend on market beta — and how much should depend on the alternative risk signature of diversified alpha?

That is ultimately a capital allocation decision, not a labelling exercise.

The combination of two distinct real-return methodologies creates a portfolio that is less dependent on a single macro regime. This increases the probability of **growing investments reliably over a finite investment horizon.**

The combination of two distinct real-return methodologies

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The problem most investors solve for during portfolio construction

At its core, portfolio construction is about solving a single economic problem:

How do we grow our investments reliably over a finite investment horizon?

In simple terms, most investors need their money to **grow for future use.** This demands the growth being inflation-beating. Investments are also transformed into wealth only when they are liquidated, hence the need for growth to be realisable at a specific point in time. Investors therefore also care about **how much risk they must take to achieve the growth.**

Traditional **asset allocation** models answer this by grouping together investments that share similar characteristics, behave similarly in the marketplace, and are subject to similar regulations. The asset classes of equities, bonds and real assets typically emerge from this clustering. Capital is then placed into equities for growth, bonds for stability and real assets for inflation protection.

Hedge funds complicate this asset allocation framework and create a placement problem.

Like traditional managers, they invest in equities, credit instruments, interest rates and commodities, yet their return patterns often look materially different. They may exhibit lower beta, lower volatility, lower drawdowns, more asymmetric returns, and returns that are less tied to broad market direction.

If hedge funds own the same underlying assets, are they simply different versions of traditional asset exposures?

Or are they something structurally different that deserves a distinct role?

To answer this, we must first understand how traditional portfolios generate real returns.

How are traditional assets used to create inflation-beating returns?

Traditional portfolios **create inflation-beating returns** through the long-term rewards for being exposed to different types of market risk. Each of these market risks contribute differently to the task.

Listed equities

Listed equities generate real returns primarily through:

- Earnings growth
- Reinvestment of capital
- Productivity gains
- Expansion in economic output

Over long periods, equities outperform inflation because companies pass through pricing power, innovate, and grow cash flows in nominal terms, but the trade-off is cyclicality. Equity returns are volatile and deeply tied to economic regimes, while inflation tend to trend upwards most of the time.

Fixed Income

Bonds contribute through:

- Income (coupon payments)
- Capital growth when interest rates fall
- Diversification benefits

While bonds do not typically deliver high real returns over long horizons, they reduce portfolio volatility due to a known payout profile over time and tend to perform well when economic growth weakens and interest rates fall.

Real Assets

Real estate, infrastructure, and commodities are often introduced to:

- Protect against inflation surprises
- Provide tangible asset exposure
- Diversify equity risk

In aggregate, the traditional model relies heavily on **equity beta** as the primary engine of real wealth creation.

The question then becomes: Can hedge funds improve this model's outcome?

How do hedge funds create inflation-beating returns?

Hedge funds do not rely primarily on long-only market exposures. Instead, they generate returns through **risk reallocation**.

Beyond the Basics: How the single mechanism of short selling unlocks an entire toolkit (February 2026) - Think.Capital discusses how hedge funds use tools unavailable to traditional long only mandates: Their capability of short selling unlocks an entire toolkit that not only makes hedge funds **fundamentally different**, but also introduces an endless opportunity set that leaves **each one fundamentally unique**.

They are not separate from traditional markets; they use tools to extract value from these markets, but where traditional portfolios depend largely on market direction, the right combination of hedge funds may:

- extract relative mispricings,
- capture structural inefficiencies and
- isolate spreads rather than outright directional views.

A combination of hedge funds with a lower beta exposure will often lag long-only portfolios in strong bull markets. However, in bull, volatile or range-bound environments, they may continue to compound steadily due to

- active risk control and
- diversified alpha streams

In effect, many hedge funds attempt to generate inflation-beating returns with a different risk signature.

How can the two methodologies be combined?

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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. 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. Calculations are based on actual data where possible and best estimates where actual data is not available. The manager has applied its mind in the calculation of the TER, taking into account the application of the ASISA standard for CIS securities and applying it in the context of hedge fund portfolios, and using fair estimates, where necessary, to arrive at a figure that is materially correct without being misleading. The Manager holds the view that the TER excl. performance fees represent a reliable figure until a 12-month track record exists, as any TER reporting including performance fees is likely to be unreliable and potentially misleading as performance fees cannot be estimated/annualised without forecasting portfolio growth and misleading investors. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who 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 shown. Income is reinvested on the reinvestment date. Other fees include the permissible deductions of brokerage, STT, VAT, bank charges, trustees and custodian fees incurred in the ordinary course of running the Fund. The Portfolios are third-party named portfolios, managed by Think Capital Investment Management Proprietary Limited ("THINK.CAPITAL"), an authorised financial services provider. RCIS retains full legal responsibility for these Portfolios as manager in terms of CISCA. 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