

THINK.**THINK.CAPITAL****THINK Flexible Growth RCIS Retail Hedge Fund****RCIS THINK Growth QI Hedge Fund**

Beyond Basics: How the single capability of short selling unlocks an entire toolkit that makes hedge funds fundamentally different, and each one fundamentally unique.

In my experience, hedge funds are not complex because of opaqueness, risk or access. Their complexity stem from the fact that the single 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.

We introduce the analogy of a Tangram puzzle - some shapes are large and dominant; others are small but essential. All are required to complete the puzzle.

A well-constructed portfolio recognises the value of each shape, not just the most obvious ones.

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A practical client guide: Important questions to ask

Which hedge funds do I currently not have and why?

What were the drivers of performance of the funds that I do hold?

How will my current portfolio perform under different market conditions?

The mechanism of short selling

Hedge funds are often explained using technical language that makes them seem complex, possibly risky and mostly inaccessible.

In practice, registered hedge funds adhere to strict regulations to protect investors and are available on mainstream platforms that trade daily.

The single mechanism that every hedge fund relies on, regardless of strategy, is the ability to take short positions. This fundamentally distinguishes them from long only funds but does not necessarily make them more complex. The mechanism of short selling is straightforward and well regulated:

- 1. Borrow a security*
- 2. Sell it today at the current price*
- 3. Buy it back later at a lower price*
- 4. Return the security to the entity in step 1 and keep the difference in prices*

Long only funds are only allowed to buy securities. They earn a return only if the price of what they bought goes up. hedge funds gain the ability to make money from prices going up or down through short selling. But they too will earn a return only if the price of what they bought goes up or the price of what they sold short goes down.

In my experience, hedge funds are not complex because of opaqueness, risk or access. Their complexity stem from the fact that the single 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.

Hedge fund strategy, style and risk determine outcome

Short selling is only the enabler to the tools hedge funds use and allows a fund manager:

1) True hedging

Shorts allow a manager to offset risk from long positions making the portfolio less dependent on market direction.

2) Market neutrality

By combining longs and shorts, a portfolio's performance can come from security selection—not from whether markets rise or fall.

3) Leverage

Because shorting provides an embedded source of financing, it lets managers scale small opportunities through leverage that would normally be too small to capture or amplify high conviction long trades.



4) Full set of return opportunities

Being able to short gives the manager ways to express and profit from a bearish view.

These tools allow strategies like long/short equity, relative value, merger arbitrage, macro trading to exist. The hedge fund may employ any of these strategies, and the style of the manager and the risk profile of the fund will influence how the strategy is implemented and which securities are used to express a view. Through this set of permutations an extensive range of unique outcomes are created across different hedge funds even in the same market.

This guide explains why it is essential that hedge fund portfolios combine different strategies to navigate a wide range of market conditions.

Navigating financial markets

Investors are typically aware of the characteristics of financial markets. Market conditions change over time and the opportunities presented during one period may become pitfalls in another. The future is never fully visible in advance. For most investors, the objective is to construct portfolios that could navigate this uncertainty.

Hedge funds and Tangram: Large and dominant or small but essential

The value of a combination of hedge funds can be explained through a Tangram puzzle analogy. Tangram is a Chinese dissection puzzle made of seven geometric pieces that can be arranged to form countless figures. All seven pieces are used without overlap to recreate a given silhouette, encouraging spatial reasoning and creativity.

Each Tangram shape is unique and importantly, every shape has a fixed set of boundaries.

Similarly, each single hedge fund has a specific style distinct from another and has a specific market environment it thrives in.

Hedge fund strategies also generate returns for different reasons:

- Some benefit from volatility
- Others from interest rate changes
- Others from pricing inefficiencies or stock selection

Some shapes are large and dominant; others are small but essential. All are required to complete the puzzle.

Hedge fund strategies work the same way:

- Some styles and strategies drive returns in favourable markets
- Others provide protection or stability during difficult periods

Website: www.thinkcapital.co.za
Email: info@thinkcapital.co.za
Telephone: +27 21 001 2372



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- Some may appear ineffective for long stretches but become critical at some point to complete the outcome.

In a puzzle, a certain shape works best in a specific part of one picture, but a shape that fits perfectly in one image may be useless in that spot for another.

Combining strategies with different sources of return improves portfolio robustness without sacrificing long-term return potential.

A well-constructed portfolio recognises the value of each shape, not just the most obvious ones.

Portfolio construction: No single shape completes the puzzle

In a Tangram, relying on one shape makes it impossible to form a complete picture.

What does this mean in practice?

Combining strategies with different sources of return improves portfolio robustness without sacrificing long-term return potential.

Our portfolios are built by selecting funds that contribute at different times and under different market conditions, ensuring the overall structure remains recognizable.

Risk management: Poor arrangement of shapes may not be immediately evident

A Tangram can fail not because the shapes are wrong, but because they are poorly arranged.

In investing, risk is not only about short-term gains. Some strategies introduce structural risks that can lead to permanent losses at unexpected times.

There could also be a concentration of risk due to the wrong combinations of funds being used, despite returns being strong in current conditions.

Portfolio discipline involves:

- Avoiding strategies with a high likelihood of permanent loss, even if it seems foolish over the shorter term
- Avoiding too many similar shapes
- Accepting that some useful shapes may appear redundant at times

Managing volatility: Keeping the picture intact

Lower volatility helps investors stay invested through challenging periods, which is critical for achieving long-term outcomes.

Through the Tangram lens, this reflects a picture that holds together even when conditions change. When shapes are well chosen and correctly positioned, the image remains recognisable despite shifting outlines.



The big takeaways

Based on 22 years of experience, the THINK hedge fund portfolios are constructed thoughtfully to manage risk, smooth the investment journey, and remain effective across a wide range of market conditions.

Like a Tangram:

- No single shape is sufficient
- Each shape has a purpose
- Having too many similar shapes limits the variety of figures that can be created
- Success depends on how the pieces work together

Contact

Elmien Wagenaar elmien@thinkcapital.co.za

IMPORTANT INFORMATION

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. A schedule of fees and charges and maximum commissions, is available on request from RCIS. RCIS does not provide any guarantee in respect to the capital or the return of the portfolio. 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, 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 CISC. 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, it 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 monthly and are available on the RCIS website. RealFin Collective Investment Schemes (RF) Proprietary Limited is registered and approved by the Financial Sector Conduct Authority as a manager of Collective Investment Schemes approved in terms of the Collective Investment Schemes Control Act and has delegated the investment management function to THINK.CAPITAL an authorised financial services provider (FSP 46714) in terms of the FAIS Act, a category IIA financial services provider. For further information and documentation on the RCIS THINK Growth QI Hedge Fund please email clientservices@realfin.co.za.

Website: www.thinkcapital.co.za
Email: info@thinkcapital.co.za
Telephone: +27 21 001 2372



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