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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.

Contents

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

- 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

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IMPORTANT INFORMATION

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