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THINK Flexible Growth RCIS Retail Hedge Fund

RCIS THINK Growth QI Hedge Fund

Beyond Basics: Strong risk-adjusted returns are critical to pension fund fiduciaries and wealth advisors alike.

Longevity risk is reshaping the financial landscape for pension schemes. Managing longevity risk is not only about actuarial modelling. It's also about ensuring that the investment portfolio is designed to deliver the right type of returns - **consistent, resilient, and efficient**.

As members live longer, funds must rely increasingly on stable investment performance to meet extended payment obligations. This makes the quality, reliability, and sequence of returns just as important as the headline numbers.

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1. Introduction: The fiduciary's added pressure

Over time, improvements in healthcare, lifestyle, and medical technology have pushed life expectancy steadily higher. As life expectancy continues to rise, individuals and pension funds alike face a growing challenge: how to pay secure retirement incomes for longer than ever before. While living longer is good news for society, it places additional demands on pension schemes and individuals' post-retirement investments.

Members rely on the pension fund to deliver promised benefits over additional markets cycles, and individuals have equivalent financial needs from their personal investments. This shift demands more from trustees and advisors through their obligation to consider and advise on risks to protect the outcomes.

The key to meeting these growing demands is not simply chasing higher investment returns. It is achieving strong, stable, risk-adjusted returns.

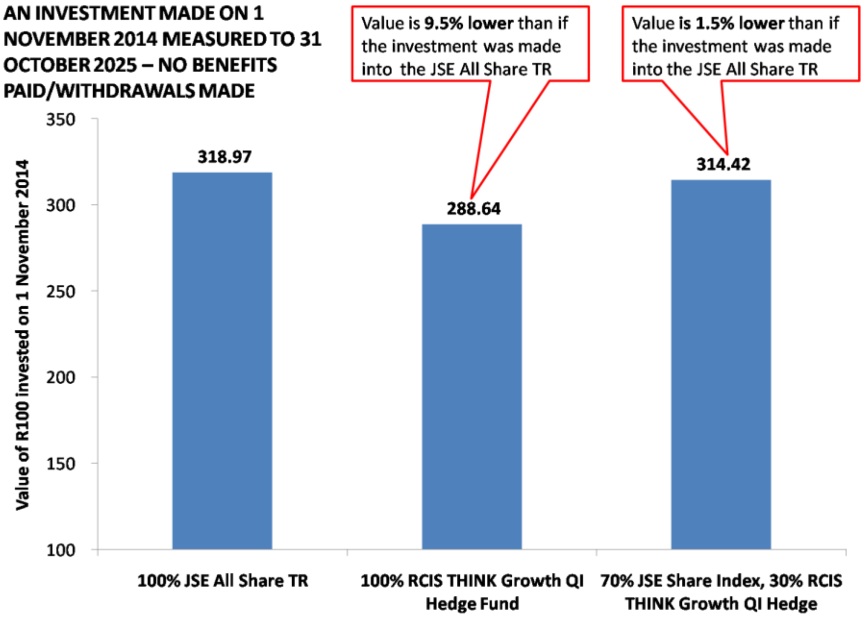
When you increase reliability, it does not mean you are lowering investment ambition.

In this publication, we explore why risk-adjusted returns matter so much. We consider the critical role that the sequence of returns plays in shaping these long-term outcomes and how this protects the fund against longevity risk.

2. Tangible evidence: value erosion during withdrawals

Consider the returns of three investment options:

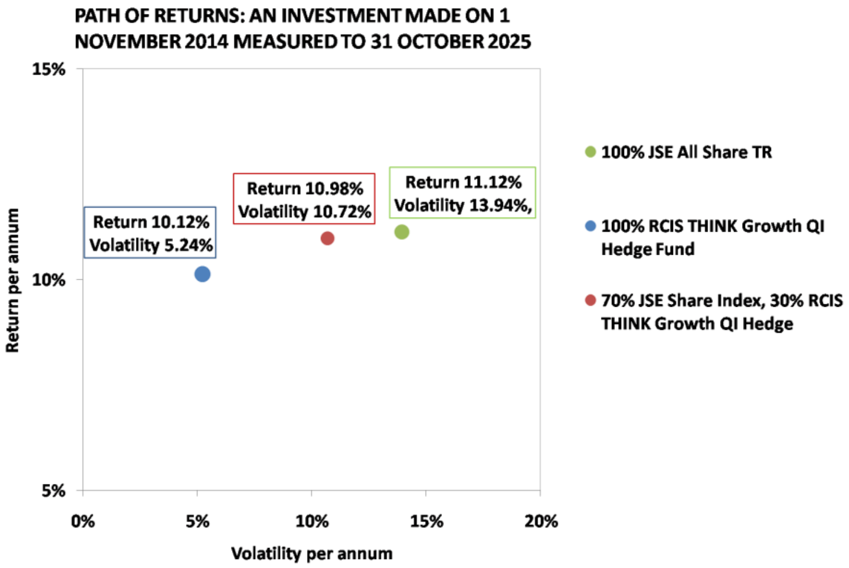
- R100 invested in the JSE All Share Index TR on 1 November 2014 would have grown to R318 by 31 October 2025 (11 years).
- An investment in the RCIS THINK Growth QI Hedge Fund would now be valued at R288.
- A blended portfolio of 70% JSE All Share Index and 30% RCIS THINK Growth QI Hedge Fund would be worth R314 today.



The JSE All Share Index delivered the strongest return, with the RCIS THINK Growth QI Hedge Fund and the blended portfolio ending 9.5% and 1.5% lower respectively.

a. Introducing volatility

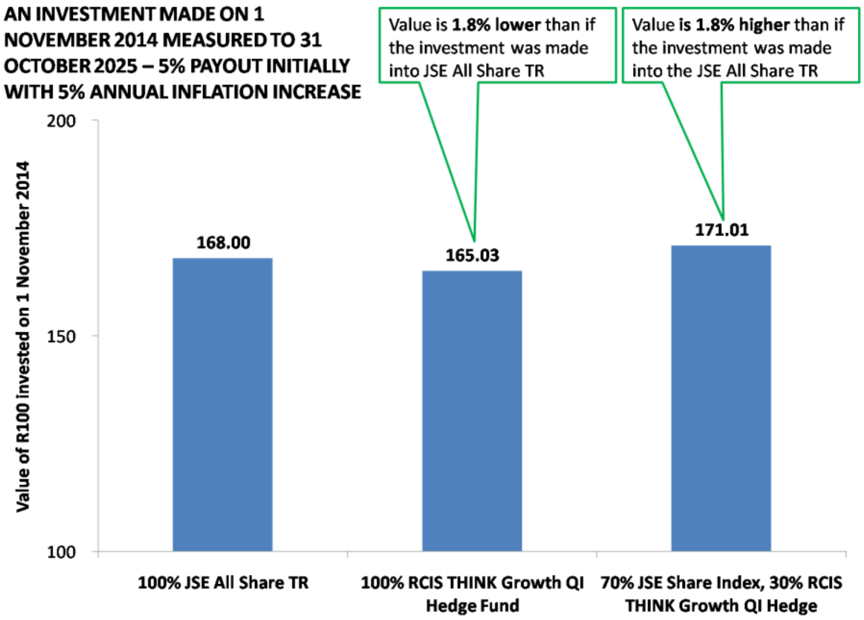
The differing paths of return are reflected by incorporating each investment's volatility in the graph below.



b. Introducing withdrawals

Now consider the outcomes of the same three portfolios after periodic withdrawals have been taken:

- The higher volatility of the JSE All Share Index resulted in greater value erosion during withdrawals.
- The RCIS THINK Growth QI Hedge Fund, benefiting from lower volatility, now ends only 1.8% below the JSE All Share Index after identical withdrawals.
- The blended portfolio now delivers the highest value of the three.



Evidence shows that the longer the timeframe, the more pronounced the advantage of lower volatility becomes for portfolios that are making withdrawals.

3. Delving deeper: Returns are not enough to combat four structural challenges to longevity

Longevity risk is the risk that members live longer than expected, requiring the pension fund or individual's post-retirement savings to pay benefits for more years than originally assumed.
It's natural to think the solution is simply to seek higher returns. But higher returns often come with higher volatility and volatility holds a hidden danger for perpetual payments, especially when longevity is rising.

As members live longer, pension payments face four structural challenges. It is the pattern of returns, not just the average that determines how well the fund can meet longer payment obligations. That's why risk-adjusted returns matter more than simple performance figures.

a. A longer payout horizon

Payments must be made over more years.

This means that investment returns need to be sustained over a longer timeframe, while the capital base may be fixed. High-volatility strategies that eat into capital risk undermining long-term compounding.

b. Higher inflation exposure

If benefits need to increase with inflation, longevity amplifies the cost.

More years of inflation-linked payments not only increases the payout horizon, but the size of payouts.
This requires assets that can reliably maintain real value—not assets that swing wildly in response to market cycles.

c. Greater exposure to market shocks

The longer the liability duration, the longer the portfolio is exposed to markets and the more chance there is of shocks.

Longer lifetime payments magnify the effects of any drawdown. Drawdowns demand disproportionately large recoveries—time that pension funds, facing longer lifetimes, may not have.

d. **Greater exposure to sequence of return risk**

Longer lifetime payments magnify the effects of early drawdowns

The sequence of returns refers to the order in which good and bad investment returns occur over time. While this is important for any long-term investor, it is especially critical for pension funds facing rising longevity risk.

Pensions pay out cashflows every year, regardless of market conditions. Payments can therefore not be paused during periods that will erode capital. Secondly, longer lifetime payments magnify the effects of early drawdowns.

If poor investment returns happen early in the payout phase, the fund must still pay pensions. This forces asset sales when prices are low, crystallising losses and reducing the base from which future returns compound.

Even if strong returns arrive later, they occur on a smaller pool of assets, meaning the recovery is weaker.

Longevity combined with sequence of returns transforms what would have been a temporary setback into a long-term structural challenge.

4. The behavioral dimension: Stability improves decision-making

There is also a psychological component. Periods of sharp volatility can create pressure for trustees, sponsors, and advisers to change course, especially during downturns. Behavioural finance shows that losses are felt more strongly than equivalent gains, a phenomenon known as loss aversion.
Smoother return paths help. Good governance is easier when return sequences are more stable. As longevity increases, the psychological temptation to "do something" during downturns becomes stronger. A smoother sequence of returns helps trustees stay committed to long-term strategy and avoids behavioural pitfalls of de-risking.

5. Conclusion: Stability is strength for an investment strategy when longevity rises

Longevity risk is reshaping the financial landscape for pension schemes. Managing longevity risk is not only about actuarial modelling. It's also about ensuring that the investment portfolio is designed to deliver the right type of returns - **consistent, resilient, and efficient**.

As members live longer, funds must rely increasingly on stable investment performance to meet extended payment obligations. This makes the quality, reliability, and sequence of returns just as important as the headline numbers.

Strong risk-adjusted returns:

- protect the fund against adverse sequences,
- strengthen long-term compounding,
- improve governance discipline,
- and help ensure pensions remain secure throughout longer retirements.

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IMPORTANT INFORMATION

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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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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 manger 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.

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