Collective Investment Schemes Risk Disclosure

Risk warnings for collective investment schemes

This document cannot disclose all the risks associated with the portfolios we make available to you. You should not invest in, or deal in any portfolio, unless you understand its nature, and the extent of your exposure to risk. You should also be satisfied that it is suitable for you, in the light of your circumstances and financial position. Different portfolios have varied levels of exposure to risks, and to different combinations of risks.

Collective investment schemes (commonly known as 'portfolios')

A collective investment scheme (CIS) can be described as an investment vehicle that allows investors to pool their money into a portfolio, sharing in the risk and return of the portfolio in proportion to their participatory interest in the portfolio.

General (long-only portfolios)

Collective investment schemes (unit trusts) are generally medium to long-term investments. The value of participatory interests (units) or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending (in other words borrowing and lending of assets). The manager does not provide any guarantee, either with respect to the capital or the return of a portfolio. Different classes of participatory interests apply to these portfolios and are subject to different fees and charges. A schedule of all fees and charges, inclusive of VAT and maximum commissions, is available on request from us or from your financial adviser. Forward pricing is used.

General (hedge funds)

Collective Investments (unit trusts) are generally medium to long-term investments, but a hedge fund may have short-term strategies and practices. The value of participatory interests (units) or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Hedge funds trade at ruling prices and prices may fluctuate post publication. Hedge funds can engage in scrip borrowing and scrip lending. The manager does not provide any guarantee, either with respect to the capital or the return of a portfolio. Any forecasts and/or commentary in this document are not guaranteed to occur. Different classes of participatory interests apply to these portfolios and are subject to different fees and charges. A schedule of fees and charges, with maximum commissions, is available on request from us or from your financial adviser. Hedge fund of funds invest into other portfolios of collective investment schemes, and the underlying portfolios may levy their own charges, which could result in a higher fee structure for the hedge fund of funds. Forward pricing is used. Hedge funds are collective investment schemes with a strategy that allows for leveraging and short-selling strategies. Hedge fund strategies can result in losses greater than the market value of the fund, but investors' losses are limited to the value of the investment or contractual commitments. Hedge funds can also invest in illiquid instruments. While CIS in hedge funds differ from CIS in securities (long-only portfolios) the two may appear similar, as both are structured in the same way, and are subject to the same regulatory requirements. Further risks associated with hedge funds include: investment strategies may be inherently risky; leverage usually means higher volatility; short-selling can lead to significant losses; unlisted instruments might be valued incorrectly; fixed income instruments may be low-grade; exchange rates could turn against the fund; other complex investments might be misunderstood; the client may be caught in a liquidity squeeze; the prime broker or custodian may default; regulations could change; past performance might be theoretical; or the manager may be conflicted.

Derivatives

There is no assurance that a portfolio's use of a derivative strategy will succeed. A portfolio's management may employ a sophisticated risk management process, to oversee and manage derivative exposures within a portfolio, but the use of derivative instruments may involve risks different from, and, in certain cases, greater than, the risks presented by the securities from which they are derived.

Exposure to foreign securities

Foreign securities within portfolios may have additional material risks, depending on the specific risks affecting that country, such as: 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. Investors are reminded that an investment in a currency other than their own may expose them to a foreign exchange risk.

Third-party named portfolios

The manager may enter into a co-named or incubator agreement with the third party. The manager retains full legal responsibility for the third party named portfolio. The assets of the portfolio are managed by an external financial services provider (FSP), being the investment manager. For incubator portfolios, the FSP intends becoming a manager, and this is a temporary arrangement, to assist emerging entities to attain the required level of skills and experience to be authorised as managers, in their own right. For co-named portfolios, the FSP has no intention of becoming a manager. There may be potential conflicts of interest, which must be managed in accordance with the conflicts of interest management policy.

Money market portfolios

A money market portfolio is not a bank deposit account. A variable price (VNAV) or constant price (CNAV) is applied to a participatory interest. The total return to the investor is made up of interest received and any gain or loss made on any particular instrument, and in most cases the return will merely have the effect of increasing or decreasing the daily yield, but in the case of abnormal losses, it can have the effect of reducing the capital value of the portfolio. Excessive withdrawals from the portfolio may place the portfolio under liquidity pressures, and in such circumstances a process of ring-fencing of withdrawal instructions and managed pay-outs over time may be followed.

Fund of funds

A fund of funds is a portfolio that 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.

Feeder funds

A feeder fund is a portfolio that invests in a single portfolio of a collective investment scheme, which levies its own charges and which could result in a higher fee structure for the feeder fund.

Tax-free savings accounts

For classes of participatory interests that are tax-free savings investments, you don’t pay tax on capital gains, dividends or interest. National Treasury introduced tax-free investments, to encourage people to save. The maximum annual investment limit is R33 000 per tax year (from beginning March to end February), and the lifetime investment limit is R500 000. You cannot contribute more than R33 000 per tax year, and any capital amounts withdrawn don’t get deducted from the contributions made, in calculating the use of the allowance. The maximum investment limits apply across financial products, not per financial product, so your contribution amounts are aggregated across financial products, in calculating the use of the allowance. The limits are not applicable to the growth on your investment. If you exceed these limits, the SARS will levy a tax of 40% on all contributions that exceed R33 000 per tax year. Therefore, you should monitor your contributions, so that you don’t incur a 40% tax rate on excess contributions. You currently can’t transfer your tax-free investment between providers, and you may not convert existing investments into tax free investments.

Exchange traded funds and index tracking portfolios

ETFs are listed on an exchange, and may incur additional costs. ETFs are listed and traded on an exchange, whereas traditional CIS in securities are only priced on an exchange. However, they are both CIS in securities (long-only portfolios), are structured in the same way, and are subject to the same regulatory requirements. Whereas other exchange traded products are not CIS in securities. Index tracking portfolios are CIS in securities that track the performance of an index(es). Investors can view the constitution and performance of the index(es). Risks associated with ETFs and index tracking portfolios are that some ETFs and index tracking portfolios rely on complex investment techniques, or hold riskier underlying assets, to achieve their objectives, so you should always ensure you read the documentation provided, to ensure you fully understand the risks you are taking on, before you invest.

Specific risks

Drawdown: The potential magnitude of loss - the largest peak-to-trough decline in returns over the period, also known as the maximum drawdown.

High-yielding securities may be riskier than investment grade bonds. Yields and prices of high-yield securities may be more volatile.

Liquidity: The risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit). For example, if equity portfolios invest in the securities of small to mid-cap and/or financially distressed companies, they may be more volatile than the securities of larger and more stable companies.

Interest rate: The value of fixed income investments (for example, bonds) tends to decrease when interest rates and/or inflation rises.

Concentration: Investments may be primarily concentrated in specific areas (for example, countries, geographical regions or industry sectors), in terms of investment style (for example, income or growth), in individual holdings, etc. This may mean the value of the portfolio may decrease while portfolios that are more broadly invested might grow.

Country and political: Investments or underlying components of your investments may be affected by their link or relationship to specific countries which could be exposed to political or economic events affecting companies, interest rates or currencies.

Currency exchange: Changes in the relative values of different currencies may adversely affect the value of the portfolio’s investments and any related income.

Default: There is a risk that the issuers of fixed income investments (for example, bonds) may not be able to meet interest payments nor repay the money they have borrowed. The worse the credit quality of the issuer, the greater the risk of default and therefore investment loss.

Geographical: Different portfolios carry varying levels of risk, depending on the geographical region and industry sector in which they invest. You should make yourself aware of these specific risks prior to investing.

Developing market risk: Some of the countries in which the portfolio invests may have less developed legal, political, economic or other systems. These markets carry a higher risk of financial loss than those in countries generally regarded as being more developed.

Equity: The value of equities and equity-related investments may vary according to company profits and future prospects, as well as more general market factors. In the event of a company default, the owners of their equity rank last in terms of any financial payment from that company.

Macroeconomic risk: Refers to the risk that conditions such as exchange rates, growth rate, gross domestic product, inflation, price levels, national income, changes in employment, government regulation or political stability, will affect an investment usually in a foreign country.

Multi-asset investment risk: The portfolio is subject to possible financial losses in multiple markets and may underperform more focused portfolios.

Return on capital: Neither capital preservation nor returns are guaranteed.

Settlement risk: The risk that a counterparty does not deliver a security or its value in cash as per agreement when the security was traded after the other counterparty or counterparties have already delivered security or cash value as per the trade agreement.

Taxation risk: The tax treatment of any investment is determined by the specific circumstance of each client. Taxation may change during the lifetime of an investment. This may result in unanticipated tax liabilities. You should obtain tax advice to be aware of the potential liability before making an investment. If your circumstances change or you are uncertain of how an investment might affect your own tax position you should seek professional advice.

Third-party operational risk: The portfolio's operations depend on third parties. Investors in the portfolio may suffer disruption or financial loss in the event of third-party operational failure.

The **property market can be illiquid**; consequently, there can be times when investors in property portfolios will be unable to sell their holdings. Property valuations are subjective, and a matter of judgement.

Targeted absolute return portfolios do not guarantee a positive return, and you could get back less than you invested, much like any other investment. Additionally, the underlying assets of these portfolios generally use complex hedging techniques, through the use of derivative products.

Smaller companies' (small-cap) shares can be more volatile and less liquid than larger company (large-cap) shares, so portfolios that include small-cap shares may carry more risk.

Underlying investments in emerging markets are generally less well-regulated than other markets. There is an increased chance of political and economic instability, with less reliable custody, dealing and settlement arrangements. The market(s) can be less liquid. If a portfolio investing in markets is affected by currency exchange rates, the investment's value could either increase or decrease, in response to changes in those exchange rates. Therefore, these investments carry more risk.

Portfolios that invest in a specific sector may carry more risk than those spread across a number of different sectors. In particular, gold, commodity, technology and other similarly-focused portfolios may suffer, as the underlying stocks may be more volatile and less liquid.

Due to their nature, specialist portfolios can be subject to specific sector risks. Investors should ensure they read all relevant information, to understand the nature of such investments, and the specific risks involved.

Bonds issued by major governments and companies, will be more stable than those issued by emerging markets or smaller corporate issuers. If an issuer experiences financial difficulty, there may be a risk to some, or all, of the capital invested. Any historical or current yields quoted should not be considered reliable indicators of future performance.

Published date: August 2018

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