



OLD MUTUAL UNIT TRUSTS QUALIFIED INVESTOR HEDGE FUND PRE-INVESTMENT INFORMATION DOCUMENT

This document provides you with important information about our hedge funds, including the legislated requirements that will help you complete the application forms.

INFORMATION ON QUALIFIED INVESTOR HEDGE FUNDS

ABOUT HEDGE FUNDS

Hedge funds are alternative investment funds employing numerous different investment strategies in an unconstrained manner to earn returns for investors. Hedge funds may make use of derivatives, leverage and short selling to outperform their performance targets. It is important to note that hedge funds are only accessible to qualified investors, due to the more complex investment strategies they may use, and that the use of leverage may increase the risk of losing capital. For the first time in South Africa, hedge funds are being offered in a regulated framework. Old Mutual's hedge funds are set up as collective investment schemes (unit trusts).

HOW HEDGE FUNDS WORK

Each Old Mutual Qualified Investor (QI) hedge fund is constructed to take advantage of certain market opportunities. Hedge funds use different investment strategies; there is substantial diversity in risk attributes and investment styles. Our hedge funds aim to provide investors with long-term capital growth, whilst controlling the short-term volatility of investment returns by using hedging instruments and/or techniques and actively managing risk.

CONSIDER THE BENEFITS OF INCLUDING HEDGE FUNDS IN YOUR WELL-DIVERSIFIED PORTFOLIO

There are various reasons to include hedge funds in a portfolio of investments but the primary reasons are to reduce risk and diversify sources of return. Hedge funds are not constrained by the long-only constraints of traditional fund management, and as a result, hedge fund returns have a low correlation with those of the more traditional asset classes (i.e. equities, bonds, property and cash). In addition, they can access different sources of alpha that are generally not available in traditional fund management. Hedge funds endeavour to protect investors' capital in most investment environments, while earning returns for investors when opportunities are presented. They can form a very important part of a well-diversified portfolio of traditional investments.

THE RISKS THE INVESTOR MUST BE AWARE OF

1. Investments in hedge funds are illiquid as liquidity is only provided on a monthly basis: Investors need to give advance notice of any transactions. Transactions only occur on the last working day of a calendar month ("Transaction Date"). Notifications are required 5 working days before the Transaction Date in the case of a purchase and by the first working day of a month in the case of a switch or repurchase transaction.
2. Exposure to investment strategies can be very concentrated. This can lead to significant gain or loss.
3. Use of leverage can magnify both the gain or the loss. i.e. a minor loss can turn into a significant loss.

There are further potential risks that we have listed as an annexure to this document for your information.

WHO THESE FUNDS ARE FOR

South African legislation limits access to these funds to Qualified Investors. It further requires a minimum initial investment per fund of one million rand (R1m). In addition, the investor must have appointed a financial services provider (financial adviser) who has the relevant experience and knowledge to be able to give the investor advice on the risks involved in investing in hedge funds, or the investor must demonstrate that they have the relevant experience to enable them to assess the merits and risks involved in hedge fund investments.

THE FEES INVOLVED

These are detailed in the Minimum Disclosure Documents. If the services of an adviser are used, initial fees can be levied ahead of entering the fund. Whilst invested there are annual service fees (which may include performance fees) due to the funds. If a financial adviser is used, there can be ongoing annual adviser fees. The funds can have further charges including dealing and settlement costs, trustee fees, audit fees, bank charges and interest when the fund is in overdraft.



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INVESTMENTS & WITHDRAWALS

HOW TO INVEST

Investor-requested transactions will be processed on the last working day of a calendar month ("the Transaction Date").

Purchase transaction requests, including all supporting documents, need to be submitted (with all requirements met) by 15h00 five (5) working days before the Transaction Date (as explained above).

HOW TO DISINVEST

Repurchase (redemption) and switch transaction requests need to be submitted (with all requirements met) by 15h00 on the first working day of a calendar month, for processing on the next Transaction Date.

ACCESS TO APPLICATION FORMS

Transaction application forms can be sourced from our service team on +27 (0)21 509 7140 alternatively visit www.oldmutualinvest.com/individual/our-solutions/hedge-funds.

Transaction requests received after the times indicated above will be processed on the next Transaction Date (i.e. a calendar month later).

WHAT YOU CAN EXPECT ONCE YOU ARE INVESTED

REPORTING TO INVESTORS

Old Mutual Unit Trusts will send quarterly investment statements to investors in all Qualified Investor Hedge Funds via email or post according to the preference indicated on the application form.

PROVIDERS' ROLES AND RESPONSIBILITIES

| DETAILS OF THE QI HEDGE FUNDS'... | COMPANY NAME | DESCRIPTION OF DUTIES |
|-----------------------------------|--|--|
| Custodian: | Standard Bank of South Africa Limited | The Custodian is required to perform certain functions in terms of the Collective Investment Schemes Control Act of 2002 (CISCA). These functions include but are not limited to ensuring the relevant requirements of CISCA are complied with. All assets are registered in the name of the Custodian and they are the signatory on the bank account. |
| Fund Administrator: | Curo Fund Services (Pty) Limited | The Fund Administrator provides a comprehensive investment administration service for various products and collective investment schemes. The service level agreement with Curo is approved by the Financial Services Board (FSB). |
| Investor Administrator: | Old Mutual Investment Administrators (Pty) Limited (OMIA) | Old Mutual's in-house investment administrator provides a comprehensive service for various products and collective investment schemes. The service level agreement with OMIA is approved by the FSB. |
| Auditor: | KPMG Inc. | The Auditor is required to audit the CIS business in accordance with the relevant requirements of CISCA. KPMG is approved by the FSB as the auditor for these portfolios. |
| Portfolio Manager: | Old Mutual Customised Solutions (Pty) Ltd (OMCS) (FSP No. 721) | The Portfolio Manager offers and manages capabilities that may employ a range of hedging strategies. OMCS is a boutique of the Old Mutual Investment Group. |

Any material arrangement with a counterparty not mentioned above includes an agreement with the Trustee or Custodian as the signatory on bank accounts or the custodian of the assets in terms of CISCA. Management of any conflicts will be detailed in these contracts including escalation clauses for independent arbitration. The Management Company does not enter into asset re-hypothecation agreements. Counterparty exposure is limited in the individual portfolio mandates agreed with the Portfolio Manager in terms of the risk management programme. Counterparty exposure is calculated in terms of Board Notice 52.

PREFERENTIAL TREATMENT

Old Mutual recognises different statuses of investors. Each QI hedge fund has different fee classes and the ability to rebate fees to achieve a specific fee deal agreed. Different investors are placed in different classes and therefore pay different fees. This placement is at the discretion of the management company. Investors affiliated to the Old Mutual group (group companies or by virtue of employment) receive preferential fee treatment.



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SUPPORTING DOCUMENT REQUIREMENTS

To comply with FICA requirements, investors must supply the applicable documents listed below before we can process your investment. For a detailed list reference of verification requirements please [click here](#).

INSTITUTIONAL INVESTORS MUST SUBMIT:

- Proof of physical address that is less than three months old, for example, a utility bill
- Identity documents for each member, trustee, or partner, or representative exercising executive control and authorised to enter into a transaction with us.

RETIREMENT FUNDS MUST ALSO SUBMIT:

- Name and address of the legal entity that established the pension fund organization;
- Registered rules of the Fund
- Registration certificate of the Fund

ALL SOUTH AFRICAN AND FOREIGN COMPANIES MUST ALSO SUBMIT:

- Identity documents (or passports) and residential address and contact details for the manager, all authorised representatives and all individuals holding 25% or more of the voting rights at a general meeting
- Official document from foreign regulator witnessing the incorporation, bearing the foreign company's name, number and address
- Proof of authority to act on behalf of the company, for example, a resolution
- Company Register to confirm who holds 25% or more voting rights in the company
- Name, address, and appropriate founding document of any institution that holds 25% or more of the voting rights (For South African companies, this is CoR 15.1 (A-E).

South African companies created **before 1 May 2011** must also submit:

- Copy of Certificate of Incorporation (CM1)
- Notice of Registered Office and Postal Address (CM22)
- Copy of the Contents of Register of Directors, Auditors & Officers (CM29)

Please also submit a Certificate of Name Change (CM9) if it applies.

South African companies created **after 1 May 2011** must also submit:

- Memorandum of Incorporation (CoR 15.1 (A-E))

Please submit the following notices if they apply:

- Incorporation or Amended CoR 14.1 (for name changes that differ from trade name. The trade name must conform to the Consumer Protection Act (if applicable))
- Notice of Amendment (CoR 15.2)
- Notice of Alteration (CoR 15.3)
- Notice of Translation (CoR 15.4)
- Notice of Location of Company Records (CoR 22)
- Annexure – Directors of External Company (CoR 20.1)
- Notice of Change of Address (CoR 21)
- Notice of Change of Company Directors (CoR 39)
- Notice of Change of Company Auditors and Company Secretary (CoR 44).



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ANNEXURE: FURTHER DISCLOSURE ON POTENTIAL HEDGE FUND RISKS

This risk disclosure statement is made pursuant to Board Notice 571 of 2008 in terms of the Financial Advisory and Intermediary Services Act, 2002 (FAIS). The risk of loss arising from hedge fund investments can be substantial. You should carefully consider whether such investments are suitable for you, taking into account your circumstances and financial resources. The risks and characteristics contained in this annexure represent some of the more general risks and characteristics prevalent in hedge fund portfolios. The list below should not be seen as exhaustive.

1. HEDGE FUND RISK DISCLOSURES

1.1. INVESTMENT STRATEGIES MAY BE INHERENTLY RISKY

Hedge fund strategies may include leverage, short selling and short-term investments. In addition, hedge fund portfolios often invest in unlisted instruments, low-grade debt, foreign currency and other exotic instruments. All of these expose investors to additional risk. However, not all hedge fund managers employ any or all of these strategies and it is recommended that investors consult their advisers in order to determine which strategies the relevant manager is employing and which consequent risks arise.

1.2. LEVERAGE USUALLY MEANS HIGHER VOLATILITY

Hedge fund managers may use leverage. This means that the hedge fund manager borrows additional funds, or trades on margin, in order to amplify their investment decisions. This means that the volatility of the hedge fund portfolio can be many times that of the underlying investments. The degree to which leverage may be employed in any given hedge fund portfolio will be limited by the mandate the investor has with the manager. The limits laid down by the mandate should be carefully reviewed in making an investment decision.

1.3. SHORT SELLING CAN LEAD TO SIGNIFICANT LOSSES

Hedge fund managers may borrow securities in order to sell them short, in the hope that the price of the underlying instrument will fall. Where the price of the underlying instrument rises, the investor can be exposed to significant losses, given that the manager is forced to buy securities (to deliver to the purchaser under the short sale) at high prices.

1.4. UNLISTED INSTRUMENTS MIGHT BE VALUED INCORRECTLY

Hedge fund managers may invest in unlisted instruments where a market value is not determined by willing buyers and sellers. The hedge fund manager shall endeavour to ascertain, with reasonable accuracy and on a consistent basis, the value of such instruments. Notwithstanding this, these estimates may be inaccurate, leading to an incorrect impression of the fund's value. Investors should ensure that objective valuations are performed for all instruments in a portfolio and that the manager utilises the services of a competent administrator.

1.5. FIXED INCOME INSTRUMENTS MAY BE LOW-GRADE

Hedge fund managers may invest in low-grade bonds and other fixed interest investments. These investments are more likely to suffer from defaults on interest or capital. They are also more likely to have volatile valuations when the market changes its view on credit risk. The mandate should also limit the extent (i.e. lowest acceptable rating and maximum percentage exposure) to which low-grade debt can be acquired by the Investor. Investors should review the mandate to gain an appreciation of the maximum possible exposure applicable to the relevant mandate.

1.6. EXCHANGE RATES COULD TURN AGAINST THE FUND

A hedge fund manager may invest in currencies other than the base currency. For example, a South African hedge fund manager may invest in UK or US shares. The portfolio is therefore exposed to the risk of the rand strengthening or the foreign currency weakening.

1.7. OTHER COMPLEX INVESTMENTS MAY BE MISUNDERSTOOD

In addition to the above, hedge fund managers might invest in complex instruments such as but not limited to futures, forwards, swaps, options and contracts for difference. Many of these will be derivatives, which could increase volatility and many will be "over-the-counter" instruments, which could increase counterparty risk. Many exotic instruments may also be challenging for the manager to administer and account for properly. Investors should enquire into how these instruments are objectively and independently valued.

1.8. THE INVESTOR MAY BE CAUGHT IN A LIQUIDITY SQUEEZE

Hedge fund managers need to be able to disinvest from or close certain positions quickly and efficiently, given their often short-term nature. However, market liquidity is not always stable, and if liquidity were to decrease suddenly, the hedge fund manager might be unable to disinvest from or close such positions rapidly or at a good price, which may lead to losses.

1.9. THE PRIME BROKER OR CUSTODIAN MAY DEFAULT

Where appointed, hedge fund managers may have special relationships with so-called "prime" brokers. These are stockbrokers that provide the required leveraging and shorting facilities. Prime brokers usually require collateral for these facilities, which collateral is typically provided using assets of the relevant investor, and consequently such collateral might be at risk if the prime broker were to default in some way. A similar situation could occur with the custodian of the investor's funds.

1.10. REGULATIONS COULD CHANGE

During the term of the investor's investment in a hedge fund portfolio legal, tax and regulatory changes could occur that may adversely affect it. The effect of any future legal, tax and regulatory change or any future court decision on a hedge fund portfolio could be substantial and adverse.



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1.11. PAST PERFORMANCE MIGHT BE THEORETICAL

Hedge fund portfolios are on occasion marketed using theoretical or paper track records. Past performance is seldom a reliable indicator of future performance. Theoretical past performance is often an even less reliable indicator, and investors should place a lower significance on these.

1.12. THE MANAGER MAY BE CONFLICTED

The hedge fund manager may be managing other hedge fund portfolios or other traditional investment funds. The investor should ensure that sufficient controls are in place to manage any conflicts of interest between the different funds.

2. OTHER DIFFERENCES IN HEDGE FUND PORTFOLIOS

2.1. MANAGER ACCOUNTABILITY MAY BE VAGUE

Specific individuals often manage hedge fund portfolios and investors should ensure that sufficient controls are in place for the times when the accountable manager is not available. Financial advisers may rely on the trading and/or investment expertise and experience of third-party managers or advisers, the identity of whom might not be disclosed to investors. This constitutes an additional risk for investors, which they must take into account.

2.2. FEES MAY BE HIGH

Hedge fund structures' fees may be significantly higher than the fees charged on traditional investment funds. Investments should be made only where the potential returns justify the higher fees.

2.3. FEES MAY BE PERFORMANCE-BASED

Hedge fund managers' fees are usually performance-based. This means that the managers typically get a higher fee when their portfolios outperform specified performance targets, which might lead to riskier positions being taken. Investors need to ensure that performance fees allow for a fair sharing of both the good and the bad.

2.4. TRANSACTION COSTS MIGHT BE HIGH

Given the often short term nature of investment positions, hedge fund portfolios are often traded more aggressively. This implies more stock-broking commission and charges being paid from the portfolio, which is ultimately for the investor's account. Again investments should be made only where the potential returns make up for the costs.

2.5. TRANSPARENCY MAY BE LOW

A hedge fund manager's performance is often the result of unique proprietary strategies or contrarian investment positions. For obvious reasons, managers will want to keep these confidential. Managers are therefore less likely to disclose trades to their investors, and holdings might be disclosed only in part or with a significant delay.

2.6. DEALING AND REPORTING MAY BE INFREQUENT

A hedge fund manager's performance can often be disturbed by irregular cash flows into or out of the hedge fund structure. For this reason, hedge fund managers often limit the frequency of investments and withdrawals. Similarly, the manager may choose to report infrequently on performance and other statistics. Investors should ascertain, prior to investing, the nature and frequency of reporting.

2.7. WITHDRAWALS MIGHT NOT BE EASY

As mentioned above, the frequency of withdrawals might be limited to monthly dates as determined by the hedge fund manager from time to time. In addition, the manager may impose notice periods or lock-ins in order to ensure that they have the necessary time for their investment positions to deliver the desired results.

This brief statement cannot disclose all hedge fund investment risks. Hedge fund investments are not suitable for many members of the public and you should carefully study such investments before you commit funds to them. They may also have tax consequences and on this you should consult your lawyer, accountant or tax adviser.