The Investment Universe

Discover What's Truly Available to You

GRAYSWAN

2025

2025

Understanding the Investment Universe

Investing is both an art and a science, requiring a blend of informed decision-making, optimal asset allocation, fund and investment manager selection, as well as expert risk management. At GraySwan we aim to empower the clients we work with, and have constructed this informative article accordingly. This informative article provides an exploration of the range of investment vehicles available to investors, with the aim for investors to understand both their local and offshore investment options.

The investment universe offers a wealth of opportunities for investors to grow capital, generate income, or preserve wealth. It is therefore important to understand the diverse range of investment vehicles available, each with their own unique benefits and risks.

With the support from your GraySwan financial advisor, you can gain clearer insight into these options and make more informed investment decisions that align with your goals, risk tolerance, and investment horizon. In this informative article, we explore the most common pooled investment structures available to investors.

POOLED INVESTMENT STRUCTURES

UNIT TRUSTS	EXCHANGE-TRADED FUNDS	HEDGE FUNDS
EXCHANGE-TRADED NOTES	STRUCTURED PRODUCTS	FUND OF HEDGE FUNDS

POOLED INVESTMENT STRUCTURES

WHAT ARE POOLED INVESTMENT STRUCTURES?

A pooled investment structure is where multiple investors combine their money into one fund and invest collectively. Instead of each person buying and managing individual investments on their own, everyone contributes to a larger pool of capital that is then managed by a fund manager.

Each investor then owns a proportional part of the fund. The pooled fund then invests in different assets, such as equities, bonds, property, or commodities. By investing in a pooled fund that invests in different assets, investors benefit from diversification, professional management, and economies of scale that would often be difficult or costly to achieve individually.

These structures are the foundation of many common investment vehicles, which includes Unit Trusts, Exchange-Trade Funds (ETFs), Hedge Funds, Exchange-Traded Notes, Structured Products, and Fund of Hedge Funds. While the specific regulations, benefits, and risks may differ between these investment vehicles, the core principle remains the same: investors benefit from joining forces and investing together rather than alone.

One of the most widely used pooled investment structures, particularly in South Africa, is the Collective Investment Scheme (CIS).

COLLECTIVE INVESTMENT STRUCTURES

WHAT ARE COLLECTIVE INVESTMENT STRUCTURES?

A Collective Investment Scheme (CIS) is an investment vehicle that aggregates money from multiple investors into a fund. Each investor now owns a proportional unit of the fund's Net Asset Value (NAV). This fund then invests the aggregated capital in a diversified portfolio of underlying assets, which can include any combination of equities, bonds, property, or commodities.

CISs are typically structured as trusts and are overseen by both a fund manager and a Trustee, which ensures regulatory compliance and investor protection. By pooling funds from multiple investors, CISs enable individuals to benefit from economies of scale and access to professional investment management, advantages that would be difficult for a individual trade to achieve.

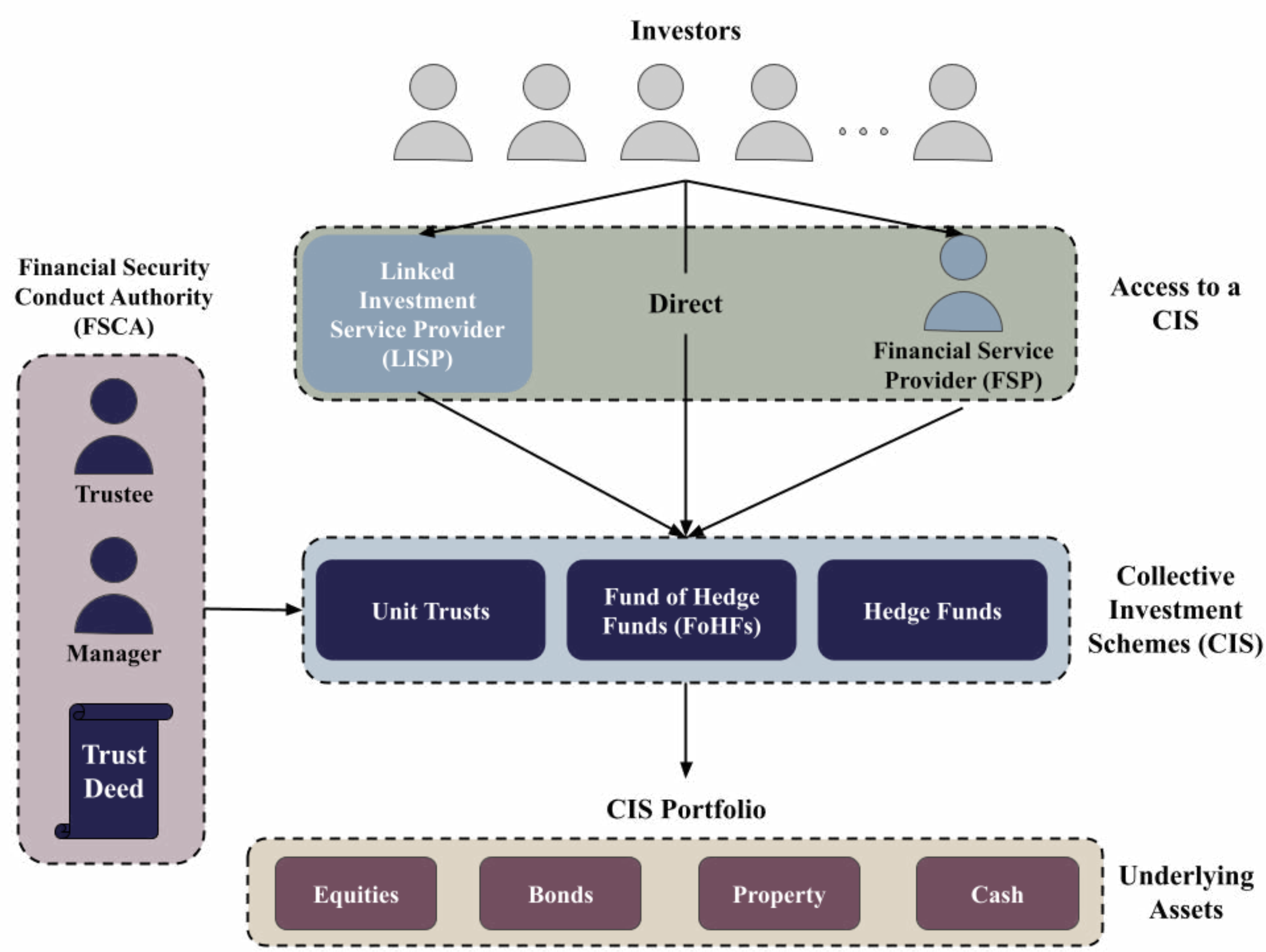
In South Africa, CISs are regulated under the Collective Investment Schemes Control Act 45 of 2002 (CISCA), which came into effect in March 2003 and replaced the earlier Unit Trusts Control Act and Participation Bonds Act of 1981. Enforcement of this legislation falls under the Financial Sector Conduct Authority (FSCA).

Alongside legislation, industry standards are guided by the Association for Savings and Investment South Africa (ASISA), which is a self-regulatory body representing fund managers, life insurers, Unit Trust providers, linked investment service providers, and hedge fund managers. Although ASISA does not have statutory authority, membership is voluntary and members contractually commit to its codes of conduct, standards, and best practices. These frameworks aim to promote transparency, encourage ethical behaviour, and ensure fair conduct across the sector.

For those interested, we have included links to a list of CISs in South Africa, and the official CISCA document:

- *List of CISs as at March 2025 >*
- *Collective Investment Scheme Control Act of 2002 >*

STRUCTURE OF A CIS



The diagram above provides an overview of the structure of a CIS. A breakdown of each component of the diagram follows in the next section.

STRUCTURE OF A CIS

At the heart of a CIS is the fund, which is a collection of underlying assets. The specific combination and weighting of these assets are determined by the investment objectives and the structure, which will be discussed in more detail later. The investment objectives and structure are outlined in the CIS's trust deed. The trust deed is a legal document that defines the fund's objectives, structure, and operational rules.

When investing in a CIS, the fund is what is being invested in. In return for investing in a CIS, investors receive units in the fund. Each unit represents proportional ownership of the fund. The value of a unit is based on the Net Asset Value (NAV), which is calculated by taking the total value of the fund's assets, subtracting liabilities, and dividing by the number of units in issue.

For example, if the fund is worth R1 million, after liabilities, and there are 100,000 units, the NAV per unit is R10. An investor who contributes R10,000 would receive 1,000 units and thus own 1% of the fund.

A CIS is jointly managed by three key entities:

- A licensed CIS fund manager, who is responsible for the fund's investment decisions, marketing, and compliance.
- The Management Company (ManCo), is a licensed entity which oversees the fund manager and the fund's administration.
- The Trustee, an independent party, usually a bank, which is tasked with safeguarding the fund's assets, and ensuring that the fund manager adheres to the trust deed and acts in the best interests of investors.

Finally, the Financial Sector Conduct Authority (FSCA) serves as the industry regulator, ensuring that all CIS fund managers, Trustees, and CISs operate in compliance with regulations and legislation. While the Association for Savings and Investment South Africa (ASISA) acts as a self-regulatory body ensuring members follow codes of conduct, standards and best practices.

TYPES OF A CIS

CISs can be classified based on their investment structure, as outlined in CISCA. The following sections will explore in more detail the individual structure of common CISs.

In addition, funds can be further categorised according to their underlying assets and investment strategies. ASISA maintains a fund classification standard that provides detailed guidance on these categories. For those interested, we've included a link to the latest ASISA fund classification document: *ASISA Fund Classification as at 1 July 2024 >*

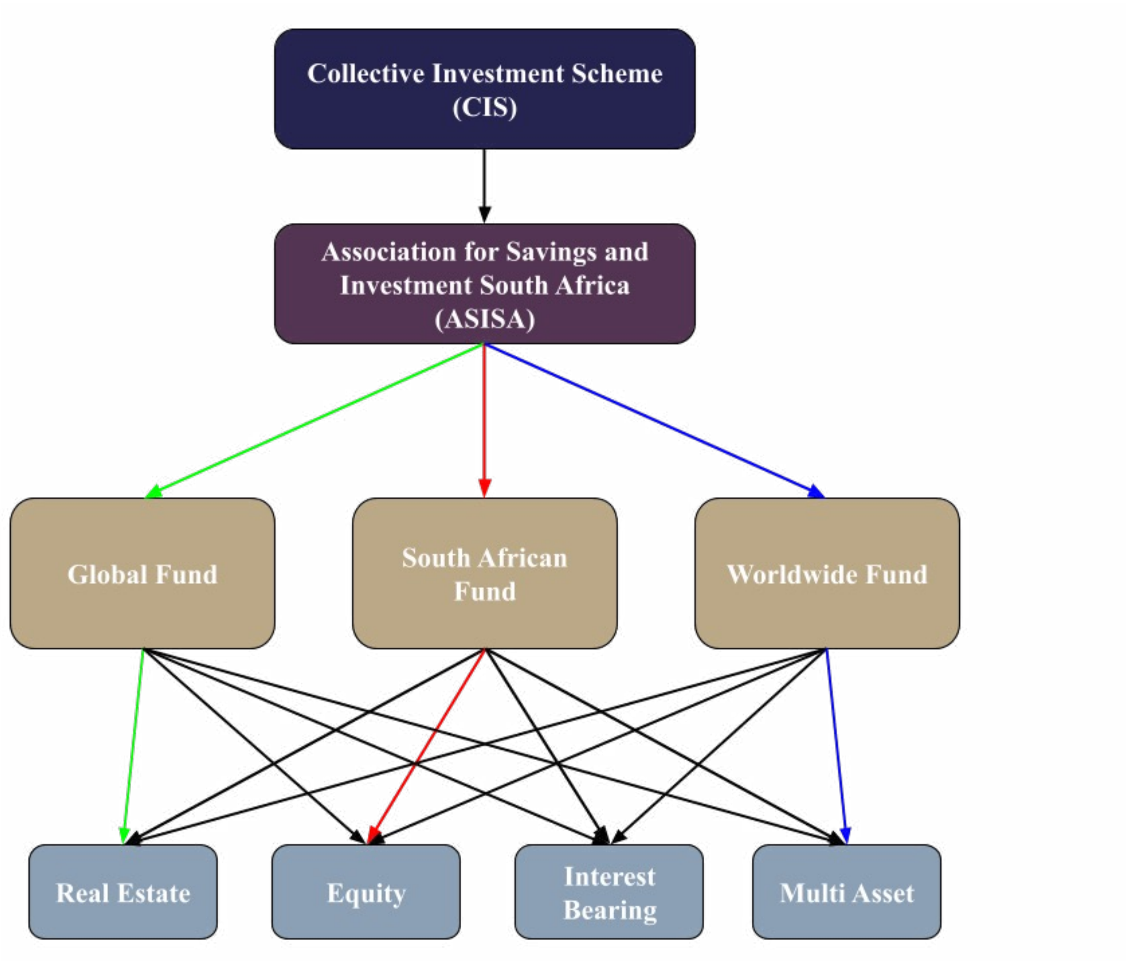
Below is an overview of common CIS investment structures.

UNIT TRUSTS	FUND OF HEDGE FUNDS	HEDGE FUNDS

The diagram in the following section illustrates how a CIS can be fully classified from structure to asset class. To see how explicitly a fund is classified according to ASISA see the link mentioned above. To provide a clearer understanding of how a CIS might be classified, consider the following three examples:

1. A CIS may be structured as a Unit Trust, with an underlying fund which may be classified as a South African fund according to ASISA guidelines. Within that, the fund may fall under the Equity category, and more specifically, be classified as an Equity General fund. This is indicated by the red arrows.
2. A South African hedge fund, which is a type of CIS, may invest offshore. If at least 80% of the fund is invested offshore then the fund is classified as a Global fund. The types of underlying assets it holds then determine its further classification. As shown in the green arrows, this hedge fund could be a Global fund that invests in offshore real estate.
3. If a Unit Trust is a Worldwide fund, it can invest in any mix of South African or offshore assets. Investing across equities, bonds, property, and commodities would further classify the fund as Multi-Asset, as shown by the blue arrows.

FUND CLASSIFICATION



Fund Sub-Classification

Equity Funds	**Multi Asset Funds**
• Equity - General • Equity - SA General • Equity - Large Cap • Equity - Mid & Small Cap • Equity - Resource • Equity - Financial • Equity - Industrial • Equity - Unclassified • Equity - Africa	• Multi Asset - Flexible • Multi Asset - High Equity • Multi Asset - SA High Equity • Multi Asset - Medium Equity • Multi Asset - Low Equity • Multi Asset - Income • Multi Asset - Unclassified
Interest Bearing Funds	**Real Estate Funds**
• Interest Bearing - Variable Term • Interest Bearing - Variable Term ILB • Interesting Bearing - Short Term • Interesting Bearing - SA Money Market • Interest Bearing - Unclassified	• Real Estate - General

BENEFITS OF CIS

Diversification
CISs invest across a range of investments, with different weightings depending on the fund's investment strategy. The goal is to create a diversified fund, which helps investors reduce exposure to any single investment and manage overall investment risk.

Professional Management
CISs are managed by licensed investment and experienced fund managers who conduct ongoing research, asset selection decisions, and rebalancing the fund in line with the fund's investment objectives. This level of expertise and management would be difficult and costly for individual investors to access on their own.

Accessibility
South Africa's investor-focused legislation makes many CISs highly accessible, with some Unit Trusts requiring as little as R500 to start. However, requirements do vary by the type of CIS. For example, hedge funds are classified as qualified or retail, each with its own criteria to invest in.

Liquidity
Most CISs offer high liquidity, enabling investors to buy or sell units in the fund on demand. However, some CISs cater to qualified or institutional investors and may have liquidity restrictions. Regardless of the structure, South African regulation requires that funds clearly disclose their liquidity terms upfront.

Transparency
CISs must publish monthly fact sheets, performance updates, and fund disclosures. This provides investors with clear information about where their money is invested, how the fund is performing, and the fees being charged.

Regulatory Oversight
CISs are regulated by the Financial Sector Conduct Authority (FSCA) under the Collective Investment Schemes Control Act of 2002 (CISCA), which sets strict requirements for governance, asset allocation, valuation, and risk management. Additionally, an independent Trustee safeguards assets and ensures that the fund manager is compliant, while the Association for Savings and Investment South Africa (ASISA), as a self-regulatory body, promotes transparency and ethical conduct through its codes, standards, and best practices in the industry.

RISKS OF CIS

Market Risk

Factors such as economic changes, political events, and global developments can impact the prices of the underlying assets. As a result, unit prices of the fund may fluctuate, and investors could experience losses.

Not all CISs carry the same level of risk, some are more volatile than others, depending on their investment strategy. For example, offshore funds are affected by currency movements, while fixed income and money market funds are sensitive to interest rate changes.

Management Risk

The performance of a CIS largely depends on the skill and decisions of the fund manager. Poor asset selection, strategy misalignment, or operational errors can negatively affect returns.

Credit Risk

CISs that invest in debt instruments, such as bonds or money market securities, face the risk that issuers may default on payments. This can reduce the fund's value and negatively affect income payouts to investors.

Concentration Risk

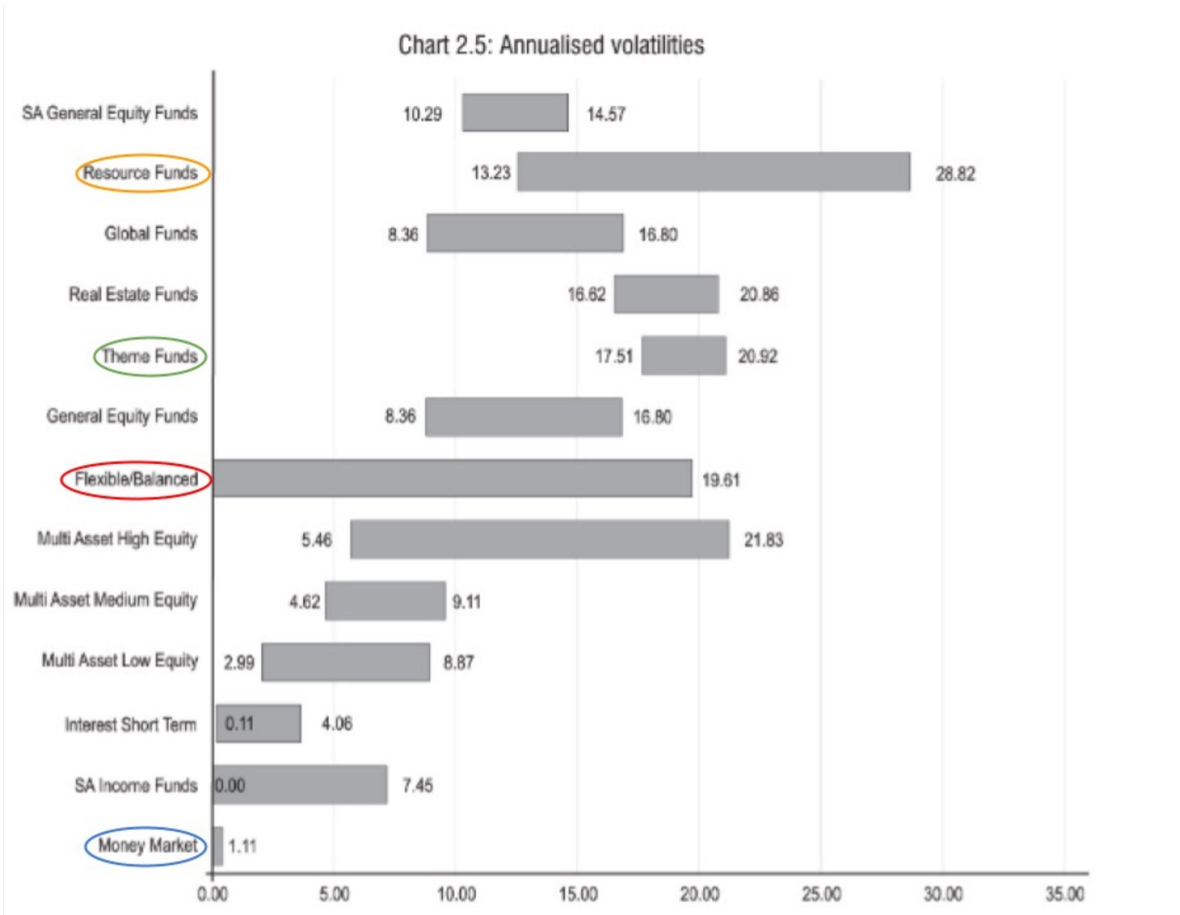
Although CISs aim to offer diversified funds, some may have concentrated exposure to specific sectors, regions, or asset classes, which makes them more vulnerable to adverse developments in those areas.

INVESTMENT UNIVERSE RISK

The diagram below illustrates the annualised volatility of various South African fund categories, providing insight into their relative risk levels.

Volatility, which measures how much fund returns fluctuate, serves as a key indicator of investment risk. The chart shows that volatility varies significantly from fund to fund, with noticeable overlaps across categories.

It's important to note that the risk spectrum is not strictly linear, there is significant overlap between fund categories, and volatility can shift over time due to changing market conditions. Understanding these differences is essential for investors to align their fund choices with their risk tolerance.



Source: ProfieData, January 2025

The previous diagram illustrates that the risk of different investment classes is not strictly linear. While higher volatility often suggests higher potential returns, the chart shows that volatility ranges within each investment class can vary widely, with significant overlap between categories.

For example, Flexible/Balanced funds (circled in red) ranges from 0% to 19.61% annualised volatility. In contrast, Money Market funds (circled in blue) have a very narrow volatility range, indicating that their risk level remains consistently low over time. Themed funds (circled in green) have high volatility, but a small range, meaning they are consistently high-risk. By comparison, Resource funds (circled in orange) have a wide band, showing their risk level can change dramatically over time.

As shown in the chart, the Multi Asset Low Equity category (volatility range: ~3%–9%) overlaps with the Multi Asset High Equity category (volatility range: ~5%–22%). This shows, in certain market conditions, a "low equity" fund can experience similar volatility as a "high equity" fund, and vice versa.

The overlap in volatility bands highlights that risk, measured through volatility, is not static. Different funds can experience different levels of risk depending on the market conditions. For investors, this is a reminder to choose funds that match your risk tolerance:

- If you can accept large swings in performance and risk, a higher-volatility fund like Multi Asset High Equity (e.g., GraySwan Aggressive Unit Trust) may suit you.

- If you prefer stability, a lower-volatility fund such as Multi Asset Low Equity (e.g., GraySwan Cautious Unit Trust) may be a better option.

HOW TO ACCESS A CIS?

Linked Investment Service Providers (LISPs)

LISPs offer a centralised investment platform where investors can access a wide range of CISs from different fund managers, all in one place. These platforms also provide consolidated reporting, simplified administration, and tools to manage your portfolio.

Examples of LISPs include:
- Allan Gray
- Glacier by Sanlam
- Momentum Investments
- Ninety One
- Old Mutual Wealth
- PPS Investments

Registered Financial Service Providers (FSPs)

Investors may also choose to work with an authorised FSP, such as GraySwan, who can provide personalised investment advice. FSPs assess your financial objectives, risk tolerance, and investment horizon, and help you build an investment portfolio aligned with your goals. They also handle the administrative, investment, and regulatory requirements on your behalf.

Direct Investment

It is also possible to invest directly by contacting the fund managers themselves. However, this route is generally not recommended unless you have the experience and capacity to conduct your own due diligence, manage risk, and monitor performance effectively.

EXAMPLES OF AVAILABLE CISs

Here are some examples of CISs that are available to South African investors:

Unit Trusts
- GraySwan SCI Worldwide Flexible Fund
- Fairtree Balanced Prescient Fund
- All Weather BCI Balanced Fund

Hedge Funds
- Peregrine Capital High Growth H4 QIHF
- Fairtree Silver Oak RIHF
- All Weather H4 Performance RIHF

Fund of Hedge Funds (FoHFs)
- Momentum RCIS ZAR Diversified QI Fund of Hedge Funds
- Old Mutual Multi Managers Diversified RI Fund of Hedge Funds
- Think Capital Flexible Growth RCIS Retail Fund of Hedge Funds

Collective Investment Scheme Structure – Unit Trusts

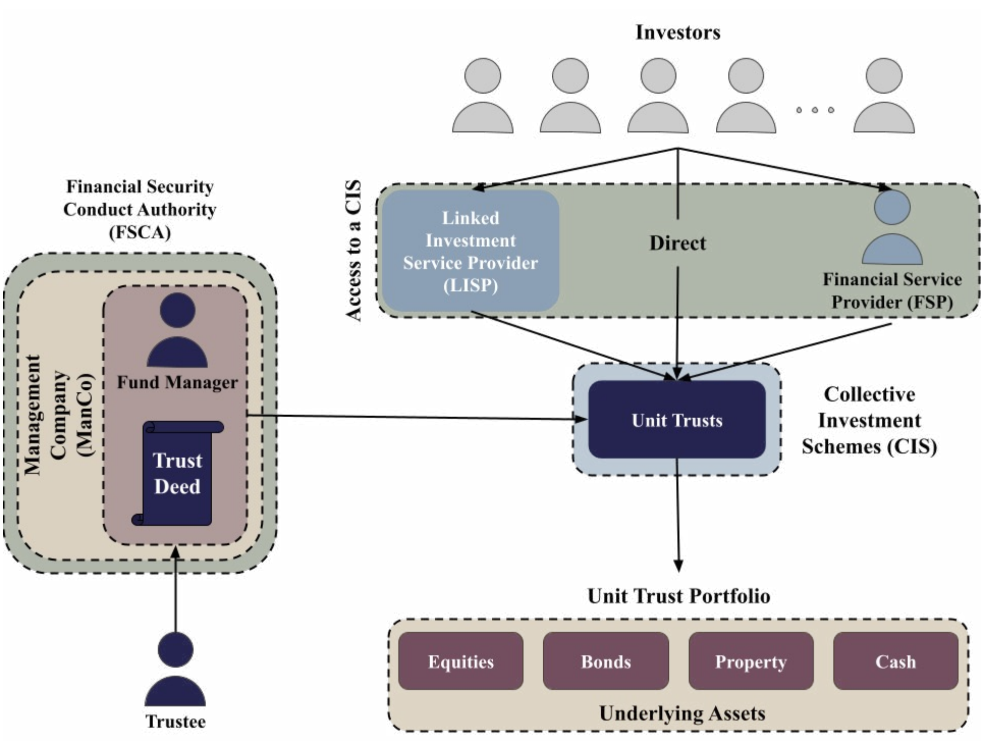
WHAT IS A UNIT TRUST?

A Unit Trust pools money from multiple investors into a single fund, which is managed by a licensed fund manager who may invest across different assets such as equities, bonds, property, money market instruments, and commodities. The asset allocation of the fund depends on the fund's investment objectives, as outlined in the trust deed on the Unit Trust. For example, a fund targeting higher returns may invest more heavily in equities.

To help investors understand what the fund is that they are investing in, each fund of a Unit Trust is also classified according to the Association for Savings and Investment South Africa (ASISA) standards.
These classifications make it easier to compare Unit Trusts with investment strategies. We have included a link to the ASISA fund classification guidelines, you can also refer to the Fund Classification subsection under Understanding the South African Investment Universe of this document to see a visual breakdown of how funds are grouped and classified.

ASISA Fund Classification as at 1 July 2024 >

Unit Trusts in South Africa are regulated under the Collective Investment Schemes Control Act of 2002, which is enforced by the Financial Sector Conduct Authority (FSCA). This regulatory framework ensures transparency and investor protection. We've included a link to an article that provides a comprehensive breakdown of Unit Trusts for those interested in learning more: *Unit Trust Handbook as March 2025 >*



The diagram above provides an overview of the structure of a Unit Trust operating in South Africa. A break down of each component of the diagram follows in the next section.

Trust Deed
The trust deed is the legal document that outlines the Unit Trust's investment objectives, limits, and the roles of the fund manager and Trustee. Registered with the Registrar, it serves as the formal agreement between the investors, fund manager, and Trustee.

Registrar
This refers to the Financial Sector Conduct Authority (FSCA). The Registrar ensures the fund is compliant with the Collective Investment Schemes Control Act of 2002 (CISCA). They supervise the registration and regulation of the fund manager and the fund. The Association for Savings and Investment South Africa (ASISA) acts as a self-regulatory body, ensuring industry codes of conduct, standards and best practices amongst members.

Trustee / Custodian
An independent party, usually a bank, which safe guards the fund's asset. The Trustee ensures that the fund manager is compliant with the trust deed, and that investors' interests are protected.

Management Company (ManCo)
The licensed company responsible for overseeing, administering and ensure regulator compliance of the fund. The ManCo collects money from investors and invests it according to the trust deed.

Participatory Interests
Investors don't own the underlying assets directly. Instead, they own units (participatory interests), each representing a proportional claim on the funds's value. Unit prices are determined daily based on Net Asset Value (NAV) of the fund. NAV is calculated by taking the total value of the fund's assets, subtracting liabilities, and dividing by the number of units in issue.

HOW DOES A UNIT TRUST WORK?

In South Africa, a Unit Trust allows individuals or institutions to invest either through a once-off lump sum or by setting up regular monthly contributions. When you invest, your money is used to buy units in the fund, and the value of these units is determined daily by the fund's NAV, which reflects the performance of the underlying investments.

For example, if the fund is worth R1 million, after deducting liabilities, and there are 100,000 units, the NAV per unit is R10. An investor who contributes R10,000 would receive 1,000 units and thus own 1% of the fund.

All contributions from investors are pooled into a single fund. Then a professional fund manager makes the day-to-day investment decisions, by buying and selling underlying assets in the fund in line with the fund's stated objectives in the trust deed.

If investors wish to exit the Unit Trust, they can sell their units at the fund's current NAV. Redemptions can typically be made on any business day, but the specific terms and cut-off times are outlined in the fund's trust deed.

BENEFITS OF A UNIT TRUST

Diversification

Unit Trusts may invest broad range of investments based on the investment objectives. The goal is to create a diversified fund, which helps investors reduce exposure to any investment and manage overall investment risk.

Professional Management

Unit Trusts are managed by licensed investment and experienced professionals who conduct ongoing research, asset selection decisions, and rebalancing the fund in line with the fund's investment objectives. This level of expertise and active management would be difficult and costly for individual investors to access on their own.

Accessibility

South Africa's legislation is investor-focused, which makes many Unit Trusts highly accessible, with many listed on LISPs. This allows investors to invest with a low barrier to entry, however the exact requirements vary between funds.

Liquidity

Most Unit Trusts offer high liquidity, enabling investors to buy or sell units in fund on demand. South African regulation requires that funds clearly disclose their liquidity terms upfront.

Transparency

Unit Trusts must publish regular fact sheets, performance updates, and fund disclosures. This provides investors with clear information about where their money is invested, how the fund is performing, and the fees being charged.

Regulatory Oversight

Unit Trusts are regulated by the Financial Sector Conduct Authority (FSCA) under the Collective Investment Schemes Control Act of 2002 (CISCA). The framework imposes strict rules on a fund's governance, asset allocation, valuation, and risk management. Additionally, an independent Trustee safeguards assets and ensures that the fund manager is compliant, while the Association for Savings and Investment South Africa (ASISA), as a self-regulatory body, promotes transparency and ethical conduct through its codes, standards, and best practices in the industry.

BENEFITS OF A UNIT TRUST

Market Risk

Factors such as economic changes, political events, and global developments can impact the prices of the underlying assets. As a result, unit prices of the fund may fluctuate, and investors could experience losses.

Not all Unit Trusts carry the same level of risk, some are more volatile than others, depending on their investment strategy. For example, offshore funds are affected by currency movements, while fixed income and money market funds are sensitive to interest rate changes.

Management Risk

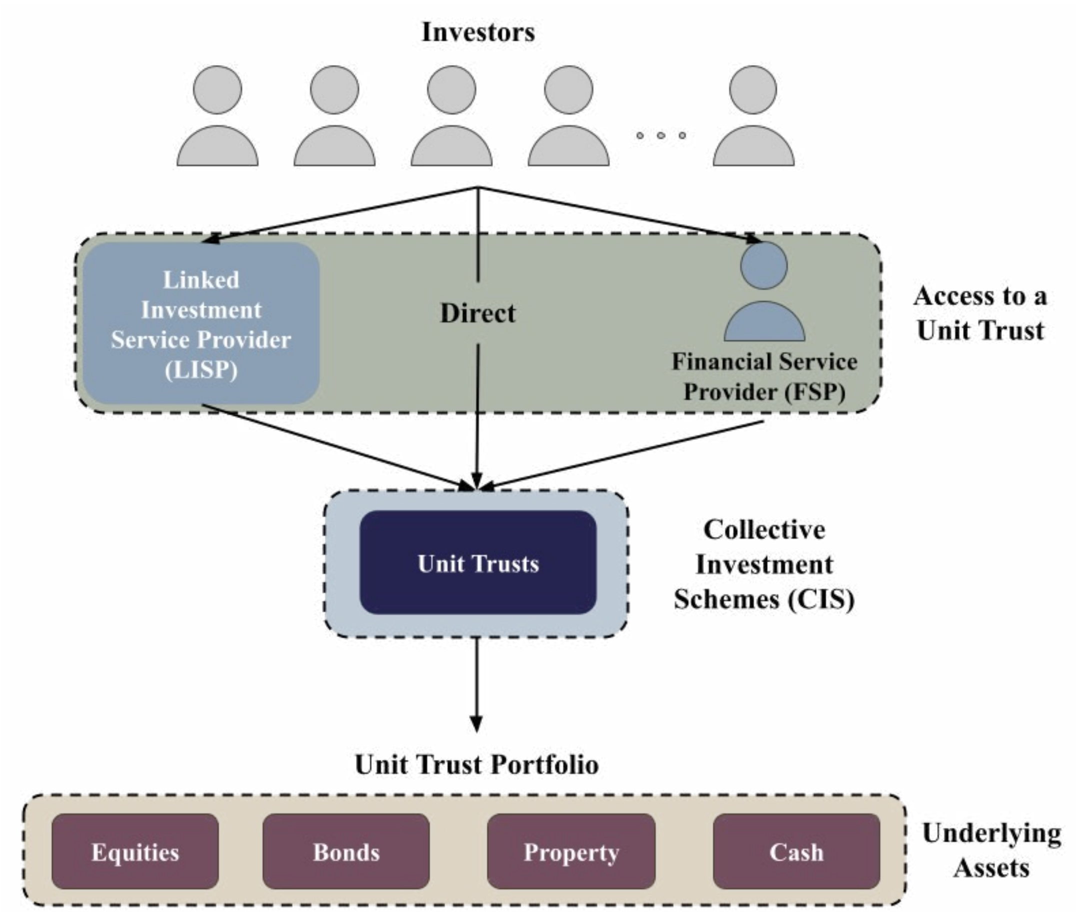
The performance of a Unit Trust largely depends on the skill and decisions of the fund manager which typically tracks a benchmark. However, poor asset selection, strategy misalignment, or operational errors can cause deviations from this benchmark.

Credit Risk
Unit Trusts that invest in debt instruments, such as bonds or money market securities, face the risk that issuers may default on payments. This can reduce the fund's value and negatively affect income payouts to investors.

Concentration Risk
Although Unit Trusts aim to offer diversified funds, some may have concentrated exposure to specific sectors, regions, or investments, which makes them more vulnerable to adverse developments in those areas.

Liquidity Risk
Unit Trusts are generally highly liquid, but during adverse market conditions, investor might panic sell. This may put pressure on the fund's ability to meet liquidity demands.

HOW TO ACCESS UNIT TRUSTS



Unit Trusts in South Africa can be accessed in three main ways:

1. Through Linked Investment Service Providers (LISPs)
2. Via licensed Financial Service Providers (FSPs)
3. Directly through the fund manager

To learn more about how to access a Unit Trust, you can refer to the How to Access a CIS? subsection under Understanding the South African Investment Universe of this document.

Here are a few examples of Unit Trusts available to South African investors:

- GraySwan SCI Worldwide Flexible Fund
- Fairtree Balanced Prescient Fund
- All Weather BCI Balanced Fund

For those interested in exploring the full range of available Unit Trusts in South Africa, we have also included a link to a comprehensive list: *List of Unit Trusts in South Africa >*

Exchange-Traded Funds

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WHAT IS AN EXCHANGE-TRADED FUND?

An Exchange-Traded Fund (ETF) is an investment fund that can be bought and sold on a stock exchange, just like individual shares. However, unlike buying a single company's stock, an ETF gives you exposure to a basket of assets, such as equities, bonds, property or commodities, all in a single trade.

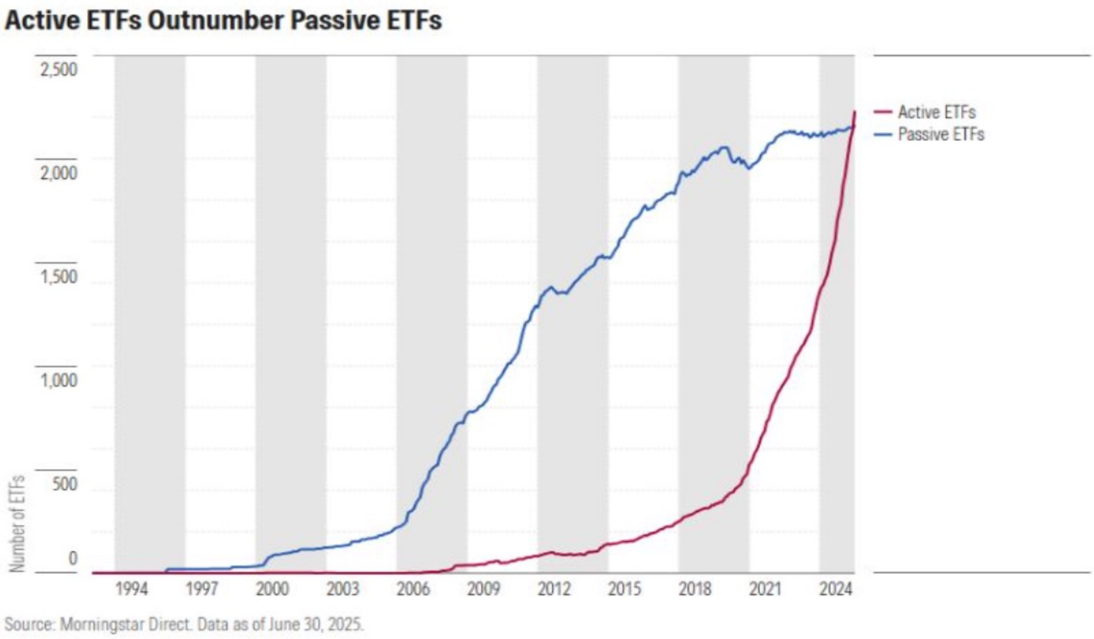
Most ETFs are designed to track the performance of a specific index, such as the FTSE/JSE Top 40 or the S&P 500. When you invest in one of these ETFs, you're essentially buying into a fund that aims to mirror the index's performance, rising or falling in value as the index does.

In 2025, ETF growth has been driven by innovation and adoption. Active ETFs, now exceeding $1 trillion in AUM, are outpacing traditional investment classes such as Unit Trusts in the US, with increased adoption among European retail investors. Additionally, 1 787 new ETFs were launched in 2024, led by cryptocurrency ETFs like the iShares Bitcoin Trust ($48.43 billion).

As of January 2025, the Johannesburg Stock Exchange (JSE)[1] offers 118 listed ETFs with a combined market capitalisation of R202 billion, covering a wide range of strategies, from passive index-tracking ETFs to a growing selection of actively managed ETFs.

In South Africa, ETFs are regulated under the Collective Investment Schemes Control Act (CISCA), which is enforced by the Financial Sector Conduct Authority (FSCA). However, not all ETFs fall under CISCA. According to the FSCA's register of regulated entities, there are currently 8 Management Companies (ManCos) with 9 schemes approved as CIS, covering around 80 ETFs. In addition to CISCA, all ETFs must also meet the Johannesburg Stock Exchange (JSE) listing requirements. This dual regulatory framework provides investors with protection, transparency, and liquidity.

PASSIVE VS. ACTIVE ETFS



ETFs are rapidly evolving, with active ETFs surpassing the number passive ETFs in June 2024 in the U.S., with 2,226 vs. 2,157 respectively. Since the Security Exchange Commission (SEC) in the US rules change in 2019, fund managers have increasingly embraced actively managed ETFs for their tax efficiency, flexibility, and investor appeal.

While passive ETFs, designed to track an index, continue to grow steadily, active ETFs are expanding at a much faster pace. Over the past five years, active ETF Assets Under Management (AUM) have surged from $100 billion to $1.12 trillion, outpacing passive ETFs' growth from $3.95 trillion to $10.38 trillion as reported by Morningstar Direct.

South Africa's ETF market is following this trend.

HOW DO ETFS WORK?

A professional investment firm, often referred to as an Authorised Participant (AP), creates an ETF by bundling together a group of assets such as equities, bonds, property, or commodities. This bundle is designed to track the performance of a specific index, like the FTSE/JSE Top 40 or the S&P 500. This bundle is then the ETF's underlying portfolio.

Once created, the ETF is divided into units, and is then listed on the JSE.

When you buy an ETF, you're purchasing a unit in the fund, giving you exposure to the fund which is tracking a specific index. Investors can buy or sell ETF units at any time during market hours, just like regular shares on the JSE.

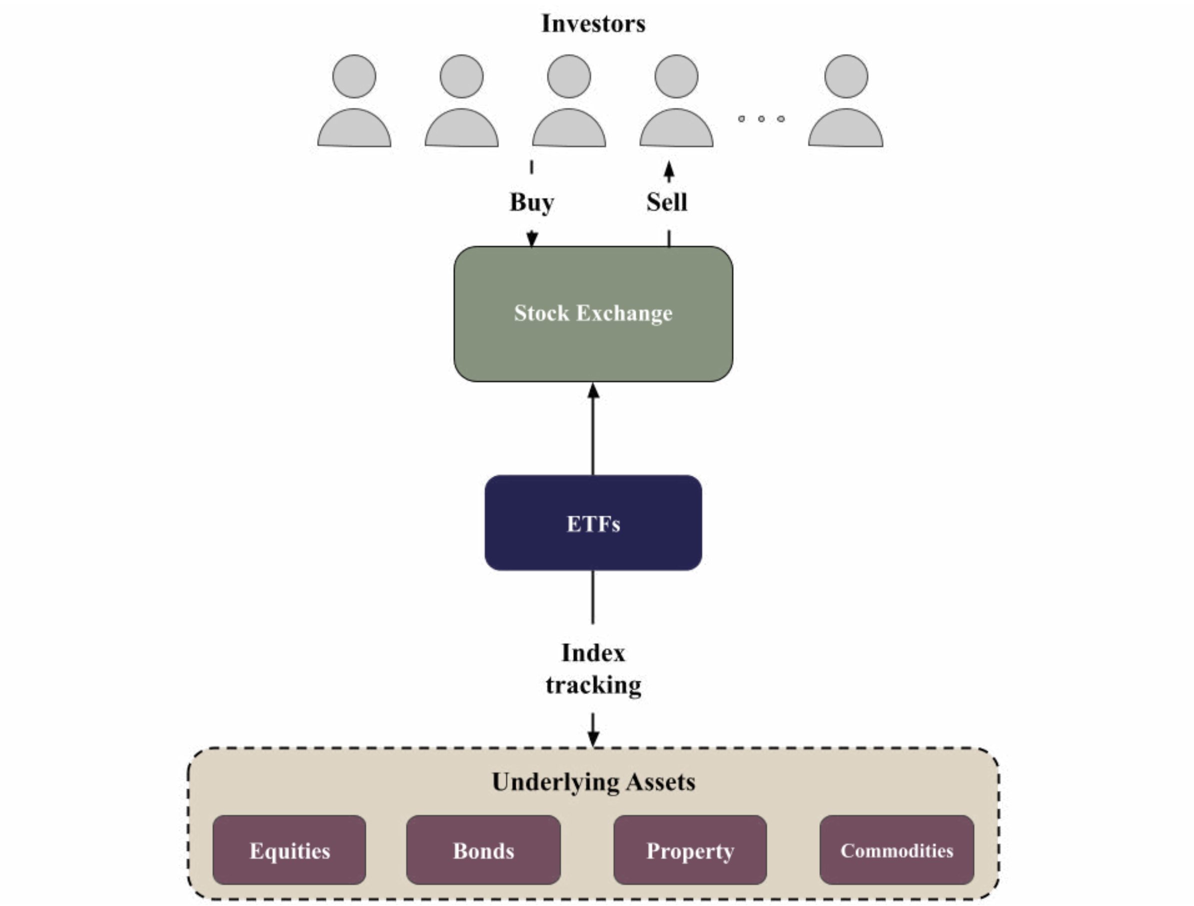
The price of each unit of the ETF fluctuates throughout the trading day based on two key factors: the Net Asset Value (NAV), and the market supply and demand for the ETF.

Passive ETFs are managed to closely replicate the performance of a chosen index, with fund managers continuously adjusting the fund to ensure the ETF trades near its true value.

In contrast, Active ETFs are managed with the goal of outperforming the index rather than simply tracking it. An active ETF fund manager makes investment decisions with the goal of achieving returns higher than the benchmark index. Instead of holding every security in an index, the fund manager can actively focus on those expected to perform well, adjust the weightings of individual holdings, exclude underperforming securities, and shift between sectors as market conditions change. This active approach provides the opportunity to achieve better returns than the benchmark index, but actual success is not guaranteed and depends largely on the fund manager's skill, judgement, and strategy.

While passive ETFs aim to mirror index performance, active ETFs seek to generate excess returns.

In South Africa, all ETFs are listed on the JSE, allowing investors to easily access them through stockbrokers.



BENEFITS OF ETFS

Diversification
With a single ETF purchase, you gain exposure to a broad basket of assets, such as equities, bonds, or commodities. This reduces your risk compared to investing in individual assets.

Cost-Effective
By tracking the performance of an index, ETFs typically have lower management fees than actively managed investment classes such as Unit Trusts, making them a cost-effective investment option.

Liquidity
ETFs are listed on the JSE and can be bought and sold throughout the trading day, just like equity shares in a company. This gives you the flexibility to respond quickly to market changes.

Accessibility
ETFs are easy to access through stockbrokers, and online platforms.

Transparency
Under JSE rules, ETF issuers must publish daily details such as the fund's net asset value (NAV) and any accrued reserves or costs. For passive ETFs, which track an index, this requirement effectively discloses their full holdings, giving investors complete visibility into the fund. Active ETFs, while also subject to these publication rules, are managed to outperform the index and are not required to reveal the entire fund holdings each day.

Regulatory Oversight
South African ETFs are regulated by Financial Sector Conduct Authority (FSCA) under Collective Investment Schemes Control Act of 2002 (CISCA). However, not all ETFs fall under CISCA. Additionally ETFs must also comply with JSE listing rules. This ensures investor protection, transparency, and adherence to strict compliance standards.

RISKS OF ETFS

Market Risk
Factors such as economic changes, political events, and global developments can impact the prices of the underlying assets. As a result, share prices of the fund may fluctuate, and investors could experience losses.

Not all ETFs carry the same level of risk, some are more volatile than others, depending on the index they are tracking or aiming to outperform. For example, offshore funds are affected by currency movements, while fixed income funds are sensitive to interest rate changes.

Tracking Error
Passive ETFs are designed to closely follow a specific index, but sometimes there's a difference between the ETF's return and the index it tracks. This can be caused by fees, liquidity issues, dividend timing, or imperfect replication of the index. Since active ETFs aim to outperform the index, some tracking error is inevitable, but it is not necessarily considered a risk.

Liquidity Risk
While most ETFs are highly liquid, some may have low trading volumes, especially niche or specialised ETFs. This could make it harder to buy or sell units at a fair price, especially during volatile market conditions.

Concentration Risk
Some ETFs track specific sectors or themes (e.g. technology, gold, or clean energy). These may offer higher growth potential but come with higher volatility and concentration risk if that sector performs poorly.

HOW TO ACCESS ETFS

ETFs in South Africa can be accessed in three main ways:

1. Through a stockbroker or online trading platform.
2. Via a Financial Advisor or Wealth Manager
3. Through a Linked Investment Service Provider (LISP)

Here are a few examples of ETFs available to South African investors:

- Satrix 40 ETF
- Sygnia Itrix S&P Global 1200 ESG ETF
- iShares MSCI South Africa ETF

For those interested in exploring the full range of available ETFs in South Africa, we've also included a link to a comprehensive list: *List of ETFs in South Africa >*

Exchange-Traded Notes

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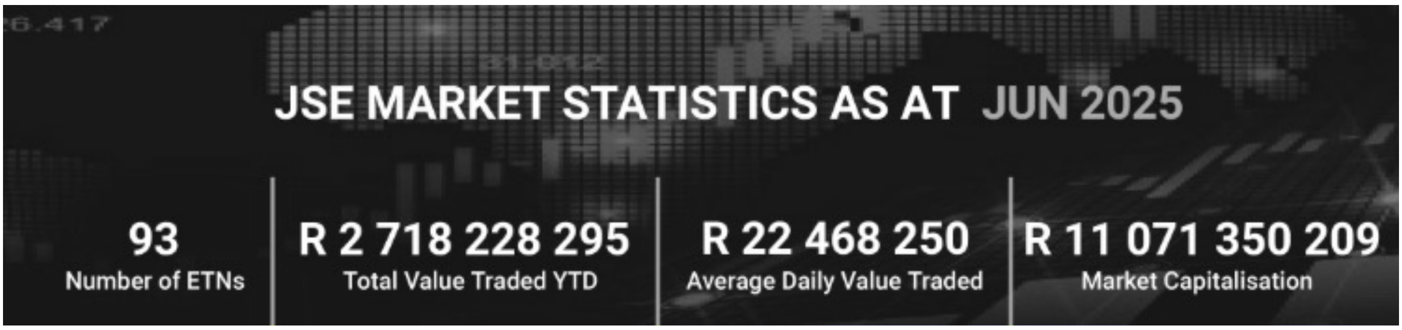
WHAT IS AN EXCHANGE-TRADED NOTE?

An Exchange-Traded Note (ETN) is a listed debt instrument on a stock market that gives you exposure to the performance of an underlying asset or index without directly owning the asset. ETNs are backed by the credit of the issuing institution (usually a bank).

When you invest in an ETN, you're essentially lending money to the bank, and in return, the bank promises to pay you the return based on the performance of the chosen index or asset.

According to the Johannesburg Stock Exchange (JSE), as of 2025, there's now 93 listed ETNs on the JSE with a total market capitalization of R11 billion.

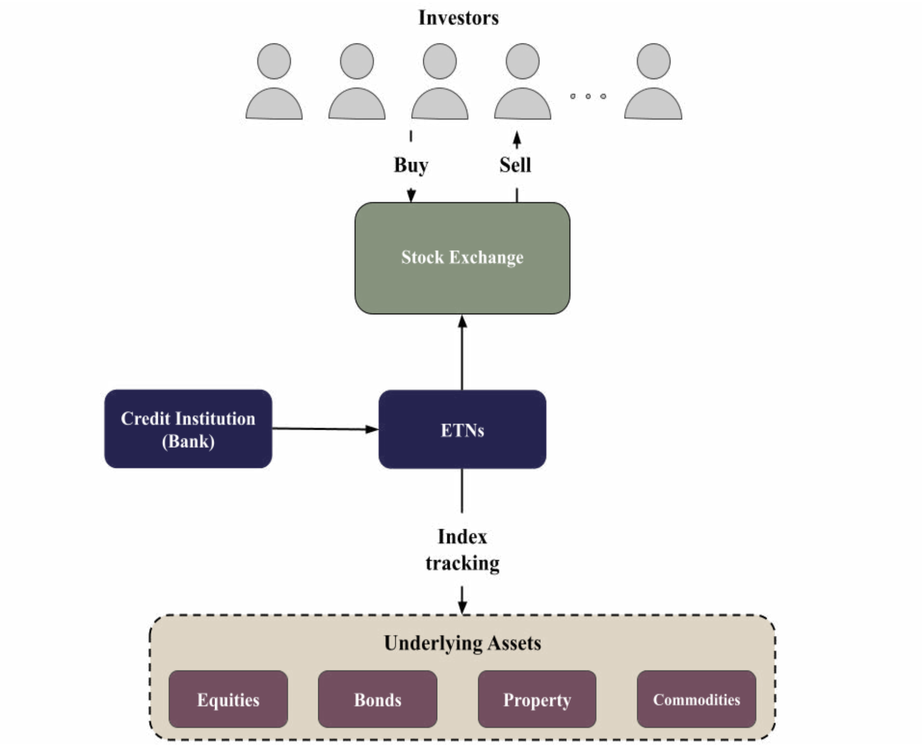


HOW DO ETNS WORK?

A bank (e.g., ABSA, Investec, Morgan Stanley, Leonteq, HSBC) designs the ETN to track a specific benchmark, such as the gold price, the JSE Top 40, or the rand/dollar exchange rate. No actual assets are purchased.

The ETN is then listed on an exchange and trades like any other share. Investors can buy or sell the ETN at any time during trading hours. The value of the ETN rises and falls in line with the underlying index or asset. Some ETNs are linked to leverage or inverse strategies, which can amplify gains or losses.

ETNs often have a fixed maturity date. You can sell before maturity for the current market price, but if held to maturity, the issuer pays out your original capital adjusted for the index's performance over the time period of the contract (usually 5 or 10 years).



BENEFITS OF ETNS

Access to Hard-to-Reach Markets

ETNs give investors a simple way to access a range of investment options, as well as niche investment themes. This allows for convenient exposure to commodities, global indices, alternative strategies and other investments in a single, easy-to-trade product.

Accessibility

ETNs offer a simple and convenient way to access complex or specialised strategies, without the need to buy the underlying assets directly. The issuer takes care of the tracking and structure on your behalf. They're also highly accessible, as ETNs can be purchased in small amounts, making them suitable for both retail and professional investors.

Liquidity

ETNs are listed on a exchange and can be bought or sold just like shares during normal trading hours, offering real-time pricing and flexibility. This means investors benefit from daily liquidity, similar to what they would experience with ETFs or other listed equities.

Cost-Effective

While costs are embedded in the structure (through bid-offer spreads or margin), ETNs often don't charge ongoing management fees like Unit Trusts, keeping expenses relatively low.

RISKS OF ETNS

Credit Risk
ETNs are unsecured debt instruments issued by a bank, which means you're relying on the issuer's ability to meet its financial obligations. If the issuing bank defaults or becomes insolvent, you could lose some or all of your investment, regardless of how well the underlying index has performed. Credit risk is the most significant risk associated with investing in ETNs.

Market Risk
Factors such as economic changes, political events, and global developments can impact the prices of the underlying assets. As a result, prices of the ETN may fluctuate, and investors could experience losses.

Liquidity Risk
Some ETNs, particularly those linked to niche indices or specialised assets, may have low trading volumes. This can make it difficult to buy or sell the ETN quickly or at a fair market price, especially during periods of high volatility.

Redemption Risk
While ETNs are listed on an exchange and can be traded at any time, they may come with a fixed maturity date. Some issuers also include provisions for early redemption, allowing them to close the ETN before it reaches maturity. If this happens during a market downturn, it could result in investors locking in a loss, even if they had intended to hold the investment for longer.

Leverage Risk
Some ETNs are designed to provide leverage to an index, meaning they aim to amplify gains. While this can enhance returns, it also magnifies losses.

HOW TO ACCESS ETNS

ETNs can be accessed in two main ways:

1. Through a stockbroker or online trading platform
2. Via a Financial Advisor or Wealth Manager

Here are a few examples of ETNs available to South African investors:

- ABSA Bank NewWave Platinum
- GraySwan USD Megatrend Global Equity
- FNB Global Equity Growth

For those interested in exploring the full range of available ETNs in South Africa, we've also included a link to a comprehensive list: *List of ETNs in South Africa >*

Collective Investment Scheme Structure – Hedge Funds

GRAYSWAN

WHAT IS A HEDGE FUND?

A hedge fund is a type of Collective Investment Scheme (CIS) that offers greater flexibility in the strategies it can use to generate returns, thanks to specific provisions in South African legislation. This flexibility allows hedge funds to generate returns regardless of market direction. This often results in low correlation to equity and bond markets, making hedge funds a valuable tool for diversification.

These strategies, which traditional investments like Unit Trusts and ETFs are not permitted to use, include the following:

- Short selling - profiting from falling asset prices by selling borrowed securities
- Leverage - using borrowed capital to amplify potential returns
- Derivatives - utilising instruments like options, futures, swaps, and warrants to hedge or enhance fund performance

In 2015, hedge funds were formally brought under regulation as CISs. They are now governed by the Collective Investment Schemes Control Act (CISCA) and regulated under Board Notices 52 and 90, with oversight by the Financial Sector Conduct Authority (FSCA).

This legislation classified hedge funds in South Africa into two distinct categories:

1. Qualified Investor Hedge Funds (QIHFs)
2. Retail Investor Hedge Funds (RIHFs)

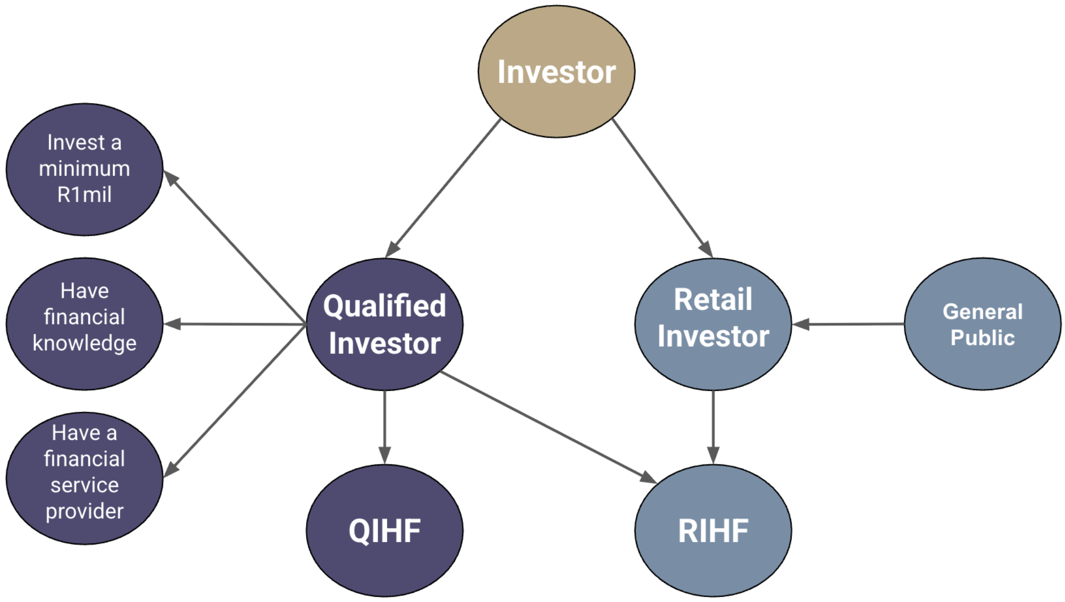
WHAT IS A QUALIFIED INVESTOR HEDGE FUND?

A QIHF in South Africa is a type of hedge fund that is exclusively available to qualified investors, typically institutional investors, and high-net-worth individuals.

To qualify, an investor must commit a minimum investment of R1 million and have demonstrated that they understand the workings and risks of hedge funds, usually by signing a formal acknowledgement of risk.

While QIHFs are still regulated under CISCA and managed by a licensed fund manager with a Category IIA FSCA license, they operate with fewer regulatory constraints than RIHFs.

This allows QIHFs to use more sophisticated and aggressive strategies, such as higher leverage, concentrated positions, illiquid assets, and complex derivatives.



WHAT IS A RETAIL INVESTOR HEDGE FUND?

Retail Investor Hedge Funds (RIHFs) are hedge funds open to the public, much like Unit Trusts, but usually with a minimum lump-sum investment of R50,000. RIHFs are subject to strict investment and risk limits to protect the general public.

Prudential rules for RIHFs include constraints on leverage, asset concentration, and liquidity. RIHFs must maintain higher levels of diversification, adhere to limits on borrowing and derivative exposure, and often use a Value-at-Risk (VaR) approach to cap overall fund risk. They also must allow more frequent redemptions, typically monthly, and provide transparent disclosures and fund fact sheets that must meet CISCA standards. In essence, RIHFs offer the public, as retail investors, access to hedge fund strategies in a regulated format.

HOW DO HEDGE FUNDS WORK?

Investors contribute capital, which is pooled into a single fund, and in return, they receive units in the fund, with each unit valued according to the Net Asset Value (NAV) of the fund.

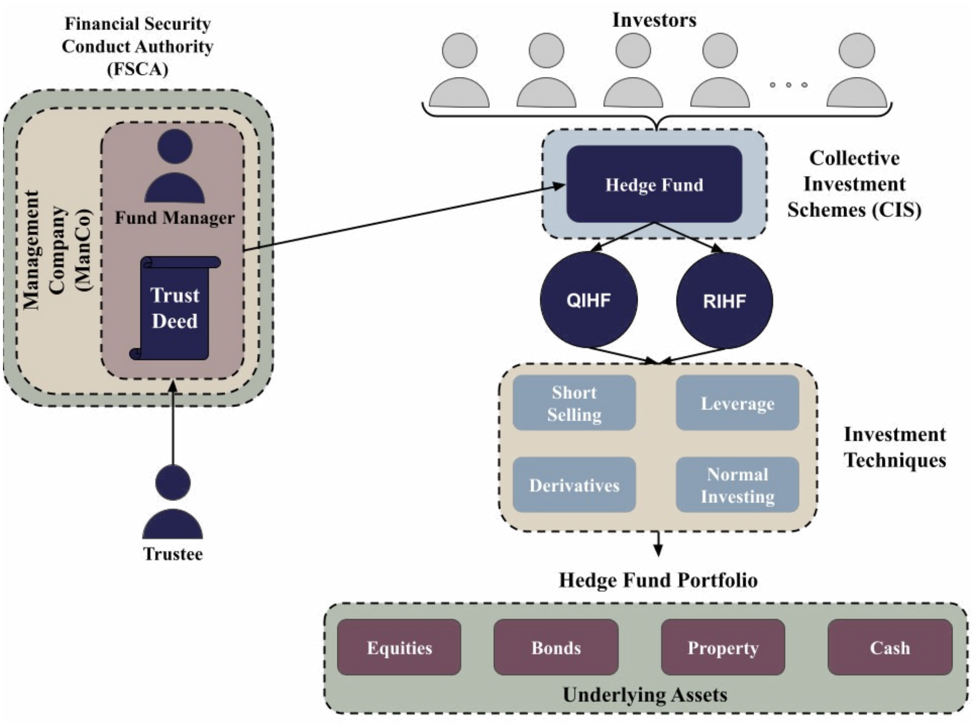
In South Africa, hedge funds are managed by licensed fund managers who must hold a Category IIA license. Additionally, each fund must also appoint an independent Trustee (often a bank), to safeguard the assets and ensure the fund manager is compliant.

These fund managers use flexible investment strategies, such as short selling, leverage, and derivatives, to generate returns in both rising and falling markets. Due to this hedge fund returns are often lowly correlated to the market. For example, a long/short equity hedge fund may buy undervalued stocks (going long) and sell overvalued ones (going short).

Hedge funds are actively managed and therefore typically include a management fee and performance fee. The total fees of a hedge fund is called the Total Expense Ratio (TER).

Hedge funds may also impose liquidity restrictions, with RIHFs allowing monthly withdrawals, while QIHFs may offer redemptions less frequently.

The fund's strategy, fees, performance, and risk metrics are disclosed in a monthly fact sheet, ensuring transparency for investors.



BENEFITS OF A HEDGE FUND

Broader Investment Strategies
Hedge funds can use short selling and, leverage, which is not allowed by traditional investment classes like Unit Trusts or ETFs. This flexibility allows them to generate returns in both rising and falling markets, and to actively manage risk.

Diversification
Hedge funds often have a low correlation to traditional asset classes like equities and bonds. Including them in an investment portfolio can help reduce overall volatility and improve risk-adjusted returns, making them a useful diversifier.

Professional Management
Hedge funds are actively managed by highly skilled, licensed fund managers who can respond quickly to market opportunities and risks. This level of expertise can be beneficial in volatile or uncertain market environments.

Transparency
Hedge funds must provide monthly fact sheets, disclosing key information such as performance, risk statistics, fees, and investment strategy. This ensures that investors stay informed and can make well informed decisions.

RISKS OF A HEDGE FUND

Market Risk
Factors such as economic changes, political events, and global developments can impact the prices of the underlying assets. As a result, share prices of the fund may fluctuate, and investors could experience losses.

Not all hedge funds carry the same level of risk, some are more volatile than others, depending on their investment strategy. For example, offshore funds are affected by currency movements, while fixed income and money market funds are sensitive to interest rate changes.

Management Risk
The performance of a hedge fund largely depends on the skill and decisions of the fund manager. Poor asset selection, strategy misalignment, or operational errors can cause negative performance.

Transparency Risk
While South African hedge funds are regulated and must issue fact sheets, some may still offer less transparency than traditional funds such as Unit Trusts.

Leverage Risk
Using borrowed money (leverage) to increase potential returns also increases the fund's exposure to losses. A small market move in the wrong direction can result in disproportionately large losses, especially in volatile conditions.

Liquidity Risk
Hedge funds often have liquidity restrictions, meaning investors may not be able to exit the fund easily, especially during periods of market volatility.

HOW TO ACCESS HEDGE FUNDS

Hedge Funds in South Africa can be accessed in three main ways:

1. Through a Financial Advisor or Wealth Manager
2. Via Linked Investment Service Providers (LISPs)
3. Directly with a hedge fund manager

Here are a few examples of hedge funds available to South African investors:

- Peregrine Capital High Growth H4 QIHF
- Fairtree Silver Oak RIHF
- All Weather H4 Performance RIHF

For those interested in exploring the full range of available hedge funds in South Africa, we've also included a link to a comprehensive list by ASISA: *List of Hedge Funds in South Africa as at December 2024 >*

Collective Investment Scheme Structure – Fund of Hedge Funds

GRAYSWAN

WHAT IS A FUND OF HEDGE FUNDS?

A Fund of Hedge Funds (FoHFs) invests in a selection of hedge funds rather than directly in equities, bonds, or other securities. This "fund of funds" structure offers investors a diversified and professionally managed gateway into the hedge fund universe through a single investment.

By allocating capital across multiple hedge fund managers and strategies, FoHFs aim to have a diversified fund of hedge funds that is less risky than investing in a single hedge fund.

FoHFs are particularly useful for investors who may not meet the requirements to invest directly in QIHFs or who prefer a more simplified and accessible approach to hedge fund investing.

In South Africa, FoHFs are regulated under the Collective Investment Schemes Control Act (CISCA) with oversight from the Financial Sector Conduct Authority (FSCA).

FoHFs provide an option for both retail and institutional investors seeking broad-based exposure to alternative investment strategies.

HOW DO FUNDS OF HEDGE FUNDS WORK?

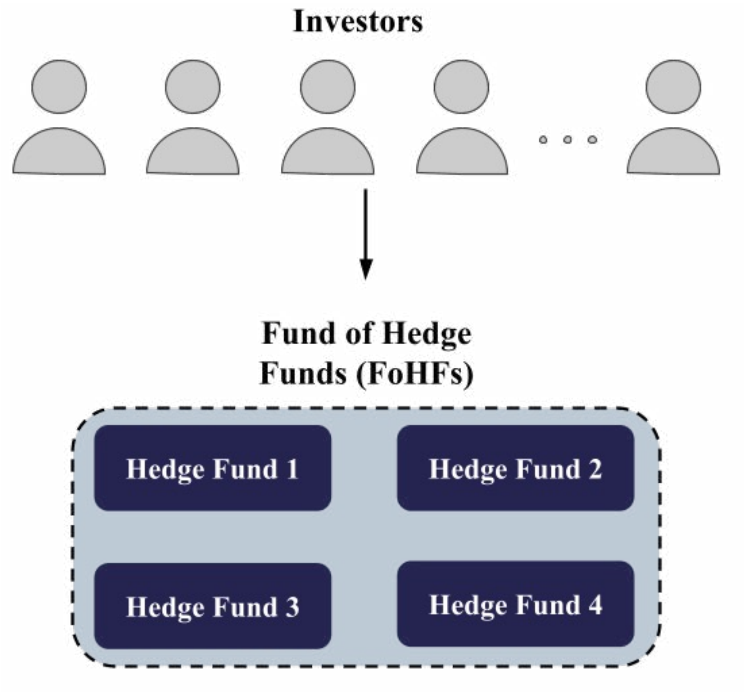
A FoHF pools multiple investors' capital and allocates it across multiple underlying hedge funds, rather than investing directly in traditional assets like equities or bonds.

The goal is to offer diversified exposure to a range of hedge fund strategies, such as long/short equity, global macro, market-neutral, or arbitrage.

Investors then buy units in the FoHF, and their returns reflect the combined performance of the underlying hedge funds, after fees.

The fees of a FoHFs are layered due to the FoHFs fund manager fee, plus the embedded costs of the underlying hedge funds.

It's important to note that liquidity can vary significantly depending on the liquidity restrictions of the underlying hedge funds in which the FoHF is invested.



BENEFITS OF A FUND OF HEDGE FUNDS

Diversification
FoHFs spread capital across multiple hedge funds, reducing reliance on a single strategy or hedge fund manager. This lowers overall fund risk and helps smooth returns over time.

Professional Management
FoHF fund managers conduct thorough research and continuously monitor the underlying hedge funds to ensure only high-quality, compliant strategies are included. This reduces reliance on a single fund manager and adds an extra layer of professional oversight.

Access to Hedge Fund Strategies
FoHFs provide access to sophisticated investment strategies that may otherwise be unavailable to individual investors, especially those who don't qualify for direct investment in QIHFs.

Investment Convenience
Investors gain exposure to multiple hedge funds through a single investment, with one point of entry, one set of reports, and one redemption process. This makes fund management simpler for the investor.

RISKS OF A FUND OF HEDGE FUNDS

Layered Fees
FoHFs charge their own fees in addition to the fees charged by the underlying hedge funds. This double layer of fees can reduce net returns over time.

Liquidity Risk
Liquidity is dependent on the underlying hedge funds. If those funds have long lock-up periods or limited redemption windows, the FoHF may also restrict withdrawals. This might make it harder for investors to access their capital when needed.

Operational Risk
With many hedge funds involved, the operational risks, such as mismanagement, fraud, or administrative errors, may be amplified. If an underlying hedge fund fails operationally, it could affect the whole fund of hedge funds.

Regulatory Compliance Risk
Although local FoHFs are regulated under South Africa's Collective Investment Schemes Control Act of 2002 (CISCA), the underlying hedge funds may vary in how strictly they adhere to risk limits, leverage caps, or reporting standards, particularly with QIHFs.

HOW TO ACCESS A FUND OF HEDGE FUNDS?

Fund of Hedge Funds in South Africa can be accessed in three main ways:

1. Through a Financial Service Provider
2. Via Linked Investment Service Providers (LISPs)
3. Directly through the Management Company

Here are a few examples of fund of hedge funds available to South African investors:

- Alpha Prime Equity Qualified Investor Fund of Hedge Funds
- Prime Optimal Investor Fund of Hedge Funds
- AG Capital Fusion Worldwide Retail Fund of Hedge Funds

STRUCTURED PRODUCTS

WHAT IS A STRUCTURED PRODUCT?

Structured products are pre-packaged, fixed-term investment instruments that combine traditional securities, such as bonds or deposits, with derivatives to create custom risk-return profiles.

These products are designed to meet specific investor objectives, including capital preservation, enhanced income, or market-linked growth, and are particularly useful for gaining access to offshore equity, commodity, or currency markets.

A typical structured product might allocate a portion of the investment to a low-risk bond that guarantees capital at maturity, while the remaining portion is used to purchase derivatives that generate returns based on the performance of an index, commodity, or currency.

Structured products are often listed on an exchange under specialist securities and have become increasingly popular among investors seeking diversification and a hedge against rand depreciation, with many products issued in foreign currencies.

These investments usually span 3 to 5 years, although other durations are available.

To gain a deeper understanding of structured products, we have included a link to a comprehensive article that explores the topic in further detail: *Structured Product: Build in Downside Protection by GraySwan >*

HOW DO STRUCTURED PRODUCTS WORK?

Structured products typically combine two components: a low-risk bond or deposit and a derivative linked to the performance of an index, commodity, currency, or basket of shares.

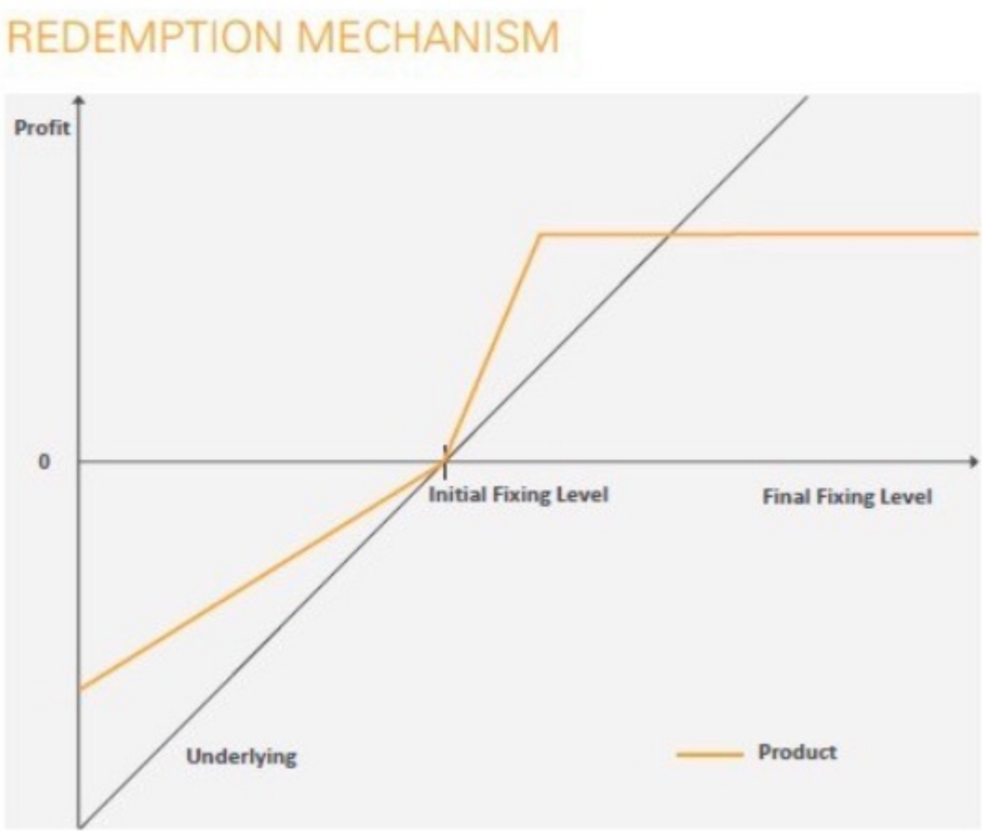
For example, if you invest R100,000 in a structured product linked to the S&P 500, around R80,000 might be placed in a bond that grows to R100,000 over 5 years, guaranteeing your principal at maturity, while the remaining R20,000 buys derivatives that generate potential gains based on how the index performs.

If the index rises, you earn a return, if it falls, your capital is protected, provided you hold the product to maturity.

While returns can be attractive, liquidity may be limited before maturity, and your payout depends on the credit worthiness of the issuing bank.

TYPES OF STRUCTURED PRODUCTS

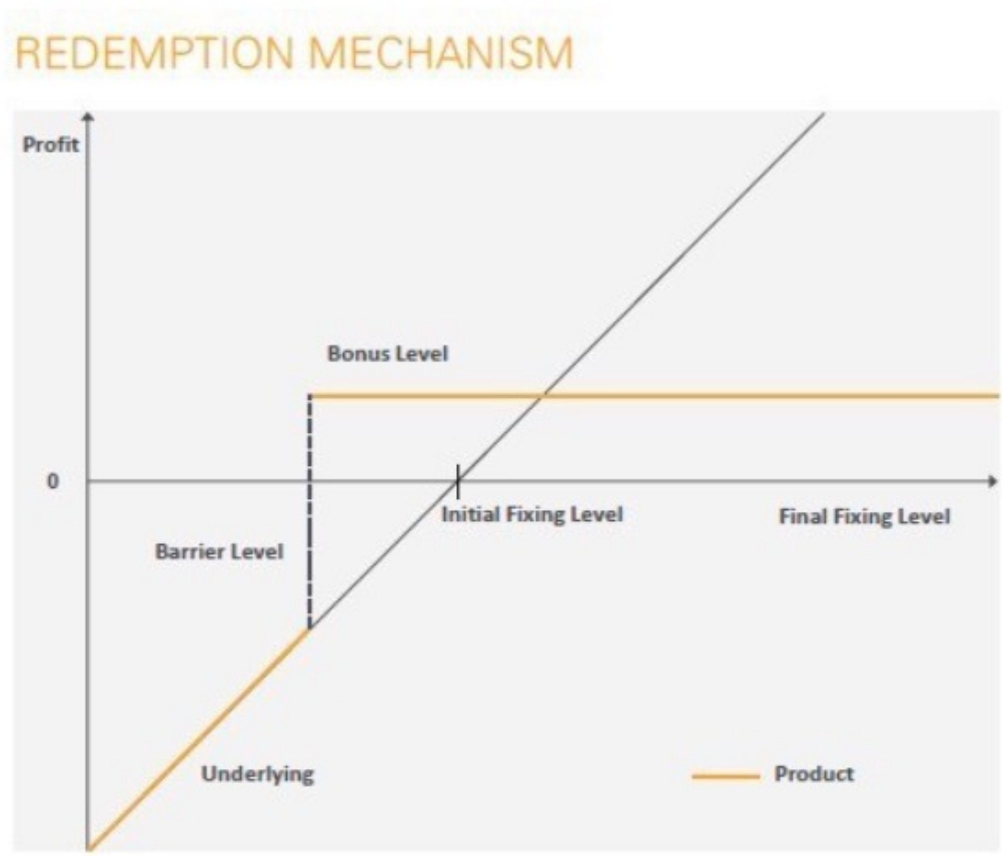
Outperformance Certificate
Outperformance Certificates offer enhanced upside by multiplying returns above a certain level. However, they come with no capital protection. Outperformance Certificates are ideally for bullish investors seeking amplified returns and willing to accept downside risk.



Source: LEONTEQ 2023
This generic chart is for illustration purposes only - the actual payoff profile of the Product may differ.

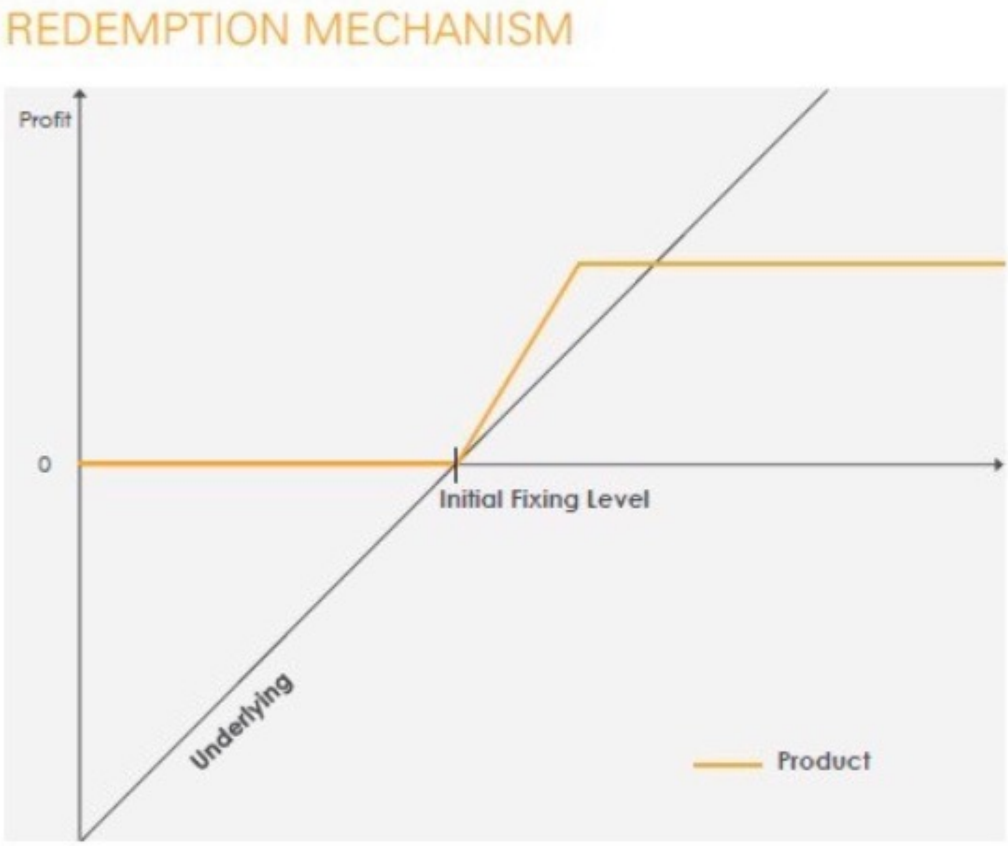
Bonus Certificate

Bonus Certificates provide a fixed bonus return if the underlying asset stays above a predetermined barrier. If the barrier is breached, your return mirrors the asset's performance, and losses are possible. Some include partial capital protection. Bonus Certificates are ideally for investors seeking moderate protection with upside in flat or slightly rising markets.



Source: LEONTEQ 2023
This generic chart is for illustration purposes only - the actual payoff profile of the Product may differ.

Capital Protected Certificates
Capital Protected Certificates offer full or partial return of capital at maturity, plus limited upside. Most of the investment goes into a low-risk bond, with the remainder buying derivatives linked to market performance. Capital Protected Certificates are ideally for conservative investors who prioritise capital preservation but want exposure to growth.



Source: LEONTEQ 2023
This generic chart is for illustration purposes only - the actual payoff profile of the Product may differ.

BENEFITS OF A STRUCTURED PRODUCT

Capital Protection
Many structured products offer full or partial protection of your initial investment if held to maturity. This makes them attractive for conservative investors who want exposure to growth without risking their entire capital.

Access to Global Markets
Structured products can give investors a way to access a range of investment options, both locally and offshore, which can include, equities, commodities, currencies, or indices. This allows for convenient exposure to different investments in a single product.

Custom Risk-Return Profiles
Structured products allow for tailored strategies, such as enhanced upside with limited downside, depending on your market views and risk tolerance.

Currency Diversification
Many structured products are also offered in foreign currencies, offering a natural hedge against rand depreciation.

Defined Outcomes
Structured products offer pre-set terms, such as capped returns or bonus payouts. This means you know exactly how your investment will behave under different market scenarios.

RISKS OF A STRUCTURED PRODUCT

Credit Risk
Structured products are usually issued by banks. If the issuing bank becomes insolvent, you may lose some or all of your investment, regardless of how the underlying asset performs. This is the most significant risk.

Limited Upside
While many structured products offer capital protection, this often comes with a cap on returns. So even if the market performs strongly, your gains may be restricted.

Liquidity Risk
Structured products are designed to be held to maturity (typically 3 to 5 years). If you want to exit early, it can result in significant losses or penalties.

Complex
Structured products often use derivatives and non-standard payoff structures, which can be difficult to understand. Misunderstanding the terms can lead to unexpected outcomes.

Market Risk
While some products offer capital protection, not all do. If your structured product has no protection or if a barrier is breached, you can suffer market-related losses.

HOW TO ACCESS A STRUCTURED PRODUCT?

Structured Products in can be accessed in three main ways:

1. Through a Financial Service Provider
2. Via Linked Investment Service Providers (LISPs)
3. Directly through via the issuing bank

Here are a few examples of structured products available to South African investors:

- Investec ZAR Nikkei 225 Autocall
- FNB 100 Capital Preserver Autocall (USD)
- Standard Bank One-Year Fixed Rate Note GBP

CONCLUSION

The investment universe offers a wide range of well-structured investments. In this informative article, we explored the most common pooled investments, outlining what they are, how they work, their benefits and risks, and how to access them. By the end, investors should have a clearer understanding of which options best align with their investment goals, risk tolerance, and time horizon.

While this overview provides a foundation, each investment vehicle carries its own nuances, from selecting the right funds and comparing performance, to understanding tax implications, legislation, and whether to invest locally or offshore. This can feel overwhelming and therefore choosing the right investment partner is crucial.

By partnering with GraySwan, we help you navigate complexity with confidence, unlocking your path to financial freedom so you can truly **Sleep Well At Night**.

KEAGAN CULLIGAN
Investment Analyst
keagan@grayswan.co.za

Contact GraySwan today and connect directly with Gregoire Theron and Duncan Theron. Collectively, they boast more than 50 years of investment experience and have been working together for more than 20 years as a dynamic and cohesive decision-making unit, supported by our highly experienced and stable investment team. Their insights can help you navigate complexity, manage risk, and invest with confidence.

DUNCAN THERON
Chief Executive Officer
duncan@grayswan.co.za

GREGOIRE THERON
Chief Investment Officer
greg@grayswan.co.za

CITYWIRE A

MORNINGSTAR® Rating: ★★★★★

RAGING BULL
INVESTMENT SUMMIT & AWARDS