

Novare Fixed Income 2 Retail Investor Hedge Fund - B1

Quarterly General Investor Report

As at 30 September 2023

INVESTMENT OBJECTIVE

The portfolio is a Retail Investor Hedge Fund, aiming to outperform a benchmark of Cash (STeFI Call Deposit Index) + 5%. The portfolio tends to focus on macro-economic strategies, via qualitative and quantitative opportunities across the tactical, technical and strategic disciplines.

INVESTMENT POLICY

A collective investment scheme ("CIS") can be described as an investment vehicle which allows investors to pool their money together into a portfolio, sharing in the risk and return of the portfolio in proportion to their participatory interest in the portfolio. The portfolio is a South African fixed income hedge fund and is suitable for investors with a medium-term investment horizon, that aim to achieve moderate capital growth, with reasonable levels of income, whilst mindful of capital preservation. The portfolio invests in Rand denominated, as well as other related, debt-based and inflation-correlated assets, money market instruments, fixed income derivatives, listed property, and other instruments, generally impacted by macro-economic events. The portfolio will invest in listed nominal and inflation-linked government and non-government bonds, all money market instruments - listed and OTC (OTC only tradable with authorised counterparties), derivatives (including options and futures), listed property, as well as other related instruments, including hybrid instruments, such as convertible bonds. The portfolio will have access to trade instruments on all four major exchanges in South Africa, including the JSE, BESA, SAFEX and Yield-X. It will be agreed upon that from time to time, with the introduction of new instruments into the market, this list may be updated. The portfolio may also invest in participatory interests or any other form of participation in portfolios of collective investment schemes or other similar schemes. The portfolio may invest in, or enter into, listed and unlisted financial instruments (derivatives). The portfolio may invest in foreign investments. The use of leverage in the portfolio will be limited by means of a Value at Risk (VaR) limit of 20% of NAV, measured at 99% confidence level of a month period. There are no additional mandate investment limitations.

INVESTMENT STRATEGY

The portfolio has a moderate risk/return profile. Qualitative and quantitative measures are considered in constructing the portfolio to target the fund's investment objective.

SIGNIFICANT DIFFERENCES PRIOR TO, AND AFTER, CIS STRUCTURE

The portfolio was previously managed in an unregulated trust structure prior to Board Notice 52 coming in to affect. It is now managed within the BN52 regulatory guidelines.

TRANSACTIONS AND VALUATIONS

Redemption frequency: Monthly
Redemption notice period: One calendar month
Portfolio valuation: 17h00 last business day of the month
Pricing date: 17h00 last business day of the month
Pricing frequency: Monthly
Transaction cut-off time: The monthly cut-off for receipt of instructions is 14h00 on the last business day of the month. No instruction will be processed unless all requirements have been met and supporting documentation has been provided. Investment instructions received before cut-off will be processed that day and will receive the valuation day's price. Investment instructions received after cut-off will receive the next valuation day's price. Redemption instructions received before the cut-off will be processed that day and will receive the valuation day's price at the end of the 1 calendar months' notice period. Redemptions are paid out within five business days after the valuation has been finalised.

FEES

Fee class B1

The fee class is only available to Institutional Investors. Please contact Novare CIS for further details.

Total investment charge of the fee class, annualised, for a rolling 3 year period from 01 July 2020 to 30 June 2023

Underlying Portfolios TER (Included in TER)	0.00%
Performance Fee (Included in TER)	1.93%
Total Expense Ratio (TER) Incl. VAT	3.48%
Transaction Costs (TC) Incl. VAT	0.55%
Total Investment Charge (TIC) Incl. VAT	4.03%

COUNTERPARTY EXPOSURE (end of period)

ABSA Bank Limited	22.11%
JSE Debt Market	50.57%
JSE Futures Exchange	0.00%
FirstRand Bank Limited	27.31%

Annual service charge The current annual management fee is 1.25% p.a. (excl. VAT).

Performance fee The portfolio charges a performance fee of 15.00% of the amount by which it outperforms the hurdle rate (STeFI). The performance fee is payable Annually and calculated over Total Return. The PERFORMANCE FEE FAQ DOCUMENT is available on request from us, or is available on our website www.novarecis.co.za

Transaction costs (TC) TC is the percentage of the value of the portfolio that was incurred as costs relating to the buying and selling of the assets underlying the portfolio. Transaction costs are a necessary cost in administering the Fund and impacts returns. It should not be considered in isolation as returns may be impacted by many other factors over time, including market returns, the type of financial product, the investment decisions of the investment manager and the TER.

QUARTERLY DISCLOSURES

Leverage

Fund of Hedge Funds do not use Prime Brokers, therefore, the source of leverage derived through underlying portfolios. The portfolios achieve leverage through the use of derivatives and short selling of physical stock.

Methodology For Conducting Stress Testing

Daily stress-testing is conducted by varying input parameters for pricing purposes. These calculations are performed on the latest portfolio. Hypothetical market environments are simulated where asset prices exhibit extreme moves. The results are imported into a proprietary data warehouse from where reports are monitored by our risk management team independently of the investment team. The results are then communicated to the investment team, executive management and compliance. The methodology for conducting stress-testing is to change the underlying price or yield of every security in the portfolio and re-values each one from first principles, according to the size of the user-defined stress.

Conservative	Moderate	Aggressive
ABOUT THE PORTFOLIO		
Portfolio classification	Retail Investor Hedge Fund	
ASISA classification	South African - Multi-Strategy Qualified Investor Fund	
Legal structure	CIS trust structure	
Scheme name	Novare CIS in Retail Investor Hedge Funds	
Portfolio inception date	01 June 2016	
CIS launch date	01 June 2016	
Fee class inception date	01 June 2016	

Risk profile

This portfolio is managed within what are regarded to be moderate investment parameters. This portfolio aims to deliver capital growth over the medium to long-term at a moderate level of volatility.

Investment horizon	Suitable for investors with a long-term investment horizon.
Benchmark	Cash (STeFI Call Deposit Index) + 5%
Portfolio size	R 158,297,861.48
NAV cents per participatory interest	20,852.70
Number of participatory interests	759,123.89
Minimum monthly investment	R 1,000.00
Minimum lump sum	R 50,000.00
Income declaration	Bi-annual (June - December)
Accounting period dates	01 July - 31 December, 01 January - 30 June

LIQUIDITY PROFILE

The portfolio provides investors with one month redemption liquidity. The liquidity of assets in the portfolio aligns to the redemption period.

INCOME DISTRIBUTION IN THE PAST 12 MONTHS

Date of distribution	Date of payment	Amount (cents per participatory interest)
31 December 2022	03 January 2023	0.00
30 June 2023	04 July 2023	342.46

EXPOSURE, LEVERAGE AND COUNTERPARTY INFORMATION

Total exposure calculation method	Value At Risk
Total exposure level (permitted)	20% of net asset value
Total exposure level (end of period)	4.71%
Total exposure level (highest during period)	4.71%
Leverage use	The use of leverage in the portfolio will be limited by means of a Value at Risk (VaR) limit of 20% of NAV, measured at 99% confidence level of a month period (21 days).
Counterparty exposure calculation method	A portion of the capital is held with respective prime brokers and accurately reflects the economic loss that the hedge fund is exposed to if the counterparty defaults on its obligations. It is calculated as any initial or variation margin posted to, and held by, a counterparty; the verifiable market value of the derivative, including any excess collateral any net exposure to a counterparty generated through a securities lending or repurchase agreement; and counterparty exposures created through the reinvestment of collateral.

Total expense ratio (TER) TER is the percentage of the value of the portfolio that was incurred as expenses to the administration (charges, levies and fees) of the portfolio. TER is calculated over a rolling three-year period (or since inception, where applicable) and annualised to the most recent calendar quarter. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TERs. Inclusive in the TER, the stated performance fee percentage of the net asset value of the class of portfolio was recovered (if applicable).

Total investment charge (TIC) TIC is the percentage of the portfolio that was incurred as costs relating to the investment of the portfolio. It is the sum of the total expense ratio (TER) and transaction costs (TC), including VAT.

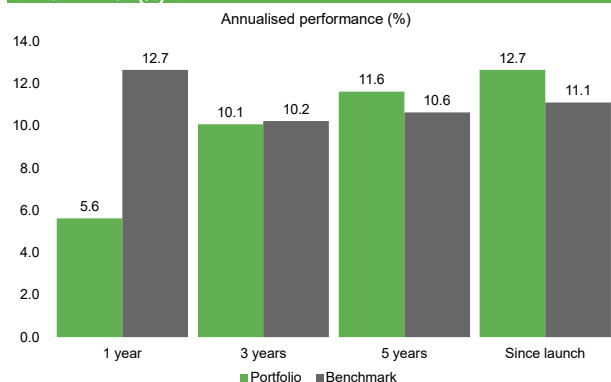
Re-hypothecation of assets

The practice by prime brokers of using, for their own purpose, assets that have been posted as collateral by the investment manager is restricted. The prime brokers do not re-hypothecate or take part in any form of pledging of securities forming any part of the collateral.

Changes to liquidity risk profile

The liquidity risk profile remains unchanged and redemption requirements have been met within the prescribed time frame.

PERFORMANCE (%)



GROWTH OF R1000 LUMP SUM



Source of performance returns: eVestment as at 30 September 2023
Returns prior to 01/06/2016 was in an unregulated structure.

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PERFORMANCE BREAKDOWN

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2023	2.83%	1.95%	1.02%	-0.19%	-3.97%	2.16%	-0.11%	1.44%	-0.92%				4.11%
2022	-0.09%	4.59%	-0.74%	0.01%	3.75%	3.21%	1.84%	1.77%	-1.71%	-0.34%	0.51%	1.29%	14.81%
2021	3.80%	5.68%	-1.03%	-0.13%	0.85%	1.08%	-3.43%	-0.86%	-0.19%	-2.92%	0.99%	0.49%	4.05%
2020	8.08%	1.65%	-9.09%	15.87%	-7.58%	2.34%	1.63%	1.27%	1.99%	1.29%	6.41%	-0.48%	23.23%
2019	0.93%	0.59%	1.71%	0.78%	1.96%	2.11%	-1.02%	2.54%	-1.53%	2.86%	0.25%	-0.60%	10.98%
2018	2.64%	3.77%	2.39%	0.19%	0.84%	-0.62%	1.58%	0.01%	-0.11%	0.39%	1.15%	0.37%	13.26%
2017	0.42%	0.43%	3.37%	-0.37%	0.63%	1.23%	4.24%	0.13%	1.63%	3.59%	1.74%	1.38%	19.92%
2016						-3.88%	0.00%	2.02%	-2.69%	3.16%	4.13%	1.20%	3.72%

Shaded performance returns indicate performance returns before the completion of the conversion to the CIS structure

Highest calendar annual performance since launch: 23.23% (in 2009)
Lowest calendar annual performance since launch: 3.72% (in 2016)

ASSET ALLOCATION

Cash and Cash Equivalents
Inflation Linked Bond
Floating Rate NCD
Interest Rate Swap
Futures
Fixed-Coupon Bond
Fixed Rate NCD
Forward Rate Agreement

UNDERLYING TOP 5 EFFECTIVE EXPOSURES

R2037 Listed Bond
I2025 Inflation Linked Bond
R2030 Listed Bond
Listed Notional Certificate of Deposit
Floating Rate Note Linked to JIBAR

RISK STATISTICS

Alpha	1.55%
Beta	-0.73
Sharpe ratio	0.62
Standard deviation (%)	10.22%
Maximum drawdown	-9.09%
Sortino ratio	1.06
Information ratio	0.15
Tracking error	10.24%

Source of risk statistics: eVestment as at 30 September 2023
Risk statistics period: (06/2016 - 09/2023)

FUND COMMENTARY

Global

September 2023 may be considered one of the worst months of the year. Equity markets across the globe performed poorly. Global equity markets fell for the second consecutive month, with the MSCI World index returning -4.3% for the month, resulting in a negative quarter of -3.4%. Although in negative territory, emerging market stocks outperformed their counterparts in developed markets. Emerging market (EM) stocks returned -2.5% for the month, with China being the biggest detractor. Chinese stocks listed in Shanghai, Hong Kong, and the US have all declined year-to-date in US-dollar terms. India's stock market, represented by the NSE Nifty 50 Index, was up 1.5% for the month and was the only major global equity market to produce a positive return in US-dollar terms. The market benefited from foreign investors shifting away from Chinese equities, as the latter market is still plagued by uncertainty that continues to drag down the performance of emerging market assets. Further pain was inflicted on developed market (DM) equities by China when an American multinational technology company, Apple, saw its market value plummet by US\$200 billion over two days at the beginning of September due to news that China would ban the use of iPhones in Chinese government offices. While the current decline in inflation data was in line with expectations, a rising oil price renewed concerns about inflationary pressures. The focus shifted from how much higher interest rates could go to how long rates would remain elevated and how many rate cuts might eventually come. Some major central banks, such as those in the US, Switzerland, England, and Japan, chose to keep rates unchanged in September, which may be a sign that we are approaching the peak of this hiking cycle. Brent crude oil rallied 10% during the month to reach US\$95 per barrel, leaving it 27% higher for the third quarter of 2023. This could be attributed to the Organization of the Petroleum Exporting Countries (OPEC) and their allies, including Russia (collectively known as OPEC+), continuing to restrict the oil supply. Risk aversion and rising US yields led to investors flocking to the safety of the US dollar, making it stronger against most currencies in September.

Domestic

The South African stock market followed the global equity markets lower, also for the second consecutive month, erasing all year-to-date gains. The JSE All Share (ALSI) was down -2.5% for the month in the local currency, resulting in a -3.5% decline for the third quarter of 2023. The losses were also felt in the local bond market, where the All Bond Index (ALBI) fell by 2.3% in September and -0.3% for the quarter. The local currency held up relatively well, depreciating only by -0.2% against the generally strong US dollar. Higher US yields continued to strengthen the dollar in September, while uncertainty regarding China's outlook kept emerging market assets on the back foot. South Africa successfully hosted a BRICS conference in August, even without the physical appearance of the Russian president. This was a notable relief for domestic risk assets. South Africa managed to secure a loan of \$3 billion from the New Development Bank (NDB), a BRICS-funded institution. South African inflation has been gradually decreasing in the past few months, moving towards the mid-point of the South African Reserve Bank's (SARB's) target range. This led the SARB to maintain the repo rate at 8.25% during its September meeting. Load shedding levels were erratic throughout the third quarter, intensifying at some points to Stage 6 (shedding 6000 megawatts of supply). However, Eskom provided a more positive outlook for the summer months, as units that had been on long-term planned outages were set to come back online.

DISCLOSURES

GENERAL

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. For portfolios that include 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. 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. 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. The ability of a portfolio to repurchase is dependent upon the liquidity of the securities and cash of the portfolio. A manager may, in exceptional circumstances, suspend repurchases for a period, subject to regulatory approval, to await liquidity and the manager must keep the investors informed about these circumstances. 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. For a detailed description of these risks, please refer to the HEDGE FUND RISK DISCLOSURE DOCUMENT, available on our website www.novarecis.co.za.

BORROWING HEDGE FUNDS

A retail investor hedge fund can borrow up to 10.0% of the value of the portfolio, for redemptions of participatory interests.

COMMODITIES

For hedge funds that include commodity securities the extent of exposure to physical delivery is 0%.

PRICES

The latest prices and TER are made available on our website www.novarecis.co.za.

PERFORMANCE RETURNS

The performance is calculated for the fee class, not the portfolio. Lump-sum performance returns are being quoted. Income distributions, prior to the deduction of applicable taxes, are included in the performance calculations. NAV to NAV figures have been used for the performance calculations, as calculated by the Manager at the valuation point defined in the deed, over all reporting periods. Investment performance calculations are available for verification upon request by any person. Reinvestment of income is calculated on the actual amount distributed per participatory interest, using the ex-dividend date NAV price of the applicable class of the portfolio, irrespective of the actual reinvestment date. The individual investor performance may differ, as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax. The rate of return is calculated on a total return basis and the following elements may involve a reduction of the investor's capital: interest rates, economic outlook, inflation, deflation, economic and political shocks or changes in economic policy. Annualised returns are period returns re-scaled to a period of one year. This allows investors to compare returns of different assets that they have owned for different lengths of time. All period returns greater than one year have been annualised. Returns for periods less than one year have not been annualised. A cumulative return is the aggregate amount an investment has gained or lost over time, independent of the period of time involved. Actual annual figures are available to the investor on request.

STRUCTURE OF THE PORTFOLIO

The portfolio was established as a collective investment scheme trust arrangement on 27 November 2015, with the conversion process being completed on 01 June 2016. All prior information was in an unregulated environment. The portfolio will not change its investment strategy or investment policy without prior approval from the Financial Sector Conduct Authority and investors. The ballot procedure, as prescribed in CISCA and the Deed, will be followed.

ADDITIONAL INFORMATION

For additional information on the portfolio, refer to the following documents, available on our website www.novarecis.co.za, from your financial adviser, or on request from the Manager, free of charge.

- Application forms
- Annual report
- Fee schedule
- Performance fee FAQ (if applicable)
- Quarterly General Investor Report (available one month after quarter-end)

COMPLAINTS AND CONFLICTS OF INTEREST

The complaints policy and procedure as well as the conflicts of interest management policy are available on our website www.novarecis.co.za. Associates of the manager may be invested within certain portfolios, and the details thereof are available from the manager.

CLOSURE OF THE PORTFOLIO

The manager has the right to close certain portfolios to new investors in order to manage it more efficiently and in accordance with their mandates.

MANAGEMENT COMPANY

Novare CIS (RF) (Pty) Limited
Registration number: 2013/191159/07
Physical address: 3rd Floor, The Cliffs Office Block, 1 Niagara Way, Tyger Falls, Carl Cronje Drive, Bellville, 7530.
Postal address: P.O. Box 4742, Tyger Valley, 7736, South Africa.
Telephone number: 0800 668 273 (0800 Novare). E-Mail address: clientservice@novare.com. Website: www.novarecis.co.za
Directors: Mr DA Roper, Mr JS du Preez, Mr GL Carter, Mr A du Toit, Ms N Smith

The manager is registered as a manager of collective investment schemes, in terms of the Collective Investment Schemes Control Act. The manager is a member of the Association for Savings and Investment South Africa (ASISA).

TRUSTEE/CUSTODIAN/DEPOSITORY

FirstRand Bank Limited
Registration number: 1929/001225/06
Physical address: 1st Floor, Nr. 3 Jeppe Place, Bank City, Corner of Jeppe and Simmonds Streets, Johannesburg, 2000.
Postal address: 1st Floor, Nr. 3 Jeppe Place, Bank City, Corner of Jeppe and Simmonds Streets, Johannesburg, 2000.
Telephone number: 011 282 8000. E-Mail address: Trusteeservices@rmb.co.za. Website: www.rmb.co.za

The trustee/custodian is registered as a trustee of collective investment schemes, in terms of the Collective Investment Schemes Control Act.

ADMINISTRATOR

Apex Fund Services South Africa Limited
Registration number: 1981/009543/06
Physical address: Apex House 1, River Park, Gloucester Road, Mowbray, 7700
Postal address: PO Box 3149, Cape Town, 8000, South Africa.
Telephone number: 021 681 8000. E-Mail address: kams@mailandgroup.co.za. Website: <https://www.apexgroup.com>

AUDITOR

PKF Cape Town, a member of PKF South Africa Inc.
Registration number: 2013/188449/07
Physical address: Tyger Forum A, 2nd Floor, 53 Willie van Schoor Avenue, Tyger Valley, Cape Town, South Africa
Postal address: P.O. Box 5700, Tyger Valley, 7536.
Telephone number: 021 914 8880. E-Mail address: inge.potgieter@pkf.co.za. Website: www.pkf.co.za/capetown

INVESTMENT MANAGER

Novare Investments (Pty) Limited
Registration number: 2000/018539/07. FSP number: 757
Physical address: 3rd Floor, The Cliffs Office Block, 1 Niagara Way, Tyger Falls, Carl Cronje Drive, Bellville, 7530.
Postal address: P.O. Box 4742, Tyger Valley, 7736, South Africa.
Telephone number: 021 914 7730. E-Mail address: clientservice@novare.com. Website: www.novare.com

The investment manager is an authorised Financial Services Provider (FSP), as an investment manager and/or a hedge fund FSP, in terms of Section 8 of the Financial Advisory and Intermediary Services Act (FAIS). This information is not advice, as defined in FAIS. Please be advised that there may be representatives acting under supervision.

PRIME BROKER

Absa Bank Limited
Registration number: 1986/004794/06
Physical address: 15 Alice Lane, Sandown, Sandton, 2196
Postal address: 15 Alice Lane, Sandown, Sandton, 2196.
Telephone number: 011 895 5189. E-Mail address: PrimeServices@absacapital.com. Website: www.absa.co.za

PRIME BROKER

Rand Merchant Bank
Registration number: 1929/01225/06
Physical address: 1 Merchant Place, 2nd Floor, Cnr Fredman & Rivonia Road, Sandton, 2196
Postal address: 1 Merchant Place, 2nd Floor, Cnr Fredman & Rivonia Road, Sandton, 2196.
Telephone number: 011 282 1941. E-Mail address: Prime_Broking_Equities@rmb.co.za. Website: www.globalmarkets.rmb.co.za

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