

BADGER SPECIALISED CAPITAL
PRIVATE PLACEMENT MEMORANDUM

DISCLAIMER

This Private Placement Memorandum (“PPM”) and any attachments to it are provided in connection with Badger Specialised Capital (Proprietary) Limited, registration number 2008/003130/07, (“the Company”) and Badger Quant Trust, IT number 2090/2008, (“the Trust”) (together “the Fund”). The Company, the Trust and the Fund are not financial services providers in South Africa and nothing in this PPM should be construed as constituting the canvassing for, or marketing or advertising of financial services by the Company, the Trust and the Fund in South Africa.

This PPM is not an invitation to purchase debentures in the Company and an interest in the Fund. The distribution of this PPM may be restricted by law and persons into whose possession this PPM comes should inform themselves about, and observe such restrictions.

Past performance of the Fund is not necessarily a guide to future performance. The value of, and income from, an investment in the Company (which investments constitute an investment in the Fund) may fall as well as rise. Investors may not be repaid the whole amount they originally invested. An investment in the Company and the Fund may not be suitable for you. If in doubt, you should seek advice from your stockbroker, attorney, accountant, banker or other professional adviser.

Care and diligence have been taken in the compilation of this PPM and any attachments to it. No representation or warranty, express or implied, is given by the Company, its directors, partners, employees, agents, representatives, shareholders or advisors or any other person, with regard to the accuracy or the completeness of the information in this PPM and its attachments.

This PPM and any attachments to it constitute objective information about the Company and the Fund and nothing contained in them should be construed as constituting any form of investment advice or recommendation, guidance or proposal of a financial nature in respect of any Investment in Variable Rate Debentures issued by the Company or any transaction in relation to the Company and the Fund.

This PPM is for the exclusive use of persons to whom it is addressed and their advisors and is available for information purposes only to a limited number of specified, pre-selected persons with a view to assisting the recipient in deciding whether it wishes to proceed with further investigation. This PPM may contain information which is confidential, private or privileged in nature. If you are not the intended recipient or the intended recipient's advisor, you may not peruse, use, disseminate, distribute or copy this PPM. If you are in any doubt as to the action you should take, please consult your stockbroker, attorney, accountant, banker or other professional advisor immediately.

This PPM is intended for the recipient only and is not publicly available. Please do not distribute this PPM. This PPM is not a prospectus and is issued pursuant to section 144(b) of the Companies Act.

INVESTMENTS IN VARIABLE RATE DEBENTURES ISSUED BY THE COMPANY ARE SUBJECT TO A SINGLE ADDRESSEE ACTING AS PRINCIPAL INVESTING NO LESS THAN R100 000

I, _____ acknowledge and accept the above terms and conditions.

Signed at _____ on this _____ day of _____ 20

Signed: _____

Copy number: _____

ISSUER DETAILS

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Fax Number : +27 21 975 6459
Contact Person : Hendrik Johannes Grobler

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SDK Chartered Accountants

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Contact Person : Mr Bruwer Engelbrecht

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 2017

Telephone Number: 011 530 5263
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Contact Person: Michael Denenga

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CTH Advisory

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Telephone Number: +27 21-979 1194
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TRUST

Badger Quant Trust

Masters reference no. IT no: 2090/2008

Physical Address : 10 Beuno Vista Office Park
 C/O Durban and Kendal Roads
 Durbanville
 Cape Town, 7550

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 Tygervalley
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GENERAL INFORMATION

This PPM is being distributed to the recipient for the sole purpose of assisting the recipient in deciding whether the recipient wishes to proceed with the investment opportunity detailed in this PPM. The investment opportunity entails the acquisition of Variable Rate Debentures ("VRDs") in a special purpose vehicle, namely the Company, with the subscription proceeds being lent to the Trust for investment in South African derivative instruments (collectively "the Fund") to be managed by Badger Capital (Proprietary) Limited (the "Manager"). The Manager is registered as a financial services provider under the Financial Advisory and Intermediary Services Act, 2002.

Neither the issue of this PPM nor any of its contents constitutes an offer to sell, or invitation to purchase or Subscribe for, the business of or any shares or debentures in the Company. This PPM is directed at the recipient only, and is not intended for dissemination to the public and in no way constitutes an offer of any kind to the public.

This PPM does not purport to be all inclusive or to contain all of the information that a prospective investor may desire in deciding whether or not to acquire any VRDs. No liability whatsoever is accepted by the Company or any of its subsidiaries, shareholders or advisors or any of their respective directors, officers, employees or agents for any direct, indirect or consequential loss or damage suffered by any person however arising, in connection with the contents of, or omissions from, this PPM. None of the Company its subsidiaries, shareholders or advisors, or any of their respective directors, officers, agents or employees, give, have given or have any authority to give, any representation or warranties (express or implied) as to the accuracy or completeness of this PPM or any other written or oral information made available to recipients or their advisors in connection with their investigation of the Company or the VRDs. In particular, no representation or warranty is given as to the achievement or reasonableness of future projections, management targets, estimates, prospects or returns, if any.

The Manager, the Company and the Trust are not registered under the Collective Investment Schemes Act, 2002 ("CISCA") and the Fund does not constitute a collective investment scheme as defined under CISCA.

CONFIDENTIALITY

The information contained in this PPM is confidential and proprietary to the Company, the Trust and the Fund and is being submitted to the recipient solely for the recipient's confidential use. The recipient accordingly undertakes to keep the information contained herein strictly confidential and shall not, without the prior written permission of the Company, release this PPM or discuss the information contained herein or make reproductions of all or part of this PPM or use it for any purpose other than evaluating a potential investment in the VRDs.

REPRESENTATIVES

No person has been authorised to issue any advertisement or to give any information, or to make any representations in connection with the offering, placing, subscription or sale of the VRDs other than those contained in this Investor Memorandum and, if issued, given or made, such advertisement, information or representations must not be relied upon as having been authorised by the Company, the Manager, the Trust or the Fund. Neither the delivery of this PPM nor the offer, placement, allotment or issue of any of the VRDs shall under any circumstances create any implication or constitute a representation that the information given in this PPM is correct as of any time subsequent to the date hereof.

INTERPRETATION

In this PPM, unless otherwise stated or unless the context indicates otherwise, terms defined in the Debenture Document will bear the meaning given to them in that document.

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1. BACKGROUND TO THE COMPANY, THE TRUST AND THE FUND

1.1. Fund structure

The Fund is structured in the form of a special purpose vehicle with an underlying trust.

The Company will issue a series of VRDs in the Company to Investors (the “Investors”), the proceeds of which will be on lent to the Trust, in terms of a Loan Agreement. The Trust will conduct the investment activities in the Underlying Investments. The Company and the Investors are beneficiaries of the Trust.

The Fund is managed by the Manager in terms of a written mandate between the Manager and the Trust. The Underlying Investments held by the Trust will be managed by the Manager as described fully in section 2.

The opportunity to invest in the Fund is not available to the general public. This offer is subject to a single addressee acting as principal investing no less than R100 000.

1.2. Structure of the Company

The Company is funded by a share capital of R1 000 (one thousand Rand) and by proceeds arising from the issue of VRDs. The Company's memorandum and articles of association prohibit it from assuming any external borrowings, or encumbering its assets in any way or in conducting any business other than lending proceeds arising from the issue of VRDs to the Trust in pursuance of legitimate trading and investment strategies under the direction of the Manager.

1.3. Structure of the Trust

1.3.1 The purpose of the Trust is to acquire and dispose of assets utilising the funds advanced to it from time to time by the Company so as to generate income and capital growth for the benefit of the beneficiaries of the Trust, being the Company and the Investors. All assets acquired and all liabilities incurred by the Trustees in their capacity as such shall vest in the Trustees. Assets of the Trust shall be registered in the name of the Trust or in the name of a custodian. Loans made by the Company to the Trust shall be used to acquire Underlying Investments and shall not bear interest.

1.3.2 At the end of each Financial Year, the Trust will make two distributions of benefits:

- (a) The Trust will distribute the interest income of the Fund to the Company as a vested beneficiary in the interest income of the Trust (to the extent that such interest income exceeds the losses of the Trust and the liabilities, costs, expenses and disbursements of the Trust during the relevant period), and where no interest or insufficient interest to cover the Permitted Liabilities, costs, expenses and disbursements of the Company is distributed to the Company, the Trust will distribute to the Company as a vested beneficiary an amount which together with any interest distributed to the Company is equal to the Permitted Liabilities, costs, expenses and disbursements of the Company for the purposes of the definition of “Redemption Value”; and
- (b) The Trust will distribute to the discretionary beneficiaries of the Trust (other than the Company) the amount (if any) by which the NAV of the Fund exceeds the outstanding amount of Loans made by the Company to the Trust, less distributions by the Trust to the Company, less the outstanding amount of permitted borrowings of the Trust from parties other than the Company and less the liabilities, costs, expenses and disbursements of the Trust, subject always to appropriate adjustments to the amounts to be paid to the Investors to cater for the

issue of VRDs other than at the beginning of a Financial Year (and early redemptions of VRDs), provided always that the Trust will be entitled to create and retain certain reasonable reserves to ensure that its cash flow and other requirements are not compromised.

- 1.3.3 If there is insufficient liquidity in the Trust or the Underlying Investments cannot be realised to enable the Trust to repay Loans from the Company and declare distributions to Investors who have redeemed VRDs, the Trust will be entitled to borrow the necessary funds for such liquidity purposes, repayments and/or distributions on security of the Underlying Investments and for the account of the Fund from a registered financial institution at the best commercial terms available and until Underlying Investments can be realised to repay such a Loan provided always that the maximum amount so borrowed may not exceed in aggregate thirty percent (30%) of the NAV of the Fund at the time of borrowing.
- 1.3.4 The discretionary income (other than interest) and capital growth beneficiaries of the Trust shall be the Investors. The Trustees shall, on the last day of each Financial Year or within 28 Business Days thereafter, make a distribution to the Investors out of any net income and capital growth (both realised and unrealised) of the Fund (other than interest income), subject to the provisions of the Trust and the automatic reinvestment election by the Investors.
- 1.3.5 Distributions of income (other than interest) and capital growth to Investors will be made on a pro rata basis to the value of VRDs held by the Investors subject to the performance fee (taking into consideration the issue of VRDs other than at the beginning of the relevant Financial Year and the early redemption of VRDs).
- 1.3.6 In the event of redemptions of VRDs prior to the Maturity Date, the Trustees may make an ad hoc distribution to the relevant beneficiaries, to enable the relevant Investor to participate in the income (other than interest) and capital growth of the Trust for the period ending on the Redemption Date on the same principles contained in the Trust with respect to the annual distribution policy.

2. **THE FUND**

2.1. **Investment objective**

The investment objective of the Fund is to achieve absolute return on capital growth on the underlying Investments through the trading of the Investments.

2.2. **Investment philosophy**

The Investment philosophy involves a strategy that includes the following activities only:

- (a) investment in cash and money market instruments;
- (b) investment in JSE listed equities;
- (c) trading in futures and options listed on the JSE derivatives division and the JSE Yield-X, which will be limited to:
 - a. volatility trading;
 - b. directional trading; and
 - c. cross commodity and calendar spread trading.

In managing the Fund, the Manager will make use of fundamental as well as technical trading analysis. The Manager makes use of general macro-economic research and uses technical analysis to help time entry and exit of positions.

2.3. **Fund strategy**

2.4. **Size of funds and capping strategy**

The Manager believes that there is significant scope in the South African market for the Strategy that the Fund follows and consequently does not at this stage envisage capping the size of the Fund.

2.5. **Research and investment process**

The Manager follows a research and investment approach that it believes will enhance returns whilst reducing the risk of capital loss.

2.6. **Differentiation**

The Manager has a unique skill set which differentiates it in the market place. The Manager has specific skill and experience in the fields of derivatives, soft commodity markets, option arbitrage and algorithmic trading which enables the Manager to:

- (a) value derivatives ;
- (b) time investments in derivatives; and
- (c) hedge price risk

The Fund will leverage off this blend of investment capabilities to deliver superior risk adjusted returns.

2.7. **Past performance**

The Manager has in excess of 5 years of experience investing in derivative markets. The various instruments include equity indices, soft commodities and listed equities.

2.8. **Investment restrictions**

In order to limit exposure to risk the Manager will observe the following investment restrictions, which will be contained in the Investment Mandate of the Fund. Where applicable, these restrictions will be monitored on a daily basis. The Fund will only invest in the instruments as defined in terms of the Investment Mandate, namely, JSE listed shares and JSE listed derivative instruments. The Hedge Fund has the following specific risk measurement and control process:

RISK101 will be used to calculate a Value At Risk (VAR) for the Fund.

The VAR concept answers the question: What is the maximum expected loss in a portfolio over a certain period in time and how confident are you in this number? For example let a portfolio's 10 day VAR at 99% confidence be \$1m. This means that in 10 days from today you can be 99% confident that your portfolio will not lose more than \$1m in value.

There are several accepted methods of calculating VAR, the most popular being Variance Covariance, Monte Carlo Simulation & Historical Simulation.

VAR determination according to this mandate will be based historical simulation by RISK101 and on a 10 day period at 95% confidence.

Accordingly the Fund manager shall exercise all reasonable due diligence and vigilance in maintaining the Fund exposure within a 15% VAR limit.

3. **DIRECTORS, MANAGEMENT AND ADMINISTRATION**

3.1. **Directors of the Company**

The Directors of the company are:

Hendrik Johannes Grobler (Identity number: 690906 5019 081);

Willem Abraham de Klerk (identity number 7511285092085)

3.2. **Trustees of the Trust**

The Trustees are responsible for the determination of the Trust's investment objective and policy and have overall responsibility for the Trust's activities including the review of investment activity and performance.

The Trustees of the Trust are:

Hendrik Johannes Grobeler (Identity Number: 690906 5019 081);

Willem Abraham de Klerk (identity number 7511285092085).

Bruwer Engelbrecht (identity number 8104105261087).

3.3. **Details of the Manager**

The Trust has appointed the Manager in terms of the Investment Mandate under which the Manager has been appointed with overall responsibility for the management of the Trust's investments and the provision of various other management services to the Trust subject to the overriding supervision of the Trustees.

The Manager is registered with the Financial Services Board under FSP number 35843.

The Directors and senior executives of the Manager are:

Hendrik Johannes Grobeler (Identity Number: 690906 5019 081);

Willem Abraham de Klerk (identity number 7511285092085).

3.4. **Management fee**

The Trust will pay the Manager at the end of each month a monthly Management Fee of $1/12^{\text{th}}$ of 1% calculated on the NAV of the Trust at the previous month opening balance. The fee will be payable within seven days of the last Business Day of each month.

3.5. **Performance Fee**

The Manager shall be entitled to receive a Performance Fee. The performance fee will be calculated on the net monthly return, subject to the achievement of a new highwater mark. Should the manager achieve a new highwater, the manager will charge a fee equal to 20% of the return above the highwater mark. The fee will be payable within seven days of the last Business Day of each month.

3.6. **Administration fee**

The Trust will pay for the administration of the Fund a monthly fee of $1/12^{\text{th}}$ of 0.25% calculated on the NAV of the Trust at the end of each month. The fee will be payable within seven days of the last Business Day of each month.

3.7. **Establishment cost**

The establishment cost of the Fund will be amortized over three years. The Trust will pay a monthly charge to pay this expense.

3.8. **Broker**

The Fund has appointed Badger Securities (Proprietary) Limited as the Derivatives Broker of the Fund. Sanlam I-trade has been appointed as the equity Broker of the fund.

3.9. **Custodian**

Standard Bank through a clearing arrangement with Badger Securities acts as custodian of the Fund's derivative collateral. Equity holdings are held by Sanlam I-trade in custody. Cash and money market investments are held by the relevant money market funds.

3.10. **Administrator**

The Fund has appointed CTH Advisory as the Administrator of the Fund (“CTH Advisory” or the “Administrator”). The Administrator is responsible for the administration of the Fund including the calculation and dissemination of the NAV and the NAV per VRD.

It should be noted that in providing services as an administrator, the Administrator does not act as a guarantor of the VRDs herein described. Moreover, the Administrator is not responsible for any trading decisions of the Fund (all of which will be made by the Manager), or the effect of such investment decisions on the performance of the Fund.

The Administrator provides the Investors with an independent valuation of the Fund’s assets, reporting, administration and secretarial services.

The Fund has also appointed CTH Advisory as Registrar and Transfer Agent (the “Registrar”) for the Fund. The services provided by CTH Advisory when acting in its capacity as Registrar, include the issuance of confirmation contracts relating to the purchase and redemption of VRDs by Investors; the maintenance of a copy of the Register and the redemption of VRDs; receipt of requests for redemption; authorization of redemption payments; and other services as agreed upon by the parties.

3.11. Investment by the Manager, its associates and affiliates

The Manager, its employees and affiliates will initially invest R3 000 000 in the Fund by way of subscription for VRDs in the Company. The investment ensures that the Manager is focused on the performance of the Fund and that its interests are aligned with the Investors’ interests.

The Manager, its employees and affiliates will re-invest a significant portion of any performance based fees received by them into the Fund.

3.12. Reporting to Investors

The Manager will provide Investors with the following reports:

Transaction advice

This document reflects any transactions made by the Holder as well as the indicative unit price, and NAV of the investment. These are sent to the Investors on a monthly basis.

IT3b

This document reflects the interest paid by the Company for the year ending the last day of February. Interest payments are made to Investors on the last day of February of that year. Investors will receive the IT3b within 14 days following the Year End Audit.

Fund Accounts and Administration

The Trust and the Company will be audited on an annual basis by the Auditors.

The Administrator will determine the value of the Underlying Investments comprising the Trust in accordance with the provisions of the Trust Deed of the Trust and report to the Company on a monthly basis. The Manager will report formally to Investors on a monthly basis in respect of each month.

Equalisation – Series Accounting

Investors will participate only in the growth of their specific investments and not in the growth of the Trust from the beginning of the relevant Financial Year if such Investor subscribed for VRDs after the beginning of the relevant Financial Year. This will be achieved by the issue of a different series of VRDs for each month. Each such series shall be allocated a performance participation determined with reference to the series of the VRD in question.

Net Asset Value (“NAV”) Calculations

The NAV of the Fund and the VRDs shall be calculated on a monthly basis and reported by the Administrator. The Trust is audited on an annual basis by the Auditors after which an annual audit certificate validating the NAV and the distributions to the Company and the Investors will be prepared and submitted to the Company. For the avoidance of doubt, the NAV shall be net of all liabilities, costs, expenses and disbursements of the Trust.

4. **TERMS AND CONDITIONS OF THE VARIABLE RATE DEBENTURES**

The terms and conditions of the Variable Rate Debentures (“Terms and Conditions”) are attached hereto as Annexure A, together with a proforma pricing supplement (the “Pricing Supplement”).

The Pricing Supplement, in relation to each Tranche of VRDs, supplements the Terms and Conditions and may specify other terms and conditions that shall, to the extent so specified or to the extent inconsistent with these Terms and Conditions, replace or modify the Terms and Conditions for the purpose of such Tranche of VRDs.

If there is any conflict or inconsistency between the provisions set out in the Pricing Supplement and the provisions set out in the Terms and Conditions, the provisions in the applicable Pricing Supplement will prevail.

As used herein, “Tranche” means VRDs which are identical in all respects other than as set out in this paragraph 4 and the relevant Pricing Supplement.

4.1. **Form and denomination**

The VRDs are in registered form and the certificates evidencing the VRDs shall be serially numbered. The VRDs will be issued in denominations of R1 per VRD.

4.2. **Status of VRDs**

The VRDs are unconditional, unsubordinated and unsecured obligations of the Company and rank *pari passu* among themselves and (save for certain debts required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Company from time to time outstanding. The Company is prohibited by its articles of association from conducting any business other than the lending of the debenture proceeds to the Trust. Accordingly, the Company will not enter into any agreement creating obligations other than its obligations to Holders of VRDs and obligations in respect of reasonably necessary obligations for the purposes of the Company as a special purpose vehicle. In addition, the Company is bound not to issue any security or enter into any contract that would rank ahead of the VRDs whether upon a liquidation of the Company or otherwise.

4.3. **Title**

Subject to the provisions set out below, title to the VRDs will pass upon registration of transfer in the Register of Holders kept by or on behalf of the Company.

4.4. **Coupons**

Within 14 Business Days of the end of each Financial Year of the Company, all the interest income that has vested in the Company by virtue of the Company being a vested beneficiary of the Trust, less the amount of any Trust expenses attributed to the Company under section 25B(3) of the Income Tax Act, 1962 attributable to such interest income, less the Permitted Liabilities, costs, expenses and disbursements of the Company (as provided in the definition of “Redemption Value”); will be distributed to the Investors in the form of Debenture Interest. The coupon attaching to the VRDs is thus a variable one and is a function of the quantum of interest income that vests in the Company from time to time, the aforesaid expenses attributed to the Company, and the Permitted Liabilities, costs, expenses and disbursements of the Company.

Interest will be declared by the Company to each Investor registered as such at the relevant point in time by reference to the interest income of the Trust received by the

Company as a vested beneficiary of the Trust reckoned from the preceding Interest Payment Date or the series of the VRD in question.

Coupons on VRDs will automatically be reinvested on behalf of Holders in additional VRDs on 1 March each year, save in respect of Holders who have furnished the Company with written notice of their election not to reinvest coupons by no later than 1 February of the previous Financial Year.

4.5. **Redemption**

4.5.1. *At Maturity*

The VRDs mature on and, unless redeemed earlier, will be redeemed on 28 February 2028 ("Maturity Date") or, if the Maturity Date is not a Business Day, then on the next day which is a Business Day.

4.5.2. *Redemption at the Option of the Investors*

An Investor may redeem all or a portion of the VRDs held by the investor on the last Business Day of each calendar month of each year by giving not less than 14 days written notice to the Company ("the Redemption Notice") to require the Company to redeem at the Redemption Value all or a portion of the VRDs held by the Investor concerned, subject to:

- the Redemption Gate applying (as defined below).

The Company may also at its election limit the amount of any redemption by any investor by the proportion which Illiquid Investments bear to the total value of the Fund.

Any redemption requested between 1 and 12 months of initial issue may be subject to a 5% discount applied to the Redemption Value, at the sole discretion of the Manager.

4.5.3. *Redemption Gate*

A Redemption Gate will apply if redemption requests are received for more than 20% of the NAV of the Fund as of the Redemption Date, the Company may, in its discretion:

- satisfy all such redemption requests, or
- satisfy all such redemption requests in the order in which they are received up to 20% of the NAV of the Fund, or
- reduce all redemption requests pro rata so that only 20% of the NAV of the Fund is redeemed.

A redemption request that is not fully satisfied as of the intended Redemption Date because of the foregoing restrictions will be satisfied as of the end of the next Month following such Redemption Date, provided that such restrictions no longer apply. If the redemption restrictions are still applicable at such time, the balance of the redemption proceeds shall be paid as of the next succeeding month period. Redemption requests will be satisfied in preference to later redemption requests subject to the foregoing provisions. The Company may, in its discretion, satisfy such redemption requests at such earlier times than as provided for in the preceding sentence and in priority to later requests. VRDs not redeemed from the Fund by virtue of the foregoing restrictions will remain at risk in the Fund until the effective date of redemption.

The Company may suspend redemption rights, in whole or in part, or the calculation of NAV, when, among other circumstances, there exists in the opinion of the Company a

state of affairs where disposal of investments by the Fund would not be reasonably practicable or would be seriously prejudicial to the non-redeeming VRD Holders.

4.5.4. *Form of Redemption Notice*

Any Redemption Notice shall:

- state the date upon which the Company is required to redeem the VRD's specified in the Redemption Notice, which date must be the last day of a month ("Redemption Date");
- state the number of VRDs required to be redeemed by the Company on the Redemption Date;
- specify details of the Investors' bank account to which an electronic funds transfer of the redemption funds shall be made; and
- contain an undertaking by the redeeming Investor to lodge the relevant VRD certificates with the Company not less than ten Business Days prior to the Redemption Date (and if the VRD certificates are not so lodged, such Redemption Notice shall be null and void).

Each VRD referred to in a valid Redemption Notice shall be redeemed by the Company on the first Business Day after the relevant Redemption Date on which the Company shall pay to the relevant Holder up to 90% of the Redemption Value and the balance by the 21st day of the month after the month in which the Redemption Date falls (or the following Business Day if the 21st day is not a Business Day) against delivery on or before the Redemption Date by such Investor to the Company of the certificates relating to such VRD for cancellation.

All redemptions shall take place including coupon.

4.5.5. *Redemption value*

The Redemption Value of each VRD will be determined with reference to the attributable portion of the NAV of the Fund as follows:

- its Subscription Price;
- plus interest income of the Trust received by or accrued to the Company as a vested beneficiary of the Trust reckoned from the preceding Interest Payment Date to date of redemption;
- plus all other income of the Trust including without limitation all income received by or accrued to the Trust by virtue of its holding and disposal of assets including the marking to market value of investments;
- less the amount (if any) by which the aggregate principal value of Loans of debenture proceeds by the Company to the Trust exceeds the mark-to-market value of the Fund (after the distribution of interest income to the Company in terms of the Trust Deed of the Trust) at the relevant point in time, less all distributions to the Company in respect of the Permitted Liabilities, costs, expenses and disbursements of the Company and less all liabilities, costs, expenses and disbursements of the Trust (to the extent that such amount has not already been taken into account in determining the distributions that vest in the Company);
- less the amount of any Trust expenses attributed to the Company in respect of such interest income under the Income Tax Act; and

- less the Permitted Liabilities, costs, expenses and disbursements of the Company to the extent not otherwise taken into account, attributable proportionately to the VRD in question.

4.6. **Reinvestment**

Interest accruing to Investors from the Company and/or distributions from the Trust due to them will be automatically reinvested in additional VRDs with effect from 1 March of each Financial Year. Investors electing not to reinvest their interest and/or distributions must give the Company notice in writing of such election by no later than 1 February of the immediately preceding Financial Year.

In the event of automatic reinvestment of distributions the Trust will pay such distributions to the Company on behalf of the relevant VRD Holders and the Company will issue additional VRDs to the value of such distributions and lend such distributions to the Trust as debenture proceeds. For the avoidance of doubt, the Trust will not be obliged to realise any of the Underlying Investments for these purposes and the payments envisaged shall be deemed to have taken place by means of letters of instruction.

On the reinvestment in additional VRDs of interest due by the Company to the Investors, the retention of such interest by the Company shall be deemed to be in settlement of the purchase price of such additional VRDs and the Company shall lend the amount of such interest to the Trust to be invested for the benefit of the Beneficiaries.

On the reinvestment in additional VRDs of distributions due by the Trust to the Investors, the relevant Investors shall be deemed to have irrevocably instructed the Trust to pay such distributions to the Company in settlement of the purchase price of such additional VRDs and the Company shall lend the amount of such distributions to the Trust to be invested for the benefit of the Beneficiaries.

For the purposes of issuing additional VRDs in the context of reinvestment of interest and/or distributions, the amount of such Interest and/or distributions shall be rounded down to the nearest rand.

5. **RISK FACTORS**

While investment in the Fund does offer the potential of high returns it also involves a correspondingly high degree of risk and is only considered appropriate for sophisticated or professional Investors who can afford the risk associated with the Fund. Investment in the Fund carries a high degree of risk and investors should view their investments as medium to long term. Investors should only invest in the Fund if they can sustain a substantial loss of their investment.

Each potential Investor in the Fund must have enough knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of such an investment.

Each Investor represents that he satisfies these criteria. In addition, each investor represents that he read and understands this risk disclosure.

In addition, investors must be aware of the possible conflict of interest existing between the fund manager and the Badger Securities. Badger Securities acts as derivative Broker for the fund. The fund manager is a significant stake holder in Badger Securities and therefore earns commission on transactions done through Badger Securities.

The risks and characteristics contained in this schedule and outlined immediately hereunder represent some of the more general risks and characteristics prevalent in hedge fund portfolios. The list should not be seen as exhaustive.

5.1. **Investment strategies may be inherently risky**

Hedge fund strategies may include leverage, short-selling and short term investments. These factors expose investors to additional risk.

5.2. **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 his 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 client has with the manager. The limits laid down by the mandate should be carefully reviewed in making an investment decision.

5.3. **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 client 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.

5.4. **Exchange rates could turn against the fund**

A hedge fund manager might invest in currencies other than the base currency. The portfolio is therefore exposed to the risk of the Rand strengthening or the foreign currency weakening.

5.5. **Other complex investments might 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. Many exotic instruments may be challenging for the manager to administer and account properly. Investors should enquire into how these instruments are objectively and independently valued.

5.6. The fund may be caught in a liquidity squeeze

Given their often short term nature, hedge fund managers need to be able to disinvest from or close certain positions quickly and efficiently. But 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.

5.7. The prime broker or custodian may default

Hedge fund managers often have special relationship with so-called “prime” brokers. These brokers 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 client, 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 client’s funds.

5.8. Regulations could change

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

5.9. 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.

5.10. The manager may be conflicted

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

5.11. Hedge fund structures are often complex

As mentioned above, hedge fund structures are not fully regulated and they are often housed in legal structures not originally meant for pooled funds, for example partnerships and companies. Given the many risks listed above, investors need to ensure that any structure is robust enough to contain unlimited losses.

5.12. Manager accountability may be vague

Hedge fund portfolios are often managed by specific individuals and investors should ensure that sufficient controls are in place for the times when the manager is being covered for by colleagues. In addition, a hedge fund structure and its managers or advisors may rely on the trading and/or investing expertise and experience of third party managers or advisors, the identity of which may not be disclosed to investors. This constitutes an additional risk for the investors, which they must take into account.

5.13. **Fees might be high**

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

5.14. **Fees might be performance-based**

Hedge fund manager's fees are usually performance-based. This means that 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.

5.15. **Transaction cost might be high**

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

5.16. **Transparency might 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 with a significant delay.

5.17. **Dealing and reporting might 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.

5.18. **Withdrawals might not be easy**

As mentioned above, the frequency of withdrawals might be limited to monthly or quarterly dates. In addition, the manager may impose notice periods or lock-ins in order to ensure that he has the necessary time for his investment positions to deliver their desired results.

6. **OTHER**

6.1. **Disclosure**

The necessary documentation confirming that the Company complies in all respects with the provisions of paragraph 3(5) of the Commercial Paper Regulations, has been given by the Company's independent Auditors.

6.2. **Indemnity**

None of the Company, the Manager, the Trust, any of their respective directors, employees, representatives, shareholders, trustees or agents, as the case may be ("the indemnified parties"), shall be liable to any party for any loss, liability, damage (whether direct or indirect) or expense of any nature whatever which any party may suffer or incur, whether directly or indirectly, arising from or which may be attributable to any act or omission on the part of any of the indemnified parties in connection with investment in the Fund as detailed herein, or arising from any other cause whatsoever, unless such loss,

liability, damage or expense is attributable to fraud or gross negligence on the part of the indemnified parties.

Notwithstanding anything to the contrary contained herein:

- (a) none of the indemnified parties shall under any circumstances be liable for indirect or consequential damages or for loss of profits; and
- (b) the maximum liability of all of the indemnified parties collectively to each Investor shall in no event exceed, in aggregate, the fees paid by the Trust to the Manager (during the relevant period of time) which are directly attributable to the Trust's investments in relation to the VRDs held by such Investor as at the date that any such liability arises.

6.3. **Conflicting articles**

Should the articles of association of the Company at any time conflict with the provisions of this Investor Memorandum, then:

- (a) the provisions of this Investor Memorandum shall prevail; and
- (b) any of the Investors shall be entitled, by giving notice in writing to the Company, to require the Company, which shall then be obliged, to do or procure the doing of all such things as may be necessary to amend the articles of association of the Company so that they conform to the provisions of this Investor Memorandum.

6.4. **FICA**

The Manager is an accountable institution as defined by the Financial Intelligence Centre Act No 38 of 2001 ("FICA"), and is therefore bound by all the provisions of FICA, and will ensure compliance thereof. Investors will have to be identified and verified in accordance with FICA and the Regulations issued hereunder.

The Manager reserves the right to request such information as is necessary to verify the identity of an Investor. In the event of delay or failure by a potential investor to produce any information required for verification purposes, the Manager may refuse to accept the application. If any person who is resident in the Republic of South Africa and who knows and suspects that (i) the business has received or is about to receive the proceeds of unlawful activities; or (ii) a transaction or series of transactions to which the business is a party facilitated or is likely to facilitate the transfer of the proceeds of unlawful activities, or has no apparent business or lawful purposes, or is conducted for the purpose of avoiding giving rise to a reporting duty under FICA, or may be relevant to the investigation of an evasion or attempted evasion of a duty to pay any tax, duty or levy; or (iii) the business has been used or is about to be used in any way for money laundering purposes, that person is required to report such suspicion to the relevant authorities pursuant to the provisions of FICA dealing with money laundering.

The Manager reserves the right to reject an application, for any reason, in whole or in part in which event the application monies or any balance thereof will be returned to the applicant by transfer to the applicant's designated account or by post at the applicant's risk.

6.5. **Issue and transfer taxes**

The Investor will be liable for and shall pay to the Company, simultaneously with the subscription amount applicable to the VRDs, any taxes, levies or stamp duty that may be payable in respect of the VRDs.

6.6. **Taxation**

The Investor will receive interest (at a variable rate) as a VRD Holder and will receive other income and capital payments (in respect of capital growth) as a Beneficiary. The Investor shall be liable for all taxation on the amounts received.

The Company and the Trust will at all times comply with the relevant tax and other legislation within the different jurisdictions in which they may at any time operate.

The Company makes no representation, gives no warranty or undertaking, express or implied and takes no responsibility for the tax treatment of the Investors. Investors should consult their professional advisors with regard to their tax positions.

Signed at _____ on _____ 20 .

for **Badger Specialised Capital (Proprietary) Limited**,
who warrants that he/she is duly authorised

As Witness

Signed at _____ on _____ 20 .

for **The Client**, who warrants that he/she is duly authorised

As Witness
