

## CAPRICORN GEM FUND



## OBJECTIVE

The Fund is a US Dollar denominated, moderate risk, equity long/short hedge fund, which aims to achieve superior risk-adjusted returns on an absolute basis over any 12 month period by investing in Global Emerging Markets.

Capricorn GEM Fund comprises Capricorn GEM Fund Inc. and Capricorn GEM Fund L.P.

	Current NAV per Share	1 month %	6 month %	1 year %	3 year %	Annualised since launch	Since launch %
<b>Class A - USD</b>	218.7	(6.5%)	(11.5%)	2.0%	23.4%	10.0%	118.7%
<b>Class B - EURO</b>	215.0	(6.7%)	(12.0%)	2.2%	22.5%	9.8%	115.0%
<b>Class C - GBP</b>	213.5	(6.6%)	(12.2%)	1.0%	21.9%	9.7%	113.5%

Date: as at 30/04/2016 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

AUM of the Capricorn GEM Strategy: (\$316m). The Strategy consists of Capricorn GEM Fund Inc., Capricorn GEM Fund LP (\$135m) and Lyxor/Capricorn UCITS Fund (\$181m).

## MANAGER'S COMMENTS



April proved to be another frustrating and challenging month for the Fund with the loss of 6.5%. The dispersion within the market was again significant, which was driven by a risk on rally after the Federal Reserve kept rates on hold. The lower for longer rates, combined with better than expected economic data from China, spurred a strong rally in emerging market currencies and commodities, creating the following issues for the Fund:

- a shift in the market from growth to value stocks.
- long book a lot less exposed to the value rally. The long book performed well, but was unable to keep up with the rapid squeeze in the short book.
- increased and prolonged volatility in our short book
  - Brazil, Turkey and South Africa in the midst of political reshuffling
  - Resources bounced despite little change in supply demand dynamics

Furthermore, markets continued to be driven by the reflation trade and general flows into Emerging Markets. The profile of these flows were predominantly in the form of ETFs and as we are bottom up stock pickers, when broad based flows come to markets in this format, markets tend not to reward the divergences in the quality of our investments.

Although we have been expecting a time period of underperformance in our funds due to the extreme outperformance in 2015, the voracity of the "correction" surprised us. We experienced a counter trend rally in our short book at the same time as we made one or two poor investment calls. Volatility and movements in our short book have been extreme with prices regularly moving between 5-10% per day. Although our risk process is built to adjust for a 95-99% event, the movements we have seen over the past quarter, especially in April, exceeded our expectations.

With this further pressure on the portfolio we took action in mid-April to reduce the risk across the portfolio. Gross exposure was reduced 49% from 213% to 164%. These changes have already stabilised the portfolio and we will look to add additional risk once we become more comfortable with market direction.

During times like this it is important that we don't change our investment thesis, or stray from our investment process that has worked so well over the last 13 years. We continue to see this as an extreme bear market rally and in our opinion none of the growth drivers have fundamentally changed.

The biggest losers on the month included three resource shorts, hailing from Turkey, Brazil and South Africa. Long held favourites Naspers and Steinhoff further weighed on performance falling 4% and 5.5% respectively. Our losses in these positions were mitigated as we put derivative structures in place to protect our downside in these two positions.

The biggest winner on the month was Ulker Biskuvi of Turkey which rallied 9% in April after reporting solid results in to month end for the 1st quarter of 2016. Raia Drogasil of Brazil was the second biggest gainer on the month rising 4% having also reported good results in to month end. The stock has already consolidated significant gains in 2016 being our top performer YTD. HDFC Bank of India rallied 7.5% moving in to positive territory for the year. Discovery Holdings of South Africa rounded out the gainers rebounding from a period of weaker performance.

To conclude, all of our fundamental beliefs stand.

We continue to see the current market conditions as a correction in a longer term thematic trend. We are however cognisant that these conditions may present themselves for an extended period and have thus taken steps to reduce our gross exposures across our portfolios. We have identified where we believe the market may be vulnerable once these conditions recede and will increase our exposure once we are more comfortable with the market environment.

*EuroHedge*  
Awards 2015

WINNER

EMERGING MARKET EQUITY



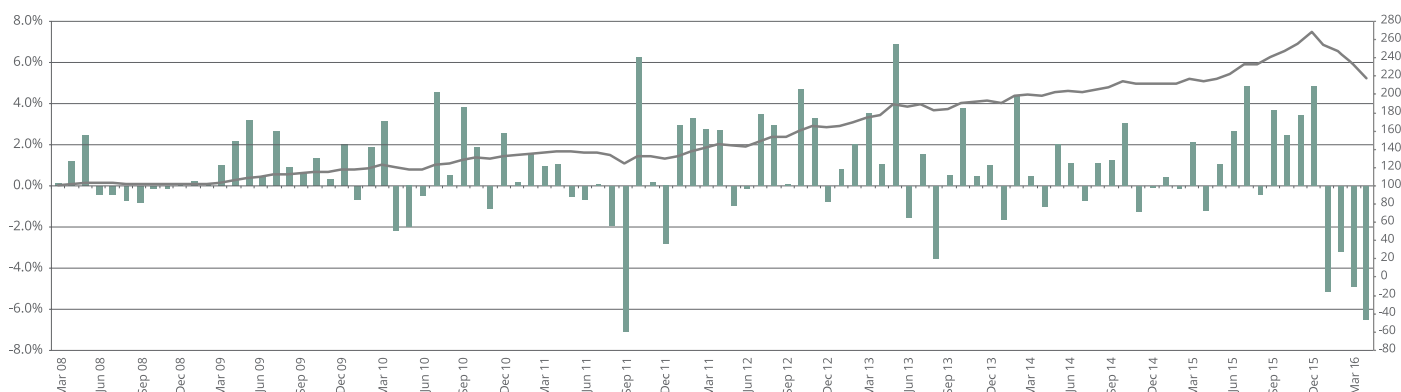
# CAPRICORN GEM FUND CONTINUED



## Historical Monthly Returns (Class A - USD)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008			0.1%	1.2%	2.5%	(0.4%)	(0.4%)	(0.7%)	(0.8%)	(0.1%)	(0.1%)	0.2%	<b>1.6%</b>
2009	0.2%	0.2%	1.0%	2.2%	3.2%	0.5%	2.7%	0.9%	0.7%	1.4%	0.3%	2.0%	<b>16.3%</b>
2010	(0.6%)	1.9%	3.1%	(2.1%)	(2.0%)	(0.5%)	4.6%	0.6%	3.8%	1.9%	(1.1%)	2.6%	<b>12.6%</b>
2011	0.2%	1.6%	1.0%	1.1%	(0.5%)	(0.6%)	0.1%	(1.9%)	(7.0%)	6.3%	0.2%	(2.8%)	<b>(2.9%)</b>
2012	3.0%	3.3%	2.8%	2.7%	(0.9%)	(0.1%)	3.5%	3.0%	0.1%	4.7%	3.3%	(0.7%)	<b>27.4%</b>
2013	0.8%	2.0%	3.6%	1.1%	6.9%	(1.5%)	1.6%	(3.5%)	0.5%	3.8%	0.5%	1.0%	<b>17.7%</b>
2014	(1.6%)	4.4%	0.5%	(1.0%)	2.0%	1.1%	(0.7%)	1.1%	1.2%	3.1%	(1.2%)	(0.0%)	<b>9.2%</b>
2015	0.4%	(0.1%)	2.1%	(1.1%)	1.1%	2.7%	4.9%	(0.4%)	3.7%	2.5%	3.5%	4.8%	<b>26.7%</b>
2016	(5.2%)	(3.2%)	(4.9%)	(6.5%)									<b>(18.4%)</b>

Date: as at 30/04/2016 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd



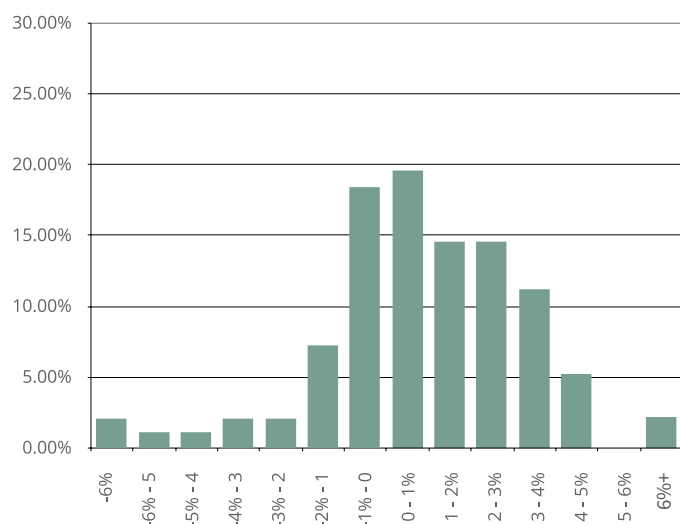
% Monthly Return

Cumulative Monthly Return

# CAPRICORN GEM FUND CONTINUED



## Frequency distribution of Returns



## Statistics

Assets Under Management (USD)	135m
Gross exposure	164%
Net Exposure	45%
% of positive months	66%
% of negative months	34%
Annualised monthly volatility (historic)	8.5%
Average positive monthly return	2.1%
Average negative monthly return	(1.6%)
Sharpe Ratio	1.2
Maximum monthly drawdown	(7.0%)
Maximum cumulative drawdown	(18.4%)

## Exposure

Sector Exposure	Gross	Net
Financials	33%	12%
Consumer Discretionary	28%	15%
Consumer Staples	28%	2%
Industrials	24%	9%
Information Technology	15%	8%
Materials	9%	0%
Health Care	8%	8%
Energy	6%	(6%)
Telecommunication Services	6%	(6%)
Hedge	5%	5%
Utilities	2%	(2%)
<b>Grand Total</b>	<b>164%</b>	<b>45%</b>

Country Exposure (based on Revenue split of Invested Companies)	Gross	Net
Africa	73%	10%
Asia Ex-China	41%	29%
South America	15%	7%
Middle East	10%	(1%)
Europe	9%	2%
ROW	5%	(1%)
Russia	3%	(1%)
China	3%	3%
North America	2%	(2%)
Australia	2%	0%
Eastern Europe	1%	(1%)
<b>Grand Total</b>	<b>164%</b>	<b>45%</b>

### All data:

Date: as at 30/04/2016 (net of fees).

Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

## CAPRICORN GEM FUND CONTINUED



## Important Information

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### ALL DATA:

as at 30 April 2016 (net of fees) Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

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Performance information for the month of the document is net of all fees and expenses, the performance data disclosed is not audited. Comparison to the index where shown is for information only and should not be interpreted to mean that there is a correlation between the portfolio and the index.

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