CAPRICORN
FUND MANAGERS

REVIEW OF 2013 PERFORMANCE

16 JANUARY 2014

Dear Investor

2013 turned out to be the most memorable in the ten years we have been operating. We successfully navigated an extremely turbulent time for emerging markets and all four of our funds have returned impressive performance figures for 2013.

We celebrate the year with a number of achievements and milestones:

THE HOLLARD STABLE FUND (HSF)

returned 21.6% in ZAR. In 2013 HSF matched the returns on the JSE All Share Index (on a total return basis), but did so with an annualised volatility of approximately 5%, well below that of the market (13.5%). HSF turned ten years old without recording a single negative month for 2013 and has achieved positive returns in each year since inception.

THE CAPRICORN PERFORMER FUND (CPF)

returned 40.6% in ZAR. CPF offers investors a similar exposure to the HSF investment themes however aims for a higher return by following a more aggressive exposure strategy. CPF was named as one of the top performers in the Long/Short category according to the Symmetry Hedge Fund Survey.

THE CAPRICORN GEM FUND (GEM)

returned 17.7% in USD. GEM ended 2013 with what we believe to be our best relative year compared to the returns on the MSCI Emerging Market Index in 2013 of -5%. GEM powered through the USD100m AUM mark and ended the year with an AUM of USD130m.

THE CAPRICORN MARKET NEUTRAL FUND (CMN)

returned 25.8% in ZAR. CMN maintains a low correlation to the JSE All Share index by keeping a low net exposure and portfolio beta. CMN was also named as one of the top performers in the Market Neutral category according to the Symmetry Hedge Fund Survey.

Note:

The Hollard Stable Fund consists of Silver Cluster Loan Stock Company (Pty) Ltd, The BlueInk Vesting Trust No 37 and the CFS Stable Trust and these make up the strategy. Capricorn Performer Fund consists of the Capricorn Performer Partnership. The Capricorn GEM Fund comprises the Capricorn GEM Fund LP and Capricorn GEM Fund Inc. Capricorn Market Neutral Fund consists of Imalivest Quantitative Investments (Pty) Ltd.

MARKET DRIVERS 2013

In our view, three primary drivers of markets in 2013 were:

i. **the resurgence of developed markets at the expense of emerging markets;**
ii. **the substantial migration by investors from bonds to equities; and**
iii. **the exceptionally accommodative monetary policies adopted by Central Bankers.**

Within this environment we needed to allocate our resources very carefully as this would be the year where the tide did not lift all ships.

INVESTMENT STRATEGY AND MARKET ANALYSIS 2013

We remind investors of our basic strategy of thematic investing where we utilise a number of tools to identify transformative themes in everything from countries to companies.

In South Africa, the JSE All Share returned 21.4% in ZAR terms aided by the weakening Rand, nevertheless it actually fell 5% in USD terms, and substantially underperformed major indices in USD. Some investors may recall that we predicted this underperformance and therefore positioned the book against the strong secular forces prevailing in the economy. Consequently, our top performing South African positions (Naspers, Steinhoff, Aspen, Richemont & Brait) are all companies with established growth strategies and substantial revenue cashflows outside of South Africa. Short positions in sectors under stress such as unsecured lending and gold producers also made the list of top contributors.

It is interesting to note that all of the emerging markets in our universe were down in dollar terms in 2013. It is testament to our disciplined approach and effective risk management systems that has allowed us to perform so strongly.

This outperformance was achieved as a result of a number of key calls. Firstly, as mentioned above, by careful allocation to "institutional" South African listed companies. Secondly, the performance of our stock selections in many areas outside of our core South African market. Turkish stocks like TAV Airports and Coca Cola Icebek contributed greatly to performance, so did our short book in Turkey in fixed line telecommunications and banks. Thirdly, shorts such as our long standing position in the South African Rand was another key generator of performance. Fourthly, many shorts in the commodity space, specifically in Russia, added value, whilst our luxury book added to performance too with positions in Richemont, Hermes and Ralph Lauren all showing good returns.

OUTLOOK 2014

We begin 2014 with an unusual 'wall' of worry. Most pundits are predicting a continuation of the weakness in emerging markets, citing the real danger of a Chinese credit bubble and much more importantly (from our perspective), a genuine growth scare in emerging markets.

We feel that the emerging market risks are overdone and that the extreme recent movements in both stock prices and most notably in emerging market currencies are giving us some interesting opportunities. Key themes which should find expression in our funds include our increasingly bearish view on the commodity supercycle, our very bullish view on the convergence of emerging market digital economies with their developed market counterparts and the continual evolution of the emerging market consumer. A notable development involves the evolution of emerging market companies from a global crossover perspective (i.e. EM companies now successfully operating in developed markets). We have seen the flip side for decades.

Further opportunities should arise in many emerging equity markets as they hold their breath as elections are held this year. We predict investors will be more discerning about the countries and companies they choose to invest in, causing disparities in performance within these markets. Large current account deficits have weakened emerging market currencies substantially in 2013, this will continue to affect imports (especially oil) into these countries in 2014, returning investors' attention to relative economic fundamentals as some of these countries endure their respective rebalancings.

South Africa is facing another very interesting year, a general election where the ruling party majority will have its first meaningful challenge not for loss of power, but for loss of some grass roots support. This will also be the first post Nelson Mandela year. Our view is that South Africa's continuous transition in its democratic process has been exceptionally vibrant and successful. Its economic achievements have been even more impressive and it is our sense that the leadership is acutely aware of the challenges ahead and we feel they will successfully tackle some of these deficiencies. We are most certainly expecting a resumption of better growth and are therefore positioning ourselves accordingly. As touched on above, a further interesting point is that many companies have diversified out of South Africa risk and become global players. Cases in point being Naspers, Aspen and Steinhoff to name but a few that are now global players in developed and developing markets.

One of our outperformers for 2013 was very good stock selection in Turkey where, despite the general market rout, we made substantial money. We think that, post the elections, the picture in Turkey will become much clearer and there will continue to be significant opportunities. For all the noisy events of the past months, in our opinion, Turkey has some outstanding companies with excellent structural prospects (as well as some weak companies with lousy prospects) allowing us to capture downside risk via shorts.

We remain cautious on Russia due to its extremely heavy reliance on commodities, particularly oil. We believe in a weaker commodity environment where the structural imbalances in Russia's economy will be magnified, creating many short opportunities for us.

Some of our markets which were crushed in 2013 already had our curiosity but now have our attention. The Philippines and Indonesia were down in 2013 but are at different stages of implementing reform to reverse that trend and pave the way for future growth. In Indonesia, we believe the 2014 election has the ingredients of being a potential watershed moment for the country in terms of catalysing much needed reforms.

OUTLOOK 2014 CONTINUED

In the Philippines, we see further progress on reform ahead following successful action on corruption and improvements to state bureaucracy and service delivery. The government will need to show its hand on providing further reforms to encourage future foreign investment. Our markets also include Mexico and Malaysia, where we have been closely watching progress for some time and looking for triggers for allocation. Our models are showing some bullish green flags in these countries so expect to see allocations in the future.

Our worst call in 2013 was Brazil, where we believed that interest rates increases would be far less than they were. Going forward into 2014 we believe that when rate increases do abate, there will be some opportunities in the consumer space. This coupled with the football World Cup means we retain some exposure.

CONCLUSION AND THANKS

We would like to express our gratitude to all our investors and stakeholders for all your support and trust over the year. We believe our current suite of funds offers an optimal choice for capital preservation, capital appreciation and geographical diversification. We are committed to continue investing in our people, processes and systems and maintain our position in the top quartile of performance.

SUMMARY OF CAPRICORN FUNDS:

SA EQUITY LONG/SHORT

HOLLARD STABLE FUND

A Rand denominated South African long/short equity hedge fund. The fund has a strong focus on capital preservation, targeting an absolute return in excess of cash. The conservative, counter-cyclical nature of the fund could result in underperformance during equity bull markets, whilst outperforming in equity bear markets.

Launch date	Return 2013	CAGR since inception	Annual monthly volatility *(historic)*	AUM 31/12/13	AUM 31/12/12
JULY 2003	21.6%	16.8%	5.9%	R1,245M	R946M

CAPRICORN PERFORMER PARTNERSHIP

A Rand denominated South African long/short equity hedge fund. The fund has a strong focus on long term capital appreciation, targeting an absolute return in excess of cash. The fund aims to provide returns with lower volatility and lower drawdowns than equities.

Launch date	Return 2013	CAGR since inception	Annual monthly volatility *(historic)*	AUM 31/12/13	AUM 31/12/12
AUGUST 2013	40.6%	45.0%	9.4%	R206M	R28M

EMERGING MARKETS EQUITY LONG/SHORT

CAPRICORN GEM FUND

US Dollar denominated (with USD, GBP and EUR share classes), moderate risk, equity long/short hedge fund, which aims to achieve superior risk-adjusted returns on an absolute basis by investing in Global Emerging Markets.

Launch date	Return 2013	CAGR since inception	Annual monthly volatility *(historic)*	AUM 31/12/13	AUM 31/12/12
MARCH 2008	17.7%	12.0%	7.7%	USD132M	USD85M

SA MARKET NEUTRAL

CAPRICORN MARKET NEUTRAL FUND

A Rand denominated, low risk, market neutral hedge fund that employs multiple investment methodologies to construct a portfolio. It aims to deliver superior risk adjusted returns that are uncorrelated to the general market over any 12 month period by investing in JSE listed equity instruments.

Launch date	Return 2013	CAGR since inception	Annual monthly volatility *(historic)*	AUM 31/12/13	AUM 31/12/12
APRIL 2006	25.8%	11.6%	6.1%	R150M	R41M

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