



REVIEW OF 2015 PERFORMANCE

(THE 'PERIOD')

15 JANUARY 2016

Dear Investor

As we enter 2016, we review a year of exceptional performance in a challenging environment for active money managers, where most struggled to generate any level of return. Markets at best have only managed mediocre returns, whilst in most cases returns have been sharply negative. In addition to these poor returns, volatility has increased markedly. This volatility was largely driven by ever changing expectations around interest rates and growth, as well as massive movements in commodity prices and significant geopolitical tensions. Given these difficult conditions, we have successfully navigated the markets in the past year. We remain conservatively positioned going into the New Year, given our expectations that volatility is set to continue.

EXCELLENT PERFORMANCE IN A WEAK RETURN ENVIRONMENT

THE HOLLARD STABLE FUND (HSF)

Returned 28.6% in ZAR. Our conservative offering is now in its thirteenth year of existence, having never had a negative calendar year return whilst still returning in excess of 16% pa.

THE CAPRICORN PERFORMER FUND (CPF)

Returned 38.0% in ZAR, strongly outperforming the JSE All Share Index (on a total return basis) for the Period, which returned 5.1%. CPF looks to deliver equity-like returns with lower volatility.

THE CAPRICORN PERFORMER (CAYMAN) FUND (\$CPF)

Returned 26.9% in USD for the Period, strongly outperforming the JSE's return of -21.6% in USD. \$CPF launched in January 2015 and allows investors the option of investing in the Performer strategy on a USD hedged basis.

** see disclaimer*

THE CAPRICORN GEM FUND (GEM)

Returned 26.7% in USD strongly outperforming the MSCI Emerging Market Index for the Period, which returned -18.1%. GEM has once again managed to deliver alpha in a very difficult environment.

THE CAPRICORN MARKET NEUTRAL FUND (CMN)

Returned 34.8% in ZAR for the Period. CMN's unique offering as a performance fund with very low correlation to the market allows investors to diversify their risk while not giving up performance.

SANLAM SELECT FLEXIBLE EQUITY FUND (FLEX)

Returned 15.3% in ZAR for the Period, outperforming the JSE's 5.1%. FLEX launched in September 2014 and we are excited to present our first long-only offering to our investors.

MAIN DRIVERS

In our view, the primary drivers of the market in 2015 were:

- i. **A slow, but consistent economic recovery in the United States with the result of significant Dollar strength.**
- ii. **Concerns around what is really happening in the Chinese economy.**
- iii. **A divided European Union that is struggling to deliver any form of sustainable growth coupled with the upheaval of dealing with the refugee crisis.**
- iv. **Further weakening of commodity prices off the back of irresponsible supply and lack-lustre demand.**
- v. **Interest rates globally have remained low on the back of anaemic global growth and this looks set to continue for some time.**

INVESTMENT STRATEGY AND MARKET ANALYSIS



We continue to focus on transformative themes and companies that can capture these benefits, in order to deliver strong long-term returns for our Investors.

2015 was a year in which divergence was the principal theme underlying almost all markets. In South Africa, the JSE All Share index returned 5.1% in ZAR terms for the year. This result masks significant intra-sector divergences and was significantly flattered by a 33.7% depreciation of the Rand against the Dollar. The MSCI Emerging Markets Index declined 18.1%, driven by general equity market and currency weakness.

Our belief is that there are two major drivers of Emerging Markets at the moment:

Firstly, the weakness and uncertainty related to the Chinese economy will continue to be the dominant driver of Emerging Markets performance as a whole. China is undergoing a major structural shift, the impact of which on its own economy most of us are unable to quantify. What is even more relevant is that this change has potentially far bigger implications for many other countries than it does for China, most notably all commodity producing countries. Furthermore, as China begins to weaken its currency, many of these countries are now facing the prospect of competing with China in many markets.

Secondly is the normalisation of interest rates in the United States. The principal impact is being felt in the currency market but weakness has now spread directly into equity markets. After the initial hike in December, the Federal Reserve will retain its cautious approach, raising rates “behind the curve” in order to ensure the economic recovery is not jeopardised. Rates are likely to remain at historically lower levels but we will continue to remain in an upward rate cycle. Discount rates and the cost of capital will have to adjust to reflect this change.

2015 represents our most broad based performance to date. Included in our GEM fund’s top 10 contributors to profit we have longs in AKR Corporindo (Indonesia), My EG Services (Malaysia), as well as shorts in various Turkish steel producers and global resource companies. In every jurisdiction bar one, we were able to generate positive returns, in a year where Emerging Market returns were sharply negative. Of particular note are returns in Turkey, Philippines, Brazil, Indonesia and Malaysia which were the main contributors to performance during the year. We will continue to leverage off these very pleasing performances and look to capitalise on the efforts of the past 8 years.

We still believe that although macro volatility will continue to make markets more difficult, the bottom-up reality of companies and the countries they operate in will ultimately drive share performance. The divergences between countries, sectors and stocks are enormous and we believe our skill set allows us to capitalise on this.

OUTLOOK

As we move into 2016, the focus has moved to global growth concerns. Political risk and its potential impact on capital markets is a major concern. We have seen this risk becoming more apparent as the tougher economic climate exacerbates this condition.

Key themes that are currently being expressed in our book include:

- I. **Commodity prices continue to surprise the market on the downside which supports our long-held view that the supercycle is over. The distress we have highlighted for several years has become apparent but we still believe the real failures have yet to occur.**
- II. **We continue to explore the evolution of the emerging market consumer and the positive structural trend that this represents. We will look to own those franchises that can capture this and thus generate super-economic profits.**
- III. **The concerns around domestic South Africa have accelerated. The political and social pressures are building rapidly and without significant political change, the situation looks likely to persist. The risk of a downgrade seems inevitable.**
- IV. **We continue to invest in platform businesses in the emerging world, particularly those with a digital base. These businesses are accelerating the development of commerce and in many instances mean these economies are skipping traditional phases that developed markets went through.**
- V. **The theme of healthcare remains central to us, with the aging and growing wealth of the global economy providing a multi-decade driver for these companies. We have exposure to these businesses in most of the jurisdictions we invest in and will continue to look for more.**
- VI. **The world remains awash with liquidity. However, we are now in an increasing interest rate cycle, albeit an extremely slow cycle, and thus, capital will be more discerning in its allocation.**

We begin our review in South Africa where once again the economy disappointed. The biggest driver of this disappointment is the breakdown in political leadership and the dysfunction of most government bodies. The much needed positive reform is nowhere to be seen, and in most instances things are going backwards. However, with the majority of the JSE being exposed to other offshore economies the stock market is far less linked to this weakness than investors appreciate. We have previously highlighted that in our view, this would drive outsized divergences in the

listed market and 2016 looks set to continue this trend. The difference for 2016 will be that not all the offshore ventures undertaken by South African companies will be successful and we will begin to see the effect of this during the year. We remain bearish on the consumer where a decade long boom in credit as well as supportive government policy has accelerated consumption that needs to normalise. This process of deleveraging will take years to unwind and the companies exposed to this will need to adjust. In addition, the much weaker Rand and severe drought will result in significant inflation that will further worsen the consumer's position.

Long-held favourites of ours including Brait, Curro, Naspers, Steinhoff, Reinet, and Woolworths continued to deliver strong returns and are excellent examples of our methodology of finding multi-year investment opportunities. These stocks are what we look to populate our long book with. Our long-book in South Africa remains invested in the best-of-breed operators that have been able to internationalise their business and reduce exposure to South Africa. We continue to place a significant premium on those companies that exhibit optionality, which is generally under-appreciated by the general market. More importantly, was the level of performance that was generated from our short-book in South Africa. A broad short book which included iron ore producers, gold producers, industrials, financials, retailers and others contributed significantly to 2015's performance. We continue to focus the short book on the bottom-up stocks that we feel are in vulnerable economic positions and do not have the ability to manoeuvre.

The last 6 months in Turkey proved particularly intriguing from a political standpoint as the AKP regained their parliamentary majority in a period of heightened political tension more reminiscent of decades gone by than anything in Turkey's more recent history. After spending the initial election campaign courting the Kurdish vote and seemingly offering unprecedented freedoms in the run up to the first election, the AKP completely reversed course and campaigned on security which resulted in a military clampdown in the Kurdish South East. This proved a very successful strategy as the AKP regained its majority. Economically there has been some promise of reform. The problem is that this promised reform is not broad based enough and in the context of continued political division and economic uncertainty it probably will not be enough. Furthermore, the continued doubts over the independence of the central bank are harmful to the currency and investor sentiment continues to be low. Shorts in the steel space, telco space and banks added substantially to performance whereas, despite Ulker delivering excellent results and holding its own in a tough environment, both Coca Cola and Tav Airports were unable to escape the m \acute{e} l \acute{e} e.

Russia continues to struggle as an economy; driven by the low oil price, continued lack of transformation and reform. What many commentators do not seem to understand is that President Putin's popularity is a completely logical reaction to this. Russian history is littered with strong leaders who see the country through its toughest times. Ironically, President Putin is actually very Westward facing compared to some of his predecessors or even indeed some of the alternatives on offer should he no longer be in a position to lead. Our shorts in the oil and gas, mining and steel names were profitable in the period and we maintain these positions as we see little sign of any uptick in the absence of a recovery in commodity prices.

OUTLOOK 2015 CONTINUED

We are very positive on Indonesia, we believe there has been a steep change in the reform agenda and its likelihood of success has increased. Infrastructure spending has increased materially and the signs are positive. This is in the context of a still relatively weak domestic economy but we believe that the lag of improved infrastructure spend will translate into an improved domestic economy as the year progresses. In terms of performers, AKR Corporindo was the star, being one of the top contributors to the fund's performance on the year. Matahari Department Stores also performed well showing a strong gain for the year. We had dramatically cut our position in Kalbe Farma but unfortunately it was not enough as we suffered a loss on this position as it suffered from currency weakness and unfavourable regulation on top of a slower domestic consumption environment. We are working on a number of new ideas in the domestic space to expand upon the infrastructure tailwinds we expect to materialize.

We had another successful period in the Philippines where newer ideas in Xurpas and Double Dragon Properties performed very well. The Philippines faces an election year in 2016 which creates some uncertainty but we are of the belief that it even in the worst outcome it would take some time for the good work of the Aquino administration to be undone and the year will be a solid one for the country.

2015 was our best year in Brazil with a number of gains both on the short and the long side. Drugstore group, Raia Drogasil, continued to transform into a regional leader despite pulling back somewhat into the end of the year. Most gains were on the short side with a number of shorts in the banking, consumer and utilities space as well as a position in a Brazilian ETF adding substantially to performance. We remain very negative on Brazil, seeing it as the most likely focal point for any potential emerging markets crisis should one materialise on the back of a toxic cocktail of economic, political and fiscal instability.

We continue to have high hopes for Mexico as the tailwinds from the Peña Nieto administration's far reaching reforms begin to be felt. For the first time in a decade the Mexican consumer is awakening on the back of tangible real wage growth and this is one of the fund's big themes looking ahead. There are a number of exciting bottom up opportunities in this space which are set to play a bigger role in the fund.

While we have only one position in Malaysia it is worth mentioning our position in My EG, which was one of the top performers for the fund in the year. This position has no reliance on the macro fortunes of Malaysia and as such has proved its worth. Malaysia as a country faces similar troubles to many other commodity producing emerging markets along with socio-political challenges including a corruption scandal involving the prime minister.

Our mining book was once again a huge driver of performance stemming entirely from shorts. The irony is we could leave our comments from our previous news letter unchanged.

"Our shorts in the mining space globally have been some of the leading contributors to performance. We reiterate our view that China's investment led growth has already begun morphing to a more consumption/services based type of growth. We have already seen a sharp fall in commodity prices and we think that this will continue with far reaching implications for companies and countries which rely heavily on high commodity prices"

The next leg of this story is now where the focus is as the capital raisings and defaults in the sector begin to appear and also where cracks appear in other sectors in the heavily commodity dependent countries

In line with our view of the changes we are seeing in China, we believe the supercycle in luxury demand is over. The "old" drivers of many of these outstanding global companies will now return to the fore and quality and indeed currencies may be the main drivers of performance in times ahead.

India has evolved to become a fully fledged investment destination. We have four very exciting long positions with no shorts as we believe Prime Minister Modi's reform efforts and their effects gain momentum. We think there are some outstanding transformational opportunities in India and as time goes on we will discover more and more of them. The economy itself has slowed somewhat but the secular opportunities despite this are very exciting.

China remains a very difficult market to invest in directly as the events of the past 6 months have shown. We have no direct positions in either China or Hong Kong as we have not yet found a way to express our investment approach successfully. We are however cognisant of the fact China is growing in significance, not only economically, but also in financial markets and we continue to explore how our approach may be suitable at some level to capitalise on this.

THANK YOU

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

SUMMARY OF CAPRICORN FUNDS:

EMERGING MARKETS EQUITY LONG/SHORT

CAPRICORN GEM FUND (GEM)*

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 2015	CAGR since inception	Annual monthly volatility <i>(historic)</i>	AUM 31/12/15	AUM 31/12/14
MARCH 2008	26.7%	13.4%	7.5%	\$274m	\$157m

Total AUM for the Capricorn GEM Strategy is \$274m. The strategy consists of Capricorn GEM Fund Inc, Capricorn GEM Fund LP and Lyxor/Capricorn GEM FUnd UCITS. *Comprises Capricorn GEM FUnd Inc. and Capricorn GEM Fund LP

SOUTH AFRICAN EQUITY LONG/SHORT

HOLLARD STABLE FUND (HSF)

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 2015	CAGR since inception	Annual monthly volatility <i>(historic)</i>	AUM 31/12/15	AUM 31/12/14
JULY 2003	28.6%	17.0%	6.1%	R 1,811m	R 1,404m

CAPRICORN PERFORMER PARTNERSHIP (CPF)

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 2015	CAGR since inception	Annual monthly volatility <i>(historic)</i>	AUM 31/12/15	AUM 31/12/14
AUGUST 2012	38.0%	32.5%	10.8%	R 600m	R 329m

CAPRICORN PERFORMER FUND (CAYMAN) FUND LIMITED (CPF\$/€/£)

A usd 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 2015	CAGR since inception	Annual monthly volatility <i>(historic)</i>	AUM 31/12/15	AUM 31/12/14
DECEMBER 2014	26.9%	24.5%	8.8%	\$8.9m	\$2.9m

SOUTH AFRICAN MARKET NEUTRAL

CAPRICORN MARKET NEUTRAL FUND (CMN)

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 2015	CAGR since inception	Annual monthly volatility (<i>historic</i>)	AUM 31/12/15	AUM 31/12/14
APRIL 2006	34.8%	20.5%	7.5%	R 257m	R 187m

SOUTH AFRICAN LONG-ONLY

SANLAM SELECT FLEXIBLE EQUITY FUND (FLEX)

A Rand denominated, flexible asset allocation fund which looks to deliver equity like returns at lower risk levels. The Fund aims to achieve maximum capital growth over the medium to long term.

Launch date	Return 2015	CAGR since inception	Annual monthly volatility (<i>historic</i>)	AUM 31/12/15	AUM 31/12/14
SEPTEMBER 2014	15.3%	14.0%	9.3%	R 1,080m	R 203m



LONDON OFFICE

Malta House
36-38 Piccadilly
London
W1J ODP
United Kingdom

Jonty Champion: jcampion@capricorncapital.com

Darryl Noik: dnoik@capricorncapital.com

Robert Gottlieb: rgottlieb@capricorncapital.com

Authorised and regulated by the Financial Conduct Authority

JOHANNESBURG OFFICE

Capricorn House
32 Impala Rd
Chislehurst
2196
South Africa

Andrew Crawford: andrewc@capricorncapital.com

Doug Stott: douglass@capricorncapital.com

Robert Fihrer: robf@capricorncapital.com

Licensed by the Financial Services Board

DISCLAIMER

ALL DATA unless otherwise stated is as at 31 December 2015 (net of fees)

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

Important Notice: This document is prepared by Capricorn Fund Managers Ltd ("CFML") authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. The investment products and services of CFML are only available to persons who are professional clients and eligible counterparties as defined in FCA's rules. They are not available to retail clients.

Within the EEA the Fund is only available to Professional Investors as defined in the Alternative Investment Fund Managers Directive, or as otherwise permitted by local Member State law. Outside the EEA, the Fund is only available to Professional Clients or Eligible Counterparties as defined by the FCA, and in compliance with local law.

This document is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. The fund referred to in this document is a Cayman Limited Partnership and has not been registered under the securities laws, or authorized or approved by any regulatory authority, of any other jurisdiction. The fund is an unregulated collective investment scheme for the purposes of the Financial Services and Markets Act 2000. UK Investors should be aware that the fund is not covered by the Financial Services Compensation Scheme. In particular, this document is not intended for distribution in the United States or for the account of U.S. persons (as defined in Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act")) except to persons who are "qualified purchasers" (as defined in the United States Investment Company Act of 1940, as amended (the "Companies Act")) and "accredited investors" (as defined in Rule 501(a) under the Securities Act). This document is provided for information purposes only and should not be regarded as an offer to buy or a solicitation of an offer to buy shares in the funds managed by CFML (the "Funds"). Investment in the Funds managed by CFML carries

significant risk of loss of capital and investors should carefully review the terms of the Funds' offering documents for details of these risks. The prospectuses of the Funds are the only authorised documents for offering of shares of the Funds and may only be distributed in accordance with the laws and regulations of each appropriate jurisdiction in which any potential investor resides. Nothing described herein is intended to imply that an investment in the Funds is "safe", "conservative", "risk free" or "risk averse". Where information provided in this document contains "forward-looking" information including estimates, projections and subjective judgment and analysis, no representation is made as to the accuracy of such estimates or projections or that such projections will be realised. This document does not consider the specific investment objective, financial situation or particular needs of any investor and an investment in the Funds is not suitable for all investors. Investors are reminded that past performance should not be seen as an indication of future performance and that they might not get back the amount that they originally invested. The price of shares can go up as well as down and can be affected by changes in the rates of exchange. 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. The views expressed in this document are the views of CFML at time of publication and may change over time. Nothing in this document constitutes investment, legal tax or other advice nor is it to be relied upon in making an investment decision. No recommendation is made positive or otherwise regarding individual securities mentioned herein. No guarantee is made as to the accuracy of the information provided which has been obtained from sources believed to be reliable. The information contained in this document is strictly confidential and is intended only for use of the person to whom CFML and CFM has provided the material. No part of this document may be divulged to any other person, distributed, and/or reproduced without the prior written permission of CFML.

*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.