JOHANNESBURG • LONDON • EMERGING MARKETS HEDGE FUNDS

CAPRICORN
FUND MANAGERS

HALF YEAR REVIEW OF 2014 PERFORMANCE

JULY 2014

Dear Investor

As we enter the second half of 2014, we review six months of gratifying performance in a challenging environment for hedge funds. Markets have performed strongly overall coupled with low volatility, but this has masked significant divergences within sectors. Given this dynamic, we have successfully navigated the markets and we are well positioned for the remainder of the calendar year.

SOLID PERFORMANCE IN A DIFFICULT ENVIRONMENT:

THE HOLLARD STABLE FUND (HSF)

Returned 7.3% in ZAR. HSF is now in its twelfth year of existence having never realized a negative return for a calendar year while still returning in excess of 16% pa. With conservatism at its core, HSF has only recorded two negative months in the past 30 months.

THE CAPRICORN PERFORMER FUND (CPF)

Returned 11.9% in ZAR, marginally exceeding the return of the JSE All Share Index (on a total return basis) for the period. CPF replicates the HSF mandate but aims for a higher return by following a more aggressive exposure strategy without the cash component.

THE CAPRICORN GEM FUND (GEM)

Returned 5.5% in USD in the first 6 months of the year. This performance is particularly pleasing given that the fund was able to avoid the draw down in emerging markets in the early part of the year and given the strong returns in 2013.

THE CAPRICORN MARKET NEUTRAL FUND (CMN)

Returned 3.1% in ZAR for the period. After a stellar 2013 the CMN fund consolidated these gains and ended the period outperforming its benchmark year to date.

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.

MAIN DRIVERS

In our view, the four primary drivers of the market for the first half of 2014 were:

i. **Benign environment for risk assets.**

ii. **The purported "Fragile 5" of 2013 rebalancing much quicker than anticipated with the result of them outperforming favoured markets. Both India and South Africa are at all times highs, while Indonesia, Brazil and Turkey enjoy 52 week highs.**

iii. **Mediocre growth in developed markets with the result of rates staying lower for longer**

iv. **Geopolitical events taking centre stage, particularly Ukraine and Iraq**

INVESTMENT STRATEGY AND MARKET ANALYSIS

We remind investors of our strategy of thematic investing where we focus on identifying transformative themes in everything from countries to companies.

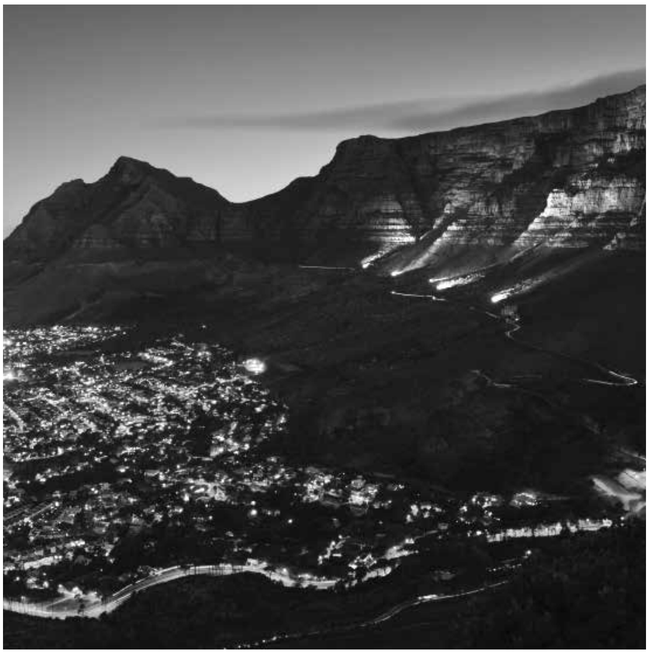
In South Africa, the JSE All Share index returned 11.8% in ZAR terms for the half-year aided by a broad rally, including significant performance from 2013 laggards. Early in 2014 we tempered our bearish stance on the ZAR and used the weakness in the currency during January to bring in our short exposure.

As written in our most recent newsletter we were constructively positioned on emerging markets. This has proven correct and the fund returns reflect the benefit of this.

Our top performing South African positions (Naspers, Steinhoff, Aspen and Brait) continued to play out their positive stories from 2013. In addition, performance was obtained from several other positions that we have been building on more recently, including Reinet, Investec and Netcare. Given the broad based rally we are very pleased with the contribution from our shorts in select SA consumer companies and unsecured lending. Our long-book in South Africa continues to remain invested in the best-of-breed operators that have been able to internationalise their business and reduce exposure to South Africa.

Outside of South Africa we are very proud of the fact that our robust investment methodology was able to capture the uptick in the MSCI EM index given that we were able to protect our investors during the troubles in the emerging world during 2013. Included in our top 10 contributors to profit are shares from Indonesia (Kalbe Farma), Turkey (Turkcell), Russia (various short positions) and Brazil (Raia Drogasil). This represents our most broad performance to date and an indication of the depth and knowledge we have built in these markets.

OUTLOOK



As we pass the halfway mark of 2014, most of the concerns at the beginning of the year have been unfounded; the focus now moves to global growth concerns and the apparent lack of inflation. Political risk and its potential impact on capital markets is much more of a concern. The market has thus far shrugged off the impact of this but we are watching with increasing concern and wariness.

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

I. **The sharp decline in iron ore pricing has confirmed our long-held view that the supercycle is over. We are now in a phase where we are working out what the new-normal in commodity prices means for margins and the impact of this on the companies in this sector.**

II. **We continue to explore the evolution of the emerging market consumer and the positive structural trend that this represents. However, given the boom in this space over the past decade the direction of the opportunity is no longer just on the long side. Vulnerability exists in certain areas and we will look to capture this.**

III. **The labour and political strife that is currently placing pressure on the South African domestic economy represents a significant juncture for the history of the country.**

IV. **We continue to own and look for more exposure to 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 world is awash with liquidity and while the US is gradually tapering this looks to be more than offset by an expansion in easing from both the ECB and BOJ.**

South Africa as an economy is at a crossroads; It has to reform for it to continue the growth required to improve the lives of its people. It faces lacklustre growth and many tough decisions need to be made with little political will being apparent. However, with the vast 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 long-held that South Africa has not reformed as a country, but the listed entities within it have. They have all spent significant amounts of capital and energy in taking their businesses global. This is well illustrated in the few instances of negative earnings growth even though South Africa has been facing headwinds. This peculiar structure in South Africa will result in significant divergences between companies that have embraced change and those that have not and we are positioned to exploit this. We remain bearish on the consumer where a decade long boom in credit as well as supportive government policy has accelerated consumption that now needs to normalise. This process of deleveraging will take years to unwind and the companies exposed to this will need to adjust. The government will turn its focus to investment and over time we do expect them to achieve some level of success with the National Development Plan. This will be at the expense of the consumer.

We remain constructive on Indonesia where we could see real positive structural reform in this country, which would add to the already compelling investment case. July's upcoming elections are critical and the polls indicate a narrowing of the gap between the two candidates - Joko Widodo, the pro-reform candidate and Prabowo Subianto, former leader Suharto's son-in-law who served in his military. This may lead to some volatility in the upcoming weeks but whatever the case we would use any weakness to accumulate additional stock in our favoured companies.

The Philippines continues upon its impressive trajectory of structural reform. We are encouraged by recent progress in removing bottlenecks to infrastructure rollout while the economy continues to post impressive growth numbers as a result.

In the past 6 months, Turkey has experienced political espionage, a midnight emergency rate increase and the outbreak of sectarian war on its doorstep. This has all occurred in a year when first local elections and secondly the upcoming presidential elections would

OUTLOOK 2014 CONTINUED

increase uncertainty in any event. Add to that the expectation of foreign portfolio outflows as global rates were expected to normalise and you would have thought markets would be very weak at the outset of the year. In the face of this the market has been very resilient, with banks rising rapidly off their lows of early this year. One of the primary reasons for this has been the central bank's haste in cutting interest rates under what is perceived to be political pressure. Inflation continues to overshoot and in our view growth remains below par. The external rebalancing has also been minor due to its structural nature. We remain of the view that Turkey has reached a step change in growth rates to a lower trajectory, particularly from a consumption perspective, post a decade of easy credit and we are aiming to take advantage of this as policy evolves. The geopolitical challenges are also not to be underestimated as we unfortunately believe the instability in Iraq (Turkey's 2nd largest export destination) is more than just a transient incident. Despite all these headwinds we think that over the longer term all these geopolitical developments could prove beneficial to Turkey as the cost of energy may decrease to the potential increase in oil availability from the Kurdish north of Iraq.

Russia has been one of the great success stories for us this year. When one looks at the performance of Russian shares this year one could be forgiven for wondering if Russia's Ukrainian excursion was simply a dream. This masks extreme volatility as Russian shares collapsed and then rallied sharply in the first 6 months of the year. We came into the year heavily short of Russian shares as we believed the economy would be under severe pressure and even enter a possible recession. This proved to be correct as growth numbers across the board proved very sluggish. We did not predict the Ukrainian action but we were not surprised. A country's primary goal is to preserve their own national interest and regardless of what most western observers may believe, that is precisely what Russia did. Mr Putin felt threatened and reacted in a way that could logically have been expected of him. We used the extreme weakness in the midst of the Crimean invasion to cover all but two out of our eight shorts (these were far more structural). We continue to believe that Russia faces a multitude of structural challenges and will remain a chronic underweight in our portfolio.

Brazil faces elections later this year, post what seems thus far to be a successful World Cup. We are not overly optimistic about Brazil and believe that without major structural reform the economy that ran on the back of a commodity boom will continue to struggle. We maintain our long position in the substantially under penetrated drugstore space and continue to short in the commodity space, but are looking for ways to express our negative view on the domestic consumption theme.

We have mentioned in previous communications how we are monitoring two new countries being Malaysia and Mexico and we now have positions in both jurisdictions. We are very excited about Mexico with its epochal energy reform (amongst many other areas of reform) and we believe that certain parts of the Mexican economy are poised for a decade of major positive change. We have taken a position in an airports operator that operates on the northern border with the USA, as well as having significant exposure to the Gulf offering optionality on the vast FDI this area is expected to attract as PEMEX (the state energy company) opens its doors to international operators. We perceive it to be a major beneficiary of our expected boom in oil and gas in the region.

Malaysia is of interest to us particularly the structure of the stock market and the many similarities we see with South Africa. We have over the past months initiated a small position in an innovative tech company.

Our luxury theme has been subdued post last year's strong returns. The Chinese slowdown as well as weakness in the Japanese yen has resulted in a lower rate of growth for many of these companies. We have reduced our positions but still believe the theme to be intact.

Our shorts in commodities have again added alpha this year as commodity prices have weakened anew. We maintain our bearish view on the space and still believe we will see insolvencies in the space as the cycle continues to deteriorate country in terms of catalysing much needed reforms.

CONCLUSION AND THANKS

We would like to express our gratitude and appreciation to all our investors and stakeholders for all your support and trust over the past six months. 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 maintain our top quartile performance position.

SUMMARY OF CAPRICORN FUNDS:

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 2014 ytd	CAGR since inception	Annual monthly volatility *(historic)*	AUM 30/06/14	AUM 30/06/13
MARCH 2008	5.5%	11.9%	7.6%	$160m	$114m

SOUTH AFRICAN 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 2014 ytd	CAGR since inception	Annual monthly volatility *(historic)*	AUM 30/06/14	AUM 30/06/13
JULY 2003	7.3%	16.7%	5.9%	R1321m	1170m

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 2014 ytd	CAGR since inception	Annual monthly volatility *(historic)*	AUM 30/06/14	AUM 30/06/13
AUGUST 2012	11.9%	39.6%	11.2%	R291m	94m

SOUTH AFRICAN 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 2014 ytd	CAGR since inception	Annual monthly volatility *(historic)*	AUM 30/06/14	AUM 30/06/13
APRIL 2006	3.1%	11.3%	6.5%	R163m	94m

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