

CAPRICORN MARKET NEUTRAL FUND



OBJECTIVE

The Fund is 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.

	Current NAV	1 month %	6 month %	1 year %	3 year %	Annualised since launch	Since launch %
MNF	R 242m	(3.8%)	15.1%	30.2%	73.6%	18.7%	87.5%

MANAGER'S COMMENTS

2016 kicked off on a very volatile note. The year started with a rout in global markets as investors questioned the current global growth expectations, China and the US especially showing signs of weakness. The market rallied post the Federal Reserve rate decision where they guided that the next rate hike would be in the second quarter of 2016. This rally was primarily liquidity driven and focused on beaten down names that had underperformed significantly in 2015. The fund performed reasonably well during the market selloff early in January, but suffered greatly in the liquidity fuelled rally. We were nervous of a drawdown after the stellar performance in 2015 and did go into 2016 with the lowest exposure levels in the fund's history. However the severity of the drawdown caught us off guard. The fund ended the month down 3.8%.

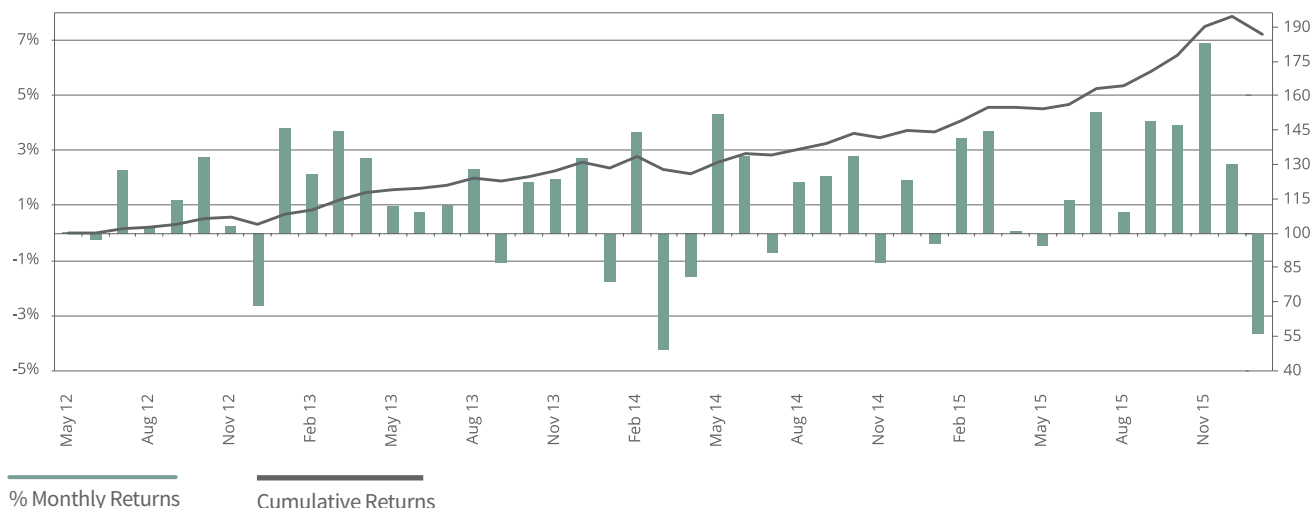
Our short positions in the South African platinum and gold mining sectors caused losses in the month. Although we acknowledge that the strong depreciation in the ZAR has offered these companies a short term lifeline, this benefit will reduce as all other ZAR input costs will increase and suppress the benefit substantially. Losses were also incurred in long term fundamental positions Curro Holdings, Mondi and Mr Price. Curro pulled back from elevated levels reached in December. We continue to like the longer term structural growth

story of Curro and continue to hold the position. Mondi sold off aggressively as the Dollar depreciated against the Euro and investors were spooked by additional soft coated paper supply coming online from Brazil. Although we agree that these factors are going to be headwinds in the coming months, the cost savings program and vertical integration of Mondi's operations continue to place it in a very strong position relative to its competitors. Mr Price released a very disappointing sales update and we did cut our position after considering the reasons for the slowdown in sales growth. We believe that Mr Price, although a great company, will struggle to accelerate their sales growth in an environment where their competitors are extending credit aggressively. This should be a 18 to 24 month cycle and we will definitely look to re-enter this position when we see this trend reversing.

Contributors to performance were from our short positions in diversified miners and domestic orientated businesses in the financial and retail sectors. Long positions in international investment company Reinet contributed positively to performance.

The volatility in the market is extreme and we have positioned the book very conservatively. We have absorbed the counter cyclical rally and believe that moving forward the book is well positioned.

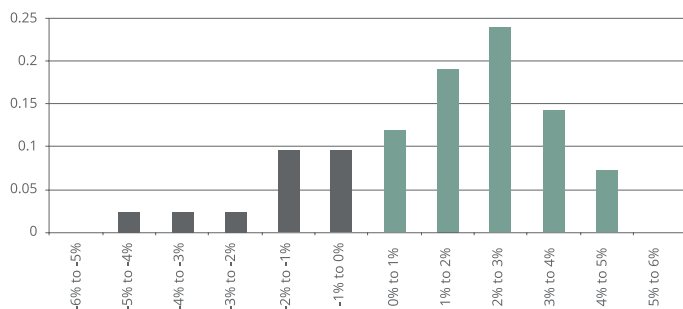
Historical Monthly Returns



CAPRICORN MARKET NEUTRAL FUND CONTINUED



Histogram of Returns



Statistics

Assets Under Management (R Million)	R242m
Gross exposure	176%
Net Exposure	6%
% of positive months	75%
% of negative months	25%
Annualised monthly volatility (historic)	8.0%
Average positive monthly return	2.5%
Average negative monthly return	(1.6%)
Sharpe Ratio	1.6
Maximum monthly drawdown	(4.2%)
Maximum cumulative drawdown	(5.7%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012						(0.6%)	2.3%	0.3%	1.2%	2.8%	0.4%	(2.6%)	3.8%
2013	3.8%	2.2%	3.8%	2.8%	1.0%	0.8%	1.0%	2.4%	(1.0%)	1.9%	2.0%	2.8%	25.8%
2014	(1.8%)	3.7%	(4.2%)	(1.6%)	4.4%	2.8%	(0.7%)	1.9%	2.1%	2.8%	(1.0%)	1.9%	10.4%
2015	(0.4%)	3.5%	3.7%	0.1%	(0.4%)	1.2%	4.4%	0.8%	4.1%	4.0%	6.9%	2.5%	34.8%
2016	(3.8%)												(3.8%)

Important Information

Past performance is no guarantee of future returns - values can go up and down. The information contained above has been prepared by Capricorn Fund Managers (Pty) Limited and is unaudited. Returns as shown are the weighted average of all issued series.

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