Capricorn

GEM Fund

January 2018 · Fund Performance

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 %	YTD %	1 YEAR %	ANNUALISED SINCE LAUNCH	SINCE LAUNCH %
Class A ($)	205,8	(2,6%)	(2,6%)	8,3%	7,9%	105,8%
Class B (€)	192,9	(2,8%)	(2,8%)	5,5%	7,2%	92,9%
Class C (£)	193,9	(2,7%)	(2,7%)	6,2%	7,3%	93,9%

Date: as at 31/01/2018 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd
AUM of the Capricorn GEM Strategy: $143m. The Strategy consists of Capricorn GEM Fund Inc., Capricorn GEM Fund LP ($76m) and Lyxor/Capricorn UCITS Fund ($67m).

Manager's Comments

January was an interesting month as Emerging Markets edged up, led by Brazil, China and Taiwan. The pace of this rise was extremely rapid and so we began to take in exposure. Our long book was hit by some drops in core positions, which we took as opportunities, whereas on the short side our book was hurt by a couple of stocks that are trading at significant premiums to history and peers. Many of these shorts were pushed by broad market performance.

Our Turkish stocks and our Chinese technology companies added most to performance over the month and we are comfortable with our current exposure in these, although we are likely to move our overall Turkish exposure aggressively when need be given its high liquidity and high beta to broader markets. Finally, we reintroduced option exposure in January into the book as the rally entered a steep phase yet volatility remained cheap, allowing us to hedge a good portion of the book at an attractive price. Options are best used to insulate against sharp, large moves, while we would view any shift in market momentum as an opportunity to increase our trading book.

Our largest gainer on the month was a core, structural property short in South Africa that fell over 20% in the month and has, in our opinion, further to fall due to its complex structure coming under question and valuations remaining high. Our Long in Alibaba added 18% on the month after a quiet November and December. Alibaba is now the largest position in our portfolio, taking the mantle from Naspers as its impressive growth and dominant position in China, aided by strong government support, should provide significant returns in the years to come. Bidvest in South Africa continued its strong run to add 15% in January as it continued to benefit from positive sentiment on domestic South Africa. My EG in Malaysia moved up 12% as it continued to roll out its e-filing platform and came closer to achieving success on a number of other verticals. Finally D&L Industries in the Philippines rose 10% as it continued to execute well on its strategy.

After a 51% rise in December, Xurpas in the Philippines dropped 22% in January on profit taking. A core short in the internet space rose 23% against us to extreme valuation levels against what we believe to be deteriorating fundamentals. This was painful, but we added to our short and added some puts for the likely sharp pullback in this name. Eicher Motors in India fell 11% as a slight hiccup in production data was taken negatively. We believe this overlooks strong core growth and believe the stock may well accelerate aggressively upwards in the coming months. Polish debt collector Kruk had another bad month, falling 12% on fears over their Italian book, which is at a very early stage and we believe setbacks should have been expected. We have been adding to this name as it falls, taking it up to a core position after discussions with the management as it offers great growth potential particularly after its derating. Finally, insurer Discovery in South Africa, pulled back after a great Q4 of 2017 to retrace 9% in January. We had taken some profits in the name but believe that this was a healthy pullback before a continued move higher.

Markets have moved from an eerily calm grind up to a more aggressive rise. We believe there is some higher than usual risk of near term weakness. The book is liquid and we have bought in grosses sharply. The general direction of markets in this type of rate environment is likely to remain upwards. As such, we have decided to run nets near the high end of our historic range while purchasing protection through index level options to hedge our book back towards our standard net range should there be a sharp selloff.

We have been taking profits on many of our trading positions, so our book has seen some degree of turnover compared to prior years, with a focus on maximising the returns from our core book, which we aim to deliver 80% of returns over the cycle. We are excited for the opportunities for alpha generation in 2018 and see tremendous potential in our book, both from historic positions that continue to perform and new, transformative, opportunities we have added over the last year.

EuroHedge Awards 2015
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HFM AWARDS
WINNER 2016
EUROPEAN SERVICES AWARDS

Capricorn
GEM Fund

Capricorn Fund Managers

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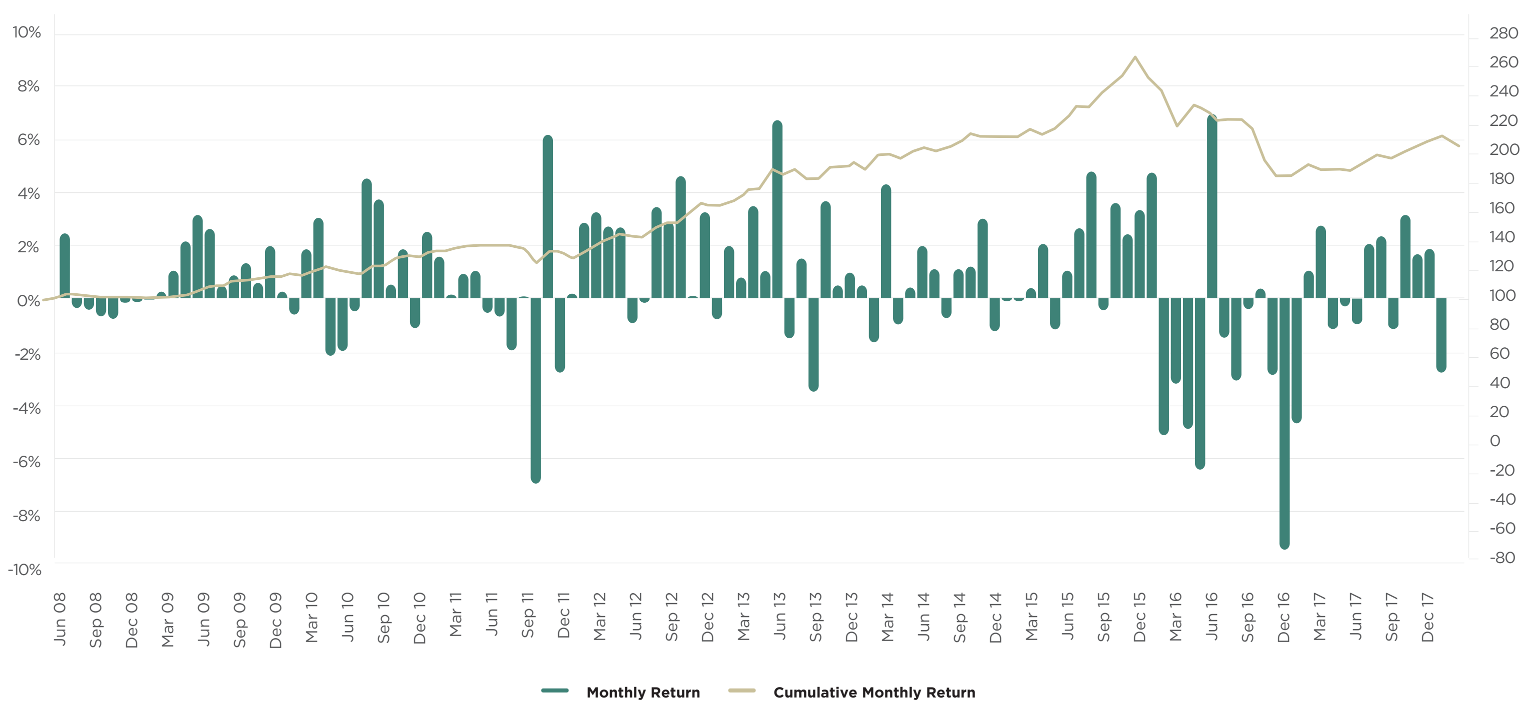
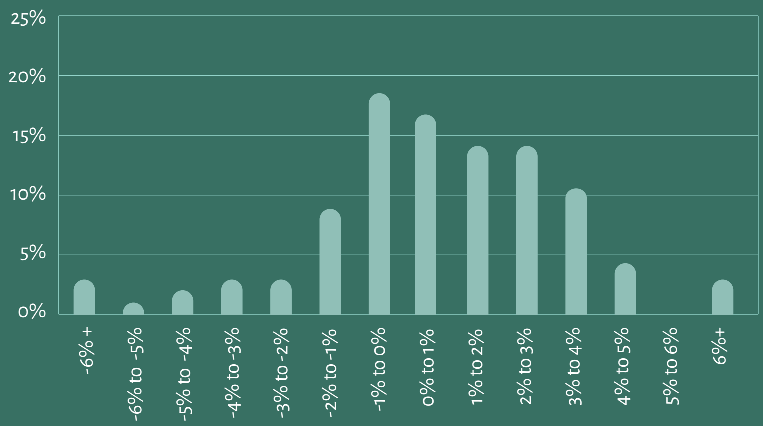
Historical Monthly Returns - Class A (USD)

	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%	**1.6%**
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%	**16.3%**
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%	**12.6%**
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%)	**(2.9%)**
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%)	**27.4%**
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%	**17.7%**
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%)	**9.2%**
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%	**26.7%**
2016	(5.2%)	(3.2%)	(4.9%)	(6.5%)	7.1%	(1.4%)	(3.1%)	0.4%	(0.4%)	(2.9%)	(9.6%)	(4.4%)	**(29.8%)**
2017	1.1%	0.0%	2,7%	(1.1%)	(0.1%)	(0.9%)	2.1%	2.4%	(1.2%)	3.3%	1.6%	2.0%	**12.4%**
2018	(2,6%)												**(2,6%)**

Date: as at 31/01/2018 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd



Frequency Distribution of Monthly Returns Since Inception



Statistics

Assets Under Management (USD)	75.7m
Gross exposure	221%
Net Exposure	82%
% of positive months	62%
% of negative months	38%
Average positive monthly return	2.1%
Average negative monthly return	(1.8%)
Annualised monthly volatility (historic)	9.1%
Sharpe Ratio	0.8
Maximum monthly drawdown	(9.6%)
Maximum cumulative drawdown	(29.8%)

Exposure

Sector Exposure	Gross	Net
Financials	56%	27%
Information Technology	35%	15%
Consumer Staples	29%	7%
Consumer Discretionary	26%	18%
Materials	26%	7%
Industrials	18%	13%
Hedge	10%	5%
Real Estate	6%	(6%)
Health Care	5%	(5%)
Energy	4%	2%
Telecommunication Services	3%	2%
Utilities	3%	(3%)
Grand Total	**221%**	**82%**

Country Exposure (based on Revenue split of Invested Companies)	Gross	Net
Asia Ex-China	67%	21%
Africa	61%	33%
Eastern Europe	23%	(8%)
Middle East	22%	16%
South America	16%	0%
China	14%	11%
Europe	11%	4%
ROW	4%	4%
Russia	2%	1%
Australia	1%	0%
Grand Total	**221%**	**82%**

All data:
Date: as at 31/01/2018 (net of fees).
Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

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Important information

ALL DATA:
as at 31 January 2017 (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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