Capricorn

GEM Fund

Capricorn Fund Managers

February 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 ($)	205,1	(0,3%)	(2,9%)	7,9%	7,4%	105,1%
Class B (€)	191,8	(0,5%)	(3,3%)	5,0%	6,7%	91,8%
Class C (£)	193,0	(0,5%)	(3,2%)	5,7%	6,8%	93,0%

Date: as at 28/02/2018 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd
AUM of the Capricorn GEM Strategy: $142m. The Strategy consists of Capricorn GEM Fund Inc., Capricorn GEM Fund LP ($75m) and Lyxor/Capricorn UCITS Fund ($67m).

Manager's Comments

February brought a return to volatility for global markets with the iShares MSCI emerging markets ETF having its first significant drawdown since November 2016. The drawdown of -5.9% was sharp and was supposedly precipitated by the upward move in US bond yields. The reality in our view is that markets had rallied uninterrupted for a long time and this was simply a pullback. We were pleased with our monthly return of -0.3% despite running a significant net long position, as our protection strategy as well as a number of short positions bore fruit for us in the month.

Our biggest gainer of the month was a long term short position in a South African property group. We have had a long standing position in this group as it has consistently traded at a substantial premium to its NAV driven by years of South African investors positioning in what they perceived to be "rand hedge defensive dividend" plays. We believed that this trade would unwind as sentiment in South Africa improved and valuations would revert to more logical levels. Our second biggest gainer for the month was a put spread we had taken on the iShares MSCI emerging markets ETF. In the middle of the month we crystallised this gain close to the lows and booked a gain of 1% of performance. We had spoken about the low levels of volatility in our newsletter earlier this year and how this provided us with outsized risk/reward in terms of protecting our portfolio. Other gainers included long-term shorts in Polish insurance and utilities, as well as our long holding in Malaysian e-government services provider, My EG, which rallied in anticipation of strong results.

Losers again for us came from the Philippines in the form of internet company Xurpas, emerging property conglomerate Double Dragon and logistics company Chelsea Logistics. The Philippines has suffered continuous foreign institutional outflows and as a result local retail is now making up as much as 70% of traded volumes in many names. This environment naturally leads to large swings in stock prices and this can be disconcerting for many market participants. However our view on these companies remains positive and the price action only improves the long term opportunity. In order to help during this volatility, we have a series of short positions which have mitigated these drawdowns to some degree. These 3 positions in the Philippines are some of the biggest structural opportunities around and as investors we encourage our investors to look through the volatility which is exacerbated by market conditions. They very much have a place in this portfolio and provide substantial and rapid upside opportunity at any time, since the same volatility on the upside applies as that which has been seen on the downside, once the bottom-up of these businesses evolves. Other losers included our core positions in both Alibaba and Naspers which sold off in line with global internet and tech as well as Bidvest in South Africa which paused after a strong run.

We would also like to take this opportunity to mention the events that have unfolded in an Indian company which we invested in, Vakrangee. As many of our investors will know, we invested in Vakrangee in December 2014 after identifying the substantial growth opportunity in the company due to Indian financial inclusion, its growing list of retail partners and more specifically the opportunity in ecommerce brought about by the relationship of the company with Amazon. There has always been an element of doubt about the reputation of the company's owners and management team, about which we had been warned by many of our local partners and contacts. We conducted our due diligence and there were some issues which we discovered but we decided that the opportunity at the time was enormous and the risk vs reward profile was heavily in our favour. As the years passed the company became more mainstream, foreign ownership increased and the company even entered the larger indices. We maintained our guard but preferred to believe that many of the issues originally raised were a function of the company's original size and some local relationship issues. In November 2017, we went to India to meet a number of companies and to see the lay of the land. After some detailed research on the trip we began to feel very uneasy and concluded the risk reward was heavily against us. We sold the position in early November, realising a gain of more than 200% on our original investment. Subsequently in late January 2018, news emerged that the Indian regulator, SEBI, was investigating Vakrangee for alleged stock price manipulation. The price fell by 68% from late January to the end of February. The SEBI investigation has subsequently concluded that there was no stock price manipulation but the bounce back in the name has been limited. So to be clear there is no evidence of any misdemeanour at this stage however we will not be re-entering the position. We are happy to speak in more detail on this to any investor about our trip to India and about this name in particular.

We would also like to comment specifically about South Africa. As we have written about in previous investor updates we are very positive on South African equities and further news flow continues to support the thesis of better governance and reform. President Ramaphosa is now in office and has reshuffled his cabinet. We believe South African domestic names (retailers, industrials, banks, insurers and property companies) are still under-owned both by foreign investors but also by local managers and despite optically high valuations from a historical perspective we believe it is still fairly early and as such continue to increase our exposure there.

It is important to note that February saw a watershed moment for the fund when we made our first China A share purchases. We have been researching the companies and nature of the China A share market for nearly 2 years and we believe we are ready to participate. Our stock selection is centred on one of our biggest emerging themes which is the rise of Chinese artificial intelligence and our belief that Chinese companies will grow to become dominant players in a global context in the years to come.

Looking ahead more broadly, we are still positive on emerging markets as a whole; however we do think that this return to a higher level of volatility is here to stay and we now firmly are of the view that dispersion across emerging markets is about to rise. This is traditionally a very good environment for our fund and we have taken advantage of the sharp moves to build positions as well as crystallise gains. We have many exciting positions both long and short and look forward to the rest of the year.

Capricorn

GEM Fund

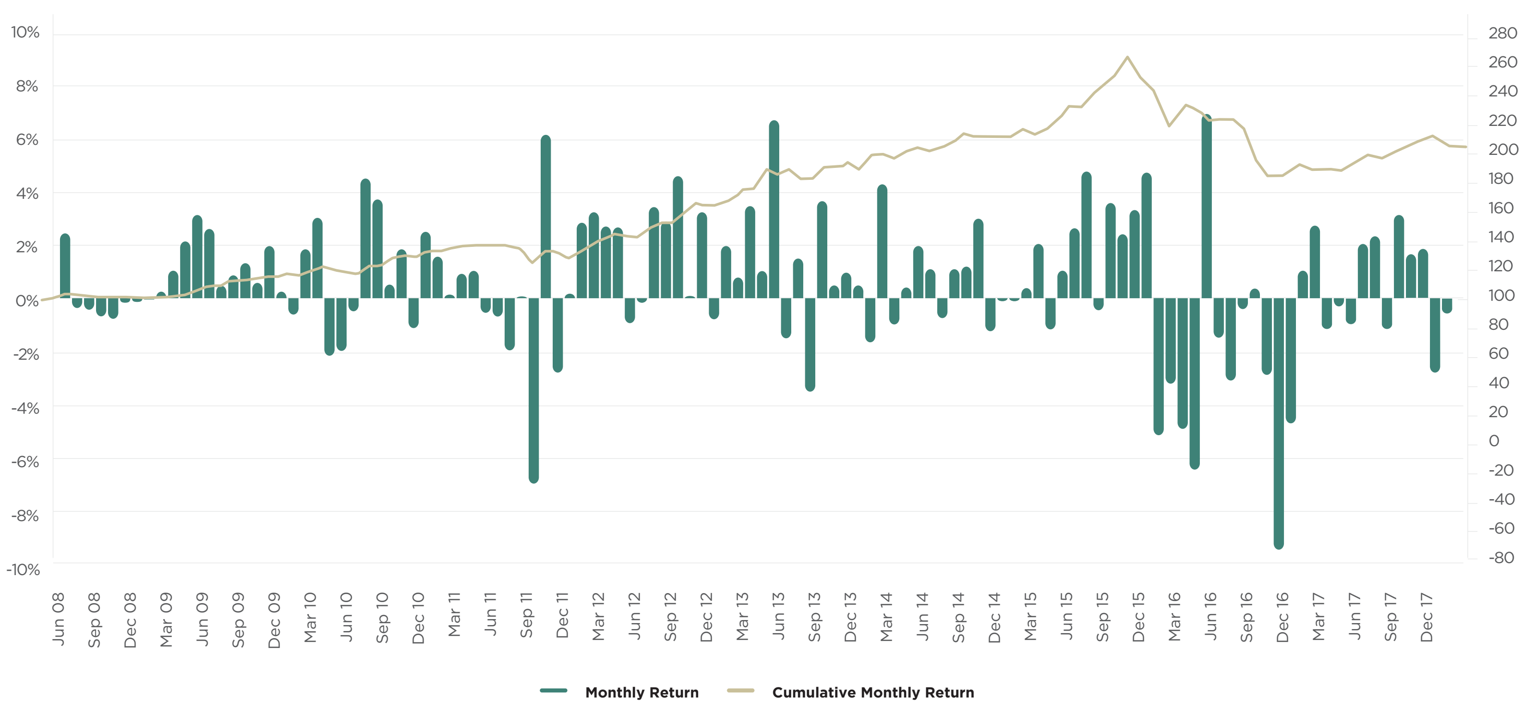
Capricorn Fund Managers

February 2018 · Fund Performance

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%)	(0.3%)											**(2,9%)**

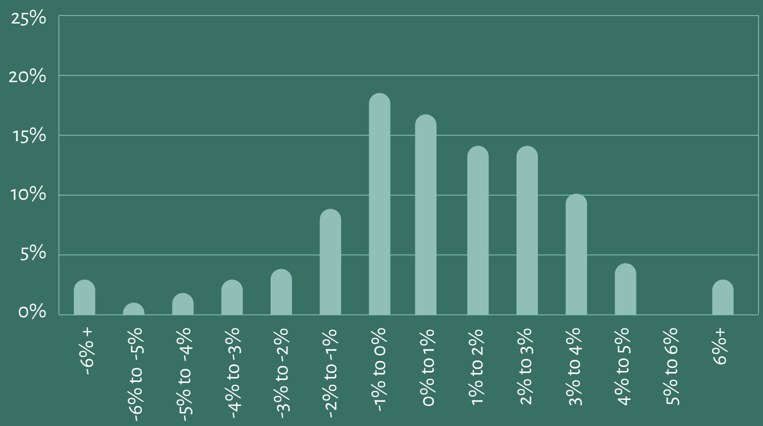
Date: as at 28/02/2018 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd



Capricorn
GEM Fund

February 2018 · Fund Performance

Frequency Distribution of Monthly Returns Since Inception



Statistics

Assets Under Management (USD)	74.8m
Gross exposure	193%
Net Exposure	76%
% 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	48%	14%
Information Technology	30%	18%
Consumer Discretionary	29%	14%
Materials	27%	8%
Consumer Staples	25%	11%
Industrials	16%	11%
Hedge	6%	6%
Health Care	3%	(3%)
Real Estate	3%	(3%)
Telecommunication Services	3%	3%
Utilities	2%	(2%)
Energy	1%	(1%)
Grand Total	**193%**	**76%**

Country Exposure (based on Revenue split of Invested Companies)	Gross	Net
Africa	53%	25%
Asia Ex-China	52%	21%
Middle East	27%	11%
Eastern Europe	16%	(3%)
South America	16%	(1%)
China	15%	14%
Europe	9%	4%
ROW	4%	4%
Australia	1%	1%
Grand Total	**193%**	**76%**

All data:
Date: as at 28/02/2018 (net of fees).
Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

Contact Information

Investment Manager

Capricorn Fund Managers Limited
Malta House
36-38 Piccadilly
London
W1J ODP
United Kingdom

Investment Adviser

Capricorn Fund Managers (Pty) Limited
Capricorn House
32 Impala Rd
Chislehurston
2196
South Africa

For enquiries please contact

Jonty Campion
T: +44 207 317 4411
E: jcampion@capricorncapital.com

Authorised and regulated by the Financial Conduct Authority
FRN: 505252

For enquiries please contact

Stephan Engelbrecht
T: +27 11 666 0748
E: stephane@capricorncapital.com

Licensed by the Financial Services Board
License number: 863

Important information

ALL DATA:
as at 28 February 2018 (net of fees) Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

Important Notice: This document is prepared by Capricorn Fund Managers Limited ("CFM") authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. The investment products and services of CFM 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.

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 CFM (the "Funds"). Investment in the Funds managed by CFM 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". 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 CFM 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. CFM does not provide investment advice to clients for the purposes of the FCA's rules. 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 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 CFM.

The representative in Switzerland is ARM Swiss Representatives SA, Route de Cité-Ouest 2, 1196 Gland, Switzerland. The paying agent in Switzerland is Banque Cantonale de Genève (BCGE) 17 quai de l'Ile, 1204 Geneva, Switzerland. The Memorandum and the articles of association and annual financial statements of the Fund can be obtained free of charge from the representative in Switzerland. The place of performance and jurisdiction is the registered office of the representative in Switzerland with regards to the Participating Shares distributed in and from Switzerland.