Capricorn

GEM Fund

Capricorn Fund Managers

April 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 ($)	205,6	(2,1%)	(2,7%)	6,5%	7,3%	105,6%
Class B (€)	191,1	(2,4%)	(3,7%)	3,4%	6,6%	91,1%
Class C (£)	192,5	(2,3%)	(3,4%)	4,1%	6,6%	92,5%

Date: as at 30/04/2018 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd
AUM of the Capricorn GEM Strategy: $139m. The Strategy consists of Capricorn GEM Fund Inc., Capricorn GEM Fund LP ($74m) and Lyxor/Capricorn UCITS Fund ($65m).

Manager's Comments

April was a choppy month in markets as the strategy pulled back 2.1%. Portfolio volatility picked up as some of our core positions came under pressure, particularly in the technology sector, but we mitigated some of this by aggressively taking in both net and gross exposure.

India came under pressure earlier this year and our positions there led performance in April, with financial services firm Edelweiss rising 20% and motorcycle manufacturer Eicher Motors rising 10% on the month.

As US bond yields approached the psychologically important 3% level, we decided to hedge our Turkish positions by sharply cutting net exposure to neutral and shorting the US-listed Turkey ETF to take advantage of potential pressure on the Lira as the central bank steadfastly refused to increase rates. The Turkish ETF fell 11% on the month and will likely continue to come under pressure should the dollar continue to rally and unconventional economic policy continue to be applied.

Our Saudi exposure continued to do well as likely MSCI Emerging Markets index inclusion nears and the oil price approached $75. Saudi Arabia is not a high growth Emerging Market, but a deep, liquid one with high quality companies and foreign ownership of less than 2% versus other Emerging Markets which have over 50% foreign ownership. This will change in the coming years and likely lead to it commanding a premium over EMEA peers.

The Philippines has had another challenging year and the top performer list for April was rounded off by one of our core large cap shorts in the market, which fell 8%. The book has been challenging to balance, but losses have been mitigated by a combination of shorts and index hedging with the longs retaining significant upside potential as the cycle turns.

The core loser in April was a South African short that spiked against us on slightly better than expected top line results despite bottom line pressure. While the strategy has made significant gains from its short positions in 2018, these types of moves can happen suddenly with stocks that fit our short criteria. Our approach is to consider whether this move represents new information that can invalidate our short hypothesis or is merely a temporary phenomenon as a result of shorts being squeezed, alternatively, due to over-eager buyers. In this case we believe our short hypothesis is still sound, but are carefully monitoring the situation.

Malaysian e-government company My EG gave up more of its earlier gains, falling 10% on the month as the country entered its elections. The election result in Malaysia was a complete surprise as the former Prime Minister, 92 year old Mahatir Mohamad, staged a stunning upset to win by a landslide, something that trumped the US elections and Brexit in terms of predictability. Our core view had been for a continuation of the status quo, with a small possibility of a coalition government, but we had taken MyEG from a top 6% position to under 4% the day before the election as we saw some downside on a loss for the incumbent party of possibly 10-20% in the case of a coalition and potentially 20% upside if a victory was secured.

Balancing the gains in our short positions, Filipino stocks D&L and Xurpas had poor months, falling 10% and 12% respectively. The much-anticipated changes at Xurpas are now appearing, with several blockchain initiatives being launched to augment their existing product offerings. We expect news flow to pick up significantly over the coming months, allowing the stock to rerate.

Finally, our long in Turkish Airlines (-13%) suffered from its high beta, even as it benefited from a weakening Turkish Lira given its foreign earnings.

As noted in last month's newsletter, we have taken advantage of recent volatility to steadily build up certain core positions and rotate others, while leaving significant room to allocate to markets once a direction is established. Perhaps the key determinant of this will be the dollar, which rose sharply into the end of the month, pressuring both Emerging Market currencies and markets with weak current accounts. Market EPS is up even as many have pulled back, but many indices are at critical levels from which they could either break down completely or bounce aggressively.

Even if markets do not bounce as a whole, we believe that there is significant potential in our long book and believe that the bulk of performance could well come from these names after the short book delivered much of the gains year to date.

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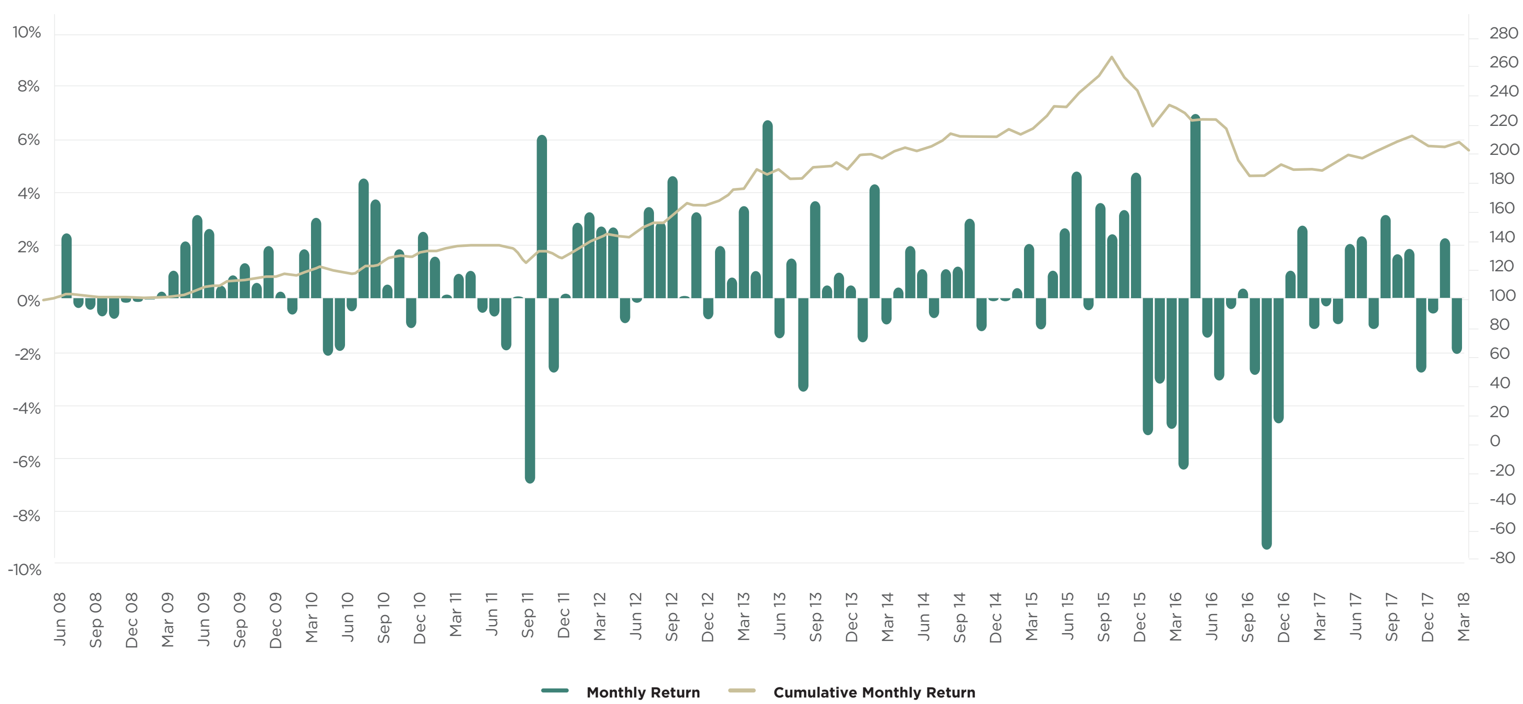
Historical Monthly Returns - Class A (USD)

	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%)	(0.3%)	2.4%	(2.1%)									**(2.7%)**

Date: as at 30/04/2018 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd



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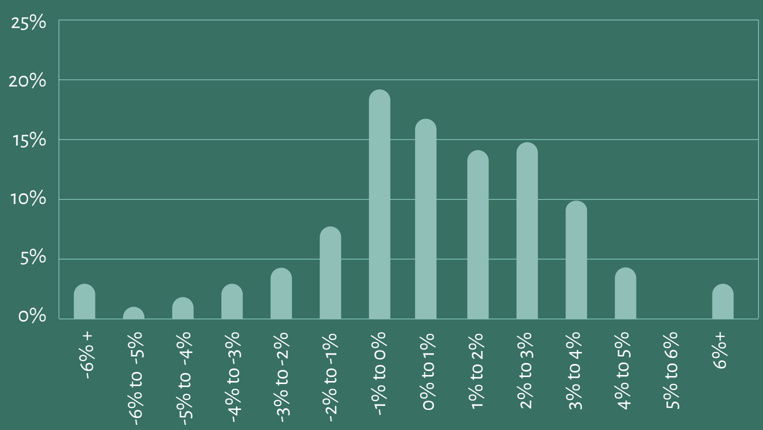
Frequency Distribution of Monthly Returns Since Inception



Statistics

Assets Under Management (USD)	73.6m
Gross exposure	197%
Net Exposure	74%
% of positive months	61%
% of negative months	39%
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	49%	18%
Consumer Staples	33%	6%
Information Technology	31%	20%
Consumer Discretionary	29%	15%
Materials	20%	11%
Industrials	15%	14%
Hedge	9%	(1%)
Energy	5%	(5%)
Utilities	2%	(2%)
Real Estate	2%	(2%)
Telecommunication Services	1%	(1%)
Health Care	1%	1%
Grand Total	**197%**	**74%**

Country Exposure (based on Revenue split of Invested Companies)	Gross	Net
Africa	53%	22%
Asia Ex-China	51%	29%
Middle East	27%	4%
Eastern Europe	18%	(3%)
China	17%	17%
South America	13%	(4%)
Europe	7%	7%
ROW	6%	1%
Russia	4%	1%
North America	1%	0%
Grand Total	**197%**	**74%**

All data:
Date: as at 30/04/2018 (net of fees).
Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

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Important information

ALL DATA:
as at 30 April 2018 (net of fees) Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

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