Capricorn
GEM Fund

Capricorn Fund Managers

May 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 ($)	202,0	(1,8%)	(4,4%)	4,8%	7,1%	102,0%
Class B (€)	187,0	(2,1%)	(5,7%)	1,6%	6,3%	87,0%
Class C (£)	188,5	(2,1%)	(5,4%)	2,3%	6,4%	88,5%

Date: as at 31/05/2018 (net of fees). Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd
AUM of the Capricorn GEM Strategy: $108m. The Strategy consists of Capricorn GEM Fund Inc., Capricorn GEM Fund LP ($70m) and Lyxor/Capricorn UCITS Fund ($38m).

Manager's Comments

Within any Emerging Markets portfolio there are stocks with dramatically different payoff periods and monthly movements. You can see stocks doubling in a month or halving, sometimes based on minimal shifts in fundamentals. As hedge fund managers, our job is to combine the constituents of the portfolio to achieve our target of double digit net returns while maintaining a volatility under half that of broader Emerging Markets.

This means that monthly performance numbers can mask some idiosyncratic moves and this was the case in May, with a performance of -1.8%. This was ahead of the MSCI Emerging Markets return of -3.8% in May. It was a frustrating month as while our shorts fell 8.8% on average our long book was down 4.4% on average.

One stock in particular turned what would have been a positive month into a negative one: My EG Services in Malaysia, an e-government services platform, suffered from a huge disruption in the status quo as the opposition won in an unexpected landslide.

In situations like this involving core holdings, which added many percentage points to portfolio performance over the prior year, it is important to be dispassionate and pull in all resources to separate reality from hysteria. We immediately contacted the CEO and founder, TS Wong, as well as the sell-side analysts and third party sources to corroborate the information we received.

My EG was set up during the prior rule of the new leader Mahathir as a core part of his e-government services push, with seed investment back then from an investor who is now a member of Mahathir's new administration. It had strong ties with the prior administration of Najib, but members of the board also serve on boards with Mahathir and they arranged a Ramadan event that Mahathir attended the week following the election. While the election result basically came down to a referendum on corruption, there have been no real indications on any graft within e-government services with prices reasonable (even cheap) and service delivery efficient. Some of the future earnings expectations from a proposed consumer sales tax have been taken out of numbers, but there is still opportunity from a corporate sales tax that will be introduced instead. Ironically, the monitoring system was initially designed for a corporate sales tax and later retrofitted to match the previous administration's policy decisions.

The local reaction was swift as the stock dropped 30% for three open sessions in a row and ended the month down 66%. We had taken the position down by a third ahead of elections as a coalition government appeared to be a dim scenario, which would have led to a small pull back and managed to reduce a further 16% of the position on the first day with 25% of the small volume that transacted.

On a day to day basis the stock is being hit by rumours driven by short sellers, but the company and officers are consistently buying back shares from the market and keeping investors in the loop. We have now increased our position as the stock's valuation dropped below ten times core earnings and expect to move back to a profit on the position over the next few months as the stock stabilises. The position has been one of our biggest contributors to performance prior, adding over 3% to portfolio performance since the start of last year.

Outside of Malaysia, South Africa had a poor month, driven by a 30% fall in consumer stock MassMart and a 12% fall in insurer Discovery. The South African market has not lived up to our performance expectations this year.

Losses were rounded off by VIP Shop in China which pulled back 24% as integration with Tencent and JD.com was slower than expected, and Ulker in Turkey which did not live up to its typically defensive characteristics as it fell 26%.

Turkey remains under severe pressure and we continue to add positive overall contribution from our stocks there despite running a net long position due to the composition of our book, with our stocks on average rising 4% while the market dropped 3.5% in local currency terms last month.

In particular a trading long in Kardemir added 0.5% to portfolio performance, offsetting Ulker. In addition, a short in the Turkish ETF placed to balance the book, which has now been taken in after they pledged to return to conventional monetary policy, added another 0.5% to performance.

The biggest contributor to performance in May was our largest position, Alibaba, which awoke from a period of somnolence to rise 11%. A balancing, non-consensus, short in the internet space fell 14%, with the top five positive contributors rounded off by a Polish short that dropped 20%.

Poland has been the star performer in the book this year, adding 3.6% to performance on a book that has on average been market neutral. The combination of core longs and strategic shorts built on our South Africa model has worked well and helped offset some of the weakness in core longs to date.

We continue to crystalise profits in our short book and have been taking in beta short exposure across the board in favour of more structural shorts. We see strong potential in the book for a potential double digit quarter given current levels and market conditions and look forward to pulling back ahead having had our fair share of idiosyncratic stock moves 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%)	(1.8%)								**(4.4%)**

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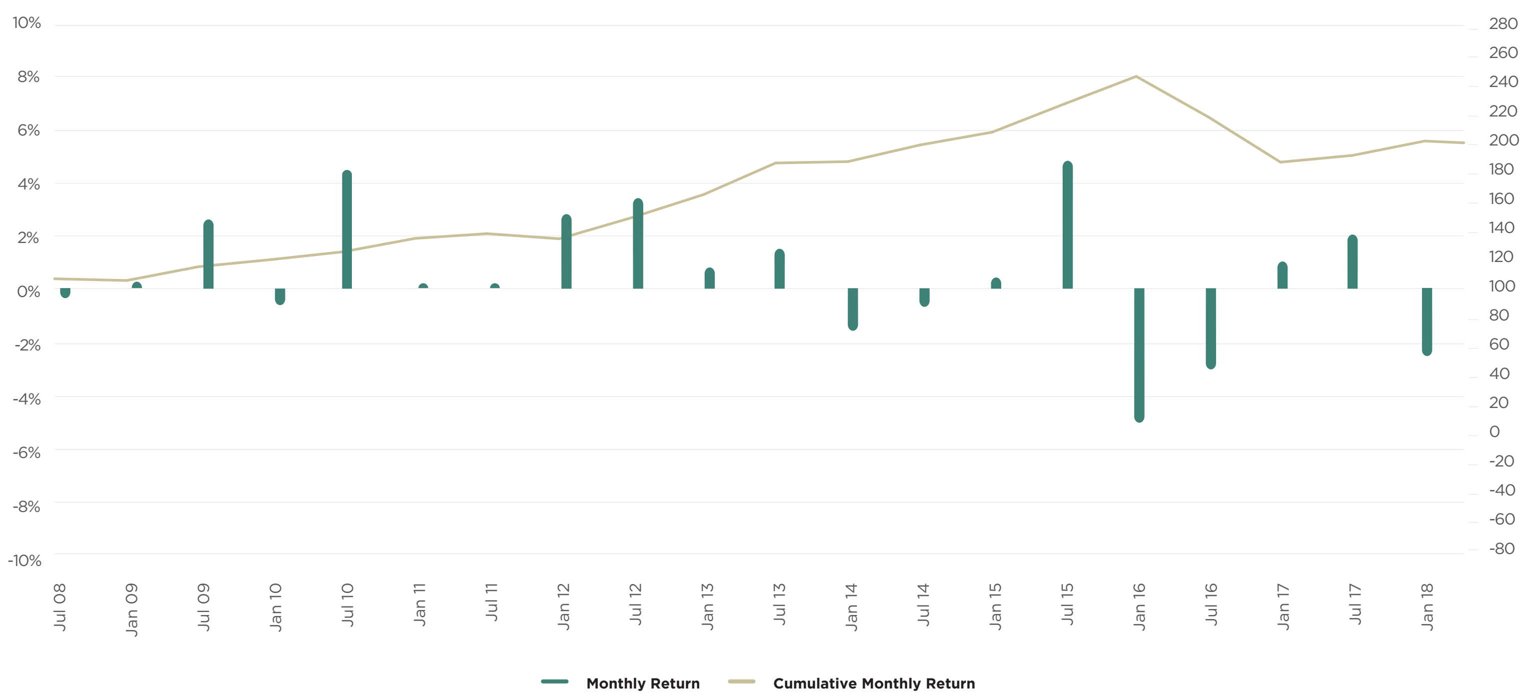

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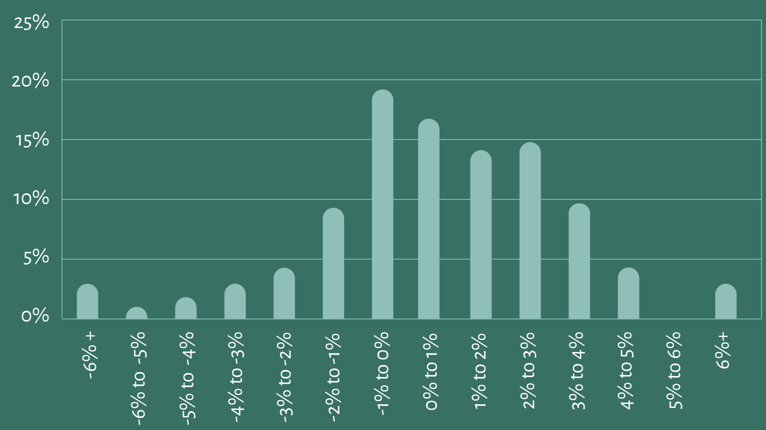
May 2018 · Fund Performance

Frequency Distribution of Monthly Returns Since Inception



Statistics

Assets Under Management (USD)	70.1m
Gross exposure	180%
Net Exposure	76%
% 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	47%	24%
Information Technology	28%	19%
Consumer Discretionary	24%	11%
Consumer Staples	23%	9%
Industrials	21%	20%
Materials	18%	6%
Energy	10%	(8%)
Real Estate	5%	(5%)
Hedge	2%	(2%)
Telecommunication Services	1%	1%
Health Care	1%	1%
Grand Total	**180%**	**76%**

Country Exposure (based on Revenue split of Invested Companies)	Gross	Net
Africa	45%	18%
Asia Ex-China	44%	21%
Middle East	28%	16%
Eastern Europe	17%	(5%)
China	17%	17%
Europe	9%	8%
South America	7%	0%
ROW	7%	(1%)
Russia	4%	0%
North America	1%	1%
Australia	1%	1%
Grand Total	**180%**	**76%**

All data:
Date: as at 31/05/2018 (net of fees).
Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

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Important information

ALL DATA:
as at 31 May 2018 (net of fees) Source: Quintillion Limited & Capricorn Fund Managers (Pty) Ltd

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