

Lunar Capital

Lunar BCI Worldwide Flexible Fund

Two-Year Review

June 14, 2018

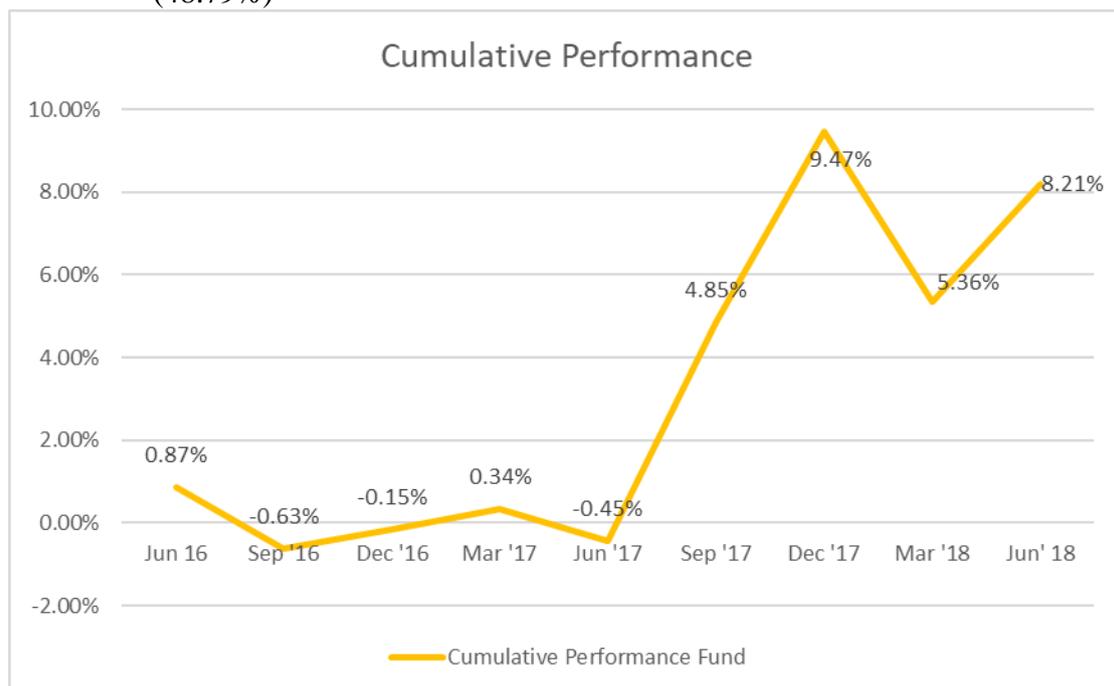
Two Years On

On 1 June 2018, we celebrated two years since the launch of the Lunar BCI Worldwide Flexible Fund.

We are proud of our performance of 8.27% (after costs and fees and including distributions) for the two years to 31 May 2018. This performance ranks the Lunar BCI Worldwide Flexible fund as 6th out of 55 Worldwide Flexible Funds in the South African market over the two-year period and well ahead of the average fund performance of 0.04%.

The main drivers of our performance were:

- We held a number of quality businesses through most of the period (Discovery, FirstRand, Amazon, FaceBook, Nvidia, Aspen, Amgen, PSG, Shoprite) and these have done well over the period, with a few exceptions;
- We held higher levels of cash through most of the period (approximately 20% of the portfolio) awaiting better entry levels in the market;
- Negatively, we were impacted by the poor performance of Small cap shares and the contagion from Steinhoff (we held no Steinhoff shares, but PSG was impacted). Rand volatility also impacted the portfolio negatively during the period.
- Our best performers since inception are:
 - South Africa in ZAR: FirstRand (51.15%), Shoprite (34.79%); Discovery (29.55%), Equites (12.96%).
 - Offshore in USD: Amazon (103.82%), NVIDIA (90.29%), Facebook (48.79%)



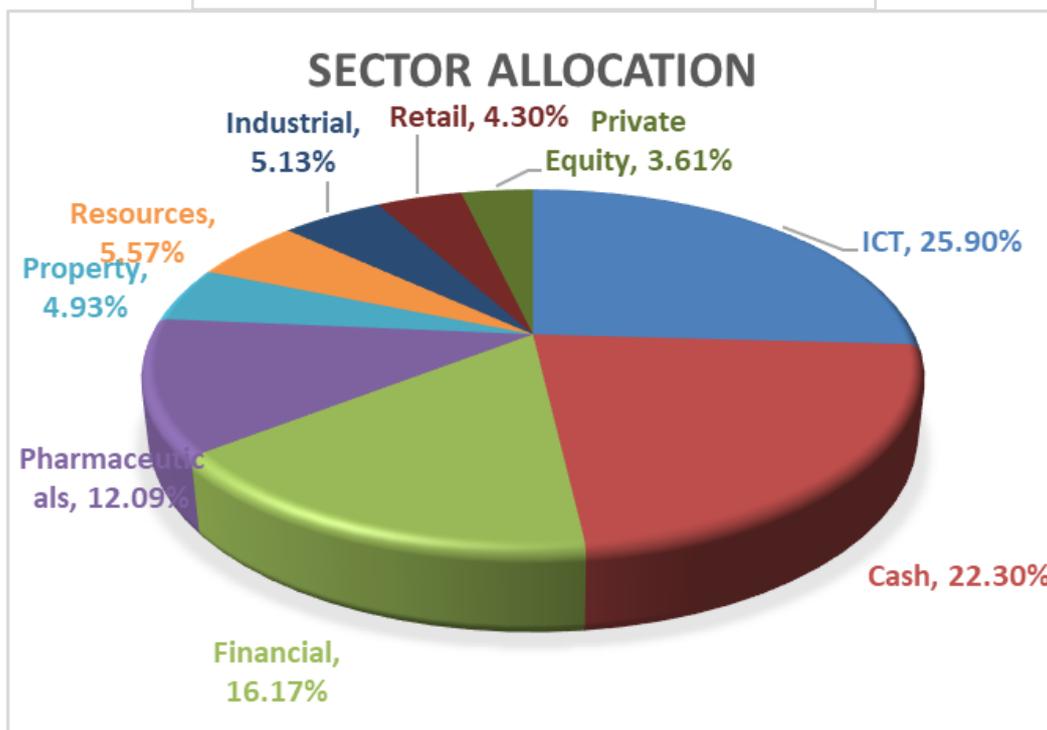
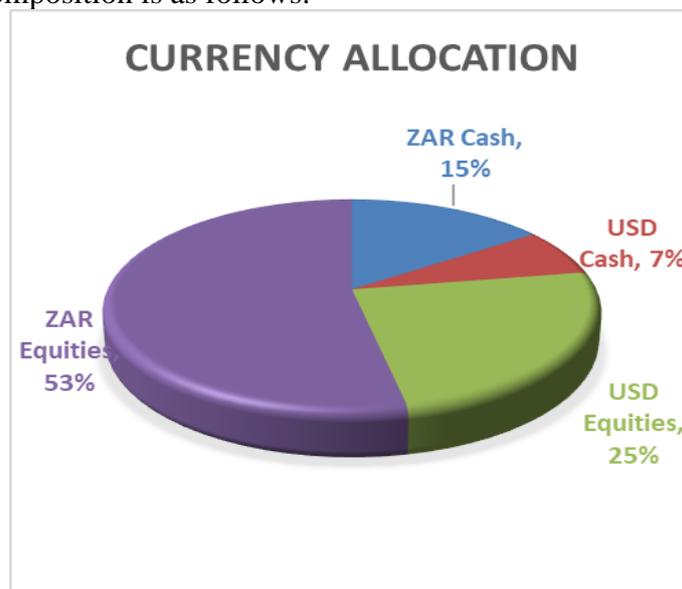
We would have liked to have performed better than we did but are satisfied that most of our major investments have performed well. Our positioning was somewhat risk averse during the period. Where an investment did not pan out the way we envisaged, we analysed the reason/s for it and used that to improve our investment process. We are confident of our Investment Process.

“The stock market is a device of transferring money from the impatient to the patient.” Warren Buffett.

We have been patient and will be until we think it is time to be more aggressive.

Our Portfolio

Our portfolio composition is as follows:





We recently reduced our stake in Discovery as our view was that it was trading at elevated values. We do however believe that it is a quality business and it is still part of our Top 10 holdings. We also sold our holdings in AliBaba at a good profit. We were concerned about the high number of acquisitions that AliBaba was undertaking.

Recent acquisitions include Glencore and Naspers. We like the mix of commodities mining and commodities trading in Glencore. It is also well placed to take advantage of the demand for cobalt and copper which are core components required for electric car and cell phone battery technologies. As for Naspers, it is trading at a deep discount to net asset value and its holdings in Tencent is an entry into the growing Chinese technology sector. The recent drop in Naspers share price provided us with an opportunity to invest.

Our portfolio is geared to taking advantage of demographic trends such as:

- The growing middle class in emerging markets;
- Ageing populations, especially in developed markets;
- Technological changes creating opportunities for disruption and innovation;
- The changing preferences of millennials;
- Rapid urbanisation, especially in megacities; and
- Climate change and the shift to cleaner energy sources.

We continue to assess these demographic trends, and how to position our portfolio given the opportunities that present themselves. We aim to invest only in those companies that provide growth at the right price and those that provide the potential rewards for the risk that we take. We wish to obtain above average and real returns at a portfolio level for our investors.

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Thank you to our clients, staff, directors, and business partners for your support, guidance and friendship. Whilst there are always significant risks in the financial markets, there will also be opportunities from which to profit. It is left to us to identify these risks and opportunities through our investment philosophy and methodology. Our aim is to provide a platform for growing the wealth of our families and communities.

We look forward to our third year as a fund, continuing to provide investment insights, and managing the fund for the benefit of all our stakeholders.