April 2019

Dear Investor,

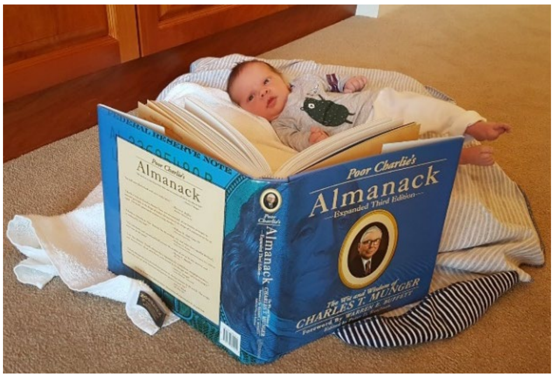
FIRST QUARTER OF 2019

My primary communication with you is the annual letter, but I also like to write these quarterly updates to introduce you to new investments and to inform you of any other updates from the business of Capensis Capital.

This letter should be read in conjunction with your quarterly investment statement: the statement contains all the financial information relevant to your account. I invite you to contact me if you'd like to discuss your portfolio, or if you have comments on anything in this letter.

Operational Updates

This quarter I welcomed a new member to Capensis Capital. Nicolas Jacobus Vermaak was born on the first of March and has made a very welcome addition to the family.



Nicolas joins his two sisters as the successors of last resort at Capensis Capital. There are some further exciting developments in the future of Capensis and I will contact investors as soon as I can officially share the news.

As you would expect, we are getting less sleep than ideal. Fortunately, during this quarter it had nothing to do with the markets.

Portfolio Updates

1. Cash

Your cash position remains the largest holding in the portfolio. As previously explained, holding cash is my default position and the size of the allocation is determined by the investment opportunities that I have found. Your cash position will fluctuate with the purchase and sale of individual securities and not because of any specific target level for cash in the portfolio.

Additionally, I expect the portfolio to have some cash available most of the time. The mandate according to which I manage the accounts is a flexible one (in other words, I am not bound to being fully invested). Having cash adds resilience during market downturns and the ability to act quickly when opportunities arise.

2. Genworth Financial (GNW)

I sold your investment in GNW early in the quarter. As discussed in the 2018 annual letter, the company received the US approvals required for the merger with China Oceanwide and the share price increased substantially. GNW was never a core holding in the portfolio but rather a special situation. As the share price increased, it implied a high likelihood of the deal finally closing and I decided to exit the position for a gain in excess of 40%.

However, on your statement you'll see a Genworth position. The market provided another opportunity to invest in the deal when the share price subsequently declined. At quarter end, the share price was $3.83 which again offers more than 40% upside to the agreed to deal price of $5.43. However, this is not a risk-free return as there always remain the possibility that the transaction might fail to receive the remaining approvals. The final outstanding requirements are regulatory approval in Canada and clearance in China where China Oceanwide needs to receive consent for currency conversion and the ultimate transfer of funds to settle the payment.

Both Genworth and China Oceanwide reiterate that they remain committed to the deal and expect the deal to close in the second quarter of 2019.

3. Burford Capital (BUR)

The major new investment in the portfolio is Burford Capital. The business is listed on the AIM exchange in London, the exchange generally reserved for smaller companies. But, with a market cap approaching $5 billion, Burford is the largest of the UK-listed companies in your portfolio.

Burford is a specialty finance business. The company started in 2009 and has grown to become the largest player in the niche industry of litigation finance. Essentially, Burford is providing finance to law firms and their clients while taking their legal claims as collateral against these loans.

Litigation finance is a fascinating field and most people are only aware of the no-win-no-fee ambulance-chasing personal injury lawyers you see on television. Burford, however, is active in large scale corporate litigation and has evolved from a single-case financier, to a diversified provider of finance to the legal industry. In fact, most of the finance that Burford provides is for whole portfolios of cases.

Legal firms are interesting from a capital perspective. They are largely private and in partnership form. Firms do not build strong balance sheet reserves as profits are distributed to the partners of the firm on an annual basis. Employees eat what they kill and individual contribution to the firm is constantly measured. This means that the bulk of legal services are sold on the basis of hourly invoicing and near-term cash flows remain paramount.

Enforcing a legal claim requires upfront expensing of litigation cost and concludes with an unpredictable pay-off profile. The litigant is often a one-time, risk averse claimant going up against a repeat defendant with deep pockets (e.g. an insurance company). As a result, many legitimate claims are abandoned or settled at values below what might be achieved in a protracted trial[1]. Burford adds value to this situation by paying the legal expenses and taking over the uncertainty in return for a portion of any proceeds from the litigation. This puts the litigant in a much stronger negotiating position without the negative cash flow implications.

In fact, where Burford decides to invest in litigation, it also adds a strong signal to the opposing party: a well-informed third party has reviewed the merits of the claims and has decided to back the claims

[1] Further reading: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1962677

with its own money. This often leads to quicker and better settlement than would otherwise be achievable.

I am a firm believer in the benefit of long-term planning over a short-term focus. This is the benefit that Burford provides: they enable lawyers and their clients to take the long view and employ a better strategy by taking the focus away from the near-term cash flow and income statement pressures.

Burford has been extremely successful over the past decade and has generated returns in excess of 30% per annum on the capital they allocated to investments. Additionally, the company sees more opportunities than it can afford to fund from its own balance sheet and has added an asset management arm to the business. Burford launched several funds where third party capital can co-invest in the litigation they decide to finance. Burford can earn enormous performance fees from the funds that it raised, and the product is attractive to investors due to the nature of the returns being uncorrelated to investment markets.

Management and employees eat their own cooking. More than 9% of the equity is held by employees and several employees have invested in the funds. The firm is managed by the founders, Christopher Bogart (CEO) and Jonathan Molot (CIO).

There are no real barriers to entry in this market as anyone can theoretically fund litigation. The competitive advantage for Burford lies in its scale. Burford has the most capital to deploy and the biggest in-house team to analyse opportunities. Unlike other forms of finance and investment, legal cases cannot be shopped around for the best financing deal as the facts of the case has to remain confidential. So, being the best-known player in the market ensures that you'll get first sight of the best opportunities. You also need significant scale to build a diversified portfolio of investments. The average size of commitment made by Burford is more than $20 million per investment. Furthermore, it is a rare skill to combine deep legal expertise with investment capabilities. Where other financiers outsource the legal due diligence to external advisors, Burford does all the work in-house and remain close to the investment as the case develops. Having Burford on your side is like adding lawyers to your team. Lastly, Burford has the largest proprietary data set of legal cases and settlements ensuring an information advantage compared to current and future competitors in the market.

The potential market for litigation finance is enormous! Only a tiny fraction of global legal activity is currently financed, but global legal activity is large enough to be measured as a percentage of GDP. The whole industry can grow many multiple times before saturation become a topic of conversation.

With Burford you are investing in the premier player in the industry, with a strong track record, aligned management team and a very long runway to grow. I'd hope to see that Burford remain in your portfolio for years to come. It has significant compounding potential.

You can learn more about Burford by watching the replay of the 2018 Investor Day.

Annual results

Most of the companies in your portfolio reported annual results during the quarter. Below is a quick overview of the results of your largest holdings:

Berkshire Hathaway

Berkshire reported results that showed its per share book value ended flat in 2018. However, unlike the 2017 results which where flattered by exceptional tax cuts, 2018 saw some exceptionally negative developments from share price movements towards the end of the year. The effect of changing share prices is something that has always been part of the company and there will remain into the future. What I find encouraging is that the underlying operating profits were strong enough to make up for the turmoil of the portfolio investments.

The company is unlikely to generate future returns that are anything close to the past. Still, I think that the intrinsic value of the business could still deliver acceptable growth going forward and, if the share price continues to trade at a discount, will enable the company to repurchase shares to improve the ultimate shareholder returns materially.

The company will again stream its annual meeting on 4 May 2019. You can access the video through this link: https://finance.yahoo.com/brklivestream. In preparation, please read the annual shareholder letter by CEO, Warren Buffett.

Brookfield Asset Management and Partners Value Investment

Brookfield continued to increase its asset base at an impressive rate. Fee bearing capital increased by 10% to $138 billion leading to fee related earnings growth of 26% for the asset manager and significant growth in unrealised carried interest as the private funds mature.

The overall thesis remains the intact: Brookfield is very well positioned to be one of the largest beneficiaries of an increasing capital allocation to real assets by the large pools of capital. Sovereign wealth funds and pensions plans are unable to meet their required returns with the yields available on fixed income instruments. The return of volatility in the equity markets further increase these funds' appetite for alternatives which include real assets. Brookfield's expertise in investing and operating property, infrastructure and renewable energy assets (and more recently also private equity) is highly valuable in these scenarios.

Scale is valuable in this business. There is less competition for the large deals and adding operational capabilities means that Brookfield can deliver better performance than a pure financial investor would.

During the quarter Brookfield also announced the purchase of one of its peers, Oaktree Capital Management. Oaktree is a leader in the field of credit strategies with expertise in the world of distressed investing. This is a field of investment that had limited opportunities since the global financial crisis due to the easy monetary environment we have experienced. However, the good times will not last forever and adding the skills of Oaktree to the business makes sense. This transaction emphasises the counter-cyclical investment philosophy espoused by Brookfield.

Read more in Bruce Flatt's letter to shareholders.

Exor

Exor reported 14% decline in USD net asset value per share in 2018. This was largely due to the share price declines at FCA and CNHI which accounts for nearly half of the gross asset value of Exor.

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Director: HP Vermaak

However, the operating performance was much better than the share prices would suggest with both companies achieving record levels of profit in 2018.

FCA also announced the anticipated sale of Magneti Marelli, its automobile component manufacturer. This will enable FCA to pay a special dividend to shareholders. In anticipation of the special dividend, Exor implemented a €300 million share buyback programme to take advantage of the discount at which the company's shares trade in the market. These actions reinforce the conviction I have in the sensible capital allocation policies of Exor.

I encourage you to read the letter to shareholders by CEO John Elkann.

Howden Joinery

Despite all the uncertainty surrounding Brexit, Howdens reported continued growth from the sale of kitchens in the UK. Revenues increased by 8% in total or 6% on a same store basis. This is a positive result in a tough environment and ahead of its main competitors.

Andrew Livingston, who became CEO during the year, have brought new energy to the business, increasing the focus on digital offerings and introducing a smaller footprint store concept. This will allow the company to increase the number of stores to 850 in the UK (currently 694) and should ensure continued growth from the core UK operations.

Outside of the UK, the decision was made to exit the trial operations in Germany and the Netherlands, while more stores will be opened in France. The French market is still dominated by Do-It-Yourself sales, which makes for an ideal opportunity to grow the Done-For-You offering that Howdens provides.

The business is well positioned for the future. It has no financial debt, organic growth opportunities and strong cash flows.

Conclusion

It continues to be a pleasure and a privilege to manage your capital. As always, I invite you to contact me if there is anything you would like to discuss.

Your partner in long-term value,

Henno

Disclaimer

This document is intended for the clients of Capensis Capital (Pty) Ltd. All data provided by Capensis, unless otherwise stated, is current as at 31 March 2019.

Capensis Capital (Pty) Ltd is an Authorised Financial Services Provider, regulated by the South African Financial Services Board. Registered office: Ground Floor, Liesbeek House, River Park, Gloucester Road, Mowbray, Cape Town, 7700

More information about Capensis can be found at http://www.capensiscapital.com.

The value of your investments and the income from them may go down as well as up. It is possible that you may receive less than you invested. Past performance is not indicative of future performance.