July 2018

Dear Investor,

SECOND QUARTER OF 2018

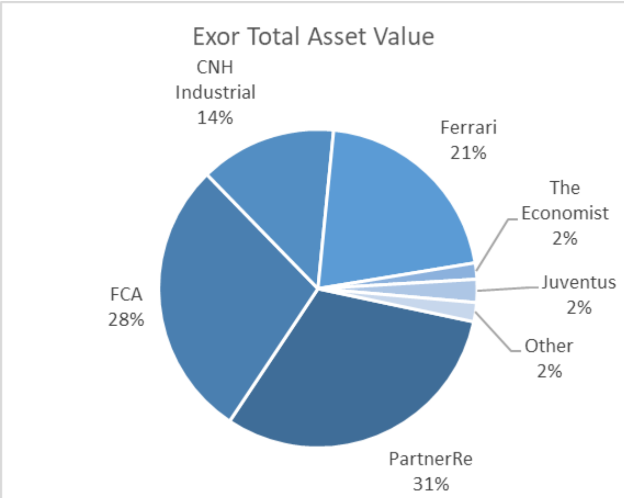
Although my primary communication with you is an annual letter, I also like to write these quarterly updates to introduce you to new investments and to inform you of any other updates from the Capensis Capital business.

Investment Performance

This letter is designed to 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 would like to discuss your portfolio, or if you have comments on anything in this letter.

A Quick Tribute to Sergio Marchionne

As I started to write this letter, I received the terrible news that Sergio Marchionne passed away. He suffered severe complications following a medical procedure he underwent recently, and new corporate leaders were appointed at FCA, CNHI and Ferrari. The businesses he led account for the majority of the value in your Exor holding and deserves some commentary.



Sergio Marchionne was recruited by Exor CEO, John Elkann, in 2004 to take the lead at Fiat. At that time Fiat was a loss-making manufacturer on the brink of bankruptcy, having recorded losses totalling €6 billion in 2002 and 2003. Marchionne was the fifth leader within a tumultuous two-year period. He had no experience in the automobile sector but had recently completed a turnaround at another Exor investment, SGS. Fast-forward 14 years and the market capitalisation of the former Fiat divisions (FCA, CNHI, Ferrari) increased more than ten times and the businesses are on an solid footing.

This was no mean feat. Fiat was recapitalised and turned profitable within two years of his arrival. Later he completed a merger with Chrysler in an act of corporate finance magic. Fiat Chrysler Automobiles became a globally competitive manufacturer by moving away from some of its legacy models, focusing on the differentiated brands of Jeep, Ram, Maserati and Alfa Romeo. The spin-off of Ferrari created a luxury business and stock market darling, while an independently listed CNHI allowed the capital goods business more emphasis.

It would be difficult to overstate the role Marchionne played in this enormous business success. It would likely be even more difficult to replace him. However, while discussing the next five years for FCA on 1 June 2018, Sergio Marchionne described his own future role as "irrelevant", saying that he "would rely on his successor to adapt the strategy as he chooses". I wish his successors good fortune for the tasks ahead.

Sergio Marchionne was due to remain a board member of Exor when he retired from FCA in 2019 and I looked forward to his continued contribution at Exor Group level. I think that he, together with John Elkann, made a very strong team and he will be sorely missed. What is encouraging is that earlier in the quarter, Exor announced the formation of a Partners Council to bring additional experience and counsel to Exor.

Members of the Council are:

- George Osborne, former UK Chancellor of the Exchequer
- Michael Larson, Chief Investment Officer of Bill and Melinda Gates Investments
- Jorge Paulo Lemann, co-founder of 3G Capital
- Nassef Sawiris, CEO of Orascom Construction Industries
- Rob Speyer, Chairman and CEO of Tishman Speyer
- Joseph C. Tsai, Executive Vice Chairman of Alibaba Group
- Mike Volpi, co-founder of Index Ventures
- Ruth Wertheimer, owner and Chairwoman of 7-Main

I find it heartening that such a distinguished group of individuals are making themselves available to contribute to the future of Exor and they will aid in balancing the loss of Sergio Marchionne.

Finally, I wish to quote Morgan Stanley analyst, Adam Jonas, who said the following during a Q&A session in January 2018: "Then let me finish with something real quick and we'll move on. Back in 2004, when you were first introduced to the auto industry, a lot of people were thinking, who the hell is this guy, right? I was one of them, frankly. We hadn't seen anything like you. You took EUR 2 billion, roughly, and you turned it into, I think, around EUR 72 billion. And more important than that, there are many hundreds of thousands of families across many nations that are better off because of you and your team. And you beat the sceptics every step of the way. So I just had to say, God bless you, Sergio. We're never going to see anyone like you again. I don't care what people on this call think of me for saying that. I don't care at all. I just had to say that. Thanks again."

Should you be interested in learning more about Sergio Marchionne, I can recommend this 35-minute lecture he presented to the alumni of Bocconi University in 2014: https://www.youtube.com/watch?v=bB6q13VS1BM

Portfolio Updates

1. Cash

Cash remains the largest holding in the portfolio. As previously explained, cash is my default position: the cash level is determined by the opportunities that I have found for investment. Our cash position will fluctuate with the purchase and sale of individual securities. I do not specify a target cash level for any 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. Hastings Group

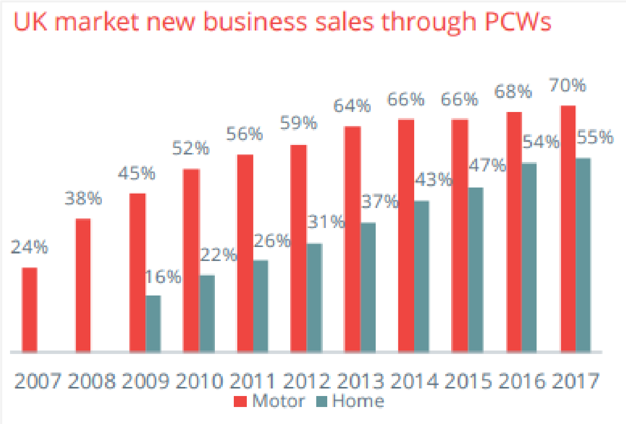
I added one new business to the portfolio during the past quarter. Hastings Group is a UK-listed general insurance company that is primarily involved in the business of motor insurance, covering cars, vans and bikes across the UK. It also offers home insurance.

General insurance is not normally a business with sustainable competitive advantages. Subject to some (non-trivial) regulatory and capital requirements, a business could offer insurance cover by copying any other insurance policy document. This makes personal lines insurance cover similar to any other commodity product.

Commodity businesses generally grow market share by offering a lower price or a better service. Price is the main driver of growth in the markets that Hastings operates in. Chasing market share could lead to a situation where a company might grow by under-pricing the risks involved. Often profits are booked earlier than final claim settlement, which could mean that the mistakes of yesterday only come to bite tomorrow.

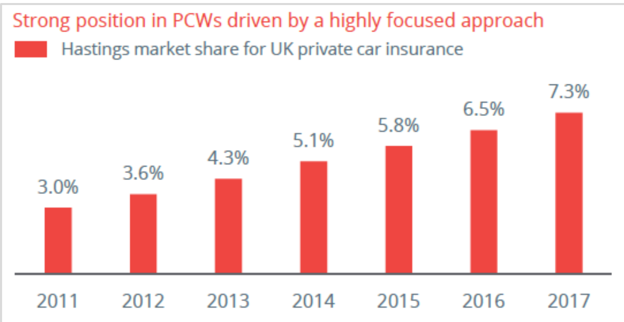
So, why is Hastings an investment opportunity?

Hastings is a modern insurance operation focused on writing new business directly and through price comparison websites (PCWs), rather than through a broker network. As you might be aware, PCWs have disintermediated the insurance market by offering clients the opportunity to get quotes from multiple insurers after providing their data only once. PCWs have seen significant growth in the UK. By the end of 2017, 70% of all new motor insurance policies and 55% of home insurance policies were sold through PCWs. Hastings has moulded its business to identify the policyholder it would like to insure by using the data provided by the PCWs and combining it with external data sources that complement the standardised information provided.



Source: Company presentation

Hastings is selective on the risks it insures as it only offers to cover around 55% of the applications it receives through the PCW channel. This is very positive in the insurance business. The biggest trick in insurance is to identify the "good" risks and to offer them a great deal, while avoiding the "bad" risks as far as possible.



Source: Company presentation

Hastings has been very successful in growing its business to 7.4% of the UK market by 31 March 2017. According to the company, it is currently writing 11%–12% of the new business sold through PCWs. But, as explained above, doing so is only valuable if it is done prudently and profitably. This is where Hastings is proving its mettle. Hastings has generated strong underwriting profits during this period in which market share has grown so strong. The company has averaged a combined ratio of below 90% since 2012, which means that the business is retaining profits of more than 10% on premiums earned. This is an impressive result during such a period of growth and some evidence of a moat in the business.

Hastings has also achieved this without taking excessive risks. The company has employed a reinsurance program, which limits the ultimate maximum it would need to pay out from any individual claim and enables the company to generate very high returns on capital invested.

In 2016, Rand Merchant Investment Holdings (RMI) bought 29.9% of the shares outstanding in Hastings. As RMI is a company I regard very highly, this transaction piqued my interest. Recently the share price of Hastings reduced back to the levels at which RMI made the large investments and created the opportunity to add the business to your portfolio.

In Hastings I've found a differentiated and profitable insurance business sailing with the winds of PCW penetration blowing at its back. The company is efficiently managed and has room for growth. Managers have a lot of skin in the game. Through your investment you are also partnering with a supporting shareholder and you have received your exposure to this company at an attractive valuation. There are no guarantees in this business, but the odds are in your favour.

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3. RIB Software

I also increased your exposure to RIB Software. I wrote about RIB in 2017 FY letter. The RIB share price has been something of a rollercoaster ride, but the business is showing interesting underlying developments.

To reiterate what I said in my initial write-up, at the current price RIB is trading at a fair price of its current in-force business. However, the potential from its expansion of YTWO (in partnership with Flex) and now also MTWO (joining forces with Microsoft) offers upside that is incredibly attractive. Suffice to say that even if management can deliver only half of what they think is possible, this investment could deliver many multiples of its current valuation over the next five to ten years.

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 30 June 2018.

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.

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