EXIMUS PARTNERS

Today, 1st July 2016, marks the end of our third fiscal year. The partnership during this period engaged exclusively in stock market investment. As we stated in our rule book that our performance be measured over a period of at least three years, we provide information on the past three years below.

This year, the partnership had a return of 29.5% before fees and 19.5% after fees against the market's -6.9% i.e. we outperformed the market by 36.4%. Since inception, the partnership has had a cumulative gain of 119% before fees, (stock market -16%) at a compounded rate of 29.7% (stock market -5.7%).

The objectives and parameters we set for ourselves are outlined below to make measuring our results easier.

OBJECTIVES

- Minimum rate of return: 4% before profits are due to General partner
- Primary objective: 9% return annually
- Secondary objective: To beat the market by 5% annually
- We also stress that short-term results not be given too much weight.

We have modified the partnership's objectives.

- Objective: Return of 20% compounded annually (to be measured in three year intervals).

ASSETS UNDER MANAGEMENT & RESULTS
Opening Assets: N2,925,657
Net Additions: N14,084,000
Opening Asset Base: N17,009,657
Closing Asset Base: N22,019,963

"BUSINESS" HOLDINGS
Contrary to the conventional wisdom in our field, we believe that the value of a small stake in a company is determined by what happens to the company as a whole (the underlying profitability of the business). Thus, owning 1% of a company is equivalent to owning 100% of a company one-hundredth the size of the whole company.

Our holdings are listed below alongside our proportion and portion of 2015 operating profit (the profit the business makes after paying all business related costs including employees, but before income and expenses not incidental to the business such as interest and non-recurring gains, and before taxes). We believe this to be the most important figure in measuring the value of a business. Note that our calculation involves subjective analysis of some information and will almost certainly vary materially from that reported by the company.

An example is our analysis of First Bank's operating profit where our figure is N85B against the company's reported N21.5B due to impairments recorded by the bank which we believe to be one time expenses caused by the reaction of oil companies to the large drop in oil prices.

Company	Ownership	Owners Earnings
First Bank	0.005%	N4.3M
Unity Bank	0.026%	N2.9M
Transcorp	0.008%	N1.2M
Oando	0.006%	?
Total		N8.3M

? - We cannot provide an approximate measure of the earning power of this company as the range of values is too wide to provide useful information to our partners.

INVESTMENTS BREAKDOWN

Stocks

Our stock market holdings represented over 105% of our profits for the year (This is not good news). Our stock holdings consist of companies we consider undervalued. We have in cash, N1,832,400. Now the bad news.

Private Equity (PE)

As predicted last year, we "recovered" N900,000 on an investment of N1.32M on our PE investment in the logistics business representing a 31.8% loss. This loss is greatly accentuated by the fact that we sold shares of a good company to acquire this business; as such, the opportunity cost of this investment raises the loss to well over 60%. Let's chalk it up to temporary insanity.

Your Managing Partner, feeling he hadn't lost you enough money decided to go into another commodity business involving roughly the same factors as the one above. We invested N150,000 and lost 100% of our invested capital.

We plan to make fewer such investments in the future (obviously).

THE RESULTS IN CONTEXT & EXPERIENCE SO FAR

This year, the Nigerian Stock Exchange Index fell from 31,457 points to 29,305 points; a loss of -6.9%. We did better. The partnership had a gain of 29.5% beating the market by 36.4%. This was a good result; one we can only hope to repeat in future.

After management fees, we had a gain of 19.5%.

Three years ago, we began our investment partnership. N1,000 invested then would be worth approximately N2,190 today against, N840 in the stock market index, N1,260 in a savings account, N1,521 in government bonds, and N2,031 in the dollar. Unfortunately, the great majority of our gains occurred in the first year of operations and virtually all partners were

unable to participate in the majority of the gains shown. Although we have little control over this, we expect it to change in future.
Over the past two years, we have tried to acquire businesses that would provide high returns on equity and steady cash flows to better benefit from gyrations in the stock market. We have failed. Also, our continuous search for arbitrage has cost us material sums. We shall nonetheless continue our search for the former.

COMPOUND INTEREST, THE VALUE OF PATIENCE, & INFLATION

Given the current Inflation rate (13%), a 15% annual return will lead to a real gain of 2% using the current government bond rate (15%-13%) for a real net worth gain of 2% in 20 years if earnings are not reinvested (simple interest) and a real gain of 48.6% after foregoing the benefits of your savings for 20 years (compound interest). This means that if you could buy a single bag of rice in 2016, after earning 15% yearly and reinvesting 100% of the returns, you would be able to buy less than one and a half bags. Although we expect inflation to decrease materially overtime, it is a guarantee we cannot give.

If we are to produce the 20% compound return we set for ourselves over the next 20 years, we would end 2036 with N844,192,532 in capital (assuming no external additions of capital). We would have achieved a real return after inflation (given current rates) of 26 times i.e. increased our buying power by that much.

EXTRAORDINARY RESOLUTION

- To Hedge ourselves against inflation and loss of buying power from a devaluation of the currency, we designate $5,000 to be invested in foreign currency denominated assets. We do not expect to make substantial gains on our investment but hope to maintain its value in relation to the Naira and make a reasonable profit in the process.

WHY'S

The rationale for our policy of allowing withdrawals once a year is that we do not wish to be forced to sell our holdings at an inopportune time to cater for the needs of any individual. This is why we recommend you only invest funds that will not be required in the foreseeable future (say three years).

Previous years' annual letter available on request