

Dear Investor

Peregrine Capital 2019 Annual Investor Letter

2019 was a solid year for the Peregrine Capital funds, with our flagship High Growth Fund and Pure Hedge Fund ending the year up 13.5% and 13.4% respectively. We were pleased that both funds outperformed their peers, and relevant market indices by a healthy margin during the year, while generating a 10% real return.

Our purpose at Peregrine Capital is to protect and grow the wealth of our clients by delivering superior risk-adjusted returns over the medium to long-term. The tables below reflect the strong returns that have been generated by our funds over longer periods of time. We measure our performance over 5 year and 10 year periods, and while we will always strive to do better, we believe that on an absolute and relative basis, we have delivered a good outcome for our clients.

Annualised Returns				
	1 Year	5 Year	10 Year	Since Inception (Feb 2000)
Peregrine Capital High Growth H4 Q1 Hedge Fund	13.5%	11.2%	18.1%	25.1%
SA Multi Asset - High Equity Category	9.5%	4.8%	8.4%	10.7%
FTSE/JSE Capped SWIX All Share Index	6.8%	3.9%	9.7%	12.6%

Annualised Returns				
	1 Year	5 Year	10 Year	Since Inception (Jul 1998)
Peregrine Capital Pure Hedge H4 Q1 Hedge Fund	13.4%	11.3%	12.8%	20.6%
SA Multi Asset - Low Equity Category	8.7%	5.9%	7.8%	10.0%
CPI Inflation	3.6%	4.9%	5.1%	5.6%



2019 In Review

2019 was another difficult year for South Africa with negative economic growth reported in both Q1 and Q3 while the country experienced regular electricity blackouts at various times during the year. The weak local economy made the environment extremely difficult for all South African focused businesses. This is highlighted by the Financials Index ending the year flat, Telecoms ending the year down 7% and the General Retail Index ending the year down 18%.

A big part of the South African market return in 2019 was driven by the Resources sector ending the year up 29%, with the Gold sector going up more than 100%, and the Platinum sector ending the year up by an incredible 200%. We have consistently made it clear to you that these are not sectors that we are comfortable investing in, given the difficulty in forecasting commodity prices and thus the intrinsic value of these businesses. So, it is especially satisfying that we were able to deliver double-digit performance and outperform the market without the benefit of the meaningful performance of the resource shares.

In a year where it was easy to become overly negative about the prospects for South Africa, the team stayed true to its long-term, bottom-up and valuation-based approach to investing that is the Peregrine Capital way. We identified the tough South African economic conditions early in the year, specifically focused on the potential downside scenarios faced by the businesses we invest in, and required further margin of safety before investing. The uncertainty created by the difficult economic environment created many attractive investment opportunities. We exited positions rapidly when they approached fair value during the year.

The risk aversion in the South African fund management industry that started after the Steinhoff collapse at the end of 2017 continued during 2019, as evidenced by the share price collapse of EOH, Sasol, Omnia, Tongaat, Brait, Intu, Ascendis, Blue Label and a host of other entities. Our team did some excellent fundamental analysis during the year despite the difficult macro environment. This allowed us to act with conviction at times of market volatility, when other investors were driven by fear to pull back, or when there were times of extreme panic. We also avoided many of the aforementioned landmines that caught the market off-guard during the year.

As is often the case in range bound and uncertain markets, we observed a series of dislocations between asset prices that typically have a high degree of correlation. This was especially evident for holding companies, where the discount to underlying asset values widened notably at various points during the year. We successfully took advantage of this opportunity in both Reinet and Naspers. Importantly, there was a clear catalyst in both instances that we believed would unlock trapped value for shareholders:

- In the case of Reinet, management quietly announced their intention to initiate a share repurchase programme that would create significant per share value for Reinet shareholders, while also assisting to reduce the excessive discount that had irked



shareholders for many years. The market appeared to take no immediate notice of this announcement and the discount to net asset value widened beyond 35%. We built a position to take advantage of this dislocation by purchasing Reinet while hedging the British American Tobacco shares that Reinet owns. The discount narrowed progressively during the year as management's actions became clearer to the market, generating strong returns for our funds.

- Naspers announced its intention to list Prosus, the entity that houses its international investments. The initial announcement was met with skepticism by the market, and the discount to Naspers' underlying assets widened to as much as 45% at a point. Given the clear catalyst for the stock, we used the opportunity to increase our exposure to Naspers' unlisted "rump" by purchasing Naspers while hedging the Tencent shares that Naspers owns. The discount narrowed to 30% into the listing of Prosus, offering a great opportunity to lock in some of the gains for our clients.

We continued to build our expertise and knowledge of the offshore companies we analyse and own in the funds. Team members are encouraged to travel widely to broaden their perspectives and our investable universe of companies. The offshore portion of our portfolio delivered very pleasing results during the year. Many of these businesses have the ability to compound their earnings for many years to come, and we expect to continue to generate attractive returns from this part of the book.

During the year we had 15 positions that each contributed more than 0.5% to our return, while only 3 positions lost more than 0.5%. It is positive to see that our returns were generated by a variety of good decisions. This analysis shows that our hit rate was good and also highlights that in general, we did well to act quickly and mitigate the downside risk on positions that went against us.

Looking ahead

Many South African companies have continued to cut their cost bases to deal with the current economic challenges and should be well positioned to show significant earnings recovery should the economic environment normalize. We believe the year-end valuation of some of our major holdings to be extremely attractive, with the market being excessively pessimistic about the outlook. We own several South African businesses trading at 6-8x normalized earnings, generating high returns on equity and with solid growth prospects even in a tough South African environment. While we have seen some early signs of progress on SOE governance reforms and corruption related arrests, our prospective returns are not predicated on a strong rebound in GDP growth for SA Inc. The Peregrine Capital funds remain well positioned to generate superior risk adjusted returns for our clients in the years to come.



Our Investment Process

The difficult economic environment in South Africa provided continual challenges but we are pleased to report that we navigated the environment well, thanks to the hard work of our team, and having a tried and tested investment process and philosophy as our foundation. It might be insightful to discuss some of the factors that contribute to our buy and sell decisions.

We spend a lot of time researching an investable company, its industry and competitors, the financials and various other factors that could impact what the business is worth. We analyse factors such as the potential return, adequacy of margin of safety given the risk involved, liquidity and solvency risks, and any potential catalyst that may impact earnings. The quality and integrity of the management team is another vital consideration in our investment decision making. We then use all these variables to determine our fair value of the business. The next step is to compare where the share is currently trading at in the market versus our fair value. We discuss and debate this as a team, in the context of our investment philosophy, and then decide whether to go ahead with a new position, and the appropriate position size.

After initiating a new position, it is constantly measured against our expectations, by the responsible analyst and portfolio manager. It is far more difficult to determine when to sell a position than it is to decide when to buy. We need to strike the appropriate balance between letting winners run, deciding when to lock in gains because a thesis has played itself out or cutting our losses because we simply got it wrong. We try to be fairly scientific about this part of the approach by monitoring the future expected return of the position, however, there is inevitably some art involved in selling. William Bruce Cameron aptly captured this conundrum when he stated that “not everything that can be counted counts, and not everything that counts can be counted”. We executed this element successfully in 2019 by recycling positions with lower expected returns, and redeploying that capital into new positions. However, we also missed some selling opportunities, and this is an area of the investment process that we consistently try to improve.

It is important to recognise that investment philosophies develop with the passage of time and we seek to refine our process every day. While a strong foundation doesn't guarantee outperformance every single year, we believe that consistent application of our investment philosophy will allow us to achieve our objective of maximising investment returns over the medium to longer term.



How our business differs from competitors

The typical institutional asset manager sees risk through a different lens to the one that we use. Sadly, the greatest risk to most fund managers is not in losing money for you, it is in doing something different to the market or their peers. If your returns are similar to those of the market, you are less likely to lose your job – that is the institutional imperative. We know that in order to generate returns that are better than those of the market, we need to invest in a manner that is different to the average market participant.

Because we are not benchmark cognisant investors, we think about return and risk, rather than relative or tactical positioning. A stock's weighting within an index bears no relevance to its quality or expected returns, and so we pay no attention to it. We see risk as permanent capital loss and not as standard deviation, volatility in share prices, or the risk of losing our jobs. Flexible mandates allow us to take advantage of any opportunity we can identify without delay, no matter the instrument type or country. Our preference is to concentrate our investment decisions into a small number of opportunities that we know well, as opposed to excessive diversification. This combination means that our investment returns are likely to have a low degree of correlation with the performance of the market as a whole.

We have taken an active decision to not be “asset gatherers”. Being small and nimble is a big advantage in asset management. We have carefully managed the quantum of assets we manage by closing our funds on numerous occasions over the past 21 years, to ensure we maintain this advantage.

With Thanks

At Peregrine Capital, our clients are our partners. Our business exists because of you, and we appreciate the faith that you continue to show in our investment process. Most of you have invested alongside us for many years and we strongly believe this long-term partnership has been a core reason for the enduring success of the funds. The trust you place in us and your long-term investment orientation, allow us to make the best possible investment decisions which we believe will deliver attractive long-term risk-adjusted returns.

During the year, we hired Alan Yates to join Dudley Lamont Smith in our Business Development team. We also launched our Peregrine Capital website to improve our online presence and general accessibility. We plan to further improve the manner in which we communicate and engage with clients in the year ahead. This effort will be championed by Alan and Dudley, so that our investment team can focus on our most important job, generating strong returns for our clients.

There has been strong demand from our partners to improve access to the funds by reducing minimum investment amounts, adding the funds to LISP platforms and enabling debit order functionality. As such, we have taken the decision to launch retail versions of the



High Growth and Pure Hedge Funds. The retail funds' exposures will mirror those of the High Growth and Pure Hedge qualified funds but access will be significantly enhanced for our clients.

The Peregrine Capital team remains significantly invested in the funds alongside our clients (cumulatively, we are the 4th biggest investor) and our interests remain fully aligned with yours. We believe the extent of this alignment is unmatched in the South African fund management industry. We have shown over the past 21 years that it is our process, and the people implementing it that generate strong returns for our clients, and not the overall economic or macro environment in South Africa or abroad.

We wish you a prosperous New Year and thank you for your continued confidence and support.

Please contact us if you have any questions or comments.

Jacques Conradie
Managing Director

David Fraser
Executive Chairman



Important disclosure information

H4 Collective Investments (RF) Proprietary Limited ("H4") is a registered and approved manager of collective investment schemes in hedge funds. Peregrine Capital Proprietary Limited ("Peregrine Capital"), is an authorised Financial Services Provider (FSP 607) under the Financial Advisory and Intermediary Services Act, No. 37 of 2002 and has been appointed by H4 as the investment manager of the portfolios. Collective investment schemes are medium to long-term investments. The value of participatory interests or the investment may go down as well as up. Past performance is not necessarily a guide to future performance. Collective investment schemes are traded at ruling prices and can engage in borrowing and scrip lending. A schedule of fees and charges and maximum commissions is available on request from H4 or Peregrine Capital. Peregrine Capital High Growth H4 QI Hedge Fund: Performance fees are payable on positive performance using a participation rate of 20%. A high watermark is applied, which ensures that performance fees will only be charged on new performance. There is no cap on the Rand amount of performance fees. Peregrine Capital Pure Hedge H4 QI Hedge Fund: Performance fees are payable on positive performance, in excess of the hurdle, using a participation rate of 20%. A high watermark is applied, which ensures that performance fees will only be charged on new performance. There is no cap on the Rand amount of performance fees. Neither H4 nor Peregrine Capital provides any guarantee with respect to the capital or return of a portfolio. H4 retains full legal responsibility for the portfolios. H4 has the right to close the portfolios to new clients to manage them more efficiently in accordance with their mandates. The performance calculated and shown is that of the portfolio. Performance has been calculated using net NAV to NAV numbers with income reinvested. The investment performance for each period shown reflects the net return for clients who have been fully invested for that period. Individual investor investment performance may differ as a result of initial fees (if applicable), the actual investment date, the date of reinvestment of distributions and/or distribution dates and dividend withholding tax. Where periods of longer than 1 year are used in calculating past performance, certain figures may be annualised. Annualised performance is the average return per year over the period. Actual annual figures and investment performance calculations are available on request. Where investment performance has been shown by way of an illustration (a) investment performance is for illustrative purposes only (b) the investment performance is calculated by taking the actual initial fees and all ongoing fees into account for the amount shown and (c) income is reinvested on the reinvestment date. The performance history is contained in the portfolios' minimum disclosure documents which are available on request from H4 or Peregrine Capital. Full details and the basis of all awards mentioned are available from H4 or Peregrine Capital.

Fund Name	Inception date	Highest annual return	Lowest annual return	Rolling 12 month return
Peregrine Capital High Growth H4 QI Hedge Fund ('High Growth Fund' above)	Feb 2000	53.01% (2004)	-11.98% (2008)	13.52%
Peregrine Capital Pure Hedge H4 QI Hedge Fund ('Pure Hedge Fund' above)	Jun 1998	67.90% (1999)	1.61% (2008)	13.44%
<i>FTSE/JSE Capped Swix All Share Index</i>	<i>Feb 2000</i>	<i>47.25% (2005)</i>	<i>-23.23% (2008)</i>	<i>6.75%</i>
<i>ASISA South Africa MA High Equity</i>	<i>Feb 2000</i>	<i>27.49% (2004)</i>	<i>-8.24% (2008)</i>	<i>9.49%</i>
<i>ASISA South Africa MA Low Equity</i>	<i>Jul 1998</i>	<i>40.59% (1999)</i>	<i>-10.69% (1998)</i>	<i>8.69%</i>
<i>Inflation (CPI)</i>	<i>Jul 1998</i>	<i>12.97% (2002)</i>	<i>0.21% (2003)</i>	<i>3.56%</i>

The calculation of all net returns from 1 February 2000 until 30 November 2016 are for the unregulated Peregrine High Growth Fund, thereafter the data relates to the regulated Peregrine Capital High Growth H4 QI Hedge Fund. The calculation of all net returns from 1 July 1998 until 30 November 2016 are for the unregulated Peregrine Pure Hedge Fund, thereafter the data relates to the regulated Peregrine Capital Pure Hedge H4 QI Hedge Fund. The 'JSE Capped Swix All Share Index' referenced is the index from December 2016 to date, before that the JSE All Share TR Index is used. The 'Cash' referenced is the STeFI Index (Stefocad) from July 2003 to date, before that the JIBAR is used.