

Dear Investor,

Our goal at Peregrine Capital is to create meaningful wealth for our clients over the medium to long term. Our flagship High Growth and Pure Hedge funds ended the year up 12.6% and 6.6% respectively, both net of fees and expenses.

As with any investment approach and philosophy, there will be years where Peregrine's distinctive approach works very well, and years that go less well. The last two years have been significantly influenced by the COVID pandemic, with our funds strongly outperforming in 2020, but then giving back some of that outperformance in 2021. Our longer-term performance metrics remain very strong and our combined 2020 and 2021 return remains ahead of the market. We acknowledge that our 2021 numbers didn't quite live up to our very high standard of performance and look forward to getting back to delivering great returns for you over the years to come.

A real positive over the past two years is how we have continued to reduce the funds correlation with the overall market and peer group. This has been achieved by our off-benchmark strategies and not owning the same shares as the crowd. This makes both our flagship funds fantastic tools to both increase long-term returns but also reduce the risk and volatility in your overall portfolio.

We prefer to measure our performance over five and ten-year periods. Short term performance (both good and bad) is highly influenced by the general performance of capital markets, as well as a large dose of luck. Skill is certainly a contributor but can only really be measured over an extended period when both general market direction and luck diminish in influence. While our performance has been strong over the 5 to 10 year time horizons, we will continue to work hard to ensure that it remains at these levels going forward.

## HIGH GROWTH ANNUALISED RETURNS

|                                                       | 1 Year       | 5 Year       | 10 Year      | Since Inception<br>(Feb 2000) |
|-------------------------------------------------------|--------------|--------------|--------------|-------------------------------|
| <b>Peregrine Capital High Growth H4 QI Hedge Fund</b> | <b>12.6%</b> | <b>10.8%</b> | <b>18.0%</b> | <b>24.2%</b>                  |
| SA Multi Asset - High Equity Category                 | 20.2%        | 7.9%         | 9.2%         | 10.8%                         |
| FTSE/JSE Capped SWIX All Share Index                  | 27.1%        | 7.2%         | 10.2%        | 12.6%                         |

## PURE HEDGE ANNUALISED RETURNS

|                                                      | 1 Year      | 5 Year      | 10 Year      | Since Inception<br>(Jul 1998) |
|------------------------------------------------------|-------------|-------------|--------------|-------------------------------|
| <b>Peregrine Capital Pure Hedge H4 QI Hedge Fund</b> | <b>6.6%</b> | <b>9.7%</b> | <b>12.5%</b> | <b>19.6%</b>                  |
| SA Multi Asset - Low Equity Category                 | 13.5%       | 7.2%        | 8.0%         | 9.9%                          |
| CPI Inflation                                        | 5.5%        | 4.4%        | 5.0%         | 5.5%                          |



## 2021 IN REVIEW

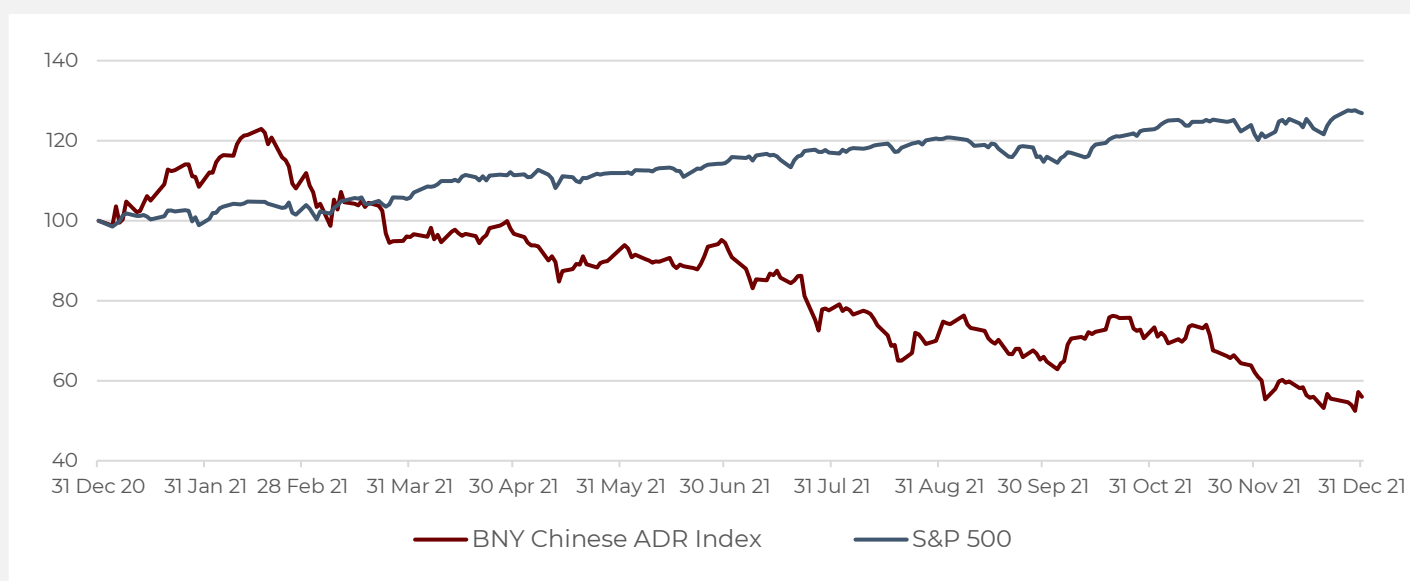
2021 saw a reversal of many of the trends that impacted markets during 2020. Cyclical, resource and brick and mortar businesses outperformed, while technology and growth shares lagged the overall market. The funds had decent exposure to large cap US tech shares, mispriced value opportunities and a unique resources exposure, which performed strongly. However, it is worth discussing the two most meaningful drags on our 2021 relative performance, namely our exposure to Chinese equities and food delivery businesses.

### The not so hidden hand

The biggest negative impact to our relative performance during the year came from our exposure to Chinese shares. Starting in May 2021, the Chinese Communist Party introduced a tsunami of new regulations focused on antitrust, data privacy, data security, foreign capital investment, recommendation algorithms, game addiction and private education. After reaching new highs in February, shares that we owned began to retrace. This sell-off intensified as new regulations continued to be announced throughout the balance of the calendar year. The scale and pace of these regulatory interventions are macro events that are impossible to predict, and very hard to react to in real time, as it is difficult to know how severe the regulatory cycle will become once it starts.

It really was a bloodbath, with the BNY Chinese ADR Index (a proxy for all Chinese businesses listed in the US) ending the year down 44%, compared to the S&P 500, which is a proxy for US listed companies, ending the year up 30%.

### BNY CHINESE ADR INDEX VS S&P 500



Data as at 31 December 2021 | Source: Bloomberg

We took several actions during the year that lead to our performance being much better than the overall Chinese technology sector. However, despite these actions, our exposure to Chinese equities was still a considerable drag on our overall performance vs the South African and Global market indices that were up substantially during the year.

After the fall in share prices, we think having selective exposure to the very best Chinese tech businesses at prices that offer compelling value will benefit the funds over the medium term. However, given the significantly increased political and regulatory risks, we are likely to run a somewhat smaller exposure to China over the medium term to account for the increased uncertainty.



## Food did not deliver

The other detractor from our 2021 performance was our exposure to the food delivery sector. We initiated positions in the sector during the market sell-off in 2020. After contributing positively to overall returns during 2020, our holdings in this sector fell during 2021. The great success these businesses had during 2020 led to increased competition during 2021 and some new entrants which negatively impacted profitability of the entire sector.

We still like the long-term prospects of these businesses, but we have somewhat reduced our exposure here. The main lesson we came away with is that we need to monitor the competitive dynamics very carefully in businesses that are still early in their life cycle. A significant increase in competition can meaningfully hurt companies when they are not yet well established. Where we do choose to take exposure to these types of businesses, position sizing should be more moderate to account for the increased forecast risk.

## Coal shines bright

It was pleasing that our absolute performance for the year was still healthy, showing that our investment process is durable and can deliver great returns even in a year where a few things go against us. We had many substantial wins last year, and one of them is worth spending some time explaining in greater detail.

In June of last year, we identified a unique “special situations” opportunity with Anglo American’s (Anglos) unbundling of their South African coal operations into a new entity, Thungela Resources. Before the unbundling happened, we identified all the ingredients for a substantial mispricing. The main attraction of this unbundling is that the shares received would be immaterial to most investors. An investor only received R3 in TGA shares per R600 in Anglos or 0.5% of their holding prior to the unbundling. So, an offshore investor with 2% in Anglos would end up with 0.01% of their portfolio in Thungela making it an obvious sell to them once they receive the shares – the position is just too small for the fund manager to do the work.

We did our own internal work on the business and came to a valuation range of R60 – R100 per share depending on where coal prices settled during 2021 and 2022. Our view on international coal prices was supportive given the lack of funding for new coal projects as well as the continued medium-term reliance on coal as an energy feedstock.

We were overjoyed when the share started trading at R25 per share during the first week, roughly a 1/3rd of what we thought the business was worth. Having done all the analysis groundwork, including developing detailed models and scenario analyses of the financial aspects of the company, as well as several management meetings, we had the confidence to buy aggressively in the market. We ended up buying just below 5% of the entire business during the first few days of trading.

For the balance of the year, Thungela has worked out even better than we had expected, as global coal prices have been stronger than we modelled for. Thungela has generated roughly R6,5bn, or almost R50 per share in cash, from June to December 2021. Having paid R25 for the share in June, the company generated about twice what we paid for it in profit and cashflow during just the past 7 months. While we have identified many exceptional investments over our 23 years, it is truly very rare to find a share as cheap as Thungela was and continues to be.

## WHY A HEDGE FUND SHOULD BE THE BEDROCK FOR A STRONG AND DIVERSIFIED PORTFOLIO

Every year in this letter we like to highlight something that makes us distinctive to the other funds you might hold in your overall portfolio. Making sure you have investments that add value at different times is the bedrock of a diversified and strong portfolio, and we certainly believe that our funds add significant value in this regard.

We construct our portfolio to deliver on two major objectives:

- Deliver great risk-adjusted investment performance to clients over the medium term, and
- Deliver returns that are not materially correlated with the South African market or other major equity markets.



In terms of risk metrics and volatility, we are very happy with how the funds performed during the year. The High Growth Fund performance was only 25% linked to that of the JSE All Share Index, while Pure Hedge had no sensitivity to the moves in the overall market. This means that our funds are not just another fund giving you returns linked to how the overall market is performing, but rather a truly independent return stream.

One of the ways we do this is by having a substantial short book in both the High Growth and Pure Hedge funds. The short book enables us to deliver strong returns in years where the market is flat or very weak, like in 2020. However, this does mean that it is harder for us to keep up during years where markets are extremely strong, like 2021. The short book was a meaningful detractor to our returns last year because of this. As we head into 2022 the market is much more expensive than a year ago, and we think it would be wise to start positioning one's portfolio in a more cautious manner.

## LOOKING AHEAD

As we enter 2022, there are a few major macro factors we are watching and thinking about:

- Will the world realize that COVID is here to stay, and that it is almost surely endemic now rather than a pandemic anymore? Countries that try to keep COVID out completely are almost sure to fail and will suffer the economic and social costs of keeping people locked down.
- Low interest rates and easy monetary policy have resulted in a 7% inflation print in the US, the highest inflation in nearly 40 years. Will central banks be able to react in time to get inflation back under control? How much of current inflation is transitory due to COVID related supply chain dislocations and how much is structural due to an extended period of "cheap money"?
- After growth shares had a very difficult 2021 despite healthy growth in earnings for many businesses, will we see this turn around in 2022 or continue?

We have a well-balanced portfolio at present, split roughly evenly between durable high growth businesses exposed to favourable long-term trends that should perform well for many years to come, and a portfolio of businesses where valuations are extremely attractive with healthy upside to fair value. This should continue to deliver consistent returns with low correlation to the overall market. We continue to hunt for interesting and unique new ideas and look to find these before the market does.

## WITH THANKS TO YOU

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.

We saw many new investors join us during 2021, with very limited withdrawals. We truly appreciate the support and don't take it lightly. We are humbled by having you as our long-term partners and thank you for keeping your eyes on the long term. Our mission remains to create meaningful wealth for you, our clients, and we hope that it will continue to be a profitable partnership for both our long standing and newer clients.

Please join us on Wednesday 16 February 2022 at our first Virtual Investor Day where you can engage with our portfolio managers and discuss 2021's performance and the year ahead. We aim to bring you more in-person events in 2022 as we get closer towards a post-pandemic future. If you haven't already, you can register for the investor day here: [www.peregrineevents.co.za](http://www.peregrineevents.co.za).



The Peregrine Capital team remains significantly invested in the funds alongside you (cumulatively, we are the 3rd 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 23 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-economic environment in South Africa or abroad.

We wish you a prosperous 2022 and thank you for your continued trust, confidence, and support.

Please contact us via [info@peregrine.co.za](mailto:info@peregrine.co.za) if you have any questions or comments.

**Jacques Conradie**  
Chief Executive Officer

**David Fraser**  
Executive Chairman

**Disclaimer:**

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| Fund Name                                                                 | Inception date | Highest annual return | Lowest annual return | Rolling 12 Months |
|---------------------------------------------------------------------------|----------------|-----------------------|----------------------|-------------------|
| Peregrine Capital High Growth H4 QI Hedge Fund ('High Growth Fund' above) | Feb 2000       | 53.01% (2004)         | -11.98% (2008)       | 12.59%            |
| Peregrine Capital Pure Hedge H4 QI Hedge Fund ('Pure Hedge Fund' above)   | Jun 1998       | 67.90% (1999)         | 1.61% (2008)         | 6.60%             |
| FTSE/JSE Capped Swix All Share Index                                      | Feb 2000       | 47.25% (2005)         | -23.23% (2008)       | 27.07%            |
| ASISA South Africa MA High Equity                                         | Feb 2000       | 27.49% (2004)         | -8.24% (2008)        | 20.18%            |
| ASISA South Africa MA Low Equity                                          | Jul 1998       | 40.59% (1999)         | -10.69% (1998)       | 13.52%            |
| Inflation (CPI)                                                           | Jul 1998       | 12.97% (2002)         | 0.21% (2003)         | 5.47%             |

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.