



Peregrine
Capital

FEBRUARY 2024

Annual Investor Letter

Dear Investor,

2023 Fund Overview

The Peregrine Capital funds concluded 2023 with net returns of 14.7% and 12.5% for High Growth and Pure Hedge, respectively. Our unwavering commitment to our purpose of building your wealth continues. In 2023, we generated consistent absolute returns, demonstrating the effectiveness of our approach. Our returns continue to have low correlation with peers and with the overall market, due to our unique approach to portfolio construction and the identification of opportunities that are not simply linked with the overall index.

You can trust that we are as driven as ever to continue to find attractive opportunities that will generate returns for our investors over the medium term.

Fund	Annualised Net Returns			
	Latest 1 year	Latest 5 years	Latest 10 years	Since Inception*
Peregrine Capital High Growth H4 QI Hedge Fund	14,7%	13,8%	14,2%	23,2%
SA Multi Asset - High Equity	11,8%	9,3%	7,0%	10,4%
FTSE/JSE Capped SWIX All Share	7,9%	9,0%	6,8%	12,0%

Fund	Annualised Net Returns			
	Latest 1 year	Latest 5 years	Latest 10 years	Since Inception**
Peregrine Capital Pure Hedge H4 QI Hedge Fund	12,5%	11,5%	11,9%	19,0%
CPI	5,5%	5,0%	5,2%	5,6%
SA Multi Asset - Low Equity	10,6%	8,2%	7,0%	9,7%

* Inception date is 1 February 2000

**Inception date is 1 July 1998

Returns are to 31 December 2023 | Source: Peregrine Capital, Morningstar

2023 Global Overview

Markets bounced back strongly after a very challenging year in 2022.

Entering 2023 our main concern was whether global central banks would be able to act decisively enough to address soaring inflation, whilst maintaining the fine balance between aggressive interest rate hikes and protecting economic growth. At the time, developed market inflation was still on the upward trajectory, peaking at close to 10% in some developed markets, well above the targeted 2% level globally.

The outcome surprised almost all market participants, with inflation falling consistently throughout the year, currently sitting well below levels where it ended 2022. The aggressive interest rate hikes from the Federal Reserve, and other central banks, were a key reason for this decline in inflation. Thus far, central banks have managed to slow down demand sufficiently to get inflation under control, while not yet tipping the economy over into a recession.

However, the main surprise in 2023 was how resilient the global economy was in the face of much higher interest rates.

The effects of interest rate increases take a while to transmit into the real economy and as such, the impact thereof could still affect the global economy in 2024. One cannot yet say for sure whether we are in the clear, and it is still possible that economies slow down further in 2024. However, the fact that inflation has come down rapidly now gives central banks the ability to lower interest rates if economic activity slows materially in the coming months. This is a much better position to be in, and it means there are tools available to partially offset potential economic weakness if or when it arises.

In our annual investor letter from last year (2022 review) we specifically added a section on Chat GPT and generative Artificial Intelligence. We believed that new technology would be a structural theme that will materially impact the world we live in, economies and markets. This theme has certainly played out in 2023! We were extremely optimistic about this technology a year ago, and things are moving even faster than we expected. It has had a very material impact on markets during 2023, and the rate of technological improvement in the generative AI space is exponential at present. We are extremely excited about the impact this can have on various fields and the benefits it will bring to humanity in the years to come. The impact of this technology on companies within our universe of investable companies is likely to be varied, and we remain conscious of both the opportunities and threats that may arise in the year ahead. The potential in fields like Healthcare and Medicine are immense, with the possibility to assist in the discovery of new drugs, and dramatically improve patient diagnosis and outcomes, especially in developing countries with lower access to healthcare.

2023 South African Market Overview

South Africa entered 2023 with loadshedding running at Stage 6. The first half of the year was dominated by Eskom's failure that had a devastating impact on the earnings and share prices of domestic companies listed on the JSE. In our first half 2023 letter, we shared our analysis on Eskom and the electricity situation in South Africa. Based on the work we had done, we felt confident that the situation would get better into the second half of 2023, and improve meaningfully into 2024 and 2025. Fortunately for South Africa, things seem to be on the right track on the power front. Private solar generation has gone into overdrive, and Eskom seems to be getting a little bit better due to improved maintenance and renewed collaboration with the private sector.

South Africa still has major issues to resolve, including Transnet, crime prevention and water infrastructure. We are quietly optimistic that selective progress has been made, and that the prospects for companies on the ground will likely improve in the year ahead. Valuations remain attractive and we continue to hunt for new opportunities in our "back yard".

Our performance during 2023

We entered 2023 cautiously, concerned about the prospect of a global economic slowdown caused by higher interest rates. Our worst fears did not manifest and we successfully navigated the year. We are especially happy with our performance this year as it was achieved by taking below average level of market risk. A key contributor to the good overall fund performance was that we had few loss-making positions during the year, with only one position losing us more than 0.5%. On the positive side, we had many winners, in a variety of sectors.

Our team responded well to economic and company-level data throughout 2023. A key driver of our long-term success is our willingness to change our minds when new data emerges. When it started to become clear that inflation was falling and that economies were proving more resilient, we took advantage of that opportunity by adding to our equity exposure at what proved to be opportune times, in hindsight.

We took positions in several globally listed companies for the first time, after covering these companies for several years. We also made solid returns from the South African market, taking advantage of the attractive valuations earlier in the year when the market was overly worried about loadshedding.

1998

Lessons learned

We always look back at the year, and try to identify lessons for the future, or things we could have done differently.

When shares fall in value, the key question an investor has to answer is whether the reason for the fall is temporary or structural in nature. Has there been a permanent change in the outlook for the business or is this a transitory event? If the change is permanent or structural, the position should be reduced. However, if the reason is due to temporary difficulties or market sentiment, then the decision should be to buy more into the weakness. This is one of the most difficult tight ropes to walk in investments – it is rarely easy to determine which one it is until the dust settles. But the investment decision typically must be made during this period of uncertainty, one cannot wait for the outcome to be clear, as the opportunity to cut the position or add more will be gone by then.

Meta

With the benefit of hindsight, there were a few opportunities we could have engaged with more aggressively at the end of 2022, most meaningfully Meta, which we addressed as our biggest loser of 2022 in our annual investor letter last year. While Meta was facing some real issues at the end of 2022, we didn't put enough weight on the fact that they had tools to offset those pressures. Meta is one of the greatest beneficiaries of the rapid developments in AI. The company also had the ability to cut a meaningful part of its cost base, more than 20% of its staff, without impacting revenue. As a result, the business performed very well during 2023, despite all the headwinds it had earlier faced. We hung on to our position and didn't make the wrong decision to cut it at the lows. However, there was certainly an opportunity to add to our position, which we missed. Meta was our biggest winner in 2023, but it should have been even better.

We did learn from this mistake as the year progressed. Two of our other winners this year, Pindoudou and Adyen, were opportunities where we actively engaged and built positions more aggressively during pull-backs and times of uncertainty.



Pinduoduo

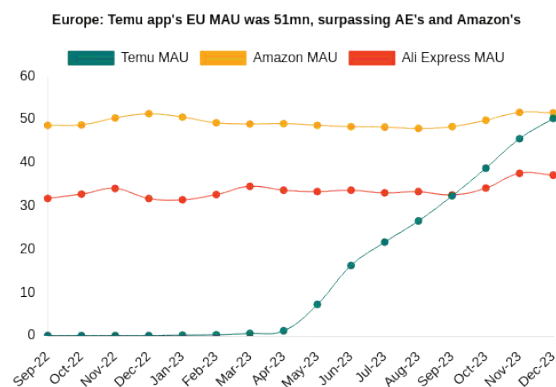
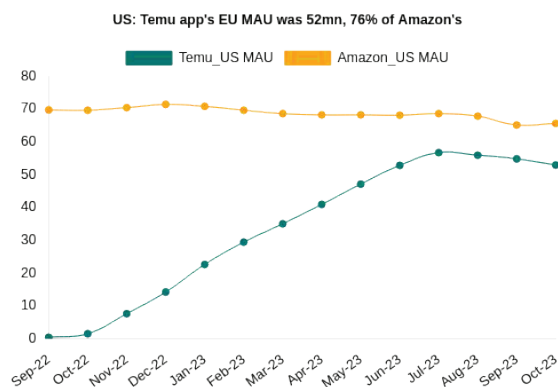
We have covered PDD since it listed in 2018 given that it was one of the fastest growing ecommerce companies in China and one of Tencent's major minority investments at that time. PDD has grown to become the second largest e-commerce platform in China.

They have miraculously achieved this in only 8 years, making a real dent in the dominance of Alibaba and passing JD.com in size. They have done this through an innovative new form of e-commerce, buying goods directly from the factory door and selling to customers at prices far lower than their competitors are able to do. Their rapid growth in China has been an unbelievable success story and the model has proven difficult for competitors to replicate thus far.

The opportunity for us to invest came about for two reasons.

The PDD share price peaked at \$200 a share in Feb 2021. It then sold off aggressively with all Chinese shares during 2021 and 2022 (we covered the broader Chinese sell-off in our 2021 annual letter). Our valuation model indicated that the company was trading on a 12x forward price earnings multiple, despite growing revenue and profits in excess of 50% per annum for the preceding 3 quarters. The valuation was simply too cheap to ignore considering the incredible growth the company was delivering for shareholders.

The second reason was that PDD had exported their China strategy to the rest of the world with the launch of an app called Temu. Temu had sensational success in the US and took off even faster than PDD had in China. Within a year of launch, Temu had accumulated more than 75% of the monthly active users of Amazon in the US, despite Amazon having a 25-year head start and being one of the most trusted brands in the US. If consumers in one of the wealthiest countries in the world loved their cheap prices (up to 70% cheaper than Amazon prices across a range of goods), then there was something truly unique about their offering! The US example made it highly likely that they would succeed all around the world, in economies where consumers are even more price sensitive. Everyone likes a deal! It was also clear that very few analysts had ascribed any value to Temu in their PDD valuations, affording significant margin of safety to the investment case at the time.



Data courtesy of Morgan Stanley research.

We entered the position at \$77 a share, and soon other investors were starting to see what we had identified. Since we established our position, PDD has continued to outperform Alibaba and JD.com in their core market of China, rapidly growing profits. This in turn allowed them to re-invest those profits into rapidly expanding into the rest of the world. Their 3Q results were truly spectacular, with the company growing revenue by 94% and profits by 47%, despite aggressively reinvesting excess profits to grow Temu. PDD ended the year at \$146 and we hope that the company will continue to execute in the year ahead.



Active Collaboration to Create Positive Outcomes

We believe our process leads to returns that are less correlated to the overall markets and long-only managers. We have covered some of the reasons for this in previous years and thought we would cover another tool in our toolbox in this letter: Being an engaging and collaborative partner to companies, who tries to create positive win-win outcomes for companies and fellow shareholders.

Fortress Real Estate Investments is one of the largest property companies on the JSE. Fortress has two classes of shareholders with different rights to income. The loss of rental income experienced during COVID in 2020 created an untenable situation where the FFA and FFB shareholders entered a fierce conflict about when, and to whom, dividends should be paid. When the company was forced to relinquish its REIT status and cease the payment of dividends in November 2022, many market participants labelled the company as “uninvestable”.



At first glance, it was crystal clear that the Fortress management team had continued to deliver excellent operational results through trying economic times. Despite this, the complex capital structure, the loss of REIT status and constant quarrel between shareholders caused a tremendous divergence between the price of the Fortress shares and the value of the underlying net assets that it owns. If shareholders were able to work together productively, there had to be a solution that could unlock significant value for all shareholders. This period of doubt and uncertainty persisted through 2023, creating the opportunity for us to build a significant position in both the FFA and FFB shares.

Once we had accumulated enough of both shares to have a seat at the proverbial table, our team set to work. Our objective in early 2023 was to collaborate with major Fortress shareholders on both sides of the FFA/FFB divide to design a transaction that could eliminate the dual class share structure. Resolving the capital structure was a sure way to unlock the trapped value that we had identified. It was of utmost importance that any solution had to provide win-win outcomes for both classes of shareholders. Any material divergence from the middle ground would result in guaranteed failure, given that material changes to the company's constitution required the support of 75% of FFA and FFB shareholders, an extremely onerous voting threshold. After months of negotiations with major shareholders, we believed we had devised a solution that could garner the support of the broader shareholder base. However, we realised we would also need the blessing of the Fortress board of directors for this solution to be formally presented to shareholders.

Our consortium of likeminded shareholders presented the solution to the Fortress board in September. We proposed that the company repurchase all the FFB shares, eliminating any potential future conflicts once and for all and leaving a single simplified share class. While we anticipated that the board would jump at the opportunity and implement the transaction immediately, they insisted that we requisition written letters of support from at least half of FFA and FFB shareholders before they were prepared to implement and recommend the transaction. We abided by their request and obtained letters of support from more than 60% of Fortress shareholders. We presented the letters of support to the board, who were then satisfied that the solution had a high likelihood of success. The transaction was formally presented to shareholders by the board on the 5th of October.

After hundreds of phone calls and emails, numerous meetings and flights to Cape Town, we are pleased to share that all resolutions to implement this transaction were passed on 19 January 2024 by an overwhelming 95% of Fortress shareholders, bringing an end to 15 months of hard work. From 25 February 2024, Fortress will have one class of shareholders and the executive team can focus on running the business to create per share value.

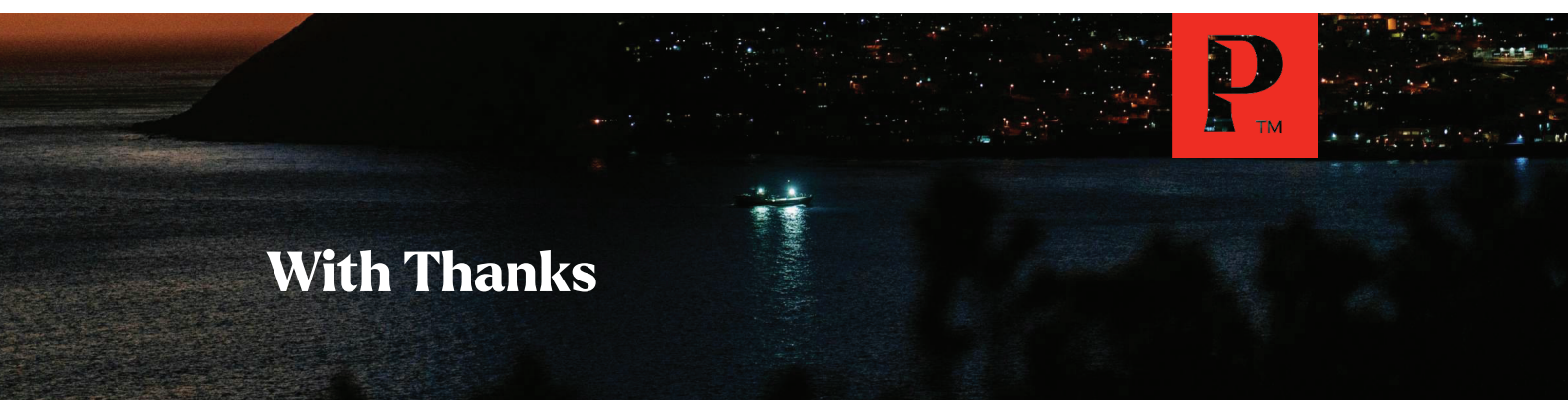
While significant value has been unlocked already, we remain substantial shareholders of the company and look forward to a bright future in partnership with a talented executive team. The Fortress journey has been a unique opportunity, but we believe that the collaborative approach we have adopted has built the requisite trust amongst fellow shareholders to pursue similar win-win outcomes in other scenarios going forward.

Looking ahead to 2024

2024 will see 49% of the world population head to the polls to elect new governments. The South African and US elections will present opportunities and new risks for the portfolios, so we remain interested observers of market reactions before and after the results are announced.

The 2020s will likely see elevated and sustained geopolitical tensions, as we witnessed in 2023. The Russia/Ukraine war is still ongoing, we now also have a war in Israel, and tensions remain elevated around the China/Taiwan relationship.

While cannot predict the outcomes of these storms, we will continue to monitor their impact on financial markets closely and position the portfolios strategically and profitably.



With Thanks

Since our business started in 1998, Peregrine Capital has always valued our clients as partners, as they are integral to our success. Without your trust and support, we wouldn't have the privilege of doing the job we love every day, of growing your wealth. Many of you have been with us for a long time, and we believe that our enduring partnership has contributed to the success of our investment funds. Your confidence in us and your long-term approach to investing in performance enables us to make the best decisions for all of us, which we believe will lead to strong, risk-adjusted returns over time. Our team is invested in the funds alongside you (collectively, we are the third largest investor) and our goals are intimately aligned with yours. This alignment is unparalleled in the South African fund management industry.

Our investment process, which has largely remained unchanged in the last 25 years, has been successful through various market conditions and we remain confident in its ability to continue delivering results.

Please contact us via info@peregrine.co.za if you have any questions or comments.



David Fraser
Executive Chairman



Jacques Conradie
Chief Executive Officer



Justin Cousins
Executive Director

IMPORTANT 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 at info@h4ci.co.za. Investment performance calculations are available for verification upon request by any person. 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.

Name	Inception date	Highest annual return	Lowest annual return	Latest 1 year	Latest 5 years	Latest 10 years
High Growth Fund	Feb-00	53.01% (2004)	-11.98% (2008)	14.66%	13.84%	14.22%
FTSE/JSE Capped Swix All Share Index	Feb-00	47.25% (2005)	-23.23% (2008)	7.86%	8.97%	6.81%
ASISA South Africa MA High Equity	Feb-00	27.49% (2004)	-8.24% (2008)	11.80%	9.26%	7.02%
Pure Hedge Fund	Jul-1998	67.90% (1999)	1.61% (2008)	12.50%	11.49%	11.88%
Inflation (CPI)	Jul-1998	12.97% (2002)	0.21% (2008)	5.52%	5.01%	5.20%
ASISA South Africa MA Low Equity	Jul-1998	40.59% (1999)	-10.69% (2008)	10.63%	8.23%	6.99%

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.

