

The Hundred *Times*

OCTOBER 2023

EDITION 4



**Peregrine
Capital**



A Warm Welcome from Our CEO, *Jacques Conradie*

Welcome to the fourth edition of Peregrine Capital's newsletter where we share our views and news about our business, our funds, and why hedge funds should form part of a growing and diversified investment portfolio. This edition includes our perspective of Q3 of 2023, following on the semi-annual investor letter we published in July 2023.

We share regular updates and insights on our LinkedIn page, so please follow us to keep up to date with what we're working on as we continue to deliver on our purpose to create wealth for our clients.





Peregrine Capital's Quarterly Review

AJ Snyman, Investment Analyst at Peregrine Capital unpacks the market environment for the third quarter of 2023.

The portfolio continued to build on the momentum from the second quarter of 2022 and delivered a net return of **+1.73% for the High Growth Fund and +2.96% for the Pure Hedge Fund***. This compares to the MSCI All Country World Index and the JSE Capped Swix Indices which lost 3.3% and 3.7% respectively**. While evaluating performance over such short time periods is fraught with randomness and bias, we are pleased to have delivered positive returns for our investors when the backdrop was clearly negative for risk assets globally.

Source: *Peregrine Capital and **Bloomberg for the period between 1 July 2023 – 30 September 2023.

Macro

As we have noted in quarter two, many signs started to emerge which indicated that the back of inflation was starting to break. This has certainly been validated in the third quarter with the pace of inflation slowing across most markets. As such, most Central Banks were also pulling back on the aggressive pace of interest rate hikes. This interest rate-hiking cycle, being the most aggressive in recent history, has exerted pressure on the global economy and the lower-end consumer, and we started to see more signs of this emerging over the course of the third quarter.

After a very tough quarter to June for South African companies, positive signs have started to emerge during the third quarter. Loadshedding levels have reduced, and there seems to be a light at the end of the tunnel. Our team has spent a significant amount of time modelling and forecasting our current expectations of electricity supply and demand in South Africa, and we have used this updated information to form views on companies and take positions with higher confidence.

Our team maintains longstanding and deep relationships with all the companies in our coverage. In this sort of environment, these relationships become increasingly important as we spend a significant amount of time trying to understand the current operating environment and use the feedback loop we obtain from companies we interact with to calibrate our expectations and forecasts.

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Portfolio Construction

In our fixed income sphere, we have reduced our South African bond positions at favorable levels and have started allocating incrementally to select developed market bonds protection against possible recession. At a portfolio level, our net equity exposure reduced towards the end of the quarter. Given where bonds are trading, equity valuations appear to be higher than we would have expected, hence the reduction in exposure where appropriate.

At the end of the quarter, the High Growth Fund had gross exposure of 123% and net equity exposure of 55%. This conservative portfolio exposure positions the Portfolio very well to take advantage of dislocations in asset prices that inevitably result from the sort of market uncertainty that we are currently experiencing.

Outlook

We are confident that our current portfolio has the ability to generate strong returns for our investors. Our team is intently focused on identifying unique and differentiated opportunities – something we believe the current environment is conducive to, as it creates an attractive hunting ground for bottom-up fundamental investors with a hedge fund toolkit.



Investment philosophy

At Peregrine Capital, our philosophy is anchored in a fundamental, bottom-up, valuation-focused approach. We continually refine our investment process, although the guiding principles never change. Diligent application of our investment process and industry-leading alignment of interests ensures we remain true to our mission, which is to create wealth for our clients.

01

Fundamental, bottom up approach

We only invest in assets we understand and where we believe we have an edge.

02

Valuation as our guide

We buy and sell assets where today's market price differs materially from our assessment of intrinsic value.



03

Only invest in our best ideas

We only invest in high conviction investment ideas. Where we have little or no conviction, it is better to sit patiently in cash.

04

We pay no attention to benchmarks

We are not benchmark cognisant investors and pay no attention to an asset's weight in a particular index.

05

Embracing complexity to gain advantage

We pride ourselves on identifying opportunities that are difficult to analyse or require considerable work to understand. Hidden gems considered "uninvestable" by the crowd often provide the best returns.



06

Avoiding uncontrollable inputs

We typically steer clear of businesses or instruments where valuation is dependent on uncontrollable macroeconomic inputs where forecast risks are high.



07

Continually refining our process

We interrogate our errors to learn from mistakes of the past, and endeavour to remain open minded to new concepts and opportunities that may provide opportunities in future.

Hedge Funds: Navigating Uncertainty and Capitalising on Opportunities



By Anton Smit
Investment Analyst

In today's uncertain world, South African investors face numerous unanswered questions regarding infrastructure, economic growth, inflation, interest rates, and geopolitical tensions. To navigate these challenges, hedge funds offer flexible investment tools that generate risk-adjusted returns independent of traditional asset classes.

By diversifying across unique asset classes and strategies, hedge funds mitigate risk, adapt to changing market conditions, and provide opportunities for attractive investments, making them a valuable solution for South African investors seeking long-term success.

In today's world, uncertainty is a constant presence, especially for South African investors. A multitude of pressing questions lacks clear and concise answers, ranging from infrastructure concerns to economic growth, inflation, high-interest rates and geopolitical power struggles. In this volatile environment, investors often make emotional short-term decisions that can have negative long-term consequences. However, there is a way to manage and embrace uncertainty while protecting investor capital and harnessing the power of compounding.

Hedge funds, as flexible investment vehicles, possess a diverse range of tools to navigate these uncertain times effectively. The primary appeal is that they have the ability to generate superior, risk-adjusted returns that are not correlated with traditional asset classes, such as equities and bonds. By investing in a wider range of asset classes and utilising a wider toolkit, hedge funds can offer investors increased diversification and reduced portfolio risk.

Unlike traditional investment vehicles, hedge funds have access to strategies and tools that can enhance returns. Unique asset classes (both local and offshore) include special situations, distressed corporate bonds, options, derivatives, private equity, commodities and emerging asset classes.

Overreliance on a single asset class often leads to substantial drawdowns and volatility in investors' portfolios. Hedge funds help mitigate such risks by leveraging a diversified and uncorrelated approach.

Hedge funds are not obligated to remain fully invested at all times. They can adjust market exposure levels based on prevailing market conditions, asset valuations and the outlook for growth. This flexibility allows hedge funds to capitalise on short-term market inefficiencies and dislocations, which may arise for brief periods.

Hedge funds can also maintain sector-neutral positioning by exploiting pair trades, focusing on generating returns above and beyond an index (alpha). This freedom to allocate capital effectively avoids being tied to unfavourable sectors or asset classes.

Given their smaller size, hedge funds can react swiftly to changing market landscapes. Should new risks emerge, or facts change, hedge funds have the ability to de-risk a significant portion of their portfolio using tools like put options. This nimbleness allows them to adapt to evolving circumstances and protect investor capital better than traditional unit trusts.

While uncertainty may seem daunting, it also creates opportunities. Volatility, often accompanying uncertainty, can be harnessed to identify and capture favourable investment prospects. Hedge funds serve as an effective vehicle to achieve these goals, offering a refined investment process with a proven track record.

At Peregrine Capital, we follow a valuation-oriented investment process. Resilience and an ability to identify opportunities where others see threats are characteristics deeply embedded in our mindset. Despite the turmoil and uncertainty, we continue to see attractive opportunities, found in special situations and sectors currently out of favour, particularly within the South African market.

In a world characterised by uncertainty, investors must choose their investments wisely to achieve their financial goals. Hedge funds provide a valuable solution by offering diversification, flexibility, and the ability to capitalise on opportunities in a rapidly changing landscape. Peregrine Capital's investment approach has a proven track record of performance as well as navigating challenging times. By remaining resilient, South African investors can harness uncertainty to uncover promising opportunities and achieve long-term success.

Peregrine Capital

In The News

25 Years of Leading the Local Hedge Fund Industry

Our CEO, Jacques Conradie, joined Michael Avery, on Classic Business FM for an interview that unpacks Peregrine Capital's 25-year history as a leading Hedge Fund Manager and the lessons learned along the way.



How SA's Oldest Hedge Fund Pioneer generates those 100x returns

Alec Hogg from BizNews interviewed our Founder and Executive Founder David Fraser as well as CEO and Portfolio Manager Jacques Conradie about our investment approach that led to generating 100X returns. They shared insights into our investment philosophy and strategies, emphasizing the importance of backing strong franchises and conducting thorough fundamental research.



Peregrine Capital launches new brand identity in celebration of its 25th year of business.

FA News covered our logo and corporate identity refresh which we did as part of our 25-year anniversary celebrations. With a contemporary shift to the future the new logo pays homage to our heritage of investing in performance over the past 25 years.



Visit our website to access these articles.

Industry Events We Participated in that You May Have Missed



Meet the Managers

In June, our Portfolio Manager, Matthew Thomson spoke at The Meet The Managers 2023 where he discussed "Cutting Correlation: Hedge Funds as Diversifiers in Your Overall Portfolio." He spoke about the value of uncorrelated assets in generating returns in difficult markets.



Alternative Investment Conference

In July, our CEO and Portfolio Manager, Jacques Conradie, participated in an industry panel discussion on "Extracting Noncorrelated and Differentiated Return in Times of Market Volatility." Financial Mail published an article that covered the panel discussion.



Investment Think Tank

In August, our Investment Analyst, AJ Snyman, travelled to Durban, Mbombela, Bloemfontein, Potchefstroom, and Gqeberha, and presented the topic "The Hedge Fund Edge" and answered questions from the audience.



Morningstar Investment Conference

In September, Kavita Patel and Alan Yates in our distribution team hosted investors at our stand in September. The conference covered deeper insights and data needed to prepare for what's next in the investor journey.

Follow us on LinkedIn to keep up to date with our past and upcoming events.

Upcoming Events Where You Can *Meet The Peregrine Capital Team*



Maximise your investment potential and gain exclusive insights by reserving your spot at our highly anticipated 2024 Investor Day.
Johannesburg: 08 February 2024 | Cape Town: 28 February 2024

Contact us using info@peregrine.co.za to reserve your spot.

Contact Us

About Investing, Today.

*100X refers to the Peregrine Capital High Growth H4 QI Hedge Fund. R1m invested at inception is worth more than R100m today. The FTSE/JSE Capped SWIX generated R14,0 million while the SA Multi Asset - High Equity Category generated R10,01million. (High Growth Fund annualised return: 23.19% | SA Multi Asset - High Equity Category annualised return: 10.25% | FTSE/JSE Capped SWIX annualised return: 11.80%, all since inception (February 2000)). Data to 30 September 2023 | Source: Peregrine Capital, Morningstar, Bloomberg.

Please view full disclaimers on our website.

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