

Dear Investor,

Peregrine Capital 2022 Semi-annual Letter

We are pleased to have rapidly returned to historic levels of outperformance over the past six months. The portfolios are well positioned for the challenging times that lie ahead, and our team is excited by the prospect of opportunities that inevitably emerge during bear markets. We have materially outperformed our peer group over the medium and long-term. Our aim is to continue to deliver on our purpose, which is to create wealth for our clients.

During the first half of 2022, our flagship High Growth and Pure Hedge funds were up 3.7% and 4.4% respectively, both net of fees and expenses. After experiencing buoyant markets during 2021, the past six months have been exceptionally tough. Global markets are down 20% year to date and the JSE has contracted by 8%.

The macro-economic backdrop deteriorated significantly over the past six months. We identified the change early and positioned the portfolios cautiously, with the goal of delivering outperformance even if market conditions remained difficult. So far so good, but we must stay highly vigilant in this fluid environment to both protect and grow your capital.

Fund *	Annualised Net Returns					
	YTD	Latest 1 year	Latest 3 years	Latest 5 years	Latest 10 years	Since inception
Peregrine Capital High Growth H4 QI Hedge Fund	3.7%	8.6%	11.1%	9.8%	16.3%	23.8%
<i>SA Multi Asset - High Equity</i>	-7.3%	1.9%	6.3%	5.8%	7.8%	10.2%
<i>FTSE/JSE Capped SWIX All Share Index</i>	-4.7%	6.9%	6.8%	5.9%	8.9%	12.1%

*inception date is 1 February 2000

Fund**	Annualised Net Returns					
	YTD	Latest 1 year	Latest 3 years	Latest 5 years	Latest 10 years	Since inception
Peregrine Capital Pure Hedge H4 QI Hedge Fund	4.4%	8.1%	8.6%	9.2%	12.0%	19.4%
<i>SA Multi Asset - Low Equity</i>	-4.1%	2.8%	5.4%	5.7%	7.1%	9.5%
<i>CPI</i>	3.98%	6.8%	4.7%	4.6%	5.1%	5.6%

**inception date is 1 July 1998

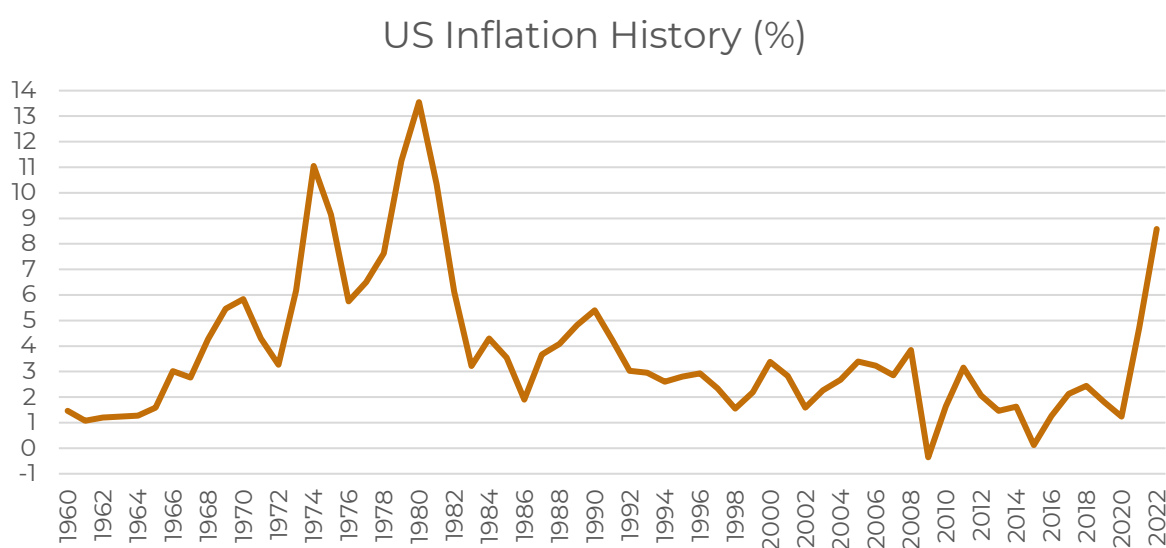
First half of 2022 in review

Post the Global Financial Crisis period, global markets delivered unusually high returns. From 31 March 2009 to 31 December 2021, the S&P and MSCI All Country World indices compounded returns at 17.0% and 13.5% per annum respectively. These growth rates, supported by the most accommodative global central bank policy in history, proved to be unsustainable. Interest rates in developed markets were close to zero for most of this period, and even the smallest bump in the road or market pull-back was resolved by additional money printing (or “Quantitative Easing” in central banker talk).

While governments were stimulating their economies and propping up financial markets, the world was under-investing in physical commodities and energy, creating a tightly supplied energy market. The Russian invasion of Ukraine exacerbated the supply

challenges that already existed in the energy market, and recurring COVID lockdowns in China have done potentially long-lasting damage to global supply chains. The combination of these supply-side challenges, excessive money printing and the stimulus cheques sent directly to individuals around the developed world, proved to be a recipe for ruin.

Simply put, when there is too much money in the world and we are not producing enough goods, the result is rampant inflation. The USA, Europe and UK are experiencing inflation rates above 8%. None of us would have believed that these inflation numbers were possible a year ago, and the chickens have now come home to roost. The only way to deal with inflation of this magnitude is to increase interest rates, which reduces the amount of money available in the economy and curtails demand for goods and services. Reduced demand and rising borrowing costs negatively impact company earnings, and higher discount rates act like gravity for company valuations. In short, equity markets do poorly when interest rates rise.



Source: The World Bank, as at 11 July 2022

We first became worried about this structural inflation problem at the start of the year. A portfolio that benefits from zero interest rates and excessive stimulus is very different from one that can withstand higher inflation, higher interest rates and a potential global recession. We acted early and aggressively to best position our funds for the current set of macro circumstances.

We took the following actions over the past six months:

- Meaningfully reduced overall net equity exposure, while building up cash in the funds. If prices continue to fall, we want significant buying power available to deploy into opportunities that offer compelling value.
- Aggressively reduced exposure to unprofitable companies. We prioritised companies with earnings and cash flow today, rather than those who promise earnings and cash flow ten years from now. In a world of higher discount rates, a bird in the hand is worth more than two in the bush.
- Positioned the portfolios to benefit, if the commodity and energy markets stay tight, and inflation remains high. Historically, global inflation is very difficult to contain once it exceeds 5%.
- Increased exposure to companies with large cash piles on their balance sheets as rising interest rates result in higher finance costs for debt burdened companies. Our top 5 holdings currently average more than 20% of their valuations sitting in surplus cash.

- Increased exposure to pair trading opportunities that allow us to generate returns without taking market risk. Our conservative gross exposure provides significant scope to exploit such opportunities.

One never knows for sure that the market environment has changed, the market merely gives you hints and clues. It is very hard to predict how and when the current set of risks will be resolved and what the impact on the economy and markets will be. The inflationary pressures and energy supply shock the world is currently facing remind us of the 1970's. While global markets are down 20% year to date, it is certainly possible that there is further pain to come if global central banks take rates much higher from here in a synchronized manner to tame the inflation beast. We do not think this will be a short-lived down cycle, and most current investors have never seen a market like this.

While the broader environment is filled with fear and panic, our team is determined to uncover opportunities to exploit. The combination of our tried and tested investment process, and our hedge fund tool kit, has allowed Peregrine Capital to deliver industry leading returns in a variety of market environments. Times of crisis often prove to be fertile ground to hunt for new opportunities, provided one is well prepared for the downturn, which we believe we are.

Portfolio Update

Thungela Coal:

We discussed Thungela at length in our 2021 annual investor letter, and it has continued to be a major contributor to fund performance in the first half of the year. You will recall that we established the position at around R25 per share and sold some shares as the share price rose above R80 per share at the end of 2021.

One of our key business values is “Speed”, the ability to rapidly assimilate new information and a willingness to change our minds when new information emerges. When Russia invaded Ukraine, it was clear that this was a major global shock. Amidst the uncertainty, the market did not immediately figure out how this event would impact markets. We quickly anticipated that the biggest impact would be on global energy markets, given that Russia is one of the world's largest exporters of oil, gas and coal.

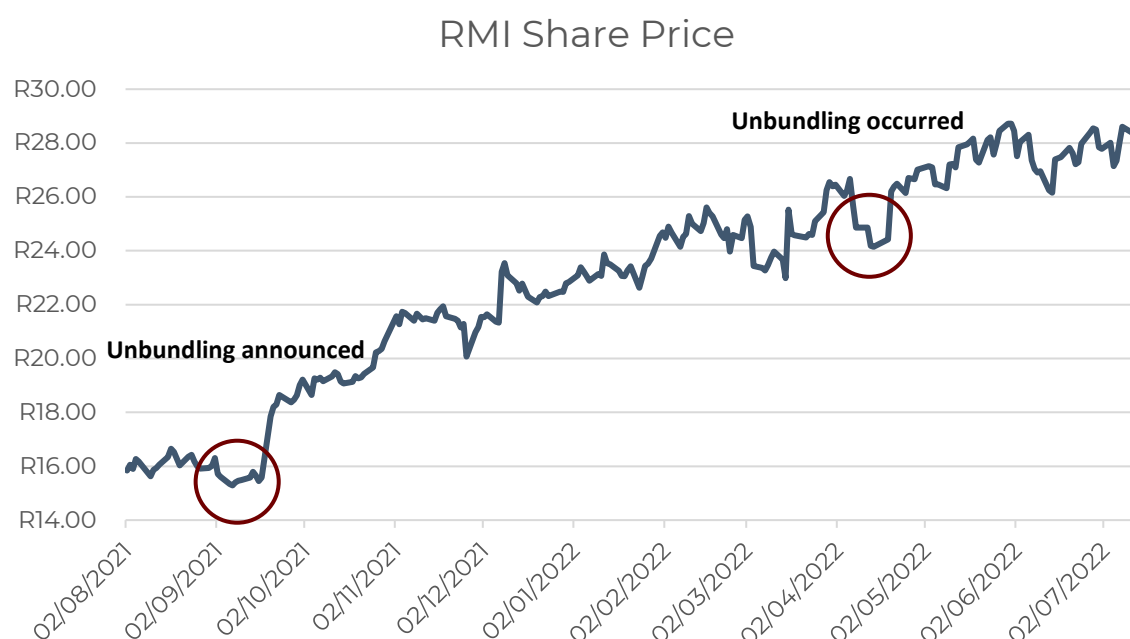
So, we changed our mind. We bought back most of the Thungela shares that we had sold, even though the price was slightly higher than the levels where we had originally sold. This ended up being the correct decision, with the Thungela share price rising a further 3x from the start of this year. Thungela had another very successful six months and closed the first half of the year at R231 per share (even after having paid an R18 dividend) with a massive pile of cash on balance sheet. Our current expectation is that shareholders are likely to receive dividend payments of more than half the current share price over the next ten months.

The coal exported by Thungela and other South African producers is vital to keep the lights on in Europe right now, and it is providing them with an energy source that is not procured from Russia. Thungela is assisting the European economy to continue functioning while they dial up the pressure on Russia with sanctions, which will hopefully assist to bring the war to an end in short order.

RMI / OUTsurance:

Complex unbundling transactions have proved to be a successful hunting ground for our funds in the past. The most recent example was the announcement of the Rand Merchant Investment Holdings (“RMI”) unbundling in late 2021. At the time, RMI was a holding company with investments in Discovery, Momentum Metropolitan, Hastings, OUTsurance and some small unlisted ventures. Over the last few years, the discount to the sum of the parts valuation widened, creating significant “trapped value” within the RMI holding company structure. As a result, the RMI management team made the difficult but astute decision to clean up the structure, first by announcing the unbundling of Momentum and Discovery, and second, by selling its stake in UK based insurer, Hastings, for an attractive price. This meant that post the unbundling and sale, RMI would essentially be left with OUTsurance as its only asset, providing investors with direct access to what we think is one of the highest quality companies and management teams in South Africa.

While we had some exposure to RMI before the unbundling announcement, we built a sizeable position after the announcement but before the unbundling took place in April this year. Using our ability to short sell, we hedged out the see-through exposure to Momentum and Discovery, which left us owning an effective stake in OUTsurance, at a compelling valuation. We knew that most market participants could not pre-emptively short out the Discovery and Momentum stakes and would most likely be forced to wait until after the unbundling before buying shares in OUTsurance. As it turns out, this is exactly what transpired and OUTsurance outperformed the rest of the market by a significant margin post the unbundling.



Source: Bloomberg, as at 11 July 2022

Whilst we have taken some profits after generating a meaningful return post the unbundling, we still maintain a position at current levels. OUTsurance provides us with access to a growing and well diversified short-term insurer with an uncorrelated and defensive earnings stream. We think that over time, OUTsurance will be recognised by investors as one of the highest-quality companies to own in South Africa, and as such, we anticipate a strong return from both earnings' growth as well as rerating potential.

Looking ahead:

It is very difficult to make predictions about the future at this point. The only thing we can be sure of is that the investment landscape is now characterised by many looming risks, and extreme uncertainty. We are faced with the highest inflation rate that the world has seen for fifty years, and ever rising geopolitical instability, which are massive challenges to overcome. Ironically, as South African fund managers, we, and the local companies we invest in, have a long history of managing our business in inflationary times. Our journey over the past 24 years is testimony of the decisions we took to gain experience in various market cycles along the way.

The price of equities and bonds have moved significantly lower this year, and we continue to believe that attractively priced investments in high quality companies will prove to be an efficient hedge against inflation over the medium term. We aim to deploy capital into opportunities we like where valuations are attractive, but our hurdle rates are stacked very high.

Bear markets are typically characterised by above average uncertainty and higher levels of volatility. In the extreme, forced selling and capitulation often cause asset prices to deviate meaningfully from intrinsic value. We do not know precisely where these opportunities will come from, but we have the capacity to exploit them given our low market exposures across our funds. We feel it is a great time to be investors with a hedge fund toolkit, broad mandates, low market exposure and prepared minds. Our funds and our team are well prepared to engage risk when the time is right. We remain committed to protecting your capital while delivering attractive risk adjusted returns.

Our High Growth, the first fund in South Africa to deliver 100X your money since inception* doesn't define who we are but confirms that our investment approach does yield meaningful results.

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.

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. Our investment process has proven its mettle throughout various market cycles, and we are well positioned to continue to do so in this one.

Disclaimer:

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.

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	71.6% (2001)	-16.2% (2009)	8.6%
Peregrine Capital Pure Hedge H4 QI Hedge Fund ('Pure Hedge Fund' above)	Jul 1998	133.8% (1999)	0.6% (2009)	8.1%
<i>FTSE/JSE Capped Swix All Share Index</i>	<i>Feb 2000</i>	<i>73.0% (2006)</i>	<i>-37.6% (2009)</i>	<i>6.9%</i>
<i>ASISA South Africa MA High Equity</i>	<i>Feb 2000</i>	<i>39.5% (2006)</i>	<i>-14.8% (2009)</i>	<i>1.9%</i>
<i>ASISA South Africa MA Low Equity</i>	<i>Jul 1998</i>	<i>40.6% (1999)</i>	<i>-3.3% (2020)</i>	<i>2.8%</i>
<i>Inflation (CPI)</i>	<i>Jul 1998</i>	<i>12.9% (2002)</i>	<i>0.0% (2004)</i>	<i>6.8%</i>

Data as at 30 June 2022

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.

*100X refers to the Peregrine Capital High Growth H4 QI Hedge Fund. R1m invested at inception is worth more than R100m today, SA Multi Asset - High Equity Category: R8.8m, FTSE/JSE Capped SWIX: R12.8m. High Growth Fund annualised return: 23.76% | SA Multi Asset - High Equity Category annualised return: 10.18% | FTSE/JSE Capped SWIX annualised return: 12.06%, all since inception (February 2000). Data to 30 June 2022 | Source: Peregrine Capital, IRESS, Bloomberg.