



Peregrine
Capital

AUGUST 2023

Semi-Annual Investor Letter

Dear Investor,

Our High Growth Fund delivered a net return of 6.9% for the first half of 2023, while the Pure Hedge Fund delivered 5.5%. We are pleased with this performance considering the very difficult macro-economic backdrop faced by the many South African businesses that we invest in. Our fund performance has continued to be largely uncorrelated with that of the overall market, with lower volatility and drawdowns.

On the global front, economies have held up better than what we had expected at the start of the year in the face of high inflation and aggressive interest rate hikes. The domestic picture has been far more difficult, as South Africa battled through the most severe period of loadshedding that the country has ever experienced. This, combined with significant interest rate hikes, made for an extremely difficult economic backdrop. However, this challenging environment and depressed market sentiment has presented attractive bottom-up investment opportunities that have been incorporated into the portfolios.

Peregrine Capital was founded on 1 July 1998, so this letter also marks Peregrine Capital's 25th Birthday. As investors, it is part of our job to "live in the future", to try and see where markets will be in 6, 12, or 24 months. However, we think it is also occasionally useful to reflect on the past. We cover a few of the values that have helped us succeed over the past 25 years.

None of what has been achieved would have materialised without the trust that our clients have put in us over the past 25 years. Protecting and growing someone's hard-earned capital is one of the greatest responsibilities one can have, and we take it very seriously indeed. We appreciate your continued support and will do our very best to continue to deliver over the next 25 years.

Peregrine
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25 YEARS OF PERFORMANCE

Fund Performance

In Review

Fund	Annualised Net Returns			
	Latest 1 year	Latest 5 years	Latest 10 years	Since Inception*
Peregrine Capital High Growth H4 QI Hedge Fund	15,0%	12,0%	14,6%	23,4%
SA Multi Asset - High Equity	16,5%	7,6%	7,8%	10,4%
FTSE/JSE Capped SWIX All Share Index	13,5%	6,9%	8,2%	12,1%

Fund	Annualised Net Returns			
	Latest 1 year	Latest 5 years	Latest 10 years	Since Inception**
Peregrine Capital Pure Hedge H4 QI Hedge Fund	14,2%	10,9%	11,8%	19,1%
SA Multi Asset - Low Equity	14,5%	7,2%	7,2%	9,7%
CPI	6,0%	4,9%	5,2%	5,6%

*inception date is 1 February 2000

**inception date is 1 July 1998

Returns are to 30 June 2023 | Source: Peregrine Capital, Morningstar

The first half of 2023

The South African economy contended with multiple economic headwinds during the first six months of the year. The most damaging blow was delivered by unprecedented and persistent levels of loadshedding, which made it a very challenging period for the South African economy. At peak, most businesses and individuals had to deal with 8 - 10 hours a day without power. The direct and tangible impact on South African businesses has been severe:

Increased operating costs compress profit margins:

- Shoprite was burning R150m of diesel per month at peak. This adds up to a staggering amount of R1.8bn of additional annual cost for just one large South African business.
- During the worst months of loadshedding, Astral Foods burned R45m of diesel per month. While Astral's diesel spend was not as large as Shoprite's on an absolute basis, it had a much larger impact on Astral's profitability due to its smaller size. Given the pressure on consumer disposable incomes, the recovery of these costs through increased prices has not been possible yet.
- This additional cost burden is impacting companies throughout the economy, from large to small.

Reduced consumer demand constrains revenue:

- Multichoice experienced significantly reduced demand for their pay television services, resulting in a 4% reduction in SA revenue for the second half of the year.
- Fashion retailers and retail property companies all noted that foot traffic and sales numbers came under pressure when loadshedding was at its worst.
- For those who can afford it, having a generator, solar, or inverter solution has become an absolute necessity. This has impacted the disposable income available to be spent elsewhere.
- The impact on consumer confidence has probably been even greater than this. You just don't really feel like spending money, treating yourself, going out for dinner or entertainment when the lights aren't on.

Over and above this, the repo rate has more than doubled to 8.25%. Higher mortgage, vehicle, and credit card repayments have further dampened disposable income and we are seeing increased impairments emerge at all the banks. We expect to see substantially higher retail impairments across the banks over the next 18 months as a result.

Given this bleak picture that we have painted, it might be somewhat surprising that we have increased our exposure to South African equities over the past 6 months. This takes us to one of the most important concepts in investing. There is a key difference between a great story and a great investment. Our job is not to look for great stories or even just great companies, but for great investments. And the key determinant of whether something will be a good investment comes down to the price you pay compared to what it is worth.

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Most South African fund managers and foreign investors who invest in the JSE became extremely negative on SA over the past 9 months due to the loadshedding situation. Many South African companies' shares have faced relentless selling from these managers which has caused share prices to trend down materially. These low prices have created some fantastic opportunities in a few quality SA companies. We are not scared of being contrarians and putting capital to work when others are running for the exit. So, we were buyers of SA companies into this weakness, as we felt that the share prices gave us ample margin of safety. We think we will make reasonable returns even if the SA environment remains very tough; but we might do very well if the outlook gets just a little bit better. That feels like a good bet to us.

To believe that the low prices of SA equities represent "opportunities" rather than "value traps", one must be confident that the energy crisis will be resolved. It is often darkest before the dawn. The extent of the challenges facing Eskom, the impending 2024 election and the lack of available funding/capacity has finally forced the ANC government to respond by introducing pragmatic structural energy reforms. By unleashing private sector investment in power generation, we feel confident that the worst of loadshedding is likely behind us. It might even be a thing of the past 18 months from now. We are hopeful that the effectiveness of these reforms may also establish a blueprint that can be used to solve other structural challenges in the logistics, water, and telecommunications sectors. We have included a detailed section on the electricity crisis at the end of this letter.

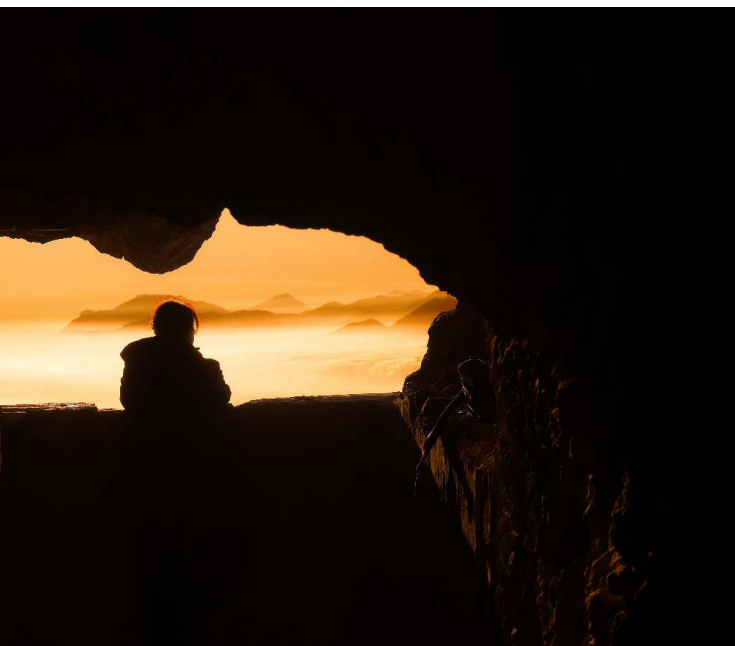
We continue to think through and monitor the opportunities and risks AI will present to the companies in our portfolio.

Globally, the past 6 months has been all about generative artificial intelligence (AI). We first covered this trend in our 2022 annual letter, and it has just continued to accelerate over the last 6 months. We really think the potential of this technology is comparable to the invention of the Personal Computer, the Internet, and the Mobile phone. In fact, it has the potential to have an even bigger impact on society than these previous technological waves. This promise has driven the share prices of some AI beneficiaries like NVIDIA to spectacular levels. The funds benefitted from this trend indirectly through our holdings in META (Facebook) and Microsoft. We continue to think through and monitor the opportunities and risks AI will present to the companies in our portfolio.

The other surprise during the past 6 months has been the resilience of the global economy in the face of the very rapid rate hikes we have seen over the past 15 months. The US Federal Reserve Bank has now hiked interest rates by 500bps, with similar aggressive rate hikes from their UK, EU, and most other developed market counterparts. One would typically expect this to lead to a meaningful economic slowdown and often even painful recessions. However, we have only seen a moderate slowdown in economic activity so far, which has helped bring inflation down from peak levels. Given this resilience, we feel that the probability of a soft landing has increased, and while we could still experience a recession in the next 12 months, the odds of this seem lower now. Markets have priced in the reduced risk of a recession quite accurately over the past 6 months, with most global indices making back a portion of the 2022 losses. It is not yet clear whether inflation will trend all the way down to 2% in the developed world, so it is possible that interest rates will go up further and stay higher for longer. We are holding thumbs that the central bankers can get the job done without doing significant damage to the global economy. So far, so good!

Lessons from our history

We thought it would be useful to reflect on a few of the values that have helped us achieve consistently great returns for clients over the past 25 years. Over the very long run, it becomes clear that the values and philosophy of Peregrine Capital play a larger role in success than finding one or two specific good investments.



Lessons from our history

Meritocracy

From Day One at Peregrine Capital, a foundational value has been the principle of meritocracy. We aim to hire the very best people, and when they join our team, they are not measured by superficial qualities like age, qualifications, or how long they have been working here, but on the inherent quality of their ideas.

We encourage all team members to challenge each other's ideas, and to present counter arguments to identify where we might be wrong. It is through this open, honest, and vigorous process of challenge and debate that we decide which investments to avoid. And when an idea makes it through this process, it allows us to have high conviction and take meaningful positions.

Meritocracy is a core value for Peregrine Capital and has been a key driver of our long-term success.

Lessons from our history

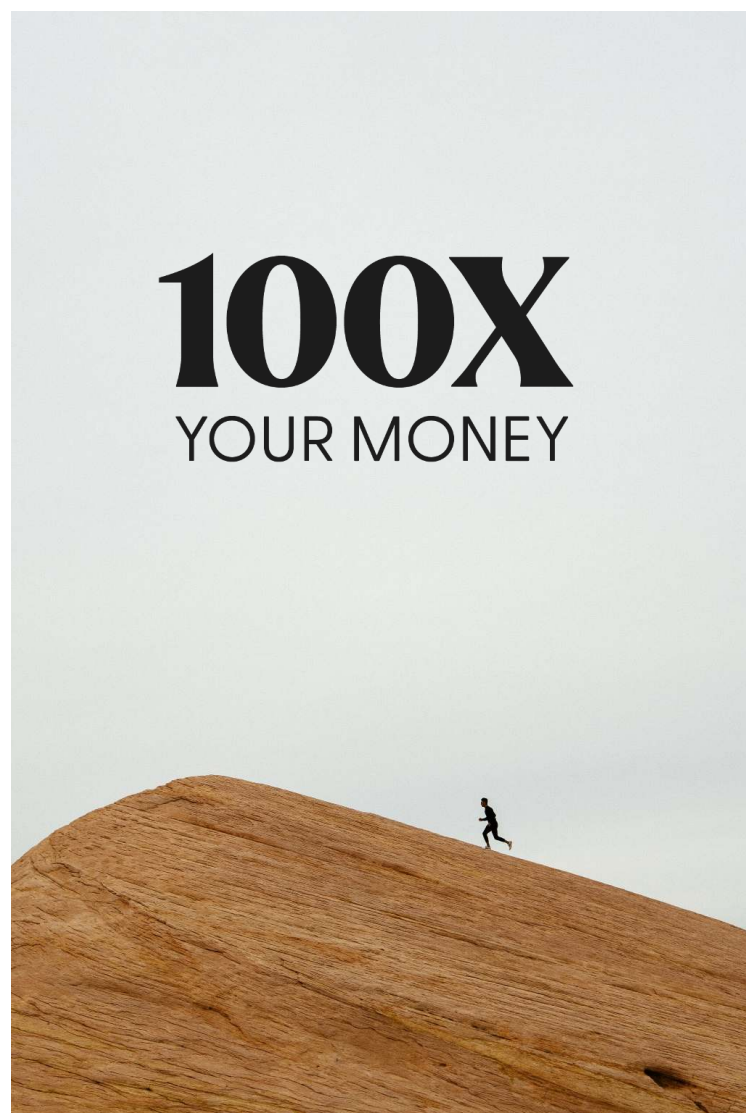
Learn and Improve

How do you generate more than 100x return over 25 years? You consistently compound your returns year in and year out. We believe that you build a great investment firm in the same way, you consistently improve and compound your knowledge. Aim to be a little bit better every month and every year.

"Learn and Improve" is one of our core values exactly because of this. It means we look back at our winners, losers, and missed opportunities on a regular basis. Most people find it easy to analyse their winners. While that is important, the willingness to take a good hard look at your mistakes and missed opportunities is what is required to continually improve.

It is a part of human nature to sweep mistakes under the rug or to wrongfully attribute them to some external factor beyond someone's control. We see this often at companies we analyse. It is difficult to talk about failures, especially if the error was brought on by your own doing. Individuals naturally fear that admitting their own mistakes will negatively impact their job security, position and stature within their organisation, future promotions and bonuses. We believe that swiftly and honestly admitting failures and then analysing and putting processes in place to limit mistakes in future is one of the best learning tools we have.

Investing is a "contact sport", and we will never totally avoid investment mistakes. However, just avoiding one or two mistakes a year adds up in a big way over longer periods of time.



Looking Ahead

We feel that our portfolio is well positioned for the current market environment. We have tilted the portfolio a little towards domestic SA companies that are trading at attractive valuations. When you make contrarian investments, you can never be sure how long the market will take to change its tune and see what you are anticipating. The grid will remain tight over the next 6 months and should improve after that, but our feeling is that the worst of the negative SA sentiment is already behind us. Whether we get a re-rating of our shares sooner or later matters less, the important thing is that we built positions at very attractive prices, well below what we believe the companies are truly worth.

One thing that we learnt over the past 25 years is that if you identify companies that are trading at a material discount to their intrinsic values, you buy them. If you are correct, the market will identify this, sooner or later, and you will be well rewarded. Saying that, we believe we own some exciting companies in our SA portfolio, whilst also owning attractive investments in the property sector, bonds, and offshore. This diversification of ideas should position our portfolio reasonably well in a wide range of potential future outcomes. As you read this letter and all our future communications, you will see that we have evolved our brand as part of our 25-year celebration. Additionally, we are pleased to announce the launch of our new website, where you can access the latest information about our funds and insights. Please clear your browser's cache if you get an error when logging in for the first time.

The redesigned Peregrine Capital brand encompasses our rich heritage, our unwavering dedication to performance in everything we do, as well as introducing a more contemporary aesthetic that will propel us into the next 25 years. We hope you find it enjoyable and engaging.

With Thanks

Peregrine Capital values its clients as partners. Your ongoing confidence in us fuels our daily passion for finding great opportunities and managing client portfolios. We are grateful that many of you have chosen to stay with us as long-term investors, 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 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 closely aligned with yours. This alignment is unparalleled in the South African fund management industry.

Our investing approach has proven its mettle across diverse market situations, instilling us with confidence in its potential for ongoing performance.

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. 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.

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)	15.00%	11.98%	14.64%
FTSE/JSE Capped Swix All Share Index	Feb-00	47.25% (2005)	-23.23% (2008)	13.47%	6.91%	8.23%
ASISA South Africa MA High Equity	Feb-00	27.49% (2004)	-8.24% (2008)	16.51%	7.61%	7.81%
Pure Hedge Fund	Jul-1998	67.90% (1999)	1.61% (2008)	14.18%	10.86%	11.79%
Inflation (CPI)	Jul-1998	12.97% (2002)	0.21% (2008)	6.00%	4.89%	5.16%
ASISA South Africa MA Low Equity	Jul-1998	40.59% (1999)	-10.69% (2008)	14.49%	7.19%	7.25%

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.

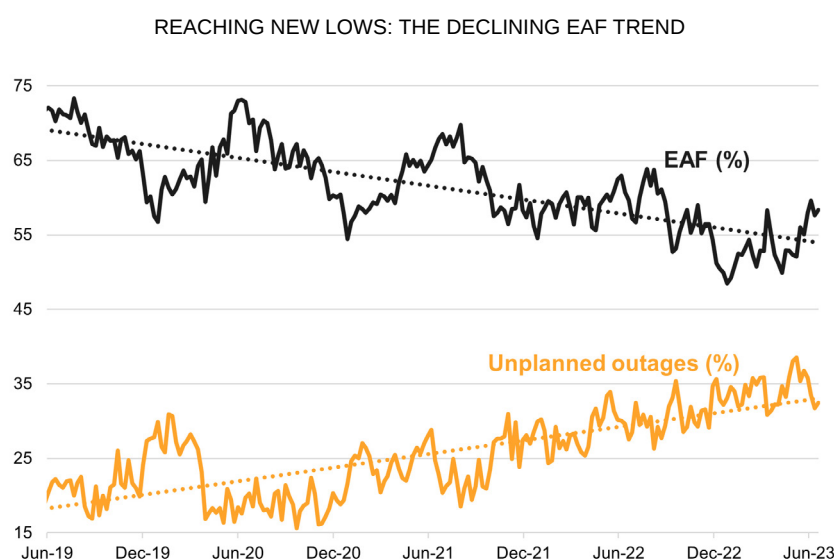
*100X refers to the Peregrine Capital High Growth H4 QI Hedge Fund. R1m invested at inception is worth more than R100m today, SA Multi Asset - High Equity Category: R10.2m, FTSE/JSE Capped SWIX: R14.6m. High Growth Fund annualised return: 23.27% | SA Multi Asset - High Equity Category annualised return: 10.44% | FTSE/JSE Capped SWIX annualised return: 12.12%, all since inception (February 2000). Data to 30 June 2023 | Source: Peregrine Capital, IRESS, Bloomberg.

The Energy Crisis

If there is a single topic that occupies the minds and dinner table conversations of all South Africans, it is loadshedding. From businesses to households to political parties and to the average person on the street, none of us is spared from the devastating effects of the rolling electricity blackouts that seem to get worse with each passing year. Some clients regularly question how Peregrine Capital can continue to invest in JSE-listed shares with material exposure to the crumbling South African economy?

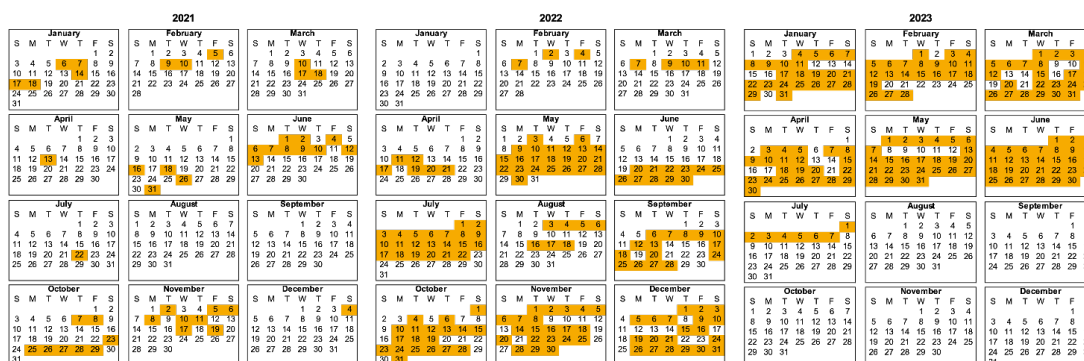
Why are we here?

Years of mismanagement and corruption have resulted in a precipitous plunge in the ability of Eskom to generate power. This is managed by the Energy Available Factor (EAF). The amount of power produced represented as a percentage of the total installed capacity at Eskom. This picture tells the story clearly.



The drop in the EAF has meant that there simply hasn't been enough power to satisfy demand, leading to a massive increase in the amount of loadshedding experienced in SA since October 2022.

DAYS WE EXPERIENCED LOADSHEDDING



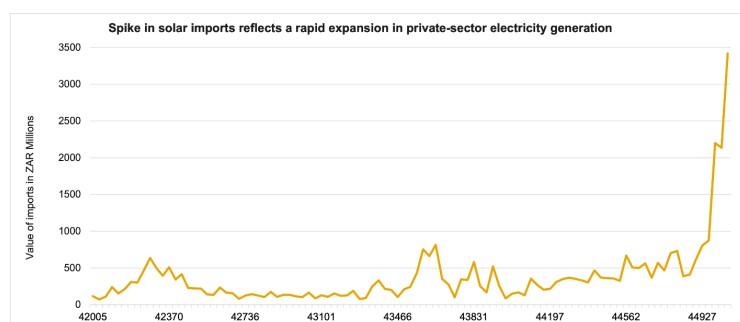
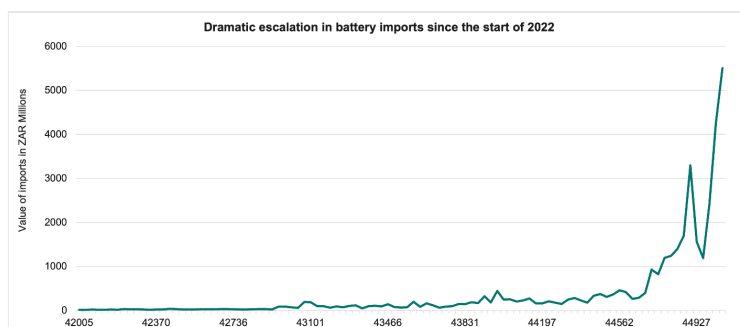
Most people will take current trends and assume that they will simply persist going forward. However, our job is to research the future and figure out what the most likely potential outcomes are. Our team has done substantial research on this topic as it is a key variable in the outlook for the SA economy and SA companies we invest in. In short, our "belief" is supported by powerful incentives, a credible plan, and cold, hard facts. We have conviction that power shortages will moderate significantly over the following 12 months and that the energy crisis as we know it will be a thing of the past within the next two years.

From a political perspective, we have national government elections taking place in 2024. Polling data suggest that loadshedding remains the single biggest factor in deciding where voters cast their ballots next year. As the biggest potential “loser”, the ANC recognises this risk to their political supremacy. Private sector companies, in turn, understand that electricity supply is the primary existential threat to their own survival. This realisation is not lost on labour, who also understand the devastating consequences that will result for their constituency if the energy crisis is not resolved. The ideological resistance to private sector participation in energy generation has now crumbled, as the ANC led government has realised that they have neither the funds, nor the internal capacity, to resolve the energy crisis on their own. The incentives are aligned. Government, businesses, and individuals want to resolve this.

Powerful incentives will ultimately prove worthless without an actionable plan. We are pleased to report that such a plan exists, and that some major impediments to the structural reforms that we anticipate have already been resolved. While Eskom's internal plans to improve plant performance and to procure additional supply are most welcome (and likely deliver short-term relief), it is the legislative amendment to remove the cap on private electricity generation projects, that was passed in December 2022, that will make all the difference over the medium term. This seemingly small change will unleash private sector capital and expertise to generate power for their own use, which materially improves aggregate supply of electricity, but also establishes a more durable and diversified generation fleet for the long run.

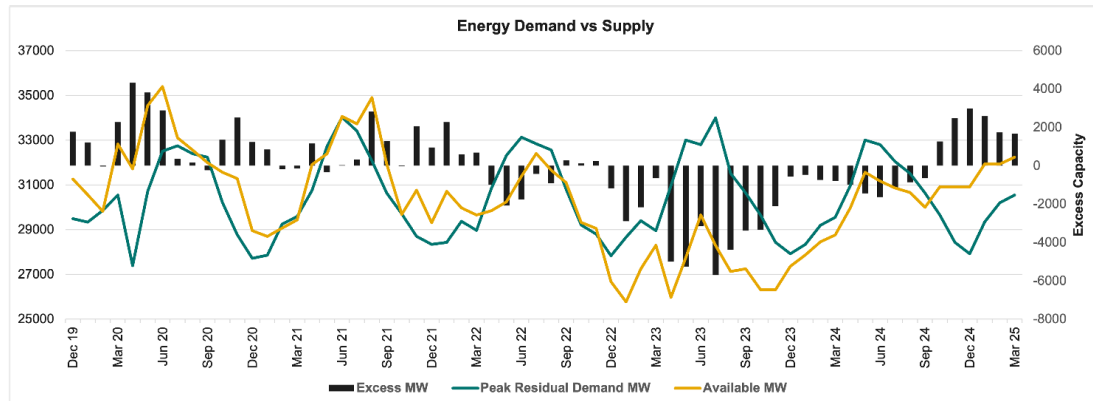
Plans are meaningless unless they are supported by efficient and timeous execution that delivers tangible results. It is time for us to evaluate some cold, hard facts:

- Eskom currently has approximately 50GW of installed generation capacity, accounts for 90% of electricity generation in South Africa, but only produces 26-27GW of reliable supply.
- Aggregate peak demand in the country is approximately 32GW and as such, we had a 5-6GW shortfall on any given day during peak loadshedding periods in the first half of 2023.
- While capacity is clearly constrained, there are three major sources of supply that will materially reduce loadshedding in the short run:
 - Eskom expects multiple units at Medupi and Kusile to return to service between November 2023 and March 2024, and the second unit at Koeberg by June 2024, resulting in the return of 4.5GW of baseload power to the grid over the next 12 months.
 - Rooftop solar installations are likely to add a further 2-3GW of additional capacity to the grid this year, per data from the Presidency, and
 - Large scale private sector projects are likely to add 1.3GW of new supply to the grid in 2023, 3.1GW in 2024, and this pipeline grows further in 2025/6.
- Over and above these major drivers there are additional shorter term wins available:
 - 3 Karpowerships could provide 1.2 GW per year over a 5 year period to resolve some short-term stress.
 - South Africa is busy negotiating a 1 GW per annum power purchase agreement with Mozambique using gas-fired power plants.



- In the longer run, legislative reforms to establish a competitive electricity market, and the unbundling and subsequent investments in the transmission network are likely to unleash hundreds of billions of Rands worth of private sector investment in electricity generation. There have been numbers thrown out as high as 66GW per a recent Eskom survey. While we don't think all of this will be commissioned, it is more than enough to permanently resolve the loadshedding situation, and it is this fact that supports our confidence in the longer-term earnings trajectory of South African businesses.

The graph below indicates our current forecasts of electricity supply and demand. The key uncertainty to the picture is the EAF of the current fleet. We believe we are being conservative in our forecast, but the end result could still be above or below our estimate. Even if Eskom's performance is somewhat worse, we believe the private sector investments will simply increase to offset this. The research we have done leaves us in a position where we believe the major stumbling block to SA growth and investor confidence will be resolved.



This doesn't mean that South Africa goes straight to 3-5% economic growth. Significant challenges remain to unleash the true economic potential of our country. Challenges will remain in electricity transmission and distribution, water infrastructure, municipal governance, corruption, and the systemic and treasonous sabotage of our infrastructure. However, the potential resolution of the electricity crisis over a reasonably short period by government and the private sector working together could provide a playbook to resolve many of the other challenges facing our country.

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SINCE 1998