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“A diamond is a chunk of coal
that did well under pressure”
- Henry Kissinger

When fund managers talk about their track record, it is usually to convey the sense that they have ‘experience’ in managing money or that their investment process produces results. The fund manager may have performed well but fared poorly relative to their peers. They might actually have a long track record of doing poorly in challenging markets. Or perhaps they have just managed to stay above water when others have performed much better over the same period. A track record in isolation does not paint the full picture of the journey that the fund or its manager has travelled to get it to where it is.

At Peregrine Capital, we are very proud of the track record of our hedge funds – not because it tells you that we have been around for a long time but because it shows our resilience in tough markets. John F Kennedy coined the adage that “a rising tide lifts all boats”, and in financial markets, that is often applied to bull markets. Most bull markets will see positive returns from most managers. Intuitively, it becomes easier to make money when most shares are increasing in value. But, in difficult markets, it becomes a lot more difficult to ‘lift your boat’ when the tide is going against you.

Peregrine Capital started managing hedge funds in 1998. No sooner had we accepted funds from our first few investors when the Emerging Market Debt crisis took hold. Oil prices fell off a cliff, and emerging market currencies were in freefall. Russia defaulted on its debt, and Venezuela was mired in a financial crisis. As one can imagine, this had a materially negative effect on a commodity-led, emerging market economy like South Africa. The JSE All Share Index (JSE) returned -10% for 1998. In contrast, our Pure Hedge Fund returned 61.36%.

The next iceberg arrived in 2000, in the form of the dotcom crash. In the late 90s, irrational exuberance was in full effect in US Internet stocks, and valuations had reached a breaking point. Between March and November of 2000, most

So what’s in a track record?



Source: The Wall Street Journal

Internet stocks lost over 75% of their value, wiping out \$1.755tn in value for investors. 2001 and 2002 saw the US slip into recession, compounded by several US accounting scandals, including the Enron and WorldCom debacles. By the end of the stock market downturn of 2002, stocks had lost \$5tn in market capitalisation since the peak. At its trough on 9 October 2002, the NASDAQ-100 had fallen 78% from its peak. While this was mainly a US issue, the JSE had felt the effects and had dropped in both 2000 (-2.64%) and 2002 (-11.15%). The Pure Hedge Fund, in contrast, returned 28.90% in 2000 and 22.29% in 2002. And our then newly launched High Growth Fund managed one better, returning 37.40% to investors in 2000, and 31.90% in 2002.

What followed was a fantastic period for South African markets, and for five years, the tide was undoubtedly rising! Unfortunately, the global financial crisis (GFC) brought a very abrupt halt to the party, and 2008 saw the JSE Capped SWIX fall the most it had in decades, with the year closing out 23.23% in the red. Our High Growth Fund was not immune to this decline, falling 11.98% that year (half of the JSE's fall), but our Pure Hedge Fund once again managed to produce a positive return in these horrible conditions, finishing 1.61% up for the year.

With the devastation on the GFC still fresh in investors’ minds, 2011 brought a new crisis to the fore – this time, it was Europe’s turn to shake investor confidence. Crushing austerity measures were required to deal with the debt crisis that had ballooned in the PIIG (Portugal, Italy, Ireland and Greece) nations. The corresponding flight to safe-haven assets saw emerging markets take a battering that year. The MSCI Emerging Market Index returned a negative 18.2% in dollars, and the JSE returned a negative 16% in dollars. Luckily for local investors, the ZAR had made significant gains in 2011 against the US dollar, due mainly to significant foreign capital inflows into our bond market, which resulted in the JSE being up 2.57% in rand terms. Happily, our funds were able to produce good returns for our investors yet again, with the Pure Hedge Fund returning 10.69% and the High Growth Fund ending 14.12% up for the year.

The next few years saw good returns across global equity markets, as fiscal stimulus and meagre interest rates pushed investors towards equity markets in an attempt to generate real returns. However, South Africa was beginning to feel the effects of our own political wounds, and the maladministration of the Zuma years. This came to a head in December 2015 with the firing of Nhlanhla Nene as finance minister, and continued into 2016, with the battle raging between Jacob Zuma and Pravin Gordhan that ended with Gordhan's axing in June 2016. Over the 2015-2016 period, the JSE was only able to return a paltry 4.58% p.a. for the two years, while global markets surged ahead. Once again, our investors were shielded from the disaster, as the Pure Hedge and High Growth Funds returned 13.44% p.a. and 15.71% p.a. respectively over the same period. 2018 was another dreadful year for stock markets. Fears of rising interest rates, reduced monetary stimulus, and global growth concerns eventually took their toll on global investor confidence. The final three months of the year were



especially painful and resulted in every global asset class finishing the year behind US dollar cash. The JSE Capped SWIX was not exempt, falling 10.94% for the year. Our High Growth Fund felt the effect of globally falling asset prices but still managed to cushion the blow for investors once again, losing only 4.13% for the year. Our Pure Hedge Fund, however, maintained its unbroken record of never having a negative year, providing investors with a positive return of 5.13% for the year.

DIFFICULT MARKETS ARE A REALITY THAT WILL FOREVER CONTINUE TO AFFECT INVESTORS

And, of course, we find ourselves in an incredibly tough moment in human history right now. While the COVID-19 pandemic has extracted an incredibly painful toll on human life, it has also done immense damage to global markets. As of 1 June 2020, the JSE Capped SWIX Index is down 16.51% for the year, and things are not looking any less complicated from here. In contrast, through the prudent management of risk and quality stock selection, our funds have both given our investors positive returns for the year thus far. The High Growth Fund is up 1.6% for the year, and the Pure Hedge Fund is doing even better, up 4.5%.

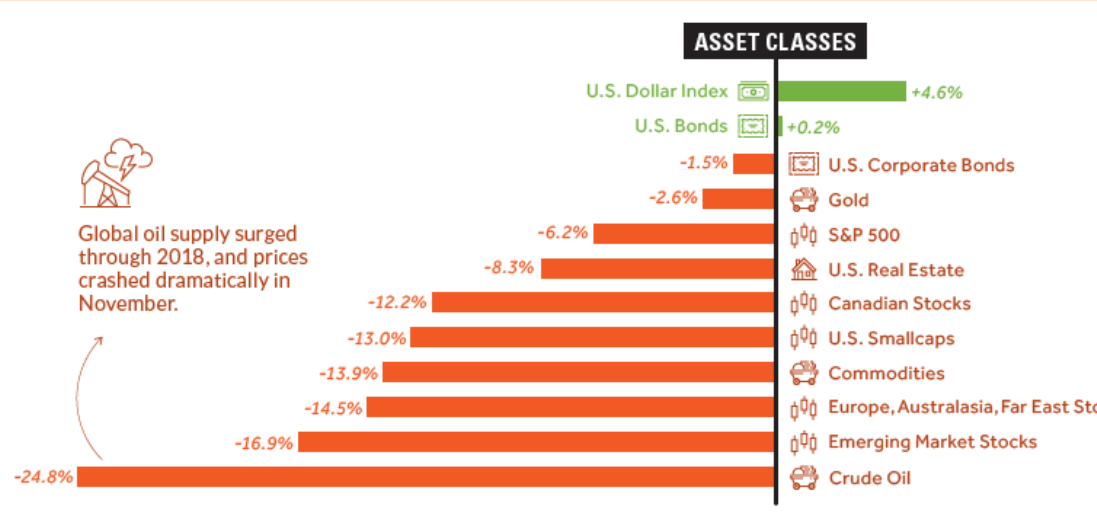
Difficult markets are a reality that will forever continue to affect investors. That said, our track record has proven that even in trying times, the Peregrine Capital funds are an exceptional place to be invested. Our performance is driven by our unique investment process, developed over the past 21 years, coupled with the close alignment of interests that exists between our fund managers and our investors. And the results speak for themselves.

If you aren't invested with us yet, perhaps you should be.

Important disclosure 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 one 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. All return figures are from Bloomberg and Peregrine Capital Factsheets. All fund returns are quoted net of all fees. The calculation of all net returns from February 1st 2000 until November 30th 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 July 1st 1998 until November 30th 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 Pure Hedge Fund does not have a benchmark and does not contribute towards the return of the ASISA SA Multi Asset - Low Equity Category. The data for the ASISA SA Multi Asset - Low Equity Category and CPI is provided for comparative purposes. The High Growth Fund does not have a benchmark and does not contribute towards the return of the ASISA SA Multi Asset - High Equity Category. The data for the ASISA SA Multi Asset - High Equity Category and Capped SWIX is provided for comparative purposes.

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	53.01% (2004)	-11.98% (2008)	-0.38%
Peregrine Capital Pure Hedge H4 QI Hedge Fund ('Pure Hedge Fund' above)	Jun 1998	67.90% (1999)	1.61% (2008)	6.68%
FTSE/JSE Capped Swix All Share Index	Feb 2000	47.25% (2005)	-23.23% (2008)	-17.93%
ASISA South Africa MA High Equity	Feb 2000	27.49% (2004)	-8.24% (2008)	-4.41%
ASISA South Africa MA Low Equity	Jul 1998	40.59% (1999)	-10.69% (1998)	0.34%



Source: visualcapitalist.com

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