PEREGRINE

Dear Investor

Peregrine Capital 2018 Annual Investor Letter

2018 has been one of Peregrine Capital's more challenging years, with our flagship High Growth Fund down 4.1% for the year, while our Pure Hedge Fund performed better, ending up 5.1% for the year.

These returns should be seen in the context of a very difficult market environment, with the JSE Capped Swix All Share Index down 10.9% and the MSCI World Index down 8.9% (in USD), the worst year for markets since the Global Financial Crisis in 2008. All of our funds have outperformed the market for the year, which is little consolation in a year when absolute returns are down.

Our purpose at Peregrine Capital is to protect and grow the wealth of our clients by delivering superior risk-adjusted returns over the medium to long-term. We are therefore always disappointed when we deliver negative returns over a calendar year, with 2018 being only the second such year in the 20 years that we have managed client money.

The tables below reflect the strong returns that have been generated by our funds over longer periods of time. On a relative basis, we have also considerably exceeded comparable indices over all longer-term measurement periods.

Annualised Returns				
	1 Year	5 Year	10 Year	Since Inception (Feb 2000)
Peregrine Capital High Growth H4 QI Hedge Fund	**-4.1%**	**14.6%**	**19.1%**	**25.8%**
JSE Capped Swix All Share Index	*-10.9%*	*4.7%*	*12.1%*	*12.9%*

Annualised Returns				
	1 Year	5 Year	10 Year	Since Inception (July 1998)
Peregrine Capital Pure Hedge H4 QI Hedge Fund	**5.1%**	**12.3%**	**12.8%**	**21.0%**
Cash	*6.6%*	*6.3%*	*6.1%*	*8.4%*

2018 In Review

Investing successfully requires hard work, discipline, patience and consistent application of one's investment philosophy and process, as was made abundantly clear in 2018. The economic and company specific issues that the market threw at us during the year were relentless, with 44 shares in the All Share Index (which comprises of 179 companies) falling by more than 25%, and 11 falling by more than 50%.

The first quarter of 2018 was one of the toughest quarters we have ever faced in the business, with the High Growth Fund ending down 7.4% vs the South African market down 5.1%, noticeably underperforming the market.

The major driver of the underperformance during the first quarter was the listed property sector that fell by 19.6% during the quarter. We entered the year with substantial exposure to the sector. While we had been reducing exposure towards the end of 2017, we didn't sell quickly enough as the valuations got to high levels. Additionally, new information came to light during January which caused us to reassess the valuations of some of our holdings which resulted in us exiting certain positions in February, crystallizing losses.

For the remaining 9 months of the year, markets remained volatile with the SA economy slowing drastically and entering a recession in Q2. A slowdown in China further impacted global markets and the Chinese market ended the year down 22.7%. With this very challenging backdrop, we are comfortable with our performance post April, with the High Growth Fund up by 3.5% in a market that was down a further 6.2%, thereby substantially outperforming the market. Despite all the negative news flow we had to deal with, we had the courage of our convictions to continue to take big contrarian positions that supported our returns for the year.

Pepkor Holdings was our biggest winner for the year and the best performing large cap retailer by a huge margin. We had the conviction to hold this position throughout the year and buy more at the right times, despite other investors shunning it due to the historic link to the Steinhoff group and their public battle with the Tekkie Town founder, while ignoring the fantastic quality of the underlying core business.

Two of our other biggest winners, PSG Group and Capitec, were both acquired at extremely attractive levels after Viceroy research released a short seller's report on Capitec at the end of January 2018. We had the detailed knowledge of the company to immediately see the major flaws, inaccuracies and misrepresentations in the report. We had no position at the time and while other investors panicked and dumped their shares, we were aggressive buyers of the share when it sold down as much as 30% following the release of the report. Capitec ended the year up more than 40% from its closing level at the end of January.

We didn't let the opportunities that were provided by the 2018 volatility go to waste and we are very excited about how we have positioned our funds for the future. With the current valuations of our large holdings, we believe the funds are well-positioned and should deliver attractive returns over the next several years. Our investment process and disciplines are working as well as they have ever worked, and our returns over the past 9 months have started reflecting this again. We are optimistic about the future.

Our Investment Process

To navigate the environment we find ourselves in, one needs the correct investment philosophy and process, while having a team with the mindset and skills to implement it. We believe that we have both.

We strive to generate strong risk-adjusted returns over the medium to long term through our bottom-up fundamental research process which we have consistently applied over the past 20 years. We have no ability to control short term price movements in markets, but we can control and improve our own process. Performing detailed fundamental research to value companies, and buying them when they are trading significantly below what they are worth has worked for us since inception of the business. In the long run, the research and analysis we perform will overcome market forces.

We continue to concentrate our investments in our best ideas, but always maintain prudent diversification. In 2018, we had the misfortune of negative company specific events and economic conditions impacting many of our positions that wouldn't normally be correlated. We believe that this was an extreme set of events, and that we are much more likely to see our uncorrelated investments generate the type of returns we have achieved over the past 20 years again in the future.

The Peregrine Capital Team

We know that we have to consistently deliver strong returns to remain relevant and to meet our clients' expectations. We guard against hubris, arrogance and the complacency that can harm businesses with exceptional long-term track records like ours. We are committed to building the best investment firm we possibly can and in this regard we have added three talented people to our business this year, two in the front office to take our team to nine investment professionals, and one in our back office. We strive to employ only the best people for the long term benefit of our business and clients. Peregrine Capital had its 20th birthday last year, which makes us the oldest hedge fund management company in SA by some margin, and we plan to be around for a very long time to come.

With Thanks

It is a privilege and honour for us to be the fiduciaries of your assets and we will never take this responsibility for granted. We appreciate the support of all our clients, especially in the more difficult year we experienced in 2018. The Peregrine Capital team remains significantly invested in the funds alongside our clients (cumulatively we are the 4th biggest investor) and so our interests are fully aligned. The trust you place in us, and your long-term orientation, allows us to make the best possible investment decisions which we believe will deliver attractive long-term risk-adjusted returns.

We wish you a prosperous new year and thank you for your continued confidence and support.

Please contact us if you have any questions or comments.

Jacques Conradie	David Fraser
Managing Director	Executive Chairman

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 17.54%. 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 investors 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 investors 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. 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.

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)	-4.13%
JSE Capped Swix All Share Index	*Feb 2000*	*47.25% (2005)*	*-23.23% (2008)*	*-10.94%*
Peregrine Capital Pure Hedge H4 QI Hedge Fund ('Pure Hedge Fund' above)	Jul 1998	67.90% (1999)	1.61% (2008)	5.13%
Cash	*Jul 1998*	*14.02% (1999)*	*4.79% (2013)*	*6.61%*

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 Index is used. The 'Cash' referenced is the STeFI Index (Stefocad) from July 2003 to date, before that the Jibar is used.