PEREGRINE
CAPITAL

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Dear Fellow Investor

Peregrine Capital 2020 Annual Letter

2020 was a good year for the Peregrine Capital funds, with our flagship High Growth Fund and Pure Hedge Fund ending the year up 17.0% and 12.2% respectively, both net of fees and expenses. We were pleased that both funds outperformed their peers and relevant market indices by a large margin during the year, while generating significant real returns for our clients.

Our goal at Peregrine Capital is to create wealth for our clients over the medium to long term. The tables below detail the returns that have been generated by our funds over longer periods of time. We measure our performance over five and ten-year periods, and while performance has been strong over these time horizons, in both absolute and relative terms, we will always strive to do better.

Annualised Returns				
	1 Year	5 Year	10 Year	Since Inception (Feb 2000)
Peregrine Capital High Growth H4 QI Hedge Fund	**17.0%**	**9.2%**	**18.1%**	**24.7%**
SA Multi Asset - High Equity Category	1.9%	3.7%	7.4%	10.2%
FTSE/JSE Capped SWIX All Share Index	0.6%	3.0%	7.9%	12.0%

Annualised Returns				
	1 Year	5 Year	10 Year	Since Inception (Jul 1998)
Peregrine Capital Pure Hedge H4 QI Hedge Fund	**12.2%**	**10.1%**	**12.9%**	**20.2%**
SA Multi Asset - Low Equity Category	5.0%	5.3%	7.4%	9.8%
CPI Inflation	3.2%	4.6%	5.1%	5.5%

The year also marked a special milestone for the High Growth Fund, when it became the first fund in South African history to achieve 10 000% return for investors since its inception. This means that R1m invested on 1 February 2000 would be worth more than R100m as at 31 December 2020. This, more than anything, shows the impact of the compounding of returns over an extended period of time. It highlights the importance of investing for the long-term, and sticking with a manager that can deliver sustained returns through the consistent application of a tried and tested investment process.

2020 in Review

The past year was unique and challenging, and will be remembered for generations to come. The key event was the once in a hundred-year pandemic that the world continues to grapple with. The rapid spread of the pandemic, and global economic shutdowns that followed, created one of the sharpest selloffs in the history of financial markets. Locally, the SA Capped Swix All Share Index ended the first quarter of 2020 down 26%! Given the unprecedented uncertainty and significant selloff that ensued, we felt the need to provide insights into our actions in the Q1 letter that was published in April 2020 (Q1 Letter).

We are not going to spend much time in this letter covering the events of Q1, nor the remarkable rally that followed, but will instead focus on two important positive changes that have come about for our investors, as a result of the pandemic. The first and most important consequence of 2020 is our substantial portfolio upgrade, and the second, is the amplified motivation and energy level of our investment team.

Throughout our 22-year history, we have focused on incrementally building our circle of competence and expanding our investible universe. The steady expansion of our investible universe into attractive offshore opportunities over the past five years has been one of the best incremental improvements we have made in the history of our business. It has delivered a best of both worlds' scenario to our investors as we are now able to construct a more diversified portfolio, while also finding opportunities that will increase the future expected returns of the funds.

The Q1 sell-off provided a unique period to exploit opportunities in this wider universe by including new companies in our funds at very attractive valuations. We reduced the historic exposure our funds have had to the South African macro environment in a material way, while increasing diversification by geography and business model. As a result of these changes, we currently have one of the highest quality portfolios we have had over the past 22 years. Valuations within our portfolio are attractive, and our top 10 positions are likely to grow earnings at greater than 25% per annum over the next few years. This puts the funds in a great position to continue to deliver strong risk-adjusted returns in the years ahead.

The second important structural change that took place in 2020 was the enhanced level of drive and energy that everyone in our investment team brought to finding new ideas. Many managers reacted negatively to the unprecedented uncertainty and volatility brought about by COVID-19, lamenting the fact that some of their historical positions might now have unexciting prospects due to the pandemic. However, our team reacted in exactly the opposite manner. We took the opportunity provided by the COVID-19 selloff, to bring renewed energy and creativity to our investment approach. We all spent the year hunting for the best new ideas that will take our portfolio into the next decade. As a result of this, our investment universe has expanded rapidly over the past year, and our expertise across various sectors vastly improved. This acceleration in our learning process has paid huge dividends already and will materially benefit our funds in the years ahead.

Investment Philosophy

Each year brings about a unique economic backdrop and investment climate, which puts different areas of our process under the spotlight. 2020 tested us in a variety of different ways, and we are pleased to report that the disciplined application of our process delivered great results during the year. We have two features that we specifically wish to highlight this year:

<u>Risk management:</u>

This is a core part of our value proposition to our clients. A major goal is to minimise the risk of permanent capital loss in any investment that we make in our funds. The first, and most important part of risk management is doing diligent and detailed work when analysing a company, before we invest. This is an extensive process where we research every part of the company, the industry, the management team, their products, clients and outlook. This means that a big part of the risk management in our funds is done before new positions enter the portfolio. If we invest in the right companies at attractive valuations, the odds of permanent capital loss are immensely reduced even before a position is included in the portfolio. The second part of the process involves continuous monitoring of our positions to identify changes in the specific company, industry or management team, or alternatively changes at the macroeconomic level that significantly alters the outlook for the company.

2020 was a year that put our risk management processes to the ultimate test. Our "continuous monitoring" was instrumental in navigating our funds through the first quarter. We identified risks surrounding COVID-19 early on, and stress tested the companies we own for a very different world. This helped us to identify shares where we risked permanent capital loss, and we acted aggressively to protect capital for clients. This resulted in our High Growth Fund ending Q1 2020 down only 6.6% and our Pure Hedge Fund ending the quarter up 0.9%, compared to the market that was down 26.6% for the quarter. Ensuring that our portfolio owned the correct shares during March gave us the confidence to buy aggressively into the sell-off, when many other market participants were in full on panic mode and scared of engaging the market.

We have also made great strides this year in improving our "up-front analysis" of new companies. We have widened the toolset we use to do our initial analysis and valuations, and applied our learnings with regards to the weak SA macro environment over the past 5 years and impact of COVID-19, to identify highly resilient business models. We have also narrowed our focus in a manner that will assist us to find unique and valuable ideas with greater frequency. Our team continues to debate new ideas more vigorously than ever before, and only the best ideas make it through our up-front analysis to be included in the portfolio.

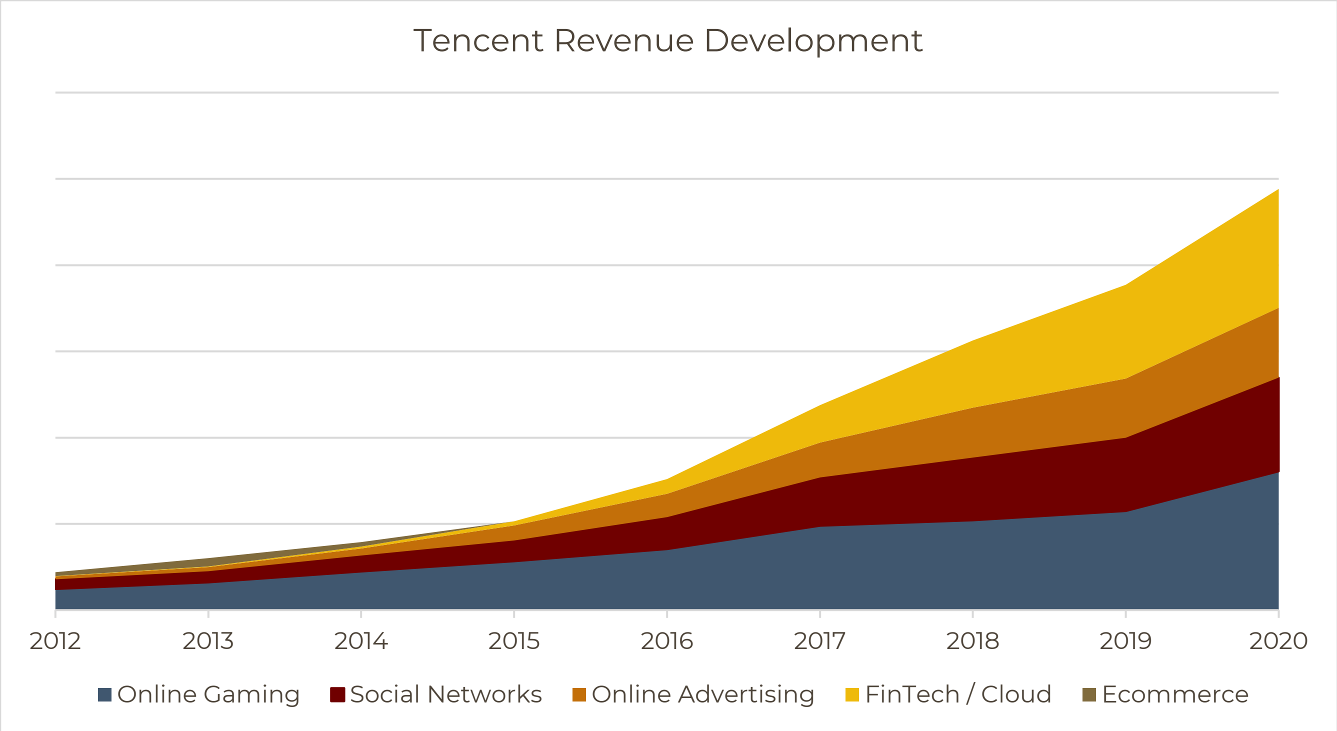
Our risk management framework has helped us minimize the negative performance the market experienced in Q1 2020. However, this does not mean that we will always be able to avoid temporary drawdowns in our funds during market declines. It is important for you, as our client, to understand that the High Growth Fund will experience volatility at times when the market is volatile. We would like you to see the positive side of this. You need not worry about short term volatility, as volatile times allow us to take advantage of market uncertainty to add great businesses to our portfolio at attractive prices, which leads to higher returns in the long run. The real risk is permanent capital loss caused by us investing in the wrong companies. You can rest assured that we are doing our very best every day to manage and minimize this risk. The Pure Hedge Fund is unlikely to experience the same levels of volatility as the High Growth Fund, owing to its lower levels of net exposure, thus providing more stable long-term returns.

Optionality:

We refer to optionality as the ability for a company we are invested in to increase its value in ways that the rest of the market doesn't currently recognise, appreciate, or value. It is our experience that optionality appears most often in companies that operate in the internet or technology sphere because they typically have very large user bases to target with additional products, and the marginal cost of selling virtual goods or intangible services is close to zero. This is simply not the case for traditional businesses that sell physical goods or require physical presence in order to prosper. Food producers, hospitals, mines, breweries, banks, shopping centres and manufacturers, which form the bedrock of the South African economy, require significant incremental capital or operational investment to increase supply of the goods that they sell or the services that they provide. We believe that exploiting optionality requires two important disciplines: making sure that the price we pay for the main business does not reflect the value of the option, and the willingness to invest for extended periods of time so that the value of the option comes to be reflected in the share price.

As our investable universe has expanded outside of South Africa, we have added several companies to our portfolio where there is significant optionality embedded in the underlying businesses. This means that we are likely to achieve solid returns from these businesses if they execute well on their core strategy, but it also means that many of these companies have the ability to generate outsized returns if they can successfully execute on their new business lines that are often hidden from the market. We owe a debt of gratitude to the Tencent management team for demonstrating the principle of optionality that is inherent in many internet enabled businesses. We owe a further debt of gratitude to the Naspers management team for demonstrating the value of investing in such businesses for an extended period of time.

Tencent started its life as an online messaging business in 1998, with a product that was a clone of ICQ, a popular messaging application used in the PC era in the West. The business sold virtual items to Chinese consumers via digital wallets at that time. As the years went by, Tencent pivoted into the development and publishing of PC games, and then mobile games. They created two wildly successful mobile messaging applications and built a payments business on top of their messaging applications to facilitate a wide array of commercial transactions. Tencent also built the biggest internet media empire in China, incubating the Spotify of China, the Netflix/YouTube of China and the Steam of China. Many of these business lines were incubated behind the scenes within Tencent for many years and started their commercial existence as "options". None of them were factored into analyst models until the Tencent management team was ready to put them on the grand stage. While the management team is undoubtedly one of the best in the world, the internet-centric business model laid the foundation to access end markets of seemingly unlimited size, often without the need for significant upfront capital investment. While it is difficult to place a value on Tencent's nascent cloud and financial services businesses, we know that these two opportunities cumulatively represent 20% of Chinese GDP, compared to the 4-5% that all other Tencent business lines target. Despite an incredible history of hyper growth, the future prospects look bright.



Source: Peregrine Capital (Pty) Ltd

Our Tencent experience laid the foundation for significant expansion of the theme of buying mispriced optionality. Our portfolio now encompasses many businesses with exposure to search, social media, classifieds, cloud infrastructure, software, gaming, payments, food delivery and ecommerce subsectors of the internet world, each having very strong business models, fortress-like balance sheets, attractive valuations and exposure to free options with significant potential.

Looking ahead:

As we enter 2021, we face a combination of factors that will make it a very interesting year in markets:

- How quickly can we vaccinate the majority of earth's population versus how rapidly will COVID-19 continue to evolve?
- Will we see the sharpest economic recovery in recent memory once we achieve global herd immunity? Will the spike in savings rates last year provide people with the capacity to spend aggressively once economies reopen? Are travel and tourism likely to be major beneficiaries?
- After 2020 accelerated technology adoption by at least five years, how will the world look once things normalise? Will everyone go back to work or has remote working become a permanent feature of society?
- Will regulators try to break up mega cap tech companies that are perceived to be powerful monopolies? If companies are broken up, what does this mean for their competitive positions and the valuations of the constituent parts?
- Coordinated central bank action make cash and government bonds the most unattractive they have ever been with short term interest at or below zero and even long-bond rates below zero or close to, for the entire developed world. If cash and bonds stay this unattractive, what will be the medium-term impact on asset prices?

Over and above these short-term macro-economic questions that we must wrestle with, there are medium term challenges that all fund managers must deal with. The rate of technological change has been accelerated by the events of 2020, and we believe old-world business models will continue to be disrupted by these changes. Our team is working tirelessly to ensure that we will be at the leading edge of the change, and that our portfolios will benefit from these trends rather than be harmed. Despite placing enhanced focus on these businesses of the future, we remain grounded in our valuation-based investment principles. While we have a great portfolio at present, in an ever-changing world there is no time to rest on our laurels.

We are entering an era where we expect the great businesses that we own to utilise their strong balance sheets and dominant market positions to accelerate their growth in market share and profitability over the long run. Most of our companies have benefitted from the disruption caused during 2020 and will only grow stronger over the coming years. In an uncertain environment with a future that is very hard to predict, our investments in these franchises give us the comfort that our portfolio is very well positioned for whatever the future may bring.

Improved access to our products and a new fund:

We have made significant improvements to the accessibility of our funds over the past 12 months, and we have added a new fund strategy to the product suite:

- The launch of the two retail versions of the High Growth and Pure Hedge strategies with lower investment minimums has been well received by investors.
- While our funds are still available directly, they are now also the first South African Hedge Funds to be listed on all major LISP platforms. (Allan Gray, Glacier, NinetyOne and Momentum), which is a giant leap forward to assist our IFA partners.
- Many of you have asked us over the years to launch a global long-only fund where you can invest your money that is outside of South Africa with us. We are pleased to announce that the Peregrine Capital Global Equity Fund launched on 1 December 2020. The fund is currently available offshore and will shortly be available as a feeder fund on the major SA platforms.

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.

We have seen a significant increase in interest from new clients this year. We believe that the risk-management framework, and the long-term performance of our funds have shown clients the diversification benefits and return enhancement that can be delivered in an environment where good returns have been hard to find. We are very thankful to those of you who have chosen to invest with us for the first time, and wish to welcome you as our new partners. Our mission is to create wealth for you, our clients, and we hope that it will be a meaningful and profitable partnership for you.

The Peregrine Capital team remains significantly invested in the funds alongside our clients (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. We have shown over the past 22 years that it is our process, and the people implementing it, that generate strong returns for our clients, and not the overall economic or macro-economic environment in South Africa or abroad.

We wish you a prosperous 2021 and thank you for your continued confidence and support.

Please contact us if you have any questions or comments.

Jacques Conradie
Chief Executive Officer

David Fraser
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 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.

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)	16.98%
Peregrine Capital Pure Hedge H4 QI Hedge Fund ('Pure Hedge Fund' above)	Jun 1998	67.90% (1999)	1.61% (2008)	12.15%
FTSE/JSE Capped Swix All Share Index	*Feb 2000*	*47.25% (2005)*	*-23.23% (2008)*	*0.58%*
ASISA South Africa MA High Equity	*Feb 2000*	*27.49% (2004)*	*-8.24% (2008)*	*1.92%*
ASISA South Africa MA Low Equity	*Jul 1998*	*40.59% (1999)*	*-10.69% (1998)*	*5.00%*
Inflation (CPI)	*Jul 1998*	*12.97% (2002)*	*0.21% (2003)*	*3.17%*

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.