

The value of consistency and predictability

David Fraser co-founded Peregrine Capital in 1998 and is a portfolio manager and executive chairman of Peregrine Capital. *Blue Chip* spoke to him about hedge funds.

What is Peregrine Capital's investment philosophy? We are fundamental, bottom-up, valuation-focused investors. The value of an asset today is the present value of expected future cash flows. We do not narrowly associate value investing with paying a low price earnings multiple, given that medium-term growth expectations are often mispriced by the market. We actively look for investment ideas that are both unique and valuable.

What is the High Growth Fund's objective? The objective of the High Growth Fund is to deliver exceptional returns to investors, and as such it is the fund with the most equity market exposure in our hedge fund stable. The net equity exposure in the fund is typically between 60% and 80% and is therefore comparable to funds in the multi-asset high equity category.

Who should consider investing in the High Growth Fund? While our investors have traditionally been limited to large institutional clients and high net-worth individuals, our fund strategies are now available to everyone, owing to affordable minimum investment values. In addition, our funds are now available on all major LISP platforms, which improves access for our IFA partners. Investors in the High Growth Fund are looking for exceptional long-term capital growth with risk metrics that are similar to that of your average balanced fund. Over the past 22 years, the average fund in the ASISA South Africa multi-asset high equity category has given investors an annualised return of around 10.5%. The High Growth Fund has delivered more than double that at 24.8% per annum.

Please tell us about the special milestone that the Fund achieved last year. December 2020 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, according to our research. This means that R1-million invested on 1 February 2000 is worth more than R100-million today.

The Fund has delivered exceptional future returns for its clients for 22 years. What are the Fund's core competencies? Our competitive advantage as investment managers is our ability to identify superior and inferior business models and management teams, to estimate the expected return from those companies and instruments, and to rationally buy or sell securities according to those return expectations. We conduct detailed qualitative and quantitative assessments of companies we choose to invest in, to enhance the degree of confidence that we have in our investments. We embrace situations that are difficult to analyse, or that require considerable work, as this often gives us an edge against competitors.

Enduring long-term performance cannot be achieved by "swinging for the fences" and assuming excessive risk. In fact, this can only be achieved if risk management is a cornerstone of the investment process. Our process always values consistency and predictability of outcomes ahead of great short-term returns. Achieving great returns on their own is not enough, they need to be accompanied by exceptional risk management. ■



DAVID FRASER
Executive Chairman and
Portfolio Manager

Prior to forming Peregrine Capital, Fraser was at Liberty Asset Management, where he was principally involved in non-consumer industrial company research and was appointed sector head for this area in 1998. Fraser is a chartered accountant, having studied his B.Com and B.Acc at the University of the Witwatersrand.

COMPANY BACKGROUND

Peregrine Capital was established in 1998 by David Fraser and Clive Nates, as the first hedge fund business in South Africa. While markets conditions have fluctuated wildly over this period, Peregrine Capital's investment philosophy has remained constant. The company seeks to enhance its process each year to fulfill its mission, which is to create wealth for its clients over the medium to long term.

OVERVIEW OF INDUSTRY

The South African hedge fund industry manages approximately R60bn of investor assets, a figure which has been fairly stagnant for the past three years. Peregrine Capital believes the industry is poised for growth, owing to regulatory changes that have allowed for equivalent classification as unit trust investments, and significantly lower minimum investment amounts for investors.

While it has been a challenge getting funds onto LISP platforms for the past two years to provide access to the IFA market, the industry has made significant progress in this regard. Peregrine remains optimistic about the future of the industry and believe that well-established South African hedge funds generally show a better risk/return profile than their "long only" competitors.