PEREGRINE CAPITAL

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Dear Fellow Investor

Peregrine Capital H1 2021 letter

The first half of 2021 was a reasonable period for the Peregrine Capital funds, with our flagship High Growth Fund and Pure Hedge Fund delivering 7.6% and 3.0% net returns respectively. While both funds delivered positive and inflation beating returns, the South African market was very strong during the first half of 2021 and the funds lagged their peers and relevant market indices. This period saw a particularly aggressive rotation from higher growth businesses to cyclical and lower quality businesses, which was the primary driver of our relative underperformance during the period.

Our mission at Peregrine Capital is to create wealth for our clients over the medium to long term. The tables below detail the net returns that have been generated by our funds over longer periods of time. We measure ourselves over five year 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	**18.2%**	**10.5%**	**18.5%**	**24.5%**
SA Multi Asset - High Equity Category	17.3%	5.8%	8.6%	10.6%
FTSE/JSE Capped SWIX All Share Index	27.6%	4.7%	9.2%	12.3%

Annualised Returns				
	1 Year	5 Year	10 Year	Since Inception (Jul 1998)
Peregrine Capital Pure Hedge H4 QI Hedge Fund	**7.5%**	**9.9%**	**12.8%**	**19.9%**
SA Multi Asset - Low Equity Category	10.7%	5.9%	7.8%	9.8%
CPI Inflation	5.2%	4.3%	5.0%	5.5%

Directors: DAK Fraser, DJ Conradie, JR Cousins, TM Formilan, AP Möller*, CH Nates*, RE Katz* (*Non Executive)
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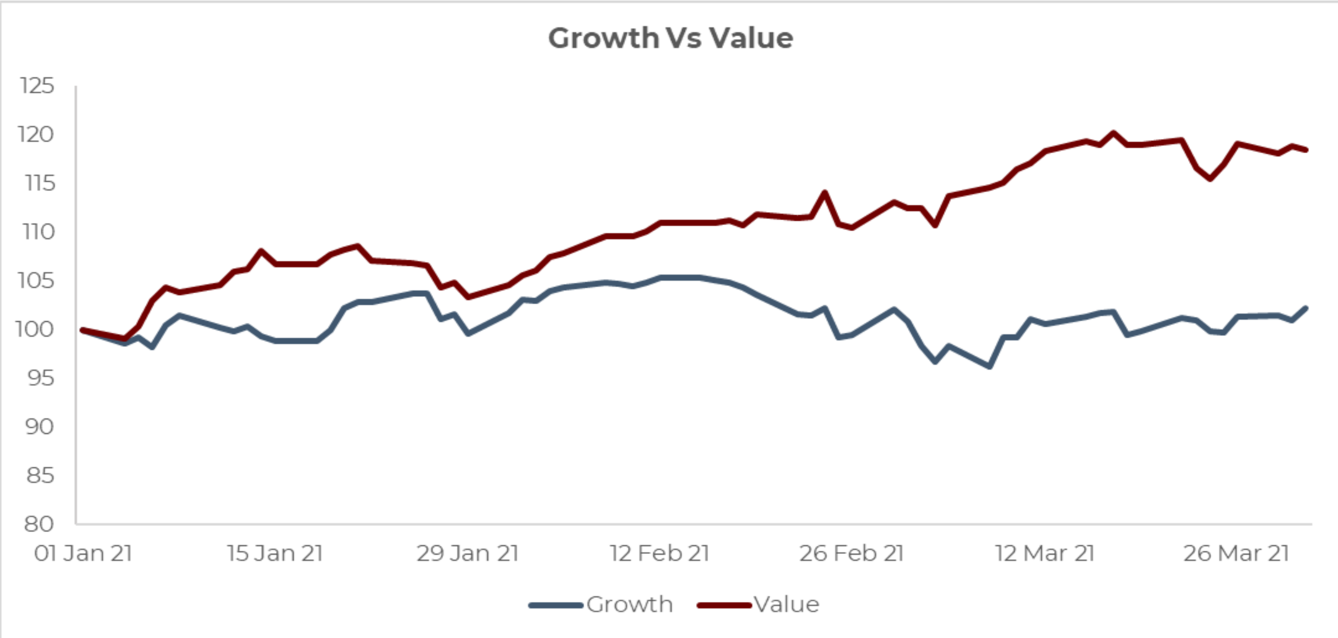
First Half in Review

The major theme of the first quarter of 2021 was the "rotation" from higher quality growth shares that benefitted from the lockdowns caused by COVID, into businesses that would benefit from the re-opening of global economies. Our portfolio has a higher weighting toward businesses that have superb long-term growth prospects, and less exposed to businesses that experienced the once-off bounce back due to some normalization post the initial COVID shock. This was one of the most extreme rotations that has taken place over the past 20 years, with "value" outperforming "growth" by 16% in the first quarter of 2021.



Source: Bloomberg

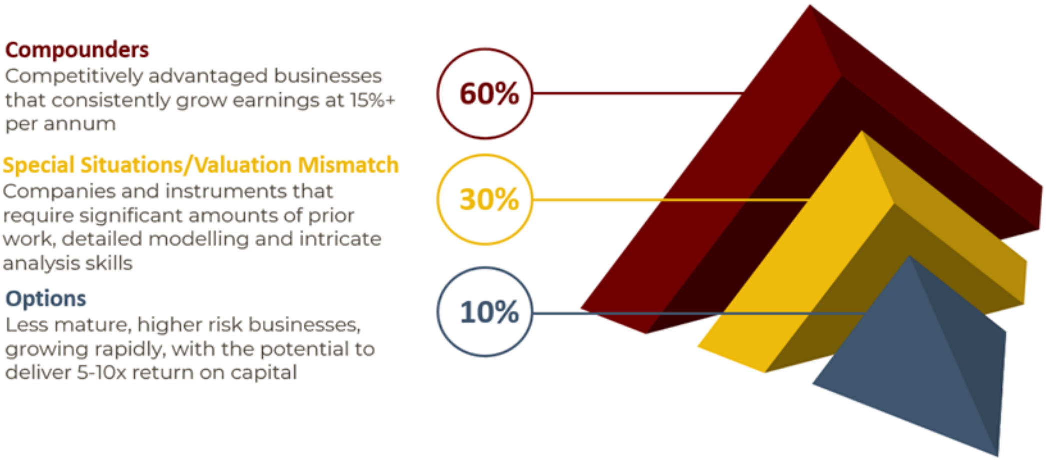
We believe this factor rotation is now overdone. Most of the companies that we own will grow their intrinsic values at more rapid rates than the lower quality businesses in the "value" category over the medium term and following the "rotation", many basic valuation metrics point to far better expected returns for our businesses when compared to those recent outperformers. We believe the combination of higher growth and more attractive valuations will result in sustained outperformance for our funds over the medium term. The market often swings based on themes and shares that are in vogue at a specific point in time, but these macroeconomic trends are very difficult to predict in advance.

As bottom-up valuation focussed investors, we try to look through this sort of macroeconomic noise and focus on what will benefit our funds and investors over the medium to long term. As such, you should expect occasional short periods where we might lag the market during these sentiment swings, but you can sleep easy knowing that we will not be influenced by these short-term shifts and focus on what will contribute to repeatable long-term outperformance.

We took advantage of these market moves by increasing holdings in our highest conviction ideas during this period, while not feeling any pressure to switch into what was seen as "hot" by the market in the short term. These trends have already started reversing, with "growth" outperforming "value" in the second quarter of 2021. More importantly, our companies have continued to deliver excellent results during the first half of 2021 (In many instances exceeding our internal forecasts), and the prospects for sustained growth in their business value are excellent.

Investment Philosophy

As is customary in these letters, we like to provide deeper insights into important aspects of our investment philosophy. In this letter, we will describe the three distinct categories of investments that we engage in, being “compounders”, “special situations”, and “options”. As is evident from the chart below, compounders and special situations present the best risk reward trade-off and account for most of our portfolio, while exposure to options is smaller in aggregate, and more diversified individually.



Compounders are businesses that have well defined and durable competitive advantages, with strong reinvestment runways that lay the foundations to generate strong growth in business value for many years to come. We target opportunities that are attractively valued relative to their growth prospects, rather than hunting for growth at any price.

Special situations refer to investments in companies and instruments that we can acquire for well below what they are worth. Special situations are often shunned by other market participants due to complexity, out of fear, or because the instrument is too obscure.

Options are early-stage, generally founder led businesses, that are growing at rapid rates and have the potential to deliver returns that are multiple times our initial investment, but the competitive advantage of these businesses is less well established. The option category is smaller in aggregate and more diversified individually, owing to the higher forecast risk associated with these businesses. Our hope is that the options of today become the compounders of tomorrow as these “high potential” businesses mature.

<u>Compounders</u>

The compounders category is the largest part of our portfolio and includes businesses such as Facebook, Google, JD.com, Mastercard, Microsoft, NetEase, Tencent and Visa. Qualitatively, these are companies that have well established and durable competitive advantages by virtue of a superior product or service, economics of scale, enduring brands, network effects or high switching costs. Compounders are often exposed to industry tailwinds rather than industry headwinds or have superior products or services that lay the foundations for sustained market share gains, which provides the opportunity to reinvest retained earnings at extremely high rates of return for extended periods of time.

When compared to the S&P 500 and JSE Financial and Industrial indices, it is evident that our compounders have superior profitability metrics, generate significantly higher returns on invested capital and grow faster than the average company in these indices.

Operational Metrics vs. The Market

	S&P500	JSE (FINDI)	High Growth
Return on Equity	14%	9%	**32%**
Gross Margin	35%	43%	**59%**
Operating Margin	13%	12%	**33%**
Earnings Growth	11%	16%	**28%**

Source: Peregrine Capital, Bloomberg. Return on Equity, Gross Margin, Operating Margin and Earnings Growth are the weighted mean of the top 10 underlying companies invested in by the High Growth Fund and mean for the FINDI and S&P 500 Indices as at 22 July 2021, trading 12 months. Earning growth is the forward expected number for 2021 – 2023.

We expect our compounders to deliver high revenue and earnings growth for many years to come. Critically, our compounders are available at prices that are not too dissimilar to those of the average company in the index. We believe that these attractive prices, together with the better business quality and stronger earnings growth, will enable these businesses to outperform the overall market substantially over the medium term.

Case Study - Facebook

A great example of a compounder that we own is Facebook. We first acquired Facebook in November 2016 at $120 a share. It has been a very successful investment for the funds, and the share is up around 200% from levels where we first acquired it. While we pride ourselves on looking for unique and valuable ideas, incredible opportunities can often hide in plain sight!

Facebook, the company, owns the Facebook, Instagram, Messenger, WhatsApp applications, which we are all familiar with today. These social media and messaging applications reach 3.5 billion people each month and 2.7 billion people each day. The primary competitive advantage of these products is the network effect that is created between users. Each user that joins the platform adds more value to every other user on the platform, and these social binds are very difficult to replicate, replace or dislodge once established. A secondary network effect, between users and businesses, is becoming an increasingly important competitive advantage for Facebook.

Facebook generates advertising revenue from its 10 million advertisers by showing contextualised and personalised ads to users. Because Facebook can serve relevant ads to its users, those ads are more likely to convert into leads and sales for advertisers. The benefits of reach, measurability, personalisation, lower pricing, and higher conversion rates are worlds apart from traditional newspaper, television, and billboard advertisements. While having 10 million advertisers sounds impressive, there are another 190 million business users on Facebook and Instagram, who are present and active on the platforms, but do not currently pay for advertising services. The outlook remains bright for the two core services.

Facebook has had its fair share of challenges over the past four years. The Cambridge Analytica privacy scandal, the #DeleteFacebook movement, advertiser boycotts, regulatory fines, investigations that sought to break up the company and the recent #DeleteWhatsapp campaign, have all tested the strength of the business model and the resolve of the management team. We are pleased to report that users still love the core products, the business remains robust, and that the management team's execution has been impeccable despite these challenges.

Looking forward, we are particularly excited about the innovative product improvements that have been introduced to Facebook and Instagram, which will entrench their dominant competitive position. The launch of Marketplace, Groups, Shops, Cloud Gaming, Payments, Reels, Audio and Video Rooms, Stories, Live Streaming Video, Bulletin and Facebook News will enhance platform utility and deepen user engagement. While the Facebook and Instagram apps have been core drivers of Facebook's success over the past few years, the company still makes virtually no money from WhatsApp or Messenger, products that are used by 2.5 billion and 1.3 billion people respectively each month. Recent announcements from the company suggest that WhatsApp and Messenger monetisation is around the corner.

If we take a longer-term view, Facebook is well positioned in the virtual reality category through their ownership of Oculus. They have 10 000 people employed in this business unit, which is still incurring significant losses. There is a real chance that virtual and augmented reality can become the next major computing platform after the era of personal computers and mobile phones. Facebook has placed a large bet on this trend and are exceptionally well positioned to take advantage of this if it comes to pass. Importantly, we get this "option" for free as part of the current valuation.

Typically, one would sell most shares after a 200% return, yet Facebook is that rare exception that has compounded its earnings and business value at such a rate that it is still an extremely attractive share to own today. The best examples of compounders can be owned for 5-10 years as the value of the company continues to grow alongside the share price. We still see great growth prospects for both the Facebook and Instagram apps, but we also see significant upside from the launch of financial services, commerce, and media products within Facebook, Instagram, WhatsApp and Messenger. The prospects for Oculus are more nascent but the opportunity is enormous.

We believe that existing and new products present massive opportunities relative to the size of Facebook's current business but are under appreciated by the market. Facebook trades on the same earnings multiple as the S&P500 index but offers substantially better growth prospects.

We remain happy owners five years post our initial investment.

Improved access to our products and our new Global Equity Fund

We continue to work hard to make sure our funds are as accessible as possible to investors, and in the past six months we have added our flagship hedge funds to several new LISP platforms to complement those that already offer our funds. These platforms now include Allan Gray, Momentum, NinetyOne, Glacier, ABSA AIMS, Old Mutual Wealth and STANLIB (amongst others).

We are also very excited about the launch of the Peregrine Capital Global Equity Fund, which opened for investment in December last year. We have received regulatory approval to offer this dollar denominated fund to South African investors, and we have also launched a feeder fund to facilitate Rand denominated investment into the Global Equity Fund. We continue to engage with widely used platforms to improve accessibility to these two funds. Please reach out to us if you would like more details on these exciting new offerings.

Looking ahead

It would be remiss for us not to comment on the goings on in South Africa over the past few weeks. Peregrine Capital is a business owned and managed by South Africans, that exists for South Africans, and the scenes that have engulfed our televisions, radio stations, streets and homes have been deeply disturbing for our team. We condemn the violence and looting that has ensued in the strongest possible terms and send our condolences to all those families and businesses that have been affected by these acts of anarchy. Several arrests have already been made and we are hopeful that the President will use this window of opportunity to appoint a new cabinet that prioritises competence, meritocracy, and growth, over patronage and party loyalty. We are quietly optimistic that the events of the past week may be a turning point for our young democracy, but it is essential that we grasp the nettle while the opportunity still exists. From an investment standpoint, South Africa represents a small proportion of our local hedge fund exposure, so the impact on the businesses we own has been minimal. As such, there has been no need to make material adjustments to our portfolios.

While share prices have been volatile over the past six months, the performance of the companies we own has been exceptional. Growth in the intrinsic value of these companies sets a firm foundation for future returns. In addition, our team continues to initiate coverage on many new companies, actively looking for ideas that are unique and valuable. We remain fully aligned with our partners, and we endeavour to optimise medium term returns through the disciplined application of our tried and tested investment philosophy.

Finally, we ask that you join us in welcoming Yusuf Mahomed to our investment team. Yusuf is an actuary by profession and shares our passion for investments. We hope that this is the start of a long and prosperous journey together.

Please contact us using info@peregrinecapital.co.za 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)	18.22%
Peregrine Capital Pure Hedge H4 QI Hedge Fund ('Pure Hedge Fund' above)	Jun 1998	67.90% (1999)	1.61% (2008)	7.55%
FTSE/JSE Capped Swix All Share Index	*Feb 2000*	*47.25% (2005)*	*-23.23% (2008)*	*27.59%*
ASISA South Africa MA High Equity	*Feb 2000*	*27.49% (2004)*	*-8.24% (2008)*	*17.33%*
ASISA South Africa MA Low Equity	*Jul 1998*	*40.59% (1999)*	*-10.69% (1998)*	*10.72%*
Inflation (CPI)	*Jul 1998*	*12.97% (2002)*	*0.21% (2003)*	*5.16%*

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.