



# CEO's Report

Sean Melnick

## Introduction

The strategic re-focusing of the Peregrine group was completed over the course of the financial year. The group's positioning as a leading player in the wealth and asset management arenas has produced a strongly cash-generative performance for the year under review.

Cash flow generated by the group has enabled Peregrine to:

- repay all of its external debt by year-end (R44,5 million outstanding at the beginning of the year);
- settle its outstanding vendor liabilities (amounting to R31,5 million);
- acquire treasury stock up to the maximum allowed level of 10% of shares in issue at a cost of R20,4 million, and to
- resume dividend payments.

## Results

Profit from operations increased by 52% to R105,7 million from R69,4 million. Cash generated from operations was robust at R135,4 million, with cash flow from operations, before changes in working capital, up 74% to R112,9 million.

Debt incurred during the previous year in order to fund the purchase of Citadel minorities resulted in the group paying net interest of R1,6 million compared to interest earned of R4,1 million in the 2003 financial year. Having repaid all external debt, it is anticipated that the group will be in a net interest received position for the 2005 financial year.

The group's taxation rate increased to 28%. Following the sale of the specialised finance business, effective 1 April 2003, the group's dividend income declined dramatically during the current year, which contributed to the increased average taxation rate. In addition, profit earned from the sale of strategic investment banking assets was lower than in previous years and no tax relief was available from losses incurred in the group's newer businesses, as these businesses are housed in separate legal entities.

Minority interest of R9,8 million was double that of the previous year, largely as a result of the excellent performance of the group's equity-based hedge fund management company, Peregrine Capital.

Attributable earnings of R42,5 million were 168% higher off the previous low base of R15,9 million. Earnings per share of 20,6 cents was 186% higher than the previous year's 7,3 cents.

Headline earnings increased by 14% to R68,5 million. With the reduction in the weighted average number of shares in issue, as a result of share buyback activity, headline earnings per share rose 21% to 33,2 cents per share.

## Operations

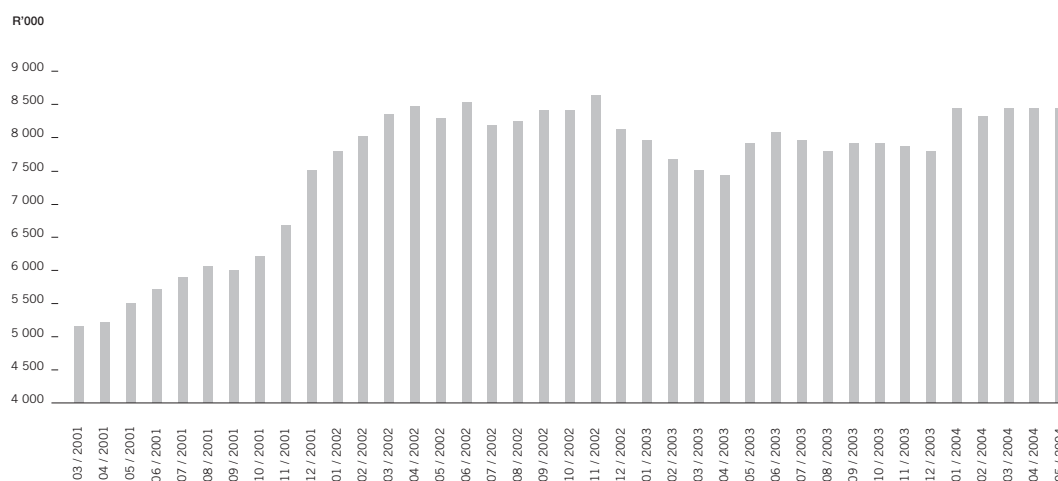
A segmental breakdown of Peregrine's revenue and profit from operations is provided on page 44. The group's core business, described in previous years as "wealth and asset management and related services" has been further broken down in the current year into:

- Wealth and asset management
- Structuring, broking and distribution and
- Group investments (net of group costs)

### *Wealth and asset management*

Citadel, the group's wealth management arm, increased its assets under management by 12% to R8,4 billion at year-end, weathering the storm of a strong local currency. New client inflows averaged just under R100 million per month, with the average new client size being in excess of R4 million. The client retention ratio was especially pleasing, being in excess of 97% for the year. Citadel comfortably exceeded its budget for the year, without earning any meaningful performance fees.

### Citadel - assets under management



Citadel is currently well-placed to be meaningfully profitable, even in unstable market conditions. Notwithstanding this, it remains materially geared, through performance fees, to positive performances in capital markets as well as to any depreciation in the rand over the medium to long term.

The business has substantial capacity to increase its assets under management. A joint venture initiative with a substantial partner has proven to be a highly viable means of meaningfully augmenting assets under management. The joint venture alternative continues to be the preferred method of boosting Citadel's asset growth in the foreseeable future.

Whilst maintaining an excellent level of performance across its suite of hedge and performance funds, Peregrine Capital increased its funds under management by 115% to R965 million at year-end and topped the two published local hedge fund surveys for the past year on both an absolute and risk-adjusted basis. The increased assets under management and sound investment performance resulted in the contribution from this area being a multiple of that earned in the previous year.

It is anticipated that assets under management within this business will average between R1,0 billion and R 1,5 billion during the course of the 2005 financial year.

The performance and risk statistics of the Pure Hedge Fund and the Performance Fund, the two funds managed by Peregrine Capital since the inception of the business on 1 July 1998, are presented below.

### Peregrine Capital – original funds’ performance and risk analysis to 31 March 2004

Performance and risk statistics	ALSI	HEDGE FUND	PERFORMANCE FUND	Description
<b>Returns</b>				
Compound annual return	11.3%	<b>50.3%</b>	<b>73.5%</b>	<i>Return since inception, annualised</i>
Average quarterly return	3.5%	<b>11.0%</b>	<b>15.5%</b>	<i>Since inception, calendar quarters (e.g. Jan-March), non-annualised</i>
Average monthly return	1.2%	<b>3.5%</b>	<b>4.9%</b>	<i>Since inception, non-annualised</i>
Rolling 12-month return	43.5%	<b>39.4%</b>	<b>70.2%</b>	<i>Most recent 12 months, non-annualised</i>
<b>Variability of returns</b>				
% of positive months	52.2%	<b>91.3%</b>	<b>82.6%</b>	
% of negative months	47.8%	<b>8.7%</b>	<b>17.4%</b>	
Average positive monthly return	6.3%	<b>4.0%</b>	<b>6.5%</b>	<i>Since inception, non-annualised</i>
Average negative monthly return	-4.4%	<b>-1.0%</b>	<b>-2.6%</b>	<i>Since inception, non-annualised</i>
Maximum monthly drawdown	-29.7%	<b>-1.8%</b>	<b>-10.6%</b>	<i>Greatest loss, 1 calendar month</i>
Maximum cumulative drawdown	-29.7%	<b>-3.1%</b>	<b>-13.1%</b>	<i>Greatest loss across any unbroken series of losing months</i>
Standard deviation	24.8%	<b>12.6%</b>	<b>24.5%</b>	<i>Since inception, annualised</i>
Semi-variance	17.6%	<b>3.7%</b>	<b>4.9%</b>	<i>Last 12 months, annualised</i>
<b>Risk-adjusted returns</b>				
Sharpe ratio (RFR 8%)	0.1	<b>3.4</b>	<b>2.7</b>	<i>(Ann return since inception - NCD return) / ann std dev since inception</i>
Rolling 12-month Sharpe ratio	1.6	<b>6.7</b>	<b>8.7</b>	<i>(Rolling 12m return - NCD return) / 12m standard deviation</i>
Sortino ratio	1.7	<b>7.3</b>	<b>11.8</b>	<i>As with rolling Sharpe, but using semivariance (downside only)</i>
Information ratio	0.5	<b>4.0</b>	<b>3.0</b>	<i>As with Sharpe, but without deducting NCD return</i>
<b>Relationship to other investments</b>				
Correlation to AlsI40 - since inception	1.00	<b>0.15</b>	<b>0.45</b>	<i>Monthly returns, since inception</i>

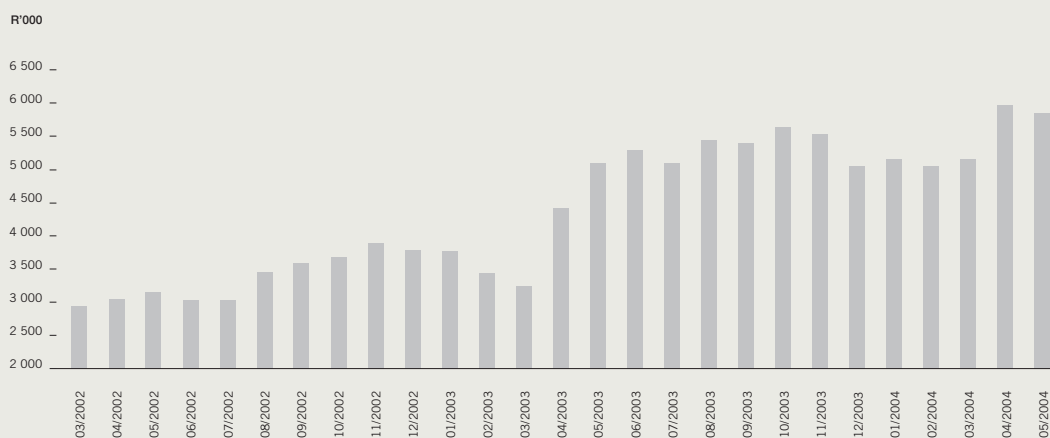
All returns are presented before the deduction of fees

The group's incubator hedge fund business grew assets under management to R193,2 million from R7,1 million at the beginning of the year. This includes R98,7 million invested into the Oakmont fund managed by Peregrine Capital. Despite the growth in assets, the business still needs to achieve critical mass, but is expected to post a smaller loss in the year ahead.

We hold the view that over the medium to longer term, the issue facing participants in the hedge fund industry in this country is not the availability of willing investors, but rather the scarcity of good managers and the capacity constraints faced in managing money locally. To this end, the Peregrine group continues to constantly seek out and nurture outstanding individuals and teams.

PeregrineQuant, the group's quantitative asset manager, increased assets under management by 60% to R5,2 billion. Asset growth, together with active cost control, allowed the business to reach breakeven on a monthly cashflow basis by year-end. Any growth in assets under management from this level will produce a positive contribution for the year ahead.

### PeregrineQuant - assets under management



#### *Structuring, broking and distribution*

The contribution of this area almost doubled over the period from R9,0 million to R17,2 million. Peregrine Securities had a particularly successful year across the range of its stockbroking, derivative broking and structuring activities.

The business continues to make inroads into the hedge fund, arbitrage and other proprietary trading markets and is taking a far more pro-active approach to product development, derivative-based research and deal structuring.

This pro-active approach is being augmented by the efforts of the financial solutions team which is mandated to market the group's specialised range of investment related products and services.

#### *Group investments*

The group's proprietary capital falls under the portfolio of the CEO and his team. It is currently predominantly invested with Peregrine Capital across its suite of hedge funds. A small portion is invested into the group's incubator hedge funds and a similar amount into a select number of private equity opportunities.

All costs incurred in running the group and not recovered from subsidiaries are offset against the returns earned on proprietary investments. The net return on investment earned by the group, after all costs, was virtually unchanged from last year at R29,6 million.

#### **Disposal of subsidiary**

With effect from 1 October 2003, the group disposed of the business of Peresys to a consortium led by management and a private equity firm.

### **Change to the board of directors**

As announced on SENS, Mr Rudi Stumpf resigned as a non-executive director of the company with effect from 31 March 2004. We thank Rudi for his valuable contribution to the group and wish him continued success in his business endeavours. The board intends to appoint additional non-executive directors during the course of this year.

### **Share scheme**

A circular was posted to shareholders on 14 May 2004 relating to amendments to the Peregrine Share Incentive Scheme and giving notice of an extraordinary general meeting of shareholders at the registered office of Peregrine at 09h00, Wednesday, 2 June 2004.

### **Prospects**

A substantial portion of Peregrine's financial performance is ultimately dependent on market conditions and the investment performance of its various wealth and asset management businesses. As such it would be imprudent to forecast earnings for the period ahead.

Nonetheless, the directors of Peregrine are confident that the group has built a sustainable platform from which to continue to assert itself as a highly profitable wealth and asset management firm.

### **Dividend**

Whilst at the beginning of the year it was not anticipated that the group would be in a position to pay a dividend for the current year, the cash generation achieved by the group has been such that the board has decided to declare a cash dividend of 5,0 cents per share, payment details of which can be found on page 36.

### **Appreciation**

I would like to extend my sincere appreciation to the staff of Peregrine, who through their combined efforts have produced a highly satisfactory set of results. It is inspirational to work with individuals who are both brilliant and passionate at what they do. To our Chairman, Louis and the board of directors, thank you for your patience, understanding and guidance in supporting management's efforts over the past year. To all our clients and prospective clients, I once again offer you our unwavering commitment to private-client wealthcare and to the provision of outstanding asset management and related solutions.



**Sean Melnick**

Chief Executive Officer

19 May 2004