PEREGRINE

CAPITAL

Partner’s Handbook

DISTINCTIVE ASSET MANAGEMENT

Contents

WHY A PARTNER'S HANDBOOK IS NECESSARY

At Peregrine Capital, our investors are our partners. We aspire to attract investors who believe in our process and who seek to partner with us over the long-term. The Partner's Handbook is an introduction to our investment process, the culture we have established and the core competencies we believe are necessary to optimise long-term investment returns. Your understanding of our business and faith in our investment process are vital because we require your trust and patience to manage your money in the best possible way.

> **Most people are driven by greed, fear, envy, and other emotions that render objectivity impossible and open the door for significant mistakes**
>
> **Howard Marks**

Our partners trust us to manage their hard-earned capital and expect us to invest that capital in a manner that is prudent and thoughtful, so that we generate exceptional investment returns over the medium to longer term. We take this responsibility very seriously and you can rest assured that our interests are strongly aligned with your own. We only do well when you do well, which is the way it should be.

Any investment process of substance can only be executed and evaluated over the long-term, which we define as three to five years. The development and execution of business strategies and the impact of economic cycles take place over years and decades, contrary to the weeks, months and quarters that the financial press would have us believe.

Howard Marks reminds us that "most people are driven by greed, fear, envy, and other emotions that render objectivity impossible and open the door for significant mistakes". Many investors are prone to buying in good times and selling during times of market turmoil, which often proves to be extremely costly. A commitment to invest for the long-term is likely to lessen the impact of emotions from one's investment decision and optimise investment returns over time. Times of market panic often present the best investment opportunities, and it is only with the confidence of our partners that we can meaningfully take advantage of the well-priced opportunities, by being greedy when others are fearful.

OUR BUSINESS

Peregrine Capital was established on 1 July 1998 with the objective of generating superior risk-adjusted returns for investors over the medium to longer term, by combining a disciplined research process with a flat operating structure. Our mission is to create wealth for our clients and this will always remain our North Star.

At the heart of any business are its people. We know that employing highly qualified, passionate, market savvy people is the central component required to generate superior returns for extended periods. Honesty and integrity form the foundation upon which our team is built. We endeavour to maintain a flat structure where constructive debate is encouraged to seek out the truth. We respect the views of our team members and are willing to disagree with each other's opinions, without adversely affecting personal relationships. We guard against arrogance and are willing to change our minds when we have made a mistake. We discuss our mistakes openly so that we learn from them and refine our investment process.

We endeavour to generate returns through the consistent and rigorous application of the principles contained in our investment philosophy. We make investment decisions based on facts and truths rather than emotions and popular media narratives. We are aware of our emotions and the behavioural biases they may cause. As a team, we mitigate this by stress testing our thought processes with vigorous debates to remove emotion from the decision-making process. Team input is crucial in this regard, with decisions being made on a consensus basis. Disagreement is managed through position sizing and continued dialogue, and does not impact the flexibility of our decision making process.

The investment team has a significant proportion of their own liquid wealth invested in the Peregrine Capital funds because we believe our funds are the best long-term investments that we can own. Investing heavily in our own funds ensures that our interests are fully aligned with those of our partners. This alignment guarantees that our team endeavours to act in the best interest of the funds at all times.

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Peregrine Capital is a staff owned and controlled business. We believe that broad employee ownership is critical to foster a meritocratic culture that incentivizes performance and retains the star managers of tomorrow. The way we have constructed the business allows the team to stand on the shoulders of our founders, so that the funds continue to thrive for many years to come.

HOW OUR APPROACH DIFFERS TO THE INDUSTRY

The typical institutional asset manager sees risk through a different lens to the one that we use. Sadly, the greatest risk to most fund managers is not in losing money for you, it is in doing something different to the market or their peers. If your returns are similar to those of the market, you are less likely to risk losing your job – that is the institutional imperative. We know that in order to generate returns that are better than those of the market, we need to invest in a manner that is different to the average market participant.

Sadly, the greatest risk to most fund managers is not in losing money for you, it is in doing something different to the market or their peers

Because we are not benchmark cognisant investors, we think about return and risk, rather than relative or tactical positioning. A share's weighting within an index bears no relevance to the quality of the underlying business or the expected return of the share, and as such, we pay no attention to it. We define risk as permanent capital loss, and not as standard deviation, volatility in share prices or the risk of losing our jobs. Flexible mandates allow us to take advantage of any opportunity we can identify without delay, no matter the instrument type or country. The combination of these factors means that our returns are likely to have a low degree of correlation with the performance of the market as a whole.

HOW WE INVEST YOUR CAPITAL

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. The expected return from an investment is dependent on both the price one pays and the growth in future cash flows. We buy assets that are trading below what we believe they are worth, and sell assets where the price exceeds our assessment of value. 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 are fundamental, bottom-up, valuation focused investors

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.

While we are open to buying a wide variety of companies in different industries, we carefully limit our investable universe to companies that we understand, and where we can forecast earnings with a high degree of confidence. We prefer investing in companies that have clear competitive advantages in growing markets, and are managed by competent, experienced and appropriately incentivised executive teams whose interests are aligned with our own. We believe that the combination of these factors creates a virtuous cycle that maximises the value and longevity of future cash flows while reducing forecast risks associated with future earnings.

Importantly, we aim to own these competitively advantaged and growing businesses for extended periods of time, because we are convinced that compound growth is misunderstood by market participants. The best returns are earned by waiting, rather than frequent trading. Despite this long term behavioural orientation, we are always on the lookout for changes in business fundamentals or excessive price movements that reduce expected future returns, and may necessitate selling.

We attempt to balance margin of safety and opportunity cost to ensure we get the most appropriate return for the risk we are prepared to assume, and our conviction levels are reflected in our position sizes. While we see real value in diversification, we are willing to concentrate our portfolios in our high conviction ideas when we find exceptional opportunities.

The risks presented by commodity prices, policymakers, currencies, and interest rate fluctuations are real, as they can have significant implications for certain asset prices. We avoid companies where business models are excessively reliant on price movements relating to macroeconomic inputs, as we do not have any competitive advantage in forecasting these variables.

It is important to recognise that investment philosophies develop with the passage of time, and we seek to refine our process every day. While a strong foundation doesn't guarantee outperformance every single year, we trust that the consistent application of our investment philosophy will allow us to fulfil our mission to create wealth for our clients over the medium term.

How we discover opportunities

Our investment team reads and travels widely to identify businesses that demonstrate the unique characteristics that are required to earn high returns on capital for long periods of time. We subscribe to a number of independent investment newsletters, we attend industry conferences, we pay for engagements with industry experts, we ask management teams about their best suppliers and competitors, we study the filings of newly listed businesses, and we vigorously debate the characteristics of great businesses amongst our team to understand and identify new opportunities. If we identify a strong business models in one part of the world, we actively seek out close cousins in other parts of the world where valuations are more reasonable, the market less mature, or the growth prospects more exciting.

We carefully define our investable universe to isolate companies that we understand and where we believe we have an edge

Our team has assembled a rich, centralised database of unexplored companies that may be opportunities for the funds in future. We rank these opportunities based on business model, market penetration and high level valuation metrics in an effort to prioritise our time spent on what we think are the best new ideas. We have weekly meetings to present new businesses to the broader team to assess whether an idea is in our sphere of competence, our insights are unique and valuable, and whether our initial insights warrant conducting a deep dive on the business.

How we evaluate opportunities

Once a company is deemed to be qualitatively attractive, we conduct a deep dive in order to build unique and valuable insights about the investment case.

We interrogate the business model of the target company and its competitors in the market, to form a view on the structure of the market. We assess the competitive dynamics of the market, evaluate whether our target company has a unique competitive edge, and gauge the prospects of each of the market participants. We regularly interact with management teams to obtain insights about current business dynamics and trends, and to evaluate changes in business strategies. Management representations are critically evaluated to assess execution against their targets and goals. We aggregate all the information we have gathered to evaluate the quality of the business and forecast its medium-term prospects. In order to identify opportunities in other asset classes, we analyse all parts of the capital structure of the companies that we invest in.

We actively look for mispriced optionality that the rest of the market does not see, appreciate or value. Mispriced optionality is present where a company is incubating a new business, is expanding into a new product category or where a company expands an existing product or business into a new geography. It is important to stress that for an option to be valuable, its potential must be significant when compared to the size of the existing business, success needs to be probable, and the current share price must not ascribe much value to its existence.

As the allocation of capital generated by the business is a key differentiator in longer run performance, analysing the historic capital allocation decisions of the management team provides an understanding as to possible prospective decisions. We are acutely aware of the extent of value destruction that takes place through corporate takeovers and major expansions initiated by corporate management teams, and approach these situations with caution. We find that owner managed businesses are often the most innovative operators and the most rational capital allocators.

We understand that there is tremendous value in researching companies over an extended period, as this allows us to observe and evaluate business performance in different operating environments, to gain conviction in our modelling assumptions, and to develop constructive relationships with company management teams.

Two members of the investment team work together to gain a detailed understanding of high potential investment opportunities. This dynamic establishes a “sounding board” where bull and bear case arguments are explored and interrogated, thereby maintaining a balanced and open discussion.

We pride ourselves on the fact that we conduct primary research to build the conviction that is necessary to be greedy when others are fearful.

How opportunities are ranked and compared

Earnings forecasts are captured in a central database that lists every company in our investable universe, determines expected returns, and ranks all investment opportunities relative to each other based on those expected returns. The central ranking tool uses live prices to update the expected return of each position in the investment universe, and is the primary tool used to determine “buy” or “sell” decisions on individual positions and pair trades.

The responsible team members are required to communicate their investment ideas, company interactions, analysis of earnings releases, and changes in earnings forecasts to the team by way of detailed research notes, and regular robust debates in the office to ensure that investment theses remain relevant and up to date at all times. Earnings forecasts and model assumptions are reviewed and amended each time the company reports earnings, after interactions with company management, or whenever material information is obtained that will impact earnings.

The investment team collectively debates the qualitative and quantitative characteristics of all companies that we invest in, which creates an environment where there is cross pollination of ideas so that decisions are made with broad perspective that is informed by the wisdom of the team.

How we decide on the appropriate position size

When considering the appropriate position size, we consider the expected return, the level of conviction in our forecasts, the stage of research of the company and the liquidity of the underlying instrument. While expected return is self-explanatory, the other three criteria require further explanation.

The level of conviction is determined by the strength of the business model, which informs our view as to the range of potential future earnings outcomes. We will take bigger positions in investments where we have a high degree of forecasting certainty, while we will limit the position size of investments with a wide range of potential outcomes.

Stage of research refers to the length of time that we have covered the company in question. All investors have a tendency of only paying attention to recent data that supports their thesis at the time of initiation. It is natural to develop blind spots when first looking at a potential opportunity, and it is only possible to build knowledge of the critical success factors of a company, and rationally comprehend the bull, base and bear case future scenarios of an investment case, with the passage of time. While we may expect a high future return and have high conviction levels, we actively limit the size of positions in new companies that we may have only covered for a short period of time, given subconscious biases affecting the human brain. Limiting the size of new positions gives us time to evaluate the unknown unknowns relating to the company.

Critically, position sizing is also influenced by the liquidity of any investment opportunity. As open-ended funds, it is important that illiquid instruments have a higher expected return threshold to qualify as an investable opportunity. Even if the expected return is sufficiently high, the contribution of illiquid positions within the funds is actively managed by the fund managers at all times.

LESSONS FROM THE PAST

Peregrine Capital was founded in 1998 and the fund managers have witnessed their fair share of market crises since then. We have lived through the emerging market debt crisis of 1998, the dot com bubble in 2000, the global financial crisis of 2008, the European debt crisis in 2011, and the COVID-19 pandemic in 2020. Given the nature of markets, we will no doubt see many more of these events in the years to come. While we cannot predict them, we can prepare for them by institutionalising the lessons that we have learned, so that we are able to deal with these situations with even greater ability in future.

Periods of market panic are very often great investment opportunities for those who are able to remain calm

In order to survive and thrive during trying times, we remind ourselves of the lessons we have observed and learned during such periods. We have learned that poor quality businesses with excessive leverage have higher than average insolvency risks in economic downturns. We know that management teams are not fortune tellers, and therefore we do not place excessive reliance on their guidance, particularly in more difficult periods. We have observed that liquidity of small and mid-cap companies tends to dry up completely during times of market stress, so any investment in these types of companies needs to pass a higher expected return hurdle, and can never form too large a part of our portfolio.

True bear markets are often protracted and feel far longer in reality than graphs tend to suggest. These periods have a significant impact on the human psyche, and we are not immune from these effects. During severe downturns, a fight or flight response is triggered that forces the mind into defence mode that emphasizes short termism, capital preservation and avoidance of loss, rather than seeking opportunity. While this response is natural, we know that generating strong returns often requires us to act in a manner that is contrary to what "feels appropriate". It is critical to focus on the long-term and trust our investment process. We cannot become emotional about our investments, and as Benjamin Graham said, "in the short run, the market is a voting machine but in the long run, it is a weighing machine".

Rationality is a learned response. It can be achieved with practice and by reminding ourselves about these important lessons from the past. We must always remember that all things being equal, lower prices result in higher expected future returns. Periods of market panic are very often great investment opportunities for those who are able to remain calm.

OUR FUND STRATEGIES

The Peregrine Capital funds contain the same investment ideas but position sizes vary according to fund strategies. Fund exposure is appropriately risk weighted to comply with investor risk appetite and the fund's mandate. Allocations take place on a defined mechanical basis to ensure that no fund or investor is prejudiced during this process.

Funds for all risk profiles

High risk, Moderate or Stable, Peregrine Capital has a fund to suit your investment needs

Pure Hedge Fund

High Growth Fund

Global Equity Fund

LOW RISK & STABLE RETURNS

HIGH RISK & HIGHER POTENTIAL RETURNS

High Growth strategy

The goal of the High Growth strategy is to create long-term wealth for investors by investing in our best investment ideas in the equity market and other asset classes. The strategy aims to deliver industry leading long-term investment growth for our investors, while assuming moderate levels of risk. The historic risk indicators of the High Growth strategy are similar to those of traditional South African balanced funds.

The High Growth strategy is suitable for you if:

- You are looking for exceptional long-term capital growth
- You are comfortable to assume a moderate to high level of market risk
- You are ideally investing for at least five years

Our High Growth QI Fund has proven its pedigree - R1m invested at inception is worth more than R100m today*

Investors are able to access the High Growth strategy through either the Peregrine Capital High Growth H4 QI Hedge Fund ("High Growth QI Fund") or the Peregrine Capital High Growth H4 Retail Hedge Fund ("High Growth Retail Fund"), collectively the "High Growth Fund". The High Growth QI Fund was opened on 1 February 2000, while the High Growth Retail Fund was opened on 1 December 2019. The difference between these two funds relates mainly to regulatory distinctions, minimum investment contributions and mandate limits. Both funds are regulated as Collective Investment Schemes by the Financial Sector Conduct Authority.

The fund managers aim to mirror the underlying portfolio exposures in both the High Growth QI Fund and the High Growth Retail Fund, subject to the respective fund mandate and regulatory limitations. The High Growth Retail Fund has significantly lower minimum investment contributions with daily investing, as it aims to broaden access to the High Growth strategy.

*Source: Peregrine Capital effective 31 January 2021

Pure Hedge strategy

The goal of the Pure Hedge strategy is to offer investment stability and downside protection while growing investors' purchasing power. We aim to deliver returns above inflation over the medium term. The Peregrine Capital Pure Hedge H4 QI Hedge Fund ("Pure Hedge QI Fund") has never had a negative year since its inception in July 1998.

The Pure Hedge strategy is suitable for you if:

- You want to achieve stable returns that exceed inflation and protect your capital
- You are comfortable to assume a low level of market risk
- You are ideally investing for at least two years

23 years in the green
Since its inception in 1998, the Pure Hedge QI Hedge Fund has never experienced a negative year*

Investors are able to access the Pure Hedge strategy through either the Pure Hedge QI Fund or the Peregrine Capital Pure Hedge H4 Retail Hedge Fund ("Pure Hedge Retail Fund"), collectively the "Pure Hedge Fund". The Pure Hedge QI Fund was opened on 1 July 1998, while the Pure Hedge Retail Fund was opened on 1 February 2020. The difference between these two funds relates mainly to regulatory distinctions, minimum investment contributions and mandate limits. Both funds are regulated as Collective Investment Schemes by the Financial Sector Conduct Authority.

The fund managers aim to mirror the underlying portfolio exposures in both the Pure Hedge QI Fund and the Pure Hedge Retail Fund, subject to the respective fund mandate and regulatory limitations. The Pure Hedge Retail Fund has significantly lower minimum investment contributions with daily investing, as it aims to broaden access to the Pure Hedge strategy.

*Source: Peregrine Capital effective 31 January 2021

Global Equity Fund

The goal of the Peregrine Capital Global Equity Fund ("Global Equity Fund") is to achieve medium to long term capital growth by investing in our best ideas across global equity markets. We aim to deliver industry leading returns for our investors, while assuming high levels of equity market risk.

Local roots, global exposure
Introducing our new Global Equity Fund, giving you exposure to diversified international equities and providing long-term capital growth

The Global Equity Fund is suitable for you if:

- You intend investing over the medium to long term and have a high-risk appetite
- You seek exposure to diversified international equities that will provide long-term capital growth
- You are comfortable with global stock market and currency fluctuation and risk of capital loss
- You would like to use the fund as a global equity 'building block' in a diversified multi-asset class portfolio

The Global Equity Fund is available for investment in USD, or in ZAR via the Peregrine Capital Global Equity Prescient Feeder Fund.

THE FUND MANAGERS

Peregrine Capital was established in 1998 by David Fraser and Clive Nates. David is the Executive Chairman and is engaged with the investment team and the business on a full time basis. While Clive is no longer involved in the day to day operations of the business, he remains a Non-Executive Director of Peregrine Capital, providing regular and valuable perspective to the investment team. Fund Managers are supported by a team of investment analysts.

Jacques Conradie

Jacques joined Peregrine Capital in 2007 and is a Fund Manager, while also being Chief Executive Officer of the business. Jacques started his career at Old Mutual in 2006, where he worked in the Life Insurance Product Development team, and qualified as an Actuary. In 2005, as a student at Stellenbosch University, Jacques was awarded the Chancellor's medal for being the top graduating student. He has represented South Africa at the International Mathematical Olympiad and International Olympiad in Informatics, winning Bronze medals at both events. Jacques is a member of the investment committee of the Mandela Rhodes Foundation, and is a CFA charter holder.

David Fraser

David co-founded Peregrine Capital in 1998 and is a Fund Manager, while also being Executive Chairman of the business. David started his investment career at Liberty Asset Management (now Stanlib) where he started as an investment analyst.

Justin Cousins

Justin joined Peregrine Capital in March 2013 and is a Fund Manager and Executive Director. He qualified as a CA (SA) in 2012, after completing his articles at Ernst and Young. Justin was nominated for the Dean's list at the University of the Witwatersrand in 2006 and 2007.

LET'S TALK

For further information about our business or our funds, please visit our website or contact our business development team at info@peregrinecapital.co.za

www.peregrinecapital.co.za

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All information and opinions provided are of a general nature and are not intended to address the circumstances of any particular individual or entity. As a result thereof, there may be limitations as to the appropriateness of any information given. It is therefore recommended that the reader first obtain the appropriate legal, tax and/or financial advice, in order to make a decision that would suit the risk profile of the reader prior to acting upon any information.

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Collective Investment Schemes in Securities (CIS) should be considered as medium to long-term investments. The value may go up as well as down and past performance is not necessarily a guide to future performance. CIS's are traded at the ruling price and can engage in scrip lending and borrowing. A schedule of fees, charges and maximum commissions is available on request from Peregrine Capital. There is no guarantee in respect of capital or returns in a portfolio. A CIS may be closed to new investors in order for it to be managed more efficiently in accordance with its mandate. Performance has been calculated using net NAV to NAV numbers with income reinvested. The performance for each period shown reflects the return for investors who have been fully invested for that period. Individual investor performance may differ as a result of initial fees, the actual investment date, the date of reinvestments and dividend withholding tax. Full performance calculations are available from the manager on request. Where applicable, performance fees are payable on positive performance. 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.

South African Hedge Funds
H4 Collective Investments (RF) (Pty) Ltd ("H4") is a registered and approved manager of collective investment schemes in hedge funds. Peregrine Capital (Pty) Ltd ("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 fund manager of the South African hedge funds.

Peregrine Capital Global Equity Fund
Prescient Fund Services (Ireland) Limited (Company Number 462620), address: 49 Upper Mount Street, Dublin 2, Ireland, is a UCITS management company incorporated under the laws of Ireland and authorized by the Central Bank of Ireland. Prescient Management Company RF (Pty) Ltd (Registration number: 2002/022560/07) ("Prescient"), address: Prescient House, Westlake Business Park, Otto Close, 7945, is registered as a collective investment scheme manager under CISCA and is the Operator of the Global Equity Fund.

The Peregrine Capital Global Equity Fund is a sub-fund of Prescient Global Funds ICAV, a UCITS fund authorised by the Central Bank of Ireland, which is also authorised by the FSCA under Section 65 of the Collective Investment Schemes Control Act , 2002. Authorisation of the Peregrine Capital Global Equity Fund by the Central Bank of Ireland is not an endorsement or guarantee nor is the Central Bank of Ireland responsible for the contents of the prospectus. Authorisation by the Central Bank of Ireland shall not constitute a warranty as to the performance of the Peregrine Capital Global Equity Fund and the Central Bank of Ireland shall not be liable for the performance or default of Prescient Global Funds ICAV. Shares in the Peregrine Capital Global Equity Fund cannot be offered in any jurisdiction in which such offer is not authorised or registered. The investments of Peregrine Capital Global Equity Fund are subject to market fluctuations and the risks inherent in all investments and there can be no assurance that an investment will retain its value or that appreciation will occur. The price of shares and the income from shares can go down as well as up and investors may not realize the value of their initial investment. Accordingly, an investment in Peregrine Capital Global Equity Fund should be viewed as a medium to long-term investment. Past performance may not be a reliable guide to future performance. Prospective investors should accordingly obtain legal, tax and/or financial advice.

The Investment Manager of Peregrine Capital Global Equity Fund is Peregrine Capital International IC Limited, an entity which is regulated by the Guernsey Financial Services Commission (GFSC Ref. No. 2681962). The Investment Manager has appointed Peregrine Capital as the sub-investment manager of Peregrine Capital Global Equity Fund.

Copies of the Prospectus and the Key Investor Information Documents are available from the Investment Manager at ops@peregrinecapital.gg or from Peregrine Capital at www.peregrinecapital.co.za.

Additional information, such as fund fact sheets, brochures, and application forms, is available on our website at www.peregrinecapital.co.za.