May 2, 2023

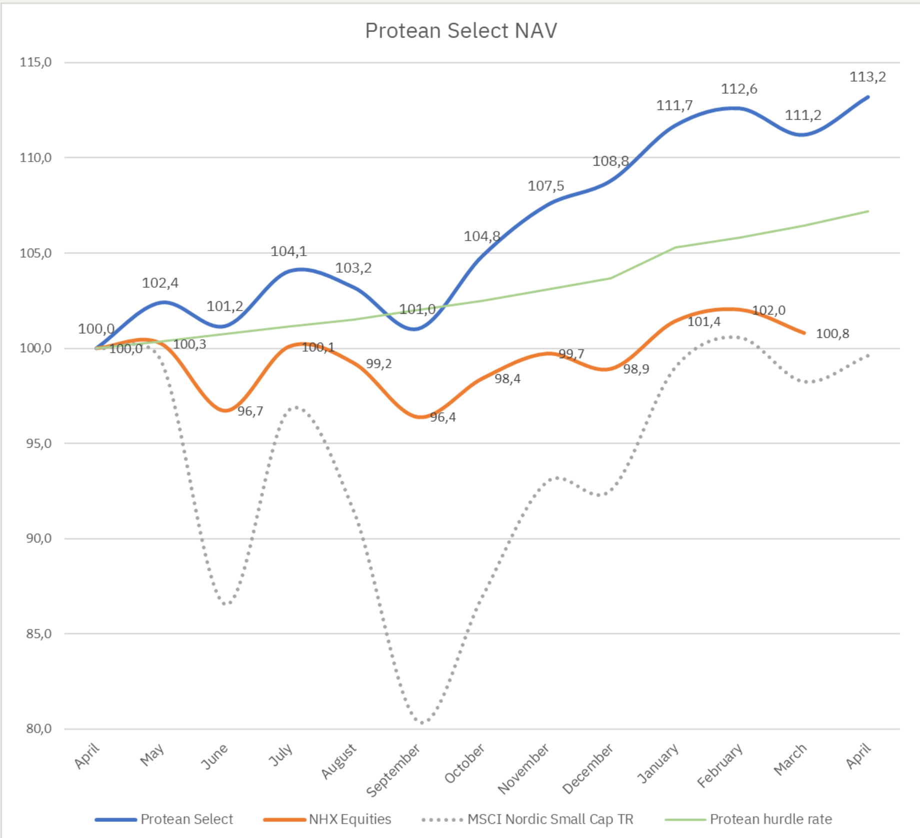
Disclaimer: Before considering an investment in Protean Select, please refer to our prospectus and KIID-material. Investments in a fund can both increase and decrease in value. Full return of capital is not guaranteed.

April Partner Letter

The first year. The second fund.

Dear partners,

We have now closed our first year. Time flies. Protean Select returned +1.8% in March. Year to date +4.0%. Since our start, at the beginning of May 2022, the fund has returned +13.2%. With substantially lower risk (volatility) than the general market. Thank you for being an investor.



**We illustrate our performance by showing a comparison with the NHX Equities index. This is an index constructed from the performance of 54 Nordic hedge funds focusing on equity strategies. We also, for reference, add our hurdle rate and a Nordic Small Cap index, expressed in SEK. We do not compare ourselves to an index. We aim to have positive returns regardless of the market. No return is created in a vacuum, and a net-long strategy will correlate. Our hurdle rate is 7.3% annualized (4% + 90-day Swedish T-bills). All performance figures are net of fees.*

TL;DR (too long; didn't-read version)

- **Happy birthday to us!** We survived the first year and delivered on our promises with a 13.2% return.
- Notably, our return was generated with **lower risk**: one third of the realized market volatility.
- **April**: Protean Select returned 1.8%. YTD +4.0%, since inception +13.2%.
- **Cargotec, Scanfil and Tryg** were top contributors.
- **Elanders, index hedges, and Dustin** were top detractors.
- We start May with **>800m SEK in AuM**.
- Our net exposure to equities is currently 35%, our gross exposure 105%.
- The portfolio **remains diversified**. No long position is bigger than 3.5%, and no single short position bigger than 1.5%.
- Our second fund, long only **Protean Small Cap,** will launch on the 1st of June 2023. Cut-off for investing is five days before month end.
- We won a prize! Say hello to the "**Rookie of the Year 2022**"!

What happened in April?

Indices MTD	2023-03-31	2023-04-28	MTD
MSCI Nordic TR	6 370,6	6 513,0	2,2%
Nordic Small Cap TR	9 289,9	9 418,0	1,4%
OMX ALL	842,9	858,6	1,9%
OMX30	2 223,7	2 270,6	2,1%
Carnegie Small Cap	1 280,1	1 305,2	2,0%

April saw the bulk of the Q1 reporting season. On occasion it felt like running blindfolded through a mine field, with big, sudden reactions in all sorts of directions. We were reminded the market has a capacity to exercise the maximum amount of pain to the maximum number of people. Overall, earnings reports were strong on supply-chain problems fading and on execution off high-margin backlogs. Order intake numbers were more wobbly, not strong enough to drive upgrades, and with financial costs spiking across the board this drove numerous poor reactions. It became clear our Nordic banks were not impacted by the turmoil in the US regionals, but they certainly didn't get paid for strong earnings and still trade well below pre-SVB highs.

Overall, we managed alright; the number of home runs roughly offset the face palms. Our conscious decision to remain well diversified and with both a low gross and net exposure, played to our advantage in the heightened volatility. We are pleased to have returned 1.8% with a low net and gross exposure in April. It is a testament to the type of idiosyncratic risks we prefer to take on.

Current positioning

We enter May still cautiously positioned. The air is thin up here, after the rally in recent weeks, and the direction of travel for global liquidity remains south. Our net exposure is just north of 35%, and our gross exposure only a tad above 100%, excluding fixed income/cash management investments. We are convinced we should be able to generate an attractive risk-adjusted return from our single-stock bets, but caution investors that in a sharply rising market we are unlikely to be able to keep track with general indices. This is the cost of protecting the downside.

The environment for stock picking, and nimble trading, continues to be benign, and we have in recent weeks felt it has become easier to find new ideas both on the long and short side. There are several new holdings in the fund that we have high hopes for, particularly in the smaller cap strategy.

Launching Protean Small Cap

Carl Gustafsson take-over

With the upcoming second fund – Protean Small Cap – I will join Pontus in writing this month's Partner Letter. Launching this project together a little over a year ago, our guiding light was to create the best structure to generate returns. We optimize for performance. Most people in this industry are smart, many are hard-working, and the opportunity set is limited. This drives our thesis that the best way to capture more upside is to stay small and unencumbered by style and size obstacles that distract from the real task: performance.

Before elaborating on that, let me go through my background. Prior to Protean, I have had several different roles over the past 20 years, with the least common denominator being Nordic equities. Ever since growing up in the Swedish countryside I have had a keen interest in stocks. There was so little going on in my hometown that the daily movements of the stock market were by far the most exciting thing that happened. My parents brought home business magazines from their offices' and gradually I began to build an understanding of what went on behind the numbers. My first trade, in the mid-90s at the age of 13, was buying Hennes & Mauritz. This feels like a cliché to write, but I had to bring my mum to the bank office to do the trade. I had some good luck initially, a good run in H&M, a buy-out offer in BT Industries and – this is honestly a good thing – lost a bunch of money when Sodra Petroleum didn't find any oil in the South Atlantic. The (mis)fortunes of Artimplant made me somewhat hesitant to early-stage medtech...

When going to university a few years late I got a side gig at a financial newswire, which post-graduation led me to a brief stint of financial journalism at Dagens Industri and Affärsvärlden. From which I branched out to equity research at the then resurgent Danske Equities' office in Stockholm in 2008 (I started a week prior to Lehman!). I stayed at Danske for five years, covering mostly industrials but with small caps close to heart. Hexagon was a small cap back then (hint:

it's not anymore!) and having the urge to try something else I joined them as responsible for investor relations for close to two years. However, the itch of getting close to the stock market became more intense, and I eventually I ended up at Didner & Gerge as a co-pm of their Nordic small cap fund, a position I held until late 2021 when I joined Pontus in creating Protean Funds.

One of our core beliefs in this project is that investing is not a science. It's a craft. It's something that you gradually learn. You bring all your prior experiences, personal beliefs, biases, fortunes, and misfortunes to the table.

A few thoughts on how we try to create an edge in general, and in small caps:

- **Constant curiosity**

I think this is the most important thing of all. The great thing for a curious mind like mine is that you always will be surprised by something each day in the markets. You will always learn something. Pontus and I read a lot, and I mean a lot. This is how we generate ideas. As an example, I read The Wall Street Journal every day and always find some tidbit that adds to our understanding of the world. At the time of writing, I have just finished reading the weekend edition. An example is an article about **Plug Power** building a hydrogen plant in Georgia, with a picture of some pipes. Who makes those pipes? Doesn't **Alleima** make pipes just like those? How much is their exposure to hydrogen? With hydrogen being all the rage, couldn't that be an emerging story?

There was also something about **No Mow May**, an emerging concept in the UK, now apparently spreading to the United States. The thesis being it's more beneficial for nature (bees etc) to let the grass grow. Kind of makes sense… I remember reading an article in Swedish broadsheet Dagens Nyheter on the same concept just a week ago. Now is that just a weird fleeting idea, a coincidence, or is it something that could become a negative factor for mower-manufacturer **Husqvarna** in the coming years? Who knows, but we want to be aware of what's happening out there.

The former US defense secretary Donald Rumsfeld made the concept of 'unknown unknowns' known. We constantly have this in mind. What do we know? What do we not know? What do we not know that we do not know?

- **Pattern-recognition**

The cliché is that history doesn't repeat, but it certainly rhymes. Pontus and I have spent close to 20 years staring at and pondering on events in the Nordic equity space. Our thinking is often based on hypothesis, where idea generation often starts with "*hey, doesn't this look a lot like when…*"

To give you a real-life example, we have a position in **Byggfakta Group**. This is one of those beaten-down IPOs that still stand out like a sore thumb among a few disappointed fund managers and investors. They bought into the allure of metrics such as net retention and annual recurring revenue (ARR) that were used to sell this case at the time of IPO. The problem is that BFG doesn't score well on net retention, as they have a higher churn than many companies in that peer group. In addition, its name doesn't do it any favors, as it implies their fortunes should ebb and flow with the inherent cyclicality of the construction sector (which is not really the case).

Where have we seen this before? A business model that requires some extra thought gets unfairly punished by the market in the wake of a poorly executed IPO? If in addition one of those early, crucial, quarters just after an IPO goes wrong, the stock gets absolutely hammered and it takes a long time to re-build confidence. If we go back to the 2014-15 vintage IPOs, there's one example that reminds me of the Byggfakta situation: **Bufab**.

While Bufab eventually became a local small-cap darling, it indeed had a rough start as a listed company. Their first report missed expectations, and with a business model that – like Byggfakta – requires additional explaining to be fully understood, the not-so-educated shareholder decided to dump his entire position in the stock. This creates opportunities. Bufab is a ten-bagger since its post-IPO slump.

- **Being long-term is often about the short-term**

Investing is a marathon. But even in a marathon, each step counts (or so I assume, I would never attempt to run one). We are keen on getting the long-term right, but if we have a short-term view on an event, we will act on it. Because, why not? Coming back to our belief of creating the environment where you are more likely to succeed, a smaller fund has the ability to be nimble and move differently compared to a large one. This is a key advantage we have versus our competitors.

- **Size matters**

Having personally managed a large >1bn EUR small-cap fund for a few years, I know how much more difficult it is to run a large, concentrated portfolio. Owning 10% of a company creates a situation, as I heard one portfolio manager put it recently, where "*you are forced to be long-term*". He portrayed it like it was a good thing, but I personally disagree. It's a poor starting point, being forced to disregard opportunities. I often found myself in situations where I knew the company in great detail, far better than most, but it was nearly impossible to capitalize on the superior understanding because transacting in a meaningful way was just not feasible.

If investing is a marathon, then having a large portfolio would be the equivalent of running it with a backpack. As the business model of asset managers work, the backpack is most likely filled with gold: the larger the fund, the better for the fund management company, but worse for investors in the fund as returns suffer the bigger the fund gets. We have chosen to cap Protean Small Cap at 4bn SEK in order to prevent falling victim to our (yet to be proven) success.

- **Dedication and passion**

This is what we do. Every waking minute. We have rarely had as much fun as in the past year. We are sad when markets close on Fridays. But this is also a key point: it has to be fun.
The term "skin in the game" is by many equal to the amount of your own savings put into the fund, but there's also a different angle: the project Protean Funds has but one objective, to generate returns, and we are 100% dedicated to the job at hand.

- **We focus on the entire Nordic region.**

Protean Small Cap will be an all-Nordic fund. We make no distinction between investing in Sweden or Finland. We have no upper or lower limits on geographical allocation between the countries. There are of course cultural differences even between these fairly homogenic countries to keep in mind, obviously. Many local small-cap funds have a set requirement that 90% of assets have to be invested domestically, but we find that looking, without restrictions, on all of the Nordics, create a target-rich environment.

- **How do we find new ideas?**

We are proud generalists. Combining a big-picture, top-down thematic approach, with 20+ years' experience in Nordic equities means we do not have a shortage of ideas. We look for opportunities everywhere. How we do it? We read. And read. And read.

We think you can draw a line from **Peter Zeihan's** *"The End of the World is Just the Beginning"* on de-globalization, and **Chris Miller's** "*Chip War"* about the dependence on a few sub-suppliers of chips, to investing in Nordic EMS-companies such as **Hanza** and **Scanfil** (the former nearly doubled before we sold it, and the latter was the best contributor to Protean Select in April).

We are waiting for the rest of the market to discover that undiscovered Danish conglomerate **Schouw** is in the process of creating the biggest EMS in the Nordics. Or that Finnish **Aspocomp** has one of few PCB-factories in the Nordics, which will become acutely important should things heat up around Taiwan.

- **What has worked for us in Small Caps so far**

The top five contributors to Protean Select on the long side in 2023 have all been small caps. **Alligo, Fagerhult, Alleima, Smartoptics** and **Bergman & Beving.** If you know the Nordic small cap space you might reflect that there's an overweight of industrials in this selection. Rest assured it's simply a reflection of this space recovering in Q1, not a bias in the portfolio. Each case is unique, but let's elaborate on two of them.

Alleima deserves its own mention. We had a holding in Sandvik when Alleima spun-out to shareholders. We did what most do in that type of situation: you sell the little scrap holding at the drop of a hat. It's tiny, it's merely a few basis points in the fund. Why bother?

But everything has a price. As we pointed out in the *January Partner Letter*, one of the reasons we think the stock was sold so indiscriminately was the oil and gas exposure. Some funds cannot, for ESG-reasons, own businesses that have exposure to that sector above a certain threshold. In the case of Alleima, this is particularly ironic, as the exact same assets were fine to own when they were diluted by being part of a larger entity.

Alleima might be cyclical, but valuation here is low also using a normalized approach. It's debt free, despite elevated working capital (creating a sizeable cash buffer in the event of a cyclical slow-down). We think these easy-to-see factors cause many investors to overlook the attractive exposure to fast-growing niche markets. As an example, an interesting nugget became public earlier this year: a SEK 350m order (ca 3% of top-line) for ultra-fine medical wire to be used in a device for remote-monitoring of patients.

We think a kicker could be M&A: net cash despite a 7bn SEK net working capital position (far above historical levels), and with credit facilities of SEK 3bn, we think this spin-off could be quiet acquisitive in the coming years. They have already made two deals since the spin-off, but having been starved for capital (and generally perceived as the odd one out in the bigger group) we think there's much more to come on this front.

We bought our position in **Alligo** in December and it has been our best performer in 2023. Alligo is a supplier of all things needed by a blue-collar worker: protective gear such as shoes, gloves and what not. As such, sales correlates fairly well with industry employment levels in the Nordics. When we discovered the stock, it traded in the low 80's and had flown under the radar for many for a few years. It traded at 8x PE on current year earnings which meant there was a good margin of safety. Meeting the company, we came to understand why it had been forgotten: post the merger between *B&B Tools* and *Swedol* the company explicitly focused on internal processes for a few years, rather than outgoing investor relations. The strategic priorities were more along the lines of rolling out company-wide IT platforms and ERP-systems and pruning SKUs from the assortment. The stock has, on the back of a strong Q4 and an ok Q1, returned close to 40% for us, and remains relatively cheap.

- **What has not worked**

We have a portion of the fund in what we label the "idiot or genius bucket". Some of them have firmly found their place in the former category. These include stocks like **Modulight**, **Polygiene** and **Implantica**. Why do we own these names? I could elaborate on company-specific drivers, but to summarize it boils down to strategic optionality. They sell through partners, they have high gross margins, strong balance sheets and could be argued to be very cheap. We have been very wrong so far, and the line between patience and inertia is thin, but with net cash positions and beaten down valuations, we think time is on our side.

- **Why are we launching a second fund**

In our long-term planning we have always seen the potential for a long-only fund. It fills a different allocation need than a long/short fund. It was always something we saw "a few years down the line". However, we were approached by one of our first-day investors (a professional Family Office) a few months ago, asking whether we might consider accelerating the launch of a small cap fund. Our long-only allocation to small- and midcaps in Protean Select has had very strong performance since launch, and we are curious to see how it will fare as a stand-alone strategy and product. Simply put: Protean Select will continue to focus on risk-adjusted returns, while Protean Small Cap simply targets returns (with higher volatility).

- **Will this dilute efforts in Protean Select?**

Fair question, but we have beefed up the organization considerably since launching the first fund a year ago. With a COO on board in **Daniel Mackey**, and with **Ramil Koria** joining as an additional resource, we feel comfortable that we have strengthened our efforts prior to launch. We keep investing AHEAD of our potential growth and returns. We want to drive returns by recruiting, not recruiting to protect it.

- **Protean Small Cap key facts**
    - It will be traded monthly, both for buying and selling
    - We provide monthly performance figures
    - It will be distributed by Nordnet and Avanza as well as directly via Wahlstedt & Partners (a more beneficial option for us, as economics are far better)
    - Minimum investment is SEK 100.
    - We charge a 1.4% fixed fee
    - In the case we beat the Carnegie Small Cap Nordic Index we have a 15% performance fee on returns above index. With a high watermark.
    - The fund will launch on June 1st.
    - We will close for investments if the fund reaches SEK 4bn in assets.

- **Similarities and differences to Protean Select**

Will Protean Small Cap be a carve-out of the small-cap bucket from Protean Select? They will surely have big similarities. It will be unlikely to find a small-cap name in Protean Select that is not part of Protean Small Cap. Inversely, the small-cap exposure in Protean Select has been a key driver of our performance in the last year.

What are the differences?

- It will be a more concentrated portfolio.
- It will take more liquidity risk if the potential upside justifies.
- We will be less concerned with near-term volatility and earnings development.
  - But trust me, this doesn't mean we will hide behind "I'm long term, so the short term doesn't matter" excuse.
- We will have a more bottom-up approach to portfolio construction. We will remain macro-aware, but not macro afraid.

Investing is personal. It must be. If it isn't, I'm certain an index fund would do a better job. If you call our style **idiosyncratic**, we consider it a compliment. This second fund will also be difficult to put a style label on. We could easily have gone with a tagline like "we only invest in the finest Nordic companies" but in all honestly, we look for performance where we can find it, and don't exclude things that don't tick a particular style or ESG box.

If you would like to join Protean Small Cap at an NAV of 100 on the 1st of June – welcome on board! If you don't, that's ok too!

Carl Gustafsson

Co-Founder and Investment Manager

Protean Funds Scandinavia AB

- **The monthly reminder**

We optimize for performance, not for convenience, size or marketing.

You can withdraw money only quarterly (monthly in Small Cap).

We tell you very little about our holdings.

Our strategy is tricky to describe as we aim to be versatile.

We are a hedge fund. We could lose money even if markets are up.

We charge a performance fee if we do well.

You do not get a discount if you have a larger sum to invest.

We do not have a long track record.

Pontus Dackmo
CEO & Investment Manager
Protean Funds Scandinavia AB