March Partner Letter

Drive to Survive

Dear Partners,

Protean Small Cap continued its strong performance and returned +8.1% in March. That is 1.6% ahead of the CSXRN (SEK) benchmark index for the month. Performance since inception in June 2023 stands at +25.3%, outperforming the index by 12.3% in ten months. Notable is the quality of return: the portfolio is well diversified, and no single position has at any time been larger than 4.5%.

Top contributors were **Rusta, Fagerhult, MT Højgaard, Elanders** and **Raysearch.** Notable detractors were **Schouw, Byggfakta** and **Netel Holding**.

Protean Select posted +3.2% return for the month. That's +4.3% YTD and +18.5 % since inception 23 months ago. The realized volatility in the strategy keeps hovering around 7%, which can be interpreted as a return generated with about a third of the risk of the overall market.

Top contributors were **Rusta**, **Metso**, **Stora Enso**, **Coor** and **Alfa Laval**.
Notable detractors were all short positions: **index futures,** a basket of small caps and a retail company.

This month's letter elaborates on why building trust in lieu of a long track-record is important but time-consuming, and how delving deep in our own motivations and drivers can try to bridge that gap.

Thank you for being an investor!

//Team Protean

April 2, 2024

What's going on

The normalization we noted in the February letter appears to continue. Horizons are being extended and risk appetite is building. The long underperformance of smaller capitalization stocks vs large took a turn for the better, exemplified by Sweden where the small cap index was up nearly 8% (driven, partly, by real estate names that bounced in anticipation of rate cuts), outperforming the large cap index (OMX30) by almost 5%-points. We are glad to have capitalized on this too, with the lowest proportion ever of small cap hedges in Protean Select (still costly, mind you), and continued stellar performance in the long-only Protean Small Cap.

The long period of European underperformance (or US outperformance, depending on vantage point) might, if not reverse, at least, turn a bit to allow Europe to catch a breath. We have shaken off various geopolitical concerns, supply chain worries, cyclical shenanigans, and interest rate obsessions. Heck, every strategy out there appears to be making money hand over fist right now. Is it really supposed to be this easy? Probably not. Despite concerns over populism in a few Eastern European countries, the EU has so far mounted a strong response to the Ukraine war, with more countries doing more than what could be expected (Germany!). There are positives out there. Sweden formally joining NATO should eliminate any residual Russian proximity risk premia in the next few months.

The IPO market is waking up. PE-owned giant Galderma worked well, but even an untested roll-up like Karnell in Sweden was rewarded with an almost 50% pop, thereby elevated to valuation levels enjoyed by similar companies with far longer track-record. Surprising! The ECM-desks are working hard to prepare for what could be a hectic H2 in the IPO sausage factory.

Dispersion and reactions are starting to make sense again in the markets. In a sense it feels like the broad macro-brush we have been painting with for the past two years now is due to be replaced with a thinner, more precise, stock-picker brush. Individual narratives matter more, you get paid for getting the single stock characteristics (not just the sector theme) right. We welcome all this, as stock picking is our bread and butter. We continue to find attractively valued cases, be it following a flow-induced weakness (like in a **Coor** or **Nolato**), a cyclical trough plus management change like **Stora Enso**, a long-term thematic winner that needs change like **Boliden**, or a special situation like **Stockmann/Lindex**.

Yet, we are acutely aware that just when the party feels like it's the best ever, and you open the third bottle of Champagne, the best option for your long-term well-being is to grab a mineral water and order a taxi… but we're not there just yet.

Trust – How to get to know a fund manager

A key consideration for investing with a portfolio manager is trust. Do I understand and trust this individual? What are their motivations? The conventional way to build trust is to study quality of decision making over a long period of time (i.e. a long-term track record). For new managers, such as **Protean**, this is a problem: we cannot manipulate the passing of time. We exist since we started. End of story.

There is plenty of research showing how small funds and emerging managers generate higher returns than established and bigger managers. This is a conundrum for allocators: if you find a fund that has done very well for a longer period, it is likely not small anymore as it has both grown its capital organically and attracted more investors. And if you find a small fund that's doing well, you are restricted by the lack of track record, since you cannot infer the necessary trust in decision making.

To short-cut the trust-building some thoughtful allocators delve deep into the personality traits and background of emerging managers. Forming an opinion on motivations, ambitions, and likelihood of success can help build the necessary trust element *before* the formation of a multi-year track record. The problem with this: it takes a ton of time. Not only the allocator's time, but the managers' as well.

Therefore: here's an attempt to short-circuit the process by offering a soul search for my personal drivers and history. What has shaped my investment philosophy and attitude to building an investment management business. Where I hope Protean is in a few years' time. Nota bene this is my personal take. My partner Carl Gustafsson, main responsible for the Protean Small Cap fund, elaborated on his personal motivations and background in the April 2023 Partner Letter when we launched that fund.

A bit uncomfortable being this personal, but here goes.

A generalist from everywhere and nowhere

Two central themes of my life: rootlessness and not being great at any one thing, but just above average at many things. I grew up in two different but very distinct parts of Sweden – Umeå in the very north, and the island of Gotland in the middle of the Baltic Sea. I have family in both places that I care deeply about and regularly visit. My loyalties and my identity are equally split between them, which in the eyes of most Swedes makes me very hard to pin down, as both places have their strong characteristics (and dialects!). My parents early divorce and re-marriage has meant one part of my family is proper blue-collar, and another comfortable self-employed upper middle class. Add several years in London high finance to the mix and I have no idea who I am. Maybe this is why I am not stubborn, have little prestige, and have no problem changing my mind. My dialect unconsciously changes depending on the dialect of the person I speak to – very annoying!

Being a generalist social chameleon has its pros and cons. Parts of my youth exemplifies some of the contrast: I was an active youth politician for the big preppy conservative party, but at the same time also a skateboarder and vegan. How I ended up on the ballot for National Parliament in the 1998 general election remains a mystery (I think the only vote I got was my mother). I started out studying science but migrated towards politics, Russian and economics, with the idea of working in the foreign service (fitting, in hindsight, for a generalist from nowhere that fits in everywhere). Fact very few know: after my first four years of finance in London, I was so fed up with it (and overworked) that I took an exam to go to medical school – and nailed it. Kind of a sliding doors moment there in 2009. Guess my targeted specialisation? General practitioner, of course. A charismatic bank manager with a big wallet cancelled my GP-plan with a generous offer, however, and here we are.

Family matters

The situation at the Dackmo house is blissfully undramatic. Happily married since almost 20 years (gulp! I'm getting old!) to my author wife. In the context of this Partner Letter, I think the important bit probably is that my wife is 100% supportive of the Protean project. Three kids 16, 14, 11. A Shetland sheepdog. A full house. My youngest is a special edition – the happiest little chap around, but medical challenges along the way have meant plenty of time worrying over the years. A loverly little square peg where school has been a round hole, he recently found his perfect place in the world: a wonderful, specialized school that caters for the individual student, whatever the academic level. As any parent will testify, the wellbeing of one's children occupies substantial headspace.

Study the history of the father

An avid listener to the brilliant "**Founders**" podcast by **David Senra**, I have heard him say "*to understand the path of the son, study the father*" many times when analysing entrepreneurs in the pod. I think he has a point.

In memoriam

My father was an eternal optimist and repeat entrepreneur, but terrible at execution. He perennially balanced on the brink of bankruptcy. We all have our battles to fight and his was repeated failure of numerous hare-brained projects. It was painful listening to the rationalizations of the latest failure, only to skip to the next great idea minutes later. But, on the other hand, the optimism and curiosity were relentless and everlasting. He was wonderful with kids and spent years as a kindergarten teacher. He was incredibly handy. Built his own house and moonlighted as a carpenter. Had he been satisfied with that, he would have lived a happy and fulfilled life. But he wanted more. A want that was sadly forever left unfulfilled as he passed away a little over a year ago. ALS, a terrible, terrible disease. I support ALS research through the Börje Salming Foundation, and hope to be able to contribute more meaningfully in the future as our capital compounds. A world without ALS is a better place.

For me, my father's life journey serves both as motivation and cautionary tale. For one it has taught me to keep the seatbelt on. I have seen the angst created by lack of financial means firsthand, and what that does for a breadwinner self-image (hint: not ideal). We did not launch Protean Funds before we had enough capital secured to make it a viable business for at least three years. I did not resign from the safe bank job before I was certain my family could be comfortable for years without Protean generating income or return.

It has also given me the will to compete and succeed – and the optimism! – but, crucially, with risk adjustment. I do not take bets that mean we won't live to play another day or year. This is why our portfolio is diversified, as opposed to concentrated. This is why Protean Select is a hedge fund at all. Why we dislike drawdowns so much we sometimes forego some of the upside. We don't put up the highest percentage return every year, since know the risks involved with concentrated bets and are far too aware of the risk of being wrong. We want to be consistent and risk aware.

Protean Small Cap was launched to take more risk, as some of our investors have a different risk profile, but the philosophy is very much the same: versatile approach, diversified bets, small AuM to exploit all opportunities, and with an attitude of not being afraid to change one's mind.

Investing in investment managers

A quick recommendation: I love **Patrick O'Shaunessy's "Invest like the best"** podcast (despite the cheesy title). He's a great interviewer, if not one of the best I've listened to. **Erik Serrano from Stable AM** is the guest of a recent episode. Stable AM invests in only in emerging investment firms. He has seen hundreds of budding investment firms go through the sometimes-harrowing life cycles of a fund business. The first time I listened to the episode I immediately hit play again when it finished. Maybe the ins and outs of running a fund business is an esoteric subject for the readers of this Partner Letter, but for me it felt like listening to someone who has done 300 iterations of exactly what we have spent every waking hour of the past 2.5 years obsessing over.

Being a broker makes you a shape-shifter

Spending almost 20 years as a Nordic institutional sales to international institutions, I have met every stripe and colour investor. The gunslinging small hedge fund, the thoughtful and deliberate risk-arb, the activists, the slow-moving and patient pension managers, the larger-than-life principals at big and illustrious hedge funds, the clever small-cap specialists (and the average ones), the sector specialists, the niche analysts, and the global macro thinkers. The learning from speaking to and traveling with this motley crew over so many years is that there is no Holy Grail in investing. There are more styles than you can shake a stick at. There are thousands, if not tens of thousands, of different types of investing vehicles, with wildly varying institutional limitations and return objectives. Many of them (fewer and fewer these days) are also run by an investor with a distinct personality. I think I managed to do the job relatively well, as rankings from some of the world's biggest institutions repeatedly put my name near the top of the hundreds of firms and salespeople that service them.

First: Read, you bum!

Trying to boil down why this line of work suited me well, I think there is several traits that helped. For one I am an avid reader. And I read fast. This is helpful to a broker. Consume text and grab the gist of something is important in a fast-paced environment, where you not only have to connect the dots but also make sure you are 100% right about a fact. If you pair that ability with a keen interest in writing (also fast), it's a combo that works well in an environment where 98% of communication is either via email or Bloomberg-chats. I often met my clients face to face only a few times per year.

Second: it's a team effort.
It helps to be a reasonably nice guy, able to get the analyst, corporate access, corporate finance, and traders to pull in the same direction and by nudging and prodding get them to prioritize and give attention to "my" clients. There is competition over resources, you want them pointing towards your clients. It's a virtuous circle: the more correctly directed attention from the entire firm, the more commissions we generate, and the client becomes more important internally, which again triggers more resources to be directed etc...

Third: paint within the lines.
I've seen people fired for various compliance transgressions over the years. It's NEVER worth it to skimp on morals. If there's the slightest doubt something won't pass muster, don't do it. If something happens that feels uncomfortable from a compliance perspective, immediately raise the issue with the higher ups and compliance departments. It's a licence to operate question, and as a business owner I run the same principle of complete openness and ambition to be spotless. There's more to this than meets the eye: lose money honestly for the firm and I will forgive you in an instance, lose an ounce of our reputation and I will never.

Fourth: being a generalist helps.
To know a little about a lot, and to be endlessly curious, is table stakes for equity salespeople. If you take the job seriously it requires a lot of hours of your day. If you don't like what you do, it shows to your clients. You must match the intensity of interest and dedication of the portfolio managers. And they're all different. So you need to be adaptive. We have brokers calling us today that clearly aren't really interested in what they do; they go through the motions, and are intelligent people, but it's a job to them, not a passion. This means they are salespeople, the product could be anything. It shows.

How has the sell-side experience shaped our investment philosophy?
What these decades of helping fund managers has given me is a pattern recognition of "will this work?". Does an equity story have enough alluring components to make enough investors bite to move the share price? Are we at an inflection point in sentiment? What do people care about? This pattern recognition works over multiple styles, which is partly why we call ourselves versatile: we like when we can find a good fundamental equity case, but we like it even more if there is potential positive change, positioning is light, and the narrative is gradually getting more appealing. Go back and read last month's thesis on Boliden as an example: Good fundamentals, room for improvement, an appealing long-term narrative that should gain more traction.

It has also yielded a global network of likeminded nerds that eat, sleep and sh*t equities. I am typing this up on a flight between London and Stockholm, having spent three days in London in back-to-back meetings with old clients and prospective investors. Several of which I am happy to be able not just to call my friends, but also investors in our funds. Protean has an unusually high number of externally active portfolio managers as investors. I think they see we have many of the *a priori* requisites to generate returns: size (small), experience (long), incentive (skin in the game), structure (professional), dedication (obsessed nerd). The one thing we lack is a long track record. But we're working on that. To my fellow PM investors from London, New York, Hong Kong, Zürich, Oslo and elsewhere: I am proud and humbled you have entrusted us some of your savings. Thank you. We will try our best not to squander them.

The motivation to start Protean was to enable investing my own money, saved over years of well-paid jobs, and compounded by investing, in an institutional setting with access to research, company managements, liquidity and all the other professional tools available to a fund. The motivation is reflected in our structure: we do not aim to get rich off neither management fee nor performance fee. We want to cover costs with fees and compound our own capital. That said, we do have a performance fee element, but with very tough hurdle rates. Particularly for a fund that has been running a low net exposure and a well-diversified book. If we do exceptionally well, we get rewarded, but a hurdle SHOULD be tough get past. We also cap the funds at a modest size, to make sure we can take meaningful positions in smaller and less liquid stocks.

"How NOT to create big profitable fund management business".

If there was a book on the subject above, I'm pretty sure we would feature as an example. We have put up a lot of hurdles for profitability and growth, but, reversely, optimized for performance by following our convictions on how it should be done. We are also true to ourselves and shape the product around our personal beliefs. Here are some examples.

- Although liquidity is not an issue for us since we are capping the funds very small, we have still put in place monthly subscriptions and quarterly redemptions to REALLY make sure we are not forced to sell a position at an inopportune time due to withdrawals.

- We do not cater to the fancy fund lingo that is currently *de jour* like "Energy transition", "Private credit", "ESG" or "factor neutral" etc. This is a personal project for returns, not an asset gathering competition.

- A result of being monthly traded, with quarterly redemptions, and no ESG-branding, is we have effectively disqualified ourselves from most institutions and distribution platforms. We're ok with that. We're not optimizing for maximum AuM, we are going for optimizing the structure for good risk-adjusted returns over an unreasonably long period of time. We think and hope this is the last job we all have. If this means excluding 90% of agent distributed capital, so be it.

- We reserve the right to vary our net exposure depending on market conditions and opportunity set, which makes us difficult to pin down in a style box, again to the detriment of bureaucratic allocators from large institutions. The world is an unpredictable place, with lots of factors outside of our control, why would one approach, or one type of exposure, be right for any extended period of time? Being flexible is just being honest.

- We employ multiple styles of investing instead of just one (which would be FAR easier to market). We do growth, we do value, we do pair trades, shorts, option structures, risk arb, momentum, themes, macro, restructuring. Heck, the extreme SEK-weakness last year even triggered us to do an FX-trade (we simply hedged, which turned out to be the right thing to do).

- We write long personal monthly emails instead of a short and slick data-mined glossy one-pager with buzz words. “Nobody reads a long rambling email anyway”. Well, *au contraire*, you have read all the way here.

- We deliberately overspend on structure and suppliers from day one, with the outspoken ambition to build a first-class business in a first-class way.

Drive to survive

Fund management has similarities to Formula One. Every month is a race, where the outcome has a big element of randomness and luck. But over a season, process, talent, and structure wins. Like the drivers of the cars, we too must take calculated risks. I venture that to win a race, you sometimes must be so close to the edge that you inevitably crash. There is something as taking too little risk. But, crucially, a crash can never be allowed to be fatal. We do not aim to win the F1 of fund management. We think of ourselves more like a top quartile team, with few crashes, happy to finish in the top 5 every season, but to stay in the game longer than all the others.

Protean Funds in five years

If we are around in 2029 it means we have compounded our capital reasonably, with an eye to protecting the downside. It means we have gotten to do what we love. This is all we can ask for.

Maybe we have a friend or two that have joined to help out. Maybe another obsessed nerd has joined to realize his or her dream, launching a complimentary fund on our platform.

The world is an unpredictable place. Maybe something completely different has happened. Good thing we have given ourselves flexibility. I reserve the right to change my mind as facts and opportunity sets change! Come what may!

Relentlessness, curiosity, and optimism

To summarize this introspective exercise, the motivations for the risk level and generalist versatile nature of our Protean Select fund, and the professional structure we have built, can indeed trace its lineage back to my personal history.

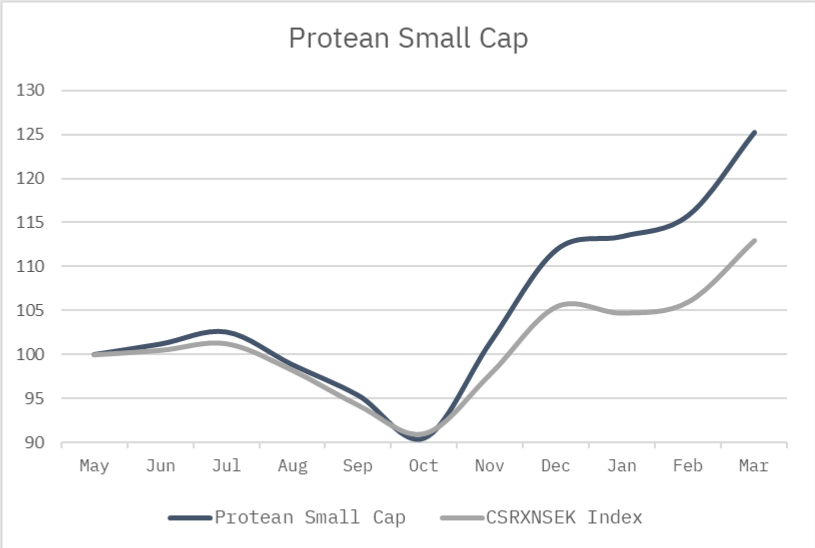
Thank you, dad, for teaching me relentlessness, curiosity, and optimism. And for the unintended lessons in business risks. I didn’t inherit your excellent handyman skills, but Protean Funds is the house I am building.

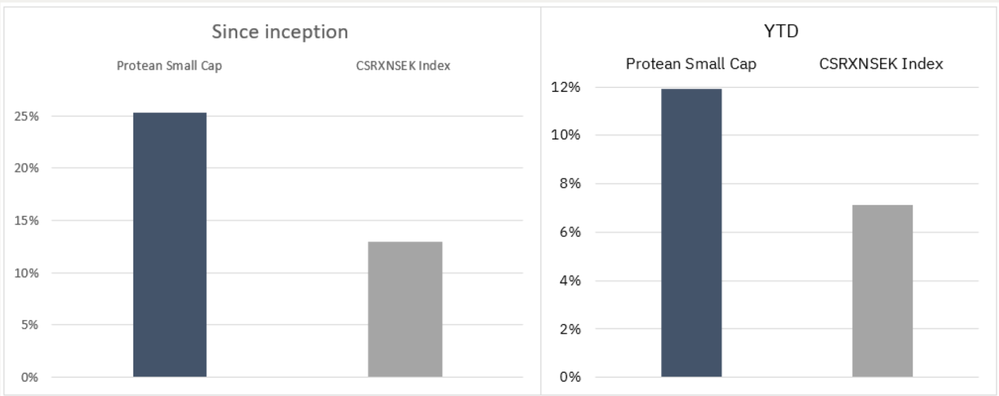
Our house has a structure and process in place, to the best of our abilities, to maximize risk-adjusted returns over a long period of time, whilst taking little to no business risk. We are satisfied with the results so far, and that some of you have decided to join our partnership. Long may it last.

Protean Small Cap – Carl's update for March

March was a strong month for Protean Small Cap, both in absolute and relative terms.

We close the month at +8.1%, meaning that performance since inception in June last year lands at +25.3%. In doing so we closed 1.6% ahead of our CSXRN (SEK) benchmark for the month, and 12.3% ahead since start.





Top contributors were **Rusta, Fagerhult, MT Højgaard, Elanders** and **Raysearch.** Notable detractors were **Schouw, Byggfakta** (but gladly, the bid was bumped from 46 to 52 on April 2) and **Netel Holding**.

Performance in March was distributed among several names. The portfolio remains diversified, with roughly 45 names with no one position above 4.5%. Risk willingness has increased during the last couple of months, which has benefitted smaller, less liquid names. The Swedish hard discount retailer **Rusta** benefited from a strong report, where the gross margin improvement was the main highlight. The Swedish lighting maker **Fagerhult** gained almost 20 percent in March without any specific news, most likely due to an increased awareness of their strong performance in challenging markets as seen in the Q4 report.

MT Højgaard is a new name in the portfolio, added in the aftermath of their Q4 report in February. This Danish construction company had a market cap of 1.3bn DKK (and a net cash position of 0.3bn DKK) when we initiated the position, which can be compared to the actual EBIT was 0.4bn DKK during 2023, and management's prognosis of being able to reach a slightly higher level than this during 2024. In other words: this is a dirt-cheap stock. And there are often reasons why that can be the case. For **MT Højgaard**, those reasons would be liquidity (we're a small fund, and we had to chase the stock), a scattered set-up (they recently sold their Angolan business but remain active in the Maldives!) which hasn't served them well and then there is the lack of dividends (despite being net cash and relatively asset rich, they will not pay dividends until they reach a 20 per cent equity ratio).

We've increased our stake in **Kemira**. This Finnish chemical maker has announced their divestment of its oil and gas business, making it fully focused on chemicals for water treatment as well as pulp & paper. Valuation is attractive, the business is well entrenched in its verticals and the divestment of O&G puts it on the radar for more investors (including us!). With the backdrop of improving fundamentals in the pulp industry, earnings prospects for 2024 might be underestimated.

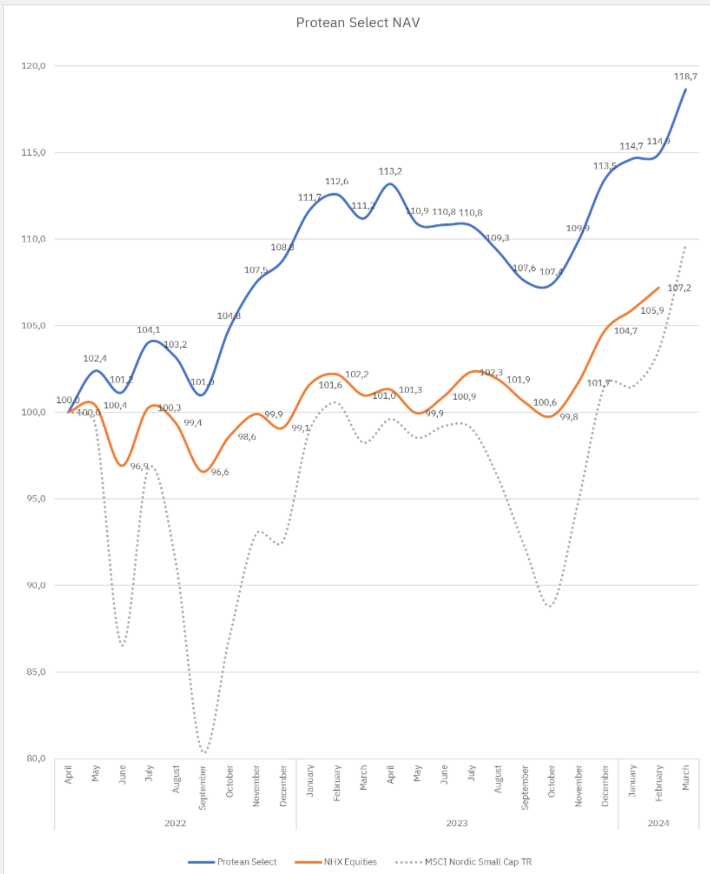
Two new, smaller entrants to the portfolio are the Norwegian maintenance and service provider **Beerenberg** and the Swedish financial **TF Bank.** Beerenberg has been on our radar for some time, but their dependence on one big customer has kept us on the sidelines. A contract announcement in March reduced that risk and makes the combination of earnings momentum and the very modest valuation too appealing to ignore. **TF Bank** has a strong profit momentum and is more diversified both in terms of geography (Sweden being only 8 percent of their book) as well as with earnings drivers than the market appears to be realize.

We've condensed the portfolio, selling names such **Lundbeck, SOBI, Securitas** and **Kambi**.

The ten biggest positions in Protean Small Cap as we enter April are:

Devyser	4.2%
Ambea	3.8%
Cargotec	3.8%
Byggfakta	3.7%
Raysearch	3.5%
Acast	3.5%
CINT	3.4%
Fagerhult	3.3%
Rejlers	3.2%
Nolato	3.0%

Protean Select – update for March



**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. NHX is published after our Partner Letter, so updates with one-month lag in the chart above. We aim to have positive returns regardless of the market, but no return is created in a vacuum, and a net-long strategy will correlate. Our hurdle rate is >8% annualized (4% + 90-day Swedish T-bills). All figures are net of fees.*

Protean Select posted 3.23% return in March. That's +4.51% YTD and +18.66 % since inception 23 months ago. The realized volatility in the strategy keeps hovering below 7%, which gives a feel for how much risk we take to generate this return. It is approximately a third of the realized volatility of the overall market.

True to our idea to generate reasonable returns at reasonable risk we currently run a net exposure around 45%, somewhat higher than historically, a reflection of our more optimistic market outlook. It is worth reiterating that our overall net and gross exposures in Protean Select is not top-down managed per se, it is rather a residual from our bottom-up portfolio construction and a result of the opportunity set we observe in the market.

Star performer of the month was Swedish hard discount retailer **Rusta** which again reported growth and margins well ahead of analysts' expectations. Comping it against peers we continue to think they have an attractive growth runway and management with skin in the game. You could argue it's starting to look on the expensive side, but valuation takes the back seat when a company continues to outperform and remains under owned by local institutions that didn't dare participate in an IPO at a time of market uncertainty.

Finnish companies **Metso** and **Stora Enso** were also strong contributors to returns. Metso has for long been the cheapest Nordic industrial company, but we think there are reasons to believe they are improving. The continued strength particularly in their aggregates somewhat validates our point. Stora Enso is more of a special situation, where a new CEO is looking to make his mark on a historically poor capital allocation and very centralized organisation. Should Stora be able to divest a few meaningful assets, at the same time as costs come down and internal efficiency goes up, plus there are early signs of both pulp and packaging market troughing, it could become a powerful equity story.

The bulk of the negative attributions this month comes from the hedges and short book. Although we timely halved our small-cap basket short position it still cost us around -1% for the month. We have replaced the bulk of the small cap short exposure with single stock shorts in a selection of mid-caps where we see fundamental downside.

Generally, we feel the markets are unusually good hunting grounds for alpha right now. There are plenty of companies due a catch-up where markets have yet to discover and value fundamental improvements that have occurred in the past 1-2 years. On the short side, there is a similar story to be told: plenty of perceived quality companies have been bid to stratospheric valuation levels, leaving little room for disappointment.

We exit March with approximately 45% net long exposure, and 135% gross exposure. In the high end of the interval we have been getting used to for the past two years. The portfolio remains well diversified, with the biggest position accounting for less than 4% of the portfolio. We are adapting to a more constructive and benign market regimen and taking on slightly more both idiosyncratic and liquidity risk.

April 2, 2024

The monthly reminder

We optimize for performance, not for convenience, size, or marketing.
You can withdraw money only quarterly (monthly in Small Cap).
We will tell you very little about our holdings.
Our strategy is tricky to describe as we aim to be versatile.
A hedge fund can 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.

Thank you for being an investor.

Pontus Dackmo
CEO & Investment Manager
Protean Funds Scandinavia AB