PROTEAN™

APRIL 2022 • PARTNER LETTER

This is it. Inception – Protean Select

Dear partners,

Visualizing that 20-year track record laid out ahead, it's fun to ponder it starts at a single point. This point: May 2, 2022. While I shouldn't get too high-minded about it - after all, funds start and close all the time, we haven't exactly invented penicillin - I do admit to being both a little proud and slightly nervous. It's no human right to manage a fund and should returns not materialize within an acceptable time period I'm confident Schumpeter's creative destruction will make our investment in both infrastructure and credibility for naught. And that's the way it should be. Friday 22nd of April (in only three days) is the first monthly cut-off. Instructions on how to subscribe in the end of the document or at ws.se/protean-select

Not for everyone

To summarize some of my earlier writing: it's worth stressing that Protean Select is our very personal venture. It's not another "product" from a big asset management company. Yes you can withdraw cash only once each quarter. Yes we do charge a performance fee should we outperform. Yes we could be down when markets are up. No, we don't have a track record for this strategy. If you do not feel comfortable with this or feel you don't fully understand what we're looking to do, there are other, less esoteric, options out there.

If we allow ourselves to dream, we wish for investors who choose to stay with us for the long term. Investors that will tolerate the inevitable periods of poor performance, resting assured our process is sound and incentives aligned with significant skin in the game. We have consciously designed the structure and process to optimize for returns rather than maximizing assets under management. We do not want to forsake opportunity because it has the wrong label or be forced to go after something because it has the right label. I firmly believe alpha is found in synthesizing, not in endless specialization. That is why we want to be adaptable and versatile generalists - nobody knows how things will play out, and there's no amount of research or "work" that makes you better suited to forecast the future. What we can do is be diligent, humble, and structurally prepared for whatever may come. After all, our own money is in the same situation as anyone else's.

What will the fund look like?

Our portfolio will consist of three Nordic buckets on the long side: roughly one third is core larger caps with on average limited cyclicality, higher quality and returns on capital employed. One third small and midcap with room to grow significantly bigger over time, and one third opportunistic special situations. The short side will be mainly market hedges, with an aim to limit drawdowns and hopefully improve compounding. It will have an opportunistic bucket of single-stock shorts, where and when we feel something is amiss and “obvious” (it seldom is). We are acutely aware of the risks involved in short-selling, why we have strict stop-losses and limited size in any single short. **We don’t believe we are God’s gift to the stock market (we really don’t).** We will be wrong. Often. But like George Soros said: “It's not whether you're right or wrong, but how much money you make when you're right and how much you lose when you're wrong.”

We do not subscribe to a particular investment philosophy. It’s therefore somewhat of a challenge to characterize the fund in simple terms. The best description I can come up with is we look for asymmetric opportunities: significant upside and acceptable downside, moderate upside and small downside, limited upside and no downside. Me and Carl have both been studying the Nordic equity markets daily for close to 20 years and I suspect our well-trained generalist pattern recognition, and wide networks, will continue to generate ample investment opportunities. We both invest all our available capital in the fund, and this is a big part of the reason for starting the fund in the first place. We have an experienced group of finance professionals backing us with seed-capital locked up for three years, why we are hopeful we have a viable business already from the start. Actually, our business plan is quite reminiscent of our investment philosophy: it has an asymmetric return profile since we have made sure to de-risk the venture as best we can already from the start.

In the past multi-decade period of falling interest rates and ever-increasing government fiscal and financial involvement in markets, it’s fair to say that you have been rewarded for taking risk. Any risk. If you have been invested, you have made money over the long term. **Calling a major secular change is a fool’s errand, but I believe the easy wins have been made.** Heck, interest rates went so low they turned NEGATIVE. Let that sink in. Something’s surely amiss. When the pendulum swings too far one way, it will eventually swing back with equal force in the other direction. Therefore we’re starting a protean (versatile, remember?) small hedge fund. It’s how we want to manage our own money. With a focus on absolute performance.

We do not guarantee outperformance in down markets (or indeed up markets), but at least we have all the tools in the box to try and make it happen, regardless of market climate. It’s hard enough to outperform without adding style restrictions and voluntary biases.

How to invest

First, before considering an investment, I remind you we are a hedge fund. We are unlikely to generate a return similar to the overall market. By design. This can be both good (if markets are very bad) and bad (if markets are very good). We don't invest relative to an index.

Secondly, you will not know an awful lot about exactly what we invest in. Nordic equities, yes, and the fund prospectus outline the framework on how the fund's exposures will look. We have described the targeted structure and what we look for, but to optimize our decision-making process, we will stay rather silent on individual holdings.

Thirdly, we charge a performance fee, with what we believe is a fair hurdle given our target exposures, historical return patterns, and high watermark.

Fourthly, it is also worth remembering that while you can invest into the fund at each month-end, you can only withdraw money at quarter ends, and then with 30-days heads up. The reason for this is we want to protect the performance of the fund from ill-timed outflows, which could be a drag on performance for remaining investors.

Perennial disclaimer: investments in a fund can both increase and decrease in value. You are not guaranteed preservation of invested capital.

If, despite all these caveats, you still want to join forces with us, we salute you.

Nordnet

We have a partnership with our friends at online bank **Nordnet**, where the fund will be available for purchase (hopefully on the 20th, but definitely on the 21st). Given the monthly cut-off is already on the 22nd of April at 12:00 CET – **this Friday** - there are only a handful of days available if you'd like to participate at launch. But, since this is a long-term game, let's make considered choices. Don't let the perceived urgency of the short time frame lead to a hastened decision.

Go direct – Wahlstedt & Sageryd

Another option, if you do not invest via an ISK or KF, is to fill out a subscription form at **Wahlstedt & Sageryd**, the Fund Company, and invest directly (Swedes have the option to sign with Bank-ID). Avid readers of earlier Partner Letters will remember this is economically beneficial (for us) as we do not share the fee with a distributor. The documents are available at https://www.ws.se/protean-select

SEB

A third option is to speak to your contact at **SEB Private Banking**, should you be so lucky to find yourself being a customer.

To conclude

Protean Select has been a long time coming. We can't wait to get going. We have a long list of companies we have researched in recent months, and we are watching prices closely. Some stocks appear to be getting away from us, while others are becoming more attractive by the day. We want to profit rather than suffer from volatility.

Enough talking. In less than two weeks all these words I've written over the past months will transform into bluster and naught if we can't turn them into that annoyingly measurable and fleeting metric we all strive for: absolute performance.

Pontus Dackmo
Investment Manager & CEO
Protean Funds Scandinavia AB