

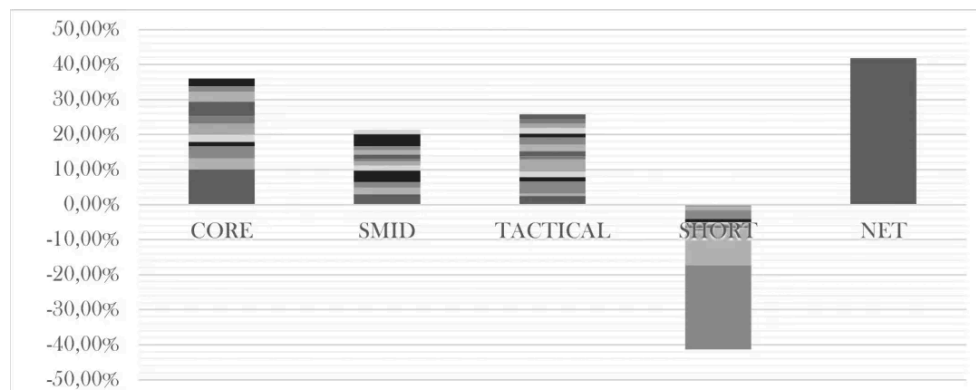
Protean Select

Dear partners,

July saw Protean Select up 2,85%. Since our start, at the beginning of May, the fund has returned 4,05%. In the same three-month period, various Nordic indices (MSCI, SAX, OMXPI) are down between -1 and -4%. We are pleased the strategy is delivering ahead of plan, and proud to have navigated these treacherous markets with limited volatility and ample alpha. If – admittedly a big if – we can keep compounding at 4% per quarter in the years ahead, we will have done a Very Good Job and I promise to cart-wheel to work every day.

Notable contributors to the performance in July have been long positions in midcaps **Securitas**, **Nibe** and **Truecaller**. Detractors have mostly been found on the short side, where index futures account for most of the negative performance. Due to sizing and strict stop-loss discipline, no single short has accounted for a meaningful loss.

We enter August still cautiously positioned, with more and smaller positions, in larger and higher quality companies, but with a slightly more forward-leaning posture. We keep running a lower net exposure to the market than we think will be the long-term average for our strategy (approximately 40% currently). Our judgment is that it remains the right thing to do, but we have added risk throughout the month, inching up the net exposure ever so slightly.



Protean Select - Composition

A graphical illustration of our positions. As you can see, it's a diversified portfolio – with the 10% position in Swedish Match a notable exception, together with two sizeable baskets of shorts (comprising some 100-odd companies in total). The single-stock shorts together only account for

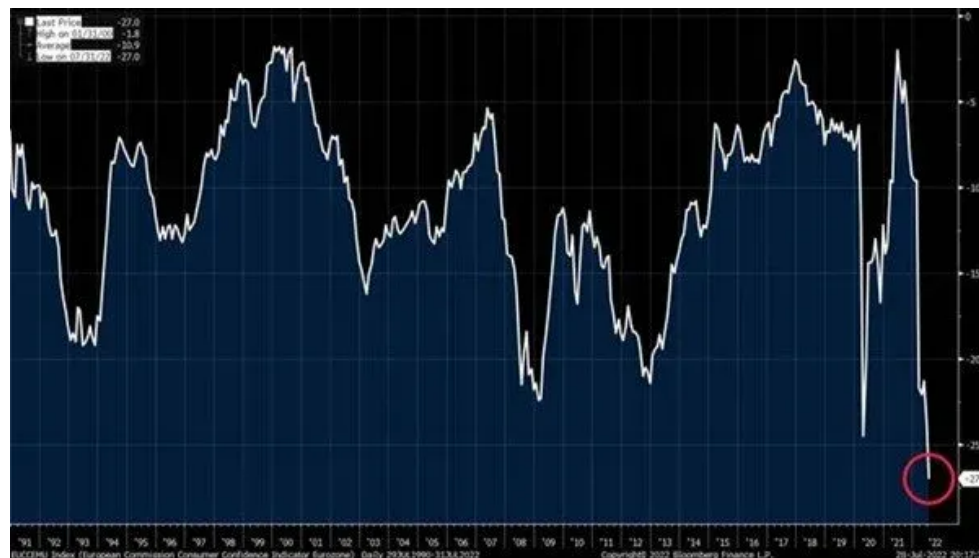
-6,6% worth of exposure. Over time, we will be expanding the SMID-part (small- and midcap) of the fund.

In July we welcomed Avanza Bank as a distributor of the fund. Notable is also that the minimum investment is now SEK 5000 at Avanza and Nordnet (since they are treated as one customer of the fund. For direct investment 50,000 SEK still applies.

We are pleased to see continued inflows, and greatly appreciate the trust you put in our stock-picking ability. We can't promise outperformance, but we can promise you we will do our best. Since we're 100% invested in the fund ourselves, our interests are aligned. There will be periods of poor performance, it's simply a fact of life – you can't expect to outperform if you are doing the same as everyone else. This means our fund can go down even if the market goes up, or – the flip-side – go up when the market is down.

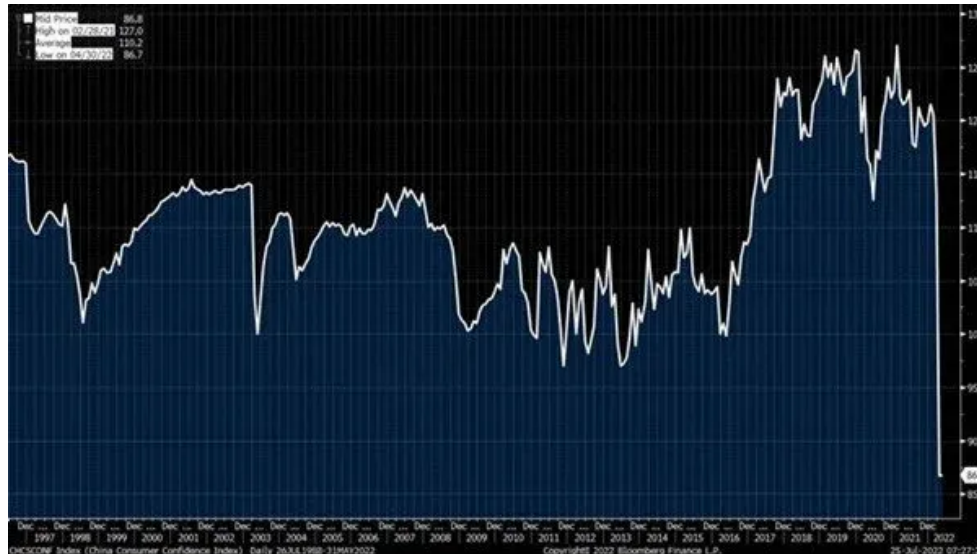
What's around the corner

Our current near-term outlook remains one of general unease. The current excitement in markets likely stem from a combination of extended negative positioning and sentiment. If all that can turn negative already have turned negative, the only delta possible is positive. I mean behold the European Commission Eurozone Consumer Confidence reading:



It's the lowest it's ever been. Well below the Mordor of Covid or the inferno of the GFC in '08.

Also, what on earth is up (or, indeed, down) with the Chinese consumer:



No wonder the terms “bai lan” (let it rot) and “tangping” (lie down flat) is trending among young Chinese people on social media. Rising unemployment, surveillance, competition, has led to a counter-reaction of complete inactivity. China’s demographic time bomb will be interesting to watch in slow-motion in the coming years.

I digress. Our outlook: as inflation figures peak and fixed income markets have started to properly price rate-cuts already during 2023, several key indicators have broken trends in the past weeks. The USDJPY klonked back below the YTD trend, equity volatility has started to normalize, the German 2Y had one of it’s biggest daily drops on record, the US10Y is down to 2,65% at time of writing (after nearly printing 3,5% only a few weeks back). Risk on! Yihaa! From our friends at global PB’s we’re hearing CTA’s (trend following strategies) and systematic fund demand for equities has been significant (after being max short for a few weeks). The fear of retail capitulation flows has failed to materialize. As a matter of fact, Swedish savings platform Avanza reported that a third of the net purchases made by retail investors in July was in fallen angels like SBB and Sinch (and SAAB, for other reasons than it being a dog). It seems the dip-buying pavlovian reflex is properly ingrained.

There was little tangible of the anticipated abrupt slow-down in recent Q2 reports from most corporates – with notable exceptions from various retail companies. But a recession-shaped hole appears in all the conference call transcripts I’ve read: nobody knows where we’re heading. This is a problem for a money-manager: when analyzability and visibility is reduced, so is the willingness to take risk (read: to price potential profits

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further out in time). Nothing in the extended negative positioning snapping back in the past two weeks has changed the fundamentals of the game – risks have risen, consumer balance sheets remain strong but are slowly eroded by energy costs, rising interest rates and substantial food inflation. Add inventory whip-saws in Q3, continued social and (geo-) political unrest, a consumer that has Covid-revenge-feasted during summer and will be nursing a hang-over both literally and metaphorically come fall, and it wouldn't surprise us the slightest if we haven't yet seen the stock market lows of this cycle.

To summarize: we are open to change but remain cautious. The choppy markets will likely stay with us for an extended period, and rather than trying to ride on the crest of every wave (and crash into every valley between them), we prefer to take company-specific risks where we deem them of reasonable risk/reward, slowly compounding our small process, size, structure, and information edge.

Avoid abyss gazing

Mental flexibility remains key: as the headline to this letter refers to, it's far too easy to marinate in negativity when actively studying every minute detail of all that can go wrong.

“Whoever fights monsters should see to it that in the process he does not become a monster. And if you gaze long enough into the abyss, the abyss will gaze back into you.”

Friedrich Nietzsche

I think this accurately catches what happens when you become too consumed with analyzing malign macro and/or geopolitical situations. There's always a worse scenario around the corner, and the more terrible outcome you can verbalize, the smarter you sound. But! This often assumes inaction – that nobody will be able or willing to do anything about it. And if there's one thing we know, throughout history, it's that while things can obviously go phenomenally pear-shaped on occasion, we're still miles better off today than we were only 50 years ago, thanks to impressive both collective and individual actions. We are a truly adaptive species, and capable of fantastic things. Let us remember that. Don't become the abyss. Don't get stuck in an Armageddon mindset.

Rounding up the first-ever quarter

We have now been live for three months. Previous letters have detailed the various ins and outs of starting up, and what worked (and did not work) for us. So, we thought to share some experiences from actual, ongoing investing. The overall conclusion is that our expectations have so far been met: a small, versatile fund with experienced managers and skin

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in the game, has, in our view, a decent opportunity to generate absolute returns. Below two examples we've lived through in recent months.

- NIBE: Even if it feels like the selling never stops, it eventually does.



A part of our “war-portfolio” (e.g. companies that sees increased demand as a consequence of the Ukraine conflict) is Swedish heat-pump manufacturer Nibe. Increasing gas and electricity prices significantly improve the household break-even calculation for installing a heat-pump. Add a substantial efficiency gain and you have a strong environmental argument as well. The heat pump is making in-roads in continental Europe and several governments have communicated ambitious long-term targets to double-triple-quad-quintuple the installed base, helped by subsidies and tax-breaks.

We therefore model substantial multi-year demand ahead for Nibe, justifying high near-term multiples. But there was a seller out there. A big one. That just never quit. Although our digging for data-points kept turning up incremental positives, the stock kept going down. Every day. Causing head-scratching at Protean HQ. We added some. We added some more. It kept going down. Are we wrong? What are we missing? -15% loss on the position, do we add or cut? Of course – that thought

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inevitably occurred right at the bottom. Even big sellers come to the end of the ticket, and with a little help from the market, our -15% loss turned into a healthy gain. We remain owners of Nibe.

- GETINGE: It's never priced in.



Getinge is a Swedish medtech conglomerate with leading positions in various products for intensive care, operating rooms, sterilization, and life sciences. Getinge has been a story of substantial restructuring and recovering from poorly integrated historical acquisitions. During the pandemic, they made hay with their solutions for artificial breathing, with the profits shoring up the balance sheet. The CEO, Mattias Perjos, has done a good job improving both communication and execution. But, lapping the boost from Covid, they were up against tough comps. The CEO nevertheless reiterated they would reach “the upper end” of their 4-6% organic growth target for the year. With the stock down some 30% on the year, we thought a lot of negatives were already in the price. We were aware of a mild flu season, lock-downs in China, lower vaccine production etc etc. As were most others, we thought.

Then Getinge profit warned. Citing exactly the reasons we were already aware of. Turns out the 30% drop wasn't enough; the stock promptly

dropped another 25%. It's never priced in until the company publicly states the issues. Not everyone's aware. Apparently. Now Getinge remains in a vacuum of lower management confidence and volatile earnings estimates, with lower visibility. Arguably a bigger discount to peers, but perhaps warranted? We ate the loss and currently have no position. It's a reminder that you're not investing in a vacuum: you can try to figure out what a stock is worth and compare the price to your valuation. Or you can look at the price, and instead try to picture what needs to happen for the stock to be attractive. We clearly missed on the "what's in the valuation" bit.

What we're thinking and reading

- **The Anti-Social Portfolio Manager**

Half a lifetime of obsessing about stocks, the world economy, companies, and markets have no doubt shaped our minds. So much that I find myself becoming more and more uncomfortable in social settings (eg. bored). I can talk about stocks for hours on end, explore business models until the cows come home, and read newspapers, research, and non-fiction books until sunrise. But I find it increasingly exhausting to try and engage in conversation about relationships, holidays, the latest niggles and politics. Surely this should qualify as a work-related injury. Every day is reduced to a hunt for data points. "Oh, I've not heard this before!" then test it against the inventory of some 400 stocks in Scandinavia that we know relatively well. Does it stick? Any positive or negative implications the market hasn't yet discounted? Any secondary effects from this data point? Test again. And again. And again. If a new acquaintance doesn't have an interesting line of work he or she can tell me something useful about, my eyes glaze over. Sad truth: we're socially ruined.

Still worth it.

- **ESG – Three letters that won't save the planet**

In a scathing editorial in last week's edition, one of our favourite magazines, The Economist, eloquently summarized the same problems facing ESG-investing we addressed in a previous Partner Letter. A few quotes deserve repeating:

"Although ESG is often well-meaning it is deeply flawed. It risks setting conflicting goals for firms, fleecing savers, and distracting from the vital task of tackling climate change. It is an unholy mess that needs to be ruthlessly streamlined."

"With governments often gridlocked, many people feel businesses should solve society's problems and serve all stakeholders, including suppliers and workers. And then there is the self-interest of an asset-management

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industry never known to look a gift horse in the mouth: selling sustainability products allows it to charge more, easing a long blight of falling fees.”

“It is government action, combined with clear and consistent disclosure, that can save the planet, not an abbreviation that is in danger of standing for exaggerated, superficial guff.”

Well put.

- **Nietzsche again!** (Have I become a real hedge fund manager now?)

” The secret for harvesting from existence the greatest fruitfulness and the greatest enjoyment is—to live dangerously! Build your cities on the slopes of Vesuvius! Send your ships into uncharted seas!”

Err... Yeah, that sounds great in theory, harnessing the volatility and riding the great market waves with bravado and leverage! Sadly, much of the short-term movements of markets are truly random (just ask Burton Malkiel, who, inspired by Benoit Mandelbrot, wrote the excellent “A Random Walk Down Wall Street”), why your dangerous living could lead to a random but inevitable bust. We prefer to keep working at our small process edges, allowing them to compound neatly over time, rather than going big and going home. (Thanks to derivatives guru @bennpeifert on Twitter for inspo.)

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