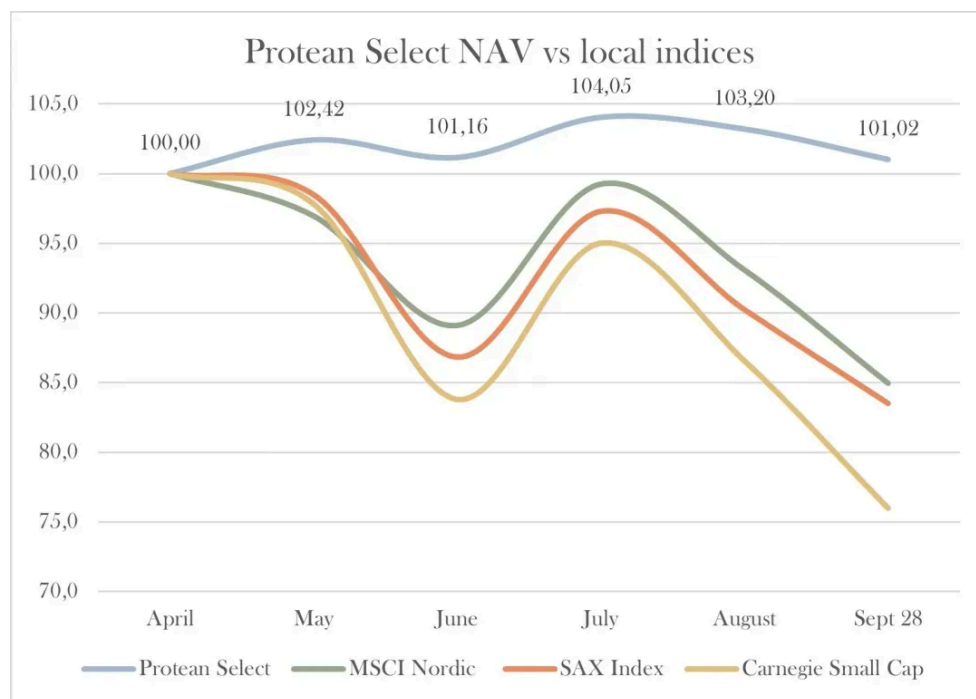


Dear Partners,

Protean Select returned -2,1% in September. The markets saw significant declines of between -8% and -12% for the month, depending on the index chosen, despite the sucker's rally into the close on the last day. Since our start, at the beginning of May, the fund has returned +1,02%. In the same period, various Nordic indices (MSCI, SAX, CSRX) are down between -16% and -25%. It's a short period, but so far, we are delivering according to plan. As we keep repeating: Protean Select is net long the market by design. We are not a market-neutral fund and will therefore correlate with its ups and down. Hopefully, more up and less down.



*I had to change the scale of the axis to fit the declines this month. Sobering.

Notable contributors to the performance in September came predominantly from short positions, both in various indices and in single stocks such as Stora Enso and Axfood. On the long side Swedish Match, Cary Group and Paradox Interactive contributed nicely.

Detractors have mostly been found on the long side, where Trucaller, Crayon Group Holding and Storebrand were the bottom three.

In a reversal of fortunes from August, we also faced the flip side of the SEK strengthening vs the NOK, leading to a not insignificant headwind.

We enter October with a lower net exposure to the market than we think will be the long-term average for our strategy. Our current exposure is the most cautious we have been since launch. There are many moving parts to markets right now, and that systemic risks are starting to emerge proper (like the LDI issue in the UK that upended the GILT market), is adding to risk premia. The market moves have been truly humbling. Even entirely market-neutral strategies are struggling to keep their head above water, some of the leading small-cap funds in Scandinavia are down close to 50% year to date. Heck, in USD terms, even the OMX30 index is down 38% on the year.

A trip down memory lane...

Let's pretend it's the 1st of October 2021. Global equities have seen net inflows of \$765bn year to date. To put that number in context, it is larger than the prior 25 years cumulatively. Equity issuance YTD is >1 trillion USD. Single stock options notional traded are often higher than the activity in the underlying stock. The FED, via QE, prints USD 3m per minute, or 4bn USD per day, or 1,5trillion per year.

Let's have zero illusions about the giant, unprecedented, mammoth impulse of liquidity that created last year's outperformance. And cross our fingers the ongoing hangover doesn't compare in magnitude. Thanks, Mark Wilson at GS, for the stats.

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.

The cost of insurance

There is such a thing as riskless returns. Or was. Whenever this rare beast appears, it's called arbitrage. Back in the good old days, when I started in the equities business, trading was still a craft predominantly executed by hand (I'm old, sue me). Yes, hard to believe, but actual human beings. As several equities had parallel listings in two countries, with discrete currencies, there was ample opportunity for the nimble screen jockey to perform the public service of ensuring aligned prices between the markets and currency pairs – and get handsomely paid in the process. It's the perfect trade: no risk, all reward.

Since whoever was fastest at computing the difference and executing the trades made the most profit, when trading software emerged and evolved, the humanoid arbitrageurs were replaced by ever quicker digital outfits (local pioneers Pan Capital deserves a mention as but one example – do read the book “Risk” by Mr. Jacob Bursell on the subject). In the years that followed, the arbitrageurs, and arbitrages to be exploited, became ever more far-fetched and constipated, and not as straightforward as the

simple real-time deviation between two listings of identical securities. No, there are opportunities in all sorts of statistical correlations: multiple securities within the same sectors, across geographies and currencies, commodities, various ingenious nooks and crannies of the capital structure, futures and options, and warrants and CDSs and God knows what. When you throw 100 PhDs at the problem, systemize, and diversify all your “riskless bets” in a big pile of Greek letters, you can lever this bonfire of vanities up to the point where the actual liquidity of the asset draws a line in the proverbial sand (Yo what’s up Renaissance, Two Sigma and Bridgewater?). The returns can be (and are) astronomical (and somewhat offensive).

In our time and age, everything slightly resembling even the shadow of a statistical edge is exploited within pico-seconds by algorithms in souped-up computers, placed as close as physically possible to the actual exchange mainframes. I’m not one to complain but trying to execute an order in the equity market these days is like Terminator 2 – you must deploy your friendly Austrian-accent robot (from the future?) to fight off the myriad of evil HFT robots front-running you... Oh sorry, I meant “providing liquidity” to you.

Therefore, for all practical purposes, it is 100% safe to assume no arbitrages are available for mere humans. Particularly if, like us, we are focusing on a single asset class (equities) in a single region (Scandinavia). What’s left for us is the good old fashion way of creating returns: to take risks.

Risk contexts

Taking risks involves making decisions with imperfect information. It also involves never being hungry thanks to the significant amounts of humble pie you are inevitably forced to consume. Risk comes in many shapes and discussions about what constitutes risk span a wide spectrum from volatility, via relative underperformance, to permanent loss of capital.

Mind you this thinking about risk is solely in an investment context. Let me make this more personal. I have three kids, a wife, a dog, and a house. My past decade-plus has mostly been spent at work, or shuttling kids between various sports, jogging, golfing, picking up lukewarm dog piles, the odd vacation, and dinner with friends. Now, instead, I find myself thinking about floating or fixed rates on our mortgage, our electricity bill, where one is comfortable traveling – if one is comfortable traveling at all – do we need all these streaming services, does it make a difference if we turn off the lights outside earlier, do we have enough firewood and canned goods and on and on. This is a real change.

Now put this in the context of being a multi-national company: you've been humming along for a decade, with ever-falling financing costs and benign bond and equity markets to tap for M&A and working capital, equity multiples nicely gravitating upwards, keeping everyone happy. Suddenly you must grapple with slowing demand, geopolitics, de-globalization, cost inflation, labor unions, currencies going crazy, shareholder pressure, short-seller reports, capital structure, and re-financing concerns. It's similar is it not?

Some of the fundamentals have been allowed to fall off the agenda. We have all, collectively, ignored the relationships of the World as we know it through history: nothing lasts forever, and You Better Have Your House In Order You Bum! The nation-state as a construct, relying on geographical boundaries that in turn shape our economies and societies, is the kernel that has held throughout modern history, why would accelerating globalization be a new normal over any substantial period? Particularly when actual physical risks start entering the realm of possibilities via nation-state aggressors and fragile interdependencies. I strongly recommend reading Peter Zeihan's recently published "The end of the World is just the beginning".

First level: where are we now?

If and when - and odds are this winter could see particularly Europe getting a stern wake-up call - our risk awareness starts climbing down to the lower levels of Maslow's famous pyramid, from the peak "personal development" of the past 10 years (that saw the consensusfication of virtue-signaling ESG and bonkers tech and unlisted valuations) things get existential real fast. What happens if electricity is rationed? What happens if an IT attack brings down the intricate digital payment systems? What happens if that crazy b*stard in Moscow drops a tactical nuke on the battlefield? If he really picks a fight with NATO? If Nord Stream is blown to pieces - oh wait that just happened.

The point is this: hope for the best, but plan for the worst (bonus question: this is a quote from what fantastic fictional character?). A few years ago, that worst was not a global pandemic, an unpredictable Russian aggressor with nukes, energy rationing, interest rates and inflation and energy costs spiking. Right now, however, it is. From YOLO to GTFO in less than 9 months.

This brings this line of thinking full circle, back to the headline of this paragraph: the cost of insurance. The first level reaction to insurance is "I want insurance so that in a worst-case scenario, I come out unscathed. Therefore, we pool our monthly payments so that we collectively cover the unfortunate bugger that has an accidental fire or whatnot". This is not

the insurance I'm thinking about. I'm thinking about the exact opposite insurance. The insurance against a lucky event!

Second level: what's expected?

When the negatives are mounting; the 2nd derivative of the world's narrative is going in the wrong direction; the direction of overall positioning is going from "fear" to "extreme fear"; from "outright negative" to "max short" (this is the actual term used to describe the current positioning of the large trend-following CTA-funds); when markets are down 20-30-40-50%?



*A meme from twitter.

Is this the time to add shorts to the market? To enroll in the ongoing who-can-be-the-most-bearish-competition? Is it not time to insure the upside? Reading the autobiography of legendary entrepreneur Sam Zell, one teaching stood out: when everyone is looking in one direction, you want to look the other way.

This is the reason Protean Select is down in September: we're deliberately glancing in the other direction. We see the same things everyone else is obsessing about. We are marinated by the pessimism of the media,

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macro analysts, peers, retail investors, onlookers, and random pundits. We acknowledge the fact that things can get worse. We even think there is a non-zero chance things DO GET WORSE. We are aware. We are positioned for it.

But: we don't want to miss when the market turns. Simply because it's impossible to call a bottom. Simply because things ultimately want to come good. Simply because we believe in human ingenuity and the power of good. Simply because that's what history tells us. It's Pascal's wager all over. We believe the bear scenario playing out would render any investment returns void and null and is therefore not a bet worth taking. Taking out insurance on the upside in this epic pessimism is therefore an easy and rational decision to make. But it comes at a price, and that price is one we're willing to pay. Therefore we remain net long, despite seeing all that's wrong with the world. Therefore we accept a small draw-down despite expecting falling markets. A modicum of contrarianism is a prerequisite for non-standard returns.

The Marines in the US have a saying which means to consciously accept or appreciate something extremely unpleasant but unavoidable. It's apt for the current situation:

Embrace the suck.

We agree. Things don't look great right now. Yet we happily pay the insurance premium of being too early – because it makes sense.

Third level: where do we expect expectations to go?

Trying to put ourselves 12 months ahead, in October 2023, our expectation is that we won't be in nearly as dire straits as right now. The global commodity shortage anticipated at the start of the Ukraine conflict has – after an initial spike – almost completely petered out. Lumber prices are back down, as are chipsets and a wealth of others across the raw mat spectrum. Freight costs have plummeted. The congestion at global ports has evaporated completely. Real wages are down, as are disposable incomes, creating a powerful disinflationary impulse to the economy (all these factors have already now, in early October 2022, happened, but they are not the center of attention in the current narrative).

Do you think we will be paying these prices for natural gas and electricity come next fall? I do not. This might be perceived as offensive by some; Europeans at large are not willing to sacrifice much more than what they already have for Ukraine to claim a full victory. The front will ossify, and there will eventually be a stalemate. Somewhere there is a compromise to be made. A victory of sorts to be declared by both sides. The conflict might well carry on for a long time (the Korean war is a case in point – it is still ongoing, and no peace treaty has been signed), but from a MARKETS

perspective, and as a contributor to an increasing global risk premium, I think we are weeks if not days away from where markets will stop caring. The conflict will become just one of the many ongoing global conflicts. This delta will matter to risk assets. To be ruthlessly crass: does a German dentist really care more Donbass about than the electricity bill?

This might be a crude oversimplification, as the likely determinant of the outcome is the duration and size of US support of the Ukrainian war-efforts, not the German dentist.

The EU ban on Russian oil is a chimera, where the only effect has been a re-jigging of trade flows that allow India and China to gorge themselves in cheap Russian crude, and Europe to source more from the Middle East. We've only shifted the flows. The slow-down in China has also eased the global demand for floating LNG, which has allowed Europe to snatch enough cargoes to get us through winter without rationing (ish). Once the conflict reaches a more mature and stable phase, for whatever reason really, there is little logical incentive NOT to start buying Russian natural gas, completing the circle, normalizing energy costs, easing inflation, creating room for less aggressive central bank policies, putting a hand under markets.

You can make moral judgements about these musings, but that is missing the point. This is not what I want to happen, necessarily, but what I think could happen.

It is also encouraging to think that most big positive changes need a preceding galvanizing moment. From chaos and suffering comes the impetus to act.

All this, of course, is only a guess.

What's around the corner

An old rule of thumb is that there's no limit to the number of times the market can sell off on the same piece of negative news (because different cohorts of investors absorb information at varying speeds). We think markets have discounted a rather dark scenario. But once the fears start to materialize, once we see the physical electricity bill, the mortgage payment, and the receipt at the food store, it hammers the point home. Unpleasant actions (cutting a loss, paying for insurance) are easy to postpone. Adding to the pressure is that we have yet to see meaningful outflows from retail-heavy funds. As reasonable alternative returns with zero volatility can now suddenly be found in cash deposits, our concern is this is still a tangible risk.

The near-term delta in markets is still to the downside but we are watching the second derivative closely. Single equities with signs of non-

economic sellers indiscriminately dumping shares are of particular interest. We're monitoring several companies with long a profitable history and substantial export business and/or a unique asset, where the USD/SEK depreciation on top of the general stock market malaise has made them almost irresistible to a foreign buyer. It would not surprise us the slightest if Q4 2022 becomes one of the most frenzied bid periods on the Swedish Stock Exchange we have ever seen.

With Q3 reports coming up, we fear okay-ish overall results in the quarter will be overshadowed by cautious outlook statements and guidance cuts. If there's one silver lining, it's that compressing corporate margins are exactly what's needed to cool inflation, in the medium term. But we're far too early to think about that scenario, with the consensus analyst still expecting margin expansion and revenue growth in 2023 on an aggregated level.

The elephant in the room is however a much more fundamental issue: the erosion of trust in institutions and policy. The election of populist governments with simple solutions to complex problems. The wild gyrations in the UK are a testament to serious tensions building between markets and governments. In short: lack of credibility is being punished. The thought that policymakers are capable and willing to alleviate all that ails us using the printing press is getting a gut-check. The conflict between monetary policy and fiscal policy has gone from a theoretical academic exercise to front-page news. Bringing inflation under control will inevitably involve everyone – consumers and corporates alike – tightening the belt another notch. Corporate margins compressing and wealth destruction from financial instruments falling is a painful but efficient deflation tool. It sucks. Embrace it.

What we're thinking and reading

- Building in public

We have concluded our search for a Chief Operating Officer. The contract is signed, and he will join in December. He brings tons of operating experience from both roles as CFO in listed companies and several senior positions in fund administration at institutions managing billions of EUR. We are pleased someone with this wealth of experience joining, and it will enable the investment managers to focus more on investing and less on running a business.

We have participated in a handful of media engagements in the past month: Marknaden podcast, two interviews (Dagens Industri and HedgeNordic), and a live TV-commentary session (DI Tv). It's been fun and we have hand-picked those that we think holds a high standard. The reason is simple: we'd like to have a profitable business. This won't happen

without building a modicum of awareness we exist. We start October with SEK 470m in assets under management – a princely sum and we are grateful for the faith shown in us by our investors.

During the month of September, we had a high activity level. We attended several seminars, traveled to Denmark to meet companies, had discussions with experts, and meetings with analysts. We have traded the opportunistic bucket of the portfolio and our market hedges rather actively but only replaced one stock in the core portfolio.

- Idiot or genius

Sticking with the learning from Sam Zell above, we believe in the need to have a slight allocation in the portfolio to cases where there is only a thin line between feeling like an idiot or a genius. Some stocks right now discount a terribly pessimistic scenario and are so depressed even the slightest hint of positive news could double the share price. This is a game we enjoy playing – but it requires skill in sizing, timing, and patience. We have some 3-4% of the portfolio in these types of idiot or genius stocks. We will know soon enough which one we are.

- Puzzle, not war

In contrast to the US Marines' expression that headlines this month's letter, we think the art of investing (yes, art, certainly not a science) should be seen as puzzle solving rather than a war that needs fighting. Aggression, testosterone, and adrenaline have little room in investment decision-making – which perhaps is the reason there are several studies suggesting women are better investors than men. A live example from the month of September: accept the way the game is played. In our "idiot or genius" bucket we held a position in Truecaller. Meeting management and doing our due diligence we concluded that the fast-growing, significantly net cash, tech company was unjustly punished by a flow-driven weakness coming from VC fund exiting and an exaggerated fear of pending Indian regulation. Cue Viceroy. They published a negative report that certainly didn't help either the stock or sentiment. The war-like scenario would be to be offended, to scream at the nefarious short-sellers, and call for justice (whatever that is).

But we believe in the process of constantly looking for pieces (data points) that can fit together into a bigger picture. The Viceroy report contained several data points that were new to us. For example, Truecaller is using the same (dubious?) auditor in India that Wirecard was using. Foreseeing an extended period of mudslinging, while the overhang remains, we concluded that – for now – we are idiots. For us to have an edge in a situation like this, we realise the need to spend a



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disproportionate amount of time researching. We no longer hold Truecaller stock. But, as you know, that might change.

As a side note: despite the egg on our face on this occasion, Truecaller is the fifth best single contributor to Protean's return since inception in May, with the return generated almost equally on the short side and the long side. But we did have humble pie for lunch, again, last week.

Pontus Dackmo
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