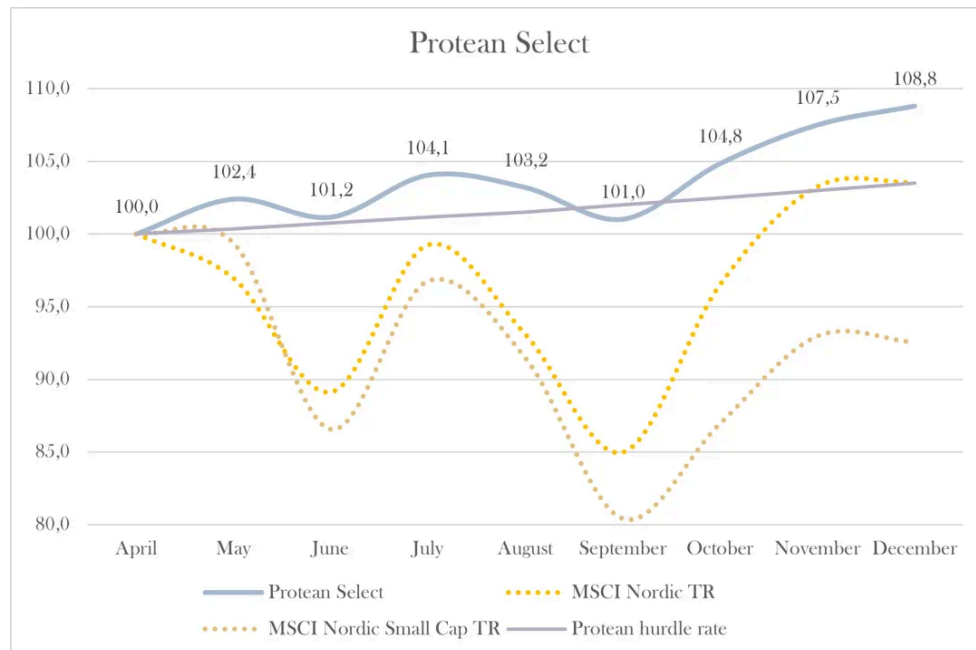


Dear Partners,

Protean Select returned 1,25% in December despite markets generally contracting. Since our start, at the beginning of May, the fund has returned +8,8%. Well ahead of any index and with significantly lower volatility. Thank you for being on this journey with us.



*We illustrate our performance by showing a few Nordic indices, expressed in SEK, as reference. We do not compare ourselves to an index. We aim to have positive returns regardless of market. No return is created in a vacuum, and a net-long strategy will correlate. Our hurdle rate is 5,8% annualized (4% + 90-day Swedish T-bills). All performance figures are net of fees.

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.

TL;DR

“Too-long; didn’t read” version:

- **Good performance:** + 1,25% in December and +8,8% since May.
- **December was undramatic.** We stayed cautious post the ‘CPI isn’t as high as believed’-frenzy in mid-December, which was key for returns during the month.

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- **Protean's full-year 2022** was good. Diversified, low risk, decent return.
- **Circle of competence is lazy.** One should work to expand it. Protean has started to invest in corporate bonds and commercial paper.
- **2023 outlook.** Very little changes just because there's a new number on the year. We remain convinced there is nothing brilliant to do. Our positioning reflects that.
- **Why you should NOT invest in Protean.** We are optimizing for performance, not for marketing or asset gathering. We are not for everyone.
- **EuroHedge awards.** We have been nominated for "New Fund of the Year", together with five much bigger funds from big asset managers. We're surprised and humbled, but as the nomination comes from evaluating risk-adjusted returns, we deserve our place.

What happened in December

As markets were down a couple of percent across the board, we are extra pleased to print a decent positive return. The biggest contributors during the month were, in order of importance, short **index futures**, short **Swedish real estate** stocks, long **Danske Bank**, long **Bergman & Beving** and long **Sinch**. The biggest detractors were long positions in **Neste**, **Truecaller**, **Tele2** (we tried to pick the bottom too early), **Hexagon** and **Modulight**.

Local Nordic indices were down across the board. Nothing dramatic but decidedly in the red, fudging any hope for a widely anticipated year-end rally.

	2022-11-30	2022-12-30	MTD
MSCI Nordic TR	543,1	535,2	-1,5%
Nordic Small Cap TR	801,9	784,4	-2,2%
OMX ALL	803,4	781,9	-2,7%
OMX30	2 102,4	2 043,4	-2,8%
Carnegie Small Cap	1 206,6	1 185,1	-1,8%

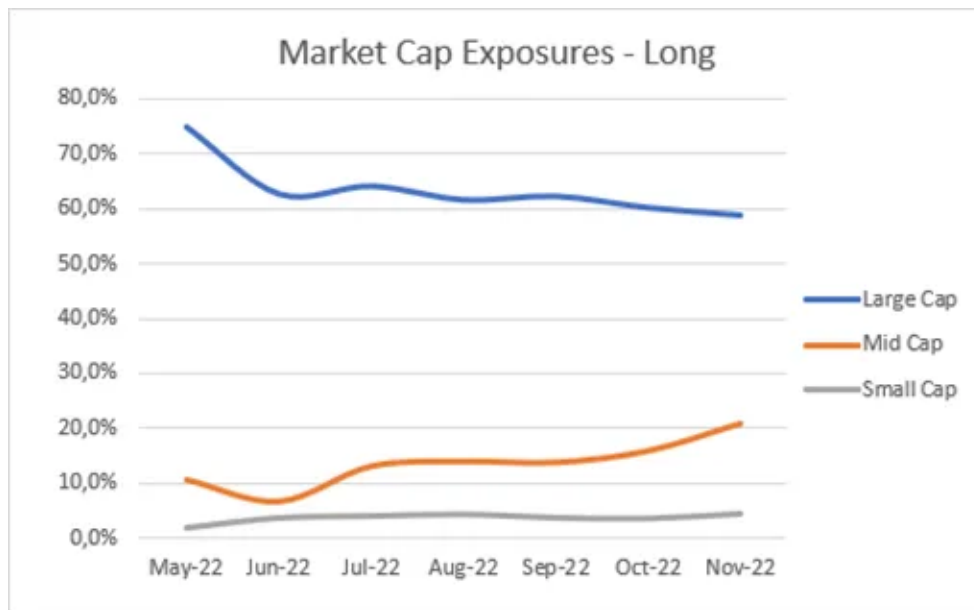
Protean's 2022

Suffice to say it's been an eventful year. Two hours into the first day (May 2nd), when we were busy implementing the portfolio, the 8% flash-crash on the OMX occurred. Sobering. This was followed by severe drawdowns, aggressive rallies, and just general volatility and uncertainty. Despite this we have posted grown-up returns, with grown-up exposure.

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Our market view has caused us to run a low net with a clear tilt towards liquid large caps. We have operated within a risk-minimizing framework. As you can see from the chart of our long exposure below, we have only towards the end of the year started to beef up the small and mid-cap part of the portfolio. We hope to, over time, feel comfortable enough to build this towards 50%. More and more smaller companies are trading at increasingly attractive valuations, in our view.



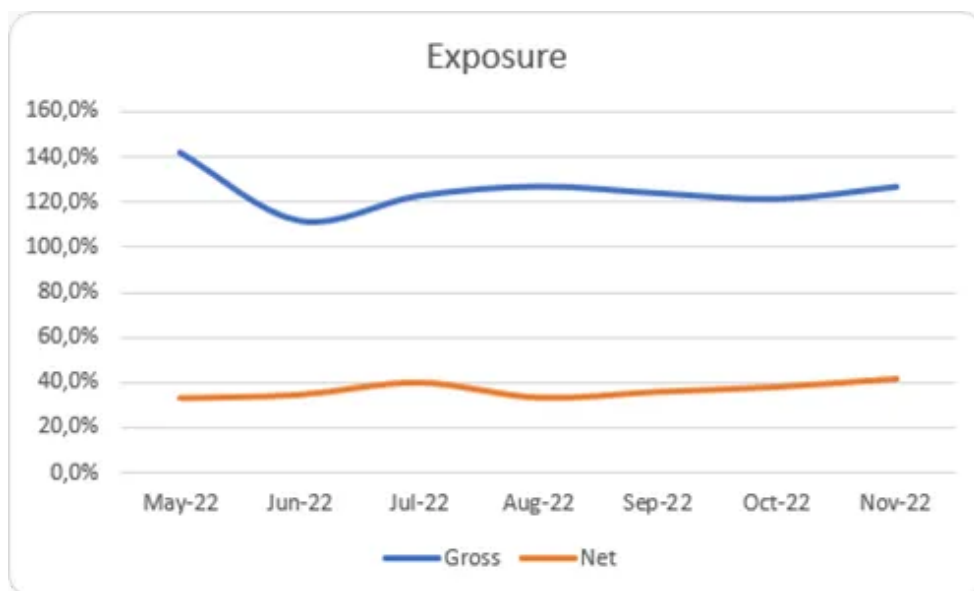
The exposures on the short side have been rather different. We have taken a view, occasionally, that small caps were likely to underperform. At those points we have taken on bigger short exposure via an OTC swap basket of stocks (50+ names). A convenient and relatively liquid way to get an exposure/hedge to an entire asset class that tends to get smacked over the head in macro-driven markets.

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As you can see, we have actively traded the overall exposures of the fund and hedged our core portfolio to a smaller or larger degree throughout the period. Our single stock short exposure has at no time exceeded 10%, and no single short position has ever been larger than 2%. We are not God's gift to the stock market and will therefore be wrong often. Hence, we try to design the portfolio such that mistakes are less costly and winners are more beneficial – we are net long by design.



We have also built the number of holdings up as we find new ideas and conviction. I mean: who has a full portfolio of ideas to deploy day one?



One thing we're particularly proud of is that the return is generated with a limited number of outliers. We prefer to believe it is a result of process, rather than a random outcome, but the time series is probably too short to be sure. The portfolio has been amply diversified – with the notable exception of the special situation in Swedish Match. Below an illustration of our top ten long positions at various month-ends.

Top 10 Equity Holdings

June			Sept			Dec		
Stock		%	Stock		%	Stock		%
1 Swedish Match AB		10,37	1 Swedish Match AB		12,66	Essity AB B		3,31
2 Trelleborg AB B		3,60	Nordea Bank Abp		4,45	Danske Bank A/S		3,29
3 Essity AB B		3,47	Paradox Interactive AB		3,43	Tryg A/S		3,18
4 Tryg A/S		3,30	Tryg A/S		3,06	Sampo Oyj A		2,89
5 Nibe Industrier AB		3,25	Essity AB B		3,05	Novo Nordisk A/S		2,82
6 UPM-Kymmene Oyj		3,07	Storebrand ASA		3,03	Huhtamaki Oyj		2,72
7 Sandvik AB		2,98	Novo Nordisk A/S		2,83	Sandvik AB		2,68
8 Nordea Bank Abp		2,95	UPM-Kymmene Oyj		2,75	Nordea Bank Abp		2,63
9 Truecaller AB-B		2,78	Kindred Group Plc		2,60	Coor Service Management		2,49
10 Hexagon AB B		2,74	Equinor ASA		2,53	Know IT AB		2,08

While the volatile markets in the past nine months have caused us to do a fair bit of trading, one third of our current long positions are stocks we have held since day one. The ambition is to be long term owners, but rest assured we have zero qualms about selling a stock (or issuing a covered call) should a stock overshoot and reach unjustified levels.

The endeavor of investing over any longer period means you will inevitably be wrong. Often. This is a fact of life. I believe one of mine and Carl's more benign features as investors is we admit when we're wrong,

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and also admit that we were wrong about being wrong. An example: we got spooked by production difficulties for **Novo Nordisk's** key drug **Wegovy**. Thinking we had an edge to a story that could send the stock potentially tumbling down 10%+, we sold the entire position. Now THAT turned out to be wrong, and we bought the entire position back a few weeks later (higher than we sold it). Lucky that, as the stock has appreciated 8%+ since then and remains a core position.

The composition of our performance attribution to date is spread among a large number of stocks. As you can probably guess **Swedish Match** has been our biggest contributor. What the below chart does not show is how the tail of contributors is both longer and higher than the tail of detractors. Several of the names below we have traded both long and short during 2022. Several we have traded very poorly (like **Evolution and Getinge**). But – and this is what's important – on average, we have managed to be right more often than wrong, and – crucially – been able to contain the losses.

It is notable that two microcaps are among our biggest losers to date. Both Modulight and Polygiene we think are cheap, misunderstood and offers ample asymmetric opportunity, but the position sizes reflect the risks involved in micro caps, and the fund won't capsize should we be wrong (which we well may be).

Bottom line: we are somewhat amazed we have navigated 2022 so well given our net long bias. We take it as early evidence a small versatile fund with experienced managers and skin in the game can indeed generate reasonable risk-adjusted returns. Regardless of market climate. Fingers crossed we can repeat this in 2023.

Circle of competence is lazy

Having just re-read the excellent "Snowball" biography of Warren Buffett I must confess I'm full. Full up to my armpits with Buffett and Munger of Berkshire Hathaway fame. Yes, they are a fantastic example of what not doing stupid things over a long period of time does to a portfolio. If that long period of time just happens to coincide with globalization, digitalization, and ever-lower interest rates, well... all the better.

They repeatedly speak of investing within one's circle of competence. Arguing you need to know what you know, and only invest in things you understand. While great advice, generally, it strikes me as terribly unambitious. My take on this would be to relentlessly work on expanding that circle of competence. I do take the opposite view: one of the most appealing aspects of investing is the opportunity to immerse yourself entirely in a new company, market, or product. Limitless curiosity is far more interesting and rewarding than following the lazy dictum of comfort.

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If you want investing to be “easy”, by all means. But if you’re willing to put in the hours, researching, and sleuthing, I venture to argue it’s far more rewarding to be constantly at work expanding said circle. Heck, Buffett was personal friends with Bill Gates very early in his Microsoft-journey but refused to even use a computer, let alone invest. Just imagine if he had been open to new things... (He did of course come around to tech, decades later, investing heavily in Apple.)

As both me and Carl are pronounced equity-investors, we have actively ignored other parts of the capital structure for most of our careers. But running a hedge fund comes with a “float”. Imagine you have 100 in cash assets. You buy equities worth 100, and sell short 80. This means you are 20% net long, 180% gross... and still have 80 in cash assets! They too should be generating a return, but perhaps not with the volatility and risk profile of an equity. As yields have crept up substantially, enter commercial paper and corporate bonds.

Clearly not within our circle of competence when the year started, but we’ve been hard at it trying to figure out how to expand, meeting fellow investors, analysts, salespeople. We have decided we are (so far) capable of investing in relatively short-dated corporate bonds, of companies we know well from our equity experience, and holding to maturity. Already familiar with balance sheet and cash flow analysis, we trust ourselves to avoid blow-ups also in credit space. An example: we’re comfortable owning the bonds of a well-capitalized property company, with strong main owners and multi-cycle history, that we have followed for nearly a decade. But less interested in an **Intrum** where we are not convinced of neither the business model nor management team (we note credit investors appear more optimistic on the company than equity investors, considering how the two instruments are priced, probably reflecting the possibility of putting the business in run-off, if push comes to shove).

We have nearly 10% of the fund’s capital in corporate bonds and commercial paper at time of writing. It might become more, but not much more. We are equity investors first and foremost. To pick up decent yields on the fund’s cash is more liquidity and cash optimization rather than an outright strategy.

What’s around the corner

We approach this market with trepidation. Although, as you know, we have a positive bias, the problem currently is there’s no real direction. There’s no overarching narrative. Overall valuations are somewhere between ok and stretched.

Miles of text has been written about the changing paradigm brought upon us by central banks reacting to unacceptably high inflation. You

could lay all the World's economists in a long line, and still get nowhere when it comes to predicting how markets will react to various minutiae in inflation data readings. There appears to be a consensus forming that inflation will "roll over" in the coming months, now discounted with the latest rally off the September lows I would argue. Is it possible to reign in inflation without breaking things? The concern I have is this: if economies rebound, what happens with inflation, as both energy and labor markets are tight and unable to respond to increased demand?

Also, remember this: we have a clear and vivid precedence of irrational Central Bank behavior in recent memory. Irrationally low interest rates for far too long created a historic "everything bubble" crowned by esoteric bigger-fool assets like crypto and NFTs. The relevant question to ask is therefore: why would they suddenly become rational now? As long as employment remains high and healthy, and energy markets remain tight, pushing wages and energy prices higher (or at least keeping them from going down), further tightening could well be the surprising result.

As we set sail for 2023, the best we can say about the outlook is that it's as foggy as ever. Our positioning reflects this: there's nothing brilliant to do. We will stick with focusing on the micro, while shielding us as best we can from the macro risks. If we can make a positive return, with limited risk, and pounce on asymmetric opportunities when they arise, we'd be happy with that. Best case we end 2023 pretty much as 2022: with reasonable risk-adjusted returns, regardless of what markets ultimately end up doing.

Why you should NOT invest in Protean Select

We are not like most funds. We do not want to maximize the amount of capital we manage; we want to maximize the return on what little capital we have. Therefore, we have made choices that we believe enhance returns but make it more difficult to attract investors. That's ok.

- **You can withdraw money only quarterly.** This limits the negative impact of ill-timed flows on returns for remaining investors. It also allows us to take on selective illiquidity risk.
- **We tell you very little about our holdings.** This is to keep our decision-making process as clean as possible. Publicly parading a case comes with mental baggage we would rather avoid.
- **Our strategy is versatile. This means we are difficult to classify.** We scour for asymmetric opportunities where we can find them, regardless of label. If you want to allocate savings to a certain style, there are excellent funds out there. Just not this one.

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- **We are a hedge fund.** Our returns do not necessarily correlate with the stock market. The value of the fund can decline even if the market is up (and the reverse). It also means we run a higher cost base than a long-only fund.
- **We charge a performance fee.** If we return >6% on an annual basis and are above the fund's high-water mark, we charge 20% of the above performance.
- **You do not get a discount if you have a larger sum of money to invest.** We have only one fund class and we all pay the same fees.
- **We do not have a track record** managing this strategy (but we work hard).



What we're thinking and reading

- **Building in public**

Our COO is on board and it's fantastic to have another resource dealing with all the important administrative tasks. If and when our long-only fund is launched in the coming months, we hope to be able to add an experienced analyst that shares our view on how to invest, bringing the team to a grand total of four.

We start January 2023 with north of SEK 660m in assets under management. Getting closer to our goal of reaching 1bn SEK to be break-even on a fixed fee basis. Thank you to all that have dared to put some money to work with us!

- **EuroHedge Awards 2022**



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We have been nominated for “New Fund of the Year 2022” in Europe by EuroHedge, a well-known publication in the fund industry. One can have all sorts of objections about the value of such a nomination since it’s a commercial company arranging the prize ceremony with a for-profit motive. But I still find it half remarkable and half encouraging Protean Select has been nominated together with five others. Our competitors in the category are all backed by serious institutions (e.g. two of them are Brummer-backed, and two of the others are new funds recently launched by already large asset managers). We’re the minnow in the bunch and I bet you the only ones using Excel’s default settings for our performance charts...

The selection is made solely on performance and sharpe-ratio, adding some credibility to the award. Given our strong December in a downwards market we could have a reasonable shot at bringing home the silver ware. If we don’t win, at least it was a good reason to brush up the tuxedo and have a solid night out with the team. The ceremony is hosted in February in a London ball room.

Wish us luck!

Pontus Dackmo
CEO and Investment Manager
Protean Funds Scandinavia AB