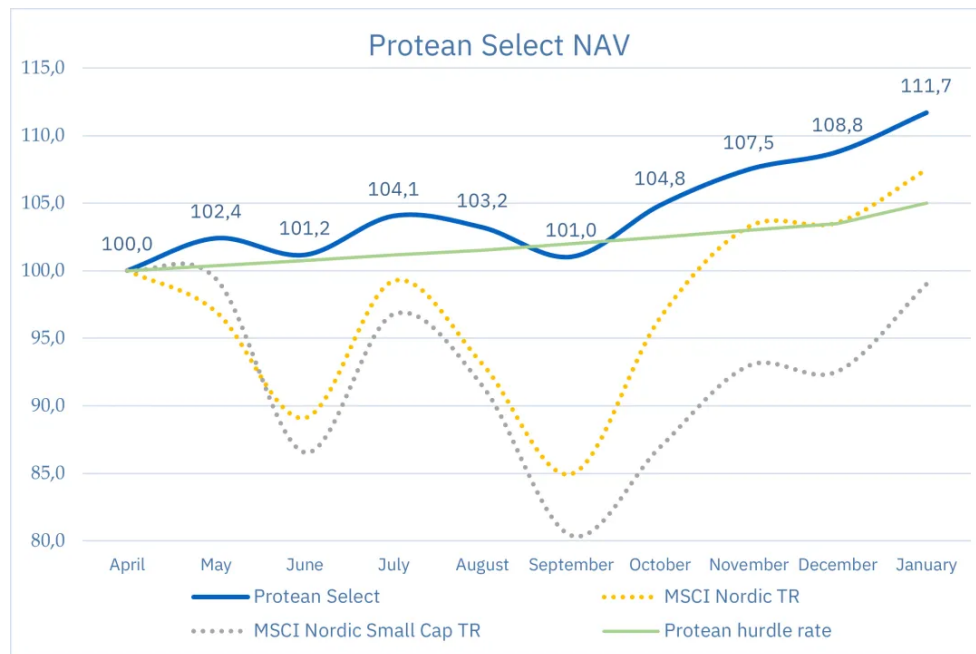


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Dear partners,

Protean Select returned 2,7% in January. Since our start, at the beginning of May, the fund has returned +11,7%. Ahead of any local index and with significantly lower volatility. Thank you for being an investor.



*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)

- **January:** Protean Select returned +2,7%.
- **Alleima, Modulight** and **Sandvik** were top contributors.
- **Index futures, small-cap hedges** and **Ericsson** were top detractors.
- Thanks to continued inflows and performance we start February **with SEK 730m in AuM.**

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- We have restructured our hedging to **utilize more options**, changing the return profile and adding more short-term vol to the strategy, hopefully allowing us to capture more upside.
- We run **a slightly higher net exposure** compared to last year, averaging 40% through January.
- The portfolio **remains diversified**. No long position is bigger than 4%, and no single short position bigger than 1,2%.
- We foresee **continued volatility and elevated dispersion**, and are positioned for it.
- There is a risk markets are getting ahead of themselves.
- Keep in mind: we are very **unlikely to outperform** a sharply rising market.
- What problem do we solve? We pay attention, so you don't have to.

What happened in January

Indices MTD		2022-12-30	2023-01-31	MTD
MSDENCN Index	MSCI Nordic TR	535,2	545,1	1,8%
MSDENSCN Index	Nordic Small Cap TR	784,4	823,4	5,0%
SAX Index	OMX ALL	781,9	843,3	7,9%
OMX Index	OMX30	2 043,4	2 198,5	7,6%
CSNRXSE Index	Carnegie Small Cap	1 185,1	1 285,3	8,5%

As markets flew out of the starting block in good old-fashioned Usain Bolt-style in the new year, pretty much all market participants were caught off guard and with overly defensive positioning. Ourselves included. Nordic large-caps – where we have a few names, were miles behind Sweden, which saw a stonking performance. Indeed, the SAX index had its best January in 20 years. As we run a Nordic fund (not a Swedish one) and had a net exposure of roughly 30% going into January, we are satisfied posting a 2,4% gain. Notable above that the MSCI Nordic large cap index was only up 1,8% in EUR-terms during January.

In my view: this is a positioning-driven rally triggered by data not deteriorating and stretched allocations following a year-long adaptation to the “poor Europe”-narrative. As we generally follow the Buffett rules (number one: don't lose money, number two: see rule number one), we sadly did not participate noticeably in the euphoria of the year's first two weeks. But – crucially – despite outperforming falling markets in December, we did not lose money. We are ridiculously satisfied by this, but don't expect much sympathy.

We like idiosyncratic risk

As markets started to trade sideways halfway through January, we generated ample attribution on stock-specific calls and ended the month with more than satisfactory returns. A sideways market, with idiosyncratic risks playing out, is really our preferred game – our edge is in the micro, not macro. Although we'd happily and unashamedly pocket returns from pure beta, it's far more satisfying (and process driven) to do it from the single stock bottom-up bets.

Small caps to the rescue

As mentioned, we have been ramping up our small- and midcap exposure since the beginning of November. This paid dividends in January, as smaller companies outperformed larger ones by a wide margin on an aggregated level.

Slight change in hedging strategy

Another important structural change we made to the portfolio was switching from hedging market risk via a majority index futures to more index options – this caps the potential loss from hedging but also skews the return profile: you generate less protection from smaller drawdowns on the index level, but you generate exponential returns from bigger moves, depending, of course, on how you choose to structure your exposure. As volatility has been crushed recently, across asset classes, options have become cheaper vehicles to utilize for hedging purposes, if you can stomach slightly bigger intra-day and week volatility. Since inception, Protean Select has a realized volatility of less than 8%, which, in fairness, probably tells you we are taking too little risk. Switching to a greater reliance on option hedges means we will experience higher volatility, but similar protection to tail-like events (which we don't rule out) and a bigger potential capture of macro upside.

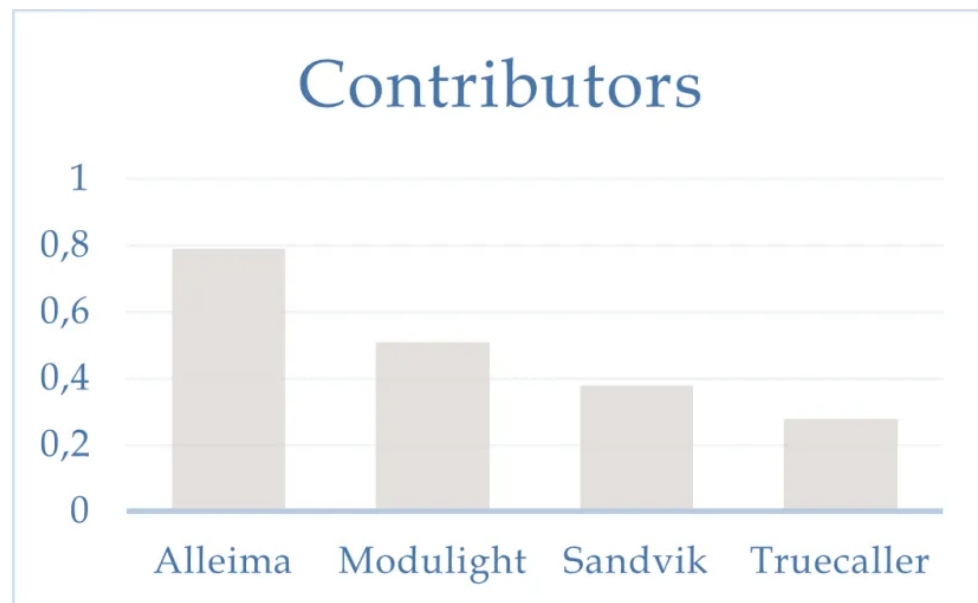
I realize much of this probably sounds high-horsey to a layman reader, but it really is just common sense: as winds and waters calm, you can raise another sail to gain speed, but still choose to refrain from sailing too close to troubled waters. The weather might have changed ever so slightly, but the climate has not.

What went well in January

One big gainer was **Alleima**, the recent Sandvik spin-off. It's a favorite we have written about in an earlier letter. We have now made over 40% return on our position. Despite the sharp appreciation, the stock still trades on 8x PE. We are in no rush to reduce our position.

Funnily enough, our second biggest contributor in January was Alleima's mothership **Sandvik**, reporting a solid set of quarterly numbers. We're particularly pleased with this as we simultaneously held a short position in **Atlas Copco**, which underperformed during the period due to elevated expectations and a slowing market for memory chip manufacturing, impacting their clean-room capex-dependent vacuum division.

Our third-best performer for the month was nano cap **Modulight** in Finland. It is a position we have held since the inception of the fund, which promptly halved (yes, -50%) on poor communication and macro concerns. We decided the risk/reward became even better after the drop, so we doubled our position around the lows. During January they posted the first positive news since IPO, when their Bausch+Lomb partner laser received a long-awaited FDA approval, triggering a 40% rally in the stock. The stock remains a basket full of optionality, with a solid balance sheet, significant insider ownership, and very low expectations. Following the recovery and our timely buying, we have now made money on the stock since the fund's inception. We hope there is more to come from these conservative Finnish engineers in the years ahead.

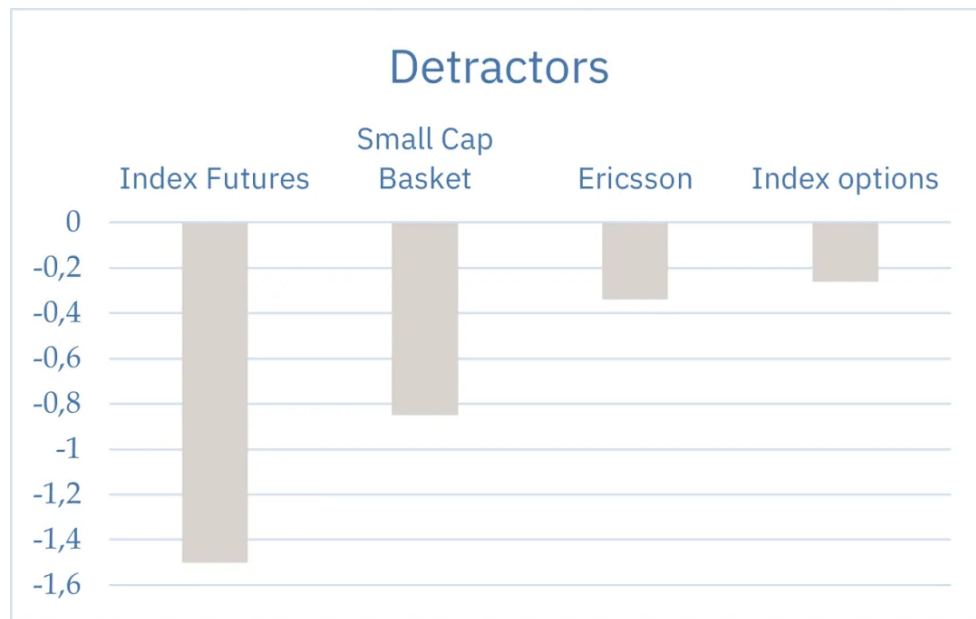


What went pear shaped in January

Main detractors during January have been **index futures** (by a wide margin) and our short position in an OTC-swap basket mimicking **the Swedish small-cap index**.

Our third biggest loser was perennial troublemaker **Ericsson**. Our thinking was the underperformance going into the Q4 report, paired with rather

explicit negative commentary from management at various seminars and media outlets, plus an almost ridiculously low valuation, would insulate the stock from a poor quarter. This turned out only partially right, as the stock didn't drop its usual 10%+ on a poor set of numbers, but merely -5%. However, given liquidity and our conviction, we had sized the position perhaps a tad too big – causing us a notable loss on portfolio level. Lesson learned. Again.



What's around the corner?

Are we getting ahead of ourselves? As the range of central bank outcomes continues to narrow, the forward path for equities has seen some of the downsides evaporate. Naturally, the markets priced this in the blink of an eye, causing maximum pain to the maximum number of people. Grappling with US inflation, Chinese growth (rather: lack thereof), and European gas prices – all a favorite past-time of the last 12 months – has quickly turned into a game of “who can price normalization fastest and furthest?!”. However, we are wary to add risk ex-post. The de-risking following benign (or rather: less malign) macro data has already happened – we're again at levels where the risk/reward feels and looks so-so. Particularly after the monkey rally on dovish leaning commentary from both the ECB and Fed during the first days of February.

All participants in markets are unique snowflakes. But still very similar-looking snowflakes. Identical mental hardwiring causes us to do roughly the same thing, at roughly the same time. So, when volatility continues to drop (notably the MOVE index; rates vol), and we're eyeing the end of rate

hikes, where is the second derivative of flow between fixed income assets and risk assets going to go you think? Right now, there is an all-time record amount of assets residing in money market funds. The pendulum perhaps hasn't started to swing back just yet, but rest assured its forward motion has started to slow. These tectonic shifts take time, and chances are we will continue to watch the tug-of-war between premature optimism and niggling pessimism.

Pricing markets from here to eternity, all the time

Like a clever friend quipped: the problem with markets currently is we have access to too much information! The speed and depth of data gathering, analysis, and trading action is astounding. As we start to price the market beyond the current cycle, and often well into the next cycle too, when the **real** world plays out in **real-time**, what is left to react to? At which time horizon is the market clearing? Are the market gyrations of the last year simply a function of rapid time horizon shifts? Here's where interest rates play a role: it's simply an aggregated discounting mechanism reflecting our collective uncertainty level. As we adapt to a new reality, as things stabilize, the snowflakes again become willing to look further out in time. It's like that old truism: if you are pessimistic about the future, a company with financing needs and negative cash flow has zero fundamental value.

So, to summarize: the abject pessimism that plagued 2022 has given way to spiring optimism, helped by a slowing of the deterioration in economic data. Markets are now clearing at levels that decidedly look through the coming quarters of high inflation, continued rate hikes that impact the real economy with a lag, rising global tensions that include not only Ukraine, but Iran, Chile, Taiwan and not the least an upcoming presidential election cycle in the US. Will we be able to keep focusing on that point on the horizon where the current ailments are a thing of the past? Call me a sceptic but I don't think so. I foresee continued uncertainty and elevated dispersion (a lovely market for a long/short stock picker tbh). Which is why we remain vigilant, active, and relatively cautiously positioned, with more and smaller bets, and a net exposure in the lower end of what we think will be our long-term average.

As we have repeated many times: we are unlikely to capture a majority of a big move up, given the way we are structured, but on the other hand we can make money in falling markets. This is the cost of insurance, or peace of mind, if you will. We relentlessly pay attention, so you don't have to.

What problem do we solve?

Running a successful business is all about solving a problem for customers. At Protean Funds we have this backward: by having

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customers we solve our own problem of investing our own money in an institutional setting. The fund, open as it is to external investors, is simply a by-product. We solve the problem of information and infrastructure access by leveraging other people's money, co-mingled with our own, with as little compromise as possible. We are not set up to maximize assets under management. We aim to optimize for risk-adjusted returns, by being versatile and opportunistic. Aiming to minimize drawdowns, keep a plain and simple structure, mindset, and capture ample long-term upside. This is why we do not label the fund a certain style. It is why we don't limit ourselves by signing various industry-standard marketing ploys (such as ESG), why we don't spend time and money marketing, and why we refrain from detailing much of our thinking on various cases.

The problem we solve for our external investors is this: we do the re-allocation for you, and we have our own skin in the game as an insurance policy. By trying to adapt to prevailing market conditions, with an eye towards long-term compounding, we shoulder the responsibility of worrying and adapting.

Thankfully (and, sometimes, annoyingly), how we are doing is tremendously measurable. As the month-end results keep tallying up, we can all observe whether our promises are held, or whether it's all just a marketing word salad. So far, we have delivered ahead of plan, and we're dead pleased with both process and results. Only time will tell whether we are able to keep delivering.

This month we reached SEK 730m in assets under management. This is a major milestone for Protean, as it means the business of running a fund is now break even. We no longer pay to go to work!

We remain firm believers in human ingenuity. The **real** money is made being structurally long, owning parts of growing and prospering companies. This is why we have remained stubbornly net long equities in the past year, and why we are launching a long-only product in the coming months. Some of our early investors have asked for this, seeing that the small-cap long only sub-strategy in Protean Select has outperformed local benchmarks by a wide margin since we launched the fund. They want to allocate to a higher-risk (or, put differently: higher volatility) product, and frankly, I'd be more inclined to put 15-year money (think: kids savings) in a long-only product than a long/short product.

What we're thinking and reading

- Financing costs

To paraphrase Wu-Tang Clan's C.R.E.A.M: Interest Rates Rule Everything Around Me. We are now seeing how higher financing costs are permeating through the financial undergrowth of the investment

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universe. In the past three months, we have allocated north of SEK 100m to fixed-income instruments, putting the structurally idle cash that comes with a long/short portfolio to work. Notably, since we participated in our first commercial paper transactions back in late October, rates have gone from averaging 2,5% to now being north of 3,5% on an annualized basis for three-month money. Our fixed income portfolio now looks set to add 0,5% per year to the fund's overall return. Rest assured we will continue to optimize and chase every basis point.

Looking through the Q4 reports of a handful of large corporates proves our point: we see examples of financing costs quadrupling from insignificant levels to meaningful levels. Often driving a noticeable miss under the EBIT line. Not helpful for the EPS-revision trend out there.

Furthermore, and we are a good example of this ourselves, we suspect the earnings trajectory of the banking sector will start to fade properly before not too long. Remember: banks have zero incentive to proactively offer interest rates on idle cash balances for corporates. On behalf of the fund, we have initiated and negotiated such that we now are offered a reasonable rate on any cash balance. Nota bene: WE had to initiate the discussion. We suspect more will follow in the quarters ahead. We are no longer overweight Nordic banks.

- **Idiot or genius revisited.**

We have a low-single-digit percentage allocation in the portfolio to stocks where we are genuinely unsure whether we are idiots or geniuses. It's often controversial names, with warts, question marks, and general skepticism. But there's a reason graveyards are fertile soils, and just as the market is prone to extrapolating success stories, we extrapolate poor performance too far as well. As already Benjamin Graham would tell you, when expectations are low, it takes very little to surprise positively and generate outsized returns.

This is exactly what happened in January with our holding in little Finnish nano cap Modulight. A recent IPO that immediately after listing suffered a bout of bad luck (and poor communication), writing down receivables, contracting end-markets, and delays to key product launches. But, they have a long history of profitable growth, are fully funded, own their own real estate, and have a big portfolio of ongoing projects that all hold the potential to change the earnings trajectory in the coming years. That the stock popped 40% on one press release of a product receiving FDA approval shows you something. It's literally the first piece of positive news to come from Modulight since listing.

We suffered a 50% drawdown since initiating the position, but doubled the holding around the lows, which means we have now recovered the

entire loss since inception. Who knows, maybe there's more to come? The stock just took a small step away from the idiot end of the spectrum.

- **Absolute or relative return, what's up?**

The chart at the beginning of each partner letter is causing me some head-scratching. Are we a fund focused on absolute performance, in which case relative indices are meaningless, or do we pay attention to the relative performance vs an index, in which case we must pay attention to the construction of the relative index?

I think this is a false dichotomy. Of course, it will be easier to generate positive returns when the general direction of markets is up. Especially for a fund that is net long the market, i.e. not "market neutral". But these labels make my head spin. I don't think it makes sense to spend time researching companies just because they are included or excluded in some random index. We much prefer the bottom-up approach.

Our prospectus defines our ambition as "reasonable returns regardless of market climate". That, my friends, is intentionally vague! Our 6,7% hurdle gives you an indication of what return we hope our fund should be able to beat but paying attention to the downside protection does come at a cost (see this month's detractors!). In a monster year for equity markets, we will struggle to keep up, but the flip side, as evidenced during 2022, is we can generate a positive return also in down markets. Should we compare to an index, or not? If so, which one? Frankly, who cares?

- **The monthly reminder: Why you should NOT invest with Protean**

We optimize for performance, not for convenience or marketing.

You can withdraw money only quarterly.

We tell you very little about our holdings.

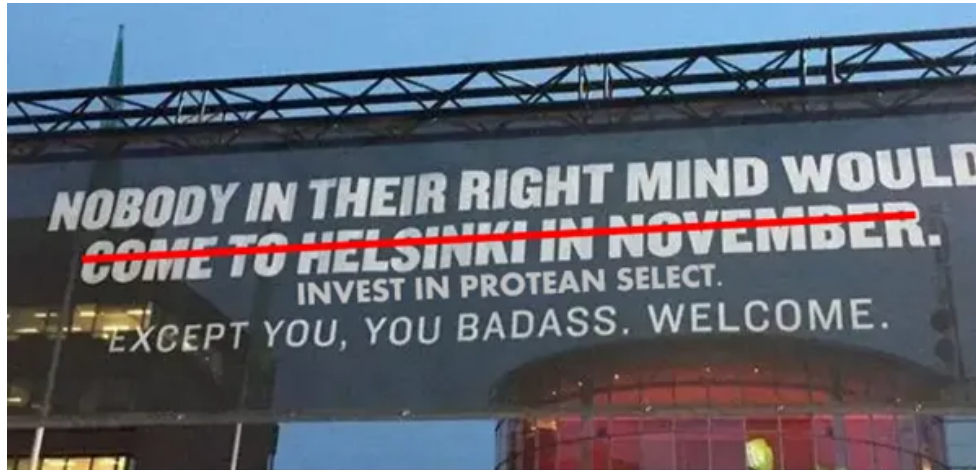
Our strategy is tricky to describe as we aim to be versatile.

We are a hedge fund. We could lose money if markets are up.

We charge a performance fee.



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