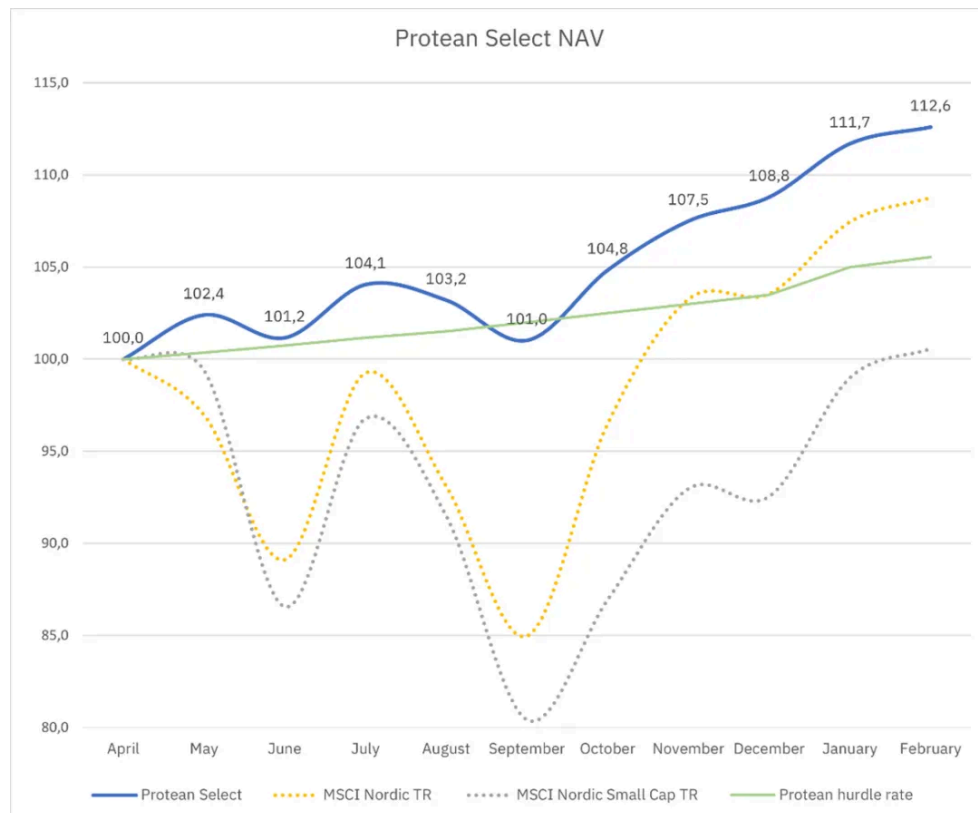




FEBRUARY 2023 • PARTNER LETTER

Dear partners,

Protean Select returned 0,8% in February. Since our start, at the beginning of May 2022, the fund has returned +12,6%. 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 6,7% 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)

- **February:** Protean Select returned +0,8%. YTD 3,5%, since inception +12,6%.

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- **Alligo, SmartOptics, KnowIt and Danske Bank** were top contributors.
- **Index futures, Cint, Small cap hedge and a short position in an industrial co** were top detractors.
- Despite significant ups and downs during the month, it ended being a **rather mediocre month of “meh”**, with indices only slightly up.
- Thanks to continued inflows and performance we start March **with SEK 770m in AuM**.
- We run a **slightly higher net exposure** compared to last year, averaging 40% through February.
- The portfolio **remains diversified**. No long position is bigger than 4%, and no single short position bigger than 1,2%.
- We aim to open a **new fund**: a long-only version of our Small and mid-cap strategy, in May or June, depending on how fast administrators are able to move.
- Keep in mind: we are very **unlikely to outperform** a sharply rising market.
- In March we **will stop reporting mid-month performance**. It is not to the benefit of returns.

What happened in February?

Indices MTD	2023-01-31	2023-02-28	MTD
MSCI Nordic TR	6 195,0	6 271,0	1,2%
Nordic Small Cap TR	9 359,0	9 508,0	1,6%
OMX ALL	843,3	853,5	1,2%
OMX30	2 198,5	2 226,8	1,3%
Carnegie Small Cap	1 285,3	1 298,7	1,0%

It was a volatile month for markets, not only on individual company level, but also on index level. Even FX-markets in our little fishing pond up in the north were unusually active, seeing that the new Riksbank head saw fit to verbally intervene, calling the SEK-weakness a problem. Something his predecessor rarely spent time caring about. Following a protracted period of SEK underperformance (thanks Stefan Ingves, a bottle of water by the pool where I am today costs no less than 80 SEK...) we concluded there is a risk things could turn around. In which case the fund's non-SEK holdings (approximately 1/3 of our long book) would see additional underperformance.

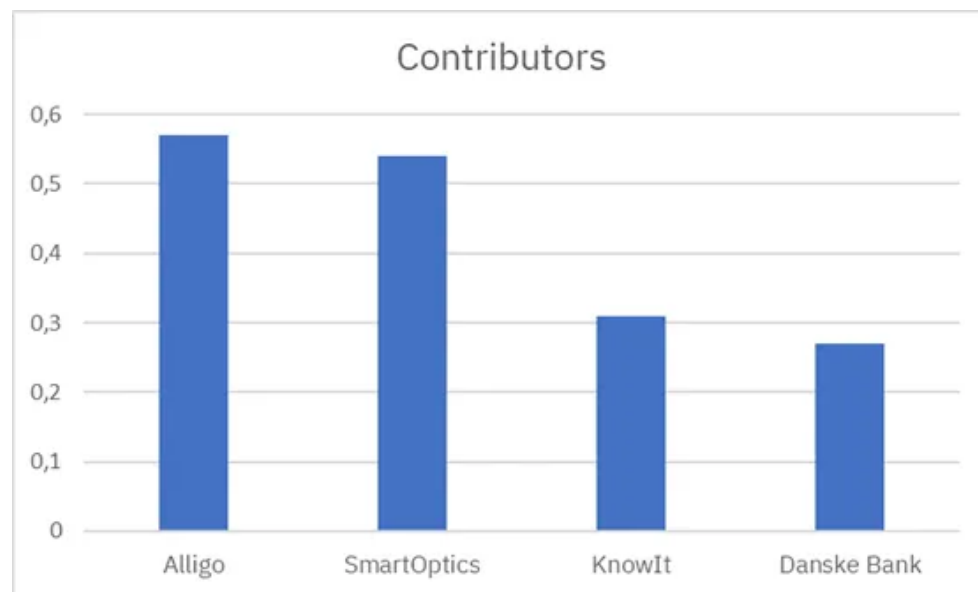
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We therefore took the decision to, for a limited period, hedge our non-SEK exposure via FX-futures. The fund is now insulated from a stronger SEK for the time being. We don't plan to currency-hedge our exposures over the longer term (unnecessary cost, plus we don't have an edge on FX), but when we perceive a risk/reward out of whack, we are not afraid to take action.

Despite significant moves up, and down, the month ended in no-mans-land with a mediocre return around 1% for most indices. Protean Select joined the party, thanks to a handful of successful stock-picks, appreciating roughly in line with the market, despite carrying a significantly lower risk. A fund's life-span is simply a collection of numerous months. This month, volatile as it was, ended up being just another meh-month.

It's a funny thing, that when all things are summarized, it ends up being "meh". If you were to pick a random day and read the drastic headlines, one would have guessed it was anything but. But here we are, and the numbers don't lie. We're pleased our volatility remains miles below the general market, but we still manage to keep ahead of most (and by "most" I mean "all") indices since launch. In the event of markets rallying significantly (not likely) we will struggle to keep up.



What went well in February

Ruminating on the type of situations that end up in the top of our performance evaluations, they do share some common traits: a mispricing, a strange valuation, an event of some sort. We like how things are

playing out, we are proving that we are adaptive, that we are able to act decisively when opportunity presents itself. Identify a mispriced situation, accumulate a position, wait for the anomaly to be rectified. We have a number of these situations in our portfolio at any given moment (see: Idiot or Genius). To act on opportunities, and to have a small enough fund enabling it to make a difference, is what creates our alpha.

The biggest gainer in February was **Alligo**, a mid-cap re-seller of protective gear and various consumable nick-nacks to the SME-segment of the infra/construction/service industry. After a number of years focusing on internal efficiency, following several structural deals, we stumbled on the stock by accident and were amazed at the valuation and the progress made in recent years. Frankly, it was a mispricing hiding in plain sight. After meeting the management and studying competition we conclude that, despite the outperformance in February, it still is.

Our second biggest contributor in February was **SmartOptics**, a company with Swedish management and headquarters, but slightly weirdly listed in Norway. This is Protean Select's first 100%-return stock! We now have a 2%-position in the fund, after buying a 1% position below NOK 14 (it closed the month at NOK 29). SMOP manufactures a suite of products improving transmission capacity in existing fiber optic cables. They are growing like a weed, and are not valued as a weedy grower. Good enough for us.

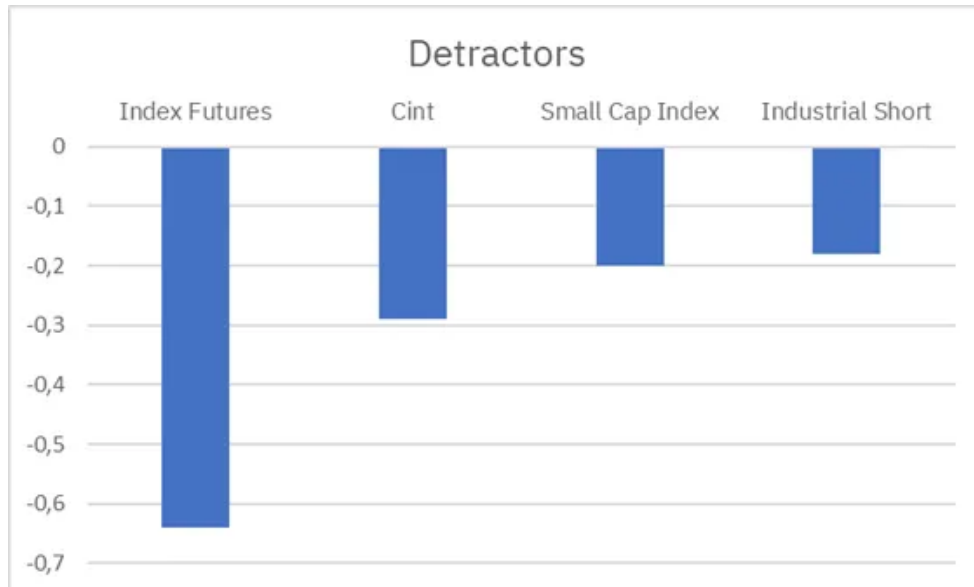
Our third-best performer for the month was Swedish IT-consultant **KnowIt**. When the quarterly numbers hit the screen we were bracing ourselves for a rough day, as they did not meet our expectations. Imagine our surprise when the stock popped on the day, and there was ample volume in the market. We managed to offload our entire position in various dark pools. The day after, a large international hedge fund reported they had covered their entire short position. Guess we figured out who the aggressive buyer of our shares was... Turned out a good thing we sold. Maybe we'll get a new entry in the not to distant future as the stock remains relatively cheap.

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Good thing we sold...



What went pear shaped in February

Main detractor during February was again our short position in **index futures**, followed by an ill-timed venture in digital survey car-crash **Cint**. We dipped our toes in the stock on what we perceived as an overreaction to the CEO leaving (which promptly sent the stock down 20%+). The stock recovered (like we planned and hoped) only to issue the mother of all profit warnings a few days later. Luckily, we had sized the position such that we could rid ourselves of the stock aggressively on and around the open, which “saved” us a bundle. It’s an interesting situation, as there is a case to be made there is a proper business hiding in there somewhere, and one could make the argument Cint’s woes are more cyclical than structural. We’re watching closely, but currently have no position.

We also recorded an unusual loss on a **small cap short** – so let us explain. This short is part of a pair trade, where we are long a stock with similar characteristics and exposures, but where we believe this short position is likely to perform significantly worse over time. A pair trade ideally nets out the market risk, and leaves the idiosyncratic and company specific risks. Had we added the positive performance from the other long leg of the trade it would not have been our fourth biggest loser of the month.

No more nonsense mid-month NAV

We will no longer report a mid-month NAV. The reason is simple: it consumes mental energy for us, and we’d much rather save it for better long-term decision making. As we have written several times before, our decision-making process is what defines our product, and if we can improve on said process, we will always choose to do so. Always. In the

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past couple of months, we find the mid-month NAV has occupied unnecessary head-space for us, why we now choose to discontinue this practice. We understand some would like to know how the fund is doing every two weeks, but we do not manage the fund for two-week intervals and hope you do not evaluate our performance on this.

In the past 10 months we have generated a return of 12,6%. This is our focus. Long term. Ultimately, our own judgement is over a 3-year horizon. Particularly as we have pledged to close completely if we are unable to generate satisfactory risk-adjusted returns over that same period. So, if a mid-month NAV is important to you, we'd be sad to see you go. I'm sure there are other decent funds out there to invest in.

Protean Investing

Looking back at all the Partner Letters we have published since the inception of Protean as an entity back in August 2021, there's a lot of words on investing. And a lot of words on markets and individual stocks. But I don't exactly expect readers to go back and piece together a coherent "what does Protean really mean when they talk about investing?". In addition, we get some incoming requests from allocators, asking "could you send over your (marketing) deck?". This is a fairly generic slide deck, outlining the strategy, the background of the PMs, the exposures etc. I.e. boring. What if we could kill two birds with one stone and put together a written piece on what we think about investing? How we do it? What we think is important? A piece with some shelf life?

So, starting now, we will try to write a passage on what we think about a topic that is likely to be with us for the duration of the partnership. We start with the Most Important Thing: Edge.

Chapter 1 – The Sources of Edge

To be a successful fund, you need an edge. An advantage. This is a daunting prospect, considering the vast computer power and number of sharp intellects pointed at decimals of share prices and every letter of company reports. But there are small advantages over most market participants, that, when added together, can provide an edge.

But having an edge is not enough. Edges are not constant. They are under attack by competitive forces and evolving markets. You need an enduring edge. Or constantly be on the lookout for new ones. Or, even better, both.

Our small size is a structural edge. We will close the fund well before losing it. This means our investment universe is not impeded by size, only allowing investments in larger, more liquid stocks. It enables a small-cap investment to greatly impact overall returns, without being sized ridiculously. We have consciously liquidity-gated the fund to allow for

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illiquidity. By allowing only quarterly withdrawals, and with one month's pre-warning, we have minimized the risk an ill-timed, sizeable, redemption cause poor performance for the remaining investors (this risk is further reduced by our diversified investor base). Our ability to stomach illiquidity is a source of edge. So far, it's one we have not meaningfully utilized.

Our versatility is a structural edge. Protean's mission is to create returns for its investors, by any means necessary (within the rule of law, obviously). We do not limit our strategy to a certain style, that may, or may not, work at any given moment. Labeling funds according to the latest fad, or whatever has worked in the past year(s), is a great way to both raise assets and generate mediocre returns.

Our backgrounds can yield an edge. The team at Protean has worked as research analysts, institutional sales, journalists, Investor relations, and fund managers. We have spent our entire careers obsessing about Nordic equities. We know this business. We know the companies, the players, and the rules of the game. When we figure out what questions to ask, chances are we know where to direct them.

Deep research is not (necessarily) an edge. We only do deep research in special cases when we think it could yield an edge in and of itself. If your process means every case needs two weeks of research and a 15-page report – the risk is your margin of safety is too thin, or that once you finally reach a conclusion, you find the stock has already moved and the opportunity evaporated. Our information edges come from curiosity. From being pathologically unable to speak and think about anything else than business. From always reading and paying attention. Give us a piece of information and we will try to fit it into the Nordic equity puzzle – “Aha! Qui (aequitas) bono?!”

Elaborate financial models are not an edge. But understanding one could be. There are today several research companies providing up-to-date state-of-the-art financial models on most listed equities (of any size). We do not allocate time – our most scarce resource! – to build ever-so-good copies of what someone else is already providing at scale. For financial models, Protean's value add is getting a feeling for what is consensus expecting. We sense-check assumptions, play with scenarios, and judge probabilities. We do not spend hours hard-coding historical Q3 depreciation charges. Time spent modeling is a sunk cost that raises the risk of overconfidence without adding (much) to fundamental understanding. If you have seen the discretion applied when accounts are made (ask any accountant!), you understand the usefulness of an 800-line excel sheet spitting out a DCF value with four decimals!

Curiosity created the alpha! It's difficult to formalize, in writing, all the ingredients necessary to find opportunities and avoid pitfalls. But one thing is for sure: incentives help. Being relentlessly curious, we argue, is a prerequisite to keep up to speed with a constantly evolving market, constantly fluctuating prices, fortunes and failures. This is our only venture. It's our sole vehicle for investing and the home for not just our own savings, but also that of friends and family. We watch this basket of stocks closely from early morning to late night. Every day. With endless curiosity and a not insignificant modicum of obsessiveness.

What we're thinking and reading

- Adaptive markets

One of the headline grabbing developments in the past year has certainly been the price of energy. When the war in Ukraine broke out, one of our first instincts was to buy Equinor in Norway, considering it's the largest exporter of fossil gas to Europe, second only (then) to Russia. True to form, gas prices, with the Dutch TTF-contract as a proxy, promptly went from simply expensive to outright crazy. It was therefore dead easy during 2022 to be ultra-bearish on European industry, consumer, you name it, thanks to a structural energy deficit and therefore accelerating costs.

But here's the point: we're adaptive. Capitalism works. Gas consumption is down 20% year/year, heat pump and solar panel sales are off the charts. Billions in capex are being spent on terminals for receiving liquified natural gas. Plenty of companies are now researching their socks off to develop modular nuclear reactors. Guess where gas prices are? Yup, below where they were before the war started.



Granted, we've had a mild winter, and there's no saying where prices go from here (who knows, it might just be the time to buy gas related assets again as complacency might be peaking?). The point is the most bearish narrative often assumes there is very little change. "With gas prices at these levels European industry is not competitive and will need to close down – we should short Europe!". But we adapt, we change, prices move, and whoopsie we've just had the biggest net inflow to Europe since ever. Always invert.

- Just south of the right amount of uncomfortable

Investing by committee doesn't work. By the time an investment case can be formulated with enough conviction, and with enough supporting data points, to convince the average member of a group to agree, the opportunity has likely passed. Or at least that a substantial part of the upside has been caught by the market.

To find the outlier returns you need to accept being uncomfortable. To risk looking like an idiot sandwich to your peers. Investing under uncertainty, with limited information, is part and parcel of being an investor. Famous investor Peter Lynch put it well:

Great investing requires an independent spirit, and the courage to acquire assets the crowd disdains. Disdain creates bargains.

I struggle to find a stock more disdained in the Nordics currently than omnivore roll-up **Storskogen**. In 2022 it took the price as the worst stock in the OMX Large Cap segment with a stonking negative -88% return.

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We wrote about Storskogen in a Partner Letter back in September 2021: the silly IPO-valuation, wonky strategy, and poor risk/reward. But that was many percentages ago. It's a new playing field now. They're not acquiring everything everywhere anymore. They're deleveraging and focusing on profitability and cash flow. The concerns over financing appear going in the right direction. Price and volumes on their bonds in the secondary market have recovered dramatically in recent weeks. Notably, not the stock. If financing is less of a concern, and they appear on track with cash flows, that leaves the general business cycle to worry about – same as most other companies? But it now trades below 10x PE, and sub 6x EBITDA. That's not expensive. Maybe, just maybe, the disdain for Storskogen has created a bargain? It's an uncomfortable one, for sure, and you won't be able to get a levelheaded group of investment committee members to form a consensus that it's a buy. But hey – that might be the source of the opportunity?

If sentiment changes from horrific to plain bad, there's money to be made.

In the words of legendary advertising man David Ogilvy: "Search all the parks in the cities, you'll find no statues of committees."

- **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.

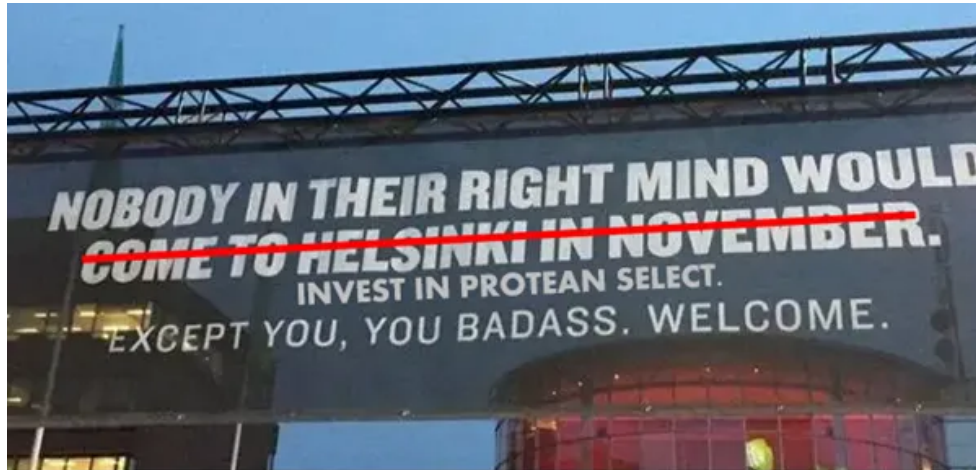
We charge a performance fee if we do well.

You do not get a discount if you have a larger sum to invest.

We do not have a long track record.

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Pontus Dackmo
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Protean Funds Scandinavia AB