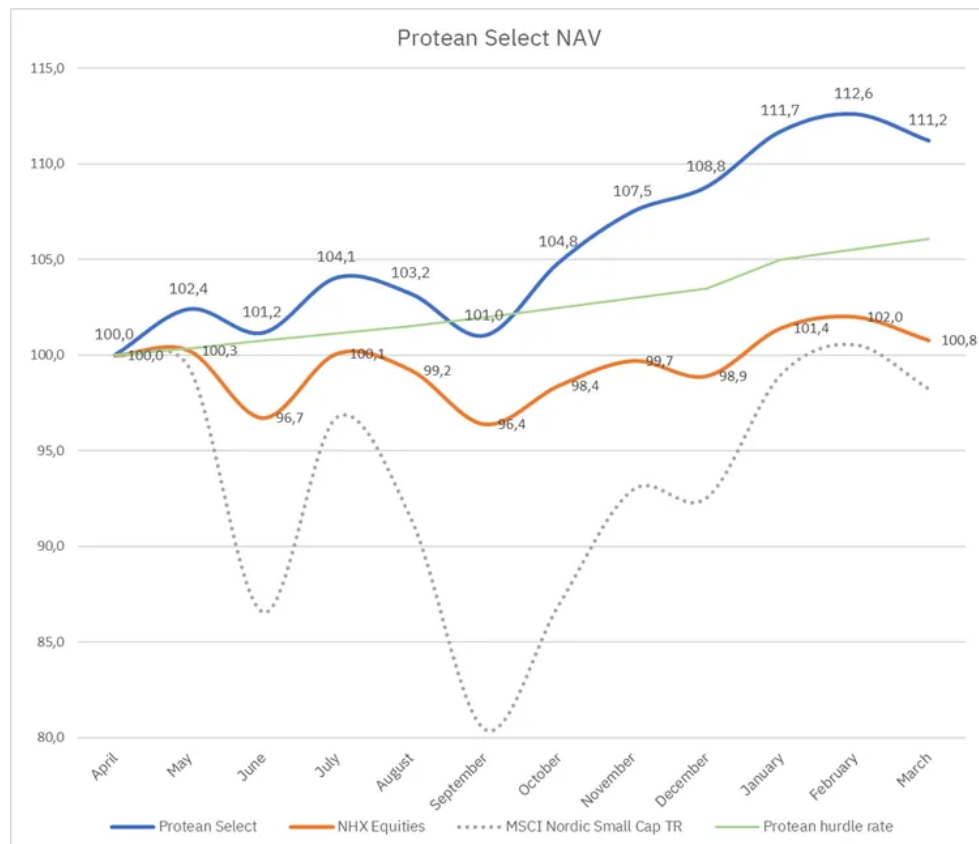


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Dear partners,

Protean Select declined -1,2% in March. Since our start, at the beginning of May 2022, the fund has returned +11,2%. Thank you for being an investor.



*We illustrate our performance by showing a comparison with the NHX Equities index. This is an index constructed from the performance of 54 Nordic hedge funds focusing on equity strategies. The monthly NHX index is published 7-10 days after month-end, when we will update the above chart. We also, for reference, add our hurdle rate and a Nordic Small Cap index, expressed in SEK. We do not compare ourselves to an index. We aim to have positive returns regardless of the market. No return is created in a vacuum, and a net-long strategy will correlate. Our hurdle rate is 7,3% annualized (4% + 90-day Swedish T-bills). All performance figures are net of fees.

TL;DR (too long; didn't-read version)

- **March:** Protean Select returned -1,2%. YTD +2,2%, since inception +11,2%.

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- **Coloplast, Dustin and Egetis Therapeutics** were top contributors.
- **Storskogen, Nordea and Alleima** were top detractors.
- Despite significant ups and downs, the month was **rather mediocre**.
- We start April **with SEK 780m in AuM**.
- We have actively managed our net exposure during the month, varying between 20 and 40%. Our gross exposure remains low, around 120%.
- 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, most likely from the 1st of June.
- Keep in mind: we are very **unlikely to outperform** a sharply rising market.
- In April we **will stop reporting mid-month performance**. It is not to the benefit of returns.
- We have **hired a fourth member** to the team! A young high-caliber stock-nerd that will complete the team and be a Co-Investment Manager. We are adding resources ahead of the launch of our second fund Protean Small Cap.

What happened in March?

Indices MTD	2023-02-28	2023-03-31	MTD
MSCI Nordic TR	6 271,0	6 345,0	1,2%
Nordic Small Cap TR	9 508,0	9 252,0	-2,7%
OMX ALL	853,5	842,9	-1,2%
OMX30	2 226,8	2 223,7	-0,1%
Carnegie Small Cap	1 298,7	1 280,1	-1,4%

When you zoom out and view the bigger picture, the gyrations of any individual month in the markets may seem trivial. But for those who are actively managing their own, and other people's, money, the ups and downs can be felt viscerally. March was no exception - most indices took a 6-7% dip, only to recover somewhat by month-end (and in some cases, like the MSCI Nordic, show a slight uptick, thanks to Novo Nordisk's heavy 22% weighting).



MARCH 2023 • PARTNER LETTER

Despite the volatility, there were plenty of opportunities for improvement in our investment strategies this month (a.k.a. we did make some inevitable mistakes). While seeing a negative number for the month can be disheartening, we remain satisfied with the composition of our portfolio. It strikes a reasonable balance between long-term growth potential and protection from market downturns. As we all know, taking risks comes with the acceptance of some level of downside volatility.

Small caps suffering

March presented some unique challenges for smaller capitalization stocks, which explains our lagging performance during the month. This trend aligns with what we're seeing in the corporate world, where we're observing a significant discrepancy between B2B and B2C companies. Consumer-oriented firms, particularly those in discretionary sectors, are struggling, while those servicing corporate clients continue to perform well. As a result, the majority of small-cap stocks in March saw limited interest from buyers, impacting the small and mid-cap portion of Protean's portfolio negatively.

We're not making excuses for our performance, but rather acknowledging the market's behavior. We maintain our faith in the business models and fundamental development of our investments, recognizing that market prices for some of our small-cap stocks suffered from retail investor angst during March. Ultimately, we believe this too shall pass.

The unfinished puzzle

At its core, investing is like an unfinished puzzle. We sift through scattered pieces of information, trying to piece together varying factors, trends, and company specifics into a coherent whole. It's not uncommon for a few pieces to be missing, but we rely on research to help fill in the gaps. Nonetheless, even with our best efforts, investing always involves making decisions with incomplete information - a reality well-known to behavioral finance professionals.

Today, it feels like we're facing more than one puzzle in the same pile of information, and someone just took a big scoop of pieces and chucked them out the window. Uncertainty is heightened, courtesy of a rapidly changing political and economic landscape, and we're constantly adjusting and re-evaluating our investment strategies.

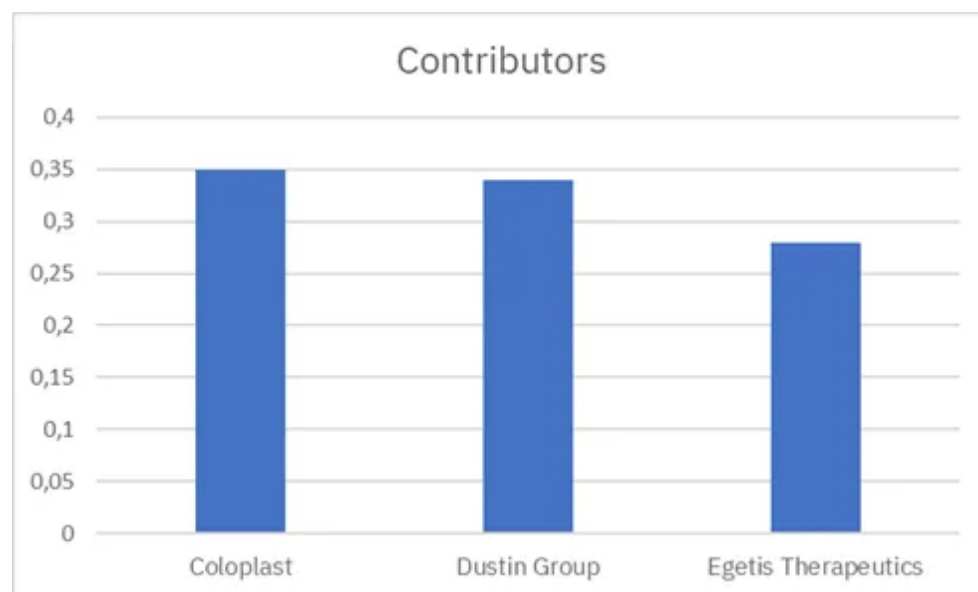
Careful what you pay attention to

The current investment landscape is rife with contradictory sentiment indicators and economic data that seem to either be accelerating or rolling over. Unfortunately, in today's attention economy, many charlatans use misleading charts to make alarmist claims that may be technically

correct but exaggerate small movements by tweaking time horizons and cutting axes. These strategies are designed to trigger engagement and lure in prospective subscribers. As a result, it's common to see sensational headlines that declare "the biggest fall since October 2022" (which, in fairness, wasn't that long ago) or "the largest 3-day correction since 2021" in financial media. Remember that company fundamentals move much more slowly than share prices and to consider the motivations of those sending out harrowing charts...

Current positioning

We enter April still cautiously positioned. Our net exposure is just north of 30%, and our gross exposure only a tad above 100%, excluding fixed income/cash management investments. We are convinced we should be able to generate an attractive risk-adjusted return from our single-stock bets, but caution investors that in a sharply rising market we are unlikely to be able to keep track with general indices. This is the cost of protecting the downside.



What went well in March

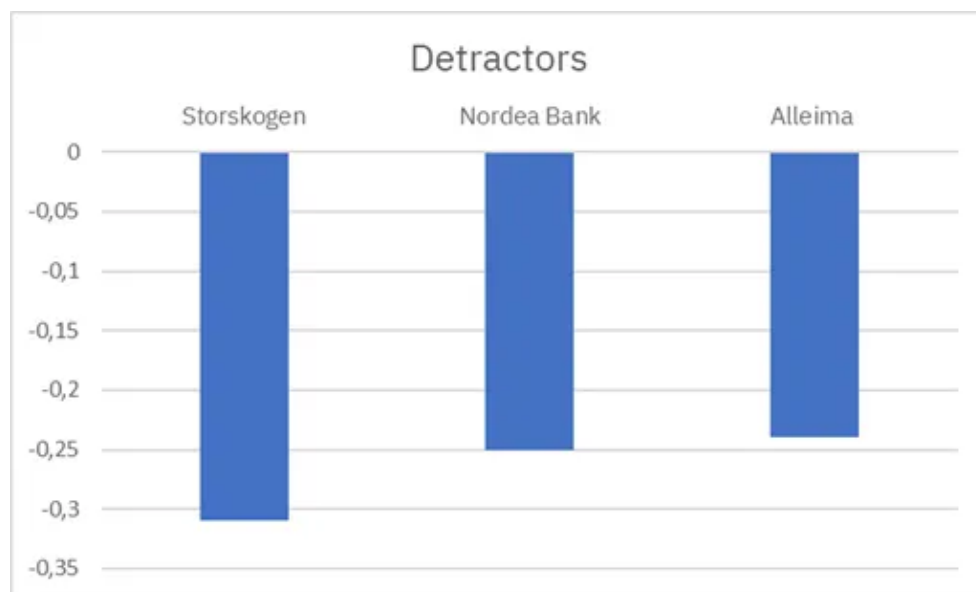
Finally our holding in Danish quality medtech giant **Coloplast** started to work. Following an extended period of underperformance, multiples contracted to more reasonable levels, allowing us an entry during 2022. This month saw more optimism from management on the Chinese market normalizing, salary and energy inflation moderating, and supportive clinical data for the new and promising Luja product. Coloplast remains a core long for us.

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MARCH 2023 • PARTNER LETTER

Our bet that the concerns over **Dustin's** balance sheet were exaggerated, and expectations on earnings too low, came into fruition in March, when their broken fiscal year report showed a (small) reduction in working capital, as well as a stable business towards public customers and an acceptable gross margin. Assuming end markets normalize over two years, Dustin appears still too cheap trading at a mid-single-digit PE ratio.

Our small position in Specialty Pharma company **Egetis Therapeutics** turned in to an unexpected winner in the last days of the month, following media speculation that the company is involved in “ongoing talks on a potential acquisition of the company”. We met the company during H2 2022 and were impressed with the Emcitate product, the high specificity and obvious unmet medical need the product addresses. While we have no view on the likelihood of a take-out, we note there are numerous companies specializing in distributing and selling orphan drugs, where it creates substantial synergies to add more products to an existing portfolio of drugs. We also note that several of the officers at Egetis have a history of selling companies.



What went pear-shaped in March

True to form, one of the stocks in our “idiot or genius”-basket made us eat downside volatility during March. We continue to think **Storskogen**, assuming they manage to de-lever and show improving cash flows, has the potential to generate an acceptable return. They have beaten estimates two quarters in a row, their bond has tightened substantially, they have extended duration on their loan portfolio. I can't help but think it ought to bottom out here somewhere.

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MARCH 2023 • PARTNER LETTER

That **Nordea Bank** was among the dogs this month is perhaps not a surprise, considering how much pain the banking sector was caused by the reverberations from both SVB and Credit Suisse. The loss would have been substantially larger, had we not utilized our small size and sold the entire position at 116 SEK (on average), and bought it back at 107 only a few days later. Banking fears are sticky, and both rational and irrational at the same time (rational for the individual, irrational for the system). However, there is very little fear of deposit flight in our well capitalized and diversified Nordic banks. That said, in recent weeks foreign investors have been dumping particularly Swedish banks due to concerns over commercial Real Estate exposure. We've seen this movie before. Let's see if it has the same ending.

Recent winner **Alleima** took a larger than necessary breather during March. Relatively poor liquidity, recession fears, tough comparisons into next quarter all weighed on the share price. We continue to think Alleima is well positioned in selected growth niches, and still too cheap, why we sit still in the boat and ride out the volatility. On the first day of April they announced two significant orders for OCTG tubes to the oil and gas segment, an area where we expect them to continue growing as the industry has underinvested for several years.

No more mid-month NAV

Last Partner Letter we announced we would no longer report a mid-month NAV. However, given the very volatile markets in March, and the fact that we were down for the period, we thought it would be a bad look to stop immediately. However, from April we are implementing this. 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 the said process, we will always choose to do so. Always. 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 11,2%. This is our focus. Long term. Ultimately, our own judgment 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.

What we're thinking and reading

- **Bad things need to happen for share prices to go down**

It always looks easy on a historical chart. Afterward. “Why didn’t everyone buy Hexagon in 2008 when it traded in the teens, pre-split? You would have made 10x in less than two years!”. Well, how about a) there was steeply falling demand b) a global financial crisis c) a company so levered after a sizeable and risky acquisition they were c) only a hair’s breadth from breaching loan covenants d) potentially triggering a rights issue? Bad things need to happen for stocks to go down. People selling is what makes charts collapse. For people to sell, the second derivative of the worldview needs to be negative, because once everyone’s already negative, there are no sellers left.

This is what’s going on in some stocks right now. If one thinks the world isn’t ending about now, one could snap up, say, a few shares of **Bonava** here. This is a Germany/Sweden/Baltic property developer with 32,000 building rights (yes, that’s a lot of land), valued at 0,28x book. We think the book value is probably not far off where they can realize it, assuming things normalize a few years out. So, will we ever build houses again? If we can agree the world moves in cycles (and history kind of suggests as much), We’re pretty sure we’ll go back to developing properties. Eventually. We’re just not sure exactly when. Or to be more precise, when the last pessimist has sold their shares, and the scales start tilting in the other direction.

It’s entirely possible it’s way too early to buy. Management has had poor timing. They haven’t exactly been buying their socks off in their own share recently. There is a slight risk of an equity issue if things stay frozen for very long (but they do have several big deep-pocket owners). The equity component of the enterprise value has shrunk from 8,5bn SEK in 2021, to the current 2,2bn. Why? Sadly, because net debt jumped from 3,5bn in 2021 to 7bn in 2022, as the company splurged on a Norwegian building rights portfolio at precisely the wrong moment, just as their Russian business simultaneously evaporated, the market slowed sharply, and higher interest costs hit the recently weakened balance sheet. This triggered restructurings, provisions and write-downs. Like the headline: bad things need to happen for share prices to go down. There are more bad things going on here than you can shake a stick at.

Like Buffett said: people panic all at once but come to their senses one by one. At 0,26x book, our senses are on alert. But it might well take time for others (and the market) to come around.

- Finding short ideas

Intuitively, one would think most stocks that fall, do so for fundamental reasons. Their business outlook deteriorates, the market changes, or management makes silly capital allocation decisions the investors disagree on. These types of short ideas are generated by two things:

research and contemplation. The short position is driven by your analysis of the actual business – your thesis is that the value of the discounted future cash flows is lower than what the market currently thinks and that this will eventually correct. Over a long enough time horizon, the valuation reflects the discounted cash flow.

However, there is another type of short case too. When everyone agrees something is a great business. When the narrative is so well-rehearsed, so easy, so appealing that even the most casual observer can convincingly recap the investment case. When everyone's bought in on the story. When the sentiment is "this stock can't go down". This is trickier to pinpoint and has every potential to be a volatile journey, as the buying from the shallow thinker weighs just as much as the selling from the smartest, most cynical fund manager.

There is a shortcut, however, and here's what to look for: recommendations from a less-than-savvy committee portfolio with forced turnover. Committees decide by consensus, and for such to be formed, the story needs to have all the hallmarks of the above. You rarely find groundbreaking ideas from a group of people without skin in the game, but you often find crowded and comfortable ideas. Sadly, these "model portfolios" are often found at Private Banking-institutions. They construct portfolios recommended to their clients, and since the Private Bank live off turnover (rather than return), they forego the one advantage consensus/comfortable ideas could have: time horizon arbitrage. The one thing a committee has going for is inertia: everyone agreeing raises the bar to selling a quality stock, enabling the right type of committee to hold on to a quality winner for years, despite the inevitable short-term issues. This inertia is not present in Private Banking portfolios. They have to look active. This is why they occasionally recommend buying stocks that have done well, creating peaks, and selling stocks that have performed poorly, causing bottoms.

We have a few favorites we monitor. When they've all recommended the same stock, we know it's time to start doing research, because chances are everyone has bought, and everything is in the price.

- **Protean Small Cap – a few words from Carl**

The launch of Protean Small Cap is getting closer. As mentioned, we aim to go live on June 1 at the latest. It's a monthly traded fund, and we are currently in the final stages of navigating the FSA bureaucracy to get it approved.

In Protean Small Cap, the goal is simply returns, compared to the risk-adjusted returns we strive for in Protean Select. There's a lot of focus on process and philosophy in this industry but when push comes to shove



MARCH 2023 • PARTNER LETTER

the number one criterion for managing a long-only fund is simple: find stocks that will go up.

- The Small Cap fund will have a starting point from the Small and Midcap portion of Protean Select, which has been doing well since its inception. Looking at our top five contributors so far YTD for Protean Select, four of these are small caps. Worth highlighting is that three out of our top five detractors are small caps too, pointing to the higher level of volatility that Protean Small Cap will have.
- Protean Small Cap is likely to hold fewer names than Protean Select and have a longer-time horizon in our investment thesis' – this also amplifies the fact that the volatility in the fund will be higher than in Protean Select.
- How will we allocate time? We are getting some questions as to whether launching a second fund will dilute our focus on Protean Select. It's an obvious question to ask and the answer is no. We are continuously investing in the organization to be able to keep our focus on investing.
- We have hired a high-caliber fourth member that will join Protean in July. We are also looking to invest in a state-of-the-art portfolio and order management software to create a more robust back end of the business.

- **The monthly reminder**

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.

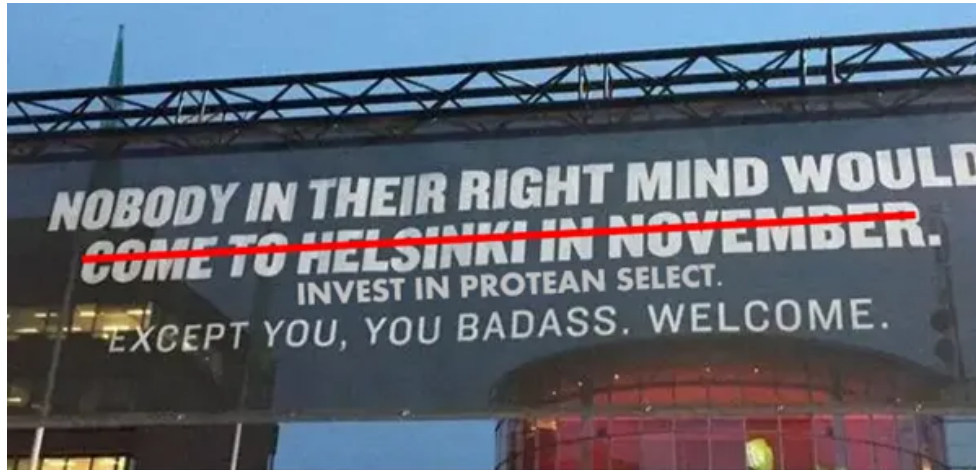
We charge a performance fee if we do well.

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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