



JUNE 2024 • PARTNER LETTER

Dear Partners,

June saw contracting markets but our funds delivered according to what it says on the package.

Protean Small Cap continued to outperform its benchmark in June. The fund declined by 1.0%, which is 1.3% ahead of the CSXRN (SEK) benchmark index for the month. Performance since inception in June 2023 stands at +35.8%, outperforming the index by 18.6% in a little over a year.

Our top contributors in June were Netel, Devyser, Ambea and Proact. The portfolio was also helped by guidance upgrades from Valmet and Kemira. Detractors include CINT, ITAB and Fasadgruppen.

Protean Select posted 0.9% return for the month. That's 9.2% YTD and 23.9% since inception. The volatility in the strategy remains below 7%, which can be interpreted as about a third of the risk of the overall market.

Top contributors were our short positions in a basket of small caps and index futures, long positions in Devyser, Tryg and Valmet. Notable detractors were Metso, Carlsberg and our Memento Mori position in nano cap Modulight.

This month's letter elaborates on our slightly uneasy near-term outlook, why we're chuffed to have many fund managers among our investors, some feedback on our fund industry critique from the May letter, and of course the usual minutiae on winners and losers.

Thank you for being an investor!

//Team Protean

What's around the corner?

JUNE 2024 • WRITTEN BY PONTUS DACKMO

A key feature of our hedge fund Protean Select is we manage risk for you. So you don't have to. This is more meaningful than most people care to think about. A long-only fund, in contrast, offers exposure to equity market risk - some with above-index returns, most not - where returns are measured relative to an index (if the index is down 50% and your fund only -45%, you have done a swell job). Not so for a hedge fund with an absolute return mandate. Here returns are measured in hard dollars. Regardless of market regiment. Avoiding big drawdowns enhances compounding. This month is a case in point: despite broad market indices down a handful percent, we generated a positive return in the hedge fund.

Risk assets have had a swell first half of 2024, but the anecdotes are coming thick and fast that maybe, just maybe, the second half isn't all that we thought it would be. Leadership in markets is thin, driven by only a handful of mega cap stocks (true both in Europe and the US), and chances are the AI bonanza is a classic boom-bust. Chat-GPT usage is in decline already. It will be interesting to watch how long it will take for those anticipated trillion-dollar investments into AI-capacity will take to generate cost of capital. We are short names that have shot up on misplaced enthusiasm. When torn between "oh wow this is really a new new thing that will change everything and solve so many problems" and "no it's not and it will take donkeys years to recover the cost of investment even if we're wrong", always go with the second instinct. Change captures the imagination. Imagination drives share prices. When people dare to dream, we get bubbles. Read up on your Kindleberger and tell me AI doesn't fit the bill for a mania.

The recent equity market strength really stands out when you contrast it with the current geopolitical tensions and complete lack of fiscal responsibility apparent in the ongoing election campaigns around the globe. With the UK general election around the corner, the success of



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French non-centrists, and obviously the ongoing debacle in the US, chances are sovereign risk and fiscal consensus gets thrown out the window. As tariffs are thrown around like populist electoral toys, I wonder how one could describe the inflationary outlook for the coming years as anything but muddy. In a world where low-cost exports from labor-intensive Asian economies have been spreading disinflation for decades, seeing the Swedish Finance Minister announce the fight against inflation has now “been won”, just as trade wars are on the rise, was sobering. So far, markets appear to agree. We’re not so sure the outlook warrants a victory lap just yet.

Macro is not an easy picture to paint, and we are acutely aware we have approximately zero edge in calling it. We instead obsess over the fundamentals of each company in our portfolio, but are, from a top-down perspective, simultaneously keen to protect the downside from known unknowns. When excitement runs out of steam, we will aim not to be left holding the bag.

So, what’s around the corner? We have no idea. But we’re reasonably prepared for all (most, at least many, or some) eventualities. We try to manage the risk for you.

A fund manager for fund managers

JUNE 2024 • WRITTEN BY PONTUS DACKMO

Regardless of how I try to tone this down it's going to sound like a humble brag, so I'm just going to write it out: I'm super proud that so many other fund managers have chosen to invest in our funds!

It is the best stamp of approval I can imagine. That a not insignificant number of finance professionals have invested with us, despite our lack of track-record, is a testament that real experts on structure agree that we have succeeded with our ambition to optimize for performance. This obviously doesn't guarantee performance. Not at all. It just means we have the prerequisites in place to deliver it, with an above average chance of success.

All one can hope for: a fund manager amplifying what little competitive advantage – or edge – they might have. In our case we believe it is limited size, local knowledge and experience. Plus, network and the right incentives (skin in the game).

To our fund manager investors - and others! - we salute you and thank you for your trust. We can't promise performance, but we can promise to look after your investment like it is our own.

That's enough self-congratulations for today. Back to work.

Feedback on last month's fund industry criticism

JUNE 2024 • WRITTEN BY PONTUS DACKMO

In a fit of frustration with all the sub-optimization and rent-seeking of the fund management industry, the May Partner Letter had a section on all we think is wrong with long-only fund management, and a kernel of an idea for “a cheap fund, that owns reasonable businesses, for an unreasonably long time”.

We have received a lot of feedback.

“If you start a fund like that, I would happily quit my job (as a fund manager) and run it.” “It would be an interesting alternative to the expensive and over-trading private banking model portfolios.”

“Yeah, when you own an ETF with 30%+ weighting to Novo Nordisk, there sure is a market for a reasonable fund like that.”

“Shut up and take my money.”

Encouraging.

Can we find the right person to run it, and enough investors to make it viable (i.e. not insanely loss-making) from the get-go, there might be something here?

If you agree – let us know. If you would consider investing early – definitely let us know.

Protean Small Cap

JUNE 2024 • WRITTEN BY CARL GUSTAFSSON

Protean Small Cap lost 1.0% in June. That is 1.3% ahead of the CSXRN (SEK) benchmark index for the month. This puts the fund 18.6% ahead of our index (CSRXN SEK) since inception and 10.2% ahead so far this year. The fund now manages 386m. Thank you for your trust.

Our top contributors in June were Netel, Devyser, Ambea and Proact. The portfolio was also helped by guidance upgrades from Valmet and Kemira.

Netel might have benefited from a relatively large contract signing but it's a relatively illiquid stock, it's more random in its movement than many of our other holdings. Devyser is continuing its streak of order announcements, of which one was its largest yet, as well as further strengthening its ties with Thermo Fisher who now holds the global rights to the post-transplantation products. Everything points to an organic sales growth acceleration in the second half of the year for Devyser, which should propel the company towards profitability. Ambea and Proact continued to perform well, and both have been great holdings for us so far. Low valuation coupled with EPS upgrade is a strong combination.

Detractors include CINT, ITAB and Fasadgruppen.

Among new entrants we have Norva, Metsä Board and Camurus. Ramil will lay out the reasoning on the Norva position later in this letter.

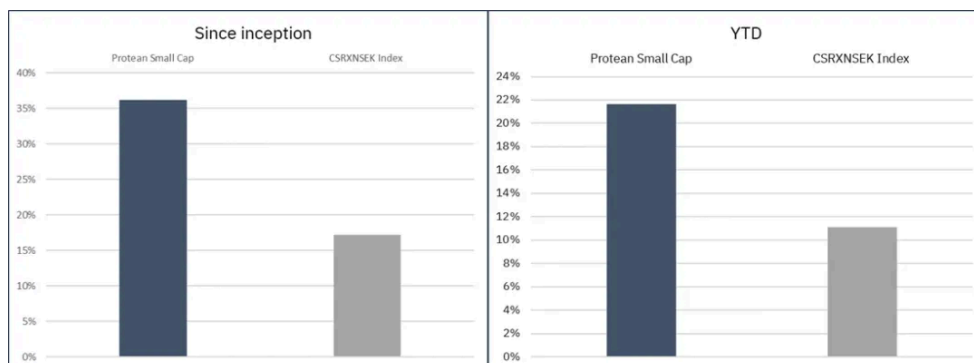
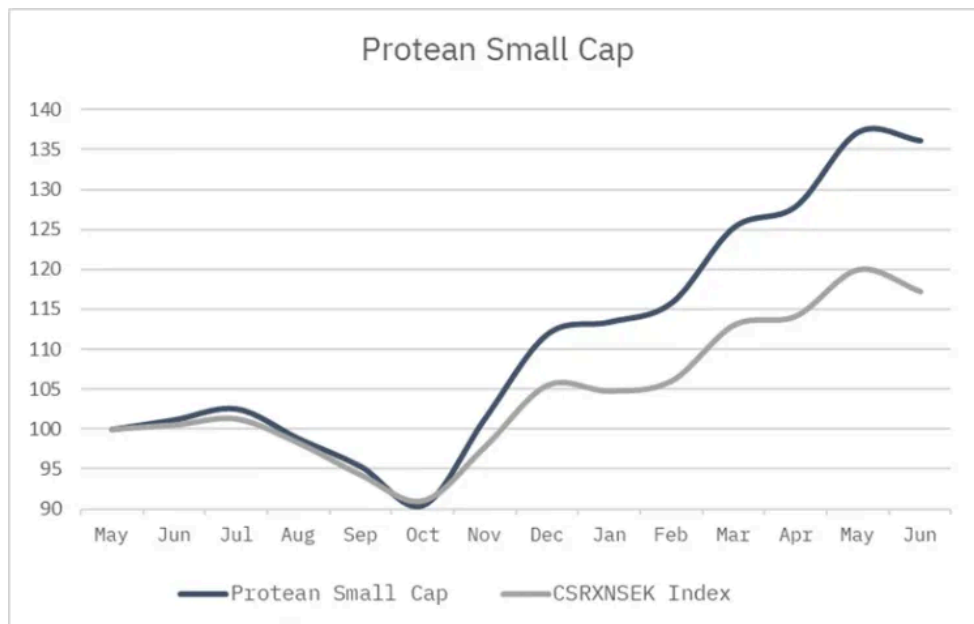
Metsä Board is a Finnish producer of fibre-based packaging in a range of fields, including food and retail. The 51% ownership by the Metsäliitto Cooperative has always been a conundrum in this stock. Are the ultimate interests of Finnish forest owners the same as the external owners of Metsä Board? Would the cooperative enforce investment decisions where the ultimate objective is to increase the price of wood domestically in Finland? As such, the recent decision to not proceed with the potential >EUR1bn Koskinen project was a relief. Metsä has had its recent struggles (post-pandemic destocking & Finnish strikes & an explosion in their main pulp plant) which has overshadowed the completion of some other, more

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sensible investment projects. Since their earnings peak in 2022, Metsä has increased their capacity in paper board by 25% and their net long pulp position has increased to 1m tonnes. The normalized earnings capacity appears underestimated, and with momentum in prices this creates a good set-up.

Camurus is maturing from a one product franchise (but what a franchise the Buvidal/Brixadi product is becoming) to a platform company where their long-release technology can be used in many fields, with acromegaly being the most promising. Sometimes the opportunity creates the idea, and the recent sell-down from the main owner gave us an entry opportunity which we seized.



We've exited our positions in Autostore and Kojamo, as well as Vaisala. The portfolio remains diversified, with roughly 50 names.



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The ten biggest positions in Protean Small Cap as we enter July are:

Acast 5.5%
Devysen 4.2%
Ambea 4.0%
Cargotec 3.7%
Lindex 3.3%
Valmet 3.3%
Rejlers 3.1%
Kemira 2.9%
Raysearch 2.8%
Tieto 2.9%



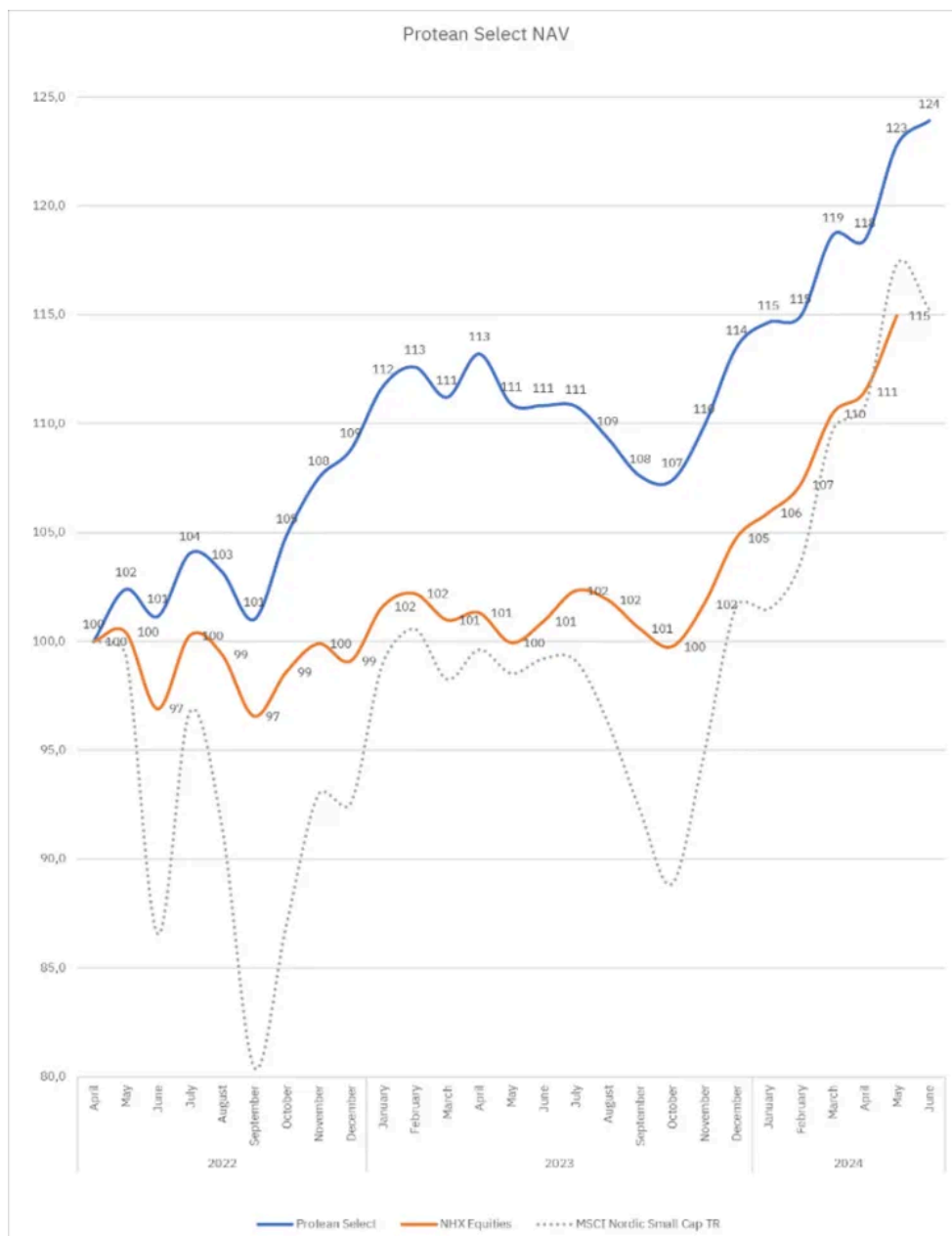
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Protean Select

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*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. NHX is published after our Partner Letter, so updates with one-month lag in the chart above. We aim to have positive returns regardless of the market, but no return is created in a vacuum, and a net-long strategy will correlate. Our hurdle rate is 7.7% annualized (4% + 90-day Swedish T-bills). All figures are net of fees.

Protean Select posted a 0.9% return in June. That's +9.2% YTD and +23.9% since inception. The volatility remains below 7%. We exit June



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with 34% beta-adjusted net long exposure and 125% gross exposure. During the month we gradually returned to a more cautious stance. The portfolio remains diversified, with the biggest position accounting for less than 4% of the portfolio.

Top contributors were our short positions in a basket of small caps and index futures, long positions in Devyser, Tryg and Valmet.

Notable detractors were Metso, Carlsberg and our Memento Mori position in micro cap Modulight.

Similar to what Carl and Ramil write about elsewhere in this letter, Protean Select has also initiated positions in Camurus and Norva 24.

Ramil's Corner – Investing in Mr Misunderstood

JUNE 2024 • WRITTEN BY PONTUS DACKMO

The oldest fable in VC-land is “investing in people”. Equally, we too have our dogmas in the public market. Have you ever pitched a stock to acquaintance A and end up receiving a shrugging “yeah, but...” and then proceeded to get the same shrugging answer from acquaintance B, C, D and even the usually open-minded acquaintance Z? Cue Mr Misunderstood. Oftentimes, the ‘but’ is rooted in an event that elapsed a while ago. Did the CEO turn out to be wrong in a prediction three years ago? Has the company been struggling with a new product, but we are seeing nascent signs of improvement? Did the financial sponsor you refuse to buy anything from exit five years ago, yet somehow you still relate the company to said financial sponsor?

Is the CEO not considered trustworthy because he invested heavily going into an exogenous black swan-event (e.g. a pandemic), after which the ability to deliver on orders and generate new orders was severely hampered as clients saw revenues collapse amidst said exogenous event (e.g. a pandemic) and thus the company's margins took a toll, it turned unprofitable momentarily and everyone started questioning the product; the CEO (and founder in our very fictitious story), the go-to-market; the you-name-it...? If it sounds like this is a real-life example, welp, it is because it is... A year ago, when we were picking intelligent brains on why Raysearch was trading in the 60s, the pushbacks we were getting were quite habitual. Is there selection bias embedded in this example? There sure is. As always in the market, if you always end up being right, you are probably swinging too seldom. But here is the point; finding situations where consensus is entrenched in the old ifs and buts tends to be a reasonably good starting point if you have a differentiated view.

If any avid reader of this letter comes to think of A) the concept of inflection points in stocks, and B) the Protean-belief in the potency of said point on stock prices, I tip my hat to you. It does rhyme somewhat with what we have written in our two latest Letters about 'Idiot or Genius?' situations.

Investing in Mr Misunderstood and seeing our friend transition from Misunderstood to Somewhat understood or, better yet Fully understood (or any other degree of the spectrum between "it is horrible" to "it is incredibly good") is potent. Without any empirical support, the best longs lie in the first transition from considered 'horrible' to 'decent'. And conversely, the best shorts are found in the transition from 'incredibly good' to 'good'. An example is our holding of Netel where, despite a 50% share price appreciation, since we started buying stock in March, the valuation has gone from a meagre 4x 2025 PER to 6x now.

Case in point 1: Is sh*t management really as sh*tty as the market seems to believe?

During June, we initiated a position in Norva24. As the leading Northern European provider of underground infrastructure maintenance (UIM) services to municipalities, real estate operators, construction companies and industrial companies. That's business English for 'sh*t management'. The services Norva provides are typically necessary and can, at most, be postponed only temporarily. Demand is consistently growing on the back of ageing sewerage systems (in some markets, sewerage pipes are 40 years old on average, versus a normal expected lifetime of 20 years) with leakage increasing. This is further supported by regulation and climate change. Markets are growing like clockwork in the mid-single digit region, regardless of the economic environment, and is being consolidated from local family-run businesses to regional and decentralised densification-plays.

So why do the chaps at Protean consider Norva a misunderstood case? Operating a service-specific fleet consisting of 1,100 vehicles, of which many are heavy and cost north of SEK 3m per vehicle requires you to have reasonably deep pockets and good customer relationships from the get-go to be profitable as a new entrant. Density is key in this business as somewhere around 55% of the cost is fixed in any given route (vehicle/depreciation, fuel, operator, overhead). Driving utilisation within a route is paramount for margins. Utilisation hinges on customer relationships. And as such you end up in a hen or the egg-issue. Deep-pocketed players lack customer relationships. Shallow-pocketed players (e.g. ex-Norva employees looking to set up a business of their own; yes, I am looking at you, Consultancies and Installers) lack the funds. This is not a business equated to providing pure installation services based on ad hoc demand or project-based orders, it requires capital and, most

importantly, fingerspitzengefühl in route planning, relationship building, and capabilities.

Habitual pushbacks we have encountered include that it is 1) it remains PE-owned; 2) it is Norway-domiciled, Swedish-listed and small/obscure enough for anyone to decide not to have a view; 3) the financial structure is complex with mostly leased vehicles (and we all know what that means under an obscure IFRS 16-regime). We argue there are similarities between our raison d'être and Norva's financial sponsor (who surely will exit at some point, but such are markets), making it a comparatively good sponsor-owner. Moreover, the Norwegian domicile but Swedish listing stems from two simple facts: 1) Norway is the best Nordic market for UIM and is also the market where Norva started, and 2) there are not an abundance of peers in Norway whereas there are arguable comparable companies in Sweden.

Case in point 2: a potentially transformative datapoint

During June, we have upped our position in Truecaller. What elapsed during the final days of the months are very telling as to why we argue Truecaller is just habitually pushed back on by everyone and everybody.

Since the company started monetising, it has been looking for a killer feature that will drive uptake of its consumer-facing subscription product Truecaller Premium. The features included in the package have so far been too narrow. And hopes of a diminished dependence of advertising revenues have not been high. We were thus surprised to see the lacklustre market reaction to the announcement of an insurance being included in the subscription at an unchanged price. This insures Truecaller Premium users in case of fraud in India. The average subscriber pays less than 1 USD/month for this service.

Here's the beauty of it; Truecaller includes this in the existing Premium package at no change in prices, pays the premium to the insurance company but bears no other responsibility towards either party. Unsurprisingly, Truecaller raised prices for its packages earlier this year – we think this was proactively to cover for the incurred insurance premium. Effectively this also means that the “only” risk Truecaller faces from this is if claims are higher than implied by the price paid for the insurance, in which case premiums will come up (which could be mitigated by more price hikes of Truecaller Premium). And suddenly, a potential killer feature is launched. Who would not want to insure themselves and their family members against fraud?

Is it a sure bet that this will make subscription penetration take off from current close to 0.5% of the user base? No. But the risk is non-zero, in fact we think it is reasonably good, that this could be the feature we have been looking for. And the share barely budged. No analyst mentioned it, no



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sales desk sent an IB on it, no fellow investor we have spoken to recognised it. Radio silence. Mr Misunderstood on full display, again... We bought more on the day of the announcement.

The monthly reminder

We optimize for performance, not for convenience, size, or marketing.

You can withdraw money only quarterly (monthly in Small Cap).

We will tell you very little about our holdings.

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

A hedge fund can lose money even 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.

Thank you for being an investor.

Pontus Dackmo

CEO & Investment Manager

Protean Funds Scandinavia AB