



SEPTEMBER 2024 • PARTNER LETTER

Dear Partners,

Protean Small Cap outperformed its benchmark in September. The fund rose by 1.3%, which is 0.3% ahead of the CSXRN (SEK) benchmark index for the month. It is up 27.5% year to date. Performance since inception in June 2023 stands at +42.7%, outperforming the index by 19.9%.

Top contributors were ITAB, Devyser and Valmet. Detractors include IBT, Fasadgruppen and Embellence.

Protean Select posted 1% return for the month. That is 12.2% YTD and 27.4% 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 longs in Devyser, ITAB and Fortnox. Notable detractors were longs in Novo Nordisk, Neste and Bravida.

This month's letter elaborates on the conspiracy of silence on ESG that plagues the fund industry insiders, where most are critical to but few dare to speak out. We also discuss AI's potential impact on the SaaS business model. Plus, as always, details on holdings and trades, both good and bad.

Thank you for being an investor!

// Team Protean

AI > SaaS

SEPTEMBER 2024 • WRITTEN BY PONTUS DACKMO

Much has been written about the potential benefits to various industries from AI, but less thought has been given to which listed companies are under threat. Surely, if something has the potential to improve and disrupt several industries, someone is at the losing end.

One emerging train of thought is that software companies could face a challenge. The SaaS business model, a sector where we find some of the most highly valued and successful companies of the past decade, looks particularly exposed. The typical SaaS platform generally provides tools for businesses to manually configure and operate software for specific needs (e.g., CRM, project management, etc.). AI can automate many of these tasks, reducing manual interventions, and provide a more useful and customised UX.

The traditional one-size-fits-all approach of SaaS (where the enormous scale benefits come from) could become obsolete with an AI-powered solution, as real time learning, and customisation is automated and a key feature.

Enterprise SaaS comes with pretty juicy subscription fees (I can attest, I handle all of Protean's invoices!). With an AI-powered in-house solution, it's not a wild guess prices and margins could take a big beating. The customisation feature of AI allows you to only pay for actual usage, not all the bells and whistles of a full-suite platform.

To put it succinctly: AI could disrupt the current manual-input-heavy and expensive enterprise SaaS both on price and usefulness.

With this emerging threat as a backdrop, our thoughts wander to a Swedish darling. 2bn EUR market cap vertical software roll-up Vitec. It is one of the best performing stocks in Scandinavia over the past 20 years. The combination of undramatic management, a growing end market, continuous acquisitions and significant multiple expansion has made the stock not only a consensus favourite but also eye watering expensive.

A few of their key advantages makes it a particularly risky bet considering the first paragraphs on AI. Vitec's allure is they have high market shares in selected and diverse B2B SaaS niches, allowing aggressive pricing, which, in turn, drives margins and growth. But looking at the details with a critical eye, there are yellow flags. The company has changed their definition of reported organic growth 8 times in the past 8 years. They generate surprisingly little cash flow, have an idiosyncratic definition of ARR and recently made a strange acquisition (Bidtheatre, a programmatic ad business, not exactly a VMS-business as it is up against some of the global giants in a hyper-competitive market).

The company recently raised EUR 100m in a directed share issue, to bolster its flailing balance sheet and fund further acquisitions. This boon to the investment banks perhaps explains why most of them are positive on the stock. Reading through broker pitches as to why one should buy Vitec, the arguments centre around "it's cheaper than Constellation Software" and "it trades at a discount to its own history". Those are very hollow arguments to own a stock with structural threats and accounting funnies, trading at 60x FCF.

The hypothesis that AI could disrupt Vitec's business over time, could of course be disproven: either AI does NOT have a big impact on how enterprise software is manufactured, sold and used. Or Vitec embraces the change and integrates AI tools vigorously in their offering across the diverse platforms.

In the past 20 quarterly conference calls, how many times do you think Vitec has addressed AI? Or been asked how they deal with the emergence and potential challenges?

Not once.

We don't know how this will play out, and timing is difficult, but Vitec officially has our attention.

The ESG Potemkin Village

SEPTEMBER 2024 • WRITTEN BY PONTUS DACKMO

In the past few months, we have been in discussions with a handful of distributors about potentially adding our funds to their platforms. We have good performance, and a spotless structure that can survive demanding due-diligence processes, so it makes sense that demand grows as we become more well known. However, Protean not “actively promoting ESG” is a major stumbling stone.

Most platforms appear to have made a blanket decision to only accept funds that promote ESG (article 8). Protean has taken the conscious decision not to brand ourselves that way (article 6). This is a very Swedish phenomenon. Nowhere else in Europe (or, indeed, the World) is the distinction between articles considered of such paramount importance.

On our part, this is a decision made from simple intellectual honesty: we do not believe it makes a difference. Our approach to ESG is one borne out of rationality, not out of marketing considerations. Speaking to other portfolio managers, and decision makers at the platforms, off the record, there is a clear and overwhelming consensus that the branding, articles and ESG-processes are nonsense. It is perceived as a necessary evil decided by a committee somewhere, far removed from the actual portfolio management. This is a classic conspiracy of silence.

I would go a step further: they’re not only nonsense, but they are also harmful. As an investor, being led to believe your choice of fund makes a difference to the pressing problems faced by the world, is nothing but a farce. What if it keeps you from taking actual, consequential, actions?

Today 96% of Swedish registered funds are Article 8, “promoting ESG”. The only consequence is there is a mountain of paper filled with checkmarks on questions about CO2 intensity, water usage and work-related accidents. All worthy questions to ask, but none that makes a difference. Particularly not if everyone does the same exact thing. I

venture that eating a vegetarian lunch once a month has a 100x bigger impact on the world than putting your savings to work in the 96% ESG-branded funds out there.

We have looked at what we would need to do to level up to article 8. We would have to produce materials showing we had taken ESG-related factors into consideration and show how we have promoted these diverse and sometimes opposing goals. How is this done in reality? Most funds buy analysis from external ESG-analytics firms, who produce standardised reports on all companies. With everyone using the same data, and asking the same questions, but with zero actual difference made to investment decisions, the value of the exercise is nil. Zero. ESG-branding is simply a tax on the fund-industry, and ultimately the performance received by investors.

To be able to say we “promote ESG” according to this, that, or the other EU-taxonomy or UN-related colourful goals for humanity. We would have to exclude a few companies from our investable universe. This doesn’t make sense.

I like to have a beer every now and then. I am a user of tobacco-free nicotine pouches. I don’t mind placing a bet on a game. I drive a plug-in hybrid, but still use gasoline and plastics. I think we should have a strong domestic defence industry. I want to be able to invest in, and potentially influence, companies active in those industries. The consequence of nearly all funds excluding something is they become very cheap. And will therefore likely be brought private by a rational agent. There is only one listed gambling operator left in Scandinavia. Swedish Match was bought on the cheap by PMI. A US private investor just flagged >5% in Evolution. The list could go on.

If we were to brand ourselves article 8, our focus would shift to “what do we need to do to be able to say we promote ESG”. We, like everyone else, would be nervous that the FSA would ask “ok, show us how you promote ESG”. It’s not an easy question, because there is no right answer. I prefer to be honest and say: “everyone is doing it, but it is not working, I refuse to participate”. Can one invest in the greenest oil company? The gambling company that does the most to help problem gamblers? A weapons company that only does defensive weapons (whatever that means)? A green battery manufacturer that uses minerals from dirty mines and electricity from fossil power generation? A clothing retailer that does fast fashion? A telco that sells communication services to a dictatorship? A capital goods company that sells machinery that is used to manufacture nuclear submarines?

In contrast to the ineffective way of trying to influence environment, social and governance issues via fund labelling, we have an extremely



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useful way of deciding what should be allowed and not. They're called laws. They're backed by police, and courts. They work. We follow those.

For clarity: we are as concerned about where the world is heading as everyone else. And we do our own analysis of the areas addressed by the pesky ESG-moniker. Examples: I think H&M's business model is unsustainable, I think Neste's renewable diesel is likely to see political support in the years ahead, I think Boliden should be looked at more from a resource safety perspective but is poorly governed. We do all the work, and think about the same issues, but don't have to put a silly label on it and brand ourselves "green".

A Potemkin Village is a façade built to impress, but with no use or substance. That is what this ineffective part of the fund industry is.

If you really want to make a difference, then for God's sake take political action. Don't pretend you will receive the same (or better) financial returns just because you're investing in funds that claims to promote ESG. Replace the fuzzy feeling with actual risk: finance projects that investors who focus on returns won't go for. Accept that you want positive outcomes that are measured in other than financial terms. Just don't fall for the marketing of bog-standard funds as ESG positive just because they bought and filed 100 standardised research reports from Sustainalytics.

Sometimes I wonder whether Protean Funds is stupid not to play the game like everyone else. To accept that "ok, this is ridiculous, but it is how it's done" and just shut up about it. Maybe we'll end up telling ourselves we too should "promote ESG" as it appears to be both costless and has no negative impact on returns (irony). Paying for bland ESG-reports and filling our drawers with unread copies like everyone else, just to be allowed to exist on equal terms.

If you want to help, tell your savings platform, or investment advisor, or pension provider, you'd like the option of investing across all kinds of funds. Including the 4% who go their own way.

Protean Small Cap

SEPTEMBER 2024 • WRITTEN BY CARL GUSTAFSSON

Protean Small Cap gained 1.3% in September. That is 0.3% ahead of the CSXRN (SEK) benchmark index for the month. This puts the fund 19.9% ahead of our index (CSRXN SEK) since inception and 11% ahead so far this year. The fund now manages SEK450m. Thank you for your trust.

Our top contributors in September were ITAB Shop Concept, Devyser, Valmet, Nilfisk and Cargotec.

Our top detractors were IBT, Fasadgruppen, Embellence, Netel and Rejlers.

Having closed August, we had a 68-minute hiatus before IBT came with their Phase III read-out on Friday the 31st of August at 18:38.

Unfortunately, it was a miss on the primary endpoints. Given that IBT is as close to a one project company as you can get, the stage was set for a sharp decline. Come Monday, the share dropped 65 per cent, leaving Protean Small Cap with its biggest decline from a single stock in a day. We have on occasion spoken about owning stocks that would put you in a 'genius or idiot' situation, and IBT has always been one of those. We have kept the stock, as the statistically significant 29% reduction of all-cause mortality means the secondary endpoint was reached, with no safety issues, and with very few to no other alternatives for the use case, makes us see a viable pathway for the drug to reach the market.

ITAB Shop Concept became our biggest position during the month. This was the result of a considerable increase of the position, as well as good share price gain. ITAB is a supplier of (almost) all things needed to run a shop. We were attracted by the emergence from a multi-year cleaning exercise, post an acquisition spree executed by previous management. We initiated our position around SEK13, and the share has been a strong contributor during the last 6 months. That performance has been driven by a return to organic growth, considerable margin improvement and strong cash flow. A return to M&A has been a potential not pencilled into the share price. Until last week, that is. ITAB announced the 320 MEUR acquisition of their biggest European competitor HMY, basically doubling

the size of their operations. The deal is financed by a combination of debt (75%) and equity (25%) and as an existing shareholder, we participated in the equity raise which was made with a 10% discount to close at SEK22.7. This was a surprising level considering the substantial EPS accretion the deal entails. The share rallied post announcement, closing the month at SEK 30, making it the strongest contributor for us during the month, as well as for the year to date.

We have also travelled during the month. One week was spent in the US visiting the operations of Swedish companies. In total, we met with 14 companies. Among the highlights was a meeting with the US operations of Getinge in Wayne, New Jersey. This left us incrementally more positive on the stock. More about Getinge later in this letter.

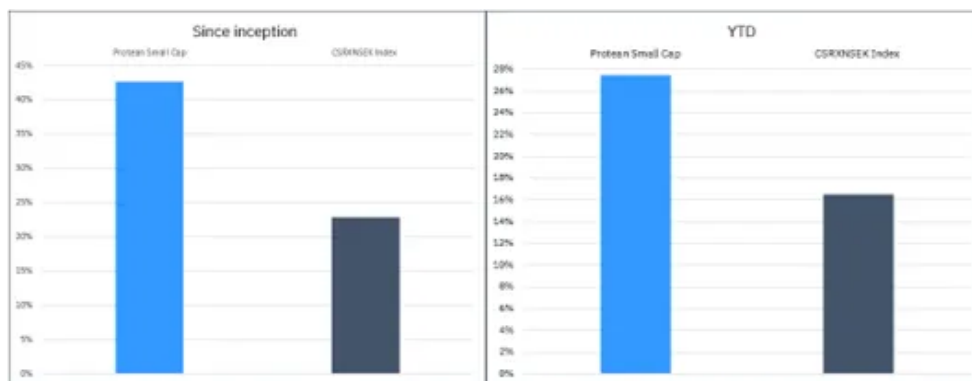
We also spent two days visiting the salmon farmer MOWI's operations around Kristiansund and Trondheim in Norway. We had the opportunity to see the full value chain, from smolt to farming to what is somewhat euphemistically called 'processing'. We also got to see the feed factory. We are intrigued by sector. The MOWI visit underscored the amount of capital that has been deployed into the sector during the past few years, which has diluted return metrics considerably. What we think the market could be missing is the long lead times in getting the full benefits from these investments. They are realised when the salmon is 'processed' and sold. Given that high share of the investments has been aimed at the smolt phase, this means that the benefit does not appear immediately, rather with a considerable time lag. The benefit has not been seen yet but will gradually appearing in 2025. We are holders of MOWI and Leroy Seafood Group.

We've added Ework. This Swedish SEK2.5bn market cap company acts as an intermediary between independent, self-employed consultants and companies in search of resources. With heavy investments in their platform behind them, as well as a leaner organization than earlier, the profit trajectory looks promising in the coming years.

PROTEAN™

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RETURNS

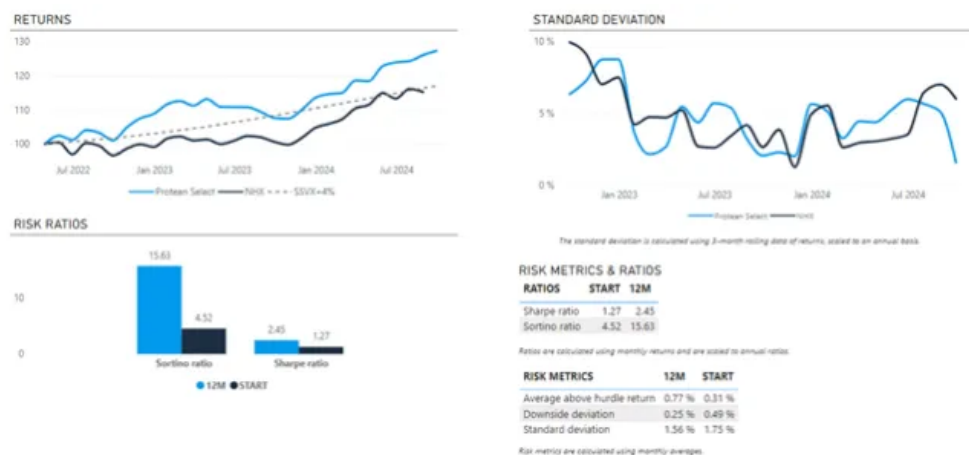


The ten largest positions in Protean Small Cap as we enter October are:

Rank	Holding	% of portfolio	Rank	Holding	% of portfolio
1	ITAB Shop Concept	5.1%	6	Lindex	3.2%
2	Acast	4.9%	7	Valmet	2.8%
3	Devyser	4.5%	8	Fagerhult	2.8%
4	Gefinge	4.4%	9	Leroy Seafood	2.8%
5	Ambea	3.8%	10	Cargotec	2.8%

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 7.6% annualized (4% + 90-day Swedish T-bills). All figures are net of fees.

Protean Select posted 1% return in September. That's +12.2% YTD and +27.4% since inception. The volatility remains below 7%. We exit September with 28% beta-adjusted net long exposure and 125% gross exposure. The portfolio remains diversified, and we are satisfied with the current composition.

Top contributors were longs in Devyser, ITAB and Fortnox.

Notable detractors were longs in Novo Nordisk, Neste and Bravida (vs a short in Instalco, so not as bad in a pair).

What's going on?

It has to be admitted that current markets are slightly confusing. While some companies trade on single digit multiples and can't catch a bid despite positive fundamental news, others are on fire and shake off any negativity.

Intuitively, my guess would be that with fewer fundamental investors in the market, flows and positioning are playing a bigger and bigger role. The rotation triggered by Chinese stimulus news was fierce, particularly for material names. Funnily enough, only days before we read in a BofA Fund Manager survey that allocations to the materials sector was at a 7-year low, and that the 2nd most crowded consensus trade in global markets was "Underweight China". Go figure. We trimmed our Boliden position and traded SSAB in the volatility that ensued.

A similar reason is also likely why Novo Nordisk saw a near 20% draw-down in recent weeks. We had a medium sized position, that we (for a while) thought we bought well in the early dip in September, but that turned into a bigger and bigger position as the stock kept sliding and we kept adding. When you're likely to keep growing profits at a 20% plus rate for years, and buy back stock, and pay a dividend, your multiple falls pretty quickly. even if you are the biggest company in Europe. We still don't think Novo Nordisk is expensive. But when you have rotation from defensives to materials, the funding must come from somewhere. And with everyone and his dog long Novo Nordisk, and most likely with a decent profit, it's easy to see why there were no marginal buyers showing up in the early innings of the slide. We feel confident fundamentals will prevail, and expectations for Q3 have been reset, going into the interesting CagriSema read-out in late Q4.

We have accumulated a significant position in Swedish medtech company Getinge. We think fears over their ECMO franchise are overblown, after listening to practitioners and meeting with the company on several occasions in recent months. Paired with an undemanding valuation and low expectations, it has the hallmarks of what could become a very decent case over the next year. If you squint really hard you can see the outlines of the perennial quality-related regulatory issues that have plagued the company for a decade, coming to an end. Given the amount of money and effort the company has put in to rectify their lacking quality systems, I venture Getinge is soon the best and most compliant critical care nick-nack manufacturer out there. That is our bet. But it is an uncomfortable one.

You are never more than a press release away from -20% in Getinge, and this is exactly the reason why the stock trades on a big discount to peers. We think this could change over time. Add what looks to be rather



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interesting M&A to the mix and estimate upgrades plus more comfort should work wonders.

The pharma company we mentioned in last month's letter was AstraZeneca. It turned out to be better timing than we could have dreamt of, as the stock dropped -10% in short order. Extended expectations and lazy longs, plus a so-so read-out worked wonders. We have yet to see a compelling reason to cover the short.

Similar to the Small Cap Fund (see Carl's section), Protean Select has built positions in ITAB and Mowi.

The monthly reminder

We optimise 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
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