



OCTOBER 2024 • PARTNER LETTER

Dear Partners,

Protean Small Cap outperformed its benchmark in October. The fund declined by 2.1%, which is 1.6% ahead of the CSXRN (SEK) benchmark index that declined by 3.7%. The fund is up 24.8% year to date. Performance since inception in June 2023 stands at +39.7%, outperforming the index by 21.4%.

Top contributors were Fasadgruppen, TF Bank and Concentric. Detractors include ITAB, Getinge and Nilfisk.

Protean Select declined by 1.7% return during the month. That is 10.3% YTD and 25.2% 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 Truecaller and Tryg, plus our short positions in Faberge and index futures. Notable detractors were longs in Getinge, Atlas Copco, and Elekta.

This month's letter elaborates on why diversification is the same thing as being humble, and how avoiding catastrophic loss is paramount for safeguarding long-term compounding. Also, we have unveiled two new team members in October, strengthening both the analytical and operational capacity of Protean Funds. Lastly, we detail why we think there's confusion of frequency and magnitude in the case of Getinge, one of our losers for the month that remains a meaningful position in both funds.

Thank you for being an investor!

// Team Protean

The Art of Being Wrong

OCTOBER 2024 • WRITTEN BY PONTUS DACKMO

Just as portfolio management for the long term is about identifying winners (and holding on to them), it is equally about minimizing the impact of being wrong. Because wrong you will be, with annoying regularity.

I think the awareness that any strongly held belief can turn out to be not only wrong, but the complete opposite, is a crucial component of risk mitigation. For one it sets the bar for diversification: awareness of one's fallibility is an antidote for catastrophic errors due to an inflated sense of certainty.

Having been in the market for 20 years, we have seen our fair share of blow-ups. When overconfident stock-jockeys, so sure about their thesis in a name, keep adding on weakness, despite mounting fundamental evidence their thesis rests on ever shakier ground, they cause a position to balloon in size and risk an entire year's worth of performance (or worse).

When optimizing for long-term returns, capping catastrophic losses that come from faulty sizing, is risk-mitigation 101.

It's not like we don't get why it keeps happening. When you have spent months researching a name, know the industry, the management team, competitors, the P&L and balance sheet intimately, it's easy to become convinced of your own brilliance and shout "the Market Is Wrong!" from the rooftops. And keep adding to the position. The trickiest part of it all is that sometimes this is the right thing to do.

Courtesy of the law of big numbers there are a handful of funds globally that have posted stellar returns with a super-concentrated portfolio. We tip our hat. But that's not how we roll. We're far too aware of our own



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inadequacies (and the near random walk of markets) to risk the house on any single bet.

The month of October is a case in point. Without any quantitative evidence I venture to guess we've never had a worse reporting season. Our longs went down, and our shorts went up. Generally.

Despite this random mess, we closed the month ahead of the index (for the Small Cap fund) and "only" down 1.7% in the hedge fund Protean Select. It might sound weird, but given the number of mistakes, we're pleased not to be down more. It's a testament to diversification and our generally humble attitude in the face of adversity. We are more likely to cut an underperforming position than adding to it and keep a winning position rather than scaling it.

This feature of Protean Funds (diversification, loss aversion, a tinge of momentum) means you are unlikely to receive spectacular results (although the Small Cap fund 21.4% ahead of index is nothing short of it!). Still, at the same time, you are also unlikely to experience catastrophic losses. This is just how we manage money.

"In order to succeed you must first survive." You can probably figure out who said it. He's not wrong.

Gearing up

OCTOBER 2024 • WRITTEN BY PONTUS DACKMO

We have made two hires in October. Richard Bråse and Axel Ekros will be joining the team in the coming months. Ramil Koria has left to return to the sell-side. We thank him for his contribution, and continue to think he's one of the hardest-working analysts in the Nordics.

We have known Richard Bråse for several years. Not least from his high-quality analysis and razor-sharp stock recommendations in Sweden's biggest business daily Dagens Industri, but also from dinners, coffees and a running dialogue on all things equities. Like us, Richard is a stock junkie. A conversation not centred on equities is wasted time. Like us, he sees data points everywhere, with the number one thought being "does this mean something for the thesis in stock X, Y or Z?". As an uncompromising fundamentalist, he has created a name for himself predominantly by exposing the fragility of several of Sweden's most hare-brained retail darlings. By focusing on fundamentals and doing real research, he's built a stellar track record and an almost cult-like following. He's also made enemies, many with proverbial tin-foil hats, among the shareholders of said retail darlings.

We have always thought his demeanour and analytical style fits well with Protean. We don't occupy ourselves with certain styles or biases. We want to create the prerequisites for generating returns, regardless of label or perceived popularity. This is Mr Bråse in a nutshell: do the independent research, call it like it is, and live with the consequences.

We look forward to adding Richard's skills to the team, both on the short and long side of things. In due time, we think there is an opportunity for a third fund based on Richard's skillset. There are two ways to beat the index: be small and super-active, or be very long term, own quality, and have super-low costs. We already have two small and super-active funds generating solid returns. Let's see if we can conjure up a suitable for Richard to run. Like Richard said himself in a podcast recently: "far too much focus in the fund industry is on how we make the most money off other people's money, and not enough on how we create a genuinely good product for investors".



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Axel Ekros is a young stock nerd we have known for a few years. We are delighted he has decided to join us full time from January 2025. He currently works as an analyst with another fund company. Axel has been a member of the Swedish national rowing team for many years, in the difficult Quadruple Scull – a niche discipline that requires a high level of teamwork and synchronicity, not dissimilar to being part of a portfolio management team! He also has a European Championship gold medal in indoor rowing. There's no doubt he has an adequate pain threshold for withstanding market gyrations. Axel also has complementary skills, adding more fixed income experience to the team, and we foresee he will over time take more responsibility in managing our liquidity.

We take our fiduciary duty seriously. And by expanding the team with handpicked high-caliber people, we add to our capacity. This does not mean fees go up, or that our maximum capacity limits for the funds change. We simply continue doing what we think is best for returns.

Protean Small Cap

OCTOBER 2024 • WRITTEN BY CARL GUSTAFSSON

Protean Small Cap returned - 1.7% in October. That is 1.6% ahead of the CSXRN (SEK) benchmark index for the month. This puts the fund 21.4% ahead of our index (CSRXN SEK) since inception and 12.6% ahead so far this year. The fund now manages SEK465m. Thank you for your trust.

This month we were helped by the things we don't own, with sectors such as real estate and shipping underperforming. Hence, we would consider the outperformance vs index a 'low quality beat', if it was an earnings report.

Our top contributors in October were TF Bank, Fasadgruppen and Concentric.

Our top detractors were ITAB, Getinge and Nilfisk.

Mid-month we saw an opportunity in Concentric as its share price deviated sharply from the SEK230 bid from AP Moller Holding. We initiated a position equal to ca. 3 percent of the fund at around SEK 213, an 8% potential upside with a pay-out in two weeks. We never understood why the market became skeptical about the bid not being completed. For one, AP Moller Holding – the investment vehicle of the family controlling the shipping giant AP Moeller Maersk – was unlikely to become deterred by the profit warning issued by Concentric post the bid announcement in September. If you have made your money in shipping, cyclical volatility is something you are intimately familiar with. We also noted that the AP Moller Holding has staffed up considerably in recent years, and as this was their first public bid, withdrawing would not pose only a legal problem, it would also be a major loss of face and credibility. For a company that has their own historian employed, this felt unlikely. Whilst we might have slept a bit poorly for a couple of nights, Concentric became a strong contributor for us during the month as the deal was consummated at its original terms.

Fasadgruppen, a Nordic supplier of renovation services, mostly focused on facades, became a top contributor during the month. We initiated our

position in this stock too early (fund speak for ‘we have been wrong’), and frustratingly enough, we also financed it by selling down our stake in Balder, which has since marched another 30% higher while Fasadgruppen has performed poorly. The share bounced in October as they pre-announced a Q3 report, which was considered a relief. They also announced the acquisition of the UK peer Clear Line. This deal came at an attractive multiple, and with a financing scheme that solves Fasadgruppen’s immediate gearing problem.

TF Bank has gained almost 100 per cent since we added it to the portfolio in March, and you don’t get those kinds of returns if there wasn’t a major misunderstanding in the market. After a couple of strong reports, the major valuation discrepancy has rectified itself, but there’s ample growth runaway in Germany and potentially in additional markets in Europe.

Itab Shop Concept came with a Q3 report that underwhelmed in terms of profitability, as the mix moved from value-add solutions. Getinge fumbled their communication regarding the 2025 margin outlook. We believe the market is overly cautious in their view of Getinge. The 7% organic order growth was a strong point in the report.

We have added Catena. The share has been penalized heavily during the real estate sell-off during October. We have had virtually no exposure to the real estate sector in the portfolio. From a tactical standpoint, we found this logistics developer, who recently made an ABB at SEK557, seemed attractive at levels almost 10% lower than that a few weeks later. We have – just as in Select – added Huhtamäki. The share price of this Finnish producer of food packaging has been treading water for a long time, mostly as it was too expensive a few years back. Since then, the company has grown profits, and the multiple has derated, putting it at a level that is attractive for a relatively non-cyclical company.

We have also added Bulten. The automotive sector being weak is a well-rehearsed theme, and a new well-liked CEO is set to join soon, which might put them in the spotlight. We’ve included Loomis. We urge them to shut down the Loomis Pay folly, but the share looks attractive even with this included, and the growth in the US can’t be ignored. The consistent share buybacks lend support.

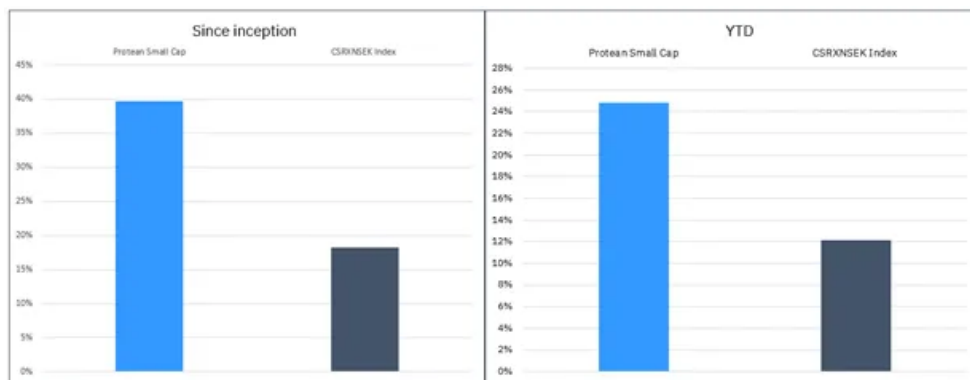
We have exited Metsä Board. We were attracted by the fact that this Finnish pulp and board producer had completed several large investments, improving their normalized earnings power. The problem is that there’s no ‘normal’ in this very cyclical sector, and as they are being penalized for the lack of in-house wood supply with margins being crushed, there’s no imminent turning point in sight. The share, as its sector, remains one of the big beneficiaries if there were to be a resolution

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to the Russian invasion of Ukraine, meaning it remains on our radar. We have also sold Metso, Valmet, Norva 24, BHG and Truecaller.

RETURNS

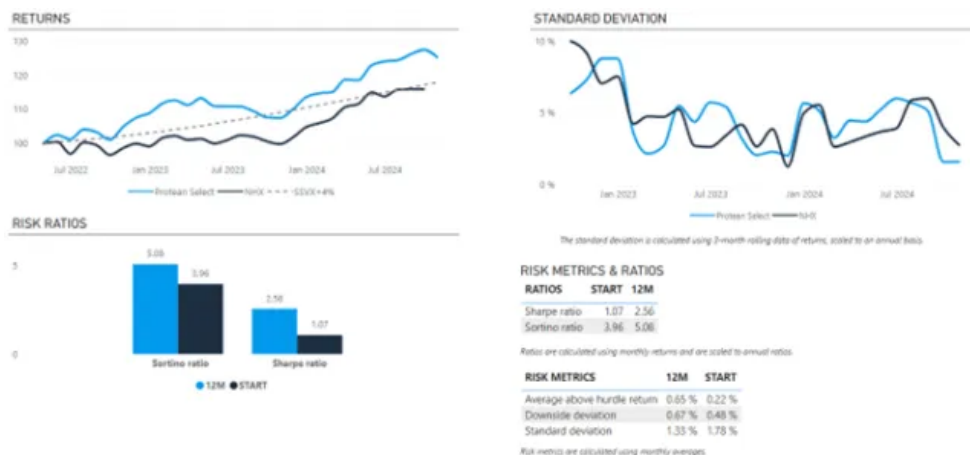


The ten largest positions in Protean Small Cap as we enter November are:

Rank	Holding	% of portfolio	Rank	Holding	% of portfolio
1	Acast	4.9%	6	Rejlers	3.2%
2	Devyser	4.8%	7	H. Lundbeck	3.1%
3	ITAB	4.2%	8	Lindex	3.0%
4	Ambea	3.5%	9	Fagerhult	2.8%
5	Getinge	3.4%	10	Elektro	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 6.9% annualized (4% + 90-day Swedish T-bills). All figures are net of fees.

Protean Select posted -1.7% return in October. That's +10.3% YTD and +25.2% since inception. The volatility remains well below 7%. We exit October with 16% beta-adjusted net long exposure and 116% gross exposure. The portfolio remains diversified, and we are satisfied with the current composition.

Top contributors were longs in Truecaller, Tryg and Fabege in addition to our short futures position in the OMX Index.

Notable detractors were longs in Getinge Atlas Copco, Elekta and Lindex.

We have decided to run structurally lower risk in the period going into US elections and the heightened global tensions that might follow. This explains our current low net and gross exposures. As always, we hope we



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get the opportunity to load up on attractively valued issues, as things ultimately normalize (whatever a new normal ends up being).

We were active (as usual) in October, like our sibling fund Protean Small Cap we saw the opportunity in Concentric, and have exited the positions in Truecaller and Valmet.

Frequency vs magnitude

OCTOBER 2024 • WRITTEN BY PONTUS DACKMO

In last month's Partner Letter, we disclosed our position in Swedish medtech company Getinge. An uncomfortable position considering the many moving parts and history of operational snafus. For more than a decade Getinge has had ongoing troubles with the FDA, product recalls, and violent swings in demand (the ventilator and ECMO boom during Covid).

The prejudice among investment professionals is that Getinge is not a quality company. There is always some new issue emerging that takes its toll on sentiment and share price. So far it has not been wrong. The frequency of mishaps appears to remain high. But we postulate the magnitude is misunderstood. When the FDA issued its original consent decree, it was the result of several years of underinvestment in quality control and traceability. After 10 years and hundreds of millions of investments in processes, audits and remediation, we think things could be about to change, but any new small issue that is brought to light is still interpreted in the light of the serious omissions that occurred over a decade ago. This is what we mean by frequency vs amplitude: a packaging problem for IABP, a change of production at a facility due to renewed CE-marking, a clumsy wording on forward margin guidance by the management team – it's all being viewed with maximum negativity by the market. This is exactly the source of the opportunity. We are only months away from Getinge clearing the substantial backlog of quality-related documentations. We could be months away from ECMO-related packaging issues finally being resolved. We could be months away from IABP marketing being re-instated. At the same time the Q3 numbers showed accelerating order intake growth. Yet the stock cratered.

It is also the case that Getinge's products are seriously regulated. None of that light regulation less critical healthcare products enjoy. In many instances, they are life-saving systems. This means a low hurdle to report

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an issue to the regulator. The frequency is high. But the magnitude is low. Most industry peers with similar types of products have a similar number of MAUDE reports. But given the history, and bias of market participants, the picture of continued problems continues to be perpetuated.

We approach Getinge with a healthy dose of scepticism ourselves, for this very reason. We might be right that things are improving underneath the ragged surface, but unless others come to agree with us, the stock won't work. This was painfully true during the past month, as any and every little issue was interpreted in a negative light by market participants. It's an odd merry-go-round, where sell-side analysts become cautious because they think "investors won't like this" but make very minor adjustments to forecasts. When trying to gauge market sentiment, and therefore the movements in the valuation multiples rather than future cash flows, you might be right on the stock price in the short term (and contribute to driving the stock in a certain direction), but you are not acting as a fundamental analyst. Of course, we are guilty of this ourselves too – thinking about how a narrative will and can change sentiment, but we are at least honest about it! We also reserve the right to take the more fundamental view, and approach a situation with patience, and stomach downside volatility, if we believe we have a differentiated view about the fundamentals.

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