



NOVEMBER 2024 • PARTNER LETTER

Dear Partners,

Protean Small Cap beat its benchmark marginally in November. The fund lost 0.8%, which is 0.1% ahead of the CSXRN (SEK) benchmark index for the month. The fund is up 23.9% year to date. Performance since inception in June 2023 stands at +38.6%, outperforming the index by 21.3%.

Top contributors were Raysearch, MT Højgaard and TF Bank. Detractors include Getinge and ITAB Shop Concept.

Protean Select declined by 0.5%. It is up 9.7% YTD and 24.6% 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 Raysearch, Mowi and Ambea. Notable detractors were longs in New Wave, Getinge, and a short position in AP Møller Maersk.

This month's letter elaborates on the state of markets, with a particular eye to the divergence between Europe and the US, our recent additions and deletions in the portfolios, and a few words on our thesis in both Skanska and Hexagon.

Thank you for being an investor!

// Team Protean

The State of Markets

NOVEMBER 2024 • WRITTEN BY PONTUS DACKMO

Whenever a solid consensus is forming, and backward-looking returns reflect this, it sometimes pays to look in the other direction.

The US economy is outperforming the rest of the World – Europe in particular – which is manifested in both flows and relative performance. 2024 so far is the worst year for European equities relative to their US counterparties since at least 1980. Not to be disrespectful but when even Swedish retail fund flow shows how global and US equity funds are topping the “most bought” lists, and Swedish/European funds top the “most sold” lists, you can be pretty sure there is a proper consensus trade going on.

Thankfully, the rude awakening in Europe is gaining momentum. Electoral upsets with populist parties in leading roles are acting as a catalyst for the drive to deregulate European innovation and capital markets. There have been several examples recently where earlier level-headed politicians and bureaucrats have come out as staunch proponents for aggressive deregulation. Dearly needed to revive the business climate.

When the team on the other side of the Atlantic has Elon Musk at the helm of DOGE, and a hedge-fund manager as Treasury Secretary-elect, there will soon be a clear precedent set for what can be achieved in record time in terms of government efficiency and red tape-cutting. Like someone said: “we have a person who cut Twitter headcount by 80%, who built a car company that commands a \$1tr market cap and who now catches rockets ... the history book suggests you fade him at your peril.”

In the background, there is what’s going on with currencies. I’m not smart enough to figure out what to think about the USD in the context of ever-increasing government debt and interest rate payments, but it does seem a weaker USD would be helpful. The net effect of deporting a couple of million low-wage immigrant workers, cutting a 7-figure number of federal employees, and slapping tariffs on all imports, will be interesting to watch. I think we can agree it’s an interesting economic experiment on a grand scale.



NOVEMBER 2024 • PARTNER LETTER

Starting points matter, however. With a strong dollar and cab drivers across the world levered long SPY (heck, even the Russell 2000 just printed a fresh ATH) – perhaps we have discounted a fair bit of the upside already?

There is an argument that risk premium on US assets should rise, given the madman is soon to enter the White House. But so far, the effect has been the opposite. Risk premia have shrunk. The US10Y yield is flat – better prospects for growth in a de-regulatory tax-cutting regime offsetting US government balance sheet and currency risks?

What I'm watching closely is the deterioration in the rule of law. Nepotist and neo-fascist appointments are a stern warning. An environment without politicised courts and intelligence agencies, and the resulting highly unpredictable outcomes, is what separates developed from emerging. Let's hope it remains so.

Observable prices are the results of millions of small decisions, from actors with a wide variety of vantage points. But sometimes it's hard to separate the wisdom of the crowd from its evil twin mass hysteria.

Protean Small Cap

NOVEMBER 2024 • WRITTEN BY CARL GUSTAFSSON

Protean Small Cap returned - 0.8% in November. That is 0.1% ahead of the CSXRN (SEK) benchmark index for the month. This puts the fund 21.6% ahead of our index (CSRXN SEK) since inception and 12.6% ahead so far this year. The fund now manages SEK470m. Thank you for your trust.

The top contributors for the month were Raysearch, MT Højgaard and TF Bank. We were helped by our positions in the salmon farmers MOWI and Leroy Seafood, which both shrugged off poor Q3 earnings as the 2025 outlook has gotten firmer.

The Danish construction company MT Højgaard gained 21% during November, as they raised their guidance for the year. The share has performed strongly since we added it to the portfolio, but valuation remains puzzlingly low. This can only be explained by its checkered history. The performance during the last couple of years indicates a lasting turn for the better. Discipline is very important in construction, as outlined in our thesis on Skanska later in this letter. MT Højgaard has sold their operations on the Faroe Islands and in Angola (!) and is in the final stages of winding up their business in Greenland. Left is a focused, fairly profitable construction company with focus on Denmark - one of the strongest economies in Europe. The share trades at ca. 3x next year's EBIT.

We suffered from the continued decline in ITAB Shop Concept which has made a complete turnaround following the post-HMY pop in the share price. Getinge suffered from competitive fears in their ECMO franchise. BTS, Rejlers and Balco also qualified as poor contributors, suffering from what best can be described as small cap apathy.

We've added Coor to the portfolio as a mid-sized position. We have a long relation with this Nordic facilities management provider, having been involved with the stock since late 2015. Looking through our notes on Coor (28 A4 pages!) we conclude that customer concentration has never been lower, which is the inverse of losing large parts of the once dominant Ericsson and Equinor contracts. At the same time, EBITA is 74% higher

than in 2015, while sales are 67% higher. The share price? Lower! It's trading at levels 15% lower than at the IPO. While there obviously are reasons for this, we believe risk/reward at the levels around SEK 33 to be very good. Should consensus estimates prove to be nearly right, the stock here trades on 8x PE with a 10% dividend yield.

We have initiated starting positions in 4C and Rugvista. You might think we're starting a kennel and sure, these two names share the trait of "having a rough patch". Near-term turbulence aside, we have bought into longer-term, compelling fundamentals:

4C: a leading supplier of training software to the military, with hallmark clients. Due to long sales cycles, extended by the 'what we need here and now'-attitude post the Russian invasion of Ukraine, sales have disappointed. However, Q3 marked a turn for the better and those long sales cycles might lead to orders in 2025.

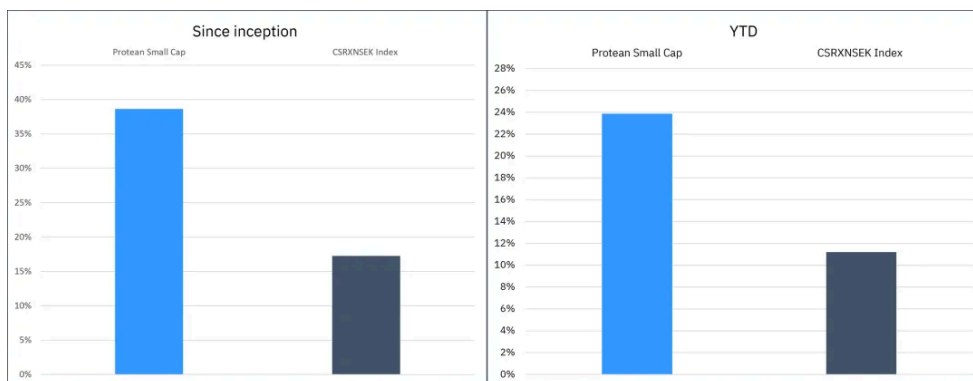
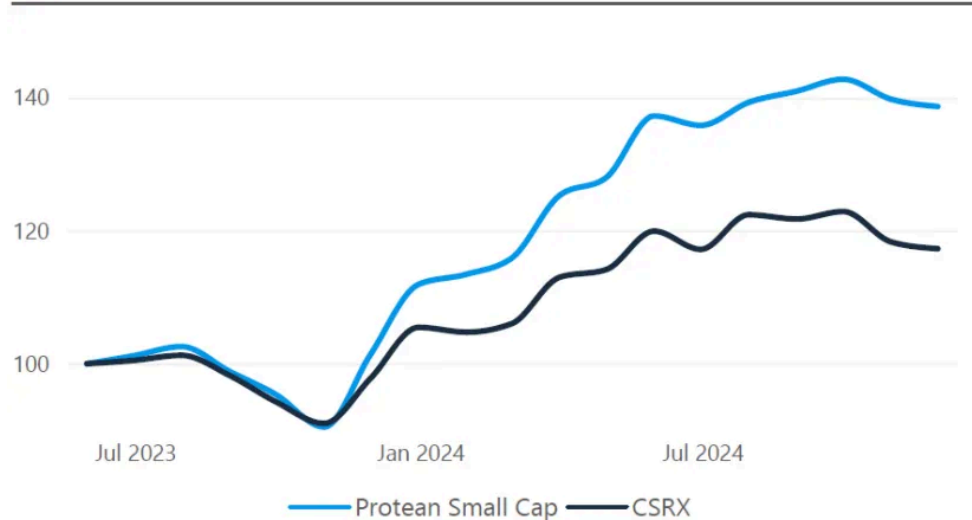
Rugvista: The European market leader in selling rugs online, which is the best ecommerce model we have seen in terms of unit economics. Average order value has been trending down in 2024, which has created concerns. As the Nordic consumer benefits from sharply improved wallet fundamentals in 2025, we believe this can reverse.

We've exited Kemira as we believe there are near-term risks associated with production curtailments within the pulp sector. We've also sold Fagerhult. This lightning solutions provider screens well thematically, but the actual performance has been underwhelming. EBIT decline 24% in Q3, far worse than expected, and while the company is implementing cost cuts, we are slightly surprised by the timing as – if anything – the outlook should have improved as global interest rates are declining.

PROTEAN™

NOVEMBER 2024 • PARTNER LETTER

RETURNS

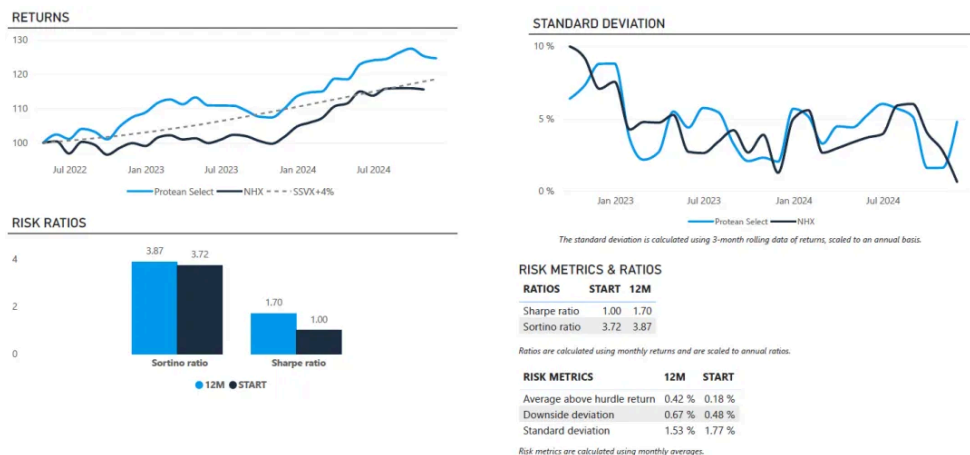


The ten largest positions in Protean Small Cap as we enter December are:

Rank	Holding	% of portfolio	Rank	Holding	% of portfolio
1	Acast	5.0%	6	Ambea	3.7%
2	ITAB	4.3%	7	Proact	3.4%
3	Lindex	3.8%	8	Leroy Seafood	3.3%
4	Devyser	3.8%	9	Mowi	3.1%
5	Getinge	3.7%	10	H. Lundbeck	3.0%

Protean Select

NOVEMBER 2024 • WRITTEN BY PONTUS DACKMO



*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 -0.5% return in November. That's +9.7% YTD and +24.6% since inception. The volatility remains well below 7%. We exit November with 28% beta-adjusted net long exposure and 113% gross exposure. The portfolio remains diversified, with the biggest position 4% of assets.

Top contributors were longs in Raysearch, Mowi and Ambea.

Notable detractors were longs in New Wave, Getinge, and a short position in AP Möller Maersk.

We were active (as usual) in November. We closed out positions in MTG, Saab, NKT and ABB, just to name a few. Similar to the Small Cap fund we have added a position in Coor.



NOVEMBER 2024 • PARTNER LETTER

Triggered by an investor question we looked at how the fund has performed vs various local indices since inception in May 2022. It is pleasing that the fund, despite its lower risk (average 30% net exposure and 6% volatility) has managed to outperform all of them. Now, we don't compare ourselves to an index, so take it with a grain of salt, but no return is generated in a vacuum.

The MSCI Nordic total return index is up 16%, the SIXRX Total return index 22.3%. Protean Select 24.7%. Similarly, in 2024, the fund has performed in line with the best performing index.

A number of reasons

NOVEMBER 2024 • WRITTEN BY PONTUS DACKMO

In light of the “State of Markets” earlier in the letter, we have some positions that derive from how we currently view the world. Above average top-down rationales. The theme of US exceptionalism has depressed some stocks and boosted others, while the indiscriminate sell-off in most things European has created situations where we think far too much is discounted. A few examples of how we’re thinking:

Skanska

This is an interesting case in point. The general sentiment towards Skanska locally is that of a local construction company struggling with downbeat markets and bearishness in both residential construction and commercial real estate. The reality is rather that the company has an all-time-high order backlog of 267bn SEK, driven mainly by US infrastructure projects such as bridges, airports, and data centers (we think MSFT is their biggest client, and as a local US manager told us a few weeks back “the demand for Data centers is crazy”).

With the focus on Make America Great Again, it is mildly surprising not more is made of Skanska’s significant US exposure.

There is a justified concern that Skanska, like so many other construction companies executing big and long projects, repeatedly suffers from write-downs once projects are nearing completion. This is part of the business. But important things have changed in recent years. Not only has the number of competitors changed dramatically (down), but since a new US Head came in, the focus has turned to reducing risks in competitive bidding.

Anecdotally, we heard there was a period not too long ago where Skanska finished as the nr 2 bidder for 17 projects in a row. This tells us something about risk reduction. We also understand the number of bidders in the big projects has gone from five to two, and even several where Skanska has found themselves being the only bidder.

Driven by significant policy-driven investment programs such as IAJA and IRA, there is more work than the market can absorb. We think this will be reflected in more benign terms and prices in the year ahead. In short: the risk of bogeys in the backlog is significantly reduced.



Chart: Skanska 12m fwd PE-ratio

Not much of data center hype is reflected, nor potential CD divestments, residential pick-up, record back-log, nor improved business terms. In fact, given the strong balance sheet and depressed end markets in parts of the business, it looks too cheap to us.

We smell an opportunity and in November bought the stock aggressively on the pull-back on the day of Q3 reporting (which, incidentally, was the morning of the Trump victory).

Hexagon

Almost no matter how we slice this company it looks cheap. Is it like the market has lost track of the company's leading positions in several global niches? Because rivals with significant exposure to the semiconductor vertical have outgrown construction and auto segments in the past 2 years, the market seems to have given up. We think Hexagon is one of the companies, similar to Skanska, with material Americas (41%) and APAC (26%) exposure, that is being thrown out with the bath water in the indiscriminate selling of Europe we have seen in recent months.

The company has tried (fairly successfully, thanks to ever expanding margins) to position itself in investor's minds as "not cyclical". Now, when the cycle actually hits them (because nothing avoids cycles forever), it's biting them in the backside. If perception is they're not cyclical, the

market's conclusion is the slow-down must be structural. We think it's just cycle.

In addition, the value is hidden behind what is perceived as a bit of a maverick ex-CEO-turned-Chairman, and a governance structure that was once not ideal but has since been improved. Not even the vocal short sellers seem to have a gripe with the structure anymore.

If so, substantial value will be captured in Hexagon over the coming 12-18 months. To re-cap: the Hexagon stock is now trading at a substantial discount to its history, and indeed at a discount to the general market. This seems unfair.

We note insiders seem to agree. The head of Geosystems (the culprit for the lack of recent organic growth) last week added 50% to his holding, as did the CTO.

One aspect of the US exceptionalism, with US stocks (particularly in tech) trading at eye-watering multiples and significant premiums to their EU counterparties – plus a strong USD/SEK – is that M&A becomes a more interesting option for those with a strong currency. It's the reverse for Hexagon: acquisitions of attractive (and therefore expensive) businesses are difficult to justify if your own valuation is depressed (hello Sandvik!). Perhaps it is in this light that we should see both the decision to sack the CEO and to spin off the ALI-business? A business that fits well into the US-centric thesis we're running here, as it to 90% consists of the three US companies Intergraph, Infor and ETQ.

Another perk of de-conglomerating Hexagon is that it simplifies the equity story. There will be more opportunities to expand on the strong franchise in Hexagon Mining, and the dominant positions within positioning, just as two examples.

PROTEAN™

NOVEMBER 2024 • PARTNER LETTER



Chart: Hexagon 12m fwd EV/EBIT and PE.

Hexagon accounts for >50% of Melker Schörling AB's listed stock portfolio. This is perhaps something the daughters who now run the investment company want to change. One can imagine they release capital to enable new ventures. What better than spinning off a meaningful part of the business, in a segment that has seen significant consolidation in recent years?

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