

Adrigo Small & Midcap L/S

August 2018

Fund Manager's comment

Performance

Adrigo Small & Midcap L/S rose by 0.25% in August, net of fees.

The Fund's holdings in **Bergman & Beving** (technical trade) and **Getinge** (medtech) provided the biggest contributions to returns. Among the Fund's smaller positions, we noted good percentage gains in **Frontline** (shipping) and **ADS Crude Carriers** (shipping). The Fund's short positions impacted performance negatively in aggregate.

Adrigo Small & Midcap L/S has returned 14.4% since inception, net of fees. In the same period, the benchmark STIBOR 1M rate has returned -0.4% and the Carnegie Small Cap Return Index Nordic has gained by 13.5%.

Market Comment

The Carnegie Small Cap Return Index Nordic rose by 2.10% in August.

The weakened Swedish Krona was one of the reasons for the strong stock market development in August. Concerns regarding potential trade restrictions, outcome in the forthcoming general election in September, and the Swedish Riksbank's dovish monetary policy pushed foreign investors to sell the Krona. An important point is that the Swedish currency is trading at levels not seen since the global financial crisis.

We raise concerns for the future as the underlying inflation target (adjusted CPIF) of two percent is not reached despite a depreciated SEK, negative interest rates, and large-scale bond purchases. However, the question remains if the adjusted metric, which e.g. excludes energy prices, captures the price development. A slowdown of the stimulus from the depreciated SEK and bond purchases will affect the financial markets. On top, add upcoming interest rate hikes and we will have an interesting combination as both corporates' profits and valuations will be negatively affected.

Outlook

In August, **Grieg Seafood** (salmon farming) delivered its Q2 earnings report. The share traded down post the earnings release as harvest volumes were below market expectations. Due to the leverage in the business model, lower harvest volumes also affected the result negatively. Grieg also lowered its full-year guidance for harvest volumes, from 80K to 75K tonnes for 2018. Despite the reduction, 75K tonnes still represents a 20% increase compared to 2017. One must remember that harvest volume forecasts are unpredictable as salmon farming is affected by both weather/temperature and disease outbreaks. Finally, Grieg reiterated its guidance expecting to harvest 100K tonnes by 2020.

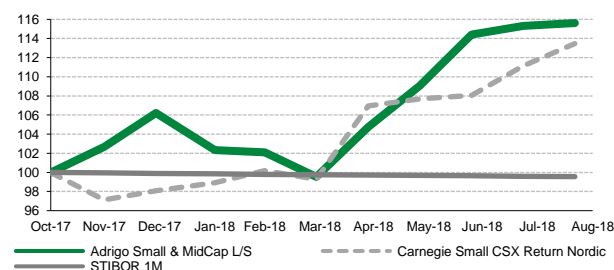
Demand for Atlantic salmon is expected to increase in line with the global population and economic growth, but a transition to more sustainable protein sources is also a key driver. In the short term, salmon prices vary greatly, which creates volatility in salmon farming companies' share prices. During the year, we have had exposure to salmon farming firms both on the long and short side since we argue that the market often extrapolates the price variation. Grieg Seafood is a company we currently own as we believe that the Company should be able to execute its cost-saving program which, together with an increase in harvest volumes, will drive Grieg's earnings (so called EBIT per kg) to a level in line with its peers.

In previous reports we have mentioned **Atlantic Sapphire** as an interesting industry exposure. The company has for several years carried out land-based salmon farming in its pilot production plant in Denmark. Since last summer, the company is constructing a large-scale production plant outside Miami, Florida, with a capacity of producing 90K tonnes by 2026. Atlantic will be the only major salmon farming company which has organic farming without any negative impact on the wild salmon. Through Atlantic Sapphire we get exposure to an expanding market without the short-term fluctuations, and as the Company will offer a niche product, we believe that Atlantic will be able to charge a higher price for its products and also differentiate itself from its competitors.

Key and Risk figures	31/08/18	1 M	Since Start
NAV, SEK	114.36		
Performance, %		0.25	14.36
STIBOR 1M, %		-0.04	-0.44
Std deviation*, %			
Sharpe ratio			
Net exp. to eq. %	43.6		

* Annualized

Performance Nov 2017 – Aug 2018



Source: Adrigo Asset Management

Performance, %	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2018	-3.65	-0.22	-2.53	5.24	4.12	3.86	0.79	0.25					7.74
2017											2.65	3.40	6.14

Fund Information Adrigo Small & Midcap L/S Fund Manager: Staffan Östlin Johan Eriksson Fund Management Company: Adrigo Asset Management AB Grev Turegatan 14, 114 46 Stockholm Tel +46 8 505 88700 Fax +46 8 505 88770 www.adrigo.se Launch date: 2017-11-01 Current fees: Subscription fee 0% Redemption fee 0% Fixed management fee 1% Performance related management fee 20% of total return exceeding STIBOR 30 days rate after deduction of fixed fee ("high water mark").	Focus of Investment: Adrigo Small & Midcap L/S is a hedge fund focusing on investments in Nordic equities and equity-related instruments in the segment of small and medium-sized companies. Objective: High absolute return at a lower risk than the overall equity market. Strategy: Adrigo Small & Midcap L/S is long/short hedge fund with a long bias. We put emphasis on fundamental research, stock picking approach. Trading Day: Fund units of Adrigo Small & Midcap L/S are open for subscription and redemption on the last banking day every month. NAV: NAV is calculated on the last banking day of each month and published at the latest on the fifth banking day thereafter. Deposit: Initial minimum SEK 50,000, thereafter minimum SEK 10,000. Custodian: Skandinaviska Enskilda Banken AB (publ)
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