

Adrigo Small & Midcap L/S

May 2018

Fund Manager's comment

Performance

Adrigo Small & Midcap L/S rose by 4.12% in May, net of fees.

The Fund's holdings in **Arjo** (medtech) and **Momentum Group** (industrial distribution) provided the biggest contributions to returns. Among the Fund's smaller positions we noted good percentage gains in **Bravida** (installation/services) and **Gentian Diagnostics** (medtech). The Fund's short positions impacted performance negatively in aggregate.

Adrigo Small & Midcap L/S has returned 9.0% since inception, net of fees. In the same period, the benchmark STIBOR 1M rate has returned -0.3% and the Carnegie Small Cap Return Index Nordic has gained by 7.7%.

Market Comment

In May, the Carnegie Small Cap Return Index Nordic rose by 0.7%.

The market has continued to be volatile in May, when geopolitical worries created turmoil both in the fixed income as well as in the foreign exchange markets. The political uncertainty in Italy, the third largest economy in the eurozone, weakened the Euro against the US dollar, but also against the Swedish krona.

The uncertainty has also contributed to an increase in the interest rate spread within the eurozone, e.g. between German and Italian interest rates, which we have not seen in years. The widening yield spread should be an indicator that the market participants see heightened risk levels. Furthermore, the decline in the European Bank Index, of around 15% in May, is another indicator of a more sombre mood in financial markets.

The month of May was also characterised by index reviews, which created strong price movements in several Nordic equities. We have used these short-term index related swings to increase our holdings in companies with solid fundamentals and good prospects.

Outlook

We have continued to meet several companies within our investment universe. Among others, we visited **Enea** (software) where we met the CEO and the Head of Product Strategy. Enea has transformed itself in a very interesting way through two acquisitions in 2017/18. Previously, the firm was largely dependent on a few key customers (including telecom equipment makers **Ericsson** and **Nokia**), but now Enea has broadened its customer base and simultaneously moved up the value chain. The company now sells directly to end users, mainly network operators.

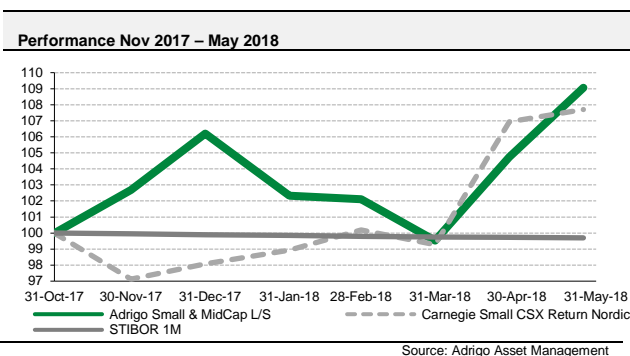
Previously, Enea sold real-time operating systems and middleware, but since the acquisitions the firm has expanded its product range to traffic classification and traffic management. Through Enea's software, operators can control traffic flows and generate revenue from both encrypted and unencrypted traffic. Thanks to the acquisitions made, we estimate that Enea has the potential to grow significantly faster than it has done over the last five-year period. At the same time, the operating margin should remain above 20%, which will generate strong earnings growth. In our opinion, the stock market has not yet appreciated the changes and we see good opportunities for a positive share price development.

During the month, **Arjo** (medtech) reported its results for the first quarter. The company reported organic revenue growth of 2.3%, driven mainly by a continued recovery in the United States but also in the UK. Organic growth was higher than the analysts had estimated, and the shares appreciated strongly.

Furthermore, we have initiated a position in **Gentian Diagnostics**. This Norwegian medtech company has a validated technology (Nanosense) for in vitro diagnostics, especially for kidney and inflammatory diagnostics. The company has good opportunities to expand its technology to other indications, with even greater commercial potential. The company's repetitive revenue model, combined with high gross margins, provides good opportunities for margin expansion and earnings growth.

Key and Risk figures	31/05/18	1 M	Since Start
NAV, SEK	108.98		
Performance, %		4.12	8.98
STIBOR 1M, %		-0.04	-0.31
Std deviation*, %			
Sharpe ratio			
Net exp. to eq. %	40.5		

* Annualized



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								2.68
2017											2.65	3.40	6.14

Fund Information Adrigo Small & Midcap L/S		Focus of Investment:
Fund Manager:	Staffan Östlin	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.
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	Objective:
Launch date:	2017-11-01	High absolute return at a lower risk than the overall equity market.
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").	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)