

Adrigo Small & Midcap L/S

July 2018

Fund Manager's comment

Performance

Adrigo Small & Midcap L/S rose by 0.79% in July, net of fees.

The Fund's holdings in **Recipharm** (pharmaceutical manufacturing) and **Getinge** (medtech) provided the biggest contributions to returns. Among the Fund's smaller positions, we noted good percentage gains in **Sedana Medical** (medtech) and **Bonesupport** (medtech). The Fund's short positions impacted performance negatively in aggregate.

Adrigo Small & Midcap L/S has returned 14.1% 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 11.1%.

Market Comment

The Carnegie Small Cap Return Index Nordic rose by 2.86% in July.

In July, a clear majority of the Nordic corporates reported their results for the second quarter. Overall the reports beat market expectations especially among late-cycle industrials. However, the post-reporting share price development indicates that there are differences in opinion about whether the business cycle has more to go or if it is peak order intakes that are being reported.

As expected, trade volumes declined during July and together with earnings reports caused increased price volatility in several shares during the month.

We also noted that several of the US and European companies commented and quantified possible effects of trade restrictions in their reports. Overall, companies expect rising raw material costs, which will be offset by price increases if restrictions are introduced.

Outlook

Recipharm reported strong organic growth and an improved operating margin in Q2 compared to the previous year. The company managed to strengthen the margin, despite initially low capacity utilisation in new production lines in Germany and France. We continue to see great potential in Recipharm, where sales growth in 2019 and 2020 should be strong as new capacity reach full utilisation and newly announced acquisitions are integrated. We still believe in upward estimate revisions both in sales and earnings for the coming years.

After several years of low organic growth, **Getinge** beat sales expectations in Q2. Organic order intake increased more than 10 per cent, and net sales was up 6 per cent organically. As a large part of the increased sales were attributed to capital goods and the emerging markets, the gross margin was down compared to last year. In our view, margins will however improve as a larger installed base will subsequently lead to an increased sale of high-margin consumables.

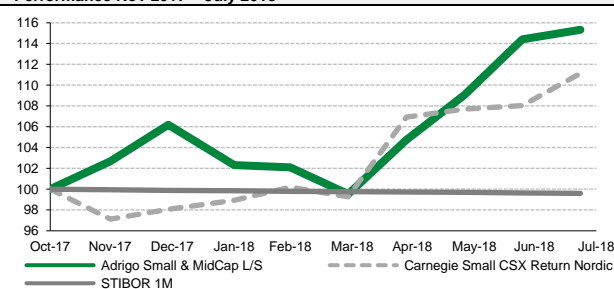
Regarding the settlement agreement with the US FDA, Getinge expects that the necessary corrections in the two US units will be completed by the end of 2018, while work in the German plant in Hechingen is expected to take longer. Once this work is completed, we expect a significant increase in efficiency in the units. Our view is also that product development has been offset because of the problems that the company has undergone in recent years. Last year however, the new CEO Mattias Perjos initiated a product development program with several new product launches. We expect Getinge to recover lost market share thanks to the new product launches, but we also estimate that the company has an increased focus on standardisation and production efficiency that will assist the company to handle the current price pressure in the industry.

We expect it will take time before Getinge recaptures its status as a stock-market darling but believe that the company has left the worst behind. Today's valuation indicates continued scepticism from the stock market, which we think offer an interesting risk/reward.

Key and Risk figures	31/07/18	1 M	Since Start
NAV, SEK	114.08		
Performance, %		0.79	14.08
STIBOR 1M, %		-0.04	-0.40
Std deviation*, %			
Sharpe ratio			
Net exp. to eq. %	47.20		

* Annualized

Performance Nov 2017 – July 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						7.48
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)
--	---