

Adrigo Small & Midcap L/S December 2018

Fund Manager's comment

Performance

Adrigo Small & Midcap L/S fell by 6.70% in December, net of fees.

The Fund's larger holdings in **Recipharm** (pharmaceutical manufacturing) and **Bergman & Beving** (technical trade) were weak during the month and impacted returns negatively. Among the Fund's smaller positions, we noted good percentage gains in **Enea** (software) and **Bonesupport** (medtech). The Fund's short positions impacted performance favourably in aggregate.

Adrigo Small & Midcap L/S has returned 15.4% since inception, net of fees. In the same period, the benchmark STIBOR 1M rate has returned -0.6% and the Carnegie Small Cap Return Index Nordic has fallen by 4.2%.

Market Comment

The Carnegie Small Cap Return Index Nordic fell by 6.34% in December, which led to a full year 2018 decline of -2.27%.

High uncertainty and volatility continued in December resulting in broad stock market declines.

The Swedish Central Bank, 'Riksbanken', raised the repo rate from -0.5% to -0.25% in December, and signalled that the next increase will probably come in the second half of 2019. Inflation currently at the two percent target was the reason for hiking. However, the government agency 'Swedish National Institute of Economic Research' revised its forecast for 2019 GDP growth from 1.9% to 1.3% because of a decline in housing investments.

The US central bank also raised its benchmark interest rate in December. The Fed however lowered its projections for future hikes and now project two hikes in 2019.

Oil prices continued to decline with a drop of almost 10 percent. Increased US production and worries about an economic slowdown have put pressure on prices. However, it is worth noting that the current price level of WTI at around \$45, is on average at US producers' break-even point.

Outlook

With the month of December behind us, we look ahead to a new month and a new year. After the closing quarter's sharp share price correction, the market valuations especially on expected earnings have come down significantly. The question remains if earnings estimates for 2019 and onwards are too optimistic, despite the overall downward revisions that occurred after the Q3 reports.

Global markets face high degree of uncertainty. Recent data points from e.g. China indicate a weakening underlying demand. In addition, uncertainty about trade restrictions and the Brexit outcome, will most likely make 2019 a volatile year. In the Nordics, both Denmark and Finland hold general elections during the first half of 2019.

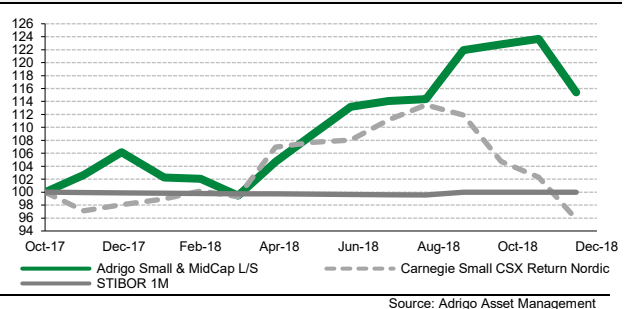
Despite recent interest rate hikes, rates are still at historically low levels. In addition, don't forget bond repurchase programs or "reinvested coupons" which will most likely make rates stay low in coming years. We noted an increased takeover activity during the latter part of 2018, and the M&A activity among listed serial acquirers continued. Because of the multiple contraction that has taken place, it is not unlikely that we will see more takeovers during 2019, and as the valuation of non-public companies eventually follow public market valuations, we will likely see more M&A activity going forward.

As mentioned, the market will probably be volatile in 2019. But all things equal, rising interest rates will put pressure on market valuations. What is discounted at current levels remains to be seen. We however continue to focus on individual companies with lower operating risk, where we see an operational improvement potential and whose shares are also reasonable priced. Predicting short-term price fluctuations will be difficult, but in the long term we are convinced that our approach has good opportunities to create excess returns for our co-investors. We summarize 2018, our first full year, with a return of 8.7% and enter 2019 with confidence.

Key and Risk figures	28/12/18	1 M	12 M	Since Start
NAV, SEK	115.36			
Performance, %		-6.70	8.69	15.36
STIBOR 1M, %		-0.04	-0.49	-0.60
Std deviation*, %				12.12
Sharpe ratio				1.13
Net exp. to eq. %	40.7			

* Annualized

Performance Nov 2017 – Dec 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	6.61	0.75	0.67	-6.70	8.69
2017											2.65	3.40	6.14

Fund Information ADRIGO Small & Midcap L/S		Fund Manager:	Staffan Ostlin Johan Eriksson	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.
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:	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.
Launch date:	2017-11-01	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.
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").	Deposit:	Initial minimum SEK 50,000, thereafter minimum SEK 10,000.	Custodian:	Skandinaviska Enskilda Banken AB (publ)