



## Fund Manager's comment

### Performance

Adrigo Small & Midcap L/S rose by 3.21% in May, net of fees.

The Fund's larger holdings in **Electrolux** (home appliances) and **Bonesupport** (medtech) provided good contributions to returns. Among the Fund's mid-sized positions, we noted good gains in **Kahoot** (game-based digital learning) and **Vaccibody** (biotech) whilst we noted good percentage gain in **Pexip** (software). The Fund's short positions impacted performance negatively in aggregate.

Adrigo Small & Midcap L/S has returned 25.4% since inception, net of fees. In the same period, the benchmark STIBOR 1M rate has returned -0.7% and the Carnegie Small Cap Return Index Nordic has gained by 17.5%.

### Market Comment

The Carnegie Small Cap Return Index Nordic rose by 8.01% in May. Equity markets were strong as countries continued to open their economies. Nordic small caps were particularly strong, and we noted that only five trading days showed a negative return during the month.

The Finnish and Danish stock markets outperformed its Nordic peers, where the Norwegian outperformed. We noted a stronger return within Swedish small caps (+8.9%) compared to larger Swedish enterprises (+3.3%). Industrials outperformed whilst oil and gas exposed entities underperformed.

### Outlook

May was characterized by the upcoming index reviews. We noted several clearly abnormal price movements, and it is obvious that the market de-prioritizes valuing future cash flows with a reasonable rate. As we all know, cash flows discounted with low rates results in nearly endless values.

A former large cap that will be included in the small cap index is **Electrolux**. Electrolux spun-off its business targeting professional users, and today Electrolux constitutes of the consumer division. During the last years, Electrolux has been hampered by a larger customer in the US, negative FX effects, and elevated production

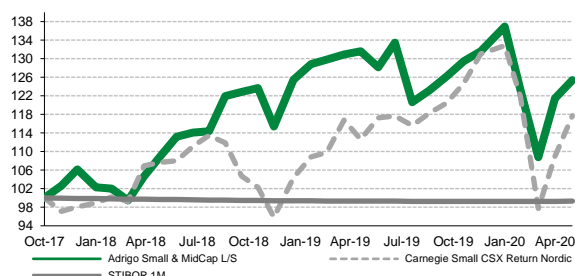
costs in certain US facilities, which have all affected operating earnings and returns negatively. We do see a potential for increased margins due to the cost reduction initiatives. Historically, underlying cash flow and return on invested capital have been satisfactory over time, and in addition Electrolux operates with a strong balance sheet. Our view is that the market completely lacks confidence in the Company with an implicit operating margin, based on today's share price, well below Electrolux's own target. Electrolux has faced criticism for recurring restructuring costs often as a result of optimization of previous years' acquisitions. An interesting idea is if a similar strategy as many other serial acquirers, focusing on "quality" and high valuation resulting in massive goodwill on the balance sheet would have been more appreciated by the market. We see a solid value potential from today's levels without the margin target being reached, and Electrolux has been a major position since the beginning of April.

In May, **Bonesupport** completed a directed share issue of approximately SEK 380m and the proceeds will primarily be used for sales force expansion. In an investor presentation, the Company disclosed that today's most experienced European sales representatives (four to six years of employment) still have 20 to 50% annual growth and a sales per person of SEK 7 to 9m. This should be compared to a seller with one-year experience of just under a million in annual sales. The sales force has expanded greatly in recent years, and the data point might indicate a high sales potential as the sales force matures. Bonesupport is now awaiting the likely approval of CERAMENT G in the US during Q4 2020, which will be a major trigger for 2021, and is fully financed until positive cash flow is reached. We increased our position in Bonesupport during the month and look forward to an interesting second half of 2020 and 2021.

We continue to look for misunderstood companies and the portfolio consists of what can be classified as "value" and "growth". We focus on individual companies, upcoming triggers, and discounts future cash flows with a reasonable rate. We focus less on a potential index inclusion or not, clearly that has been a mistake in May. Finally, we would like to thank our co-investors for your support and wish you a great summer!

Key and Risk figures	30/05/31	1 M	12 M	Since Start
NAV, SEK	125.38			
Performance, %		3.21	-4.21	25.38
STIBOR 1M, %		0.00	-0.05	-0.73
Std deviation*, %			24.19	17.74
Sharpe ratio			-0.20	0.50
Net exp. to eq. % Annualized	49.9			

Performance Nov 2017 – May 2020



Source: Adrigo Asset Management

Performance, %	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	4.04	-9.92	-11.79	11.65	3.21								-4.73
2019	8.73	2.71	0.74	0.86	0.53	-2.61	4.16	-9.63	2.11	2.40	2.66	1.65	14.09
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

<b>Fund facts</b>		
<b>Portfolio Managers:</b>	Staffan Östlin (CIO) Johan Eriksson	<b>Strategy:</b> Adrigo Small & Midcap L/S is long/short hedge fund with a long bias. We put emphasis on fundamental research, stock picking approach.
<b>Launch date:</b>	2017-11-01	<b>Trading Day:</b> Fund units of Adrigo Small & Midcap L/S are open for subscription and redemption on the last banking day every month.
<b>Current fees:</b>	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").	<b>NAV:</b> NAV is calculated on the last banking day of each month and published at the latest on the fifth banking day thereafter.
<b>Focus of Investment:</b>	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.	<b>Custodian:</b> Skandinaviska Enskilda Banken AB (publ)
<b>Objective:</b>	High absolute return at a lower risk than the overall equity market.	<b>Portfolio manager:</b> Adrigo Asset Management, a division of East Capital Financial Services AB, corp. identity no. 556988-2086.
<b>Deposit:</b>	Initial minimum SEK 50,000, thereafter minimum SEK 10,000.	<b>Management company:</b> East Capital Asset Management S.A.

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Investments in funds always involve risks. Past performance is no guarantee for future performance. Fund units may increase or decrease in value and may be affected by changes in exchange rates and other factors. Investors may not get back the amount invested.

Before investing, please read the fund regulations and the information memorandum carefully. For full information, such as the information memorandum, key investor information documents (KIID) and financial reports please see [www.adrigo.se](http://www.adrigo.se).

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