

# Adrigo Small & Midcap L/S September 2018

## Fund Manager's comment

### Performance

Adrigo Small & Midcap L/S rose by 6.61% in September, net of fees.

The Fund's holdings in **Grieg Seafood** (salmon farming) and **Atlantic Sapphire** (salmon farming) provided the biggest contributions to returns. Among the Fund's smaller positions, we noted good percentage gains in **Bonesupport** (medtech) and **Petroleum Geo-Services** (marine geology). The Fund's short positions impacted performance favourably in aggregate.

Adrigo Small & Midcap L/S has returned 21.9% since inception, net of fees. In the same period, the benchmark STIBOR 1M rate has returned -0.5% and the Carnegie Small Cap Return Index Nordic has gained by 11.9%.

### Market Comment

The Carnegie Small Cap Return Index Nordic fell by 1.40% in September.

Italy's government widened its budget-deficit target for next year creating turmoil and increased volatility in the European equity and fixed income markets during the latter part of the month. The uncertainty will most likely continue in October as the full budget proposal will be revised.

The oil price continued to rise as the US have reinstated sanctions against Iran. The price is expected to rise further as a new round of tougher sanctions are scheduled to go into effect in November.

BMW, Jaguar Land Rover and Toyota announced operational measures in case of a no-deal Brexit. Overall, the carmakers will most likely cut or move production overseas if the UK fails to reach a broader agreement with the EU. Increased production costs are the primary reason.

The Swedish krona strengthened both against the Euro and the US dollar, despite uncertainties regarding the formation of Sweden's government as well as no revisions from the Riksbank regarding future interest rate hikes.

Key and Risk figures	28/09/18	1 M	Since Start
NAV, SEK	121.92		
Performance, %		6.61	21.92
STIBOR 1M, %		-0.04	-0.47
Std deviation*, %			
Sharpe ratio			
Net exp. to eq. %	46.7		

\* Annualized

### Outlook

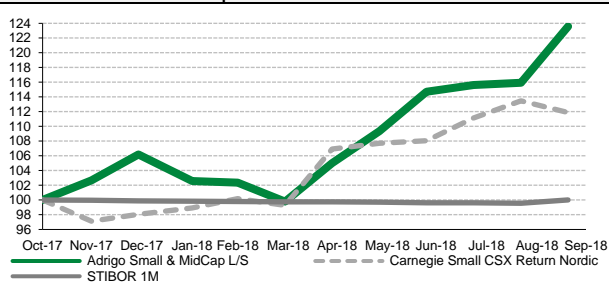
During September, **Bonesupport** hosted a capital markets day. The firm has a validated technology platform "CERAMENT", a synthetic bone graft substitute that replaces traditional bone autograft. During 2017, Bonesupport's distributor in the US faced issues with the FDA, non-related to Bonesupport but it affected sales heavily whereby the share price declined sharply. Bonesupport appointed a new CEO in March, and in May it terminated the exclusivity agreement with the distributor and Bonesupport will now operate with some 20 independent distributors. Sales in Europe have developed strongly despite, in our view, a lack of commercial focus. It is now expanding its sales force and also broadening its product offering, hence we expect a sharp sales growth going forward. We took most of our position during the summer as we believed that the depreciated valuation was unjustified.

Despite a sharp share price increase during the month, we still argue that Bonesupport trades below its intrinsic value as the Firm will have a high sales growth on its existing product offering, but also launch new products in the US after FDA approval. Further, we argue that the product pipeline, e.g. collaborations with Collagen Matrix and MTF Biologics, and its potential, is not accounted for at the current valuation.

**Husqvarna** (forest and garden eq.) has been unable to show profitability within its *Consumer Brands* division. Its negative contribution has overshadowed the solid development the majority of Husqvarna has had. The firm will now however restructure the *Consumer Brands* division and terminate non-core products whilst the residual will be dissolved into existing core operations. Within few years' time, the restructuring will be completed, and we expect a margin uplift. Strong cash flows will also support an acquisition driven growth strategy going forward. Furthermore, we also argue that there is great potential for battery-powered products e.g. robotic lawn mowers.

Finally, we continue to actively seek new investments and work hard to create attractive returns for our co-investors.

Performance Nov 2017 – Sep 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				14.87
2017											2.65	3.40	6.14

<b>Fund Information Adrigo Small &amp; Midcap L/S</b> <b>Fund Manager:</b> Staffan Östlin Johan Eriksson <b>Fund Management Company:</b> Adrigo Asset Management AB Grev Turegatan 14, 114 46 Stockholm Tel +46 8 505 88700 Fax +46 8 505 88770 www.adrigo.se <b>Launch date:</b> 2017-11-01 <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>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>Objective:</b> High absolute return at a lower risk than the overall equity market. <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>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>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>Deposit:</b> Initial minimum SEK 50,000, thereafter minimum SEK 10,000. <b>Custodian:</b> Skandinaviska Enskilda Banken AB (publ)
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