

Adrigo Small & Midcap L/S

October 2018

Fund Manager's comment

Performance

Adrigo Small & Midcap L/S rose by 0.75% in October, net of fees.

The Fund's holdings in **Frontline** (shipping) and **Atlantic Sapphire** (salmon farming) provided the biggest contributions to returns. Among the Fund's smaller positions, we noted good percentage gains in **Flex LNG** (LNG shipping) and **Arjo** (medtech). The Fund's short positions impacted performance favourably in aggregate.

Adrigo Small & Midcap L/S has returned 22.8% 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 4.7%.

Market Comment

The Carnegie Small Cap Return Index Nordic fell by 6.39% in October.

October marks one of the worst stock market months since the 2008 financial crisis. Tighter monetary policy, trade restrictions and Italy's budget proposals resulted in increased volatility. Reduced stimulus from bond purchases and rising long-term interest rates have also resulted in investors' demanding higher yields which have put pressure on equity valuations. During October, the EU rejected Italy's budget proposals and a new proposal will be presented in November. Rising governmental bond yields and thus more expensive borrowing for a heavily indebted Italy was the result.

Several profit warnings preceded the earnings season. Increased raw material prices, weakening industrial demand, and weak car production were main reasons. General cost inflation was also reported by US entities, hence tighter US monetary policy should be expected going forward.

Overall, quarterly reports have been weaker and often resulted in highly volatile post-reporting share price reactions. Earnings estimate revisions have so far been negative in the earnings season.

Key and Risk figures	31/10/18	1 M	Since Start
NAV, SEK	122.83		
Performance, %		0.75	22.83
STIBOR 1M, %		-0.04	-0.52
Std deviation*, %			
Sharpe ratio			
Net exp. to eq. %	50.0		

* Annualized

Outlook

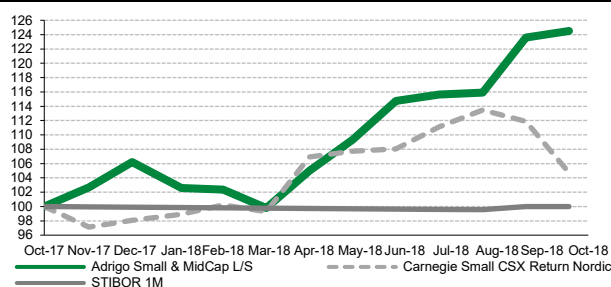
Flex LNG has been a holding since inception. In October, Flex raised USD 300m in equity following the purchase of five newly built LNG vessels with delivery in 2020 and 2021. Following the transaction, Flex, with a fleet of 13 newly built vessels, will be the leading owner of what is called the fifth-generation tonnage. The market for LNG transport is currently undergoing a major rebalancing and recovery. LNG demand is growing strongly from e.g. China, which, for environmental reasons, wants to reduce its coal consumption. At the same time, major expansion production projects are initiated in e.g. the US which will create a larger and more dynamic market as LNG becomes commoditised. We increased our holding in Flex LNG at the issuance and today Flex is a medium-sized holding in the fund.

In October, **Bergman & Beving** (technical trade) reported in our view solid quarterly figures. Its transformation by growing sales within the proprietary brands through a broadened distribution continues. At the same time, the Company aims to reduce volumes within the low margin distribution business. Since 2017, management has focused on operational efficiency and cost control to strengthen the operating margin in the distribution segment. Change takes time, but we are pleased to see that the effects of efforts made within the distribution segment starts to yield, and the broadening of the proprietary brands' reseller network is proceeding according to plan. The Company has created significant shareholder value over the years, something we believe Bergman & Beving will succeed with once again.

Enea (software) also presented its quarterly results. Enea has continued to deliver solid results and once again proved that they are limiting their dependency on Ericsson and Nokia, and instead deliver their services directly to the end customers. Here too, transformation takes time with gradual steps, but as their **Key Accounts** dependency decreases, we should also see organic sales growth and even stronger results thanks to the scalable business model.

Finally, in these volatile markets, we continue to find good opportunities to generate attractive returns to our co-investors.

Performance Nov 2017 – Oct 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			15.72
2017											2.65	3.40	6.14

Fund Information Adrigo Small & Midcap L/S		Focus of Investment:	
Fund Manager:	Staffan Ostlin Johan Eriksson	Objective:	High absolute return at a lower risk than the overall equity market.
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	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.
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").	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)