

Fund Manager's comment

Performance

Adrigo Hedge rose by 0.69% in July, net of fees. **AstraZeneca** (healthcare), **Salmar** (salmon farming) and **Flex LNG** (LNG shipping) were the three most significant contributors to returns during the month. Short positions contributed negatively by 0.12% to the month's performance.

Adrigo Hedge has returned 76.1% since inception, adjusted for dividends and net of fees. In the same period, the benchmark STIBOR 1M rate has returned 14.5%, and the OMX N40 index has risen by 34.1%.

Market Comment

Large cap Nordic equities trended down during the month and declined by -1.1% in July.

The reporting season was preceded by a vast amount of profit warnings as we detailed in the previous month's letter. Short cycle demand (industrials) decreased considerably during the second quarter. Industrial companies with exposure to autos, electronics (semiconductors) and general industry reported weak results. Defensive sectors outperformed cyclical.

ISM in the US is still holding up relatively well, above the 50 mark, whilst the European index has plunged below 50 and is in contraction. ECB kept rates unchanged at their meeting in July. Mario Draghi commented that economic activity is getting worse by the day, especially in manufacturing. ECB will keep rates low for the foreseeable future and additional measures will be considered if needed. Federal Reserve cut rates by 25bps but pointed out that this does not mark the start of a long easing cycle.

Outlook

The equity market is torn between hopes of a trough driven by central bank stimulus and a recession triggered by Brexit or further escalation of the trade war. The US economy is still doing well even though the activity is slowing. Autos and semiconductors were the canaries in the slowdown. We are now witnessing early evidence of demand flattening out in these two industries. Lower interest rates, the stock market and low unemployment lend support to the consumer. A few leading indicators linger around earlier trough levels, but it is too early to be constructive. We are surprised that the equity market has held up so well despite the overall weakness in macro data, especially considering the bearish price action in the bond market.

We wrote about **Metso** in last month's letter. A few days later, Metso announced that it would merge Metso Minerals with Outotec. Metso Flow Control will be separately listed under the name Neles. There is very little product overlap between the two companies. Synergies will be based on cross-selling products but also cost reductions in administration, purchasing and the supply chain. Outotec's shareholders are benefitting the most as the balance sheet risk is reduced. The risk of doing business with Outotec has decreased and demand should improve as a consequence. Our initial case was based on the new CEO restructuring Metso through the spin off of Neles, cost reductions and focus on increasing profitability. Demand for mining equipment is only half the level it was at the peak year 2012. We see further upside in the new business combination, but the risk has also increased.

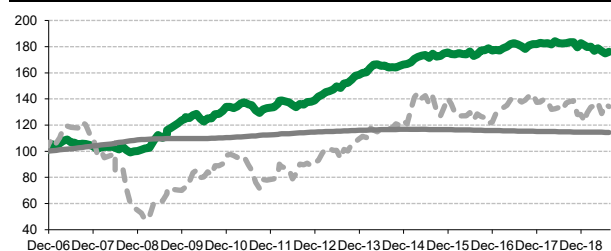
Key and Risk figures	31/07/19	1M	12M	2Y	3Y	5Y	Since Start
NAV, SEK	155.58						
Performance*, %		0.69	-3.51	-2.29	1.15	7.46	76.11
STIBOR 1M, %		-0.02	-0.29	-0.80	-1.39	-1.82	14.48
Std deviation**, %			4.15	3.52	3.33	3.25	4.63
Sharpe ratio			-0.72	-0.15	0.31	0.60	0.82
Net exp. to eq. %	15.2						
Value-at-Risk***							
- Conf Interval 95 %	1.76						
- Conf Interval 99 %	2.46						

* Dividend adjusted

** Annualized

*** The measure expresses the monthly loss that the portfolio is expected to exceed one month of twenty (95% conf interval) or a month of one hundred (99% conf interval). The measure is expressed as % of fund assets.

Performance Dec 2006 – Jul 2019



Source: Adrigo Asset Management

Performance, %	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD/FY
2019	-0.64	0.15	-1.89	1.17	-1.25	-0.88	0.69						-2.66
2018	-0.30	0.12	-0.50	1.34	-0.83	-0.12	0.09	0.41	-0.03	-2.06	1.81	-0.97	-1.08
2017	-0.37	0.95	0.69	1.18	0.35	-0.57	-0.72	-1.11	1.56	0.53	-0.09	0.60	3.01
2016	-0.14	0.51	-0.41	-0.15	1.28	-1.96	0.76	1.66	0.08	0.89	-0.99	0.34	1.82
2015	0.74	1.60	0.78	0.70	0.21	-1.22	1.84	-1.35	0.40	1.03	0.51	-0.70	4.59
2014	0.37	2.04	1.54	0.16	-0.71	0.06	-0.90	0.19	-0.10	0.70	0.66	0.26	4.31
2013	1.15	1.31	0.44	0.99	1.65	-0.93	2.28	0.35	1.71	1.90	0.41	0.91	12.83
2012	1.95	1.61	0.18	-1.03	-1.40	-1.31	1.75*	-0.34	1.43	0.21	0.81	1.99	5.92*
2011	-0.10	-0.64	0.88	1.77	0.65	-1.10	-0.58	-2.80	-1.50	1.92	0.74	0.70	-0.16
2010	0.99	-0.58	1.79	0.81	-2.77	-1.87	2.03	0.05	2.42	0.22	1.67	2.58	7.42
2009	1.05	0.98	0.55	5.28	3.90	-1.83	2.64*	2.61	1.34	3.08	1.81	0.99	24.63*
2008	-1.94	1.13	0.40	0.07	0.59	-1.32	-1.11*	1.96	-2.35	-1.89	0.76	0.23	-3.52*
2007	2.43	-1.21	1.95	1.73	1.06	-2.03	-0.21	-1.46	0.65	-0.22	-0.59	-1.11	0.89
2006												2.84	2.84

*Dividend adjusted

Fund Information Adrigo Hedge

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Launch date: 1st December, 2006

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 Hedge is a hedge fund focusing on investments in Nordic equities.

Objective: High absolute return at a lower risk than the overall equity market.

Strategy: Adrigo Hedge is long/short hedge fund with a long bias. We put emphasis on fundamental research, stock picking approach.

Trading Day: Fund units of Adrigo Hedge are open for subscription and redemption on every banking day.

NAV: NAV is calculated on every banking day and published at the latest on the fifth banking day thereafter.

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