

Adrigo Small & Midcap L/S

Monthly Report October 2024



Challenging month for small caps

Performance

Adrigo Small & Midcap L/S Class A and Class C fell by 5.19% in October after fees. The Carnegie Small Cap Return Index Nordic fell by 5.36% in October.

Among the fund's larger holdings, **Opter** (software), **BHG** (e-commerce), and **Pierce** (e-commerce) made good contributions. Among the fund's smaller and medium-sized positions, we noted good contributions from **Enea** (software) and **Bonesupport** (medical technology). The fund's short positions, in aggregate, had a positive impact on returns

Since its inception, Adrigo Small & Midcap L/S Class A has delivered a return of 67.67% after fees. During the same period, the comparison interest rate, STIBOR 1M, returned 6.83%, and the Carnegie Small Cap Return Index Nordic returned 98.2%. The fund's average annual return since inception is 7.39%.

The Market and the Companies

Global stock market performance was positive in August. The MSCI World Index fell by 0.9%, S&P 500 decreased by 0.9%, and the EURO STOXX 50 also saw gains. Emerging markets, represented by the MSCI EM, increased by 0.4%. Brazil's Bovespa fell by 1.6%, and Taiwan rose by 2.7%, while Russia's RTS and MSCI Korea recorded flat development and declines respectively. In the Nordics, the Norwegian market rose by 1.1% followed by the Danish market which fell by 3.3%. The Swedish and Finnish markets had a negative development of 3.5% and 4.5% respectively.

We rarely comment on interest rate developments specifically. However, it is worth noting that the bond market reacted strongly to the Fed's 50 basis point cut in the repo rate in mid-September. Instead of the expected decline in long-term interest rates, the US 10-year yield rose by 70 basis points.

October was a challenging month for Nordic small caps, which fell by more than five per cent. We observed a similar trend in the US, though the decline was milder. The earnings season was generally satisfactory in both the US and the Nordics. Signs of an economic slowdown, noted during the summer, were confirmed. In several cases, the market had already priced this in, with auto part suppliers like Autoliv and SKF seeing their stock prices rise on reporting days.

BHG was one of the highlights in our portfolio. The company has worked hard over recent years to reduce costs while streamlining and divesting non-core businesses. Despite a 10% organic decline in sales, the adjusted EBIT margin increased to 2.2% from 0.4% last year. Sales performance improved compared to the first half of the year and management was cautiously optimistic about the end of the year and a market recovery in 2025. We see good potential for the company to further improve margins to around 5%, with an upside of at least 50% over a two-year horizon.

As expected, October was an eventful month for **Scandic Hotels Group** (leisure) with convertible loan maturities, updated financial targets, and the third-quarter report. Scandic's new financial targets represent a significantly reduced leverage target compared to the previous one. Additionally, Scandic plans to return a total of SEK 1.2 billion to shareholders through share buybacks and dividends between 2024 and 2026.



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Important information

Investment in funds always involves some kind of risk. Past performance is no guarantee for future performance. Fund units may go up or down in value and may be affected by changes in exchange rates. Investors may not get back the amount invested. Full information on Adrigo funds, such as the prospectus, key information documents (KID) and financial reports is available on adrigo.se.

Visits during the month

Among the companies we met with are Mips, Senzime, OssDesign and Corem.

Largest contributors

- > Himalaya Shipping – transport
- > Golden Ocean – transport
- > Shorting – software
- > Scandic Hotels – hotel
- > Shorting – OMX futures

The market reacted to the leverage target as a negative and restrictive factor. We met with Scandic's management the same day to discuss the third-quarter report and the new financial targets. Management shared that the previous leverage targets were set by former leadership, even before the IPO in 2015, and should have been adjusted downwards earlier. Once again, Scandic's management gave a trustworthy impression, emphasizing that the leverage target should have been revised down earlier and that Scandic can carry out buybacks and dividends without limiting its investment and rollout of the low-cost concept, Scandic Go. Our confidence in, and assessment of, Scandic remains unchanged. We continue to see an attractive valuation of Scandic's stock, with dividends and share buybacks starting as early as the fourth quarter of 2024.

Software company **Enea's** third-quarter report was mixed, with 16% organic growth in Security (45% of Enea's sales) while Networking (47% of sales) declined by 3%. In October, Enea signed several major contracts, the largest being a multi-year contract worth USD 17.7 million for the Stratum Network Data Layer product with a Tier 1 network operator in North America. The product enables the operator to transition from 4G subscriber data management to an open, cloud-based, service-oriented 5G architecture. Additionally, a contract within Security worth USD 2.7 million was signed with an existing US retail and logistics customer. We view the telecom contract as a signal of increased investment appetite among operators. The security contract underscores Enea's strong position in cyber security. We expect continued growth in the coming years. Although the stock market has increased Enea's valuation by 75% in 2024, we still find the valuation attractive.

We were in Oslo this month and met with several companies in the shipping industry. Our investments (Frontline, Golden Ocean, and Himalaya Shipping) had a noticeable negative impact on our returns in October. For the latter companies, stock performance is more sentiment-driven, as there have been significant short positions in the futures market. As of now, we see that short-term factors such as increased port waiting times, higher freight volumes, and stronger futures prices have improved sentiment. However, our primary investment rationale remains the long-term structural growth that we foresee (and have written about in previous monthly letters). This includes limited fleet growth in the coming years and the launch of major mining projects in West Africa and Brazil. Himalaya Shipping has an ultra-modern fleet of Newcastlemax-class ships (210,000 dwt), built in 2023 and 2024, which can also operate on NG. Himalaya Shipping will not order any more ships and distributes almost all of its free cash flow in the form of monthly dividends. We foresee a dividend yield of around 15% in 2025.

In conclusion, we would like to thank our co-investors for their trust, as always. Don't hesitate to reach out with comments or questions.

Key & Risk figures

Key & Risk figures	NAV	1 M	12 M	Since inception	Date
Class A, SEK	164.67				2024-10-31
Class C, SEK	1955.13				
Performance, %*		-5.19	-4.04	64.67	
STIBOR 1M, %		0.23	3.74	6.83	
Std deviation, %*			24	19.69	
Sharpe ratio*			-0.17	0.38	

*Refers to Class A

General information

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.

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.

NAV

NAV is calculated on the last banking day of each month and published at the latest on the fifth banking day thereafter.

Portfolio manager

Adrigo Asset Management, a division of East Capital Financial Services AB, corp. identity no. 556988-2086.

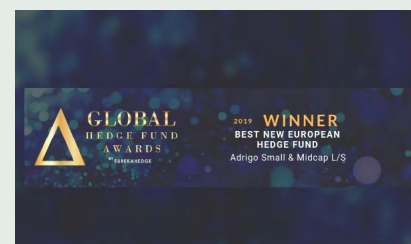
Management company

East Capital Asset Management S.A.

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Awards



Monthly performance (Class A)

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	2.3	1.04	4.45	2.23	10.87	-5.44	-6.43	-7.59	-11.05	-5.19			-15.6
2023	2.47	-3.5	-3.08	4.11	-6.96	-2.66	14.15	-5.81	0.97	2.77	4.17	9.16	14.63
2022	0.56	-5.01	-5.9	-7.01	13.56	0.4	6.36	0.85	-3.67	1.71	-0.91	-4.34	-5.05
2021	9.67	3.71	-7.87	-3.09	-3.15	-2.04	-3.61	7.21	-1.24	-4.86	1.31	-0.57	-5.74
2020	4.04	-9.92	-11.79	11.65	3.21	8.42	3.53	5.51	6.47	-1.81	9.16	12.25	44.53
2019	8.73	2.71	0.74	0.86	0.53	-2.61	4.16	-9.63	2.11	2.4	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	-6.7	8.69
2017											2.65	3.4	6.14

Monthly performance (Class C)

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	1.92	0.9	3.61	1.87	9.63	-5.43	-6.43	-7.59	-11.05	-5.19			-17.9
2023	2.48	-3.5	-3.08	4.11	-6.97	-2.65	14.15	-5.81	0.97	2.77	4.17	8.66	14.11
2022					12.87	0.32	5.08	0.72	-3.67	1.71	-0.91	-4.34	11.31

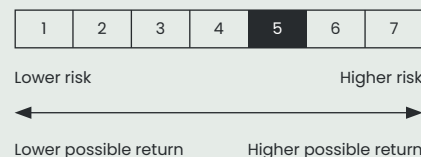
Fund facts

Fund type	Equity hedge fund
Launch date	Class A: 2017-11-01 Class C: 2022-05-02
ISIN	Class A: SE0010440735 Class C: SE0017133366
Subscription fee	0%
Redemption fee	0%
Fixed management fee*	1%
Benchmark	The fund does not follow any benchmark index
Deposit	Initial minimum SEK 1000.
Custodian	Skandinaviska Enskilda Banken AB (publ)
Trading day	Fund units of Adrigo Small & Midcap L/S are open for subscription and redemption on the last banking day every month.

*Performance related management fee 20% of total return exceeding STIBOR 30 days rate after deduction of fixed fee ("high water mark").

Risk indicator

The fund has risk class 5 out of 7, which means that it can decrease/increase sharply in value. The risk indicator assumes you keep the product for 5 years.



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