



September 25, 2017

Origo Quest 1 launched in February 2013. Since inception, the fund has returned 89,9% which translates to approximately 15% return per annum. The fund was recently nominated to the Eurohedge Emerging Fund Management Award 2017 and in connection with this I have taken the opportunity to ask some specific questions to Stefan Roos and Carl Rydin.

The year-to-date return for the fund's Class-A is 3,7% through September 21. How would you comment on this performance and what do you think has worked well and what has worked less well?

Stefan: We are not satisfied with the return so far this year as it is below our yearly target of 10-15% return per annum. However, both the risk-level and correlation have been limited. Several of our core holdings reported somewhat weak Q1 results and announced some negative news which led to weaker share price performance. Given our knowledge of these companies, we determined these issues were of short-term nature and decided to increase our positions in some of our long positions. After Q2, we have seen most of our portfolio companies delivering good results and heading in the right direction again. As for specific companies, Qliro stands out with a very strong operational development. The stock is also among the best performers in Sweden this year. Cherry and Alimak are also two holdings with positive performance. Trelleborg (short position) and Enea (long position) have negatively impacted the fund so far this year.

The fund will soon have its fifth anniversary and the same goes for the investment in Danish NKT Holding. Describe how you currently view this case.

Carl: NKT is currently in an interesting phase with several moving parts driving the investment case. The strategic decision made back in September 2016 to acquire ABB HV Cables and to spin off Nilfisk was very welcomed by Origo. In fact, splitting NKT into two separate companies was always part of Origo's initial investment theme and just one example how we, as minority shareholders, focus on identifying and help drive strategic decisions to unlock value in our portfolio companies.

We recently attended the CMD in Copenhagen where NKT and Nilfisk presented and we had the opportunity to meet with both management teams. We see great potential in Nilfisk as it is a global market leader with a strong product portfolio. We are particularly attracted to Nilfisk's R&D focus around robotics which is moving closer to commercialization. Professional customers such as global cleaning contractors are putting more pressure on cleaning equipment manufacturers to address their high personnel costs which currently consist of >70% of their OpEx. As technology drives the industry forward, the fragmented industry in which Nilfisk operates should get more consolidated and we believe Nilfisk is well positioned to take market share as well as execute strategic acquisitions. Should Nilfisk succeed in its robotics initiative, we think they will exceed the medium-term targets of 3-5% organic growth and an EBITDA margin of 13-15%.

As for the cable business, the acquisition of ABB HV Cables is changing the business focus to more specifically target high voltage cables in Europe, where the offshore wind market is currently experiencing secular growth. This product mix has a significant impact on NKT's profitability and will drive the EBITDA margin upwards. The company is well invested and should be in a good position to win several large projects from the attractive pipeline for 2018 and 2019. On top of this, NKT Photonics is delivering double-digit organic growth with a 25% EBITDA margin and should be ready to stand on its own legs within a few years.

We noted that NKT's share price dropped in August as investors were concerned over NKT Cables' backlog which currently needs some additional orders to fill its capacity for next year. We took advantage of this volatility and added to our position. In addition to the operational improvements within both companies, we argue that as separately listed, and subsequently more focused within each respective niche, both NKT and Nilfisk should be valued at multiples similar to European and US peers which currently trade at multiples substantially higher than the old NKT conglomerate. On October 12 Nilfisk will be listed separately and we are excited to follow both our investments closely.

Any other investments, or short positions, you would like to highlight?

Stefan: *We have added to our position in the elevator manufacturer Alimak. The company has doubled its revenues after acquiring Avanti Wind Systems and Façade Access Group earlier this year. Alimak has a leading global position within its niche, an asset-light business model, and there are more acquisition targets on the radar. In addition, as the private equity firm Triton decided to fully exit, Alimak's largest shareholder is now the highly renowned industrial investment firm Latour.*

Although the company is exposed to the underlying cyclicality within the construction sector, the earnings growth will be attractive given the increase in aftermarket sales, especially for the recent acquired businesses. 12x 2019E EV/EBIT is attractive given an earnings growth of 20-30% for the years to come. Similar, but weaker positioned, capital goods companies are valued in line but with basically no growth.

Carl: *One of our more successful short positions this year has been the Norwegian sports retailer XXL. When we decided to short XXL earlier this year our thesis was primarily based on three key factors which we still consider valid. First, we see company-specific headwinds for XXL with high inventories and costly expansion outside the Nordic region. In the longer term, we see a structural shift in consumer behaviour from traditional retail shopping to more E-commerce, where XXL's competitive advantages will diminish over time. Finally, we believe the consensus estimates are too optimistic for XXL's top-line growth, profitability and free cash flow generation. With a 2.6x ND/EBITDA leverage the dividend also looks very much at risk.*

Another short position we would like to highlight is the Finnish equipment rental company Ramirent. We believe Ramirent is overvalued both on a relative and absolute basis. We are concerned with Ramirent's deteriorating ROIC and its lack of ability to generate free cash flow even in a positive underlying market. Although Ramirent is experiencing some self-help in terms of margin improvement we believe the market has priced in any potential upside.

How would you describe the fund's investment strategy and what are some unique features with your investment process?

Stefan: *The fund's strategy is Equity Long/Short with a focus on Nordic small-cap companies. We invest with a long-term view and prefer to engage closely with the companies in our portfolio. We believe we are unique in many ways. We have a company culture where we only specialize in Nordic small-cap companies when most fund companies have a wider and less narrow focus. We choose to have a concentrated portfolio when most funds have a relatively large number of holdings in their portfolios. Our core focus is within very small companies with a market cap up to SEK 10 billion, as oppose to "small-caps" of SEK 50-75 billion. We also try to stay very close to our portfolio companies and have an active dialogue with the Board, management and other owners. Our investment philosophy and approach is closer to a private equity mindset than a traditional mutual fund or hedge fund.*

Lastly, what opportunities and challenges do you see ahead?

Stefan & Carl: *It is tempting to believe the notion that this time is different. Free money and stocks that rise along with higher dividends should provide a sound stock market going forward, right? That is one way to reason if one truly believes something fundamentally new has changed with the economy and that extremely low rates is the new normal. We are not convinced the digitalisation and demographic changes are the answers to why inflation has been so muted thus far. What will happen with stock market valuations once we are in a scenario of constant inflation surprises on the upside and the subsequent halt among central banks to stimulate with bond purchases? We are prepared to believe there could be several years of disappointing equity markets ahead once the normalisation begins.*

For the Long/Short community the situation is somewhat different. We can both go long and short, and should therefore be able to adjust to different market environments. In addition, Origo Quest has a universe of more than 500 pure Nordic small-cap companies to choose between and within that group there are always a number of very interesting investment opportunities.

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