

# Origo Quest

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## 2019 Full Year Update



# Disclaimer

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For more information please see the simplified prospectus and information brochure for the fund available at [www.origocapital.se](http://www.origocapital.se). If necessary, you should seek advice tailored to your individual circumstances from your bank advisor.





# Summary

- Quest 1 ended 2019 with a total return of 12.6% vs 6.3% for NHXE\*
- Total return since inception is 93.8% vs 44.6%\*\*
- Highly competitive risk-adjusted returns: Sharpe-ratio of 1.2 and a Sortino-ratio of 2.7\*\*\*
- Strong risk management: On a monthly basis Quest 1 has captured 53% of the equity market upside and 20% of the downside
- Winner of the HFM European Emerging Manager Awards 2019; *"Best Equity hedge fund < USD 100m"*
- Important long-book themes in 2019 have been digitalization, energy efficiency and transformation
- Low quality cyclicals, consumers and special situations has dominated the short-book

\* Equity Hedge fund Index ([www.hedgenordic.com](http://www.hedgenordic.com))

\*\* 30/1/2013 – 30/12/2019

\*\*\* Sortino: As Sharpe-ratio, but with the down-side risk

# Agenda

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## I. **Performance review**

II. Portfolio Update

III. About Origo Capital

## Strategy

- Nordic small- and mid caps, long/ short
- Long term investing with engaged ownership
- Focused approach: ~12–20 long positions, ~12–20 short positions
- Value and GARP approach, focusing on Quality and Value drivers
- Historical net exposure of ~40%

## Objectives

- +10% Annualized return over a business cycle
- Competitive risk-adjusted return
- Added value through active and engaged ownership
- Protect capital in weak markets

# Origo Quest 1, net returns since inception

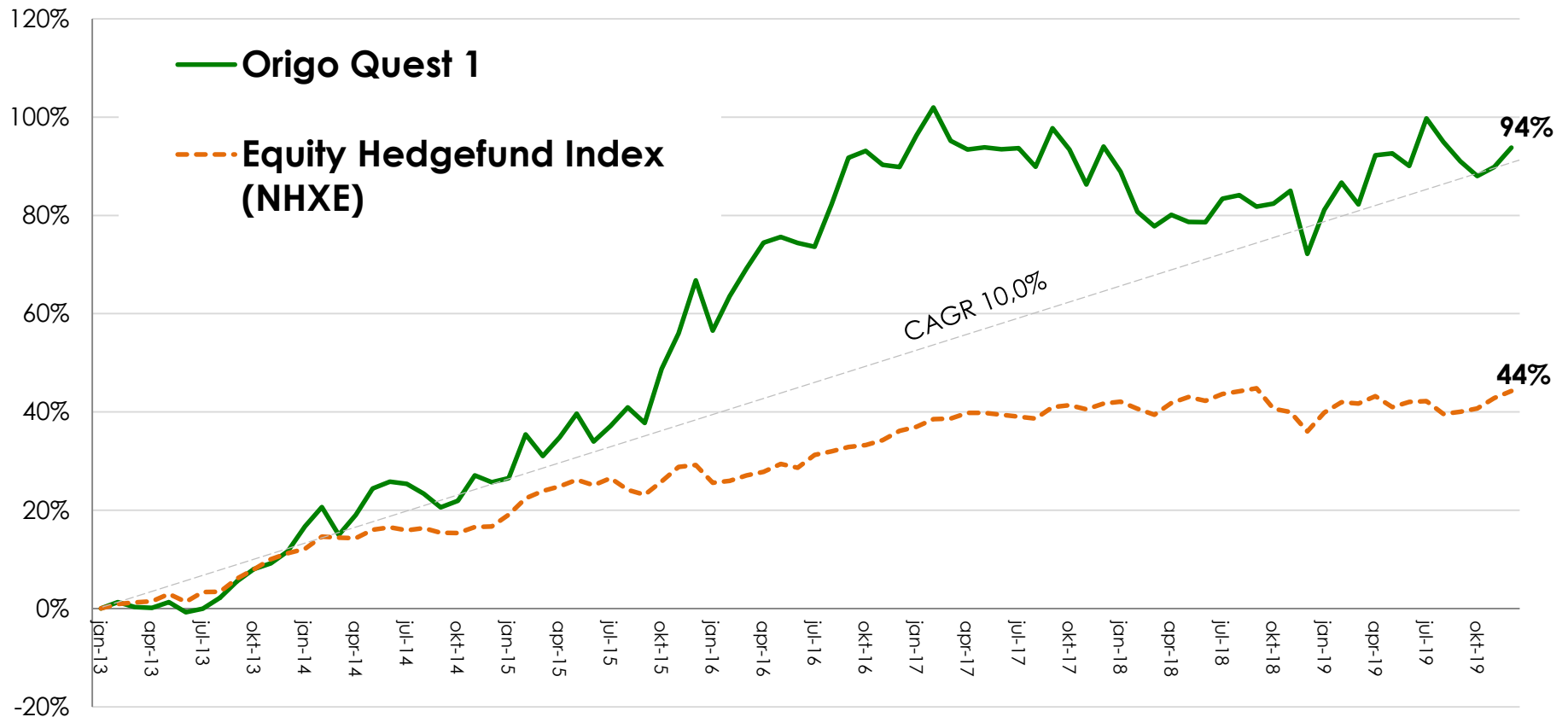
## Significant value-creation over time

Year	Quest 1	NHX Equities*
2013	11.6%	14.0%
2014	12.6%	4.9%
2015	32.7%	10.7%
2016	13.8%	5.4%
2017	2.2%	4.1%
2018	-11.3%	-4.0%
2019	12.6%	6.3%
<b>Acc. Return</b>	<b>93.8%</b>	<b>44.6%</b>

\* Equity Hedge Fund Index, please see [hedgenordic.com](https://hedgenordic.com) for more information

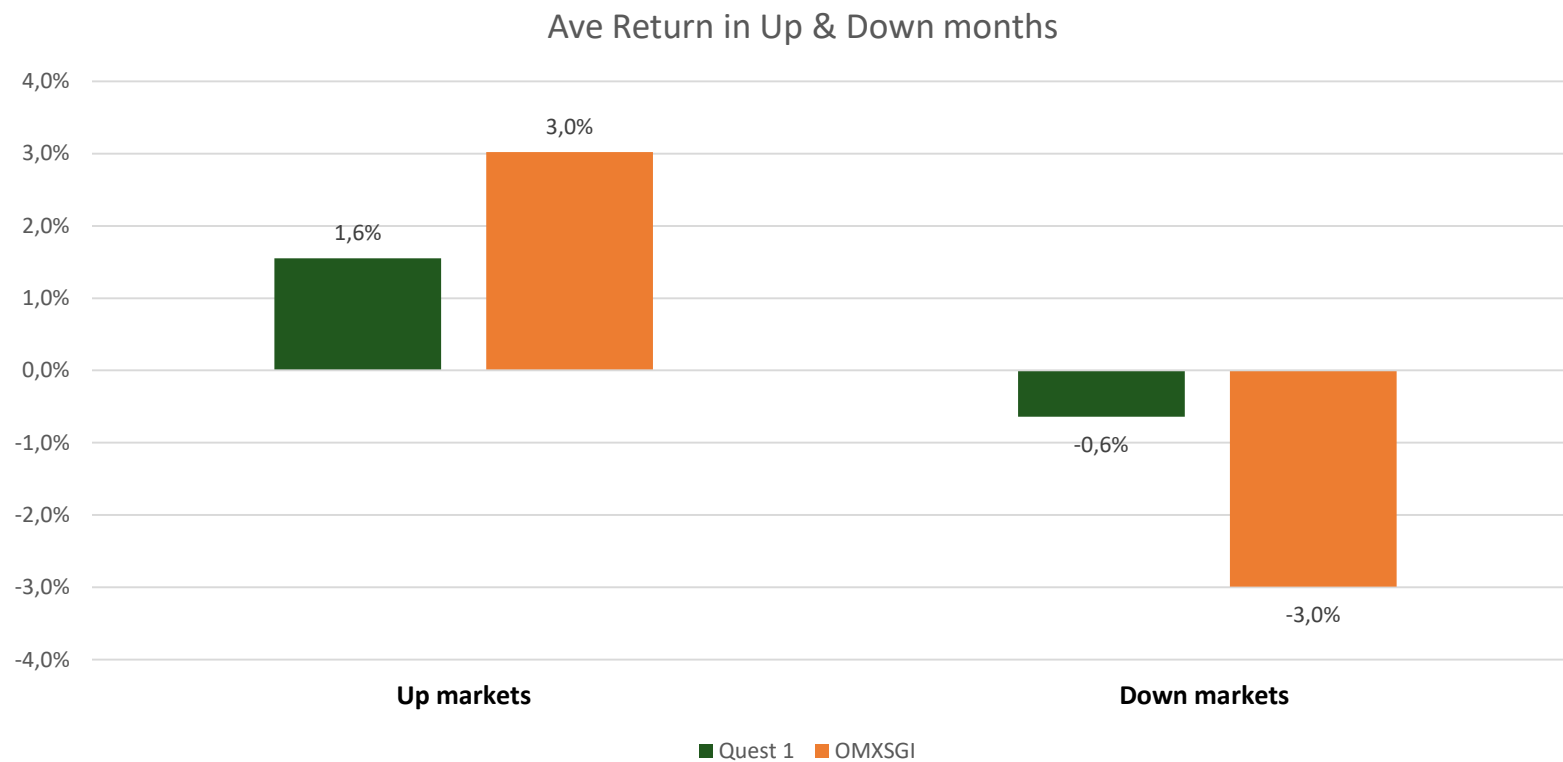
# 2013-2019: Accumulated net return since inception

10% in annualized returns, in line with the long-term performance target



# Healthy up-side and limited down-side

**Quest has captured 53% of the up-side and 20% of the down-side since 2014**

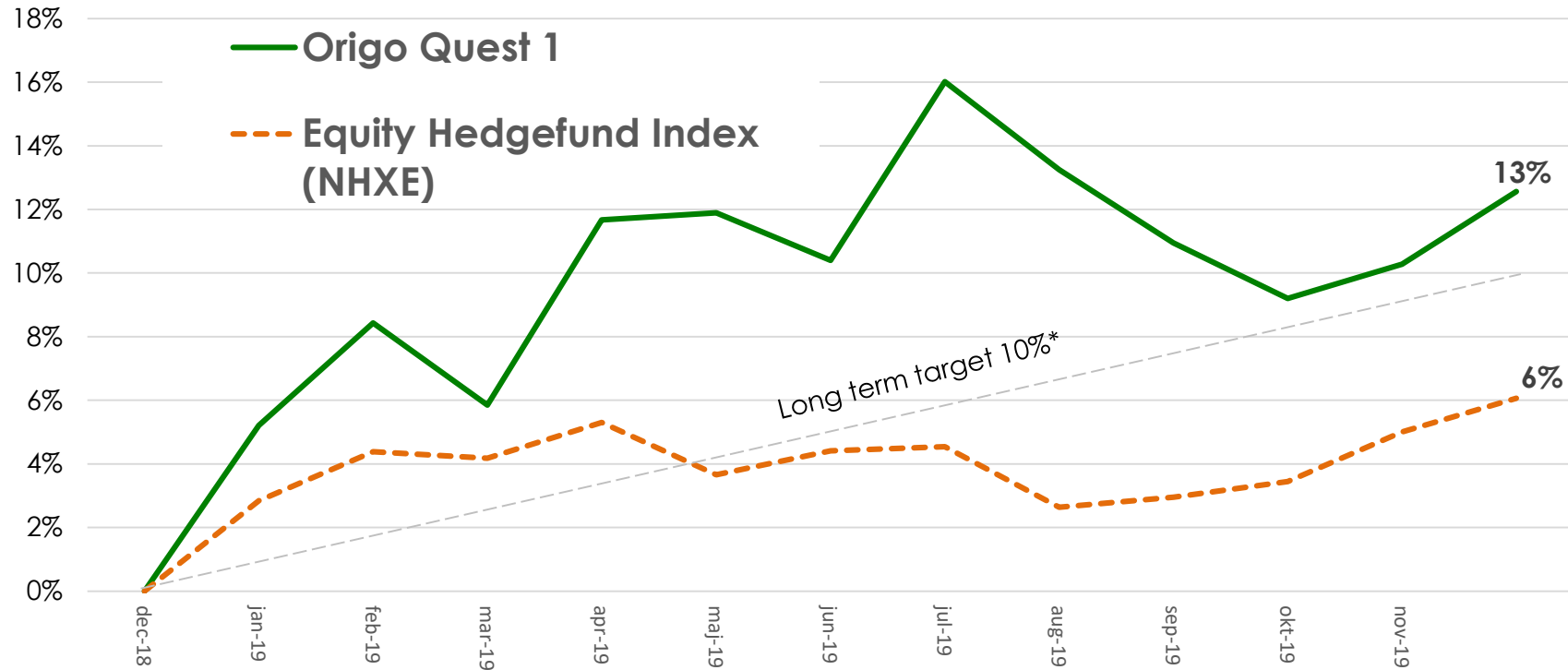


*\* Quest 1 performance during positive and negative stock market months, since 2014*



## 2019: 12.6% in Total Return, beating the long-term 10% target

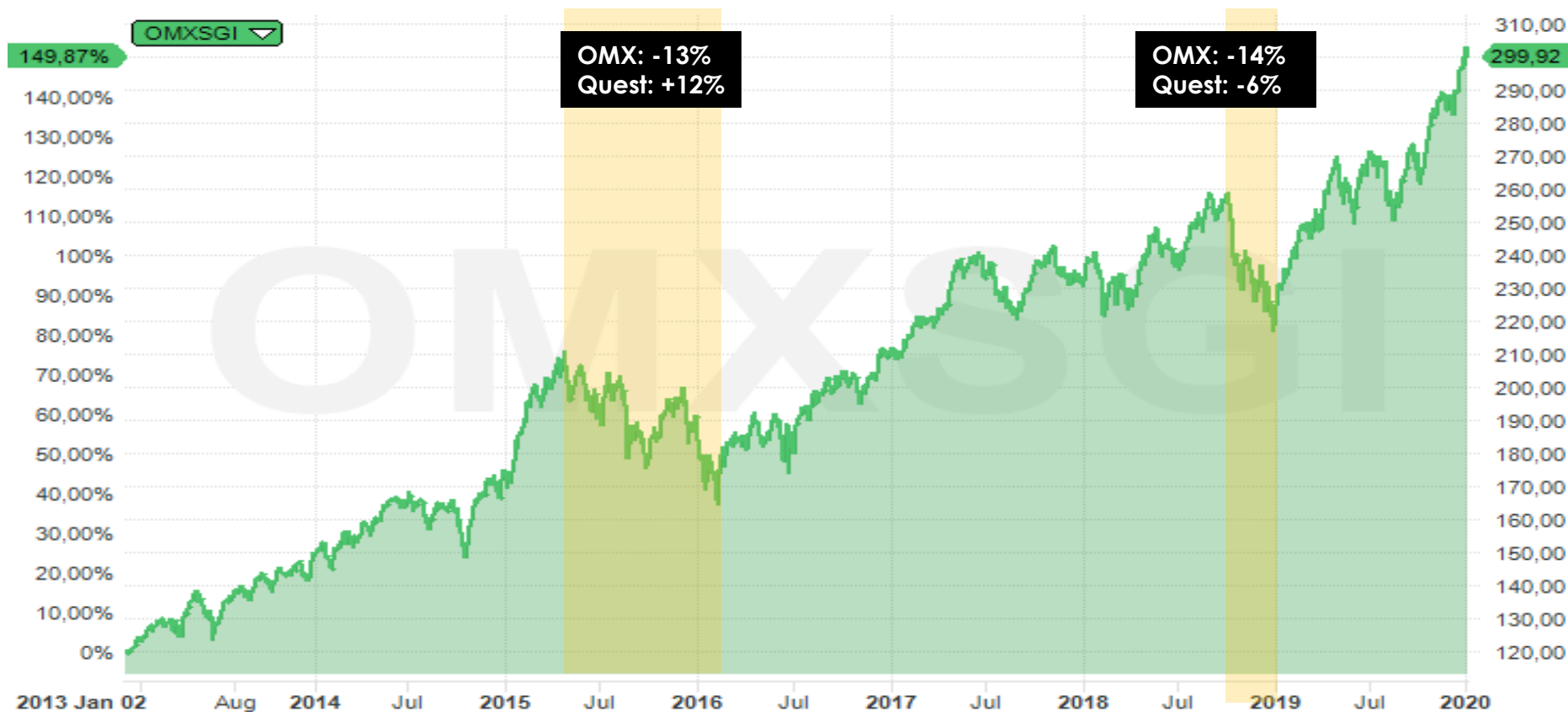
Quest outperformed the peer group (NHXE) during 2019 as well as the funds long-term target



\* Quest 1 return-target is to deliver < 10% in yearly return, measured as an average over rolling 5 years.

# Performance in down markets

*Competitive relative performance during turbulent periods like 2015–2016 and Q4 2018*



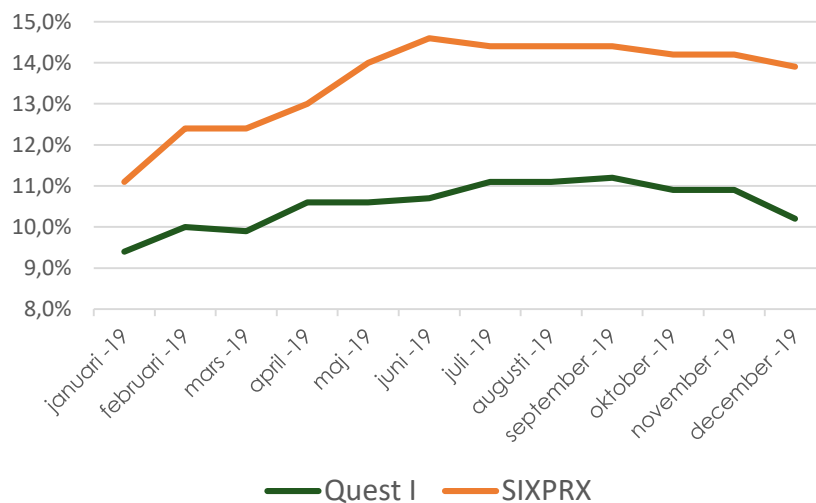
# Key ratios

Key ratios	2019
Total return	12,6%
Sharpe ratio (Return / Total risk)	1,2
Sortino (Return / Down-side risk)	2,7
Average Gross exposure (36m)	144,6%
Average Net Exposure (36m)	41,4%
Beta vs OMXSGI (36m)	0,35

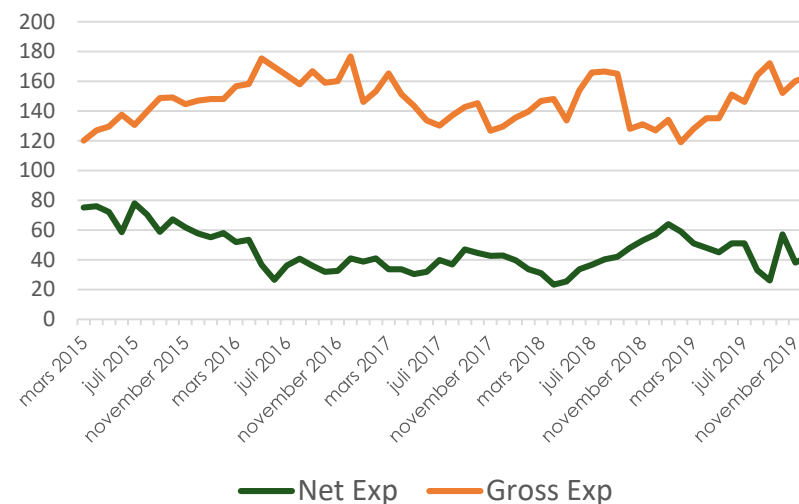
Competitive risk-adjusted returns:  
Sortino ratio ~2,7



Standard Deviation, 24m



Market exposure



Source: Origo Capital, Hedgenordic.com

## 2019 H2: Contributors & detractors (equities, gross return)

### Top 5 Contributors

	Gross Return
Catena (long)	3.6%
Recipharm (long)	2.2%
JM (long)	2.9%
Hoist (long)	2.2%
Lindab (long)	1.9%

### Top 5 Detractors

	Gross Return
Qliro (long)	-3.5%
Kindred (long)	-0.5%
SOBI (long)	-0.5%
Hexpol (short)	-0.4%
Bilia (short)	-0.4%

\* For H1 numbers, please see our Investor Update H1 2019.

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I. Performance review

**II. Portfolio Update**






III. About Origo Capital

## Quest 1: Top 5 holdings (31/12/2019)

Company	L/S	Initial investment thesis	Total return 2019
 <b>Hoist Finance</b>	Long	<ul style="list-style-type: none"> <li>➤ European NPL market at EUR 800bn creating long growth runway</li> <li>➤ Regulatory changes has created a depressed valuation at all-time low</li> <li>➤ Mitigating actions, operational improvements and a growing market to drive value</li> </ul>	17.0%
 <b>ALIMAK GROUP</b>	Long	<ul style="list-style-type: none"> <li>➤ Strong growth opportunities in after-sales</li> <li>➤ Further acquisitions in niche areas</li> <li>➤ Higher margins due to operational excellence and digitalization</li> </ul>	27.6%
 <b>Recipharm</b> <small>good for business</small>	Long	<ul style="list-style-type: none"> <li>➤ Entering a new phase with FCF-growth after heavy investments</li> <li>➤ Low operational risk with over 200 customers in +20 factories</li> <li>➤ Continued strong outsourcing trend and further acquisitions to come</li> </ul>	31.9%
 <b>Lindab®</b>	Long	<ul style="list-style-type: none"> <li>➤ Out-of-favor among investment community created depressed valuation</li> <li>➤ Operational improvement (low margins both on historical basis and vs sector)</li> <li>➤ Restructuring potential where non-core assets and segments to be divested</li> </ul>	90.4%
 <b>Resurs Holding</b>	Long	<ul style="list-style-type: none"> <li>➤ Continued growth in credit lending with historically low credit losses</li> <li>➤ Cross-selling opportunity with operational leverage creating low cost base</li> <li>➤ Overcapitalized providing room for capital distribution</li> </ul>	18.1%



# Active and engaged ownership is an important part of the value creation

Company	Investment case	Initiation / Exit
	<ul style="list-style-type: none"> <li>➤ Valued at discount to intrinsic value due to conglomerate structure</li> <li>➤ No synergies between the three divisions should justify the decision to separation</li> <li>➤ Poor capital allocation (cash flow from Nilfisk funded low-return Cables)</li> </ul>	2013–2018
	<ul style="list-style-type: none"> <li>➤ Best-in-class logistics properties benefitting from structural growth trends</li> <li>➤ Undiscovered and significant underperformance versus peers in a strong sector</li> <li>➤ Main shareholder's agenda not aligned with minority shareholders</li> </ul>	2014–Current
	<ul style="list-style-type: none"> <li>➤ Mismanaged from largest owner and management team</li> <li>➤ Technology focused business culture, not customer/sales focused</li> <li>➤ Origo launched an alternative proposal of board members at AGM</li> </ul>	2013–2018
	<ul style="list-style-type: none"> <li>➤ Unlock value by separately list the B2B game developer Yggdrasil</li> <li>➤ Communication and governance to be improved – a simpler equity story</li> <li>➤ List on OMX Nasdaq to attract analyst coverage and institutional investors</li> </ul>	2013–2019
	<ul style="list-style-type: none"> <li>➤ Sum-of-the-parts valuation indicated deep value play with growth potential</li> <li>➤ Transformation towards financial services with higher earnings potential</li> <li>➤ Origo pushed the strategic vision towards a break-up and more focused business</li> </ul>	2013–Current

# Quest 1: Short book themes

## Sector / Type

## Short case

### Industrials

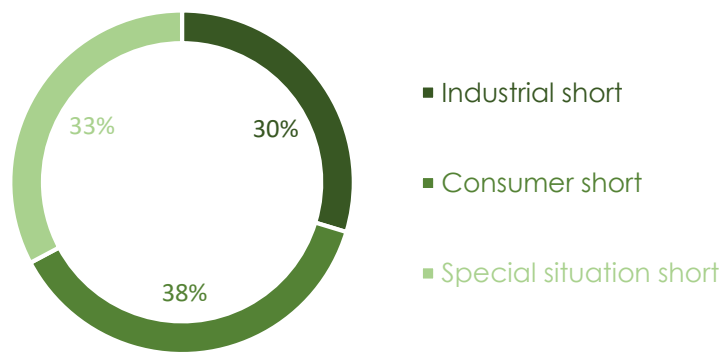
- In general very high valuation vs. historical standards
- Leading indicators are heading south. Capex will soon too
- Earnings are heavily doped by the weak SEK

### Consumers

- Short theme since 2017. Structural head-wind for physical retailers
- Underestimated pressure on margins for on-line players
- We see a need for transformation, consolidation and balance sheet restructuring

### Special Situations

- Positions where we have identified considerable company specific challenges...
- ..in combination with high valuation and un underestimated risk profile
- Focus areas: Leadership, business model, ethics, accountings, insider transactions etc.



\* As per 31/12/2019

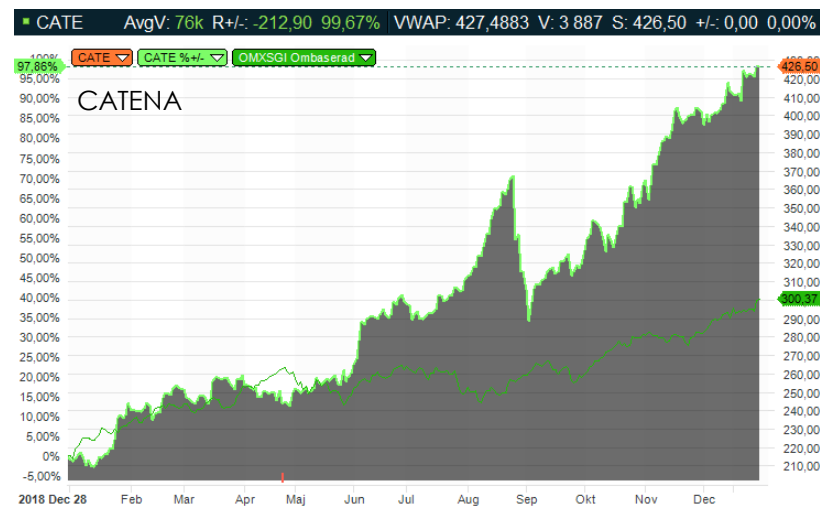
# 2019 H2: Largest investments and divestments

## Top 3 investments/ divestments

H2 2019

1. Kindred	Increased position
2. Invisio	Semi-new investment
3. Bilia	Closure of short

1. Catena	Reduced
2. Grieg Seafood	Exit
3. JM	Reduced



DAGENS BOLAGSNYHETER

Bevaka ☆

## Invisio ingår ramavtal med polisen värt 75 miljoner



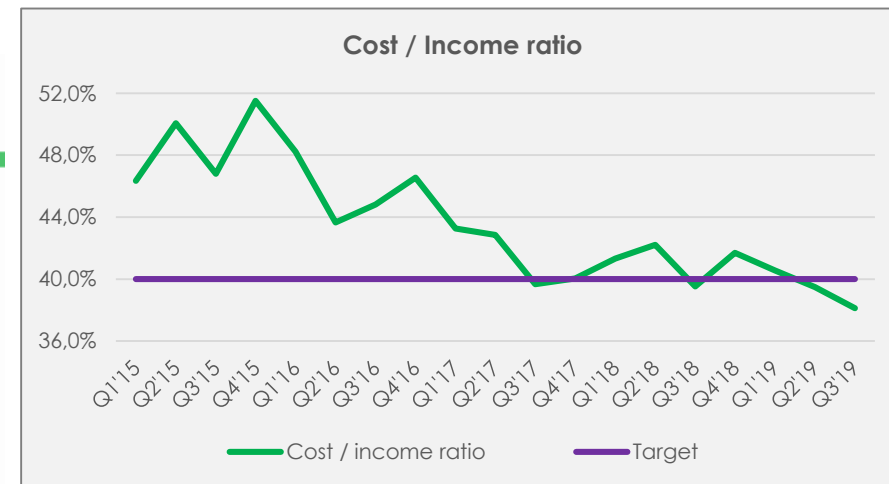
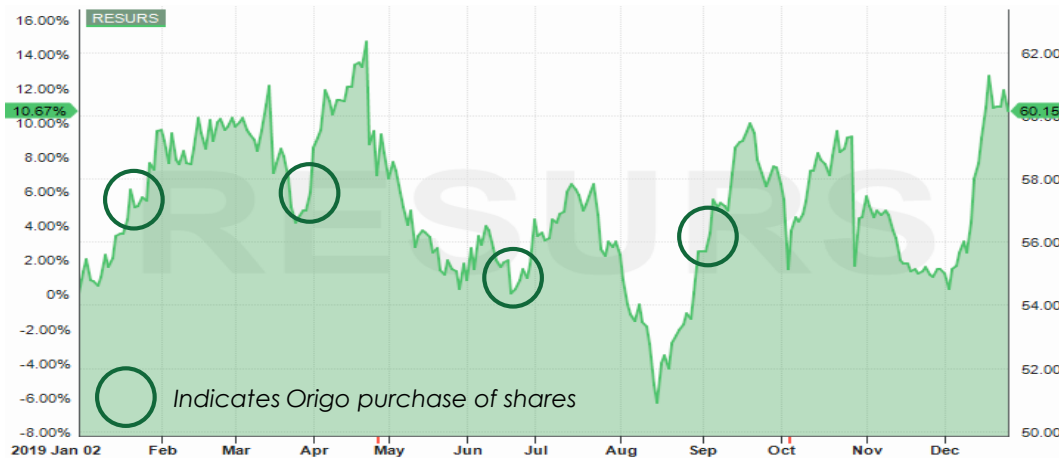
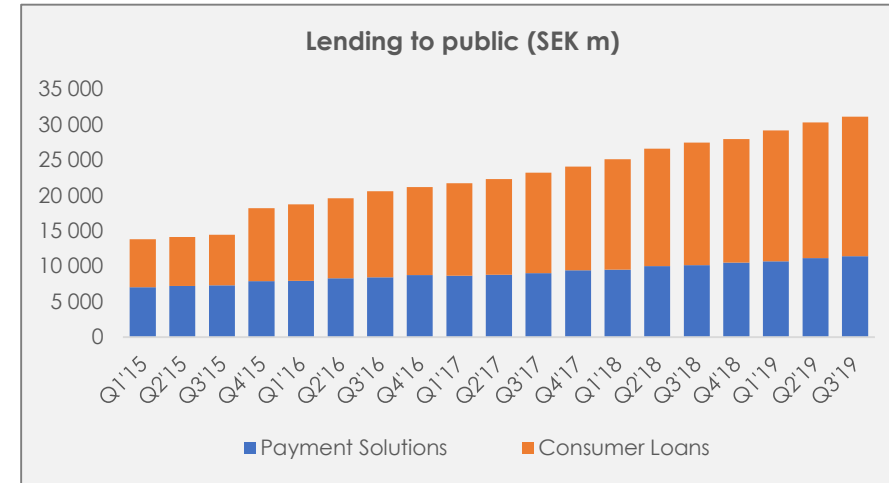
\* For H1 numbers, please see our Investor Update H1 2019

# 2019 Performance – Resurs Holding



Long position

- Continued lending growth and lower C/I ratio
- Reduced growth in Norwegian market
- Valuation continues to be attractive with steady dividend growth
- Regulatory pressure largest risk



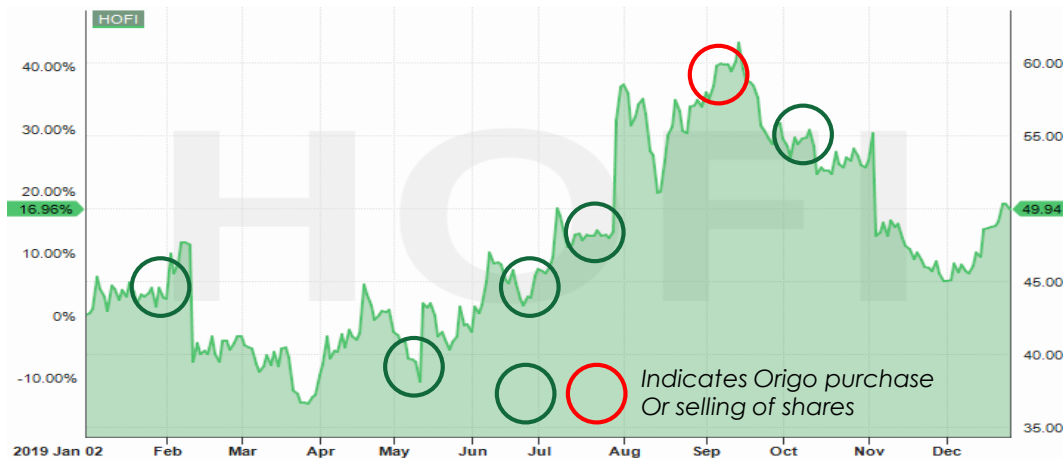
# 2019 Performance – Hoist Finance



**Hoist Finance**

Long position

- Digitalization drives efficiency and long-term profitability
- All-time-high earnings for Q1 and Q2, while Q3 earnings missed expectations
- Continued operational improvement, and actions to mitigate regulatory headwinds have been implemented
- Largest NPL portfolio in history acquired in December 2019 (secured loans in France)



## Hoist completes first IG Italian SRT backed by unsecured NPLs

By Tom Brown 10 Dec 2019

Hoist Finance has issued €337m of notes in what is the first investment-grade Italian securitization to be backed wholly by unsecured non-performing loans (NPLs).

The deal, dubbed Marathon, has a book value of €5bn and is structured across three tranches, with the senior notes retained at issuance by Hoist. They are rated BBB by DBRS, Baa2 by Moody's and BBB+ by Scope Ratings. The junior and mezzanine notes, which are 15% ...



**Dagens industri**

## Erik Selin storköper – blir största ägare i kreditbolaget

Finansmannen Erik Selin fortsätter att öka sitt innehav i Hoist Finance och blir efter affären gått igenom största ägare i nischbanken. Det framgår av ett pressmeddelande på fredagen.



MARIA PHILLIPS  
Publicerad: 20 september 2019, 08:10 | Uppdaterad: 20 september 2019, 16:49





## Short position

- Concerns regarding growth, cash generation and transparency
- Short thesis has played out well with profit warning in Nov 2019 due to lower free cash flow for 2019
- Investors are getting concerned with ISS leadership
- Sell-side analysts downgrading stock and lowering 2020 estimates





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**III. About Origo Capital**

## Who we are

- Independent investment firm (AIF) founded 2011 in Stockholm
- Supervised by the Swedish Financial Authority since 2012
- Manages the Equity Hedge Fund Quest 1 since 1 February 2013
- Members of Swesif (ESG-forum) since 2016
- Specialized in small and mid cap companies in the Nordics



# Investment philosophy

*Our time-tested approach is built on four corner stones*



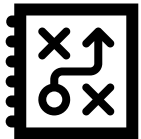
## Small & mid cap's

- Under-researched
- Great diversity
- Higher share of innovation and growth



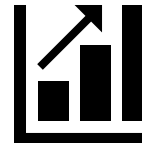
## Long term investing

- Time arbitrage opportunities
- In the long term, fundamentals win
- Sustainable real value-creation takes time



## Active management

- Engaged ownership
- Concentrated portfolio
- Capturing both long and short opportunities



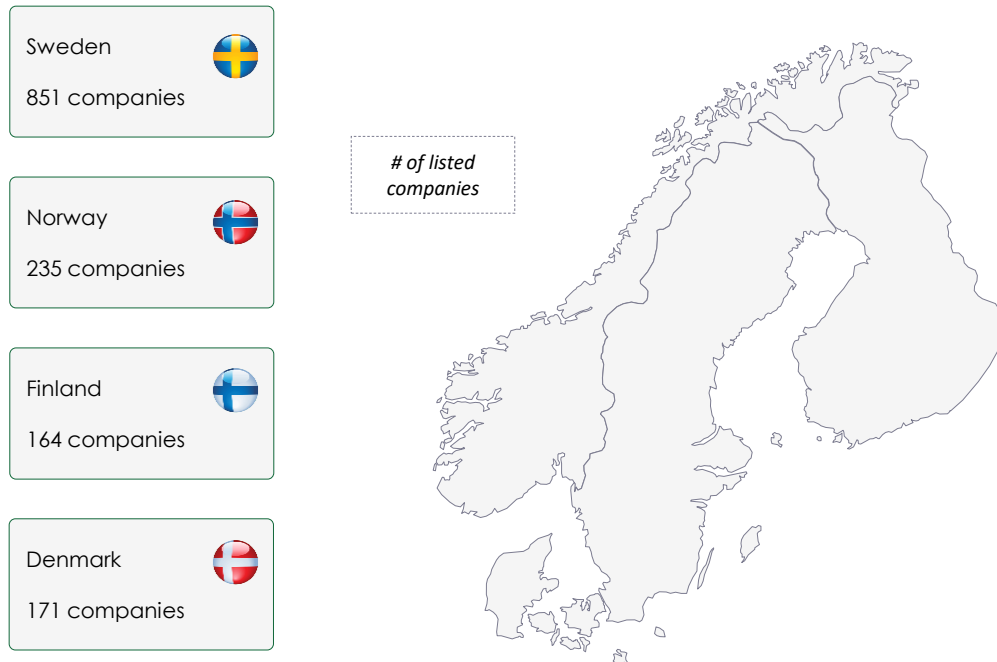
## Capital protection

- Capital preservation over profit maximization
- Low beta, low market correlation style
- "Know what you own" = reduced risk

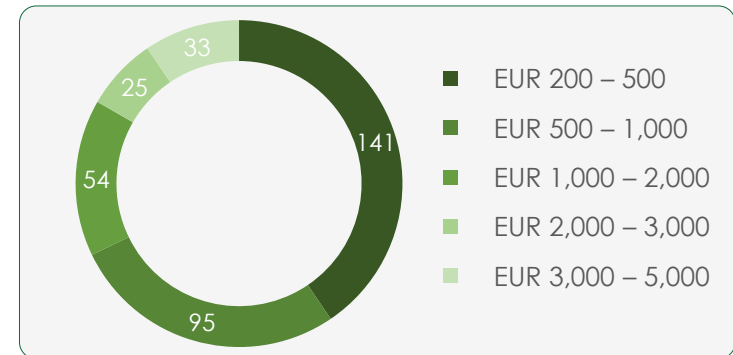
# Strong alpha opportunities in the Nordics

**A large investment universe based on company size, geography and industries within Origo Capital's core competences**

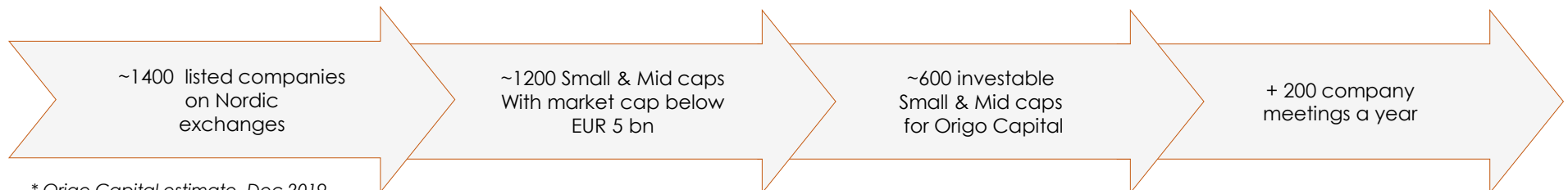
## COMPANIES LISTED ON EXCHANGES IN THE NORDIC COUNTRIES



## SMALL CAP COMPANIES



- Great diversity, ~85% falls within the SC-segment
- Less the 20% coverage by sell-side analysts\*
- Less efficient segment of the market
- Significant potential for alpha generation



\* Origo Capital estimate, Dec 2019

# Team Origo

- *Local team with extensive experience and complementary skillsets*



**Stefan Roos**

Managing Partner/Portfolio Manager

- 25+ years in the sector
- Several fund management awards
- Head of Swedish Equities, SHB Funds
- Head of Nordic Equities, SEB Asset Mgmt



**Carl Rydin**

Portfolio Manager/Analyst

- 10+ years in the sector
- Previously based in New York at European equity fund, Lucerne Capital
- +5 years corporate finance experience



**Karl Eckberg**

Chief Operating Officer

- +10 years in the sector
- Legal Counsel at Nordnet Bank, Attorney at Wistrand Advokatbyrå
- Specializing in securities and financial markets law



**Nils Alpman**

Compliance Officer



**Tobias Färnlycke**

Risk Manager



**Agneta Bremander**

Internal Auditor



**Ola Björke**

Valuation

## Quest 1 vs. traditional hedge fund

### *An alternative equity approach to value creation*

	<b>Traditional Equity Hedge Fund</b>	<b>Quest 1</b>
Investment horizon	Short-term	Long-term
Ownership	Passive	Active
Diversification	Very diversified	Concentrated portfolio
Information	Limited	High transparency
Responsible investments (ESG)	Sometimes	Yes
Fee structure	Performance related + HWM	Performance related + HWM
Hurdle rate	Risk-free interest rates	Risk-free rates + 5%



# Sustainability and responsible investing

- In Origo Capitals effort to generate excellent investment performance, sustainability issues plays a very important role. Active and Responsible investing are core principles in our investment approach since the start 2013
- The UN's 17 Sustainable Development Goals are rooted in global challenges that need solutions. Our preferred long-term investment themes are aligned with the SDGs
- The investment team integrates sustainability issues in the research process. We have a theme and best-in-class approach, aiming to identify which companies are better positioned for the future
- As an active ownership firm, with a long-term long/ short mandate, Origo are uniquely positioned to respond to ESG challenges and to transform them into opportunities

Members of SWESIF since 2016

**SWESIF**  
SVERIGES FORUM FÖR  
HÅLLBARA INVESTERINGAR

Sustainable Development Goals



## Effective organization utilizing professional third-party functions

- Focusing on the core business (management of the fund) and reducing the risk of conflicts of interest, we have consulted professional contractors for various functions of the business.
- Karl Eckberg (COO) has a close relationship and daily communication with representatives of our outsourced functions.





### Contact Details:

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