symmetry
Investering i balance

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Newsletter

Q2 2020

Purpose of the newsletter:

Symmetry sends out a portfolio report every month to the company's shareholders. Here we talk about the return on the month, news from our individual share investments and much more. In addition, ongoing analyses of companies are sent out as well as an annual investor letter with a review of our largest positions. This newsletter does not intend to copy or replace the above, to which Symmetry's shareholders have exclusive access. The newsletter, being completely free, will therefore only treat singular individual shares in a very limited measure, being that an argument reserved for investors. Instead, the newsletter will review various developments and trends in the general market as well as it will explain, how Symmetry navigates the different markets.

Now and then, the newsletter will mention specific individual shares. These can be shares, which Symmetry is long in or short in. Or shares that Symmetry has no position in, but has an interest in.

The newsletter aims to increase all our stakeholders' knowledge of Symmetry including current investors, potential investors and other individuals, who follow the stock market. Symmetry will continuously describe our strategy and make it as easily understandable as possible for readers.

We will include quotes etc. from well-known value investors and substantiate claims with graphs and other material, which can be used to support our points.

We hope that as many of you as possible will find the newsletter easily readable and useful, and that it will help get as many people as possible signing up for the newsletter to follow us.

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Symmetry is under no circumstances responsible for any loss due to investments based on the use of the newsletter. Symmetry in some cases owns shares in companies mentioned in the newsletter. Symmetry reserves the right to buy or sell shares in mentioned companies without

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Investing in shares is associated with a high risk, and it is therefore always advisable to consult a competent financial adviser before disposing. Images and other material used in the newsletter are copyrighted and cannot be redistributed.

In the newsletter we refer to "us" understood as Symmetry, and sometimes "I" understood as Andreas Aaen.

This letter is translated from Danish to English by a professional translation company. For any doubts on translations etc. the Danish letter wins.

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Newsletter

We have decided to only publish half yearly letters in the future. As we report returns on a monthly basis on our website, post research on an ongoing basis and write on Twitter and LinkedIn frequently we wanted to make this letter a little more quality and a little less quantity.

H1 2020:

Tabel: Historical Returns

%	Jan	Feb	Mar	Apr	Maj	Jun	Jul	Aug	Sep	Okt	Nov	Dec	FYTD	Avg. Net Exposure
2013						8,1			7,9			15,0	34,1	N/A
2014			3,2			10,2			2,8			17,0	36,8	N/A
2015			6,8			23,2			-13,3			5,7	20,5	76,0
2016			1,3			10,6			3,5			3,4	19,9	44,3
2017	6,2	3,2	0,7	4,0	5,1	-2,7	1,1	-2,7	0,6	3,3	-2,1	-0,7	16,8	46,5
2018	1,9	-4,5	-4,4	0,8	-0,8	-5,9	-4,5	-1,8	-0,9	-12,8	1,9	0,3	-27,7	75,2
2019	7,3	6,4	4,5	4,5	-2,4	6,3	0,5	-7,1	5,8	0,3	10,0	2,5	44,4	73,3
2020	2,0	-4,1	-37,2	22,6	14,5	10,1							-5,1	72,5

We have as always send out the monthly performance updates to our investors.

Tabel: Performance compared to MSCI ACWI

	2020	Total	IRR
Symmetry	-5,1%	206,4%	16,5%
MSCI ACWI	-6,2%	58,5%	6,5%
Stoxx 600	-13,3%	25,2%	3,1%

We have now managed to beat the market in 5 out of 6 months so far in 2020. Despite this we are only slightly ahead of the market (depending on what benchmark you use). This shows quite well how much it means to protect the downside as one bad month can destroy a really good performance. We will refer to the Q1 2020 letter for a more thoughtful review on how the Corona quarter went. So far, the conclusion on 2020 must be acceptable without being stunning. When we look at our YTD return so far it could look as if H1 2020 was an uneventful half-year. But looking further above at the returns in the individual months it tells you another story. We had our worst month ever in March 2020 followed by our 3 best months ever in April, May and June. Despite the fact that we thrive on volatility we don't mind a slightly more quiet H2 😊

YTD return and other benchmarks:

Below we have shown our YTD returns at 20. July 2020:

	2020	Total	IRR
Symmetry	0,3%	224,1%	17,2%
MSCI ACWI	-1,7%	66,1%	7,3%
Stoxx 600	-9,6%	30,6%	3,7%
Russell 2000	-12,0%		
MSCI Europe Small Cap	-10,7%		

Of course, it's great to tell that we have now managed to deliver a small positive return YTD. As always one should not focus to much on short term datapoints. The market is volatile and so is Symmetry. The situation can be far different (either to the positive or negative side) in a short time. But with that said, we or course rather want to deliver positive numbers than negative. To have delivered a small profit is something we regard as acceptable (compared to the circumstances) but not something worth celebrating (our ambitions is higher).

With that said we have also tried to illustrate our returns compared with some other benchmarks above. "Normally" (if this exists in investing) we do think the MSCI AWCI is a fairly good benchmark to Symmetry. But in 2020 the index has been pulled up a lot from a really small number of shares. We thought then it would be good to include the Russell 2000 and MSCI Europe Small Cap also as those probably better matches Symmetrys investment style.

"The all weather portfolio":

One of the things I do wish over time is to make Symmetry able to deliver better alpha in all market environments. If we look at our YTD return, we have had a significant variation in our monthly numbers.

Our stocks in technology and gaming related names like GAN (sold), Kambi, Endor and EVO have delivered amazing results (+ 100 % YTD). Other online models like Naked Wines etc. have also performed well. We also hold a few names in more deep value stocks like Cambria Automotive that performed worse because of Covid. I know managers that only invest in online gambling that is up 50-100 % YTD. I also know managers with a deep-value focus that is still down 25-40 % YTD. In

Symmetry we try to create an agnostic philosophy where we are able to adjust to different market environments. At the same time, we do want to have diversification regarding sector, factor, geography etc. This is important to be able to create alpha in different market environments over both longer and shorter time periods.

Since the launch of Symmetry, we have managed this goal with only a few setbacks. We have had some really big and short drawdowns when there have been liquidity gaps in small caps. One can ask if we shouldn't just ignore those as we normally bounce back fast and we do deliver amazing results over time. But to me it's still not acceptable to have those big drawdowns. Symmetry is a hedgefund, our strategy is hedgefund based and our fees are hedgefund based. I have ambitions to create more downside protection in the future. Not because we don't want volatility. But because it's easier to create long term compounding if you avoid big drawdowns.

As mentioned several times my plan is to run Symmetry for the next +50 years. Then it's vital to constantly research possibilities to optimize the long-term potential of the fund. We are open to change things structurally if we believe it creates a better foundation for the future. But we pilot into new stuff slowly to be sure we don't destroy something that already works really well.

How smart people ends up in investing?

From time to time I end up with a bad "conscience" about the kind of job I have chosen. It maybe sounds strange coming from a person who loves his job and think of it more as a lifestyle than a real job. But sometimes I wonder if I couldn't have done something more "useful" in another job? I could have become a doctor and helped people. I could have become an engineer and constructed amazing buildings etc. As an investor we kind of just moves money around in competition with everyone else.

Years back I read an article that described how many percentages of the smartest people from American universities that ended up at Wall Street. I was a huge problem because the IBM, General Electrics of the world needed those sharp minds. But they simply couldn't compete on compensation with the big wall street banks. I will think this problem is smaller today. If we look at jobs on top of the list for students now, we see Google, Apple and Microsoft on top of Goldman Sachs, Morgan Stanley etc.

But why does the investment industry attract so many "sharp minds"?

To some extend it can of course be explained with the opportunity to make a lot of money. But it can't be the whole explanation. If I had staying in accounting instead of funding Symmetry, I

would probably have made more money in accounting than what I am now in investing. For me the dominating factor to choose this “job” was the freedom it gives you. There is of course a potential upside for me to make a lot of money in the future if everything keeps going well. But the freedom to manage and plan my own time and be able to read and look into different stuff that I find interesting is by far the most important factor. In what other job can you spend a lot of time reading about online wine, and then the next day read about production of electronic components. There isn’t anything more interesting than finding a new potential investment in a new industry and try to learn everything about that industry. Both by reading and listening but also by talking to sector specialists, investor colleagues etc.

The ability to structure our working day is not only related to what we work with, but also how and when we work. I have a good colleague that runs another fund that is a clear night owl. He has a hard time getting out of bed before noon most days. But then he can sit and work and invest the whole night and deliver amazing results to his investors. In what other jobs would this be possible? He would quickly be labeled as lazy if he told in a job interview that he simply can’t get into work before launch time. Despite the facts that it’s probably a genetic chromosome in his body that is the result. But in investing this is possibly. It also works amazing when you have children. The ability to “work around the clock” is really good. It is really few jobs where you can work as many hours as in investing without it having a negative effect on family life etc. Simply because of the freedom to structure the work and when to get it done.

Another important factor (and one I will dig a little big deeper into later on in this letter) is that you learn a lot about yourself in this business. You are under a constant pressure to deliver results to your investors. Even through in the end its long-term results that matters, I think most managers will agree that it’s hard not to focus on short term numbers just a little bit. When other people trust you with their hard-earned money it’s a big responsibility to get the best out of them. You are kind of testing yourself constantly and you have an opportunity to work with and optimize yourselves.

It’s probably also only a half-truth that we only move money around in the stock market without creating value. Facts show that people waste to much money on fees, broker commissions etc. But the stock market also plays an important role in allocating resources to scarce opportunities. By making sure resources is allocated to companies with the highest return on capital, the stock market helps society improve the average return on capital.

One extreme example would be to look at a dying blockbuster and a growing Netflix. The less smart people in the industry, the less would buy Netflix and sell Blockbuster. But what had happened if market participants wouldn’t have moved the stocks? Then the companies would

have had equal access to and cost of capital. Blockbuster would probably have wasted that capital in a dying business, why Netflix would have needed them to create something lasting. But when the market bid up Netflix stock and bid down Blockbuster, they make the cost of capital cheaper for Netflix and more expensive to Blockbuster. This way the market acts as a voting machine that gives good companies access to cheap capital (by sending their stocks up) and bad companies only access to expensive capital (by sending the stock down).

This of course is an extreme example. But it illustrates some of the advantages an effective market can have and why we as investment managers helps to fulfill this.

Invest in yourself

Throughout the summer I got the change to re-read Stephen Coveys amazing book "7 Habits of highly effective people". For some reason or another the book didn't catch me first time I read it a few years ago. Maybe because I was another place in life at that point. But now the book really made sense to me. It gives a lot of guidelines to become a better version of yourself. Not only in business, but also as a husband and a father.

> "This is the single most powerful investment we can ever make in life – investment in ourselves, in the only instrument we have with which to deal with life and contribute". [1]

I have in previous letters mentioned that I think to many investors have a wrong priority of their time. A natural investment style would be:

1) To collect data
2) To analyze data
3) To make decisions

In my opinion investors spend way too much time on number 1 and number 2 and way too little time optimizing number 3. But based on my history with Symmetry I think number 3 is by far the most important and the one you need to invest most in. If I look at both the best and worst investment decisions since the start of Symmetry, they have only seldom been affected by 1 or 2. I am not to say they are not important. Without good data and proper analysis, it's not possible to make good investment decisions. But way to often I see investors spend a lot of time building extremely advanced spreadsheets or focus on huge amount of irrelevant data inputs just because

[1] 7 Habits of Highly effective people

it looks fancy. But the world never plays out according to a model. If one is to focused on the details then it's often easy to not see the big picture.

One of the things I have been aware of is to optimize my time. Ambitious business people wants to do everything to create more working hours in the day. But facts are, there is only 24 hours in the day. The only way to create more time to work is to cut down on the other 3 areas where we spend time: Sleeping, exercise and family time.

A little while ago I read Matthew Walkers book "why we sleep". An amazing book that gave me to big insights. The first and most important one is that sleep is not an option. A good night sleep is a necessary.

> *" I doubt you are surprised by the fact (that most people don't get adequate sleep), but you may be surprised by the consequences. Routinely sleeping less than six or seven hours a night demolishes your immune system, more than doubling your risk of cancer. Insufficient sleep is a key lifestyle factor determining whether or not you will develop Alzheimer's disease. Inadequate sleep, even moderate reductions for just one week, disrupts blood sugar levels so profoundly that you would be classified as pre-diabetic. Short sleeping increases the likelihood of your coronary arteries becoming blocked and brittle, setting you on a path toward cardiovascular disease, stroke and congestive heart failure. Fitting Charlotte Brontes prophetic wisdom that a ruffled mind makes a restless pillow, sleep disruption further contributes to all major psychiatric conditions, including depression, anxiety and suicidality."*[2]

Besides sleep another important lesson to me from the book was how caffeine was absorbed by the body. I have always been a happy coffee drinker (I am not alone; coffee is the second most traded commodity after oil). What I didn't know was that caffeine for the average person has a half-life of about 5 hours in our body. This means that 5 hours after drinking caffeine you still have 50 % of it in your blood, after 10 hours its 25 % and after 15 hours its 12,5 %. Most people are ready to go to sleep then after being awake 15-17 hours. And then you still have 10 % of the caffeine from the morning coffee in your blood (not to mention what you drink throughout the day). The argument I hear the most (and one I used myself) was *"I have no problem falling to sleep despite drinking coffee".* Where the book made an impression on me is that the body will fight the caffeine even while sleeping. And this gives you are markedly worse night of sleep. Personally, I have tried to limit my caffeine intake now to only the first 1-2 hours after waking up and not drinking coffee

[2] Matthew Walker – Why we sleep

throughout the day (fortunately I have never been a fan of Cola, RedBull and other caffeine drinks).

When you finally have accepted the fact that you need 8 hours of sleep and 0,5-1,0 hours of exercise every day and at the same time have room for family and friends, you can also accept that there is only limited time for work. When you have accepted that you can't make the day longer (some have troubles with this), you can start working on making the day more productive i.e. optimizing the return you get on the hours you have. When you have accepted that you need sleep and exercise you is on a good path (both is important productivity drivers). Another important factor is nutrition. It's different from one person to another what defines a healthy and nutritional lifestyle and how fanatic you want to be about it. But where can you start? By cutting the "easy stuff" like stop smoking (fortunately I have never been a smoker), cut down on alcohol consumption (fortunately I have never been an alcoholic neither) etc. This is an investment letter not a nutrition blog, so I will spare you for a detailed write up and just mention one thing that has helped me personally. I stopped eating heavy calories during launch time and stopped eating too much. If the body is full with food during lunch time it will sometime take it 2-3 hours to digest it. This will give a feeling of laziness and bad productivity throughout the rest of the day (and automatically build a desire for coffee again).

More relevant from an investment perspective to improve your productivity is to cut of bad habits. From the book 7 Habits:

> *Also in the book Stephen Covey talks about an episode where he was helping a friend doing pushups in the Gym:*
>
> *"Finally, as I looked at his face, straining with the effort, his blood vessels practically jumping our of his skin, I though, this is going to fall and collapse his chest. Maybe I should take the weight. Maybe he's lost control and he dosent even know what he's doing. But hed get it safely down. Then hed start back up again. I couldn't believe it.*
>
> *When he finally told me to take the weight, I said, "why did you wait so long?"*
>
> *"Almost all the benefit of the exercise comes at the very end Stephen. I'm trying to build strength. And that dosent happen until the muscle fiber ruptures and the nerve fiber registers the pain. Then nature overcompensataes and within 48 hours, the fiber is made stronger".*

> *I could see his point. It's the same principle that works with emotional muscles as well, such as patience. When you exercise your patience beyond your past limits, the emotional fiber is broken, nature overcompensates, and next time the fiber is stronger".* [3]

When I read this, I could easily recognize it from my everyday life. Everyone knows how hard it is to get rid of a bad habit. It requires hard work. How many haven't tried to be on a diet and walk by the kitchen and need to force yourself not to eat something bad. It requires mental training. Two examples (and there is many) from the investment world that have helped me is:

1) Stop watching stock quotations and P&L statements several times a day

As most young ambitious managers I had a tendency to constantly want to know "how is it going". That would be sitting and watching stock prices go up and down and look at my P&L. But this creates absolutely nothing and is a complete waste of time. But it has demanded some mental training for me like what Stephen Covey talked about to get rid of it. I can still be reading an important annual report and want to take my phone and check the market from time to time. Can I say that I never end up doing it? NO. Can I say that I have become much better at it? YES. But like many other bad habits you never get totally rid of it. It requires constantly work. But this simple improvement has helped me unlock a lot of productivity

2) Remove unproductive time-consumption

Relates a little to 1 but more generally. I came to a conclusion that I needed to focus on what's "nice to have" and what's "need to have". Before I could follow a lot of people on twitter, read different Facebook forums, listen to different podcasts I found interesting etc. But when I was really honest to myself most of it was not productive work, it was more "nice to know" stuff. In regards to twitter I have set a limit on maximum 100 people I can follow (quality over quantity). At the same time, I will only check my feed much less often during the day. Regarding Facebook groups I am now only in one (that only have 20 other skilled investors in it).

There is not any single solution to get better productivity. It's all about constantly improving, remove bad habits and become a little bit better every single day.

Neither I think one should underestimate the importance of a happy family life on your investment performance. Fortunately, I am happily married with 3 lovely children. But in every relationship, there is good days and bad days. And most can probably recognize that productivity at work is lower when things is not good in your personal life. It's not an expense to invest in a happy family life. It actually improves productivity while at work.

[3] 7 Habits of Highly effective people

A good example of this is Hedgefund manager Bill Ackman. Bill Ackman has an excellent track record over 20 years with around a 16 % annualized return. But during those 20-years there was 3 really bad years with 2-3 really bad investments (Valeant, Herbalife etc.). Without those few years his track record would probably have been +20 % a year. Was it just a coincidence that his only bad years was happening at the exact time he was undergoing a hard (and expensive) divorce? Or that his performance has cached up over the last 2 years after he got remarried and became a father again? In some of his recent interviews he has (at least indirect) admitted that chaos in his personal life was negatively affecting his investment decisions.

I want to highlight that all this stuff mentioned here is just stuff that has worked well for me. People are different and have different priorities and everyday lives. And different investors can deliver good results with completely different lifestyles.

Portfolio news?

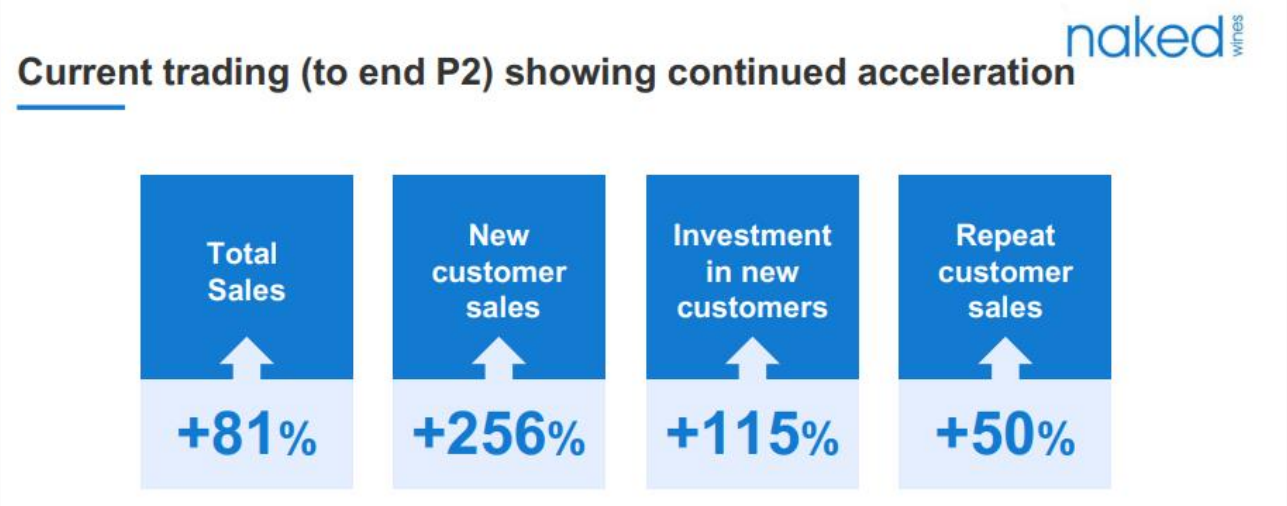
Despite Corona our portfolio companies have delivered quite good numbers so far in Q1 and Q2. It seems that Corona will not have a big negative impact on our portfolio companies on average. One of the reasons of course is that we took a critical view on our portfolio in January and February and made sure we were positioned for Corona. We did choose to stay in some of our smaller stocks where we believed Covid would hit them hard because we liked the long-term value creation and only viewed Covid as a short-term issue. We chose to stay invested in both Cambria Automotive and Where Food Comes From despite expecting short term issues. We own a big percentage of the free float in both shares and have huge respect for the long term value creation Mark Lavery and John Sounders have created and will create in the future. We concluded the best thing was to keep our position and sit through the noise here. Both companies also have great balance sheets that could be used on the offense (M&A and buybacks) doing difficult times. For Cambria the dealerships are now open again and both used car sales and service revenue are back up even through new car sales are still catching up. Cambria lost 2-3 months of income during the lockdown, but it does not seem to have had any long-term negative impact on the business. Cambria trades at a 4-5x normalized P/E and below book value. For WFCF the short-term problems related not to demand for the products but their ability to get access to farmers and do the farm audits. Doing lockdown most farmers choose not go get outside people into their farms to protect the health of farmers, workers (and animals). But those farms need to get their audit done at some point. So here we are more looking into revenues that are pushed from Q2 into Q4 and 2021 etc. Q2 will be bad, but the structural trend that WFCF enjoys like better food safety and traceability will just be accelerated after Covid restrictions lift.

Data is not audited. The numbers is from Symmetrys banks and brokers. They due do our best opinion present an accurate view of our business. Return data and NAV is audited once a year by our independent auditor.

On the other front we also have businesses that clearly benefits from the Covid environment. What we have chosen is to look for businesses where Covid are accelerating an exciting trend, not businesses that will achieve a short-term boost from Covid. For two of our stocks the long-term trend has clearly gotten a big boost:

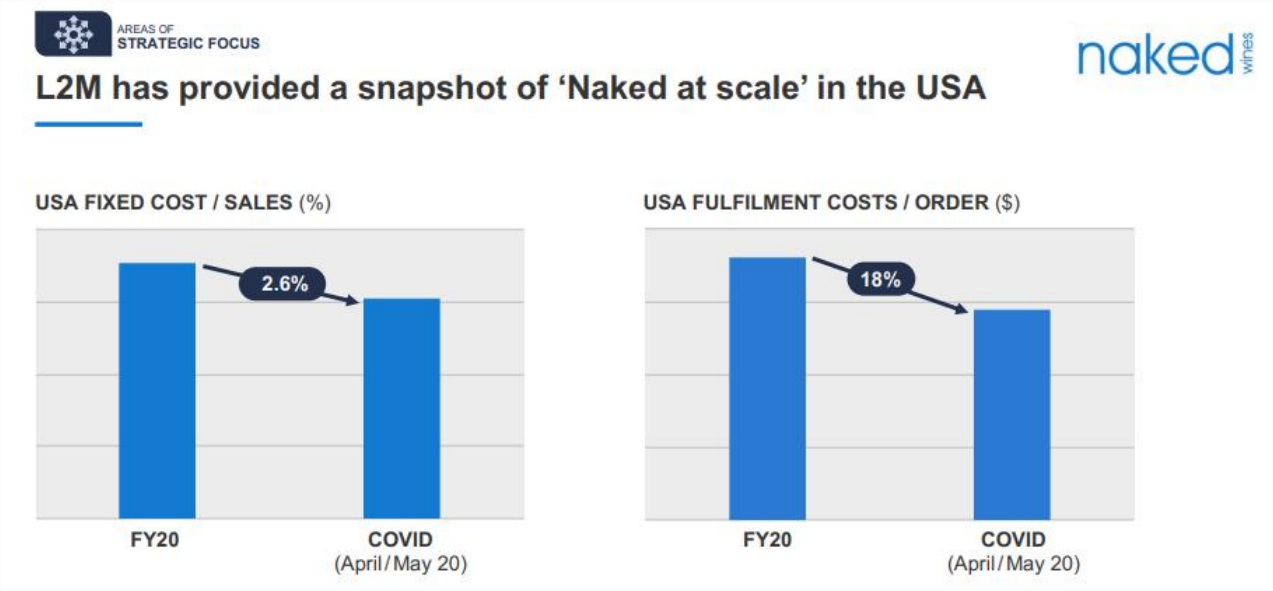
German company Endor AG was already having a 40-50 % revenue CAGR over the last 10 years from 2008 to 2018. And they already had revenue growing 80-90 % in 2019 and Q1 2020 before Covid came. Then Covid just accelerated those numbers even further. Endor was in a situation where they simply couldn't ship products fast enough to meet demand. The result was Q2 revenue numbers that was up 130 % YoY and 100 % QoQ from Q1 2020 with earnings growing disproportionally more. At the same time the company is talking about a backlog (orders received that is not yet filled) that is some 200-300 % higher YoY at the end of Q2. This puts them in a strong position for the rest of the year. Despite a big jump in the share price YTD Endor still trades at a 15-20 x P/E. This is a debt free company that is market leader in a small fast-growing niche, where the CEO still controls 40 % of the shares. The only reason this stock is not trading at 2-5x where it is, is because they are listed on a small exchange in Munich and only report financials (if we can call them that) in German. If they relisted to Frankfurt, we believe the stock would trade at least double at where it is now. Not to mention where it would trade at Nasdaq.

Another case in our portfolio that has received a structural push from Covid is Naked Wines. Naked Wines was in a position where they had just invested a lot of money building the infrastructure in the US and just sold their retail business to get a big net cash balance sheet. Great timing going into Covid. They had high fixed expenses, a good business model and capital ready to invest. We still think the market underestimates the long-term trend a lot here. Covid has changed to things structurally for the better for WINE. The market is still perceiving WINE as a company that will get a short-term boost and then revenue growth will get back to 10-20 % a year (that in itself is good numbers). But we actually see a situation here where WINE can grow the topline 25-50 % a year now for the next 3-5 years because of this Covid boost.



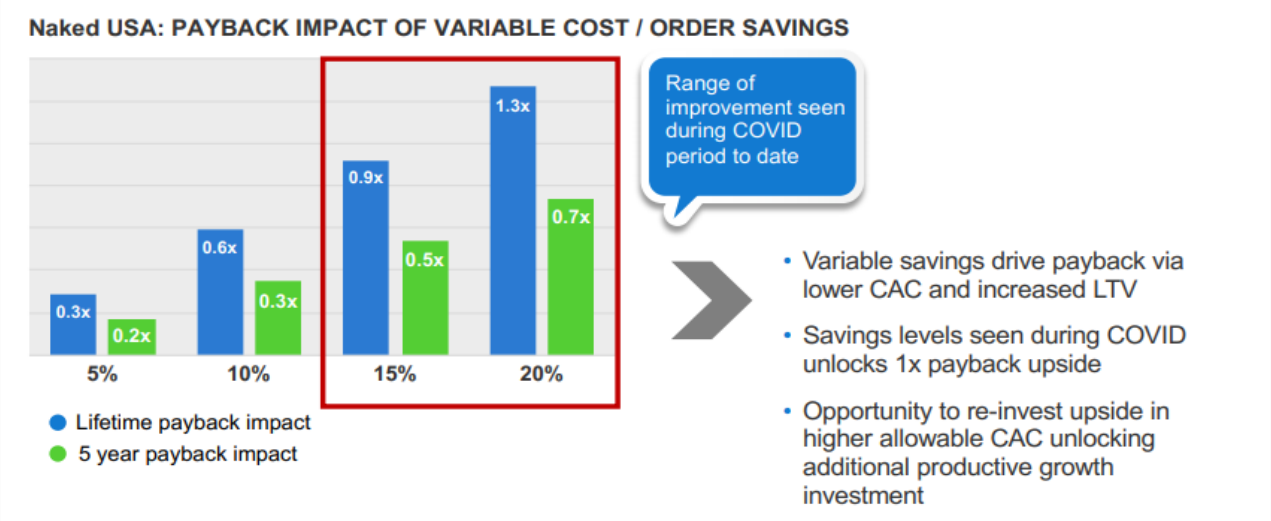
As you can see above WINE experienced an insane number of new customer growth in April and may at +256 % YoY. Even more important this happened with only 115 % higher investments. i.e. WINE acquired the many new customers at less than half the CAC they had the year before. This was due both to short term impacts (lower Facebook ads etc.) but also generally better conversion rates across acquisition channels.

What we think the market is missing here is what this growth means to Naked's ability to achieve scale on variable and fixed expenses:



As you can see above the fixed expenses compared to revenue in the US was 2,6 % lower in April and May. For a company with a long-term EBIT target of 8-12 % a 2,6 % reduction is a lot. At the

same time the company lowered the variable expenses per order with 18 % due to scale in logistics etc. This came because of early investments in growth where they now achieve scale economics.



What the market has not understood yet is how those scale economics effect the long-term growth outlook. When WINE achieve better unit economics because of scale they can afford to invest a lot more in CAC at higher CAC rates and still deliver good LTV/CAC ratios. Everyone that have bought ads at Facebook can tell you how much more ad space you can buy if you can raise prices 10-20 % per ad.

We think its just a matter of time before the market sees the long-term potential here and the stock can trade up to 1.500-2.000p in just 2-3 years' time compared to 400p today.

Operational changes:

On the operating front there have also been positive news from Symmetry. From 1. August Henrik Abrahamson will start as a full-time portfolio manager at Symmetry. I have known Henrik for several years where we have discussed the stock market in general and worked together on different cases. Some of the best investment cases for Symmetry over the last few years have been some where I have worked close with Henrik. During the summer an opportunity came to recruit Henrik full time to Symmetry and fortunately we could both agree on a structure that would work here.

I have been asked before if I would take a part time employee or a trainee in. But as I wrote before in this newsletter, there is only a limited time available every day and to train someone else up from scratch has just never appealed to me. By recruiting Henrik that already have a long history

with investments we instead create a win-win to Symmetry where we now have the double amount of time to find good investments.

As a side note both Henrik (Swedish) and myself (Danish) is married to a Bulgarian. Let’s hope we can agree on good stocks in the future. At least we can agree on a geographical origination for our life partner 😊

With wishes on a continues good summer for everyone

Best regards.

Andreas Aaen