SYMMETRY INVEST A/S

NEWSLETTER

Q4 2019

SYMMETRY INVEST A/S

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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.

Disclaimer:

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Shares commented in the newsletter should not be considered a recommendation of purchasing or selling that such stock. Symmetry is a manager of alternative investment funds (AIFM) registered by the Danish Financial Supervisory Authority, *Finanstilsynet*. Symmetry is NOT a registered / authorized investment advisor and, on this basis, does not recommend any specific share. The newsletter only describes Symmetry's own market attitudes and individual shares.

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 giving notice. Our position or stock price target may be changed on an ongoing basis after the publication of the newsletter. We do not undertake to update in this regard.

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.

Data are unaudited figures and may therefore be subject to uncertainty. The figures are derived from withdrawals from Symmetry's custodian banks etc., and it is our best belief that they represent factually correct numbers. Return data and net asset value are audited once a year by the company's auditor at year-end.

Newsletter

In the newsletter for Q4 2019 we will have a look at the year that has passed and summarize it. In addition, we will look at what the optimal size for a fund is and look at how to do an in-depth research.

Q4 2019:

Tabel: Percentage of historical return

The table shows historical returns and net exposure since its founding in 2013

%	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FYTD	Avg. Net Exposure
FY13						8,1			7,9			15,0	**34,1**	N/A
FY14			3,2			10,2			2,8			17,0	**36,8**	N/A
FY15			6,8			23,2			-13,3			5,7	**20,5**	76,0
FY16			1,3			10,6			3,5			3,4	**19,9**	44,3
FY17	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
FY18	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
FY19	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

As always, returns and portfolio updates etc. are distributed to shareholders monthly through the Website.

Tabel: Performance against MSCI ACWI

Below our long-term and short-term performance compared to MSCI ACWI and Euro Stoxx 600

	2019	Total	IRR
Symmetry	44,4%	222,9%	18,7%
MSCI ACWI	23,7%	69,0%	8,0%
Stoxx 600	23,2%	44,5%	5,5%

Q4 continued the good beats we experienced in the first part of 2019. 2019 ended up being the best year ever in Symmetry's history. We are glad to have recovered the losses from 2018 plus something more. We are also pleased, that all investors now have a positive return on their investment in Symmetry. However, the investment world is in many ways an "evil industry". There is no time to fall into self-pity, when things go wrong or to rejoice too long, when things are going well. You start every month from 0 again and each year from 0 again. One is only as good as one's long-term performance justifies. Like we have written several times, the most important thing is to love the process and not the benefits. If you take care of the first, the second will probably come. Looking back on 2019, we registered some significant effects, that helped us to our good returns:

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- There was a lot of "mean reversion", understood in the way that many of the shares that received disproportionately heavy beatings at the end of 2018, came back strongly. There is rarely a logical explanation for why good stocks suddenly may fall 15-20% in a short period of time and then, 2-3 months after, recovering it all again.
- We learned from our mistakes in 2018. Both in terms of risk management, optimizing the portfolio and accepting our losses on positions that did not work or where our case did not look right anymore.
- We had approx. 2-3% gain from exchange rates on our return. Primarily carried by the British pound and the US dollar, which was partially equalized by small declines in the Swedish and Norwegian Krone.

Alpha:

What is even more important than the returns are, how they are generated. In the short term, most people can achieve good returns through extreme risk. At Symmetry´s we continuously measure our alpha as the most important CPI. It shows how our portfolio is performing on both sides of the market, which means how skilled we are at beating the market. And thus which percentage of our return comes from following the market (beta) versus choosing the right stocks (alpha). For 2019, there were good news on this front:

%	Jan	Feb	Mar	Apr	Maj	Jun	Jul	Aug	Sep	Okt	Nov	Dec
Long return	7,32	5,76	4,32	5,15	-3,34	5,01	1,30	-7,23	5,43	1,85	9,02	3,54
Short return	-4,53	-0,88	-1,37	-2,84	4,08	0,13	-1,51	5,10	-2,40	-2,88	-1,48	-1,62
L/S Alpha	**2,62**	**4,88**	**2,95**	**2,31**	**0,74**	**5,14**	**-0,21**	**-2,14**	**3,03**	**-1,03**	**7,53**	**1,93**
Long Alpha	0,03	2,85	2,99	1,69	2,76	-0,59	0,49	-5,03	3,38	-0,06	6,32	0,98
Short Alpha	2,59	2,03	-0,04	0,62	-2,02	5,73	-0,70	2,90	-0,35	-0,97	1,22	0,94

As we can see from the table above, we managed to create significant alpha in 2019. For the full year we achieved an alpha of 33.5%. That is quite significant. It also explains how we have been able to beat the market so considerably, despite only having an average market exposure of 73.3% (that is, theoretically we should have been 26.7% inferior to the market). At the same time, our alpha is delivered on both sides of the market. Thus, our long positions rose by an average of 43.7%, which is compared to the general market, which increased by 23.8%, e.g. an alpha of 19.9%. Our short positions rose by 10.2% in 2019, which in turn should be compared with the markets´ 23.8%, and so a pure alpha of 13.6% on the short side.

In 2019, thus, we have really seen the strength of our long / short model. We would like to urge calm here. We have absolutely no expectations of being able to deliver 33.5% alpha per year. If we can deliver around 10 % alpha (about 5% on each side) in the long term, we can achieve our target of a return of 15% annually after fees.

“I strongly believe, for all babies and a significant number of grownups, curiosity is a bigger motivator than money”. (Elwyn Berlekamp)

What is the optimal size?

What is the optimum size for delivering the best return to investors? It is a very relevant question and it depends on several factors. First, what one's strategy is. In Symmetry's case, we are a global long / short fund, focusing on small and midcap stocks. It gives us a clear limit on how much capital, we can ultimately operate with. On the other hand, it is also worth considering the disadvantages of an undersized fund. In Symmetry's case, it was clearly a hindrance to our returns for the first 2-3 years, that we were too small. On the other hand, it is also a matter of how much extra scale you get by further AUM according to still being able to position yourself correctly.

Direct fund costs relate to the auditor, lawyer, holding of general meetings, bank fees, trading software, etc. (salaries, rent, travel expenses etc. are covered by the management company and are not included). If we look at the direct cost percentage, that Symmetry has had, there is no doubt that the increased AUM has been a clear benefit for Symmetry Invest:

Year

Costs

År	2014	2015	2016	2017	2018	2019
Omkostninger	3,6%	1,5%	2,1%	0,5%	0,4%	0,3%

There is also a clear limit of how much extra value can be created here. The percentage of costs may well fall to 0.2% and 0.1% by increased AUM. But it is worth measuring this minimal saving against the disadvantages.

In addition to the direct costs, there is also an expense for management fees. Symmetry's goal is not to make money on management fees. They must cover the management company's fixed costs for salaries, rent, travel, etc. Therefore, there is also a stairway agreement, which regulates these downwards in step with an increased AUM.

AUM mio. DKK	0-120	120-200	200
Management fee %	1,5%	1,2%	1,0%

Therefore, at fixed fees there are still some savings to gain by increasing scale.

There is one significant cost, that has scaled down drastically at Symmetry over time. Namely, the cost of trade. For a long-only fund, that only invests in the Nordic countries, you can set up a Nordnet account and have, more or less, the same costs of 10 million as of 100 million. But at Symmetry, being a global Long / Short fund with usually 150-250% gross investment, there are a lot of different fees:

Comission, Interest, Holdingfees, currencyspreads, CFD-finance, Borrow-fees, currencyrollowers etc.

Without going into depth about the specific expenses here, we can well reveal, that there have been some very big savings over the years. Increasing our AUM, we have been able to negotiate better agreements on an ongoing basis with our brokers, who have saved investors several percentages per year compared to the starting point.

But what about the negative consequences?

The negative consequences of an increased AUM, are primarily the spread you need to pay to get in and out of a position. It is just easier to buy 1,000 shares in a small business than it is to buy 100,000 shares. All else equal, your average buying and selling prices increase, the greater number you must move around. At the same time, the period you need to buy and sell the shares will also be longer, which means, all else equal, that your money is less efficiently invested.

On the *short* side, the challenge is to get enough *borrow*, that is borrow shares to be able to *short*. At the same time, short-selling requires a very strict discipline in terms of how much of the daily volume, we wish to be short, what our "days-to-cover" is etc. Nobody wants to be caught in a short. Therefore, an increased size also has a negative effect on the size you can take in individual short positions.

Overall, there has been no doubt that the increased AUM has benefited all Symmetry investors. Because of our staircase model on the fixed fees, we also expect the increased AUM to continue to be an advantage, at least towards the +200 million in AUM.

But what is the optimal size then?

My best opinion today is $ 300-500 million DKK. This is, if the current setup (where I manage anything investment-related on my own) must continue. Anyway, increased AUM from here will require a slightly different setup.

What you see much too often in the investment world is, that a skilled investor starts a fund, makes some fantastic returns and then raises a lot of capital. He (most often a man) then ends up hiring a lot of people (analysts, IR people, back-office, secretaries, etc.). Most of his time is suddenly spent on being a boss instead of finding good shares. What investors have bought themselves into, suddenly no longer exists and the returns often show that.

I invest in stocks and manage money, because it is my hobby. I don't see it as a job. Therefore, I have no plans to ever be the head of 20-50 employees. I will ALWAYS continue to have a portfolio of 15-20 shares, where I believe that I can beat the market significantly and make good returns for investors. But what if Symmetry exceeds +500 million? Even if we did not raise more capital, one day we would grow further because of our returns. And as I plan to have Symmetry for the next +50 years, over time we will grow significantly. There are two options that Symmetry can consider:

1) We close out new capital and start sending excess capital back to investors to keep our AUM down.

2) I can find 2-3 talented people, who will each be able to find 4-5 good shares and have 100-200 million each.

I very much hope, that situation 2 can be the way forward, as it is the most advantageous way for investors (with me myself among the biggest). If, as an investor, you can invest in a product, that can return itself by +15% per year, you do not wish to get your money back. Instead, you want to put more and more of your money into the product (which I hope each of you consider doing with Symmetry).

Situation 2 will depend on whether, over time, I can find people who I believe can deliver just as good (or better) returns than I can myself through a few shares, and then become complementary to Symmetry. Instead of 15-20 shares, we will then have 25-30 shares. It will provide lower volatility in the reported returns as a bonus.

It took Symmetry approx. 7 years to get from 0 to 100 million in AUM. I hope we do not need 7 more years, until we hit 200 million. Anyway; what happens after +500 million, will become a relevant issue in the future. It is worth already now, however, to start to consider the future setups. What I have asked the Board of Directors, is to make sure that I keep up with my goal of always being able to invest myself and to make good returns for investors. Returns come before size.

How much research is needed? And how is it structured?

An important issue to discuss is, how much research is needed for each idea. When is it better to spend more time on an ongoing idea compared to spending time on extra ideas? I have mentioned several times in these newsletters, that I believe investors generally overestimate the "informational edge" and significantly underestimate the "behavioural edge". My position is not, that you shouldn't do in-depth research of your ideas. As most people know, we at Symmetry do very significant due diligence and research on the shares we own. It's just important to be honest to yourself about, how important the extra data points you get out of it really are. Do you do this to build personal conviction or do you do it to learn more about a company? The big risk of doing too much “primary research” is, that you tend to focus on sunk-cost scenarios. Understood in the way, that you should not continue a research to make the investment seem good. Investors tend (and Symmetry also has suffered losses that way) to do more and more research around bad ideas, until they are convinced that the investment is good. If you read enough about a company and talk enough with a management team, most things can turn positive. You are annoyed about all the time spent on a bad idea and end up convincing yourself, that the idea is good enough just to justify the time spent.

One of the wildest examples is Bill Ackman's research of Herbalife. Ultimately, most investors realized that Herbalife was a bad company living on cheating their customers. But the entire investment case was on whether the FTC would recognize this and shut down Herbalife. Regardless that Bill Ackman spent 100 million $ on research and thousands of hours, he never ended up finding any significant detail in relation to the outcome of the investment. So, research is good, but more research on a bad idea does not produce a better outcome. If you can't see the forest for all the trees, it is sometimes better just to ignore it.

This is also why we believe, that the most important thing about an investment is to evaluate management properly. Bill Ackman studied almost everything about Valeant and knew a lot about the company. But he completely misjudged their CEO Michael Pearson. At the same time, he was hit violently by his conviction bias. He bought Valeant in 180 and saw the stock go to 120. After a lot of extra research, he ended up doubling the investment to see, then, the stock going down to $ 10 per share. The problem, as I see it, is that Bill spent a lot of time researching for facts which could justify, that he was right in his investment instead of trying to investigate, why he could be wrong (even though many other skilled hedge funds were on the other side).

I have a lot of personal respect for Bill Ackman (which I have highlighted several times in my newsletters, so it's probably okay, that I mention his two biggest mistakes here).

One of the things I personally have found being very valuable, is researching companies we currently not consider owning because they are too expensive. It might seem not having any sense spending time researching shares, you don't bother buying. But it has many benefits. If you start by finding a cheap share, which you think might be a good investment, and you start the research, you already have in mind that your research must end up with a purchase of that stock. You structure your research in that direction. One thing I have experienced is, that its better if you start researching more openminded, if you decide from the beginning that the stock is too expensive, but that the company is interesting, and the management is good. You are only then open to the outcome of the research, because you haven't already decided in advance, that the share is cheap. It is easier to reject the hypothesis, that the company would be good or the management good, if you have not previously thought, that you could do a good purchase. That way, you have been investigating the companies based on curiosity and expanding your observation list. And at some point, hopefully the share will become attractive.

Piteco is a great example of this. We followed it for 3 years from their listing in 2015 to the end of 2018 where we could buy a big portion for 4-5 Euro per share. Throughout the period in which we researched the company, we had no idea that the share would ever be owned by Symmetry. That, in my opinion, permitted us to be more openminded. It also allowed us to buy aggressively when the opportunity arose, because we had already done research in advance and had the conviction to buy big.