SYMMETRY INVEST A/S

NEWSLETTER

Q1 2020

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CVR: 35056467

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.

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.

NEWSLETTER

2020 has become the most volatile period so far in our history. Originally, I have planned another topic for this newsletter, but decided the current situation with the Corona-virus demanded some explanations.

Q1 2020:

Tabel: Historical Returns

%	Jan	Feb	Mar	Apr	Maj	Jun	Jul	Aug	Sep	Okt	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
FY20	2,0	-4,1	-37,2	22,6									**-24,7**	72,8

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

Tabel: Performance compared to MSCI ACWI

	2020	Total	IRR
Symmetry	-24,7 %	143,1 %	13,0 %
MSCI ACWI	-12,6 %	47,8 %	5,5 %
Stoxx 600	-18,0 %	18,6 %	2,4 %

Symmetry did quite well throughout January and February but was crushed with big losses in March. We have since earned some of that losses back in April, but still have a long way to go to win it all back. As I mentioned in our monthly performance report for March, I thought it was to early to draw any conclusions. Now a month later it feels fine to walk through what happened and where we see it going from here.

Going into March 2020:

One of the first things to understand is our strategy and our toolset we can use. We are a long/short equity fund with a net exposure normally between 40-80 %. We are not experts in macro like George Soros / Stanley Druckenmiller and we can't make a 10.000 % return in 14 days on Credit Default Swaps like Bill Ackman. What we can to is judge business models, make financial models and evaluate management teams etc. Especially in the small- and midcap space. That is the strategy we are founded on and what we need to stick with in both good and bad times.

As we have written several times in the autumn of 2019 and in the beginning of 2020, we became more defensive on the market. Not just illustrated in our words to investors, but also in the actions we took with the portfolio. We reduced our gross exposure accordingly. As we mentioned we are not experts in macro-trades or options/credit default swaps etc. Our opportunity set when we get worried is to reduce gross and net exposure or buy some insurance instruments we think we understand.

In January and the beginning of February we could see the market melt up while we could see the Covid-19 problems in China. And we still saw the problems the Wework scandal was causing in the IPO market. What did we then do to protect us?

1) We took our gross and net exposure down. We operated with a 50-75 % net exposure from January and until mid-march with an average around 60 %. That's lower than our normal 70-75 %. At the same time, we had a lower gross exposure than normal. Had we not done so our returns would have been really bad (more than they already were).

2) We bought different hedges that should protect us against market declines. Primarily in derivatives on commodities/credits with historical negative correlation to the market.

3) We underwrote all our investments again. We made sure we did not have any airlines, restaurant stocks, hotels etc. in the portfolio. We also made sure we did not have companies with huge debt levels or companies that were in a turn-around process.

Put it all together. We felt prepared for whatever March and Covid-19 would give us.

It seemed to work:

Our strategy seemed to work. We continued in January and February to create alpha on both sides of the market and was greatly prepared for a decline. At the end of February our portfolio was only down 2 % for the year while the market as a whole was down 9-10 %: Our hedges worked and our long portfolio was defensive while our shorts went down.

March 2020:

Then came March 2020 and everything turned the upside down for us.

1) Small-cap bias

One factor that hit us hard was our bias towards small- and midcap stocks. That's not new. Small-caps constantly underperform the market in severe market declines. This was something we had counted on. On some days our stocks didn't move. At some days they were down 10-20 %.

2) Short-term bias

Another part of the market we underestimated was how short-term other market participants would be in times of crisis. As we mentioned before we made sure we didn't own hotels, airlines, restaurants etc. going into March. But what we severely underestimated was how much the market would punish stocks with only really short-term problems.

Kambi is one example. Revenue and earnings of Kambi will be really low in Q2 2020. As there is no sport in the television there is nothing to bet on. But most sport (if not everything) will be back from September (probably without spectators, but that is irrelevant for betting companies). If we remove 6 months of earnings and add 6 months of losses instead in our model it suggests the intrinsic value of Kambi should be lowered by 5-10 % on Covid-19. And here we don't take into account that a lot of the events are not cancelled but just postponed. The stock fell from 160 SEK to 60 SEK or 63 %. With the SEK decline on top it was down around 70 % in a few weeks in DKK. Investors only focused on a bad Q2 report. Not the fact that Kambi have a fortress like balance sheet, is market leader in a fast-growing niche with a bright future etc. And the problems are short term. Its not like a restaurant where it will take several years for them to rebuild the same store sales they had before the crisis. Betting volume will instantly pick up when sport events start again. We ended up being right here. The stock is now back at 130. But if we had foreseen that other investors would simply kill the stock, we could have reduced it and bought it back cheaper.

It's the same with Quartix. Quartix is a subscription business. Yes, the gross adds will be lower and the churn will be higher in 2020. But Quartix will still grow net adds at a nice pace despite Covid-19. The growth rate will maybe be 5 % and not 15 %. The stock fell from 420 to 240 or 43 %. Including the GBP loss, it was down around 50 % in DKK. Quartix have zero debt and a good net cash balance sheet. They have plenty of opportunities to help their customers through this. While several competitors have a harder time. In April Quartix disclosed only a limited Covid-19 impact so far with the stock going back to 300p again.

3) When hedges don't hedge

A bigger problem for us was that our hedges didn't work. Derivatives against commodities/credit that normally is negative correlated with the market ended up declining in March. Those derivatives have worked well for us as hedges in the past. The problem in March was the same as everyone else experienced. No asset class was safe haven despite cash. Everyone wanted cash and sold everything they could. When a hedge contract that was supposed to add 3-4 % in positive return ended up costing us 2-3 % instead, it hit us hard. Those hedges have stabilized again in April and delivered good results. We will take a closer look at that in the future and make sure that all our hedges have negative correlation with the market in all scenarios.

It's important to say when we talk about hedges, we don't refer to our single short names. Our single short names performed well in March. We earned a lot of money here and created Alpha once again. When we talk about hedges, we are referring to derivative contracts we use from time to time to hedge even further.

4) Currency

We have always had the opinion that currency fluctuations even out over time. Therefore, we normally don't hedge currency risk. But I have become more convinced that its proper to hedge at least some currency exposure. We don't talk about USD that is a safe haven in bad times. But currencies as the SEK, NOK, GBP + emerging markets declined substantially in March and ended up costing us an additional 5-6 % in negative returns. The problem is not the loss itself but the opportunity cost. Currencies have so far been a "tail-risk" that punish us at the exact worst time. By eliminating that tail-risk it will give us more flexibility to be aggressive in bad times instead of defensive.

5) Hedge-fund hotels:

Another thing we will keep an additional eye on in the future is to avoid hedge-fund hotels or at least lower our exposure to them. It's a hard task. It requires us to follow the owner list closely and also identify other owners and their financial situation. Some of our "hedge-fund-hotels" declined substantially in March as many of our colleagues had to take down gross and net exposure at the worst time. Some funds probably also got redemptions and margin calls that made them forced sellers. As long as its good companies (which we still believe they are) they will bounce back over time. But in the short term they add additional volatility to Symmetry.

How did we handle the situation?

I am actually quite proud of the way we handled the situation. It was a hard time. Standing in the middle of the fire and watching stocks go down with only bad news around. As we mentioned a few times we chose to take down gross and net exposure before March. That gave us more freedom to act on the opportunities we saw during the month. Being able to be on our offense instead of defense really helped. One of the things we did during march was to acquire more of good stocks that went down too much and close some shorts where our thesis had played out. We then kept our gross exposure while adding to our net as the market went down. That helped us a lot in the subsequent bull market where we could slowly take down our risk again.

Another part was the psychological aspect. I am glad for the outcome here. I didn't have sleep problems, higher stress levels or anything like that. You get a short-term adrenaline boost when you see the portfolio down 10 % in a single day. But is was always short term and I immediately knew what to do and take advantage of the situation. From mid-march our office was closed and I had to work from home with my wife and 3 small children. This also worked really well.

One of our advantages is that we know our stocks really well and have a fantastic feeling towards the people running the companies. This made us confident in the companies we own and we didn't panic when the stocks were down. If you don't know your stocks well you will have a tendency to panic when they go down.

Another thing that helped us was our watchlist. As we have mentioned earlier: we are normally researching a lot of good companies that are to expensive to buy. Because when they get cheap, we have done the research in advance and can be ready to buy. A lot of companies on our watchlist went down to prices where we wanted to buy them. Instead of spending our time on primary research, we had already done the research in advance and could just refresh it. It was also a time where I really tested the work/life balance. There were periods where it made sense to be active in the market, talk with people on the phone, focus on details and update our research. And then there were times when it was better to take fresh air, take a trip with the children to the playground (that is still allowed in Denmark). Constantly being able to swift between a laser-focus on the tasks I need to do and being able to recharge batteries with the family really worked.

Some of you will probably say "Andreas have to say so". But I am 99 % confident that my wife would back me on this. The situation is different from 2018. In 2018 we had a bad run because of mistakes I made. That is not the situation today. I think we have handled this crisis well on most levels and when you do the best you can it's not worth it to be hard on yourself. We would of cause rather have positive returns. But we know it goes up and down in this business.

The last part we think we did well was in our communication with you, our investors. Feel free to correct me if I am wrong here. As we always have said, we can't promise good returns, but we will do our best to deliver them. What we can promise is to be honest and straightforward with you. As I have the vast majority of my money in the fund as well, I am in the same boat. Throughout march we send out 2 extraordinary updates where we described the situation, what our thinking was and what we did with the situation. The support we had from our investors are impressive. Not one of you redeemed money and several of you added more.

Going forward:

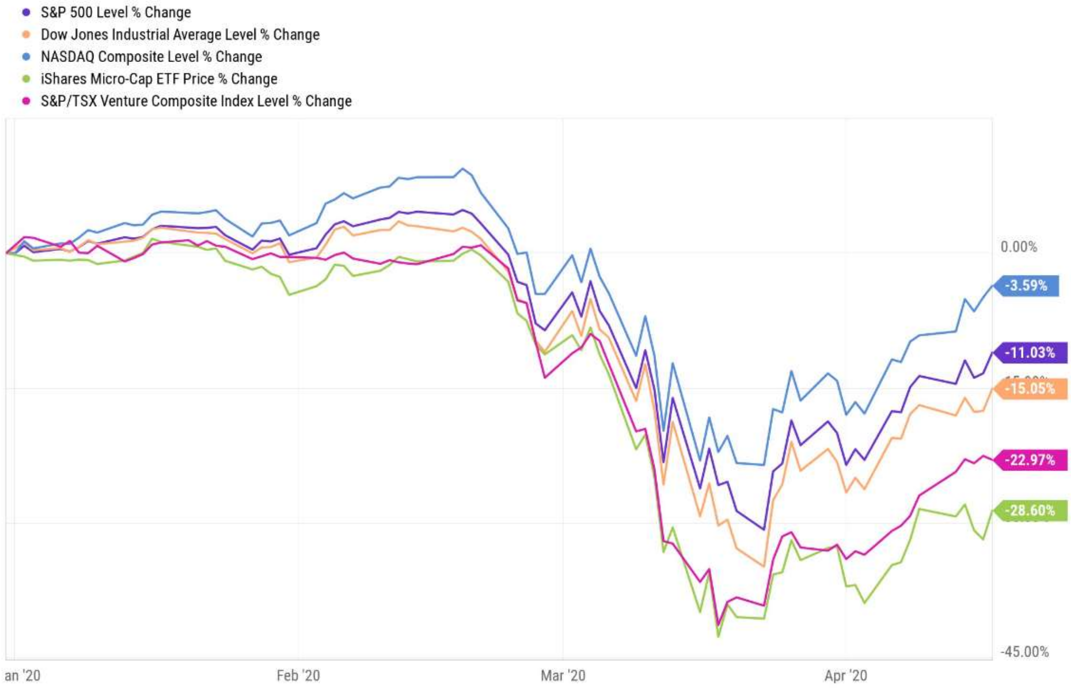
We are in a situation we can work from. Where we can move forward. We are not in a weak position or having permanent losses. We currently have low gross exposure and a lot of free capital to deploy. We have good diversification and we are more liquid and able to adjust quickly. At the same time, we still have great historical returns. Our annualized return since inception is now 13 % over a 7-year period compared to 2,4 % – 5,5 % for our two benchmarks. We know the Danish C20 index (that mainly consists of medical and medtech companies) and Nasdaq (than consists of big tech companies) have done a lot better than us in 2020. But we don't think its worth comparing us to those indices over the short term as we invest globally in small-cap stocks. Over the long term we should be able to outperform both for Symmetry to be relevant.

One shouldn't chance strategy or do something completely different because of short term headwinds. Our strategy has proven itself over time. But as I have always said, one should learn from mistakes and adjust accordingly. Continue what works and remove what don't. As written in this report some stuff didn't work well in March. We are adjusting to improve our future. It is small improvements we can make all the time. Symmetry have existed for 7 years and will exist for the next 50 years. Every little improvement we can make now will compound over time.

We are still really optimistic on the stocks we own. Even through we are more nervous about the general market. Nothing can be hidden. As Warren Buffet have said several times: "its when the tides go out you can see who have been swimming naked". Over the next 6 months or so we will see what companies have been swimming naked.

The best returns in the stock market have always been after big drops.

On the next page we have shown how some different indices have done this year. They show how much Nasdaq and other large-cap indices have outperformed small cap.


S&P 500 Level % Change
Dow Jones Industrial Average Level % Change
NASDAQ Composite Level % Change
iShares Micro-Cap ETF Price % Change
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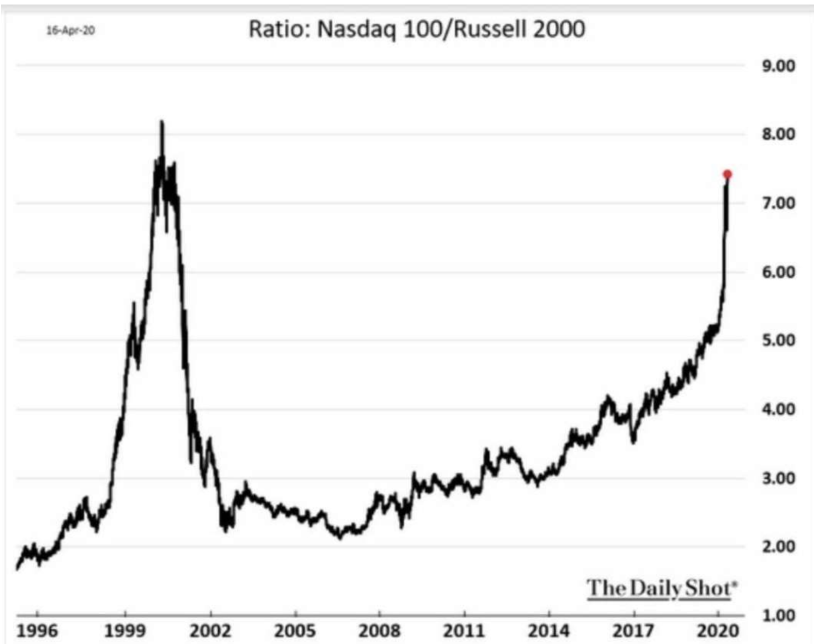

16-Apr-20
Ratio: Nasdaq 100/Russell 2000
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
The Daily Shot
1996
1999
2002
2005
2008
2011
2014
2017
2020

A lot of research indicates the best thing to be invested in after a crisis is value-based small-cap. The exact thing Symmetry does.

Source: Ibbotson Associates

We have attached a write-up on this topic from another manager. There you can see how much this strategy have outperformed over 1, 3, 5 and 10-year periods after every crisis. It's the exact same situation we are in today. We have seen small-caps underperform large-caps by a significant margin. On the chart on the previous page we show the accumulated return for Nasdaq compared to the Russell 2000. It illustrates this quite well.

Volatility:

The last topic we want to address in this newsletter is volatility. It's a topic I have briefly addressed in the past. But in the current situation I think its quite relevant to dig further into it. Its our opinion that volatility has nothing to do with risk. Risk is the chance for permanent capital losses. Stocks have volatility over time. Its does not make them riskier.

At the same time its important to remember that volatility is important for great managers to outperform. If everything went up a little bit every day and stocks returned 6-8 % every year it would be really hard for the good investor to outperform. For us volatility is our chance to constantly take advantage of other people panicking. Also, because we can act long term with our stability in our shareholder base. Because we are worrying about our returns 3 years out, we can advantage of others who worry about their returns for the next month.

At the same time, we think a lot of those "low-volatility" alternatives people buy is a complete illusion. Most of those products work as mark-to-model instead of mark-to-market.

A good example of this is Private Equity (PE) and Venture Capital (VC) funds. Here investors have a long lock-up of their capital. And because the ownership is not traded on an active market its up to the funds to value their own companies using mark-to-model. We therefore often see really smooth returns, and that attracts pension funds, insurance companies etc. that can't get those returns in bonds. But those smooth returns are an illusion. If investors could redeem money with 10 days' notice the PE and VC funds can't realize carrying value. It makes sense. VC funds often invest in high growth money loosing companies. Those companies are normally really volatile. PE funds is often extremely levered. The true volatility for those is more like a levered bet on the S&P index.

I also saw it in a London-based fund I read about (unfortunately I can't remember the name or find it anymore). The fund did unsecured private loans to listed companies. Because there wasn't an active market for those loans, they were accounted for using mark-to-model. But many of the companies did have listed secured bunds and listed equities. To show how it could look like I have created a table below:

Instrument	Return	Risk	Valuation
Equity	-50%	Equity	Mark-to-market
Private loan	-3%	Unsecured	Mark-to-model
Listed bond	-15%	Secued	Mark-to-market

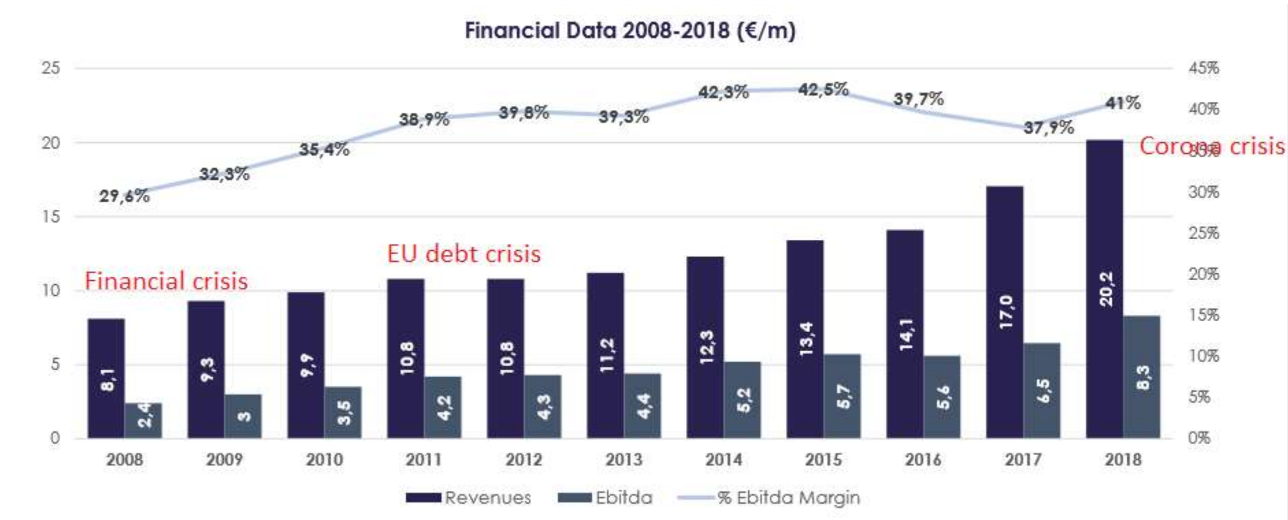
I don't have returns from individual investments etc. The above is more like an illustration on how it probably looked like. The company that have received the loan was down a lot in the market. The secured bonds that came first as a creditor was down 15 %. But the private loan was only written down a few percentage points even though it was riskier than the listed bond. But the private loan only had to be accounted for using a model that predicted the probability of a loss of capital. But if the fund got redemptions there were no way they could call the loans at "model-value". Its important to say the fund didn't do anything illegal (that we know of). They used the current accounting rules. My example is just to illustrate the difference between mark-to-market accounting and mark-to-model accounting.

Another example is real estate. I often hear from investors "I will rather buy real estate; it gives a stable return without volatility". But does it really do so?

A property is normally bought with a 4-5 % lease yield and levered with 80 % debt at 3 % interest. The investor then earns a 5-7 % cash yield. Nice cash flows as long as the property is occupied. But what if you bought the property for 1.000 $ per m2 and the property just besides you come for sale for 900 $ per m2. All else being equal your property has probably declined 100 $. But because you have levered the property with 80 % debt your equity would be down 50 % then. That doesn't matter to you as long as the tenant stays and pay the rent. But what if he leaves and you can't rent it out at the same rate, or you have to sell the property? You have the same volatility in this investment. Every day the value of the property moves and your equity moves x5. Just because you don't get an appraisal every day and can't see the volatility it doesn't mean its not there.

My point is not to say those 3 investments are bad. They could be good investments. I have previously invested in a credit fund. Today I own real estate and I also have a small investment in a venture fund. I am exposed to those investments. But my point is. The nice smooth returns you get here is an illusion. They are not because of the investment; they are because of the way the investment is accounted for.

If we look at one of our biggest investments, Piteco SpA from Italy:



Piteco grew their revenue in 2008/2009 under the financial crisis. They grew it in 2011/2012 under the European debt crisis. The chart stops in 2018, but in 2019 the revenue again grew 20 % YoY. In the last conference call Marco Podini said revenue would also be up in 2020. Think about it. The headquarter of Piteco is in northern Italy, 80 % of the revenue comes from Italy. At the same time Piteco have paid a growing dividend with a 2-4 % yield. They are in the epi-center of the covid-19 crisis. And they still manage to grow through it.

If that’s not stability. What is?

But what about the stock then?

Despite the fact that Piteco grow revenue and earnings year after year and the company have stable dividends it can't be seen from the stock chart. The stock is volatile. Because the free float is low and its Italian. But is that really a sign of risk? Not in our opinion. Symmetry have owned Piteco since 2017. Vi have been adding and reducing our position several times over the last 3 years. This way our compounded return from Piteco are way higher than the stock return over that time period. We have been able to take advantage of a volatile stock in a stable company.

When we report our monthly returns to you the volatility in Piteco and other stocks have a big influence on those returns. Its up to you as investors to judge whether that additional volatility is a sign of additional risk in Symmetry. Or if its an opportunity we have to beat the market over time. As we have done in the past. As you can figure out, my opinion is the last one.

We hope all of you stays safe and take in times like this.

Best regards.

Andreas Aaen