April 18, 2024

Dear unit holders,

Elementa generated a return of 1.30%, after fees and expenses, in the first quarter of 2024. This equates to a return, net to the unit holders, since inception on March 5, 2015, of 80.41% and corresponds to an average annual return of 6.71%. During the first quarter of 2024, the SIX Return Index increased by 7.87% and since the Fund's inception until the end of March 2024, the same index has increased by 138.56%. The Fund has had positive returns in 67% of the months since inception, with a correlation vs. the SIX Return Index of -0.26 since inception.

Over long periods on the Swedish stock market, smaller companies have performed better than medium-sized companies, which have performed better than larger companies. However, looking at the past year specifically, both the performance and the relationship between the small/medium and larger companies have looked very different. Stock indices for smaller companies have significantly underperformed compared to those for larger companies. In some cases, this is a fair development due to some smaller companies being over-leveraged and operationally mismanaged, and certain smaller companies being highly aspirational businesses without direct justification for existence. But in other cases, it's a result of general fund flows and short-term investor behaviours that has disadvantaged many of the smaller listed companies in the past year. As mentioned, looking at a longer time horizon of +10 years, smaller and medium-sized companies have delivered significantly better returns compared to larger companies, and it's not unlikely that this trend will return in the future.

Thanks to the price adjustments that took place within Nordic small and medium-sized companies, it is now much easier for us to find interesting long-term investment opportunities than it has been for a long time. When the market has calibrated correctly in terms of interest rates and inflation, and when Swedish GDP recovers and accelerates its growth, it´s likely that smaller companies should regain strong momentum more broadly again.

During the quarter, the long side contributed approximately 3 percentage points, with positions in **Raysearch (SE)**, **Ambea (SE)**, and **Autoliv (SE/US)** making the most positive contributions. The short side had a negative contribution of about 1.5 percentage points. **Nobia (SE)** and **MIPS (SE)** made a positive contribution. However, the other eight short positions had negative contributions, which is not surprising given the significant rise in stock indices.

In the latest quarterly letter, we discussed the overall investment case for **Ambea (SE)** (see the Q4-2023 quarterly letter), one of the fund's main holdings. As of the writing of this letter, Ambea has delivered approximately 23% return year-to-date and approximately 75% over the past 12 months. In the fourth quarter of 2023, Ambea delivered its best quarter in history in terms of EBITA and reported a 68% growth in reported EBITA compared to the same period in 2022. The

EBITA growth was mainly driven by strengthened margins in Stendi (NO) and Vardaga (SE). Free cash flow to shareholders (excluding acquisitions, dividends/repurchase, change in bank debt) for the full year 2023 amounted to SEK 0.61 billion, compared to a market cap of SEK 5.8 billion, corresponding to a cash yield of 10.4% to shareholders. We see a continued very attractive risk/reward profile in Ambea driven by strong cash flows/cash yield, organic and M&A-driven profit growth/margin expansion, multiple expansion, and transformative structural deals in the Nordic care provider industry. Ambea's board has authorized a share buyback program of 3.0 million shares (3.3% of the total), and there have been several major share purchases, among others by Bolero Holding Sarl, which has flagged up ownership exceeding 10% in connection with Triton reducing its stake. Our target price for the company over a 3-year horizon remains at SEK 100, i.e., +50% compared to today's price of SEK 65. Since the last quarterly letter, the stock price has increased by +30%.

Following the same theme as Ambea, we have also invested in **Humana (SE)**, which we believe is an incorrectly unpopular stock due to its current valuation being weighed down by Personal Assistance/Elderly Care in Sweden, high indebtedness, and weaker cash flow generation over the past 24 months. Excluding Personal Assistance in Sweden, Humana as a group grew revenue by approximately 13% and adjusted EBIT by approximately 63% for the full year 2023, which is significantly better than Ambea's performance in equivalent segments. Today (excluding the acquisition of Team Olivia Norway), Humana is valued at approximately 7.5x 2023A adjusted EBIT, compared to a historical valuation of over +10x. We see significant value potential for Humana in the future through continued strong organic and acquisition-driven growth in a structurally growing Nordic market, margin improvements in NO/FI/Individual & Family segments, and from a potential divestment of Personal Assistance and Elderly Care in Sweden (the two business areas generated only 12% of 2023A adjusted EBIT and weigh on both the organization's resources and the group's valuation), multiple expansion in line with historical valuation levels of +10x EBIT, improved cash flows (cash yield to shareholders was approximately 11% in 2023A, driven by a depressed stock price and not due to strong cash flows relative to history). Additionally, we see upside potential in the form of structural deals in the sector where, for example, Ambea could be a suitable buyer of Humana (excluding Personal Assistance in Sweden), as Ambea lacks presence in, for example, Finland and would strengthen its market position in Norway and within Individual and Family in Sweden and could also streamline a significant portion of Humana's overhead and overlapping functions. Our entry price in Humana is SEK 25, and we see significant potential to achieve 2-3x return on our position in Humana in the coming years.

Nobia (SE), which announced a rights issue at the end of the quarter, was the fund's best short position during Q1-2024. The company is a classic Elementa short case with a combination of cyclical sales and margin, resulting in losses and negative cash flows, combined with excessively high leverage. At the same time the company has accelerated investments in a new factory, making a rights issue almost inevitable. We took a short position in Nobia at SEK 10.81 relatively late, in January, before the rights issue was announced, and then closed the short position in March at around SEK 8, generating a return of approximately 35% in less than two months. Since we closed our position, Nobia's share price has recovered significantly from the bottom, and the market cap pro forma for the rights issue has increased from approximately SEK 2.5 billion to SEK 3.4 billion (approximately +40%) in less than a month. We will evaluate whether a new short position is warranted when the company releases its quarterly report on May 14.

Awardit (SE), a market leader in loyalty programs and gift cards in the Nordic and DACH regions and one of the fund's smaller holdings that we started building a position in during December 2023, at an average entry price of SEK 92.54, received a bid at the end of March 2024 from a consortium led by the main owner Polaris (private equity) at SEK 132 (+43% against our entry price and +46% based on the current price of SEK 135). The consortium currently owns approximately 50% of the company. The bid is at approximately 7x 2024E EBITA, which we consider to be very low. Awardit's results were depressed in 2023 due to short-term challenges/one-offs in the Danish subsidiary MPXP, negative organic growth in DACH, and incomplete consolidation of acquisitions/synergies. In 2024 and beyond, we expect the company to deliver significantly stronger results driven by market growth, increased market share and new customer acquisitions, margin improvement, and a return to historical margin levels, cost efficiency and synergies in acquired and existing companies, strong cash flows with negative working capital and limited capex, and continued M&A and multiple expansion and a possible strategic sale of the entire company. The bid is considered to be very low, and we expect the consortium to review the bid level as we do not consider it sufficient for a delisting. It is worth noting that since the bid was announced, the stock has traded above the bid level of SEK 132 per share.

At **Nepa (SE)**, an extraordinary general meeting was held, and the new main owners, Hanover Investors (UK private equity firm specialized in investing in and delisting public companies), announced their increasing role in Nepa via three board seats. We view it positively that Nepa is getting an active and well-capitalized owner with resources, and we share the same view as Hanover Investors on Nepa as an investment. We believe that there is logic for an player like Hanover Investors to consolidate ownership and take the company private in order to execute and finance acquisitions in a private environment and drive an accelerated strategic agenda that is not suitable in a public environment. However, a possible sale of our ownership in Nepa would require a substantial premium compared to the current price of approximately SEK 30. The alternative is not wrong either and perhaps even preferred, i.e., to continue the journey with Nepa over the coming years together with Hanover Investors and benefit from their work as a strong and active owner.

A new investment during the quarter is **Mandatum (FI)**, which was spun off from Sampo in October 2023, and where Altor (private equity) has invested approximately EUR 300 million in a short time and now owns approximately 15% of the company. Mandatum is Finland's leading pension, life insurance, and wealth management company with significant potential for growth and strengthened market share, margin improvement, and strategic acquisitions in, for example, Sweden and Denmark and divestments (e.g., ownership in Saxo Bank) to grow cash flows and reduce the capital tied up in the company. Over the next three years, the company has communicated plans to distribute approximately 25% of the current market cap in dividends. We view Altor as a very strong and active owner with significant experience in capital and asset management and the pension and life insurance industry and see Mandatum as an investment with low risk (a high degree of recurring profits in the "capital-light segment" and a run-off profit in the "with profit segment" in the coming years) with very significant upside potential over the next 4–5 years.

We locked in the profit and exited the long position in **Elmera Group (NO)**, which previously was a short position that became a long position. It is not often, but sometimes, we switch from short too long or vice versa. In this case, it was not particularly difficult to see that the company, which was previously disadvantaged by high electricity prices, would benefit from low electricity prices in the same way. As stocks often lag other movements, we were able to "get ahead" of the company's financial performance. During the quarter, our target price was reached, and the holding is now divested.

The Fund's gross exposure was 118,1% and the net exposure 86,1 % at the beginning of the second quarter.

Kind regards,

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