NORRON

STOCKHOLM | OSLO

MONTHLY REPORT – TARGET

Oct 2018

Historical return (%)

	jan	feb	mar	apr	maj	jun	jul	aug	sep	okt	nov	dec	year
2018	0,7	-0,2	-1,2	2,2	0,9	-0,1	0,0	-0,0	1,2	-3,4			**0,0**
2017	0,2	0,4	-0,2	1,2	-0,2	-0,9	0,6	-1,3	2,5	1,1	-1,7	1,1	**2,8**
2016	-3,2	0,2	0,4	1,3	1,1	-1,1	2,3	0,5	2,6	0,3	0,4	0,6	5,5
2015	1,2	0,9	0,4	1,1	-0,2	-1,3	0,5	-1,7	-1,8	1,2	2,3	-0,7	1,8
2014	0,5	2,2	0,3	0,7	1,6	0,9	-0,4	-0,5	-1,4	-0,9	0,5	-0,2	3,2
2013	1,3	0,6	-0,3	0,9	1,7	-0,8	2,2	0,3	1,1	2,4	1,2	1,2	12,5
2012	1,5	1,5	-0,1	0,2	-1,4	-0,8	1,0	1,0	0,9	0,2	0,7	0,7	5,5

Key Figures Oct

	Oct	YTD	Inception
Total Return (%)	-3,4%	0,04%	34,65%
5YR CAGR (compounded annual growth rate)	N/A	N/A	3,22%
3YR CAGR (compounded annual growth rate)			3,12%
Correlation vs MSCI Nordic	0,4	0,4	0,6
Avg. 90D Volatility	3,6%	3,8%	3,3%
Avg. Fixed Income Cash Yield (by NAV)*	2,0%	2,0%	3,0%
Avg. Credit Rating Fixed Income Portfolio*	BBB+	BBB	BBB
Sharpe Ratio	N/A	N/A	1,0

Theoretical Sensitivity

Equities +10%	3%
Equities -10%	-2%
Volatility +50%	1%
Volatility -50%	-2%
Credits -150bps	1%
Credits +150bps	-1%

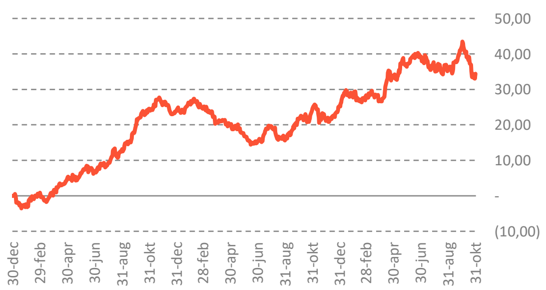
Positive Contributions

1	Kambi	0,3
2	Mycronic	0,3
3	Atlantic Sapphire	0,2
4	Gentian Dia	0,1
5	Leroy Seafood	0,1

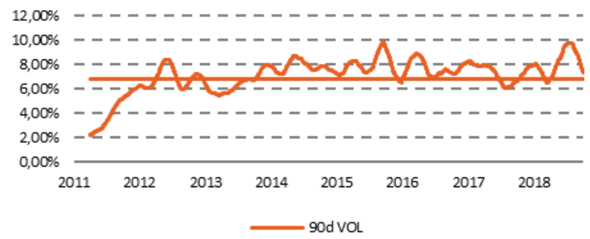
Negative Contributions

1	BioArctic	-0,5
2	Nordic Semic	-0,5
3	Aker ASA	-0,4
4	Danske Bank	-0,4
5	Veoneer	-0,4

Equity Alpha since 2016 (%)



Volatility (90 day)



If you have any queries or require additional information, please contact ir@norron.com

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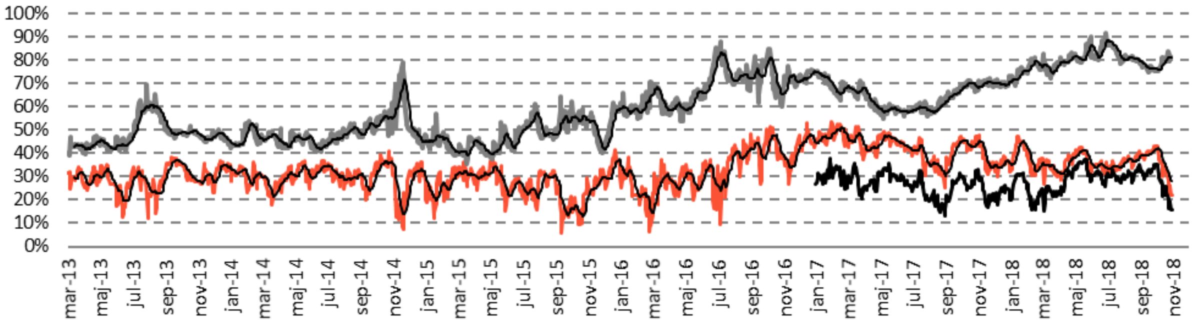
Equity Net & Gross Exposure (non-beta adj & beta adj.)



Fund Manager's comment:

October was in many respects a record month, largest retracement in decades, highest single name volatility since the financial crisis 10 years ago. The stock market sell-off coincided with the Q3 reporting season, which created extreme intraday volatility. When the dust, at least temporarily, settled, we can also conclude that (in many companies) we now have the largest decoupling between earnings estimates and share price performance. In those names, the market is already pricing in a recession in 2019, and we have therefore increased our positions. This has however not led to a higher net exposure, because we have trimmed and exited other positions. General flow of funds has been negative during the month. This coupled with margin calls created extreme share price reactions in some of our case holdings. Nordic Semiconductor and Bioarctic are example of holdings in our case portfolio, which were badly affected by this. Oil prices have also been very weak lately. Unwinding of speculative financial positions and confusing policies relating to waivers of the sanctions against the Iranian oil ban created uncertainty about the future market balance. A willingness from Saudi Arabia to comply with US policy has led them to maximize their production. Longer term we do think that oil markets will continue to tighten, and that prices will remain within the 70-80 USD/barrel interval, which will be enough to stimulate both future investments and attractive free cash flow yields.

It is becoming increasingly important that some kind of trade agreement is reached between the US and China. The market will probably speculate that the upcoming G20 summit, by the end of November, would be a trigger for that. The Chinese economy is also in need of further stimuli to be able to turn around stagnating domestic demand. Policymakers are hesitant to cut interest rates, due to fears that a high/-er interest rate differential to the US might lead to capital outflows and a weak and volatile Yuan. We find this dilemma hard to judge, and will probably keep overall risks down, until real actions are taken to resolve the US/China bilateral disagreement.

The negative outcome of the fund was larger than what we had anticipated due to a negative equity alpha outcome. If alpha would have been neutral, our performance would have been in line with what our risk models were indicating, but naturally we are not pleased with the relatively large negative outcome. During the month we have been very active within our short book (general hedges). We have extended the average duration of our derivative positions and have adjusted strike prices accordingly. Relevant and current likely outcome of our stress tests can be viewed in the chart attached.