

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

October 2024

CEO Comments

Our equities portfolio delivered a return of 0,5% in October, outperforming the benchmark index OMXGI, which declined by 4%. The largest contributors of the month were Paxman, Take-Two Interactive & Electrolux Professional, whilst the negative contributions came from The worst performers were Coor, Autostore and Smart Eye. During the month of October HCM also made the decision to divest its ownership in C-Rad as our team deemed the risk/reward less favorable than previously. The divestment was done well timing wise, seeing as the earnings report was weaker than anticipated shortly after. During the month HCM also made the decision to take a position in Securitas.

October started with a modest correction following the resilient performance in September. The month was marked by cautious trading, as investors shifted their focus to third-quarter earnings reports and ongoing macroeconomic uncertainties. Toward the end of the month, markets experienced a more pronounced selloff, largely driven by rising bond yields and global geopolitical concerns. Additionally, softer-than-expected earnings from key sectors weighed on sentiment.

Global equity markets declined during the month. Major indices like the S&P 500 and Euro STOXX 50 registered losses, while Japan's Nikkei 225 stood out with gains driven by a weaker yen and strong corporate results. Fixed income markets also struggled as rising long-term interest rates continued to pressure valuations. Commodities offered mixed performance, with precious metals and energy gaining while industrial metals and agricultural commodities retreated.

Swedish equities, as reflected in OMX Stockholm, saw a challenging month with indices falling by 3.5%. Small- and mid-cap stocks were particularly weak, with the CSRX Small Cap Index declining by 5.4%. Rising Swedish government bond yields mirrored global trends, with the 10-year yield increasing by 15 basis points to 2.14%. These developments came amid mixed macroeconomic signals. Inflation in Sweden remained below the Riksbank's target, providing some relief, while fiscal stimulus measures, including proposed tax cuts and infrastructure investments, offered support to domestically exposed sectors.

Several large Swedish companies reported Q3 earnings, reflecting a soft demand environment but some resilience in operational adjustments. Notable performers included Ericsson, which showed improved profitability driven by recovery in the North American market, and Swedbank, which maintained strong returns on equity. In contrast, sectors such as forestry and industrials continued to face challenges, with rising input costs and subdued demand weighing on performance.

Economic data in October reflected ongoing challenges across major regions. In the U.S., GDP growth for Q3 came in at 2.8% annualized, slightly lower than Q2, while inflation indicators showed signs of easing but remained above targets. The Federal Reserve signaled caution but refrained from further immediate rate cuts. In Europe, the ECB cut rates again, while economic growth improved modestly to 0.4% quarter-on-quarter. However, inflation rose to 2.0%, rekindling concerns about the pace of monetary easing. In Japan, political uncertainties initially pressured markets but were overshadowed by expectations of expansionary policies following the snap elections.

The Swedish market continues to navigate through a challenging macroeconomic backdrop, with domestic fiscal measures providing a supportive environment for select sectors. As we move into November, our focus remains on navigating the interplay of global monetary policies, geopolitical developments, and corporate earnings revisions. We maintain a cautiously optimistic stance, emphasizing diversification and high-quality investments that can withstand potential market volatility.

Bianca Andersson

Asset Manager's Comments

October began with a minor correction following the strong close of September. The month was characterized by sluggish trading, as market participants shifted their attention to quarterly earnings reports. Toward the end of the month, we experienced a more pronounced selloff, largely driven by weakness in Big Tech. Microsoft issued a disappointing outlook, Meta's quarterly results fell short of expectations and Apple reported lower-than-anticipated iPhone sales growth. During October our benchmark index OMXGI declined by 4%. In contrast, our portfolio delivered a positive return of 0,50%, achieving an outperformance of 3,5 percentage points.

The best performers were Paxman, Take-Two Interactive & Electrolux Professional. The worst performers were Coor, Autostore and SmartEye. During the month we sold C-Rad and bought Securitas.

At the beginning of the month, we identified a less favourable risk/reward situation in C-Rad and took the decision to exit our position ahead of the company's earnings report. Our primary concerns related to their adjusted Book/Bill ratio, which includes only NTM service revenues and the full product order backlog. This ratio revealed a significant decline from the third quarter of 2023 to the second quarter of 2024. Historical data indicates that this metric is a reliable predictor of future sales. Our estimates suggested that the 2024 adjusted backlog would result in sales below market consensus. Additional concerns included the absence of large tenders, the normalisation of demand post-Covid, weaker contributions from key partnerships like Elekta, and operational expenses exceeding expectations, raising issues around cost control. This timely exit proved prudent, as the earnings report turned out even weaker than anticipated.

We have decided to initiate a position in Securitas, a company operating in the security solutions market, which is characterised by un-cyclical demand and trends such as increasing global uncertainty. Securitas offers a stable business model with an attractive valuation, and we believe there are several catalysts that create a compelling opportunity for the future. A significant growth driver is the ongoing transition from traditional guard services to digital solutions, which we anticipate will improve both margins and growth. The acquisition of Stanley has been pivotal in facilitating this transformation, with a successful integration in the highly profitable North American market. Furthermore, there is considerable scope for additional synergies in Europe and Ibero-America. In the near term, we anticipate that declining interest rates, coupled with Securitas' robust cash flow, will assuage concerns regarding the balance sheet. This should shift the focus of investors towards the company's valuation, which is currently at an EV/EBIT multiple of 10,5x for 2025 estimates – significantly below the historical average of 14-15x. Therefore, we see potential for multiple expansion in addition to the growth and margin potential.

The most significant detractor this month was Coor, which released its Q3 report during the period. While the reported figures fell slightly below both our and consensus expectations, we do not attribute this minor deviation to a weak performance of the stock. We believe that the delay in achieving full cost savings, coupled with a less optimistic outlook for variable volumes in Sweden, were the main factors. This is a cause for concern, as it could offset the benefits of easier comparables that we had anticipated, particularly with Ericsson no longer included in the base. Furthermore, Denmark is experiencing low variable volumes, which has significantly impacted the segment and serves as a cautionary tale for Sweden. However, despite these concerns, the sharp decline in the stock price has offset the estimate cuts, with Coor trading on an EV/EBITA ratio of 9 on our 2025 estimates. We think that is to low given Coor's defensive attributes and potential for further margin improvements during 2026.

The whole portfolio returned -0,11% in October; this is above our benchmark index which decreased by 1,02% during the month. Global Bonds returned 1,46% compared to our benchmark was up with 3,27%. Corporate Bonds returned 0,27%, while the benchmark index returned 2,45%. Alternative Investments returned -1,05% compared to Barclays Hedge Fund Index which preliminary was up by -0,66%. However, it is important to note that our reported return in Alternative Investments is lagging with one month. This is due to the funds' NAV's updating after the last day of the month.

Sincerely, William Wällstedt

Top Ten Equity Holdings

Company Name	% Portfolio	Value
Top ten holdings	66,1%	4 421 898
Investor AB A	13,1%	873 602
Microsoft	7,8%	523 731
MedCap	7,0%	469 695
Ambea	6,7%	446 817
Paxman	6,2%	417 280
Bredband2	5,6%	376 173
Loomis	5,1%	343 608
Essity	5,0%	333 888
Electrolux Professional	4,8%	323 544
Evolution	4,7%	313 560

Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	7,8%	2227,2%
MedCap	7,0%	518,1%
Ambea	6,7%	81,1%
Electrolux Professional	4,8%	73,5%
Paxman	6,2%	65,4%
Five Largest Portfolio % Losers	% Portfolio	% Loss
Autostore	3,0%	-58,1%
Evolution	4,7%	-26,8%
Fenix Outdoor	3,6%	-22,1%
Coor	4,1%	-11,9%
SmartEye	2,7%	-4,3%

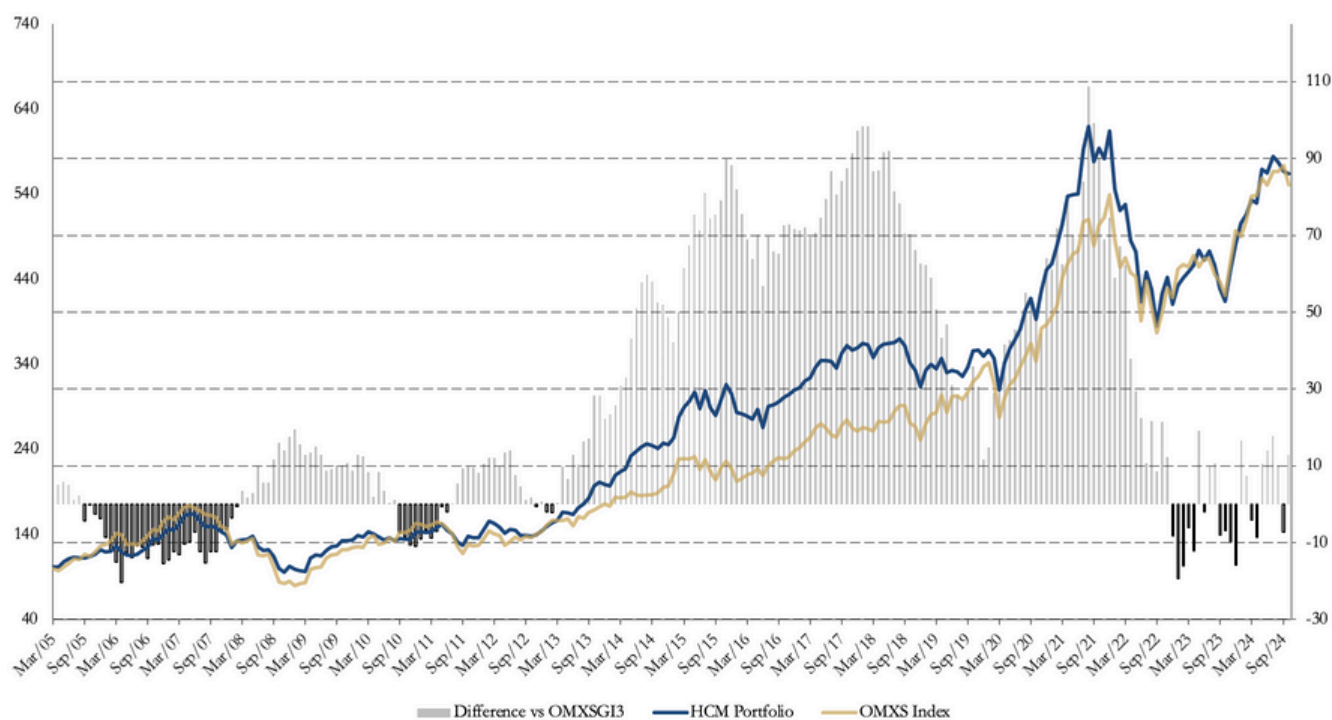
Total Portfolio Statistics

Return & Risk	Portfolio	Benchmark	Allocation	Weight
Last Month	-0,11%	-2,50%	Alternative Investments	13,5%
Year To Date	23,86%	21,00%	Corporate Bonds	18,1%
Last Twelve Months	22,05%	18,15%	Global Bonds	13,4%
Since Start (Nov 11)	102,44%	132,61%	Money Market	9,1%
Average Yearly Return	5,61%	6,75%	Equities	45,9%
Months Active	155	155	Currency Exposure	1 Month
Number of Positive Months	104	108	SEK	87,8%
Number of Negative Months	51	47	USD	5,0%
			EUR	4,4%
Annualized Std. Dev. Last 12m	6,79%	8,10%	NOK	1,3%
Sharpe Ratio Last 12m	2,98	2,02	DKK	1,6%
Benchmark Correlation Last 12m	0,00	0,00		

Equity Portfolio Statistics

Return & Risk	Portfolio	Benchmark	Best Performers	1 Month
Last Month	-0,50%	-4,00%	Paxman	11%
Year To Date	37,44%	31,66%	Take-Two Interactive	10%
Last Twelve Months	36,07%	30,82%	Electrolux Professional	9%
Since Start (March 2005)	463,93%	451,06%	Worst Performers	1 Month
Average Yearly Return	9,19%	9,07%	Coor	-17%
Months Active	236	236	Autostore	-7%
Number of Positive Months	139	148	SmartEye	-6%
Number of Negative Months	97	88	Currency Exposure	1 Month
Annualized Std. Dev. Last 12m	13,66%	14,48%	SEK	82,9%
Sharpe Ratio Last 12m	2,51	2,00	USD	11,0%
Benchmark Correlation Last 12m	0,77	0,00	EUR	0,0%
			NOK	2,7%
			DKK	3,4%

Equity Performance



Portfolio Performance

