

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM

HANDELS CAPITAL MANAGEMENT

October 2019

CEO Comments

Financial markets welcomed signs of an easing in geopolitical tensions in October, with risk assets generally outperforming traditional safe havens. The US and Chinese authorities moved closer to agreeing a partial deal on trade, while the UK once again stepped back from a no-deal Brexit. Central banks reiterated their dovish stances and the US Federal Reserve cut interest rates for the third time this year.

October was a good month for equity markets, with emerging markets returning 4.2% compared to 2.6% from developed markets. The S&P 500 and OMXSPI made new all-time highs at the end of the month, gaining 2.2% and 3.7% respectively. In fixed income, credit markets outperformed government bonds, with global investment grade returning 1.2%, while global government bonds gained 0.5%.

The trade war continues to weigh most heavily in the Europe, particularly in Germany, due to the region's large dependence on international trade compared to its international counterparts. PMIs for October remained at 45.7 in manufacturing and rose slightly for services to 51.2, to a slightly expansionary reading of 50.2. The employment component of the PMI now shows that employment is increasing at the slowest pace since December 2014. Consumer confidence fell to -7.6 in October, the lowest reading since December last year. Lagarde inherits an ECB tool kit from Draghi that is nearing its limits, with interest rates at -0.5% and quantitative easing of EUR 20 billion per month in place.

While financial markets welcomed the announcement of a potential trade agreement, data out of the US continued to show that the US economy is losing momentum. The weakness remains most apparent in the trade-dependent manufacturing sector, with PMI's indicating that the manufacturing side of the economy is contracting. Consumer confidence fell 0.4 points to 125.9 in October, while the pace of job growth has also been slowing—on average, 160k jobs have been added each month this year, compared to 220k per month in 2018.

The equity and fixed income markets were mainly carried by the promises of economic stimulus and positive outcomes of geopolitical issues. In fact, earnings for the S&P 500 companies reporting its third quarter during October was down 4% y-o-y. Additionally, twice as many companies issued negative profit revisions compared to positive for Q4 2019. So far, the portfolio companies of HCM has performed well during the third quarter and we're eager to read more quarterly reports during November.

We have not recruited any additional analysts during October. However, we've had two long-time analysts return to Gothenburg. We're all very happy to have Rasmus Persson and Simon Larsson as active members once again. Simon Larsson acted as interim CEO for HCM during the summer and will now take the position of Head of Equity Research.

Erik Cassel

Chief Executive Officer – 2019-11-12

Asset Manager's Comments

October was another month of strong development in the equity markets all over the world. The Swedish index OMXSGI appreciated 3,98% and HCM equities returned 5,73% after our portfolio companies showed strong figures for the third quarter. Kindred returned almost 22% during the month after their trading update for October in their Q3 report. Attendo was another holding which performed in October after a report which was a bit better than expected, which led to a little relief rally. Our only holding with a negative performance during October was MedCap. The company delivered a report which was affected by some production disturbances and the stock fell 5% during October. All in all, a solid report adjusting for this and since the share is up some 75% this year we believe this reaction to be fair.

The changes made in the equity portfolio was done since equities represented a too large portion of our portfolio after the latest month's strong development. We have sold off all our shares in Actic before the report as we believed the financial risk was too high in relation to the reward. A new holding in the portfolio is Sportamore. The company is an e-commerce player within sporting goods and holds a strong market position in Sweden and is also present in other Nordic countries. We believe their big investments in automated fulfillment center will pay off in coming years. Another positive is the limitation on free shipping which will continue to improve "unit economics" in the e-commerce field which will improve margins. The share trades at 0,65x EV/Sales 2019E which we believe is attractive given the growth prospects and given the room for margin improvement.

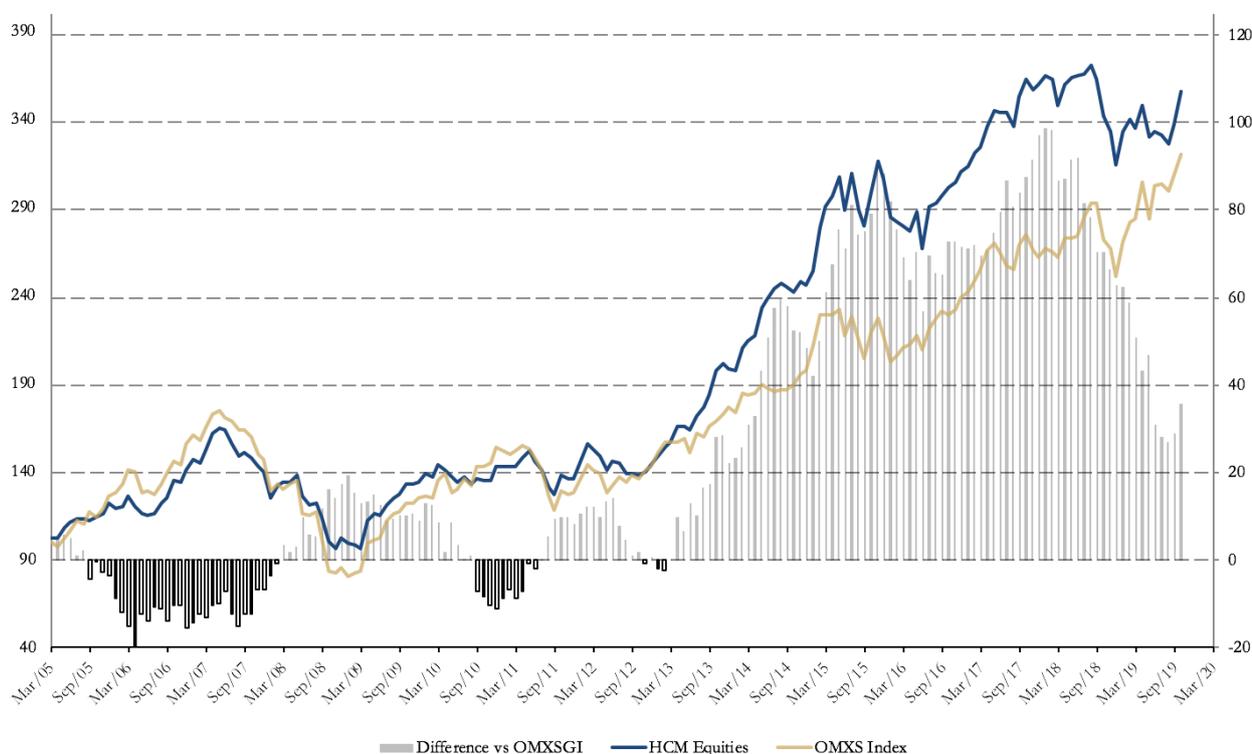
Our portfolio returned 0,41% and our benchmark appreciated 1,25%. This is attributable to the weak performance of our alternative investments with both Gladiator and Multi-Strategy having bad months. Also, our global bonds underperformed during the month.

Karl Norén

Asset Manager

2019-11-12

HCM Equities Performance



EQUITIES OVER TIME

Return & Risk	HCM Equities	Benchmark
Last Month	5,73%	3,98%
Year To Date	13,41%	27,43%
Last Twelve Months	4,20%	17,98%
Since Start (March 2005)	255,64%	219,75%
Average Yearly Return	9,04%	8,25%
Months Active	176	176
Number of Positive Months	102	110
Number of Negative Months	74	66
Annualized Std. Dev. Last 12m	14,28%	18,00%
Sharpe Ratio Last 12m	0,12	0,86
Benchmark Correlation Last 12m	0,92	

SUMMARY

Best Performers	1 Month
Kindred	21,7%
Attendo	14,6%
Trelleborg	12,9%
Worst Performers	1 Month
MedCap	-5,2%
Sportamore	0,0%
Danske Bank	0,5%
Currency Exposure	Weight
SEK	89,8%
USD	5,5%
NOK	0,0%
DKK	4,7%

HCM Portfolio Performance

