

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

September 2021

CEO Comments

After a ten months streak of positive returns, the market turned down during September. Over the month the OMXGI index returned -6,17%. When the market is shaking, our mixed strategy really shows its strength with a less negative monthly return of -3,16%.

During the month we were finally back in business after the summer. We started off the new semester by making a couple of transactions in our equities portfolio. As I mentioned last month, our general view on the Swedish investment companies was that the valuations at the moment were quite stretched. The most extreme example of this was in our view Latour, that at a point was trading at a value of more than double its net asset value. We found it very difficult to motivate such a valuation, and therefore decided to sell our position in Latour. We also sold our position in Balco and bought Evolution.

Although the sentiment on the market has changed to negative, the IPO market still seems to be hot. A new wave of IPOs seems to have started in September, with several introductions meeting a high interest from investors, leading to very successful first days of trading. I find it interesting that even during times of quite negative sentiment, professional investors and institutions are still very interested in any kind of IPO as it seems. For example, at the end of September the compounder Storskogen announced their intention to list their shares on Nasdaq Stockholm. On the market it seemed to be a "risk-off" sentiment at the time. However, when the subscription books opened, they were filled in no time. It is difficult to make any interpretations out of this, yet it seems like there is still good liquidity as well as risk willingness out there. As it looks now, this new wave of IPOs is set to continue during the autumn. If the interest from investors remains is yet to find out.

Looking at HCM, we finished a record-breaking recruitment period in September. We received over 60 applications, which is by far beating previous records. I would like to thank everyone for their interest in us, and also the time they put down to write their applications. I am very happy to welcome Nicklas Bergström, Olivia Karlsson, Viktor Stenlöf, Jakob Häger, Jakob Olsson and Ossian Malmberg to the group. Together they bring a great mix of competence and they have already started to contribute in a very good way.

Looking forward, it is once again time for earnings season. Since the companies in their Q3 reports won't face as easy comps as they did in their earnings reports for the second quarter, the uncertainty will be higher this time. With higher uncertainty comes even higher excitement, and we look very much forward to the upcoming earnings reports.

Ludwig Germunder

12/10/2021

Asset Manager's Comments

After some strong months leading up to August, we saw a heavy pull-back in the market in September. During September, OMXSGI fell -6,2% and the index closed at +23,8% YTD. Compared to OMXSGI, our equities traded -6,6% for the month and HCM is hence up +28,2% YTD.

The best performers during the month were Fortnox, Pexip and Catella. The worst performers were Kindred, MedCap and Billerud Korsnäs.

During the month, we made three transactions in the portfolio. We sold Balco, we sold Latour and we initiated a position in Evolution.

Balco was sold since our thesis played out faster than we initially thought. We bought the stock at 10x forward EBIT and we thought Mr. Market was way too conservative on Balco's prospects. In summary, our case was 1) the patented balcony design offered a generous amortization rule of 70 years to apartment owners would support strong continued growth, 2) Balco's glassed balconies have a clear ESG stamp and reduce energy consumption by 20% and 3) the balance sheet is strong and supports further M&A. Almost one and a half year later, Mr. Market now values Balco at 18x forward EBIT and we feel that our initial case has been priced in by the market.

Ludwig explained our divestment of Latour in his letter.

We also initiated a position in Evolution during the month. We assess that the market underestimates the long-term growth prospects as well as the margin potential for the group. We view Evolution as an innovation powerhouse, which is why we see the acquisitions of NetEnt and BTG as highly synergistic. With the support of Evolutions creativity and ingenuity, we believe that the company can become the leading one-stop shop for operators, offering all the necessary types of games (except a sportsbook, for now).

We also assess that the market underestimates the moat. At the first look, one can find the business easy to replicate. But this is misleading according to us. Since the players of the operator always choose which live casino to play, the player will always play on the best supplier. Who is the best supplier today? Evolution. Who will be the best supplier in the future? The one that can make the best games. And the supplier that will make the best games will be a combination of creativity and R&D budget. No one will have a bigger budget than Evolution. Hence, we believe that Evolution will be able to continue to protect its high market share.

Another mechanism in their moat that comes to play now is their scale and wide product offering. Operators will not be able to exclude some of Evolutions games (e.g. Blackjack) on the platform in favor of competitors with lower take-rate. Why? Since Evolution can threaten by withdrawing all their other games from BTG, NetEnt and other industry-first innovations such as Game Shows. The excluded operators will neither be able to provide new product launches that attract new player cohorts. The players of the operator will then leave to a competitor to be able to play the "best" games. To conclude, operators need to offer Evolutions games on the platform. And the best games will attract most players. This is why innovation is key in this space.

Evolution trades at 24x EBIT 2023E. We believe that this is an extremely attractive price given their moats, scalability, organic growth opportunities, cash conversion and management.

A short note on Pexip. During the month, Google Meet announced an interoperability partnership with Cisco Webex. Pexip's interoperability solution stands for a major chunk of their revenue and helps enterprises to let e.g. Cisco hardware talk to Microsoft Teams seamlessly. An industry trend where different video protocols "opens up" (as seen with Cisco and Google) would pose a real threat to Pexip. This will be an important factor to follow in the coming years. We look forward to the Q3-report in November.

The whole portfolio returned -3,2% in September, trading in line with our benchmark which also fell -3,2% during the month. Global Bonds returned a negative -1,3% compared to our benchmark which was down -0,7%. Corporate Bonds returned a negative -0,5% compared to our benchmark at +0,5%. Alternative Investments returned a positive +1,2% compared to Barclays Hedge Fund Index which preliminary was down -1,2%. 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,
Filip Helmroth

Top Ten Equity Holdings

Company Name	% Portfolio	Value
Top ten holdings	72,3%	6 122 993
SBB	15,6%	1 325 928
Kindred	11,7%	993 375
Investor AB A	9,0%	760 960
BillerudKorsnäs	6,6%	560 790
ChemoMetec	5,9%	501 782
Microsoft	5,8%	493 966
Catella	5,0%	427 500
Evolution	4,5%	380 361
BICO Group	4,0%	339 300
Pexip	4,0%	339 031

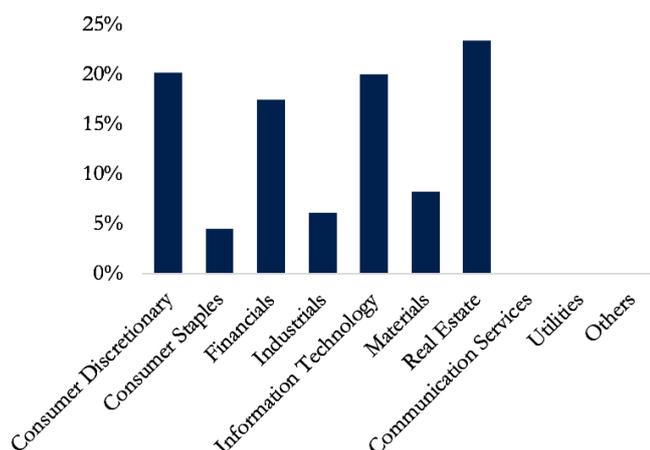
Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	5,8%	1228,0%
ChemoMetec	5,9%	282,8%
SBB	15,6%	247,4%
MedCap	3,2%	117,9%
Investor AB A	9,0%	69,5%

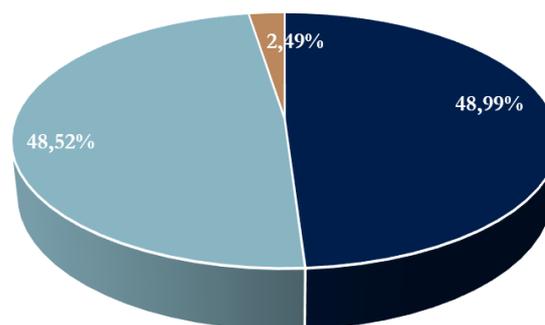
Five Largest Portfolio % Losers	% Portfolio	% Loss
Pexip	4,0%	-13,8%
Evolution	4,5%	-11,2%
Loomis	2,4%	-8,4%
Admicom	2,6%	-4,5%
Nekkar	2,5%	-3,2%

Market Cap Analysis

Market Sector



Market Cap Breakdown



■ Large cap ■ Mid Cap ■ Small Cap

Equity Portfolio Statistics

Valuation

	Portfolio	Benchmark
P/E - Current Fiscal Year	21,8	21,7
P/E - Next Fiscal Year	20,3	18,8
Price/Book	2,48	5,25
Price/Sales	3,37	3,59
Enterprise Value/EBITDA	26,9	17,6
ROE	29,6%	24,3%
Dividend Yield	2,3%	2,1%

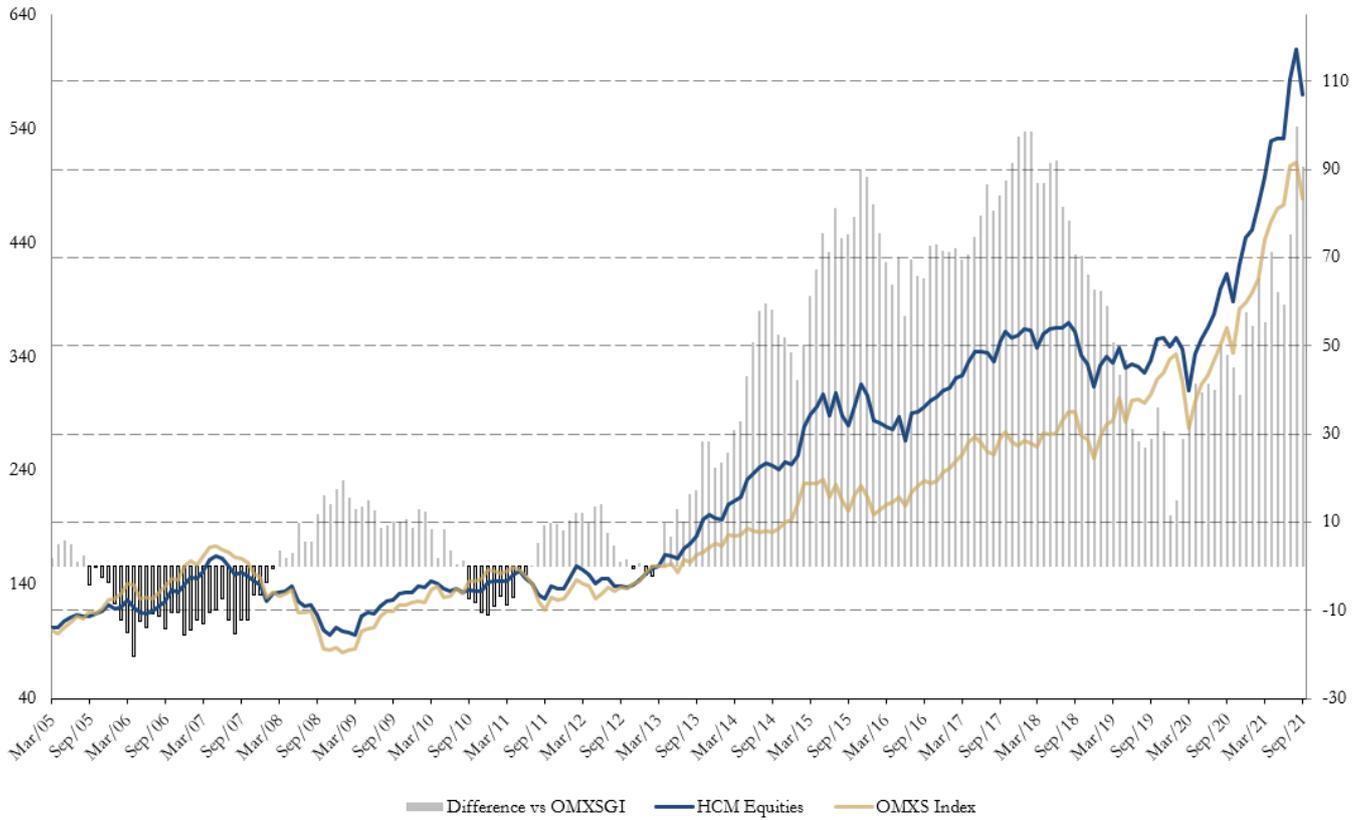
Risk

	Portfolio	Benchmark
5 Year Beta	0,87	0,51
2 Year Beta	0,96	0,60
1 Year Beta	0,84	0,60
5 Year Price Volatility	25,9	26,5
2 Year Price Volatility	43,6	29,3
1 Year Price Volatility	34,5	22,9

Growth

	Portfolio	Benchmark
% EPS Growth - 5 Yr CAGR	12,9%	8,7%
% Rev Growth - 5 Yr CAGR	17,1%	5,1%

Equity Performance



Portfolio Performance

