

# PORTFOLIO REPORT

EQUITY PERFORMANCE

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**HCM**  
HANDELS CAPITAL MANAGEMENT

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April 2020

## CEO Comments

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The market rebounded strongly in April. While COVID-19 continued to spread globally, we saw infection rates slowing, leading to governments announcing a gradual reopening of their societies and economies. Furthermore, governments and central banks introduced significant stimulus to reduce the damages of the shutdown.

Despite the strong rebound, uncertainty remains over global growth over the coming quarters. For now, it seems like the market has its sights on successful reopening which will lead to a V-shaped recovery. For this positive scenario to materialize, infection rates will have to continue its declining trajectory.

The reported economic data during the month has been grim, as expected. The eurozone's real GDP contracted 3.8 percent in the first quarter, and the second quarter is likely to show a larger decline. The composite April PMI indicator for the eurozone fell to an all-time low of 13.5, confirming the significant impact this epidemic has on business. The IMF estimates a drop of over 7 percent in GDP for 2020, with a significant increase of debt and deficits. While this might sound bad for markets, the MSCI Europe index returned 6.3 percent over April.

In the US, the economy contracted by a pace of 4.8 percent in the first quarter. The fiscal response to battle the contraction has been enormous. The jobless claims have increased by over 30 million in the last six weeks, leading to an unemployment rate of about 15 percent. The federal reserve will do whatever it takes. It has committed to unlimited government bond purchases. Also, it will buy investment grade corporate credit and corporate bond ETF's, including high yield. This action has caused a sharp decline in high yield spreads, and kept the treasury yield low, despite the large amount of debt issuing that will have to happen.

On aggregate, analyst have revised down 2020 earnings, now estimating a decline of 15 percent. Dividends are also expected to suffer, as companies protect their balance sheets.

For the history books, oil futures traded negative for the first time. You could get paid 37 dollars per barrel, if you took physical delivery. This was due to an oversupply of oil, with nowhere to store the excess.

While the recovery of markets might seem to contradict the reported economic data, remember that markets are looking ahead and that the monetary and fiscal stimulus has shifted the balance of risks.

Erik Cassel  
 Chief Executive Officer – 2020-05-13

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## Asset Manager's Comments

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Hello,

April showed a strong bounce from the rather weak and depressed march. OMXSGI generated a strong return of +8% in April and is down -11% YTD. The change in sentiment was probably driven by the massive global financial stimulus, regained hope for vaccine and positive data from Gileads Remdesivir. QE in various interest-bearing assets from central banks has contributed to reducing borrowing costs. This has had positive spread effects on the stock market.

Compared to OMXSGI, our equities again outperformed the market. HCM's equities returned +10% during April and are now -2% YTD. The best performers during the month were MedCap, Kindred, and ChemoMetec. The worst performers were GHP, SBB, and Eastnine.

Our only relevant transaction during April was a minor reduction in our ChemoMetec holding. We still have a strong belief in the long-term case. To give a short recap: ChemoMetec is a Danish medtech company producing instruments and consumables for cell analysis and cell counting. A classic razor blade model with recurring consumables sales. The company is market-leading within its' niche and is one of few pure-plays on the exploding immunotherapy trend. They have sold instruments to both Novartis and Gilead and their future blockbusters (?) in Kymriah and Yescarta. It is very rare to get this concentrated exposure in the stock market. During the last month, even the American investors (Invesco) seem to at last have found the company.

Even though the price is high, quality companies with a great business model and a long tail growth do deserve a premium. Time arbitrage is what we play with. The reason for our minor reduction was to balance the portfolio since our size had become too big.

MedCap showed a strong bounce during the month. The stock went from 138 SEK to as high as 200 SEK in 3 weeks. Again, we think this is driven by the institutional inflows the relatively low (but acceptable) liquidity. Together with ABG, they did a directed issue of 229 SEKm to reload their M&A-gun for future acquisitions. Net debt to EBITDA is now down to 1.2x. We have good faith in Karl's ability to allocate Madcap's capital. As an example, Somna (delivers weight quilts) was acquired in January 2020 for 6x EBITDA. There will be significant synergies following the integration with Abilia. Only during the first 2 months consolidated in MedCap, they were able to raise their margin by 2-3 ppt. These types of acquisitions are key for MedCap. Buy a strong product portfolio, integrate with existing commercial infrastructure, and realize value. The company is now trading at forward multiple of 24x EBITA. When HCM initiated our holding, the company was trading at 11x forward EBITA. Ceteris paribus, MedCap can create more multiple arbitrages now within M&A.

In our take, Mr. Market offers a good R/R bet in our holding GHP. The stock underperformed the market by 12% during April and was HCM's worst-performing stock during the month. They reported, in our case, a solid Q1 report with a record in sales & EBIT and an organic growth of 12%. The political decisions in the Nordic region have led to a temporary pause in elective surgery, as the healthcare systems focus their resources on COVID-19. If we look at 2020 as a "lost year" and instead look towards 2021, the share trades at 13x EBIT. Last year's buyouts of companies within specialty care (e.g. Legevisitten, Pihljalinna, etc) have priced the companies around 21x EBIT. Compared to those acquisitions, GHP stands out as a better company with both higher margins and greater organic growth. Three board members in GHP have also been purchasing shares for 1-2 SEKm during early May, we view this as a positive sign.

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We cannot continue without mentioning the spectacle around Ilja and SBB. Although I do not have a take regarding his personal situation, SBB's property holdings remain intact. SBB's dependence on Ilja is still big, but not as big as it was one year ago. They have now built a company with great people and reputable stakeholders. This is a solid foundation for future value creation. A risk that although is relevant is their credit rating. S&P Global announced in that they are placing SBB on "Credit Watch Negative" due to uncertainties about how the charges against Ilja will affect the company. In the long-term, this can lead to higher funding costs and therefore lower relative earnings.

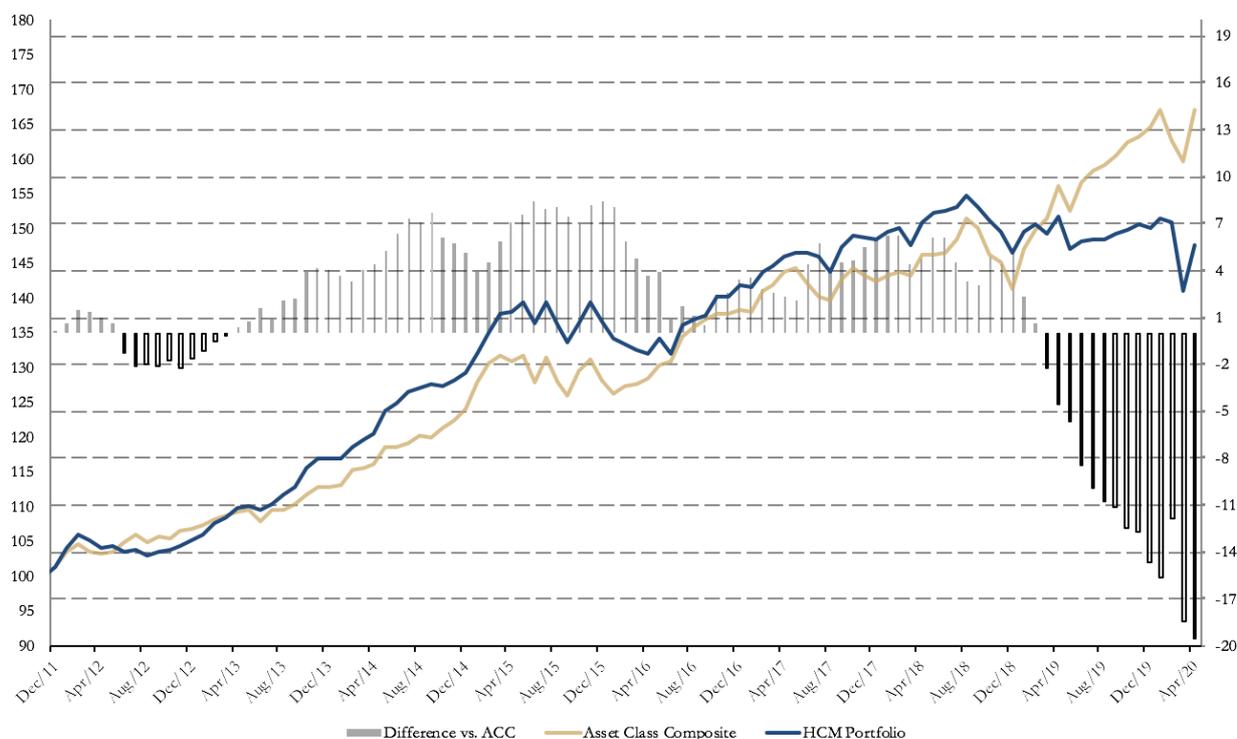
The whole portfolio returned +4,50% in April, underperforming our benchmark by 0,14 percent points, which was up +4,64% during the month. Global Bonds returned a positive +1,1% compared to our benchmark which was down -0,4%. Alternative Investments had a weak month in relative terms, returning a positive 1,0% compared to Barclays Hedge Fund Index which preliminary was up 5,5%. It is important to note that our reported return in Alternative Investments is lagging with 1 month. This is due to the funds' NAV's updating after the last day of the month.

Thank you for reading and I hope you will have a great May.

Sincerely,

Filip Helmroth  
Head of Asset Management - 2020-05-13

### HCM Portfolio Performance

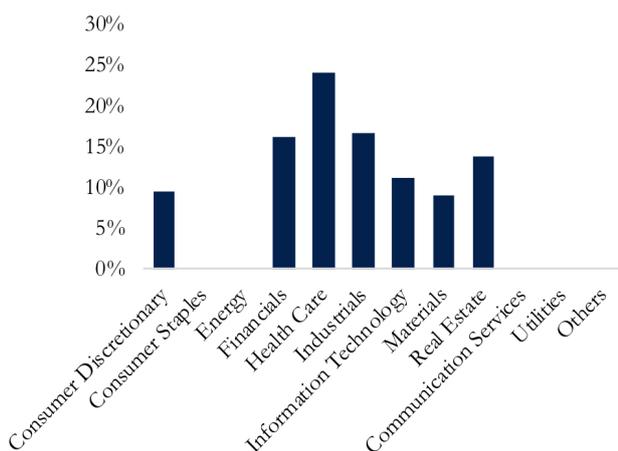


**APRIL**

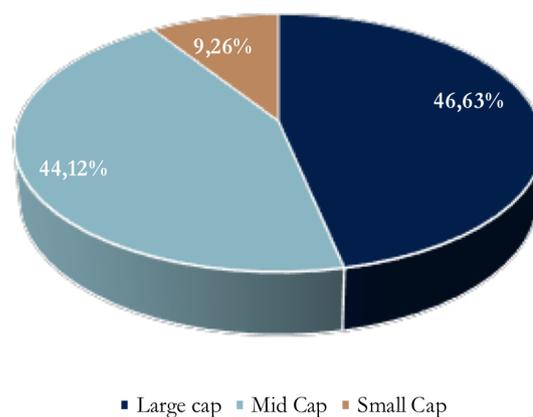
Top Ten Equity Holdings			Gainers and Losers		
<b>Company Name</b>	<b>% Portfolio</b>	<b>Value</b>	<b>Five Largest Portfolio % Gainers</b>	<b>% Portfolio</b>	<b>% Gain</b>
Top ten holdings	73,5%	3 344 068	Microsoft	7,8%	839,3%
Investor AB A	11,2%	511 500	MedCap	5,3%	102,6%
SBB	9,2%	419 823	SBB	9,2%	35,8%
BillerudKorsnäs	9,0%	408 030	ChemoMetec	7,9%	26,3%
ChemoMetec	7,9%	358 846	Balco	5,3%	25,4%
Microsoft	7,8%	352 589			
Latour	6,8%	308 637	<b>Five Largest Portfolio % Losers</b>	<b>% Portfolio</b>	<b>% Loss</b>
Kindred	6,0%	272 627	Kindred	6,0%	-47,1%
Balco	5,3%	243 375	C-RAD	2,4%	-35,5%
MedCap	5,3%	240 825	GHP Speciality Care	3,5%	-32,2%
Medistim	5,0%	227 817	Catella	4,9%	-16,4%
			Firefly	3,4%	-9,5%

**Market Cap Analysis**

**Market Sector**



**Market Cap Breakdown**



**Equity Portfolio Statistics**

Valuation	Portfolio	Benchmark
P/E - Current Fiscal Year	27,4	26,2
P/E - Next Fiscal Year	21,5	17,5
Price/Book	1,91	4,28
Price/Sales	1,94	3,18
Enterprise Value/EBITDA	21,6	18,6
ROE	16,1%	13,6%
Dividend Yield	2,9%	2,3%

Risk	Portfolio	Benchmark
5 Year Beta	0,80	0,57
2 Year Beta	0,92	0,60
1 Year Beta	0,89	0,59
5 Year Price Volatility	27,4	26,1
2 Year Price Volatility	39,7	30,5
1 Year Price Volatility	45,2	34,5

Growth	Portfolio	Benchmark
% EPS Growth - 5 Yr CAGR	7,3%	1,6%
% Rev Growth - 5 Yr CAGR	10,3%	-0,1%

## HCM Equities Performance

