PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

July 2022

CEO Comments

In line with previous months, July came to be driven by uncertainty and guesstimates around future macroeconomic decisions. In between all the economic and geopolitical worries, the markets found time for a little relief rally. After a sour first half of the year, our equities started the second half by bouncing 8,6%. If this bounce was a bear trap or the start of a more optimistic market remains unknown for now. What we do know however, is that further macroeconomic and geopolitical uncertainty is to expect.

As mentioned in the June report, the beloved earnings season kicked off during July. Since our portfolio is quite tilted towards small caps, our holdings tend to report in the end of the earnings season. I will write a summary of our earnings season in the August report, when all of our holdings have reported. However, there are some interesting take aways that can be made from the first half of the earnings season. I see two major data points that are trending among several companies that has reported so far. These two are, strong demand and an uncertain outlook.

First out, the lagging picture. Many companies reported strong demand in Q2, both in terms of sales and in terms of order intake. The overall numbers were strong both in absolute terms and relative to the estimates. What does this tell us? Regarding sales, we can draw the conclusion that the underlying economy was strong during Q2. Orders were produced and delivered. Looking at the strong order intake, it is another sign that the economy is still doing well and that the industry is yet to see a slow down. However, we do know from history that this can turn around very fast. It will therefore continue to be an important data point to follow, and it will for sure be a key focus for the market going forward.

Then turning over to the preview of the future, the outlook. Comments about the outlook varied between the reporting companies. However, the changes in net working capital told us everything we need to know about the outlook. The, to me, clearest trend among the reports was a working capital build up, mainly driven by increased inventory levels. The signs sent by this behavior is clear, but at the same time not very telling. What it tells us is that the management groups are still uncertain about the future, and trying to play the safe card by building up inventory. What is still unclear is the reason for uncertainty. It could be due to further supply chain issues, it could be due to expected increases in raw material prices, it could be due to expected further inflation, or it could be due to a completely different reason.

The fact that overall uncertainty is still high makes these inventory bets as uncertain, and just because the safe card is being played, I don’t think that it necessarily will turn out to be the best card to play. For some, it will play out just perfectly but for others, it will be backlashes. If the bet taken, whatever it might be, does not turn out as the case management is trying to hedge against, the high inventory levels could be really expensive. Since the trend has been very broad, I suspect the estimated scenarios to hedge against are various, and that makes me think that the palette is broad enough for some of the scenarios to turn out perfectly wrong. In such case, both the company and its stock could be in for some serious challenges. It has been said before but I am going to say it again, stock picking will be more important than ever, and the same goes for proper fundamental analysis.

With the end of July, we have now entered the final month of summer before studies and HCM is back in business for real. Start of a new semester means that we will be looking to recruit new analysts to the group. This will be the last report to be released before we open our recruitment. I am personally very much looking forward to hopefully receive a lot of great applications, as has been the case previous years. In august we will also be present at the welcoming of new students at Handels Nollning. I hope to meet a lot of new students, and on behalf of my entire team I do look forward to that as well. Now it is time to put down the pen and enjoy a couple of more weeks off before HCM is fully back in business again.

Ludwig Germunder

Asset Manager's Comments

Following the majorly bearish sentiment of June, markets saw a sharp rebound in July. During the month, OMXSGI returned 10,85% and the index closed at -19,65% YTD. Compared to OMXSGI, our equities underperformed -6,95% for the month and HCM is hence down -30,05% YTD.

The best performers during the month were Autostore, Admicom and Chemometec. The worst performers were C-Rad, Essity and SBB.

The whole portfolio returned 4,14% in July, underperforming our benchmark index which gained 5,71%. Global Bonds returned a negative -1,02% compared to our benchmark which was up 1,86%. Corporate Bonds returned a positive 2,03%, while the benchmark gained 2,89%. Alternative Investments returned a positive 2,37% compared to Barclays Hedge Fund Index which preliminary was up by 2,89%. 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, Leonard Lenhoff

Top Ten Equity Holdings

Company Name	% Portfolio	Value
Top ten holdings	72,3%	4 840 259
Investor AB A	12,0%	802 400
Evolution	10,0%	671 182
Kindred	10,0%	669 000
Microsoft	8,5%	570 395
ChemoMetec	6,8%	453 210
Catella	5,7%	384 188
SBB	5,2%	349 498
Nekkar	4,7%	315 148
Ratos	4,7%	314 588
MedCap	4,6%	310 650

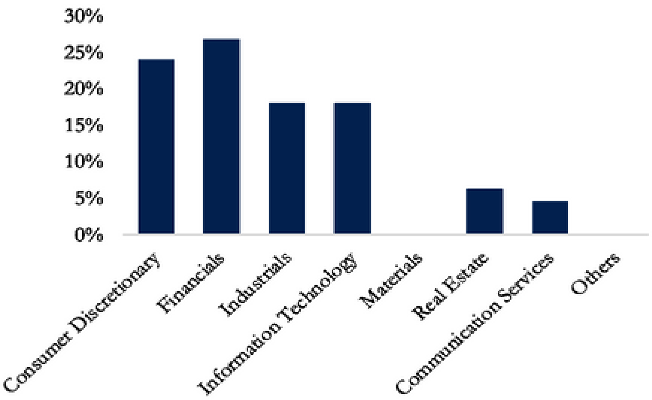
Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	8,5%	1433,4%
ChemoMetec	6,8%	245,7%
MedCap	4,6%	148,2%
Catella	5,7%	38,6%
SBB	5,2%	34,5%

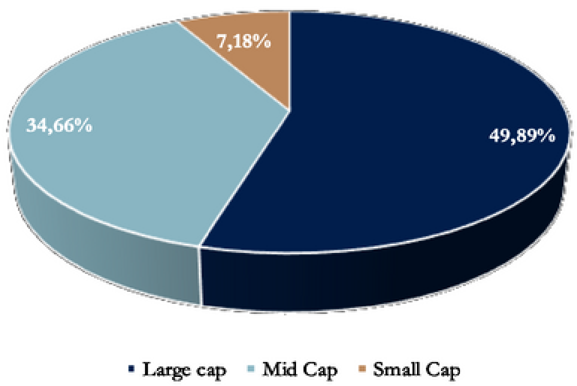
Five Largest Portfolio % Losers	% Portfolio	% Loss
Vestum	2,3%	-55,9%
Admicom	2,9%	-29,6%
Evolution	10,0%	-28,8%
SmartEye	3,8%	-25,7%
Autostore	4,5%	-19,0%

Market Cap Analysis

Market Sector



Market Cap Breakdown



Equity Portfolio Statistics

Valuation

	Portfolio	Benchmark
P/E - Current Fiscal Year	29,8	17,9
P/E - Next Fiscal Year	21,6	16,0
Price/Book	1,94	4,07
Price/Sales	2,74	3,47
Enterprise Value/EBITDA	20,9	18,8
ROE	19,0%	0,7%
Dividend Yield	#REFERENS!	2,3%

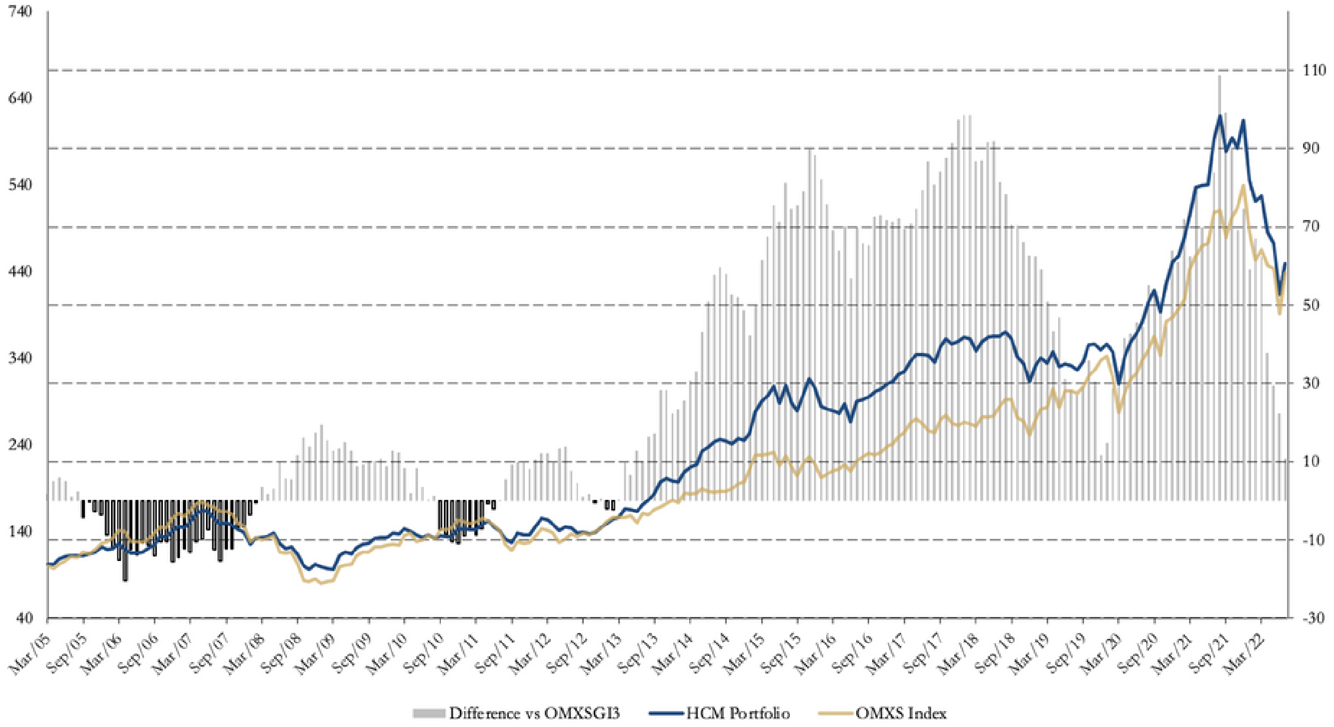
Risk

	Portfolio	Benchmark
5 Year Beta	1,04	0,33
2 Year Beta	0,98	0,47
1 Year Beta	1,07	0,43
5 Year Price Volatility	39,5	25,7
2 Year Price Volatility	38,7	23,5
1 Year Price Volatility	38,3	25,2

Growth

	Portfolio	Benchmark
% EPS Growth - 5 Yr CAGR	16,7%	2,1%
% Rev Growth - 5 Yr CAGR	14,9%	11,2%

Equity Performance



Portfolio Performance