

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

August 2021

CEO Comments

The streak of positive returns continued through August, which was a really good month for our equities portfolio. Over the month our equities returned +4,6%, a really strong performance compared to OMXSGI that returned +0,5%. Looking at the performance YTD our equities is up +37,3%, ahead of our comparison index OMXSGI that has returned +32% YTD.

One main event in the markets during the month is about the Swedish investment companies. There has been a discussion for some time about the high, and rising, valuations of the investment companies. During the summer their stock prices, as well as their valuations, kept increasing. In some cases the stocks were trading at a NAV premium of over 100%, despite consisting of mostly publicly traded assets. After the historically high valuations of these companies were highlighted in several papers in the beginning of August, we saw the stock prices decline significantly for the first time in almost a year. This trend then remained throughout the rest of the month.

In some cases, there might be a reason to pay some NAV premium for an investment company, depending on its track record, the people running it and the assets in the company. However, when the stock price is trading at more than double the NAV, some extraordinary future performance is required from the company to get a decent return for its shareholders. The trend for valuations of the investment companies has been going up for quite some time now, and it is impossible to call whether it will continue or not. The only thing we can do, as investors, is to be rational. How likely is it that our investments in these companies will create future alpha from today? Is it likely to get a good future return when paying a premium of 100%? I believe that it is not, in most cases. When something is priced for perfection, more than perfection is required to get a decent return on the investment. How likely is it to get more than perfection? You might get it in a handful of events when trying a couple of hundred times. That means that the investment in this case is more of a bet on further extraordinary events, than an actual investment. The outcome is of course not guaranteed to turn out bad this time, however, our goal and mission is to get a good outcome in as many events as possible. To get that, I believe we need to be rational, and paying a 100% premium is most likely not the most rational thing we can do at the moment.

In August, we opened our recruitment, looking for new analysts to our team. The interest in us is once again very high, and we are currently meeting a lot of interesting candidates. I am hopeful that we will find a couple of perfect fits for our team, and my ambition is to be able to present some new names in our next monthly report.

Ludwig Germunder
09/12/21

Report August 2021

Asset Manager's Comments

Hello,

A great month for our equities. During August, OMXSGI rose +0,5% and the index closed at +32,0% YTD. Compared to OMXSGI, our equities traded +4,6% for the month and HCM is hence up +37,3% YTD.

After an extremely strong market during 2021, it's interesting to look at the expectations by Mr. Market. The Swedish market is currently trading at a trailing ~22x P/E, with earnings estimates at a 10,5% CAGR between 2019 and 2023. This compares to a historical average of ~17x P/E. The increased multiples are driven by low interest rates, availability of capital and lack of investment options. Will this continue? I don't know. But I know that our focus always should be on good stock picking.

The IPO-market is also roaring. During the first six months of 2021, 112 companies were listed. This compares to 22 last year. There's a strong correlation between the overall stock market performance and how many companies that wants to get listed. In other words, the market is hot, and FOMO is probably a more driving force today than before. But as always, it's possible to find data points validating a never-ending range of market views. Again, we try to focus on our stock picking.

The best performers during the month were Catella, Nekkar and Balco. The worst performers were Latour, Loomis and Pexip.

Finally, the market is starting to appreciate Catellas underlying profitability. The company reported a strong Q2 report showing an EBIT growth of 55% (adjusted for operations under liquidation and divestment). The real estate funds (PIM) continue to show strong growth in AUM and hence revenue, but the joker in this quarter EBIT beat was the high activity within Corporate Finance.

Although we don't apply a high multiple to this type of earnings since it's rather volatile, we do appreciate the high activity and view it as a receipt for Catellas strong position within properties. This strong position supports the higher value segments within the group, namely PIM and their own assets (Principal Investments). The business is a fully closed ecosystem where it can capture value throughout the entire property life cycle.

As of the recent quarters the company has started to report on their own assets in Principal Investments. The management targets an IRR of a minimum of 20% on these investments, a threshold that they've beaten historically. We view this increased transparency as positive. Together with the divestment of the old bank and Catella Funds (sold to Athanase), we think Mr. Market will get a better view of the value in Catella. Our estimates indicate a valuation of ~7x EBIT on 2022E. Great R/R still.

We made no transactions in the portfolio during the month.

The whole portfolio returned +1,1% in August, outperforming our benchmark which gained +0,5% during the month. Global Bonds returned a neutral 0,0% compared to our benchmark which was down -0,3%. Corporate Bonds returned a positive +0,1% compared to our benchmark at 0,0%. Alternative Investments returned a negative -5,0% compared to Barclays Hedge Fund Index which preliminary was up +1,3%. 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
 09/12/21

Top Ten Equity Holdings

Company Name	% Portfolio	Value
Top ten holdings	70,6%	6 760 008
SBB	14,3%	1 370 782
Kindred	12,7%	1 218 750
Investor AB A	8,6%	825 600
BillerudKorsnäs	6,6%	635 160
ChemoMetec	5,4%	517 953
Microsoft	5,4%	515 017
Latour	5,4%	514 250
Catella	4,5%	427 500
BICO Group	4,1%	388 700
Pexip	3,6%	346 296

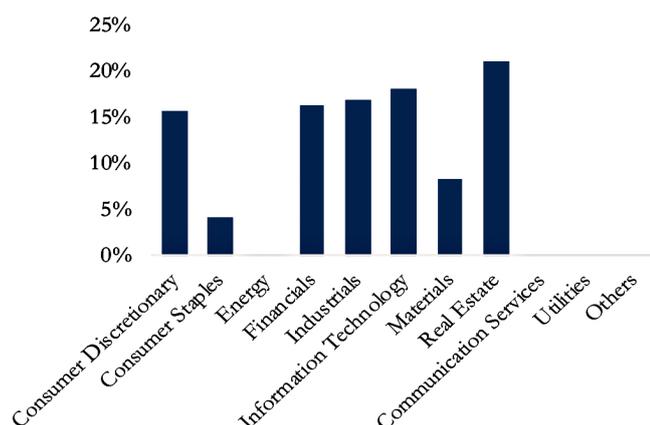
Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	5,4%	1299,4%
ChemoMetec	5,4%	290,8%
SBB	14,3%	253,2%
MedCap	3,1%	147,0%
Balco	3,3%	94,9%

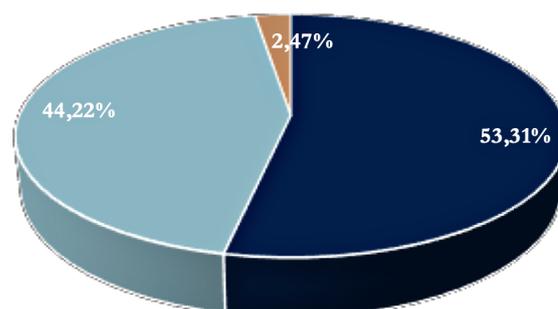
Five Largest Portfolio % Losers	% Portfolio	% Loss
Pexip	3,6%	-19,0%
Admicom	2,5%	-3,8%
Essity	3,3%	-1,3%
Loomis	2,4%	3,2%
Nekkar	2,5%	9,0%

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	24,0	22,2
P/E - Next Fiscal Year	21,4	19,7
Price/Book	2,72	5,03
Price/Sales	3,59	3,63
Enterprise Value/EBITDA	29,0	17,3
ROE	28,2%	24,1%
Dividend Yield	2,3%	2,1%

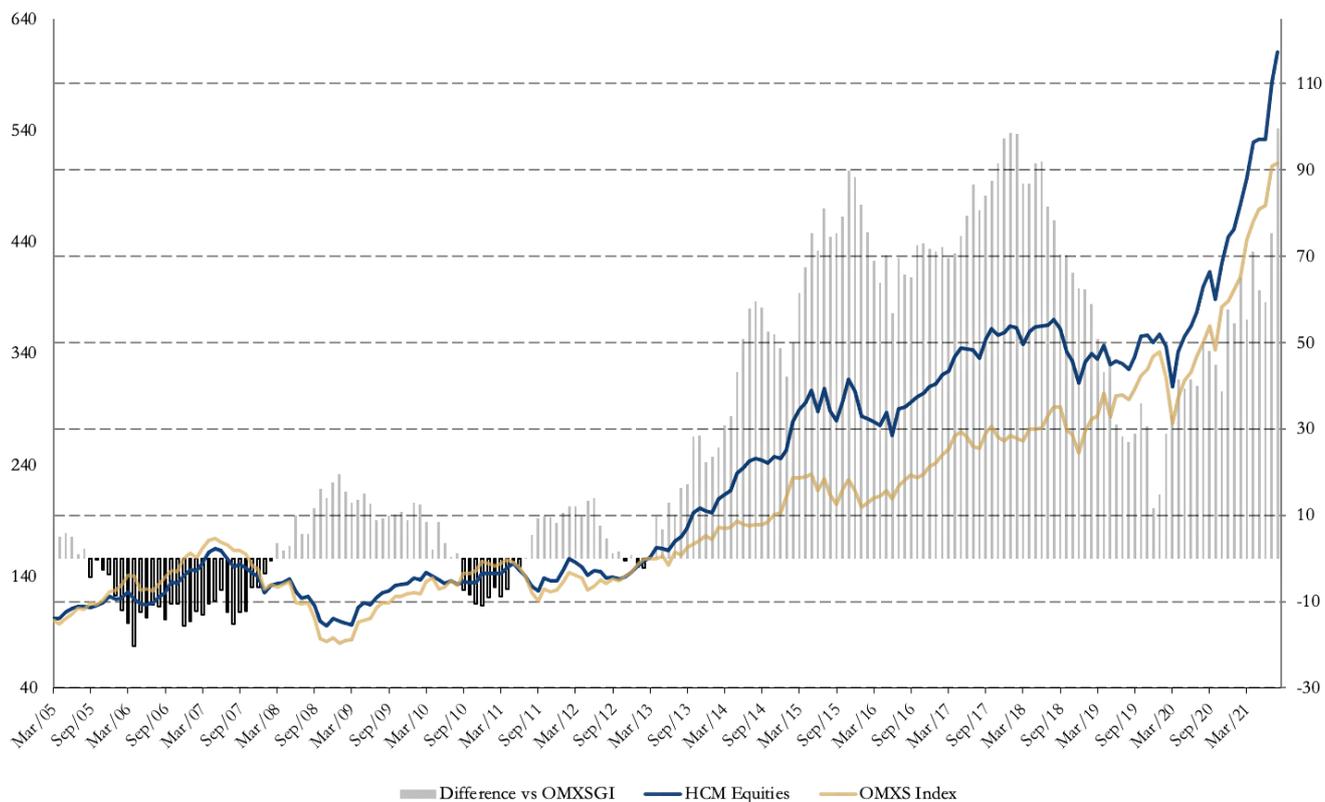
Risk

	Portfolio	Benchmark
5 Year Beta	0,82	0,56
2 Year Beta	0,94	0,64
1 Year Beta	0,76	0,62
5 Year Price Volatility	24,4	26,5
2 Year Price Volatility	42,6	29,4
1 Year Price Volatility	33,2	22,3

Growth

	Portfolio	Benchmark
% EPS Growth - 5 Yr CAGR	9,1%	8,2%
% Rev Growth - 5 Yr CAGR	15,1%	5,1%

Equity Performance



Portfolio Performance

