PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

October 2021

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THE STUDENT UNION

CEO Comments

October was a volatile month with a lot of action in the markets. The sentiment turned back over to the more positive side, as the market once again performed a positive return on monthly basis. We have been active in the portfolio allocation. During the month we sold off a minor part of our holding in SBB and used this to increase our position in Evolution. We also initiated a new position in Vestum, which I will use some space below to go through.

Vestum is a Swedish company focused on acquiring high quality niche businesses within construction services and infrastructure. It is founder led by CEO Conny Ryk, who has a long history of building successful companies within the industry, such as Sortera. He is also the major shareholder of the company, holding 16% of the total shares and recently bought stocks for a total of 27,5 MSEK. Our view is that this is a high quality serial acquirer, yet it is trading with a significant discount towards peers. The reason for this, we believe, is that the market has a couple of misunderstandings about Vestum. However, we have a different view on those, which I will briefly explain below.

Vestum became a listed company via a reverse acquisition by WeSC, a clothing company far from its golden days. The first common misunderstanding as we see it is that investors think this is just a simple name change by WeSC, and as a final attempt of survival they have started to acquire businesses. In fact, what today is Vestum has very little in common with the former WeSC. WeSC is still a part of the group, although it is a very small part of the total sales, and the plan is to divest the company as soon as the right buyer is found. So in reality, Vestum has no more in common with WeSC than the listing. This thesis was strengthened in October when the company resolved a directed issue to respected institutions such as Creades, AP2 and several other large funds.

Since listed through the reverse acquisition in late March earlier this year, Vestum has acquired 29 companies. This is unarguably a very high tempo and leads us to the next common misunderstanding we see. Because they have held this extremely high tempo, consensus is that they acquire anything just for the sake of it, and that the quality of the acquisitions therefore cannot be good. Our view is different on this point as well, and we argue that from the data we have been able to access, a significant majority of the acquired businesses seem to be of high quality. In fact, when looking at all the acquired companies individually, they are all highly profitable with a long and solid history of growth as well as a high cash conversation from EBITA. Furthermore, when CEO Conny Ryk built up Sortera, he was a central part of the industry, having over 15000 customers working within the niches that Vestum is looking for acquisitions. Thanks to this, he has an established relationship and good knowledge about many potential acquisition targets. Thus, what might look like stressed due diligence processes in order to acquire as much as possible is in reality deals based on multiyear long relationships and knowledge about the specific companies.

This leads us to the last misunderstanding we have observed, that is that Vestum is a highly cyclical business. This misunderstanding is not strange at all, since construction companies is strongly connected with cyclicality. The key here is that the Vestum companies does not take any projects on their own table, but acts as subcontractors to those who do. That leads to a completely different risk profile for the Vestum companies, who has a large exposure towards refurbishment and infrastructure projects financed by the government. This thesis is confirmed by once again looking at the long term earnings of the acquired companies. During recent crises, like the corona virus outbreak or the financial crisis, the subsidiaries had stable earnings. Same thing goes with the governments infrastructure spending, which stayed flat although the economy as a whole faced a major decline.
All this together made us believe Vestum was a quality company trading with a larger discount than motivated. At the time of our buying, the stock was according to our estimates trading at 25x pro forma 21e EBITA, and 15x 22e EBITA. In addition, we see potential of strong continued EBITA growth, driven by both organic growth and M&A. To sum this up, we see two potential main drivers in this case, EBITA growth and multiple expansion.

Within HCM, our full focus is on earnings reports since our first reports of interest were released in October. As always, the majority of our holdings are reporting later during the earnings season meaning that November will an eventful month for us on that occasion. So far, the numbers have come in quite in line with our expectations. We hope that will continue to be the case in the remaining reports.

Ludwig Germunder
12/11/2021

Asset Manager's Comments

After a weak September, we saw a strong pull-through in October. During October, OMXSGI returned +5,14% and the index closed at +30,2% YTD. Compared to OMXSGI, our equities traded +2,7% for the month and HCM is hence up +31,7% YTD.

The best performers during the month were Vestum, Microsoft and Fortnox. The worst performers were Pexip, BICO and Kindred.

During the month, we made two transactions in the portfolio. We allocated some of our equity from SBB to Evolution since we continue to gain unique and positive data on how their live casino games continue to grow in Q4. We believe that the stock will be an attractive investment in the coming 3 years, and hence have increased our position.

Additionally, we bought a new company named Vestum. Ludwig walks you through our investment thesis in his letter.

The whole portfolio returned +1,3% in October, somewhat outperformed by our benchmark which returned +2,5% during the month. Global Bonds returned a negative -2,4% compared to our benchmark which also was down -2,4%. Corporate Bonds returned a negative -0,3% compared to our benchmark at -1,8%. Alternative Investments returned a positive +1,1% compared to Barclays Hedge Fund Index which preliminary was up +1,6%. 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	71,9%	6 527 056
SBB	13,5%	1 221 120
Kindred	9,9%	900 000
Investor AB A	8,8%	794 080
Evolution	8,3%	752 946
BillerudKorsnäs	6,6%	601 325
Microsoft	6,3%	569 511
ChemoMetec	5,4%	485 514
Catella	4,8%	432 000
Vestum	4,6%	417 920
Fortnox	3,9%	352 640

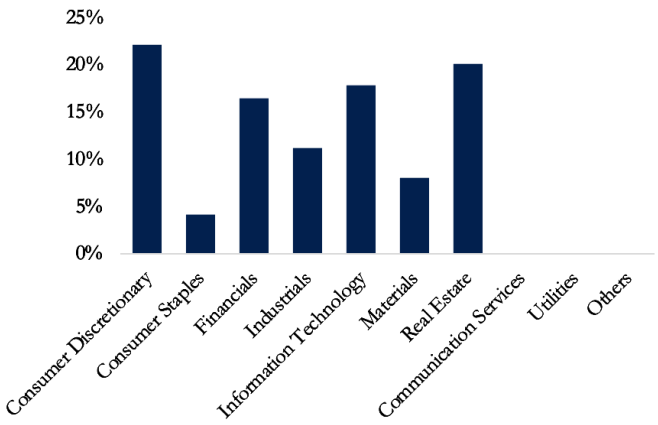
Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	6,3%	1431,1%
SBB	13,5%	312,7%
ChemoMetec	5,4%	270,4%
MedCap	3,1%	127,7%
Investor AB A	8,8%	76,8%

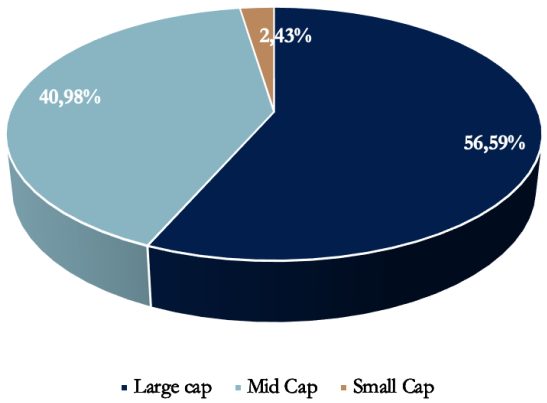
Five Largest Portfolio % Losers	% Portfolio	% Loss
Pexip	2,1%	-51,0%
BICO Group	3,1%	-12,9%
Loomis	2,2%	-10,6%
Admicom	2,4%	-6,7%
Evolution	8,3%	-3,1%

Market Cap Analysis

Market Sector



Market Cap Breakdown



Equity Portfolio Statistics

Valuation

	Portfolio	Benchmark
P/E - Current Fiscal Year	24,5	22,6
P/E - Next Fiscal Year	22,5	20,8
Price/Book	2,72	3,98
Price/Sales	3,56	3,60
Enterprise Value/EBITDA	29,2	17,6
ROE	27,7%	13,8%
Dividend Yield	2,3%	2,0%

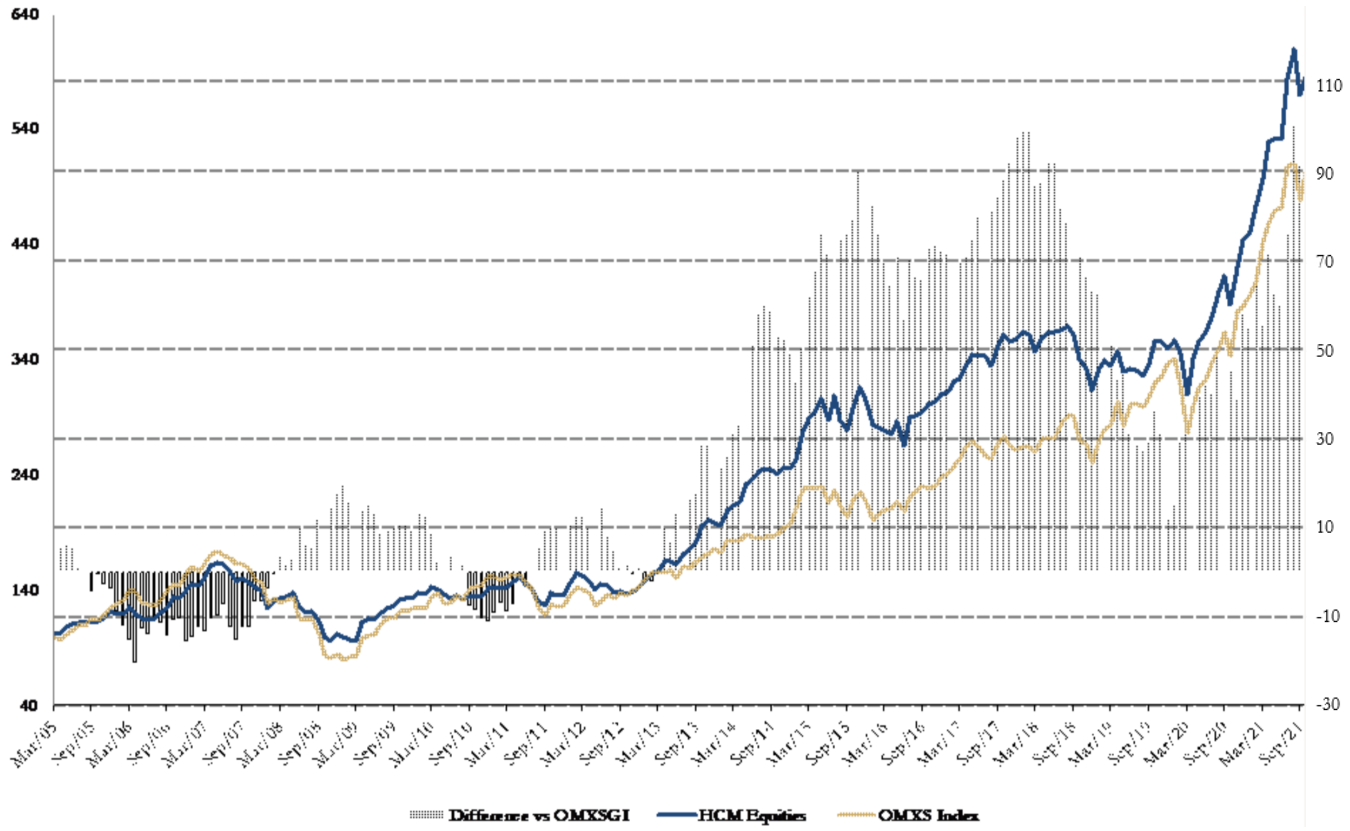
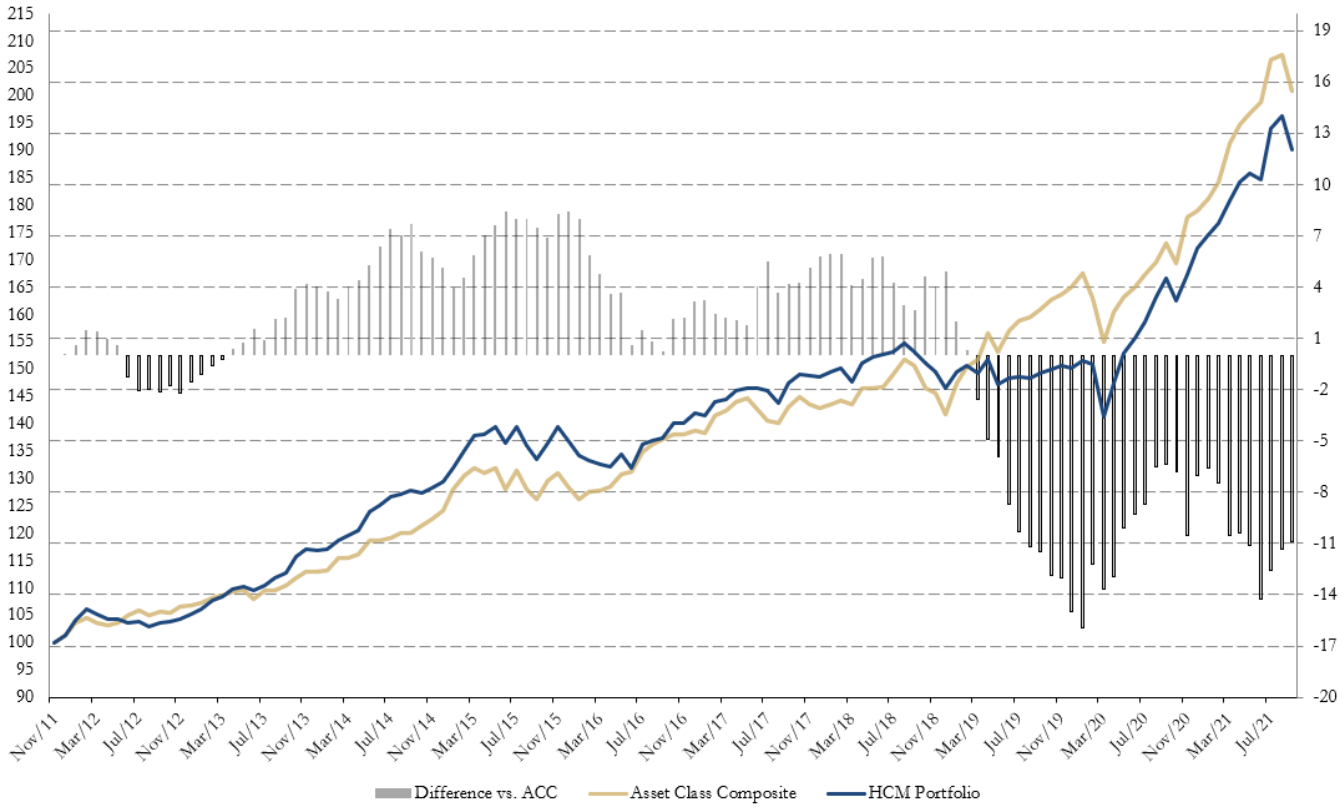
Risk

	Portfolio	Benchmark
5 Year Beta	0,89	0,51
2 Year Beta	0,92	0,60
1 Year Beta	0,81	0,39
5 Year Price Volatility	33,6	26,4
2 Year Price Volatility	49,5	29,0
1 Year Price Volatility	40,2	22,6

Growth

	Portfolio	Benchmark
% EPS Growth - 5 Yr CAGR	18,2%	0,0%
% Rev Growth - 5 Yr CAGR	13,5%	6,6%

Equity Performance



Portfolio Performance