

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

December 2019

CEO Comments - End of Year Review

Equity markets delivered fantastic returns in 2019. The MSCI world index was up 28%, led by US equities which returned 31%. The Swedish OMXSPI index returned ~30%, outperforming the broad European equities who rose 27%.

After the sharp fall in equities during the fourth quarter of 2018, the first quarter of 2019 brought a strong rebound as central banks signaled a retreat from the planned heightened interest plan and moved to further economic stimulus to keep the economic expansion intact. The markets moved relatively sideways with some heightened volatility as the trade war raged on during the second and third quarter. As the federal reserve rapidly expanded its balance sheet during the latter part of the year, we saw the flood of liquidity lift all asset classes. Global equities rose 9% in the last quarter, turning 2019 into the year of the bull.

On top of the liquidity injections, we had several political tailwinds during the last quarter. The tariff man closed the infamous phase one trade deal with China, which provided significant relief for the market. Furthermore, the conservative party won the UK election in December which removed the threat of nationalization for some utility parties. Additionally, the victory reduced uncertainty regarding Brexit. It means that the UK could pass a European Union withdrawal bill, activating a transition period during which little will change until the end of 2020.

It's been a great year for investors, no matter what asset class you've been invested in. The next year is unlikely to offer as high returns, as we go into 2020 with higher starting valuations which might limit the upside.

Erik Cassel

Chief Executive Officer – 2020-01-12

Asset Manager's Comments

December was a tough month for the HCM portfolio. The Portfolio was down -0,32% while our average weighted indices gained 0,87%. The drawdown in the portfolio can be assigned to the equities which lost some -2,06% after a turbulent month. Our alternative investments performed well after Gladiator gained 4,89% during the month. The year of 2019 has not been easy for HCM with a return for the whole portfolio of 2,47% during a year while assets and especially equities gained all over the world. Of course, we are not pleased with the development during the year and we have taken action to improve our structure.

The Equities was as said down -2,06% in December while OMXSGI gained 3,57%. The development is mainly attributed to Sportamore who delivered a profit warning that surprised many, including us. The initial case was that the introduction of minimum order value to get free shipping which was implemented during the year should lead to better unit economics. After showing good results in terms of conversion and an average order value that increased by 13% during the third quarter we felt confident that our thesis was right. This was also something the management highlighted and they said "All in all, we are better positioned than ever to face the all-important fourth quarter" in the Q3 report. The profit warning suggests that October was the month where the sales were weaker than expected. Our biggest holding going into December SBB was down some 10% during the month due to their share issue which is an effect of the take-over of Hemfosa.

The performance of the equities for the full year 2019 was a positive return of 11,39% compared to OMXSGI which gained 34,6%. Our best holdings during 2019 has been SBB (+76,44%), MedCap (+58,22%) and Eastnine (+30,41%). The laggards have been: MSAB (-36,15%), Sportamore (-34,03%) and Attendo (-31,45%). Going into 2020 I feel confident that we have a robust portfolio with a lot of potential.

I will highlight one holding in which we see big potential in 2020.

HCM invested in Catella in early 2019 with the thesis that the disposal of the bank would create a more simple leaner structure while also generating liquidity to the group. We did also see that the Property Investment Management (PIM) business was doing very good and was a hidden gem in the group with a lot of hidden assets on their balance sheet. Now in Q2 2020, the bank should be totally disposed of from the group. Our estimate is that PIM can generate an EBIT of ~150m in 2020. Equity, Hedge & Fixed Income should generate somewhere around 300m in EBIT of which 100m is attributive to minorities. Also, the corporate finance business should generate somewhere around 50m in EBIT. In mid-2020 Catella should decide how to deal with the 450m

in cash that will be generated from the bank disposal. An extra dividend is in our view the most likely scenario. All in all, we see this as an investment with a limited downside due to the low valuation but with a good upside with a lot of “options” such as overvalues in the development projects. A sum of the parts valuation on the business shows the following results:

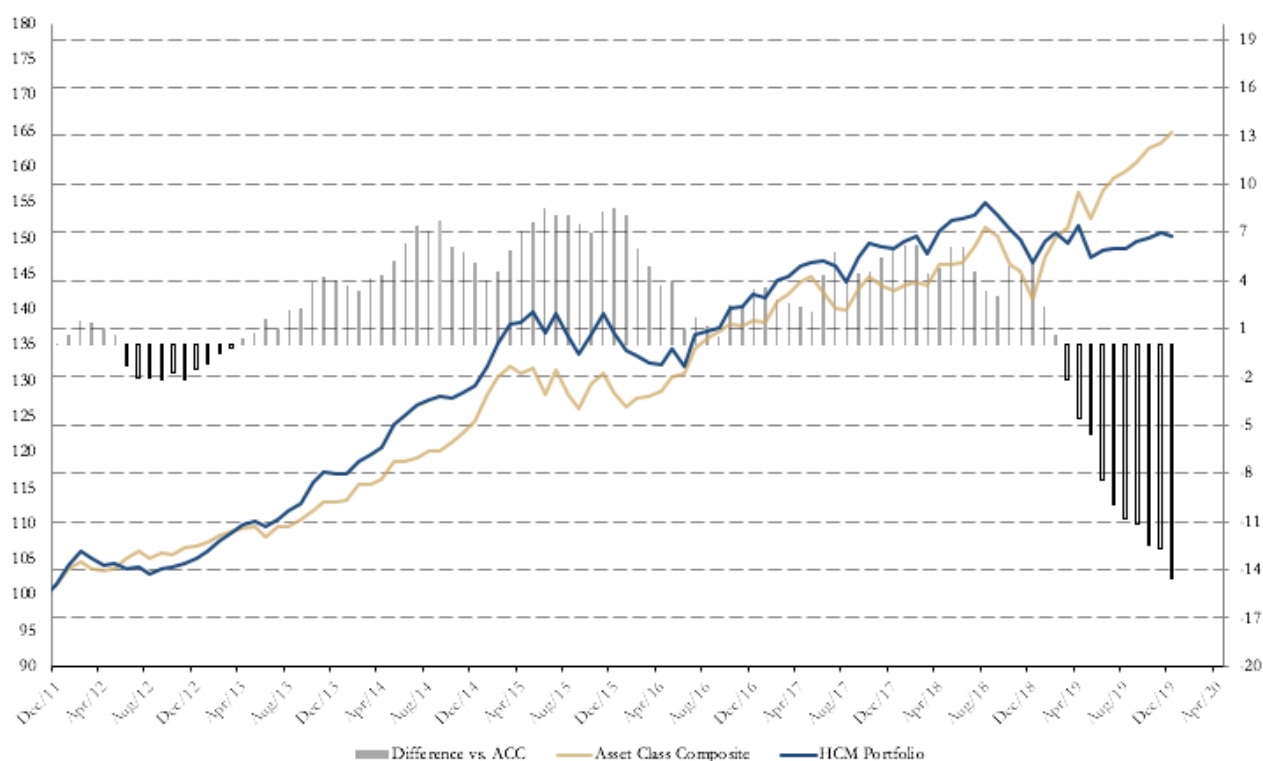
Catella 2020E (SEKm)	Multiple	EBIT	Value
Corporate Finance	5x	50	250
Equity & Hedge	7x	200	1400
PIM	12x	150	1800
Summa rörelsen			3450
Net Cash ~			0
Catella Bank			437
Loan Portfolio (EETI)			120
Other Investments (Conservative ~)			300
Sum Catella			4307
Potential			87%

Karl Norén

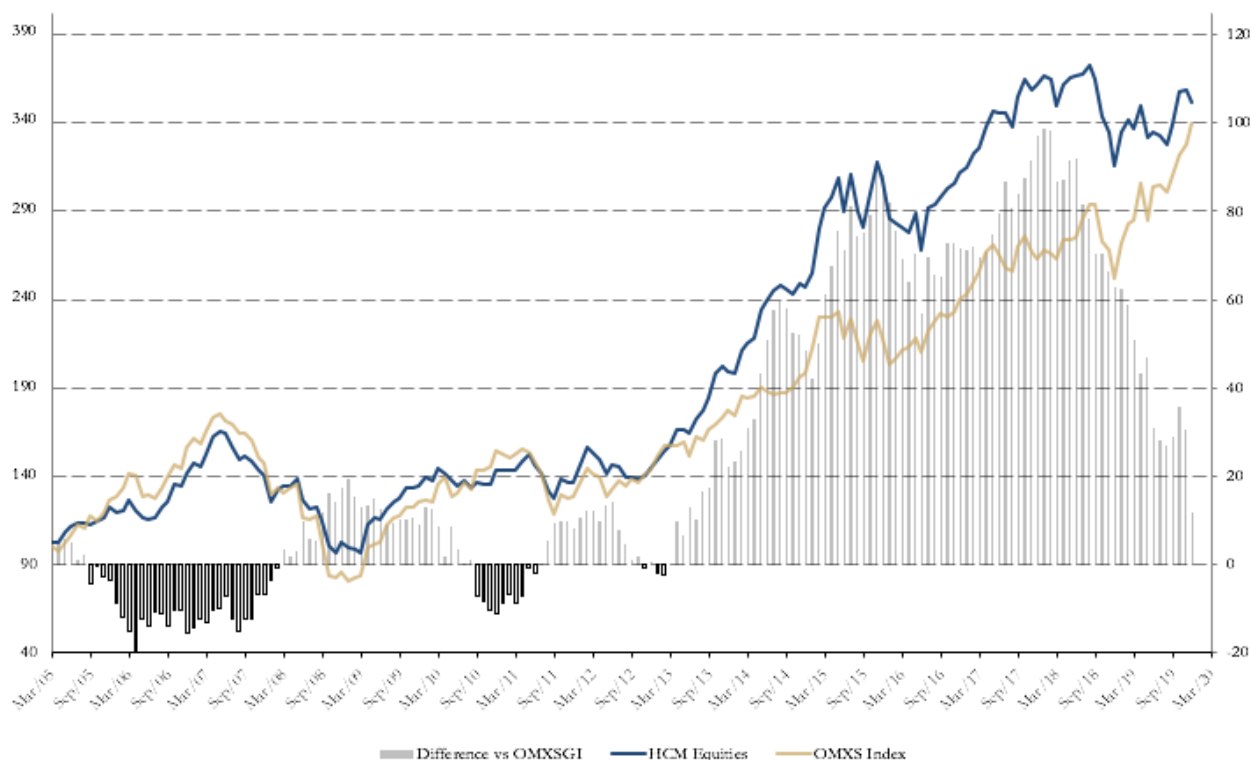
Asset Manager

2019-12-12

HCM Portfolio Performance



HCM Equities Performance



EQUITIES OVER TIME

Return & Risk	HCM Equities	Benchmark
Last Month	-2,06%	3,57%
Year To Date	11,39%	34,57%
Last Twelve Months	11,39%	34,57%
Since Start (March 2005)	249,31%	237,68%
Average Yearly Return	8,80%	8,55%
Months Active	178	178
Number of Positive Months	103	112
Number of Negative Months	75	66
Annualized Std. Dev. Last 12m	12,89%	15,75%
Sharpe Ratio Last 12m	0,69	2,03
Benchmark Correlation Last 12m	0,85	

SUMMARY

Best Performers	1 Month
Attendo	12,8%
Firefly	12,7%
Eastnine	7,5%
Worst Performers	1 Month
Sportamore	-32,6%
SBB	-8,2%
Engelska Skolan	-4,8%
Currency Exposure	Weight
SEK	86,6%
USD	7,1%
NOK	0,0%
DKK	6,3%