

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

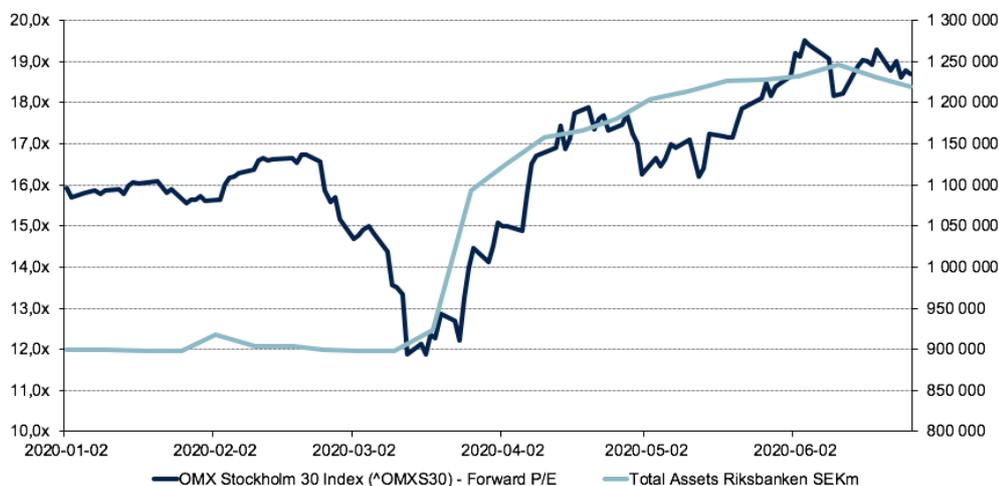
June 2020

CEO Comments

June has passed and our equities returned +2.7% while their benchmark OMXS30 reached +2.3%. It has been a month of mixed signals. I highlight decreased central bank assets, increased daily deaths from COVID-19, sharp rebound in PMI's maintained and growth outperforming value, lastly I find that there still seems to be money on the sideline amid COVID-19.

Opposed to last month's report, the balance sheet of the central banks declined in June. In May the Federal Reserve's balance sheet increased by 7%, in June the change was -1.2%. The same trend is seen in Riksbanken's balance sheet. We maintain our view that the fiscal policy will be a key driver for the financial markets going forward and it likely explains a large share of the weaker performance in June. Assessing the long-term effect is difficult, perhaps 20x is the new PE-ratio. While the stimulus saved the markets this time, it leaves a moral hazard in the aftermath.

Riksbanken Total Assets and FWD PE OMXS30 YTD

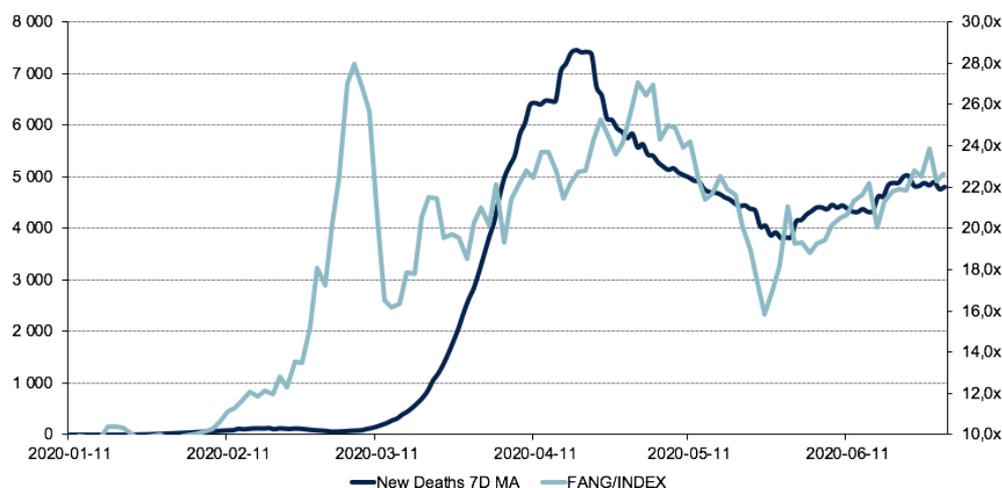


Source: Handels Capital Management, Riksbanken

A contradiction the market faced in June was that good news regarding COVID-19 and the economy decreased expectations on fiscal stimulus. This leaves a peculiar trade-off where investors have to choose between the two. I think good news are better for stocks in the long run. The number of daily deaths is now close to 5,000, well down from the highs at 7,500 but still up from the lows in late May below 4,000.

The fear of a second wave has made its mark on the stock market where we have seen a rotation from stocks that are especially vulnerable to a second wave. I made an index of Hilton, Royal Caribbean Cruises, Delta Airlines and Boeing to represent the more vulnerable stocks. I compare the combined market cap of these with the one of the FANG stocks, A for Amazon in this case. While the FANG stocks underperformed this index in the decline of daily deaths, it has now outperformed again as deaths increased.

Daily deaths from COVID-19 and FANG / Index of hotel and travel companies



Source: Handels Capital Management, WHO

Further on the corona virus, as a preview for July, the company I highlighted in my last comment, Moderna, just released positive results from their subsequent trials. Out of 18 patients, all received antibodies from the vaccine. While this is still early days for their trials, they are heading the right direction. In addition, Oxford university is already in Phase 3 with their vaccine. 10,000 people are testing the vaccine across the UK right now. If this vaccine would be approved, AstraZeneca stand ready to produce 300m doses. A vaccine could then be expected late 2020. We maintain our expectation of a vaccine in late 2020 or early 2021.

PMI's maintained their sharp rebounding trajectory in June. Swedbank's Swedish manufacturing PMI increased 7.3 index units to 47.3. This means we are almost back to pre-corona levels in the industry. This indicates we have seen the bottom of the output level and could hope for better news on employment and production in the future.

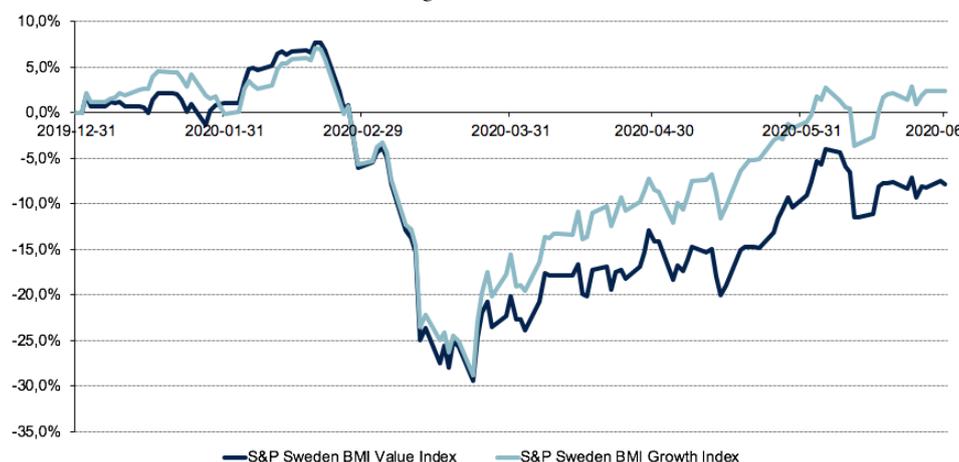
Swedbank's manufacturing PMI Sweden November 1994 - June 2020



Source: Handels Capital Management, Swedbank

Another trend in June was the continued outperformance of growth stocks. I track S&P's Swedish BMI segmented on growth and value. Growth is at the end of June up above 2.5% YTD while value has lagged behind at -7.5%. This has been the case for a while now and maybe the new "buy cheap sell expensive" should be "buy expensive sell more expensive". I believe picking the right company will be more important than getting a bargain going forward. We have invested in higher valued companies recently as well; our portfolio is now slightly tilted towards growth given a forward PE-ratio of 23x vs its benchmark at 19x.

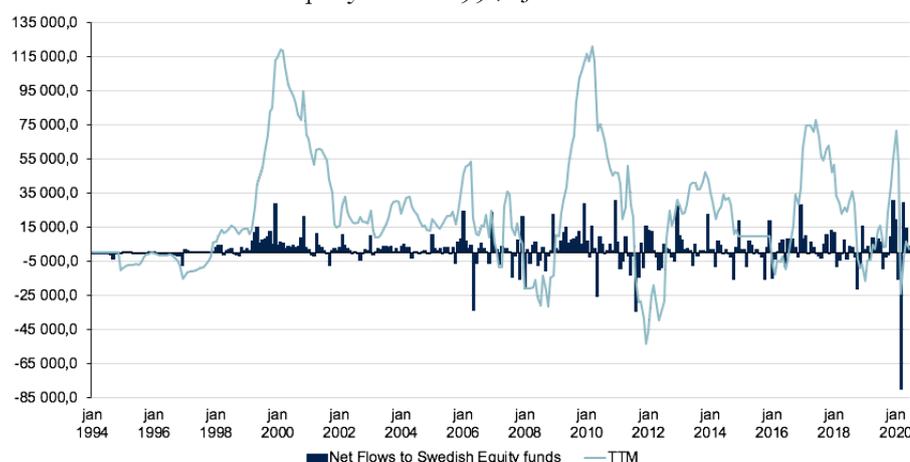
S&P's Swedish BMI divided into growth and value stocks



Source: Handels Capital Management, Capital IQ

Lastly, I track the net flows to Swedish equity funds to assess the money's movements during the Corona-crisis so far. In June there were net flows of SEK +3.5bn. This should be compared to the exceptional March flow of SEK -80.1bn. In the aftermath of previous crises, we have seen heavy net flows to equity funds, driving the markets. While we have seen significant flows since the lows in March, we are close to zero TTM. After 2008 the TTM flows peaked above SEK 115bn in early 2010. This indicates there is still money on the sideline.

Net flows to Swedish equity funds 1994- June 2020



Source: Handels Capital Management, Fondbolagen

We now look forward to reading the Q2-reports and will get back to you after that.

Asset Manager's Comments

Hello,

June continued to show strength on the markets worldwide. OMXSGI generated a return of +2,3% in May and is now down -4,2% YTD. The market continues to be extra volatile which reflects the uncertainty investors are experiencing. Almost the whole drawdown during Mars and April is now restored, and the market is focusing on profits after 2020. ECB kept the interest rate at 0%.

Compared to OMXSGI, our equities somewhat outperformed the market. HCM's equity portfolio returned +2,7% during June and is now +4,5% YTD. In light of OMXSGI, we are pleased with the performance.

The best performers during the month were SBB, Medistim, and Microsoft. The worst performers were MedCap, Catella, and Loomis.

No major investment or divestment has been made during June. We still have a high conviction in our holdings SBB, Billerud and ChemoMetec. Kindred came with a positive trading update for Q2 with a huge beat to consensus, indicating a strong performance despite cancelled sports events. The pure sportsbook players in the US (ex. Draftkings, Kambi) has rallied extremely post COVID and is up >100% YTD. Another US gambling stock Penn National is up 500% since the lows in March. COVID has made US regulators advance the online regulation across the states, which is a big driver for the market participants. We're still a bit sceptical on the stock markets expectations for Kindreds US-launch, which we think will take some time and cost a lot. Although, we have high conviction in the management team and still view this as an attractive R/R-investment at 12x EBIT for 2021E.

We're looking forward to dig into the Q2 reports, starting with GHP.

The whole portfolio returned +1,8% in June, outperforming our benchmark by 0,4 percent points, which was up +1,4% during the month. Global Bonds returned a positive 0,1% compared to our benchmark which was down -0,4%. Corporate Bonds returned a positive 2,5% compared to our benchmark at 0,7%. Alternative Investments returned a positive 1,0% compared to Barclays Hedge Fund Index which preliminary was up 2,0%. Alcur Select stands out as strong performer and have navigated this year exceptionally. 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.

Sincerely,
 Filip Helmroth

Head of Asset Management – 2020-07-13

Top Ten Equity Holdings

Company Name	% Portfolio	Value
Top ten holdings	75,1%	3 919 955
SBB	13,7%	714 929
Investor AB A	10,7%	557 700
BillerudKorsnäs	8,6%	448 063
ChemoMetec	7,6%	395 700
Microsoft	7,3%	379 579
Kindred	6,6%	345 554
Latour	6,3%	330 183
Medistim	4,9%	255 647
Balco	4,9%	254 100
Catella	4,6%	238 500

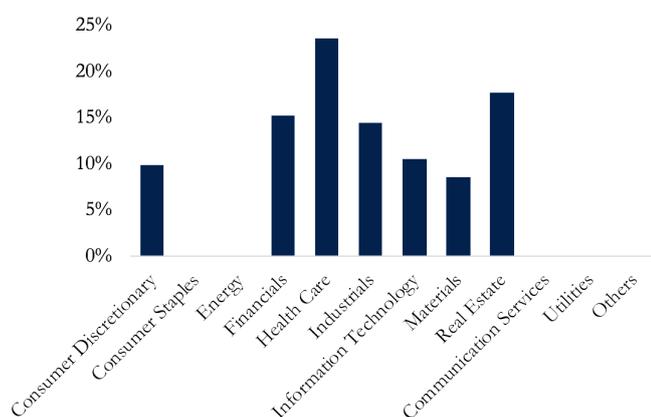
Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	7,3%	919,8%
SBB	13,7%	70,5%
MedCap	4,5%	57,1%
Balco	4,9%	35,1%
ChemoMetec	7,6%	26,6%

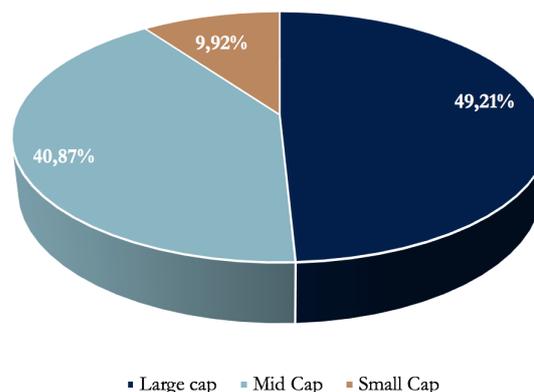
Five Largest Portfolio % Losers	% Portfolio	% Loss
Kindred	6,6%	-36,7%
C-RAD	2,3%	-31,4%
GHP Speciality Care	4,3%	-17,9%
Catella	4,6%	-16,8%
Loomis	3,3%	-14,2%

Market Cap Analysis

Market Sector



Market Cap Breakdown



Equity Portfolio Statistics

Valuation

	Portfolio	Benchmark
P/E - Current Fiscal Year	32,7	28,0
P/E - Next Fiscal Year	23,4	18,7
Price/Book	2,68	4,03
Price/Sales	2,28	3,10
Enterprise Value/EBITDA	23,5	18,2
ROE	16,3%	14,2%
Dividend Yield	2,2%	2,1%

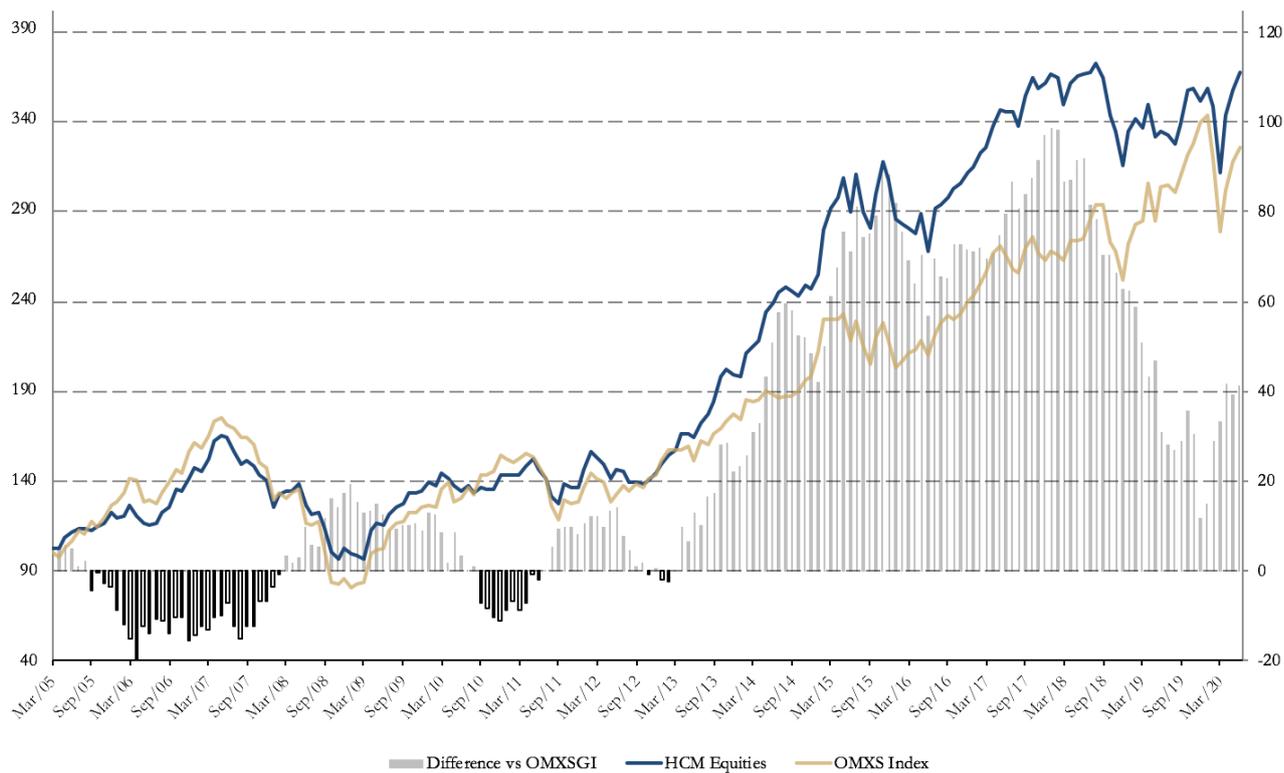
Risk

	Portfolio	Benchmark
5 Year Beta	0,77	0,63
2 Year Beta	0,95	0,66
1 Year Beta	0,94	0,62
5 Year Price Volatility	26,6	26,7
2 Year Price Volatility	41,9	30,9
1 Year Price Volatility	48,8	35,3

Growth

	Portfolio	Benchmark
% EPS Growth - 5 Yr CAGR	6,9%	1,3%
% Rev Growth - 5 Yr CAGR	9,2%	0,0%

Equity Performance



Portfolio Performance

