

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

February 2023

CEO Comments

The markets were a bit more cautious during February, compared to the very strong start in January. However, the market still ended the shortest month of the year on a positive note. The Stockholm stock index was up 1,2% during the month.

It might seem a bit surprising that the stock market is starting the year on such a strong note when the rest of the economy seems to be in flames. While there are no facts about market movements, there are a couple of things that can be highlighted as contributors to the roaring development. First of all, stocks are priced based on the markets aggregate expectations of the future. While high inflation and hiking rates are what we can see today, it is the markets expectations of the future development that determines how stock prices move today. It probably sounds reasonable to most readers that inflation will not remain at more than 10% forever, as well as interest rates will not be raised every month in infinity. The million-dollar question is when this pattern will be changed. Looking at how the market is pricing stocks today might give a hint of what it thinks will happen 6-12 months ahead.

Another thing that can be highlighted is the weak development of the Swedish krona. The Swedish krona has been a weak currency for a long time, and the past year has not been an exception. As the Swedish krona depreciates against the major currencies, specifically the US dollar and the Euro, global investors see their Swedish investments decrease in value. The beginning of a new year is a common point in time where major indexes and funds reallocate their portfolios. For global funds with a predetermined portfolio weight in Swedish equity, the currency depreciation forces portfolio managers to increase their exposure towards Swedish equity in order to follow their predetermined index, or fund, weights. In aggregate, this adds up to a decent capital inflow in the Swedish market which, all else equal, forces Swedish stocks to rise in value. While this is not the single explanation behind the strong market, increased foreign capital has been observed during the beginning of the year.

Narrowing the discussion to HCM, we have during the month closed our latest round of pitches. After four great stocks being pitched to the group, we decided to invest in Paxman. Looking ahead, we will now be sourcing new ideas for a couple of weeks. We have also our annual Stockholm trip planned in March. In Stockholm, we will spend three days meeting some professional portfolio managers, investors and analysts to discuss investments and investment philosophy. We look forward to three educating and developing days.

Ludwig Germunder

Asset Manager's Comments

After a strong beginning of the year, February continued the trend. During February, OMXSGI returned 1,24%. Compared to OMXSGI, our equities traded 2,05% for the month.

The best performers during the month were Electrolux Professional, Loomis and Kindred. The worst performers were Chemometec, Crayon and Autostore.

During the month we bought Paxman. Paxman is a global leader in scalp cooling and cryotherapy. Scalp cooling is a technology that prevents chemotherapy-induced alopecia (hair loss). The primary product is thus a scalp cooling cap that the patient wears in order to mitigate hair loss during the chemotherapy as the cooling prevents chemo transport into hair follicle cells.

The decision to invest in Paxman was based on several factors. Firstly, as a market leader and preferred operator as well as hair loss being the most feared side effect of chemotherapy, Paxman has a great leg up on competition in an interesting niche. We therefore believe that Paxman will be able to generate strong top-line growth as the underlying market continues to show potential.

Secondly, Paxman has launched a new model "Buy & Bill" that allows for recurring revenue as one time sales are phased out. To clarify, previously, Paxman sold the cooling caps as separate units which generated one time sales, with the newly launched "Buy & Bill" system Paxman instead install the product nearly for free but charges the customer for each treated patient, this in turn creates recurring revenue and allows for more scalability. In addition, we believe that the new Buy & Bill model will reduce OPEX and other expenditures and therefore scale margins. For example, the need to hire more personnel is not needed to grow with this type of business model. Furthermore, some growth will also come from existing units which will scale margins further.

Lastly, we see great potential in the valuation as Paxman reaches profitability. Based on both relative valuation and DCF we deem the fair price of the stock to be in the range of 77-89 SEK per share which corresponds to a significant upside based on current levels of the stock price.

The whole portfolio returned 0,62% in February; this is slightly above our benchmark index which declined by -0,19% during the month. Global Bonds returned -5,49% compared to our benchmark which was down by -1,52 %. Corporate Bonds returned a negative -1,11%, while the benchmark returned -3,09%. Alternative Investments returned 1,34% compared to Barclays Hedge Fund Index which preliminary was down by -1,19%. However, 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, Ossian Malmberg

Top Ten Equity Holdings

Company Name	% Portfolio	Value
Top ten holdings	74,4%	4 088 514
Evolution	12,8%	701 696
Investor AB A	12,3%	678 710
Kindred	10,2%	562 343
Microsoft	7,8%	430 785
Autostore	6,3%	348 854
Catella	6,2%	341 550
MedCap	4,8%	263 450
SmartEye	4,7%	260 894
Essity	4,6%	254 700
Electrolux Professional	4,5%	245 531

Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	7,8%	1303,8%
MedCap	4,8%	172,6%
ChemoMetec	3,7%	94,5%
Catella	6,2%	54,0%
Kindred	10,2%	39,0%

Five Largest Portfolio % Losers	% Portfolio	% Loss
Admicom	2,2%	-46,0%
SmartEye	4,7%	-34,2%
Nekkar	4,3%	-19,5%
C-RAD	2,4%	-17,0%
Take-Two Interactive	3,2%	-14,9%

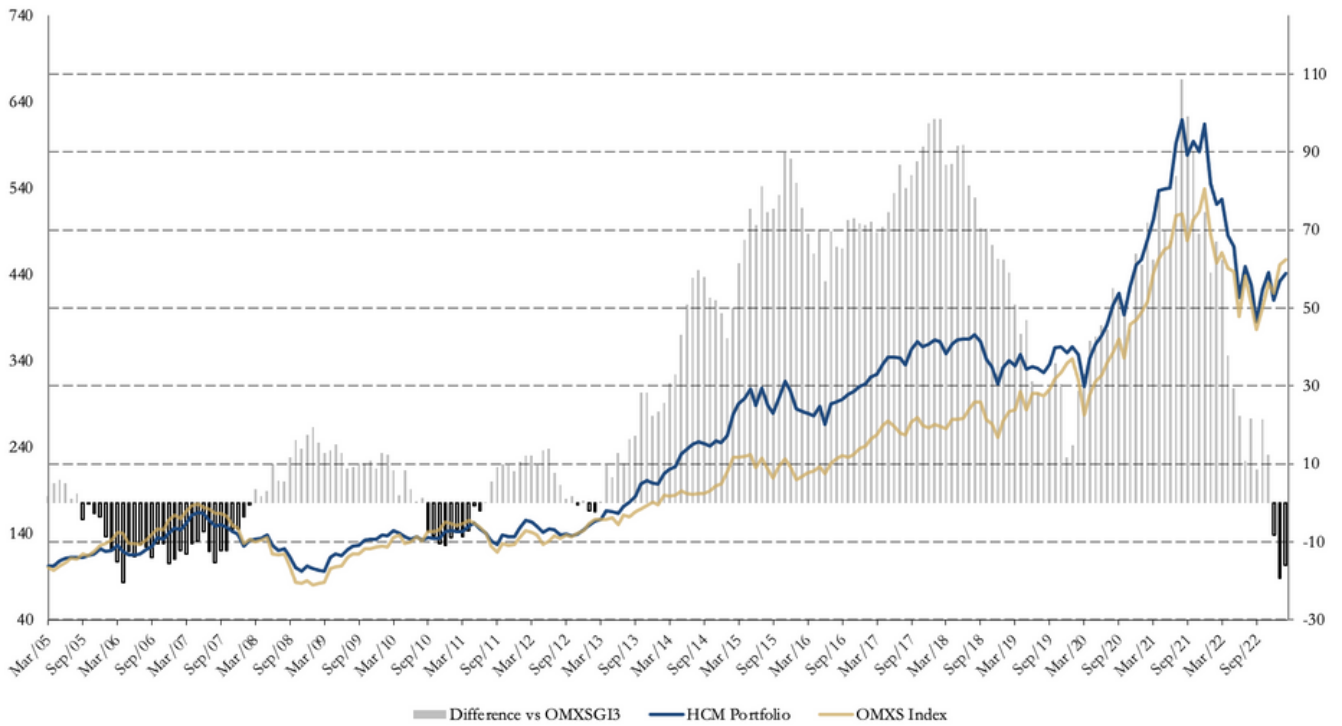
Total Portfolio Statistics

Return & Risk	Portfolio	Benchmark	Allocation	Weight
Last Month	0,62%	-0,19%	Alternative Investments	24,8%
Year To Date	3,47%	4,46%	Corporate Bonds	7,8%
Last Twelve Months	-4,85%	0,58%	Global Bonds	10,1%
Since Start (Nov 11)	69,12%	100,70%	Money Market	16,0%
Average Yearly Return	4,78%	6,39%	Equities	41,3%
Months Active	135	135	Currency Exposure	1 Month
Number of Positive Months	91	96	SEK	76,3%
Number of Negative Months	44	39	USD	9,7%
Annualized Std. Dev. Last 12m	11,41%	12,03%	EUR	5,9%
Sharpe Ratio Last 12m	-0,58	-0,10	NOK	5,8%
Benchmark Correlation Last 12m	0,00	0,00	DKK	1,5%

Equity Portfolio Statistics

Return & Risk	Portfolio	Benchmark	Best Performers	1 Month
Last Month	2,05%	1,24%	Electrolux Professional	14%
Year To Date	7,49%	9,22%	Loomis	9%
Last Twelve Months	-15,31%	0,78%	Kindred	8%
Since Start (March 2005)	341,05%	357,13%	Worst Performers	1 Month
Average Yearly Return	8,59%	8,81%	ChemoMetec	-25%
Months Active	216	216	Crayon	-10%
Number of Positive Months	128	138	Autostore	-9%
Number of Negative Months	88	78	Currency Exposure	1 Month
Annualized Std. Dev. Last 12m	24,92%	24,92%	SEK	67,0%
Sharpe Ratio Last 12m	-0,69	-0,04	USD	11,0%
Benchmark Correlation Last 12m	0,93	0,00	EUR	2,2%
			NOK	14,1%
			DKK	3,7%

Equity Performance



Portfolio Performance

