

PORTFOLIO REPORT

EQUITY PERFORMANCE

HCM
HANDELS CAPITAL MANAGEMENT

November 2022

CEO Comments

The strength on the markets continued in November, which made both the market as well as our portfolio print a strong monthly performance. As so many times before this year, the spotlights of the market were focused on the interest rate. Both the FED and the Swedish Riksbank increased the rate by 75 basis points. However, the news from the central banks were overshadowed by the US inflation numbers that were released during November. While the inflation came in at historically high 6,3%, it was lower than what the market had expected. This forced stocks of “inflation loser” companies to take off in a temporary rally, and markets closed the day 3-4% higher than the previous close.

While interest rates and inflation have been in the spotlight once again, there is some other underlying drivers that might be the primary explanations behind the recent strong markets. Short sellers being forced to close their positions in crowded short names have been one reason. This phenomenon known as short squeezes. Another underlying driver, which I personally find more interesting, is the momentum driven non-fundamental strategies known as CTAs. CTA is a strategy following trends and systematic patterns in the market. The inflation number previously mentioned started a chain reaction, starting by pushing bond yields lower as an initial reaction to the lower-than-expected inflation. The lower bond yields made in its turn the CTA strategy switch into buying space, and thus activating large passive buying. Over the last month, CTAs has accumulated equities of a total value of 150m USD, turning from max short to max long. This happening during a period where liquidity generally decreases, one can tell it has had some decent impact on the market.

With two new investments closed, as well as the latest earnings season being in the books, our focus changes going forward. Now it is back to source new investment ideas and make sure to build a new solid pipeline of potential investments to our next round of pitches.

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Asset Manager's Comments

After a strong October, the market showed strength again in November. During November, OMXSGI returned 7,21% and the index closed at -20,27% YTD. Compared to OMXSGI, our equities traded 4,65% for the month and HCM is hence down -27,97% YTD.

The best performers during the month were Crayon, Chemometec and Vestum. The worst performers were Take-Two Interactive, Autostore and Kindred.

During the month we sold Ratos and decreased our holdings in Investor and Kindred in order to add Crayon and Electrolux Professional to our portfolio. The decision to sell Ratos is based on several factors. We see the rising interest rates and the subsequent increase in yield requirements as problematic for the future potential. The previously strong construction industry has slowly deteriorated and is now in a quite different shape compared to when we first added Ratos to our holdings. The deterioration of the construction industry means that ROI within the industry is weakening due to increased interest rates which might have a negative impact on earnings since construction is 11% of EBITA. Additionally, we also believe that a weakened consumer will impact earnings negatively since Plantagen, KVD and Oase is 39% of EBITA. Furthermore, Ratos balance sheet has, due to recent acquisitions become a lot more strained. We therefore deem future possibilities of acquisitions as unlikely in the upcoming years. Ultimately, several factors are against Ratos and we therefore believe that there are other, better opportunities.

Such opportunities arose in Crayon Group and Electrolux Professional. Crayon Group is a B2B cloud reseller and IT advisor with headquarters in Oslo, Norway. Crayon, thus, acts as an intermediary, connecting Software vendors with end customers. We believe that Crayon has many years to come with continued strong organic growth as the cloud market shows great potential and resilience. Furthermore, thanks to previous investments in new offices on a global scale, Crayon has been able to expand greatly. With these investments done the margin is likely to improve from now on as the underlying business model allows for great scalability. Also, the stock has had negative development before the time of purchase due to a combination of factors. For example, the market expected better performance even though 2021 made up for tough comparable numbers as well as consensus does not estimate the same marginal expansion as we do. We note that 11x EBITDA or 12x FCF for a company that is likely to continue to grow 15-20% as well as strong margin improvements is to be considered attractive both on a relative as well as DCF basis.

As previously mentioned, we also bought Electrolux Professional (EPRO) during the month. EPRO was originally formed as a division of Electrolux but was in early 2020 spun-off. The company is offering a variety of appliances intended for professional customers. These appliances are sold under primarily two segments: Food & Beverages and Laundry. We see EPRO as an attractive investment based on its strong market position and subsequent growth opportunity as well as ability to reinvest future cash flows. We also believe that the market is exaggerating the company's sensitivity to the macroeconomic environment, as continued investments in kitchen and laundry appliances are likely to continue.

The whole portfolio returned 2,76% in November; this is slightly below our benchmark index which gained 3,51% during the month. Global Bonds returned 1,41% compared to our benchmark which was down -3,00%. Corporate Bonds returned a negative 2,08%, while the benchmark returned -0,27%. Alternative Investments returned 2,11% compared to Barclays Hedge Fund Index which preliminary was up by 3,36%. 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	73,4%	3 920 409
Investor AB A	12,2%	649 252
Evolution	11,1%	591 118
Kindred	10,0%	531 253
Microsoft	8,3%	442 000
ChemoMetec	7,0%	371 951
Catella	6,4%	340 650
Autostore	5,7%	303 806
MedCap	4,4%	236 500
Essity	4,3%	230 040
SmartEye	4,2%	223 839

Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	8,3%	1340,3%
ChemoMetec	7,0%	254,7%
MedCap	4,4%	144,7%
Catella	6,4%	53,6%
Kindred	10,0%	31,3%

Five Largest Portfolio % Losers	% Portfolio	% Loss
Vestum	2,6%	-50,1%
Admicom	2,5%	-42,4%
SmartEye	4,2%	-34,6%
Nekkar	3,9%	-28,9%
Evolution	11,1%	-22,3%

Total Portfolio Statistics

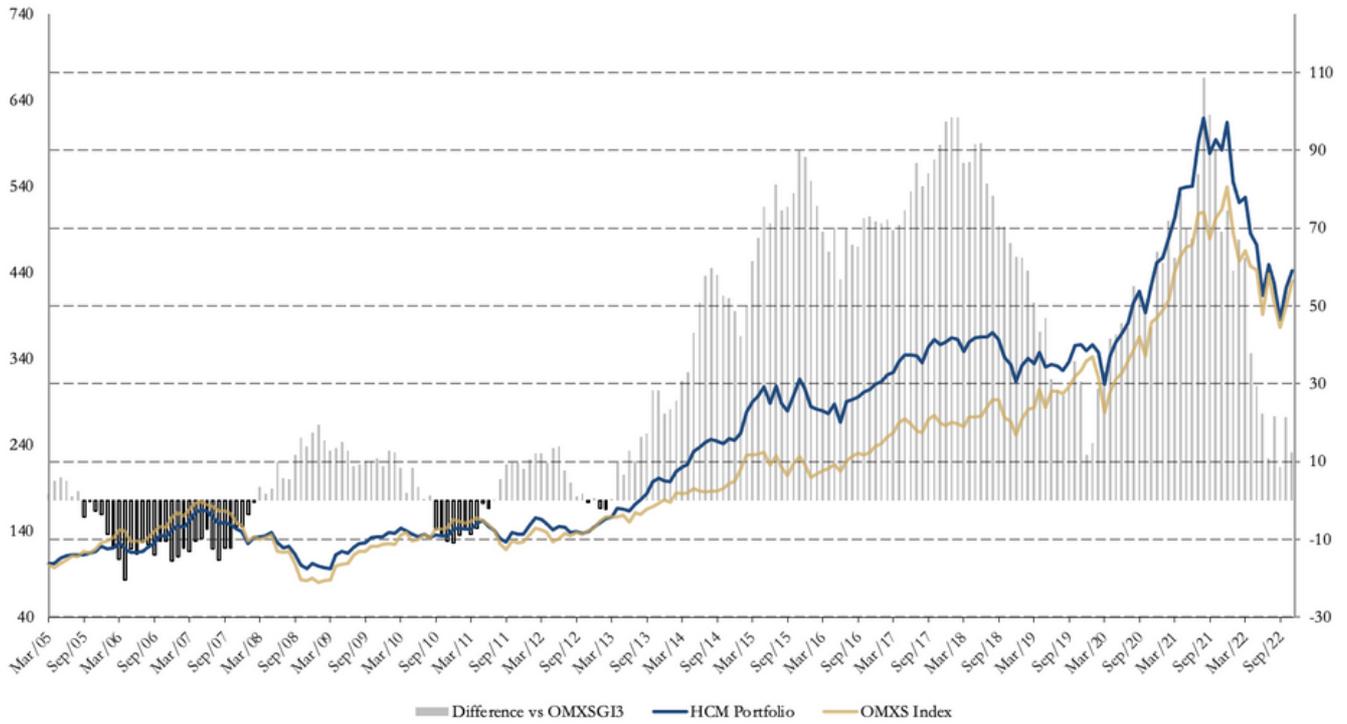
Return & Risk	Portfolio	Benchmark	Allocation	Weight
Last Month	2,76%	3,51%	Alternative Investments	25,0%
Year To Date	-13,69%	-9,86%	Corporate Bonds	7,7%
Last Twelve Months	-11,50%	-7,27%	Global Bonds	10,0%
Since Start (Nov 11)	66,05%	95,85%	Money Market	15,6%
Average Yearly Return	4,72%	6,30%	Equities	41,6%

		Currency Exposure	1 Month
Months Active	132	SEK	76,0%
Number of Positive Months	89	USD	9,6%
Number of Negative Months	43	EUR	6,0%
Annualized Std. Dev. Last 12m	12,17%	NOK	5,5%
Sharpe Ratio Last 12m	-1,09	DKK	2,8%
Benchmark Correlation Last 12m	0,00		

Equity Portfolio Statistics

Return & Risk	Portfolio	Benchmark	Best Performers	1 Month
Last Month	4,65%	7,21%	Crayon	20%
Year To Date	-27,97%	-20,27%	ChemoMetec	19%
Last Twelve Months	-23,98%	-16,15%	Vestum	17%
Since Start (March 2005)	342,25%	329,99%	Worst Performers	1 Month
Average Yearly Return	8,74%	8,56%	Take-Two Interactive	-15%
Months Active	213	213	Autostore	-9%
Number of Positive Months	126	136	Kindred	-8%
Number of Negative Months	87	77	Currency Exposure	1 Month
Annualized Std. Dev. Last 12m	25,87%	25,80%	SEK	66,5%
Sharpe Ratio Last 12m	-1,00	-0,70	USD	11,1%
Benchmark Correlation Last 12m	0,95	0,00	EUR	2,4%
			NOK	13,3%
			DKK	6,7%

Equity Performance



Portfolio Performance

