

# PORTFOLIO REPORT

EQUITY PERFORMANCE

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HCM

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HANDELS CAPITAL MANAGEMENT

February 2021

## CEO Comments

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February was a very strong month for our stock portfolio which returned 5.0 percent, while the overall stock market returned 3.0 percent. We also made another investment following our research and evaluation in the last months. The new holding is the video software company Pexip. They have shown an impressive historic growth, not just amid the lockdowns and we believe this will continue. They have also established a competitive advantage through their high security, and we find the stock attractively valued in relation to comparable software companies.

The main event in February was the life signs that inflation showed. The sentiment has been that we will not see inflation and increased bond yields in many years, but this thesis was questioned in February as inflation seemed to pick up and the 10-year government bond yield soared in February. This does not favor growth stocks which have been favored for long as interest rates has decreased. Instead, value stocks made a return in February. Our rather neutral exposure in growth versus value stocks kept our return intact throughout the month while many growth investors saw the value of their portfolios decrease.

The main micro event in our portfolio was probably, on the contrary to last month, unwelcomed news regarding our holding company Catella. Their business area “systematic funds” made a significant loss following large outflows from their funds. This part of Catella was however never part of our investment case. We value the PIM business and their corporate finance division. Even if the other business areas would be worth nothing, we still find these business areas undervalued. So, our long-term case remains intact while the stock took a hit in the short run.

Felix Ljungström

19/03/21

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## Asset Manager's Comments

Hello,

We're continuing 2021 with another strong period. During February, OMXSGI rose +3,0 % and the index closed at +5,6 % YTD. Compared to OMXSGI, our equities traded +5,0% for the month and HCM is +6,7 % YTD. The year has started very strong, where Kindred has been the main generator of our returns. The best performers during the month were Kindred, Pexip and Fortnox. The worst performers were Catella, Balco and GHP.

In this letter, I will talk about our new investment idea in Pexip, that is a software company that develops and sells video conferencing software. "Oh, another Zoom in a crowded space..." is something we hear a lot. At the surface, it may look like it, but if one checks under the hood, there's another story. Pexip is a video platform focusing on secure, scalable and interoperable solutions. In other words, a perfect fit for large enterprises. This is demonstrated by their customer list, where they can boast with NASA, Veteran Affairs and Intel. Also, since telehealth has exploded during COVID, health providers require a video platform that can securely store confidential personal data. Both Zoom, Teams and Google Meet run their video platform in shared datacentres, meaning that the data isn't safe enough. With Pexip, the provider can host the data streams on-premise or in a private cloud. This is proven by the fact that Pexip hosts over 50% of the telehealth calls in the US. Pretty strong offering, we believe.

During the last year and in the coming 2 years, Pexip will invest heavily in sales staff. In 2019 they had 180 employees and by 2023 they're targeting 750. This will of course lead to a temporary pressure on margins. But when you have a ratio of 6x LTV/CAC, there are obvious reasons to invest heavily. Anything else would be foolish. Generally, it takes 9-12 months for a sales representative to reach 100 % capacity. By looking at the timing of new sales reps we expect ARR growth to pick up from H2 2021 and onwards. Since the business is 98 % recurring in nature with over 90 % gross margins, we have reasons to believe that the long-term EBITDA will expand over 40 %.

The company is trading at 3,5x ARR for its 2024 target. In 2020 they moved forward their target of 300 USDm in ARR from 2025 to 2024. We believe this will be achieved already during H1 2023. What should one value a company that will grow over 25 % for many years, expanding margins, has a strong market position within a smaller niche and almost 100 % recurring revenues? We believe that the company is trading far below intrinsic value and that the share price will re-rate as the company continues to show stellar growth and execution.

The whole portfolio returned +1,2% in February, lagging our benchmark which gained +1,5 % during the month. Global Bonds returned -0,4 % compared to our benchmark which was down -1,1 %. Corporate Bonds returned a negative -0,8 % compared to our benchmark at -0,9 %. Alternative Investments returned a negative -2,9 % 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

19/03/21

## Top Ten Equity Holdings

Company Name	% Portfolio	Value
<u>Top ten holdings</u>	<u>75,0%</u>	<u>5 334 007</u>
Kindred	17,6%	1 255 500
SBB	10,5%	749 390
Investor AB A	9,9%	702 900
BillerudKorsnäs	7,5%	530 640
Microsoft	5,6%	400 012
C-RAD	5,5%	390 400
Latour	4,7%	337 450
Medistim	4,7%	332 880
Catella	4,6%	329 625
Pexip	4,3%	305 210

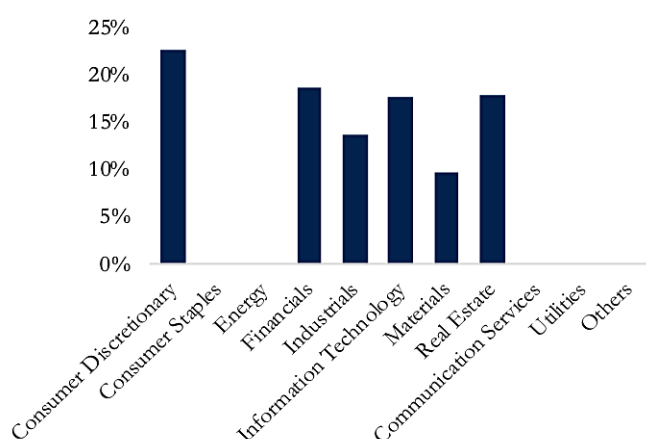
## Gainers and Losers

Five Largest Portfolio % Gainers	% Portfolio	% Gain
Microsoft	5,6%	954,7%
MedCap	4,0%	124,7%
ChemoMetec	4,2%	123,0%
SBB	10,5%	89,2%
Kindred	17,6%	63,5%

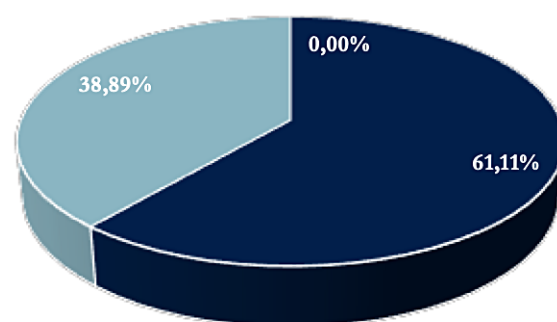
Five Largest Portfolio % Losers	% Portfolio	% Loss
Loomis	2,8%	-14,9%
Fortnox	3,8%	8,9%
GHP Speciality Care	3,8%	14,8%
Catella	4,6%	16,9%
Pexip	4,3%	18,4%

## Market Cap Analysis

### Market Sector



### Market Cap Breakdown



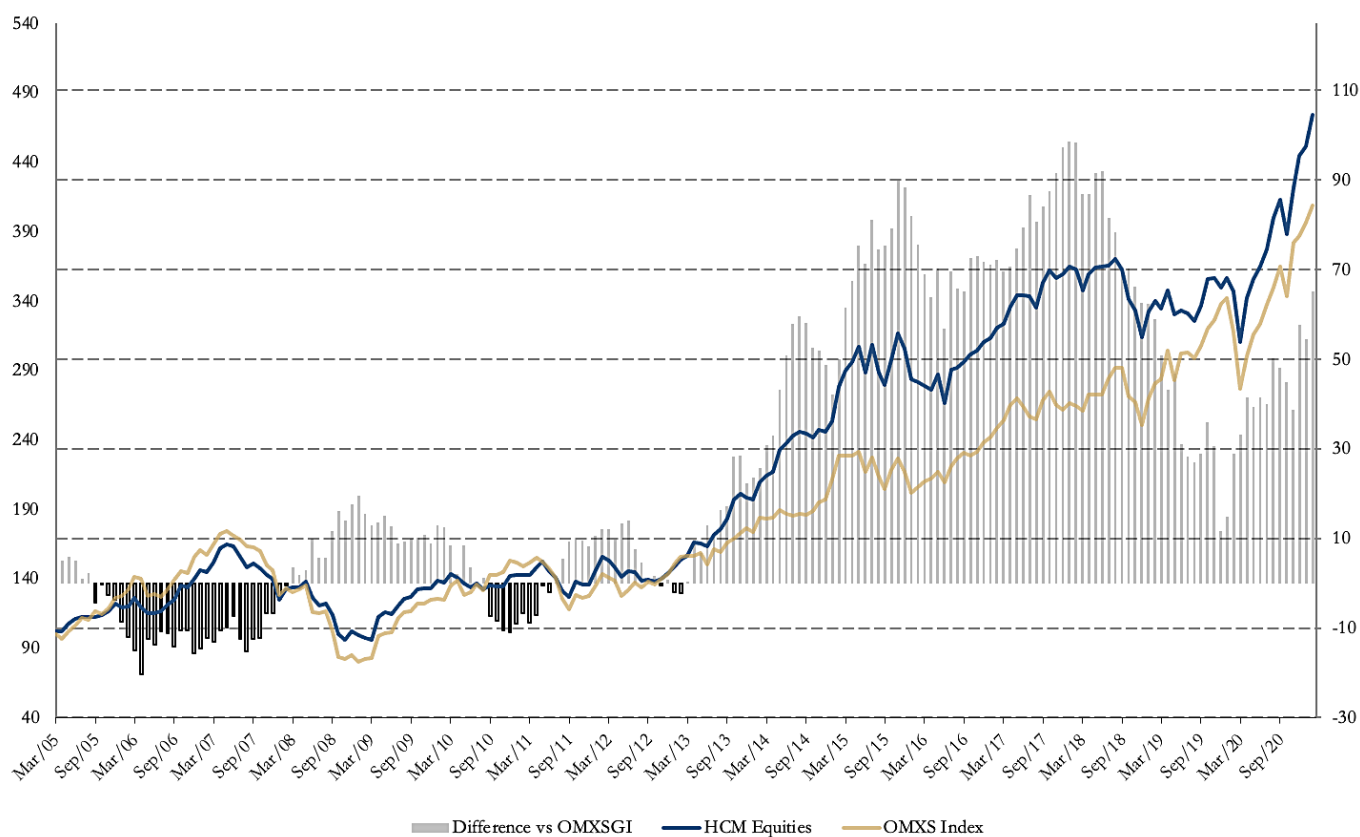
■ Large cap ■ Mid Cap ■ Small Cap

## Equity Portfolio Statistics

Valuation			Risk		
	Portfolio	Benchmark		Portfolio	Benchmark
P/E - Current Fiscal Year	25,7	16,9	5 Year Beta	0,81	0,63
P/E - Next Fiscal Year	27,9	19,5	2 Year Beta	0,93	0,74
Price/Book	2,30	3,38	1 Year Beta	0,93	0,66
Price/Sales	3,15	3,40	5 Year Price Volatility	29,1	26,7
Enterprise Value/EBITDA	33,4	17,7	2 Year Price Volatility	42,4	30,4
ROE	23,5%	17,9%	1 Year Price Volatility	49,4	35,2
Dividend Yield	2,7%	2,2%			
			Growth		
	Portfolio	Benchmark		Portfolio	Benchmark
			% EPS Growth - 5 Yr CAGR	16,7%	6,1%
			% Rev Growth - 5 Yr CAGR	13,6%	4,1%



## Equity Performance



## Portfolio Performance

