

HCM

HANDELS CAPITAL MANAGEMENT

PORTFOLIO REPORT

February 2019

CEO'S COMMENTS

The Q4 earnings season is coming to a closing and markets have continued with good performance across the board. However, many companies have indicated and confirmed the worrying development in the Chinese market and lowered their forecast. Caterpillar, the world's largest construction equipment manufacturer, reported sales down 4% in the Asian market, guided for flat growth in 2019 and traded down almost 10% before recovering. The cyclical automotive sector has also indicated uncertainty going forward with German tire maker Continental and bearings producer Schaeffler reporting an "extremely challenging business environment". Car sales in Europe fell by 4,6 percent in January, down for five consecutive months. The largest market in the world, China, has continued to decline and latest reports indicate a 19% year-on-year drop in February.

Furthermore, China has been the topic of economic outlook as the country which will drive global growth has indicated a slowdown. In addition to car sales, market has focused on GDP numbers and although still withholding a high growth of 6,6 percent, supported by tax cuts and debt, many are skeptical to the quality in the reported numbers. Looking at other data such as Japanese and Korean exports to China the dark cloud has grown even larger past few months. South Korean shipments fell 17 percent y-o-y in February for the fourth straight month. Last few months I have written about the negative PMI-data and trade conflict, and although we do not base our investment decision solely on macroeconomic factors, we do ask ourselves why the market has started the year exceptionally strong in 2019. The sharp decline towards the end of last year could explain some of it, dovish central banks and interest rates remaining low could be another. However, our view is that markets are indicating happy days and economic data is showing something different.

Just to make a comment on our portfolio underperformance last few months. Firstly, our macroeconomic view and stock-picking has had a negative impact, missing out on the surge in materials and industrials sector with for example Boliden, Volvo and Atlas Copco trading up 17-29 percent YTD. Secondly, hedgefund Gladiator has a higher volatility than benchmark and is positioned net-short, underperforming heavily this year. Lastly, the US dollar has strengthened and with our corporate bond positions being currency-hedged we miss out on this gain. In light of this we are continuously evaluating our holdings, currency and sector exposure. To be continued..

2019-03-14

Filip Andreasson
Chief Executive Officer

ASSET MANAGER'S COMMENTS

Purchases: BillerudKorsnäs, Oaktree, Catella, MSAB, Danske and Actic

Disposals: Loomis, DNB, Platzer and Volati

During the month of February, markets continued to recover from the sharp decline in Q4 2018 and the Swedish index OMXSGI gained 3,98%. At current levels, the market seems to already have discounted a good US-China trade deal and other worries such as Brexit does not seem to bother the market either. HCM's equities returned 2,23% in February, falling short of benchmark, where a large portion is attributable to Attendo which delivered a Q4 well below market expectations. Combined with a bad guidance for 2019 and 2020, the share traded down 20% on reporting day, although having recovered somewhat since.

Our portfolio returned 0,79% in the month, missing our benchmark by 1,16 p.p. Alternative Investments and Corporate Bonds underperformed for the second consecutive month. AI is explained by underperformance in Gladiator and CB relates to our benchmark being rebased from USD to SEK every month and since our positions are currency hedged we naturally underperform.

Two new additions to the portfolio the past month are Catella and Actic. Catella is going through an interesting transformation, where the company has operated an unprofitable bank for many years that will be divested during 2019. We believe this will shed light on the profitable value drivers in the business – Asset Management and Corporate Finance. AM consists of Property Investment Management (PIM), Hedge funds and Mutual funds. PIM has invested a lot during 2018 which has impacted margins negatively but looking forward we believe this will result in continued growth combined with a potential upside on margin improvement. The stock is currently trading at an estimated 8x Earnings 2019 and in addition to a 4,4% dividend yield we expect the company to shift out excess cash from the bank divestment after the deal is closed.

Actic is a fitness studio chain operating gyms in Sweden, Norway and Germany. Most of their gyms are in connection with a swimming hall which creates a unique offer and differentiation from competitors. Since the IPO in 2017 the company has performed poorly but we expect strong cash flows going forward and that the new board and management can change the margin trend.

We have sold our position in Volati after continued weak performance from their subsidiaries. Long time favorite Loomis has rallied and we've decreased our position for now. The money from these transactions has been allocated to our new positions but also used to increase some of our core holdings.

Sincerely,

2019-03-14

Karl Norén
Head of Asset Management

PORTFOLIO PERFORMANCE

Portfolio Holdings	1 Month	End of Month Portfolio Weight	Benchmarks	1 Month
Alternative Investments	-2,5%	18,4%	Barclay Hedge Fund Index	1,2%
Gladiator	-4,5%	11,5%		
Nektar	1,2%	6,8%		
Corporate Bonds	0,4%	9,3%	S&P Corporate Bond Index SEK	2,3%
Carnegie Corporate Bond	0,6%	4,9%		
Nordea US Corporate Bond Fund	0,3%	4,4%		
Global Bonds	3,2%	13,4%	S&P Global Dev. Sov. Bond Index	1,1%
Parvest Bond Absolute Return	2,7%	6,3%		
Templeton Global Total Return	3,7%	7,1%		
Money Market	0,2%	24,5%	OMRX Money Market Index	0,0%
Spiltan Räntefond Sverige	0,2%	24,5%		
Equities, including cash on hand	2,2%	34,4%	OMXSGI	4,0%

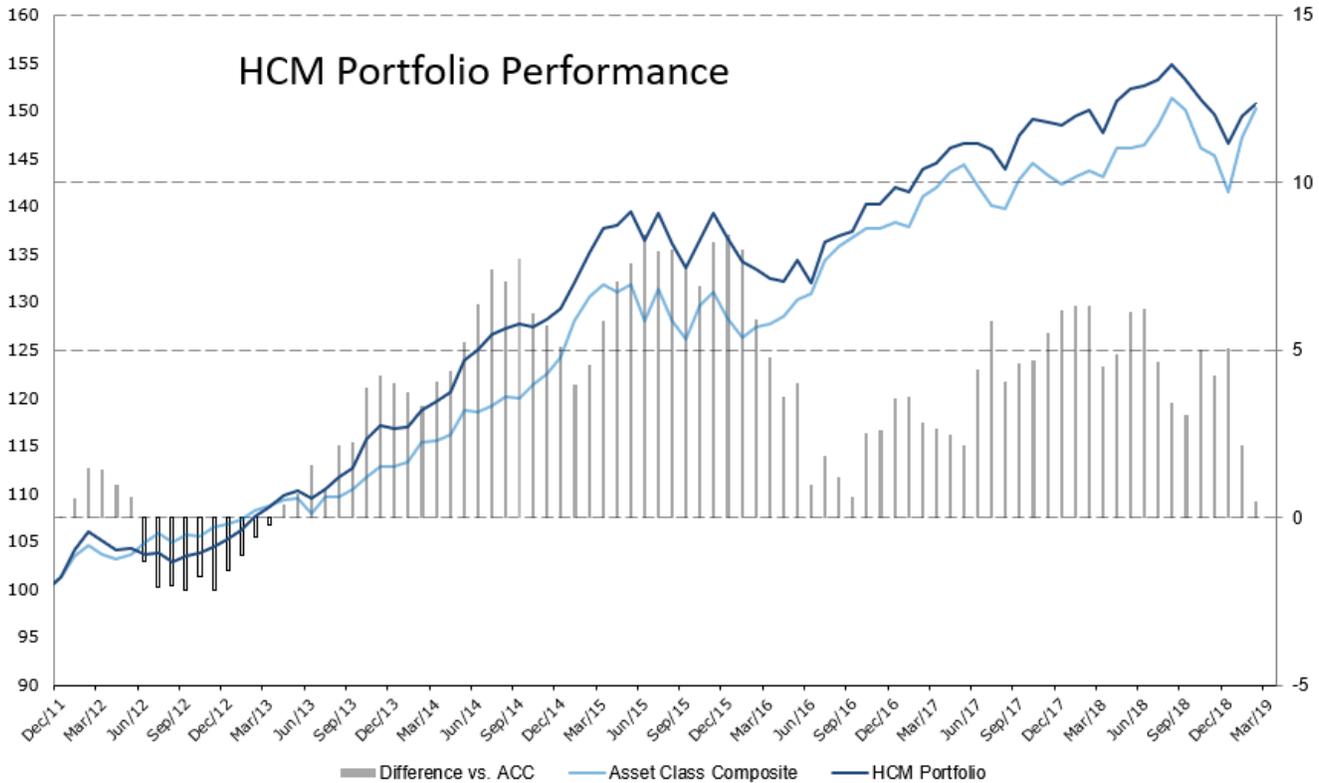
Return & Risk	HCM	Benchmark
Last Month	0,79%	1,95%
Year to Date	2,79%	6,13%
Last Twelve Months	0,36%	4,44%
Since Start (Dec. 2011)	50,62%	50,15%
Average Yearly Return	5,81%	5,77%
Months Active	87	87
Number of Positive Months	61	62
Number of Negative Months	26	25
Annualized Std. Dev. Last 12m	4,72%	6,64%
Sharpe Ratio Last 12m	-0,19	0,48

Allocation Limits	Min.	Actual	Max.
Alternative Investments	15%	18,4%	25%
Corporate Bonds	5%	9,3%	15%
Global Bonds	10%	13,4%	20%
Money Market	10%	24,5%	25%
Equities	10%	29,4%	30%

Currency Exposure	
SEK	79,0%
USD	18,7%
NOK	0,0%
DKK	2,2%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2011												1,35%	1,35%
2012	2,71%	1,85%	-0,85%	-0,89%	0,13%	-0,63%	0,17%	-0,87%	0,61%	0,21%	0,59%	0,75%	3,78%
2013	0,92%	1,38%	0,51%	0,71%	0,21%	-0,70%	0,93%	1,12%	0,88%	2,55%	1,25%	-0,18%	9,97%
2014	0,11%	1,51%	0,71%	0,80%	2,76%	0,88%	1,26%	0,50%	0,43%	-0,27%	0,68%	0,82%	10,65%
2015	2,05%	2,38%	1,94%	0,25%	1,00%	-2,12%	2,09%	-2,34%	-1,86%	2,19%	2,09%	-1,88%	5,73%
2016	-1,80%	-0,68%	-0,65%	-0,29%	1,69%	-1,80%	3,29%	0,52%	0,33%	2,02%	0,03%	1,20%	3,80%
2017	-0,28%	1,70%	0,43%	1,08%	0,29%	0,07%	-0,45%	-1,48%	2,45%	1,21%	-0,24%	-0,16%	4,66%
2018	0,61%	0,42%	-1,60%	2,23%	0,86%	0,24%	0,33%	1,04%	-0,99%	-1,33%	-1,04%	-2,04%	-1,35%
2019	1,93%	0,79%											2,79%
Total													50,62%

Portfolio Holdings	Quantity	Initial Values		Market Values		Unrealized P/L		Weight
		Price/Share	Value	Price/Share	Value	Amount	%	
Alternative Investments			1 853 388		2 117 106	263 717	14,2%	18,4%
Gladiator	403	2 612	1 053 390	3 297	1 329 500	276 110	26,2%	11,5%
Nektar	313	2 552	799 999	2 512	787 606	12 393	-1,5%	6,8%
Corporate Bonds			968 281		1 075 635	107 354	11,1%	9,3%
Carnegie Corporate Bond	1 350	359	484 649	422	569 400	84 751	17,5%	4,9%
Nordea US Corporate Bond Fund	5 125	94	483 632	99	506 235	22 603	4,7%	4,4%
Global Bonds			1 152 009		1 549 063	397 054	34,5%	13,4%
Parvest Bond Absolute Return	1 850	358	591 226	443	730 838	139 612	23,6%	6,3%
Templeton Global Total Return	2 838	198	560 782	288	818 225	257 442	45,9%	7,1%
Money Market			2 800 115		2 824 909	24 794	0,0%	24,5%
Spiltan Råntefond Sverige	23 172	121	2 800 115	122	2 824 909	24 794	0,0%	24,5%
Equities			3 187 414		3 959 827	68 173	2,1%	34,4%
HCM Equities			3 187 414		3 393 587	68 173	2,1%	28,2%
Cash on Hand					566 240			4,9%
Total			9 961 207		11 526 539	861 093	8,6%	100%



EQUITIES PERFORMANCE

Equities	Quantity	Initial Values		Market Values		Unrealized P/L			Weight
		Price/Share	Value SEK	Price/Share	Value SEK	Amount	%	1 Month	
Actio	4 000	35,1	140 476	34,5	138 000	-2 476	-1,76%	0,00%	4,07%
Attendo	3 894	86,6	337 143	62,9	244 738	-92 405	-27,41%	-9,57%	7,21%
B3IT	2 300	83,5	191 958	64,0	147 200	-44 758	-23,32%	-5,88%	4,34%
BillerudKorsnäs	3 030	118,3	358 307	120,3	364 509	6 202	1,73%	5,39%	10,74%
Catella	7 000	23,8	166 691	25,3	176 750	10 059	6,03%	0,00%	5,21%
Danske Bank	1 400	141,7	277 770	130,5	257 242	-20 529	-7,39%	9,97%	7,58%
Engelska Skolan	1 852	65,5	121 267	61,6	114 083	-7 184	-5,92%	-4,64%	3,36%
Firefly	2 358	49,9	117 733	46,6	109 883	-7 850	-6,67%	0,00%	3,24%
Kindred	3 165	95,4	301 928	96,9	306 625	4 697	1,56%	4,37%	9,04%
Loomis	700	259,4	181 586	336,0	235 200	53 614	29,53%	3,77%	6,93%
Micro Systemation	2 793	62,7	175 183	54,5	152 219	-22 964	-13,11%	-2,68%	4,49%
Microsoft	165	27,7	30 688	112,1	170 841	140 153	456,70%	9,63%	5,03%
Nobina	3 000	59,8	179 331	64,2	192 450	13 119	7,32%	3,55%	5,67%
Oaktree Capital	590	41,5	222 282	42,4	230 914	8 632	3,88%	6,02%	6,80%
Southwest Airlines	400	52,4	184 948	56,0	207 061	22 113	11,96%	0,84%	6,10%
Xact OMXS30	1 820	187,1	340 600	190,0	345 873	5 273	1,55%	3,85%	10,19%
Total			3 187 414		3 393 587	68 173	2,14%		

Best Performers	1 Month
Danske Bank	9,97%
Microsoft	9,63%
Oaktree Capital	6,02%

Worst Performers	1 Month
Attendo	-9,57%
B3IT	-5,88%
Engelska Skolan	-4,64%

Currency Exposure	Weight
SEK	78,13%
USD	15,37%
NOK	0,00%
DKK	6,50%

Allocation Limits	Actual	Allowed
Nordic Large Cap Exposure	51,69%	>50%

Largest Equity Weight		
BillerudKorsnäs	10,74%	<15%

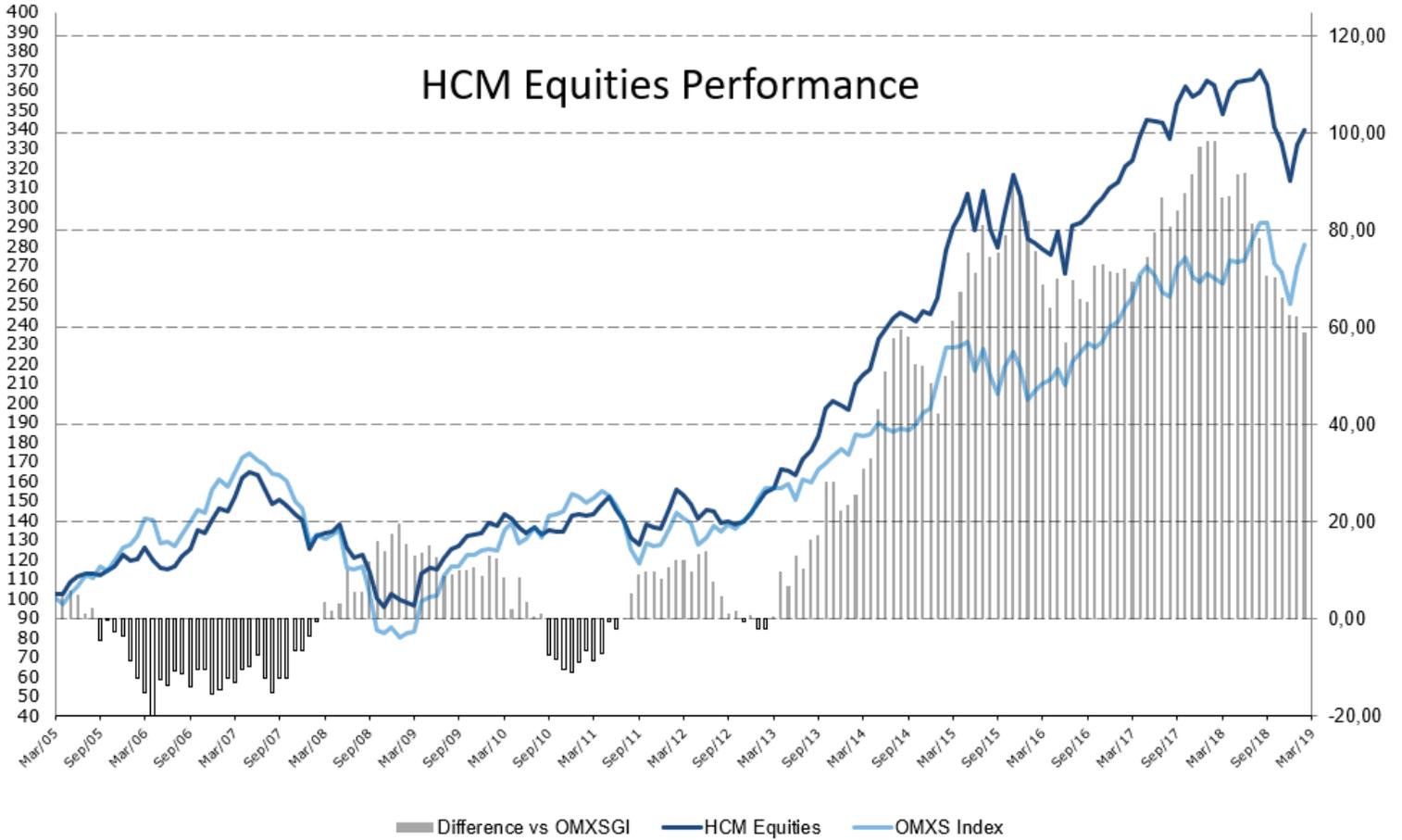
Lowest Equity Weight		
Firefly	3,24%	>2,5%

Largest Non-Nordic Large Cap		
Southwest Airlines	6,41%	<7,5%

Return & Risk	HCM Equities	Benchmark
Last Month	2,23%	3,98%
Year To Date	8,37%	11,93%
Last Twelve Months	-6,30%	6,27%
Since Start (March 2005)	239,84%	180,86%
Average Yearly Return	9,13%	7,66%
Months Active	168	168
Number of Positive Months	98	104
Number of Negative Months	70	64
Annualized Std. Dev. Last 12m	12,16%	14,33%
Sharpe Ratio Last 12m	-0,62	0,35
Benchmark Correlation Last 12m	0,93	

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2005			1,96%	0,02%	5,89%	3,12%	1,26%	-0,07%	-0,36%	1,61%	1,97%	5,16%	22,33%
2006	-2,59%	0,88%	4,84%	-5,22%	-3,35%	-0,48%	1,23%	4,39%	2,96%	7,87%	-1,02%	5,04%	14,61%
2007	4,35%	-1,06%	4,81%	6,58%	1,72%	-0,72%	-4,62%	-4,76%	1,54%	-2,10%	-3,19%	-2,11%	-0,33%
2008	-10,54%	5,75%	1,02%	0,42%	2,94%	-8,80%	-4,09%	1,11%	-6,85%	-12,25%	-3,86%	6,80%	-26,67%
2009	-2,96%	-1,78%	-1,61%	16,85%	3,14%	-1,09%	5,53%	3,60%	1,12%	4,43%	0,47%	0,37%	30,15%
2010	3,72%	-0,93%	4,63%	-2,04%	-2,70%	-2,25%	2,06%	-2,71%	2,98%	-1,65%	-0,09%	6,01%	6,70%
2011	0,33%	-0,21%	0,18%	3,63%	2,32%	-4,43%	-3,39%	-6,73%	-2,82%	8,83%	-1,49%	-0,16%	-4,73%
2012	7,30%	6,77%	-1,78%	-2,94%	-4,89%	3,01%	-0,53%	-4,24%	0,43%	-1,08%	1,50%	2,94%	5,80%
2013	3,67%	3,27%	1,67%	5,99%	-0,38%	-1,16%	4,97%	2,57%	4,07%	7,66%	2,04%	-1,26%	38,07%
2014	-0,84%	6,49%	2,08%	1,42%	7,23%	2,14%	2,37%	1,16%	-0,78%	-1,14%	2,39%	-0,59%	23,80%
2015	3,13%	9,84%	4,13%	2,20%	3,63%	-6,16%	7,12%	-6,57%	-3,00%	6,39%	6,29%	-3,40%	24,33%
2016	-7,09%	-0,83%	-0,91%	-1,12%	4,20%	-7,39%	9,15%	0,56%	1,23%	1,88%	1,06%	1,88%	1,53%
2017	0,85%	2,59%	0,89%	3,80%	2,49%	-0,11%	-0,23%	-2,32%	5,24%	2,59%	-1,55%	0,74%	15,76%
2018	1,57%	-0,55%	-4,11%	3,35%	1,22%	0,27%	0,20%	1,27%	-2,12%	-5,81%	-2,43%	-5,84%	-12,67%
2019	6,02%	2,23%											8,37%
Total													239,84%

HCM Equities Performance



BENCHMARKS

OMX Stockholm All-Share Gross Index (OMXSGI)

The OMX Stockholm All-Share Gross Index includes all the shares listed on OMX Nordic Exchange Stockholm. The aim of the index is to reflect the current status and changes in the market. Dividends are re-invested in the index. The index is market capitalization weighted and is calculated in Swedish Kronor. Note that historically Handels Capital Management used OMXSPI, but after revising the performance measurement to include changes in cash on hand and thus dividends for HCM Equities, the benchmark index was changed accordingly.

http://www.nasdaqomxnordic.com/index/index_info/?Instrument=SE0002416156

Barclay Hedge Fund Index

The Barclay Hedge Fund Index is a measure of the average return of all hedge funds (excepting Funds of Funds) in the Barclay database. The index is simply the arithmetic average of the net returns of all the funds that have reported that month.

http://www.barclayhedge.com/research/indices/ghs/Hedge_Fund_Index.html

S&P U.S Investment Grade Corporate Bond Index Rebased

The S&P Corporate Bond Index is an equally weighted basket of 5612 investment-grade corporate bonds with laddered maturities. The index intends to measure the return of readily tradable, high-grade U.S. corporate bonds. The index is denominated in USD, and is therefore rebased to SEK on a monthly basis.

<http://us.spindices.com/indices/fixed-income/sp-us-issued-investment-grade-corporate-bond-index>

S&P Global Developed Sovereign Bond Index

S&P Global Developed Sovereign Bond Index is a comprehensive index designed to track the performance of local currency-denominated securities publicly issued by developed countries for their domestic markets. Its 1300 components are market-value-weighted. The index is denominated in USD, and is therefore rebased to SEK on a monthly basis.

<http://us.spindices.com/indices/fixed-income/sp-global-developed-sovereign-bond-index-usd>

OMRX Money Market Index

OMRX Money Market Index is an index related to treasury bills, nominal treasury bonds with benchmark status and a time to maturity of less than one year.

https://indexes.nasdaqomx.com/docs/Methodology_OMRX.pdf

Asset Class Composite Index

The ACC-index is a tailor made index constructed solely to reflect the tactical asset allocation implemented by HCM. It is calculated from all of the above named indices. The indices are reweighted on a monthly basis by each asset class's weight in the HCM portfolio as per the previous month's closing balance.

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