ST. PETRI CAPITAL

YEAR 2019

COMMENTS

St. Petri Capital is a long-short thematic hedge fund. The investment process focuses on structural changes and their implications for companies' cash flows. The fund uses operational investment themes to identify disrupters (long) and disrupted companies (short). The investment process is unchanged since the mid-1990s.

During 2019, the fund delivered a positive return of 10.10%[1]. The fund made a positive contribution of 35.67%[2] on the long side and lost 21.23%[2] on short positions. Overall performance was positive throughout the first half and accelerated significantly during the second half. The fund has had an average net-long exposure of 20.4%[3]. All the outperformance within the long positions can mainly be attributed to two themes: Internet of Things (+9.21%) and Online Retail Transition (+5.19%). Positive contribution from the Online Retail Transition theme was achieved despite being on average net short (2.04%) throughout the year. Sector wise, the main contributors were Information Technology (+8.10%) and Consumer Discretionary (+7.64%). Within Information Technology, the fund maintained, on average, a net-long position of 10.19%, whereas within the Consumer Discretionary sector, the fund had on average a net-long position of 5.13%. Entering 2019, the main contribution to the fund's performance came from companies like Soitec, AMS and STMicroelectronics within the Internet of Things theme. Whereas in the second half, the main contribution to performance came from the Online Retail Transition theme, where especially HelloFresh and Home24 did well. On the short side, the Low Volatility Exuberance theme was the main negative contributor (-5.81%). The companies within this theme have been helped by ultra-low interest rates. Despite the negative contribution, we maintain our conviction and exposure.

Top stock contributors to performance were: long HelloFresh (1012bp), which continued to deliver excellent topline growth and profitability in 2019 helped by the meal-kit market gaining momentum; long STMicroelectronics (413bp) as the growth and profitability trajectory were fuelled by mobile phones and EVs; and long Zalando (220bp) which has given surprisingly reassuring growth and profitability targets during the year. On the negative side were: short AtlasCopco (-188bp) – a high-quality engineering company, but simultaneously very expensive and approaching the end of its cycle – a position that we maintain in 2020. Short Apple (187bp) and short JM (159bp). We continue to be skeptical regarding Apple's ability to transform its business model away from hardware (mainly iPhones). JM manages construction buildings in Sweden, mainly in Stockholm area. Given ultra-low interest rates, we maintain our exposure and conviction and expect the real estate market in Sweden to approach end of cycle soon.

We monitor the risk profile of the fund carefully and, given the current expectations, we are satisfied with the fund's characteristics. Correlation with the overall market remains low at 0.34, Standard Deviation (annualized) is currently at 8.88, VaR 95% (ex-Post) at -0.75% and Max Drawdown (2019) at -6.57%. We continue to be cautious on the outlook going forward, as we are approaching the end of an (historically long) economic cycle and interest rate levels that are already unnaturally low. Risks are building, both macro and politically. Given the recent performance in equities, valuations are no longer very attractive, especially given record high margins.

[1] After all costs

[2] Before all costs

[3] Average short and long positions of 64.27% and 84.67%, respectively. In the calculation of long and net-long positions, an average weight in Gold of 8.88% has been taken into account.

STATISTICAL SUMMARY

RETURN[1]	ST. PETRI L/S[2]	INDEX[3]
Total Return	14,03	26,99
Maximum Return	2,66	2,82
Minimum Return	-1,55	-2,68
Mean Return (Annualized)	20,90	41,13
Relative Total Return	-12,96	
Mean Excess Return (Annualized)	-14,34	
Bear Mean Excess Return (Annualized)	292,72	
Bull Mean Excess Return (Annualized)	-70,08	
Maximum Drawdown	-6,57	-6,99
Maximum Drawdown Length	25,00	30,00
Maximum Increase	16,37	29,52
Maximum Recovery Period	114,00	56,00
Maximum Relative Drawdown	-0,19	
Maximum Relative Drawdown Length	130,00	
Maximum Relative Recovery Period	191,00	
Recovery Period from Maximum Drawdown	89,00	26,00

RISK	ST. PETRI L/S[2]	INDEX[3]
Standard Deviation (Annualized)	8,88	11,40
Downside Risk (Annualized)	6,02	8,40
Kurtosis	1,87	2,34
Skewness	0,41	-0,35
Semivariance (Annualized)	8,43	12,24
VaR 95% (ex-post)	-0,75	-1,19
VaR Gaussian	-0,85	-1,07
Tracking Error (Annualized)	11,83	
Bear Tracking Error (Annualized)	9,74	
Bull Tracking Error (Annualized)	10,89	

RISK/RETURN	ST. PETRI L/S[2]	INDEX[3]
Sharpe Ratio	1,63	2,45
Sortino Ratio Vs Riskfree	1,72	2,28
Jensen Alpha	7,11	
Information Ratio	-0,89	
Modigliani RAP	-0,09	
Sortino Ratio vs Index	-1,24	
Treynor Measure	0,55	
Bear Information Ratio	17,03	
Bear Jensen Alpha	-8,15	
Bear Sortino Ratio vs Index	18,32	
Bull Information Ratio	-5,31	
Bull Jensen Alpha	28,99	
Bull Sortino Ratio vs Index	-7,40	
Alpha	0,03	
Beta (ex-post)	0,26	
Correlation	0,34	
R-Squared	0,12	
Bear Alpha	0,02	
Bear Beta	0,31	
Bear Correlation	0,33	
Bear R-Squared	0,11	
Bull Alpha	0,12	
Bull Beta	0,12	
Bull Correlation	0,10	
Bull R-Squared	0,01	
Capture Ratio	0,28	
Bull Capture Ratio	0,45	
Bear Capture Ratio	0,01	

[1] All returns in DKK.
[2] Returns before all costs.
[3] For comparison reasons we use Bloomberg Europe 500.

THEMATIC EXPOSURE [4]

Internet of Things	13,57
Green Energy Wave	9,93
Sustainability Wave	9,69
Distribution to Decline	-4,05
Black Energy Extinction	-6,03
Low Volatility Exuberance	-11,16

PERFORMANCE DECOMPOSITION BY THEMES [6, 7]

Internet of Things	9,22
Online Retail Transition	5,19
Green Energy Wave	4,41
Financial Disintermediation	-1,61
Black Energy Extinction	-3,12
Low Volatility Exuberance	-5,81

SECTOR EXPOSURE (NETTO) VS. PERFORMANCE ATTRIBUTION [1, 2, 3]

	ST. PETRI L/S[2]	CONTRIBUTION
TOTAL	100,00	14,03
Communication Services	1,11	-0,54
Consumer Discretionary	5,13	7,64
Consumer Staples	-7,65	-3,23
Financials	2,89	-0,78
Health Care	4,48	2,11
Industrials	-8,81	-0,62
Information Technology	10,19	8,10
Materials	7,71	0,70
Not Classified[8]	88,37	1,07
Real Estate	-4,96	-0,90
Utilities	1,55	0,47

PERFORMANCE DECOMPOSITION BY LONG/SHORT

	LONG	SHORT	TOTAL
2019 [1, 2, 5]	35,67	-21,23	14,03

[1] All returns in DKK.
[2] Returns before all costs.
[3] For comparison reasons we use Bloomberg Europe 500.
[4] Top three netto exposure (L/S) by theme pr. 31th December 2019.
[5] Cash had a negative contribution of 44bp.
[6] Top and bottom contributors.
[7] Total no. of positions pr. 31st December 2019 were 54 (28 long & 26 short).
[8] Cash, Cash equivalents & Gold.