ST. PETRI CAPITAL

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YEAR 2021

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 2021, the fund fell 3.7%[1]. Long positions contributed positively with 12.7%[2], whereas short positions contributed negatively with 14.6%[2].

Going into the year we maintained a cautious view. Our main thesis was that the re-emergence of inflation, combined with historically low interest rates and likewise historically high indebtedness, will disrupt areas of the stock market that is long duration in nature, highly valued, and sensitive to rising rates. After successful first 4 months, where inflation and interest rates moved up in tandem, the fund gained more than 10%. Thereafter the performance gradually declined throughout the remainder of the year. Interest rates continued to fall despite inflation rising to levels not seen in nearly 4 decades. One way to explain the above-mentioned dispersion of rising inflation and falling rates, is the assumption of inflation pressure being temporary, a view that was adopted by the market consensus but diverged from our main scenario.

Throughout the year, our main long themes were the Green Energy & Sustainability Waves. Both themes are heavily anchored within Materials and Industrials – sectors that typically benefit from increased pricing power as capital spending increase. On the short side, most of the exposure was allocated towards Low Volatility Exuberance theme, which is mostly exposed to highly valued companies that tend to underperform when interest rates increase.

The fund has had an average net-long exposure of 26.8% during the year[3]. The positive performance within the long positions can mainly be attributed to the Sustainability Wave theme, where the fund has had an average net-long exposure of 14.4% and the theme contributed with 4.3%. The second-best performer was the Green Energy Wave theme, with a net-long exposure of 8.1% and a positive contribution of 2.5%. Sector wise, the main contributors were Information Technology with a positive contribution of 4.5% and net-long exposure of 8.5%, as well as Materials with a contribution of 2.3% and net-long exposure of 25.9%. The main negative contribution came from Low Volatility Exuberance theme (-5.7%), where the fund had a net short exposure of nearly 30%. Second worst-performing theme was the Digital Platform Dominance (-3.2%) with net-short exposure of 8.4%. Sector wise, the main negative contributions came from Real Estate (-3.3%) and net-short position of 12.2%, and Communications Services (-2.8%) and net-short exposure of 4.4%.

We monitor the risk profile of the fund carefully and given current expectations, we are satisfied with the fund's characteristics. Correlation, as measured over the last 12 months, as well since inception, remains low. In addition, VaR (ex-Post) also remains at the level where we are satisfied. We continue to be quite cautious and expect significant interest rate increases during this year, which could potentially disrupt areas of the equity markets that have been favored over the last few years. We continue to be long themes within Materials and Industrial which are expected to benefit from increased investments into physical assets catalyzing Green Energy Transition and Sustainability investments. Low Volatility Theme continues to be our largest pool of short ideas where we expect significant downside risk to assets negatively correlated with rising cost of capital.

[1] After all costs.
[2] Before all costs.
[3] Average short and long positions of 63.4% and 90.2%, respectively.

STATISTICAL SUMMARY

RETURN[1]	ST. PETRI L/S[2]	INDEX[3]
Total Return	-0,51	23,55
Maximum Return	2,03	2,42
Minimum Return	-2,07	-3,84
Mean Return (Annualized)	0,20	35,86
Relative Total Return	-24,06	
Mean Excess Return (Annualized)	-26,28	
Bear Mean Excess Return (Annualized)	186,30	
Bull Mean Excess Return (Annualized)	-71,79	
Maximum Drawdown	-16,41	-5,75
Maximum Drawdown Length	160,00	12,00
Maximum Increase	15,55	25,67
Maximum Recovery Period	34,00	52,00
Maximum Relative Drawdown	-0,34	
Maximum Relative Drawdown Length	217,00	
Maximum Relative Recovery Period	50,00	

RISK	ST. PETRI L/S[2]	INDEX[3]
Standard Deviation (Annualized)	11,49	12,49
Downside Risk (Annualized)	8,26	9,51
Kurtosis	0,13	2,82
Skewness	-0,11	-0,75
Semivariance (Annualized)	11,82	13,77
VaR 95% (ex-post)	-1,18	-1,34
VaR Gaussian	-1,17	-1,19
Tracking Error (Annualized)	12,78	
Bear Tracking Error (Annualized)	11,90	
Bull Tracking Error (Annualized)	11,65	

RISK/RETURN	ST. PETRI L/S[2]	INDEX[3]
Sharpe Ratio	0,04	1,99
Sortino Ratio Vs Riskfree	0,04	1,80
Jensen Alpha	-9,48	
Information Ratio	-1,53	
Modigliani RAP	-0,24	
Sortino Ratio vs Index	-1,66	
Treynor Measure	0,01	
Bear Information Ratio	9,42	
Bear Jensen Alpha	-18,92	
Bear Sortino Ratio vs Index	9,12	
Bull Information Ratio	-5,11	
Bull Jensen Alpha	-10,80	
Bull Sortino Ratio vs Index	-5,90	
Alpha	-0,03	
Beta (ex-post)	0,40	
Correlation	0,43	
R-Squared	0,19	
Bear Alpha	-0,04	
Bear Beta	0,44	
Bear Correlation	0,39	
Bear R-Squared	0,15	
Bull Alpha	0,06	
Bull Beta	0,26	
Bull Correlation	0,18	
Bull R-Squared	0,03	
Capture Ratio	0,58	
Bull Capture Ratio	0,55	
Bear Capture Ratio	0,63	

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

THEMATIC EXPOSURE [4]

Inflation Wave	18,61
Sustainability Wave	14,37
Artificial Intelligence	9,50
Distribution to Decline	-2,89
Digital Platform Dominance	-8,40
Low Volatility Exuberance	-29,02

PERFORMANCE DECOMPOSITION BY THEMES [6, 7]

Sustainability Wave	4,25
Green Energy Wave	2,50
Financial disintermediaries	2,14
Distribution to Decline	-1,82
Digital Platform Dominance	-3,17
Low Volatility Exuberance	-5,65

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

	ST. PETRI L/S	CONTRIBUTION
TOTAL	**100,00**	**-0,51**
Information Technology	8,51	4,51
Materials	25,87	2,26
Consumer Discretionary	2,41	2,07
Utilities	-0,24	0,36
Health Care	10,66	0,13
Financials	2,44	-0,34
Consumer Staples	-0,68	-0,53
Industrials	3,38	-0,72
Not Classified[8]	64,20	-2,22
Consumer Staples	-4,36	-2,79
Real Estate	-12,17	-3,25

PERFORMANCE DECOMPOSITION BY LONG/SHORT

	LONG	SHORT	TOTAL
2021 [1, 2, 5]	12,67	-14,35	-0,51

[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 2021. Average % Weight.
[5] Cash had a positive contribution of 116bp.
[6] Top and bottom contributors.
[7] Total no. of positions pr. 31st Dec 2021 were 51 (24 long & 27 short).
[8] Cash, Cash equivalents & Gold.