

YEAR 2018

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.

Since its inception in March, the fund lost 9.8%.¹ The fund made a positive contribution of nearly 11% on the short side and lost almost 18% on long positions. Overall performance in the fund has been positive throughout August but in the September-November timeframe, the fund lost in excess of 10%. All the underperformance can be attributed to long positions, and mainly within information technology. Entering September-November, the fund has, on average, been between 20% and 30% net-short and has had a 12% net-long position in technology. In addition, at the beginning of September, the Value-at-Risk model indicated a loss of 5.4% over the coming 3 months (with 99% confidence level). Despite low measured risk, the fund lost money. We have been surprised by the extent to which our technology longs have fallen. Also, our large net-short exposure has not been able to offset the high beta within technology. Our fundamental view remains positive on our technology companies. They remain well positioned and are expected to play an important role in the ongoing disruption process going forward. We take comfort from the fact that the fund was positive in December, where the overall market was down nearly 6%. We will continue to monitor the risk profile of the fund carefully.

Top contributors to performance were: a short in Royal Mail (130bp contribution to performance), which is being disrupted by digitalization leading to a collapse in letter volumes, a short in Kappahl (125bp), which is being disrupted by the online transition in the retail sector, and a long in Kambi (110bp), a provider of infrastructure software for the online gaming industry. On the negative front were: a long in AMS (-370bp contribution to performance), which was hit by slower uptake of their sensing technologies mainly due to its largest client Apple, a long in Zalando (-190bp), which warned on earnings due to seasonally warmer conditions within the online apparel sector, and a long in HelloFresh (-180bp), which operates within online food delivery. The company increased its investments and thereby postponed profitability.

We continue to be cautious on the outlook for 2019. Risks are building, both macro and politically. Despite the recent pullback in equities, we continue to find valuations at risk, especially given emerging risks and record high margins.

¹ Returns after all costs.

STATISTICAL SUMMARY

RETURN¹	ST. PETRI L/S²	INDEX³
Total Return	-6,85	-7,74
Maximum Return	1,05	2,35
Minimum Return	-1,90	-3,09
Mean Return (Annualized)	-11,41	-12,22
Relative Total Return	0,89	
Mean Excess Return (Annualized)	0,92	
Bear Mean Excess Return (Annualized)	484,62	
Bull Mean Excess Return (Annualized)	-80,63	
Maximum Drawdown	-11,75	-15,99
Maximum Drawdown Length	103,00	157,00
Maximum Increase	3,99	10,55
Maximum Recovery Period	44,00	17,00
Maximum Relative Drawdown	-0,11	
Maximum Relative Drawdown Length	133,00	
Maximum Relative Recovery Period	197,00	

RISK	ST. PETRI L/S²	INDEX³
Standard Deviation (Annualized)	6,27	12,21
Downside Risk (Annualized)	4,73	9,02
Kurtosis	2,23	1,25
Skewness	-0,68	-0,33
Semivariance (Annualized)	6,85	13,21
VaR 95% (ex-post)	-0,62	-1,28
VaR Gaussian	-0,67	-1,28
Tracking Error (Annualized)	11,71	
Bear Tracking Error (Annualized)	9,62	
Bull Tracking Error (Annualized)	8,31	

RISK/RETURN	ST. PETRI L/S²	INDEX³
Sharpe Ratio	-1,33	-0,73
Sortino Ratio Vs Riskfree	-1,22	-0,68
Jensen Alpha	-6,81	
Information Ratio	0,06	
Modigliani RAP	-0,07	
Sortino Ratio vs Index	0,10	
Treynor Measure	-0,49	
Bear Information Ratio	26,35	
Bear Jensen Alpha	-13,98	
Bear Sortino Ratio vs Index	34,97	
Bull Information Ratio	-8,31	
Bull Jensen Alpha	-12,36	
Bull Sortino Ratio vs Index	-11,89	
Alpha	-0,03	
Beta (ex-post)	0,17	
Correlation	0,34	
R-Squared	0,11	
Bear Alpha	-0,01	
Bear Beta	0,20	
Bear Correlation	0,26	
Bear R-Squared	0,07	
Bull Alpha	0,01	
Bull Beta	0,11	
Bull Correlation	0,15	
Bull R-Squared	0,02	
Capture Ratio	0,24	
Bull Capture Ratio	0,16	
Bear Capture Ratio	0,33	

¹ All returns in DKK.

² Returns before all costs. The fund launched 13th of March 2018.

³ For comparison reasons we use Bloomberg Europe 500.

THEMATIC EXPOSURE ⁴

Internet of Things	+ 10,7
Green Energy Wave	+ 5,8
Digital Experience	+ 4,4
Financial Disintermediation	- 7,9
Online Retail Transition	-9,4
Low Volatility Exuberance	-18,5

PERFORMANCE DECOMPOSITION BY THEMES ^{6, 7}

Internet of Things	- 7,6
Green Energy Wave	-6,6
Digital Experience	-1,3
Financial Disintermediation	+ 0,7
Online Retail Transition	+ 1,4
Low Volatility Exuberance	+1,6

SECTOR EXPOSURE (NETTO) VS. PERFORMANCE ATTRIBUTION ^{1, 2, 3}

	ST. PETRI L/S ²	CONTRIBUTION
TOTAL	100,00	-6,85
Communication Services	-0,19	-0,36
Consumer Discretionary	0,26	-1,38
Consumer Staples	-7,75	-1,05
Financials	-1,70	0,58
Health Care	5,85	-0,68
Industrials	-5,50	1,17
Information Technology	12,98	-6,76
Materials	3,21	-0,39
Real Estate	-4,84	0,66
Utilities	-1,61	0,20
Not Classified	99,29	1,16

PERFORMANCE DECOMPOSITION BY LONG/SHORT

	LONG	SHORT	TOTAL
2018 ^{1, 2, 5}	-17,92	+10,67	- 6,85

¹ All returns in DKK.

² Returns before all costs. The fund launched 13th of March 2018.

³ For comparison reasons we use Bloomberg Europe 500.

⁴ Top three netto exposure (L/S) by theme pr. 31th December 2018.

⁵ Cash had a positive contribution of 41bp.

⁶ Top and bottom contributors.

⁷ Total no. of positions pr. 31st December 2018 were 59 (24 long & 35 short).