ST. PETRI CAPITAL

MONTHLY REPORT

May 2023

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Comments

During May, the fund delivered a positive return of 1.36%[1]. There was a positive contribution of 0.55%-points [2] from long positions, a positive contribution of 1.18%-points [2] from short positions, and cash and equivalents had a negative contribution of -0.07%-points.

In the month of May markets where somewhat hesitant given the risk of a potential US default on its debt. We saw easing inflation readouts across a variety of geographies; however, the job market still proves very resilient, making the path forward for the Fed and ECB uncertain with respects to if and how many more rate hikes we'll see.

The Sustainability Wave theme (SW) underperformed contributing with -1.55%-points. Some of our positions within this theme are quite sensitive to commodity prices such as copper and lithium. These commodities performed poorly in the month of May on a weaker than expected demand from a reopened Chinese economy and looming fear of recession. *Online Retail Transition* (ORT) also performed poorly in May contributing -0.81%-points driven by the share price of HelloFresh giving back after a period of strong performance.

Low Volatility Exuberance (LVE) was the best performing theme, contributing with 2.5%-points. Performance was driven by our short exposure to the Swedish real estate market that saw a spill-over effect from the downgrade of SBBs credit rating.

We continue to maintain a cautious view towards the European-, and especially, the Swedish-Real-Estate sector. Despite significant underperformance over the last 18 months, we believe current sector valuations do not fully reflect potential for further and deeper revaluations of properties. This could further be distorted by a potential upcoming recession triggering an increase in available rental space, further pressuring property value. Finally, we are undergoing a structural shift towards hybrid-working environments - a shift that most probably is not beneficiary for the sector.

Real Estate sector has enjoyed decades of debt fuelled growth given favourable (i.e. falling) interest rates, prompting values of the underlying assets to increase by 700% over the last 20 years, in Sweden. In a purely hypothetical scenario, if property yields – which move inverse to prices – were to reset to the 6% levels observed during the real estate correction from 2006-2008, instead of the current low levels of 3.5%, it is estimated that real estate values could potentially fall by an additional 40%. This is in stark contrast to current equity valuations, which incorporate a more conservative correction of 15%. This scenario is not unprobeable at all, especially if 10-year yields continue to normalize towards 4% (vs. current of 2.3%). Another dynamic which is hard to ignore is the amount of debt Swedish real estate companies have to refinance over the next 5 years, which equates to approximately 40 billion Euros. Typical debt maturity of Swedish companies is 4.5 years, of which approximately 70% are floating rates (vs. 2% in rest of Europe). Over the last 12 months, Swedish benchmark refinancing rate (STIBOR) has increased by 320bps (from 50bps to current 370bps). In addition, spreads (i.e. risk premiums) have increased as well as default risks are increasing - all in all yielding significantly higher refinancing rates as compared to just one year ago.

In an event where transactions will pick up given downward adjustment of property prices, many companies within the sector will experience further pressure on covenants and Loan-to-Value limits (currently at 45%) triggering yet further restructuring of balance sheets, either by cutting costs further, adjusting/scrapping dividends, issuing equity or outright selling of assets. We anticipate this scenario to play out within the next 24 months and remain comfortable with our exposure.

Statistical Summary

Return & Risk Statistics

Return/Risk	ST. PETRI L/S[4]	INDEX[5]
Return (May)	1.36	-2.52
YTD	-3.93	8.51
Since inception	91.00	39.95
Avg. Yearly Return (since inc.)	12.79	6.45
Standard Deviation (LTM)	11.08	15.05
VaR 95% (May)	1.51	
Correlation w. Index (since inc.)	0.22	

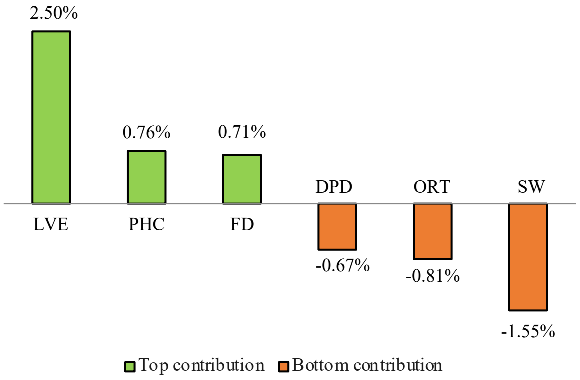
Thematic Exposure[6]

Long position	*weight, %*
Sustainability Wave	14.24
Green Energy Wave	13.14
Transition Essential Resources	11.29
Short position	
Low Volatility Exuberance	-27.39
Real Income Destruction	-10.37
Digital Platform Dominance	-3.30

Fund in numbers

AUM		310 DKKm
Average # of positions		59
	Short (#)	*28*
	Long (#)	*31*
Net long (May)		22.84
Largest sector exposure (long)		Materials (19.73)
Largest sector exposure (short)		Real Estate (-15.71)

Thematic Contribution[7]



[1] Net of all costs
[2] Gross of all costs
[3] Short and long positions of 51.86% and 74.7%, respectively
[4] Returns net of all costs
[5] MSCI Europe NDR
[6] Top three net exposures as per 31 May 2023
[7] Gross top and bottom contributors as per 31 May 2023

LVE:	Low Volatility Exuberance
PHC:	Personal Health Care
FD:	Financial Disintermediation
DPD:	Digital Platform Dominance
ORT:	Online Retail Transition
SW :	Sustainability Wave