

Like a Thief in the Night



Stockholm (HedgeNordic) - Thematic-focused equity fund **St. Petri L/S** is running well ahead in the race for the top-performing Nordic hedge fund of 2020 after gaining 8.7 percent in October even as equity markets were broadly down. Although the fund is now up 66 percent for the year, this is no time for celebration for the duo managing St. Petri L/S out of Copenhagen. Michal Danielewicz (*pictured left*) and Jens Larsson (*pictured right*) are now preparing themselves for an imminent - yet broadly ignored - risk: the re-emergence of inflation.

There were two main distinctive aspects of St. Petri L/S's development during the month of October. "The first one was the thematic exposure that did contribute quite a lot to performance, and then the long book contributed more than the short book, which is an interesting feature in a market that is down," Danielewicz tells HedgeNordic. "One particular theme that contributed to approximately 50 percent of the performance is the online retail transition theme, where we maintain a net long market exposure of 25 percent." The technology-related themes such as artificial intelligence and the environmental themes of green energy transition and sustainability also contributed strongly to performance.

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St. Petri L/S's portfolio of short positions gained 2.3 percent last month, whereas the long portfolio "contributed approximately three times that amount," according to Danielewicz. "The long book was much stronger than the short book, which can be a little bit of a puzzle in a down market," he continues. The strong performance of the fund's long portfolio shows that "the paradigm shift in terms of expectations continues to move in favour of our themes."

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St. Petri L/S gained 65.7 percent this year through the end of October and recorded only positive months in 2020. "If you look at 2020 in general so far, the COVID pandemic accelerated some of the structural changes and thereby our themes both on the long and short side," explains Danielewicz. "But it is quite important to underline that we did not initiate positions in the online retail transition theme and we did not short commercial real estate because of COVID," he emphasizes. "We have maintained those positions in the portfolio for almost three years now."

What Does the Future Hold?

With St. Petri L/S now up 66 percent in 2020 and the pace of change due to the Covid pandemic decelerating, the interesting question is what is going to happen going forward? Danielewicz puts forward three main projections for St. Petri L/S's themes and holdings going forward. "First, the online transition will continue to play along, perhaps not at the same strength, but online-focused businesses will continue to take market share away from brick and mortar businesses," says Danielewicz. Although the valuations across St. Petri L/S's holdings and themes have sharply increased this year, "there is still plenty of room for those themes to play out."

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"Thirdly, Jens and I are convinced that themes like green energy transition and sustainability will continue to accelerate regardless of the pandemic situation," continues Danielewicz. "This is so powerful of a structural change that it will continue not only this decade but for the decades to come." But should the

transition to green energy solutions decelerate or stop, “we will probably have more major problems on our hand than making profits for ourselves and our clients.”

Inflation: The Thief of the Night

Inflation has been crushed and largely ignored for a long time, but inflation remains one of the forgotten risks that can impact societies, businesses and asset prices. “One of the biggest short themes going forward is not on investors’ screens currently,” warns Danielewicz. “We are preparing ourselves for the re-emergence of inflation.” The Danish duo managing St. Petri L/S expects that “the re-emergence of inflation in a world of zero interest rates will have major implications on asset prices, which are now based on zero discount rates.” According to Danielewicz, “we think it is going to happen, it is only a question of time.”

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“This search for yields because of very low interest rates are creating tremendous imbalances,” argues Danielewicz. “Those dynamics have created asset bubbles in private equity, alternative investments, among others. All of that happens because of a lack of alternatives.” However, “interest rates will normalize one day and everything that has been based on those rock-bottom interest rates, all the value that has been created will collapse.” Danielewicz concludes by saying that inflation usually comes when everybody is least expecting it. “Inflation will come like a thief during the night and will trigger a violent repricing of assets.”