

Active Investing Back in Vogue

Stockholm (HedgeNordic) – The hedge fund community, the premium corner of the asset management industry, had one of its best years in 2020. With many Nordic hedge funds significantly outperforming equity markets last year, a subset of investors might be feeling that 2020 was not such a tough year after all. Thematic-focused equity fund **St. Petri L/S**, managed by Michal Danielewicz and Jens Larsson out of Copenhagen, topped the performance charts last year after delivering a full-year return of 98 percent.

“We at St. Petri invest in change, and the Covid pandemic accelerated some of the structural changes we had previously identified and, thereby, benefited the themes that we invest in,” Danielewicz reflects on the fund’s 2020 journey. The Europe-focused fundamental equity long/short fund seeks to identify between ten to 15 investable themes, reflected in a portfolio of around 50 carefully-selected positions – 25 long positions and 25 short positions. St. Petri L/S enjoyed only positive months throughout 2020, including the volatile month of March. “All in all, 2020 was a good year for St. Petri.”

“We at St. Petri invest in change, and the Covid pandemic accelerated some of the structural changes we had previously identified and, thereby, benefited the themes that we invest in. 2020 was a good year for St. Petri.”

Michal Danielewicz and Jens Larsson highlight two major events last year that shaped their fund’s 2020 journey. “The first one was the Covid pandemic unfolding and the markets correcting in the February-March timeframe,” Danielewicz tells HedgeNordic. “We are especially proud that we did not suffer during that period, which was probably a function of us being pretty negative going into 2020.” The nimbleness and flexibility permitted by its mandate enabled St. Petri L/S to successfully navigate the turbulent market environment of the first quarter. “From the 18th of February and through the 19th of March, we were close to exercising our maximum degrees of freedom as we were only 10 percent net long and maintained on average a short book of 68 percent.”

“We are especially proud that we did not suffer during that period, which was probably a function of us being pretty negative going into 2020.”

“The second event that was quite remarkable for us was the big rotation from growth to value that occurred at the beginning of November,” Danielewicz continues. The duo running St. Petri L/S had been preparing for the growth-value shift in anticipation of vaccine-related news, successfully rotating the portfolio into more value-oriented themes ahead and throughout the rotation period in November. “Initially, we were down in November but managed to close the month on a positive note,” with St. Petri L/S gaining almost eight percent for the month.

Successful Themes, Inflation and Active Management

In the first half of 2020, “the Online Retail Transition theme was by far the largest contributor to performance,” Danielewicz points out. This online transition theme, significantly accelerated by the Covid-19 pandemic, continued to perform well in the second half of the year, followed by the Green Energy Transition and Technology themes. “All the themes in our portfolio were not a function of Covid,” specifies Danielewicz. “Some of the main positions were initiated back three years ago,” he

continues. "Once we saw the Covid pandemic accelerating some of these structural changes, we just changed the risk profile of the portfolio by allocating more to those themes best positioned to benefit."

"All the themes in our portfolio were not a function of Covid. Some of the main positions were initiated back three years ago."

"Many of our big themes like Online Retail Transition, Digitalization, 5G/AI/IOT, Green Energy Transition are still ongoing and remain intact for the next years to come," emphasizes Danielewicz. Because St. Petri L/S is designed and positioned to benefit from change, long-run structural change, Danielewicz is optimistic – yet alert and cautious – about future prospects. "We at St. Petri are not as positive as markets in general because we have a different view on the likely re-emergence of inflation and on interest rates," argues Danielewicz. "Many investors are positive for good reasons for this year, and we do concur. We just have a different view on future interest rates."

"Many investors are positive for good reasons for this year, and we do concur. We just have a different view on future interest rates."

"If we are right that inflation will come and interest rates will be on the rise, that will create a more volatile market environment," argues Danielewicz. "The next decade could be a good period for active managers," he considers. "We foresee that the next decade could potentially be more volatile and difficult, especially if we are right about rising inflation and interest rates, and in that scenario, one needs to be liquid, flexible and unconstrained," says Danielewicz. "Be close to the EXIT sign, just in case you will need to leave." The market environment in 2020 was a case in point.

"If we are right that inflation will come and interest rates will be on the rise, that will create a more volatile market environment. The next decade could be a good period for active managers."

"If you look at 2020, our observation was that it was a good year for active managers," says Danielewicz. "It was not only St. Petri performing well, as a lot of active managers did well. On the other hand, a lot of passive and quant-based products didn't perform well, and in some cases, unfortunately, underperformed by a wide margin." Active managers struggled to keep pace with passive benchmarks over the past decade, "which was characterized by quite low volatility as a result of monetary policy repression by central banks," according to Danielewicz. "And that, in our opinion, resulted in one-way quant-driven momentum and passive trend-following. We believe that environment is coming to an end."