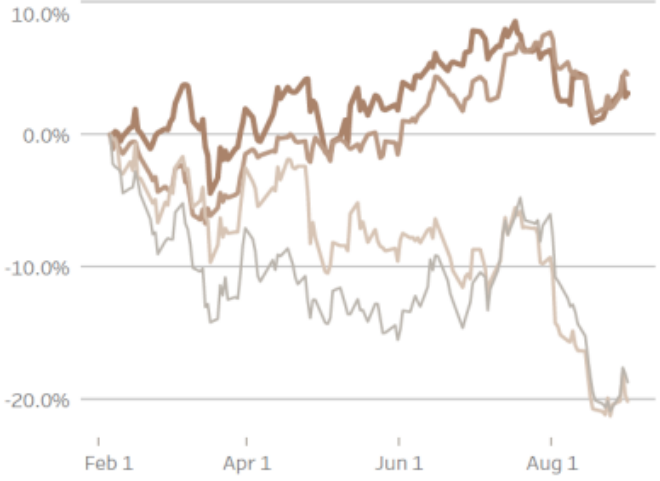
Coeli Renewable Opportunities Monthly Report August 2023 (I USD)

This material is marketing communication.

Note that the information below describes the share class (I USD), which is a share class reserved for institutional investors. Investments in other share classes generally have other conditions regarding, among other things, fees, which affects the share class return. The information below regarding returns therefore differs from the returns in other share classes.

PERFORMANCE, NET OF FEES - IUSD



WilderHill New Energy Global Innovation Index %
iShares Global Clean Energy ETF %
MSCI World Equity Index %
Coeli Renewable Opportunity %

PERFORMANCE SINCE INCEPTION

ABSOLUTE PERFORMANCE (%) [1]

Coeli Renewable Opportunity	3.2%
IShares Global Clean Energy	-20.2%
WilderHill New Energy Global I	-18.7%
MSCI World Equity	4.6%
MSCI World Small Cap	-3.5%

RELATIVE PERFORMANCE (%) [1]

IShares Global Clean Energy	23.3%
WilderHill New Energy Global I	21.9%
MSCI World Equity	-1.4%
MSCI World Small Cap	6.7%

Please note that the indices referred to in this monthly report are included for informational and illustrative purposes only. The fund is not managed in reference to the indices, but the indices are deemed to be relevant and comparable to the fund.

PERFORMANCE IN SHARE CLASS CURRENCY (%) [1]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023		0.4%	1.6%	0.3%	-0.4%	5.9%	-1.4%	-3.1%					3.3%

ATTRIBUTION AUG -23

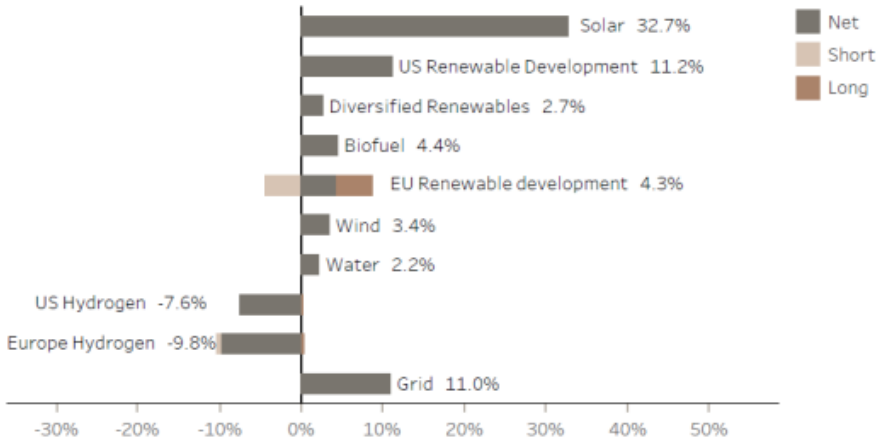
Short	4.1%
Long	-7.3%

MONTH END EXPOSURES

EXPOSURE, MONTH END

No of long positions	25
No of short positions	6
Gross Exposure (%)	100%
Net Exposure (%)	55%
Max. Largest long % NAV	8.4%
Max. Largest short % NAV	5.5%
Top 5 shorts % NAV	-22%
Top 5 longs % NAV	34%

STRATEGY EXPOSURE[1]



Past performance is not a guarantee of future returns. The price of the investment may go up or down and an investor may not get back the amount originally invested.

1) Share Class I USD

FUND MANAGER COMMENTARY

The Coeli Renewable Opportunity fund lost 3.1% net of fees and expenses in August. It is up 3.2% since the inception on February 6, 2023.

August was at the same time our best and worst month since inception. The drawdown was painful, but in line with the returns of the MSCI World equity index. More importantly, the fund substantially outperformed the most comparable renewable energy indices, the Wilderhill New Energy Global index (NEX) by 10.5% and the iShares Global Clean Energy (ICLN) by 9.0%.

Since inception, seven months ago, the outperformance is 22% and 23%, respectively. We believe this clearly validates our strategy of not only trying to go long the winners, but also actively creating alpha by shorting overvalued companies that lack a sustainable competitive advantage. We are convinced that this approach offers a distinct edge over a straightforward long-only investment strategy in this sector.

In terms of market exposure, we maintained a cautious stance throughout the month. Our net exposure hovered around 50%, aligning with our target to maintain a net long position of 40-80% within the renewable energy sector. While eight out of our ten themes contributed negatively to performance, our short-focused themes on hydrogen technology mitigated some of these losses.

MARKET COMMENT â?? TOO MUCH GOOD NEWS?

The market rally took a breather in August as both the S&P 500 and the Nasdaq 100 declined by nearly 2% following a very strong performance in the first seven months of the year.

Inflation has substantially retreated from its recent highs, while economic indicators are outpacing expectations. In our previous monthly commentary, we discussed how this â??Goldilocksâ?• scenario appeared to be already factored into market valuations.

In August, macro indicators again surprised on the upside. The yield on the 10-year US Treasury note surged, exceeding last Octoberâ??s peak and reaching heights not witnessed since before the 2008 financial crisis. What distinguishes this spike from that of last October is its driver: this time it is not inflation causing the rise but rather real interest rates. This is unfavorable for equity markets, particularly for long-duration equities like renewable energy stocks. Such stocks often rely on the promise of positive cash flows extending far into the future.

RENEWABLE ENERGY â?? HEADWINDS CONTINUE IN OFFSHORE WIND

Renewable energy stocks are out of favour. August ranked as one of the top three worst-performing months for renewable energy indices over the past decade. This downturn can be attributed to a combination of factors: rising real interest rates discouraging investments in long duration assets, coupled with a flurry of negative news affecting various segments. Some sectors are suffering from weakened demand due to high interest rates, while others are impacted by depressed prices stemming from oversupply, while delays and cancellations of orders have affected other parts of the industry.

The latter is very much the case in offshore wind, which we wrote about in the last monthly arguing that there are some signs of tailwinds despite all the headwinds. We still believe that is the case, but the headwinds are currently much stronger than expected. Late in August, **Orsted** (**ORSTED DC)**, the

global leader in offshore wind development, surprised the market with a large impairment of up to DKK 16bn on its US offshore wind portfolio. The stock fell 24% on the day and has continued to slide in September.

The surprise was not so much that **Orsted** had to do impairments, but rather the size and the fact that it came only 3 weeks after the second quarter report where **Orsted** had assured investors that there was no need for write-downs. Although the company is emphasising that the impairment is **up to** DKK 16bn and dependent on the near-term development in both long term interest rates and tax negotiations in the US, the sudden deterioration in the US supply chain, accounting for a third of the impairment, is a bad omen.

In terms of costs, offshore wind continues to become more expensive, while the costs associated with onshore wind have stabilized, and solar energy costs are decreasing. It is becoming evident that execution risks in the offshore wind sector are not adequately priced in. Specifically, the risk premium within the cost of capital appears underestimated, implying that prices may need to further increase to provide developers with an appropriate risk-adjusted return on investment.

We still believe offshore wind has a future, but it seems likely that it will take a smaller share of the total electricity market than what was generally expected only months ago. It is increasingly likely that it will take longer to achieve the ambitious targets set by policymakers than was initially anticipated.

FUND PERFORMANCE â?? STRONG RELATIVE BUT WEAK ABSOLUTE PERFORMANCE

The fund lost 3.1% (I USD) in August, pulled down by a 7.3% loss on the long holdings and partly offset by a 4.2% profit on the shorts.

The worst performing theme was not surprisingly â??Solarâ??, which drew down NAV by 2.1%. Solar is still our largest theme and with a significant net length despite having reduced exposure within residential solar in July. Most of the net length is within utility scale solar where the largest position, **Array Technologies (ARRY)** was up as much as 30% during the month. Unfortunately, the second largest position, **Shoals Technologies (SHLS)** declined by 30%**.** For comparison, the solar index (Invesco Solar ETF â?? TAN US) was down 15% in August.

The second worst performing theme was â??US Renewable Developmentâ??, which deducted 1.5% from NAV. The theme only contains the two leading renewable developers in the US, **Nextera Energy (NEE) and AES**. We are strong believers in both companies but acknowledge that these stocks are unlikely to perform as long as renewable energy is out of favour and higher interest rates are putting pressure on utility stocks in general.

The â??European Renewable Developmentâ?? theme only lost 0.2% of NAV despite positions in **Orsted**, **RWE** and **EDP Renovaveis (EDPR)**. The two latter stocks fell in sympathy with **Orsted** and over the increased uncertainty in offshore wind development. Fortunately, the net exposure in the theme was not excessive and the short positions contributed positively during the month.

The only two themes with positive returns were â??US Hydrogenâ?? and â??Europe Hydrogenâ??, both were net short and contributed 1.1% and 1.0% respectively to NAV. The US theme benefited considerably from a timely adjustment of our position in **Plug Power (PLUG).** We substantially reduced our position at the end of July and sold the rest in early August as the stock plunged 40% into second quarter earnings report and mid-month capital markets day. We have in many previous monthlies described how we are skeptical to the value proposition and thus the valuation of hydrogen companies.

We look forward to updating you again next month.

Sincerely,

Vidar Kalvoy & Joel Etzler
Date Created
2023/09/08