# Coeli Energy Transition Fund

## Monthly report - April 2020

### Performance in Share Class Currency (%)[1)]

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2019 | | | | | | | | 0.0% | -2.6% | 0.7% | 2.0% | 0.7% | 0.8% |
| 2020 | -2.0% | 2.5% | 0.3% | -5.8% | | | | | | | | | -5.0% |

### Fund Overview

| | |
|---|---|
| Inception Date | 16/08/2019 |
| Base Currency | USD |
| Month end AUM | USD 45.5m |
| Liquidity | Daily |
| Minimum investment | USD 1m |
| Management fee | 1% |
| Performance fee | 20% |

### Fund Management

Vidar Kalvoy

Joel Etzler

### Exposure, month end

| | |
|---|---|
| No of long positions | 38 |
| No of short positions | 29 |
| Gross exposure | 147% |
| Net exposure | 4% |
| Net fossil fuel exposure | -3% |
| Largest long % NAV | 6.2% |
| Largest short % NAV | 5.3% |
| Top 5 longs % NAV | 29% |
| Top 5 shorts % NAV | 25% |
| Liquidity (0-1 day, 20% participation) | 96.2% |

### Attribution

| | |
|---|---|
| Long attribution | 13.7% |
| Short attribution | -19.6% |
| Net | -5.8% |

### Disclaimer



[1)]Since inception unless otherwise stated. Share class I USD.

### Contact Coeli

Coeli Asset Management

Sveavägen 24 -26 / SE - 111 57 Stockholm

Investor Relations: investorrelations@coeli.com

Website: coeli.com

## Fund Manager Commentary

The fund returned -5.8% net of fees and expenses in April, bringing the YTD performance to -5.0%. The fund is down 4.2% since inception in mid-August last year.

April was an extreme month in many ways. Not only did the S&P 500 have its best monthly performance since 1974, but the oil price (front month WTI contract) also closed at a negative price for the first time ever. Despite the record low oil price, the S&P Energy Sector outperformed the market by almost 3x during the month. The key reason for the strong stock market was the promise of fiscal and monetary stimulus on a scale never seen. The record stimulus, combined with the hope, or even an expectation, of a relatively smooth re-opening of all Covid-19 pandemic locked-down economies, triggered the S&P 500 to recover more than 60% from its bottom in March. At the same time, oil price volatility was unprecedented as retail investors betting on a higher oil price invested a record amount of money in oil ETFs, while fundamentals were deteriorating rapidly as oil storage space was becoming dear around the globe. Since the WTI oil contract implies physical delivery of oil, the fundamentals won out against the financial flow and the contract traded briefly below USD -40 before expiring.

Unfortunately, the fund performed very poorly in this environment. Although we stayed focused on having a neutral portfolio (+/- 10%) in terms of dollar, market and oil beta, we were obviously too defensively positioned. As retail money flowed into the energy space, positioning and technicals became far more important than fundamentals. We spent too much time analyzing how fast oil demand could recover from the pandemic and which sub-sectors and companies would be better positioned to endure the mayhem of lower oil prices and large investment cuts. With hindsight, we should have taken a cue from all the request from friends asking for advice on how to buy oil and understood that in times of massive uncertainty, simplistic models and assumptions work better, at least in the short term.

Most of our themes were down in April, but the largest losers were Equipment and Land Drilling vs. Completions. In the former, the biggest dud was Core Laboratories which almost doubled during the month, while our long hedges in the theme only recovered by 20-30%. It was a similar story in Land Drilling vs. Completions where some of the US pressure pumpers recovered most of the losses incurred in March. This despite of completion activity dropping to record low levels in the next few months and will likely be curtailed for years to come as shale oil capex is reduced.

On a positive note, the majority of our non-fossil fuel themes made money, especially Climate Champions where both longs and shorts were profitable this month.

April has been a humbling experience. Some of the shorts that rallied more than 100% in the month are companies that we found to be challenged prior to the outbreak of the pandemic and the start of the Saudi-Russia oil price war in early March. As the short to medium term prospects of these companies have deteriorated significantly, we maintain most of the positions as we believe fundamentals will soon matter again.

However, timing is everything and we foresee a couple of difficult months with elevated oil price volatility as we pass the peak of storage build and start to draw down record high oil inventories across the globe. The Brent oil spot price has probably bottomed as OPEC+ production cuts and 'voluntary' shut-ins from other producers reduce the massive supply glut. As oil demand improves from the gradual opening of locked down economies, oversupply will soon turn to undersupply which will flatten the oil futures curve to incentivize emptying of storage.

Nevertheless, the speed of the inventory drawdown and the recovery of the oil price and the energy markets are highly uncertain. The amount of oil inventory and spare production capacity are at unparalleled levels and it is unclear how quickly and to what level oil demand will recover until there is a Covid-19 vaccine or herd immunity is achieved. On the supply side, temporary shut-ins or choked supply is likely to return sooner rather than later as holding back production for too long increases the risk of damaging the reservoirs. Cheating from some OPEC+ countries could also slow down the oil price recovery.

In summary, the oil fundamentals will almost certainly get better from April onwards. They can hardly be any worse, but it will take time and the spot and future oil price curve is likely to remain well below the levels required for many energy companies to prosper. Correlations between stocks, which initially went up dramatically are already starting to come down and dispersion between energy stocks is likely to increase in both the medium and long term. Providing an environment that is more conducive to our fundamental approach.

On the renewable energy side, there is mostly good news as activity has hardly been reduced and the stocks have outperformed the broader market with a good margin. Also, renewable energy's share of power generation in the EU rose to close to half of total, while coal, being higher on the cost curve, fell by 25%. Finally, IEA is forecasting that coal and oil demand this year will decline by 8% and 9%, respectively, while solar and wind are still set to grow by 15% and 20%, respectively. The Energy Transition is still alive and prospering.

In all, we expect there should be ample opportunity to profit from both the spread of returns within fossil fuels and renewable energy during 2020. To control risk in this environment, we have adjusted sizing and added hedges to certain themes, however, we have not changed our fundamental positioning, nor methodology.

Sincerely Vidar Kalvoy & Joel Etzler


## Contact Coeli

Coeli Asset Management

Sveavägen 24 -26 / SE - 111 57 Stockholm Investor Relations: investorrelations@coeli.com Website: coeli.com