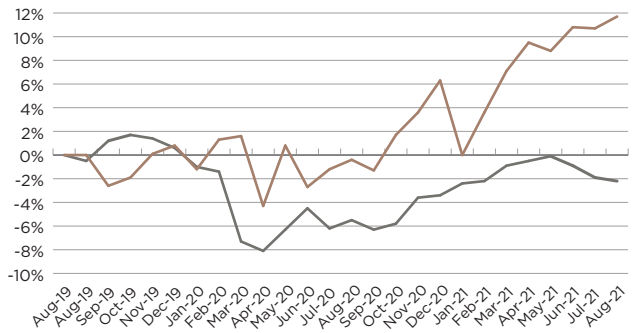
Coeli Energy Transition

Monthly Letter

August 2021

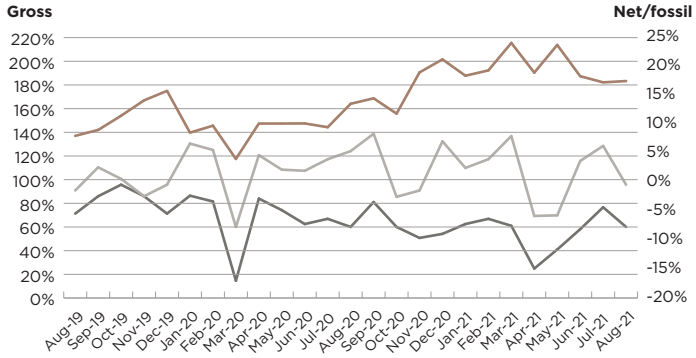
PERFORMANCE, NET OF FEES



Coeli Energy Transition Fund (I USD)

Hedge Fund Research HFRX EH Equity Market Neutral Index

EXPOSURE



Gross Exposure Net Exposure Fossil Fuel Exposure

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%	5.3%	-3.5%	1.5%	0.8%	-0.9%	3.0%	1.9%	2.6%	5.5%
2021	-5.9%	3.6%	3.4%	2.2%	-0.6%	1.8%	-0.1%	0.9%					5.1%

ATTRIBUTION AUG-21

Long attribution	0.9%
Short attribution	0.0%
Net	0.9%

MONTHLY PERFORMANCE PER THEME

TOP 3 ABSOLUTE P&L[1)]

	Return on gross exposure of Theme	NAV Contribution
Majors	3%	0.7%
CHX/CLB	10%	0.7%
Offshore Services	5%	0.5%

BOTTOM 3 ABSOLUTE P&L[1)]

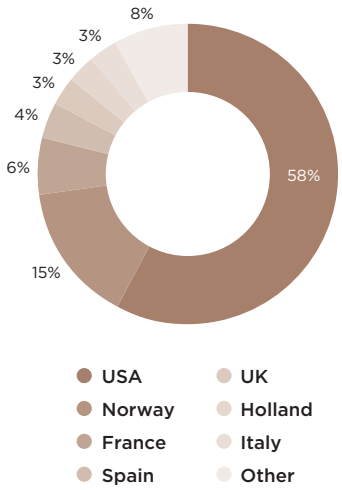
	Return on gross exposure of Theme	NAV Contribution
US Integrated services	-6%	-0.9%
Solar	-6%	-0.7%
Refinery	-6%	-0.3%

MONTH END EXPOSURES

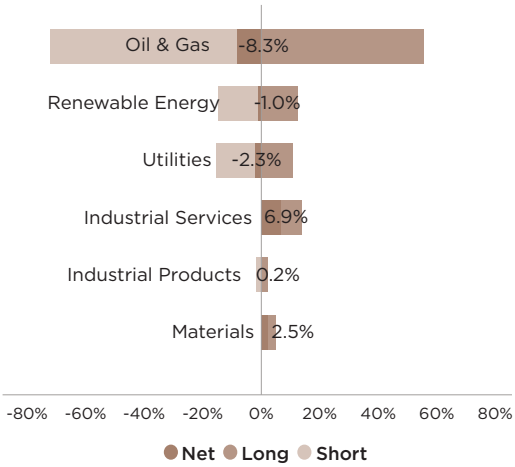
EXPOSURE, MONTH END[1)]

No of long positions	53
No of short positions	42
Gross exposure	183%
Net exposure	-1.0%
Net fossil fuel exposure	-8.3%
Largest long % NAV	7.0%
Largest short % NAV	7.1%
Top 5 longs % NAV	24%
Top 5 shorts % NAV	-27%
Liquidity (0-1 day, 20% participation)	88%

COUNTRY ALLOCATION[1)]



SUB-SECTOR EXPOSURE[1)]



1) Share Class I USD

Coeli

FUND MANAGER COMMENTARY

The fund returned 0.9% net of fees and expenses in August, bringing the YTD performance to 5.1%. The fund is up 11.7% since the inception in August 2019.

MARKET COMMENT

August was another strong month for equities. The S&P 500 gained close to 3% and is up by more than 20% on the year. According to Goldman Sachs, net inflows into global equity markets are on pace to record 40% higher than the prior 25 years of net inflows combined! Retail investors have continued to buy the dip and they are increasing their share of the total equity pie.

The macro topic of the month was FED chair J Powell's speech at Jackson Hole. Despite numerous FED governors' vocal commentary leading up to the event to start the tapering sooner rather than later, the chairman managed to deliver a pleasing message to the markets, indicating slightly earlier tapering but not necessarily followed immediately by rate increases.

RENEWABLE ENERGY

The renewable energy indices were flat to small up on the month, but with large dispersion between different stocks and sub-sectors. For instance, our longest held wind turbine manufacturer Vestas, outperformed wind turbine peer Nordex by 12%, and our preferred hydrogen electrolyser manufacturer ITM, outperformed its competitor NEL by 31%. On the solar side, dispersion was also high with the best performers year to date giving back some returns resulting in the solar sector underperforming other key renewable sub-industries.

The key reason for the underperformance was the US government's continued focus on halting imports of products that might be partly produced with slave labour in the Xinjiang region of China. We discussed this topic in our June report when the US administration issued the Withhold Release Order (WRO) against the Chinese polysilicon producer Hoshine. The U.S. Customer and Border Protection (CBP) detained its first shipments of solar modules entering the US in August. The initial target was Jinko Solar, which had a large number of containers filled with panels detained in customs. Although the fund is not involved in Jinko, CBP has since expanded its reach and multiple solar developers are reporting delays in deliveries.

The issue boils down to traceability of the silicon metal used in the solar panels and presents significant challenges since raw materials are relatively difficult to trace. Even though the US solar companies in which the fund is invested are not sourcing polysilicon from the Xinjiang region, this is difficult to prove. Hence, more delays are possible, if not likely.

As a result, the fund's "Solar" theme, which was skewed net long, took a hit during the month. Although the dip in solar stocks was relatively quickly bought, we fear this is not over and judging from CBP's historical approach to WRO's, this was likely the first of several enforcement rounds.

Since the US is highly reliant on imported panels to reach President Biden's goal of 100% carbon free power supply by 2035, we believe this issue will be sorted out in the medium term. However, residential solar players are likely less affected, mainly because margins are higher than on utility scale developments, hence we have adjusted our relative positioning towards the residential side.

FOSSIL FUELS

Brent oil went on a rollercoaster in August. In the first three weeks, it fell rapidly by 15% only to bounce by 10% in the last week. The main driver was the spread of the delta variant impacting oil demand. The lockdowns in China in particular rattled the market, but as soon as China seemed to get to grips with its latest outbreak, the oil price started its recovery and barely ended the month down by 5%. When the oil price tanked, there were talks of OPEC+ delaying the planned monthly production increases, but as the price recovered, the meeting went as expected and OPEC+ confirmed the production increases agreed last month.

Energy equities sold off with oil and they recovered with oil. However, the correlation is lower than in the past. This is only fair considering how energy equities have underperformed the commodity price over the last months. As we have discussed before, there is a paradigm shift with regards to the valuation of fossil fuel companies. Investors are no longer willing to assume the same long term growth rates and it is obvious that the cost of capital has increased for all fossil fuel companies. This means lower multiples and valuations compared to the past at similar oil price levels.

On that note, the Intergovernmental Panel on Climate Change (IPCC) released its sixth assessment report in August. The report again garnered a great deal of attention. The IPCC has since 1990, in its five previous reports, gradually sharpened its language on the source of climate change. This time it went all the way with the clearest message possible: "It is unequivocal that human influence has warmed the atmosphere, ocean and land".

It is a powerful statement, and it will continue to steer public opinion, policy makers and companies to accelerate the energy transition. UBS calculated the cost of decarbonisation to USD 140 trillion over the next 30 years. As 80% of global energy demand today is covered by fossil fuels, it should be evident that this sector deserves focus from both politicians and investors.

However, there is room for improvement in the latter's approach to investing in the fossil fuel companies. We have long argued that exclusion strategies will not help to decarbonise the world. Forcing public fossil fuel companies to divest carbon intensive assets to private, less regulated entities that will continue to develop and produce the fossil fuels will also not help.

Western oil and gas producers stopping oil production will not prevent climate change. Supply is not the key issue; it is the demand for and burning of the fossil fuels which is the problem. If demand is reduced, supply will adjust itself. Of course, less supply will result in higher commodity prices which over time will reduce demand. However, this process can take many years and will result in huge cash transfers to countries and companies that do not care much about climate change. A better solution should be obvious, although politically unpalatable.

FUND PERFORMANCE

Considering the rollercoaster of a month, we are pleased that two thirds of the 20 themes and pair trades made money in August. However, all the performance came from the long side and short attribution was 0%. The average gross and net exposure were 188% and 3.3%, respectively, while the fossil fuel exposure averaged -5%, in line with July.

The best performing theme of the month was 'Majors' contributing 0.7% to NAV. All the positive contribution was down to one name, **SBM Offshore (SBMO NA)**, which we recently moved from the "Equipment" theme to the "Majors". The company lacks clear peers in oil services, and we found it to correlate better with the oil majors. **SBM** is one of our favourite relative longs in the struggling oil services industry, as it has many characteristics that we like. Not only is it undervalued with the best long term contracted cash flows in the industry, but it has also true competitive advantages in the business of making large FPSOs. Demand for large FPSOs will likely be strong for years to come and **SBM** has only one key competitor, which is already struggling to keep up. This results in a very positive demand – supply balance. Moreover, SBM pays out high dividends and including buybacks, it yields direct returns of more than 10% a year. Finally, SBM is also strongly focusing on transition towards renewable energy. We believe its technology in floating wind installations and wave technology is among the best. However, the company, unlike many other oil service companies, see little point in promoting its transition technologies to investors until the products are ready to be sold to customers.

The second-best theme in August, contributing 0.7% to NAV, was the newly created pair trade with **Champion X (CHX US)** on the long side. **Champion X** is an oil service company leveraged towards production of oil rather than exploration and development. It is well run and although it is not inexpensive, we believe the peer on the short side to be overvalued. Although both companies have similar US/International exposure, **CHX** has better demand outlook than its more exploration/development driven peer. More importantly though, one of the short's product lines is facing significant oversupply as competition has increased while demand is stagnating. Simply stated, the demand-supply balance of the short looks poor and it does not deserve to trade at an 80% premium to **CHX** on next year's earnings. More than 90% of the returns came from the short this month.

The worst performing theme of the month was "US Integrated Services" which deducted 0.9% from NAV. The underperformance was mainly due to our long-held favourite **National Energy Services Reunited (NESR US)**, which at the Q2 presentation offered slightly weaker than expected guidance for the third quarter. The stock sold off 10% on earnings day and slid another 3% over the rest of the month. We do not see anything dramatic in the sell off, but we acknowledge that **NESR** has also been hurt by the last covid wave sweeping over the Middle East. However, the long-term outlook is still superior to its larger US peers with global businesses vs **NESR's** strong focus solely on the Middle East. While we hope for oil demand to peak and start to decline soon, we do believe that the last barrels of oil will be produced in the Middle East. In addition to superior demand-supply outlook, **NESR** is trading on an almost 80% discount to its US Integrated peers.

The second worst theme, "Solar", contributed -0.7% to NAV and we have already mentioned that the theme was hurt by the US initiatives against products produced in the Xinjiang region. However, "Solar" was skewed long vs "Hydrogen", which was equally skewed short, and "Hydrogen" covered more than half the loss in "Solar".

OUTLOOK

We feel both encouraged and distressed by the findings of the IPCC. On the one hand, the key takeaways of the report were not news to us, but it was encouraging to see the attention the report received. There should be no doubt anymore what has caused global warming. On the other hand, the report is a reminder of what a challenge the world is facing.

The International Energy Agency (IEA) has stated that to stay on track with 'net zero by 2050', electric vehicles (EVs) need to reach 60% of new cars sold by 2030. One might think that would make a big difference to our total carbon emissions, however that might not be the case. Norway, which is the country with the highest EV penetration in the world, recorded a 64% EV share of new cars sold in July, effectively in line with IEA's net zero target for 2030. However, Norway's oil consumption has not declined at all over the last 10 years. The relative share of EVs has risen, but total car registrations has also increased.

Will this dynamic manifest itself across the globe over the next decade? Will oil demand still be growing in 2030 even if the ambitious EV target of IEA is reached? Maybe. Personal transportation by car is only 8-9% of global emissions and even if all new car sales were EVs, the existing fleet of combustion engine cars will take time to retire. Also, we still have to deal with the remaining 90%+ of emissions. EV's running on renewable energy is important, but it is only part of the solution. Decarbonization efforts need to be very broad and address all aspects of our use of fossil fuels.

Many investors are ignoring the energy sector, both the renewable energy and more commonly, fossil fuels space. It is too cyclical, too dirty, or too hyped, many argue. We, on the other hand, like the dynamics of the energy sector. It is in every way suitable for our market neutral approach. The fact that a large part is 'dirty' is also at the heart of the matter. That 'dirty' part of the energy sector constitutes a large portion of the world's problems for the next decades and investors need to be involved to have an impact. As the energy mix transitions, renewables and fossil fuels will co-exist for years to come, and we aim to profit from this transition in both segments of the energy industry.

Sincerely,
Vidar Kalvoy & Joel Etzler

About The Fund

THE TEAM

Vidar Kalvoy

Portfolio Manager

Vidar Kalvoy is the lead Portfolio Manager and Founder of Coeli Energy Transition. He has more than 20 years' experience from portfolio management and equity research. For nine years, he was responsible for the energy investments at Horizon Asset in London, a market neutral hedge fund. Kalvoy also has experience from energy investments at another hedge fund in London and equity research within the technology sector in Frankfurt and Oslo.

Joel Etzler

Portfolio Manager

Joel Etzler is Portfolio Manager and Founder of the Coeli Energy Transition fund and has more than 14 years in the industry, with investment experience from both the public and private equity side. Etzler joined Kalvoy at Horizon Asset in London in 2012 and spent five years before that within Private Equity at Morgan Stanley. Etzler started his investment career within the technology sector at Swedbank Robur in Stockholm, 2006.

MARKET NEUTRAL ENERGY EQUITY FUND FOCUSED ON THE ENERGY TRANSITION

Coeli Energy Transition is a market neutral energy equity fund seeking to produce high risk-adjusted returns that are uncorrelated to both market and commodity price risk. It aims to take advantage of the increased volatility and dispersion in the energy sector caused by the disruption from alternative energy and the shift in public opinion against the fossil fuel industry. The fund is committed to have a negative exposure to the fossil fuel industry at all times.

The investment universe consists of energy equities as well as companies in other sectors that are impacted by the ongoing energy transition. Geographic focus is North America and Western Europe. The fund's research process is centered around a top-down analysis of supply and demand in the sub-sectors, complemented with detailed bottom-up analysis to identify winners and losers within the many sub-sectors of the energy sector. The portfolio is generally composed of 60-80 single name equities divided into investment themes and pair trades. It targets a net exposure of +/-10%.

FUND DETAILS

Assets	USD 53m
Inception	16-aug-19
Fund type / Strategy	UCITS / Market Neutral equities
Net Exposure Target	+/-10%
Liquidity	Daily
Target assets	Listed equities
Geographical mix	~50% North America, ~50% Europe
Benchmark	No benchmark
Management fee	1% p.a. institutional share class / 1.5% retail
Performance fee	20% with high-water mark (yearly crystallization)
Expected TER	0.2-0.4%
Cut-off	14:00 CET
Pricing	Closing price end of day
Share classes	SICAV share classes (institutional; GBP, USD and SEK / Retail; SEK)
Minimum investment	Institutional USD 1,000,000 / Retail SEK 100
ISIN Code / Bloomberg ticker	I USD - COENTIU LX / R SEK - COENTRS LX
Prime Brokers	Morgan Stanley & Co. International plc / Skandinaviska Enskilda Banken (SEB)
Custodian, Listing Agent, Central Administration, Registrar and Transfer Agent	RBC Investor Services Bank S.A

Disclaimer

RISK INFORMATION

The information provided here does not constitute professional financial advice. 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.

An investment decision should be based on information in current prospectus, Key Investor Information Document ("KIID"), and most recent published annual and semi-annual reports. These are available at www.coeli.com and can be acquired directly from Coeli. For advice regarding investments suitable for your specific situation, please contact your financial advisor.

DISCLAIMER

This presentation is intended for pure information only and must not be construed as an offering, solicitation or recommendation to make an investment. The information provided herein does not constitute any professional financial-, legal- or tax advice.

This presentation is not intended for distribution in the US or other countries where the content or the distribution may be prohibited. Any fund described herein may not be offered or sold to US citizens or residents of the US or to a corporate, partnership or other entity created or organized in or under the law of the US.

Although the information has been based on sources deemed be reliable, Coeli cannot guarantee its accuracy and assumes no liability whatsoever for incorrect or missing information nor for any loss, damage or claim arising from the use of the information in this presentation.