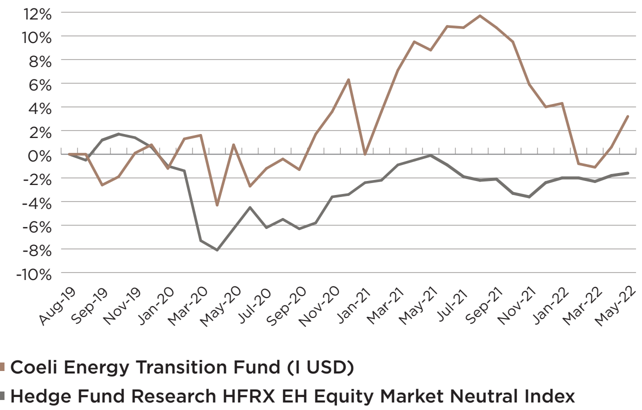
Coeli Energy Transition

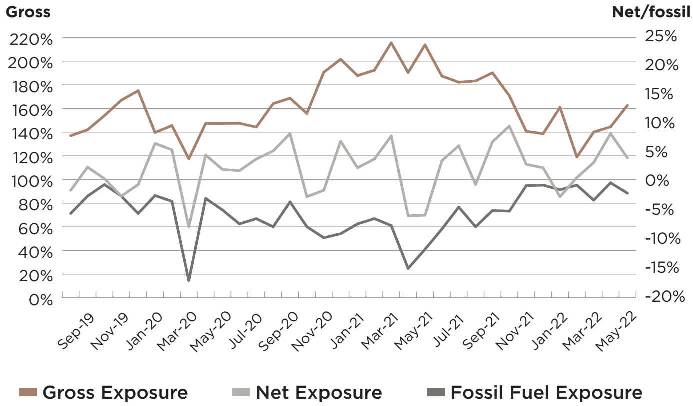
Monthly Letter

May 2022

PERFORMANCE, NET OF FEES



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%	-0.9%	-1.1%	-3.3%	-1.8%	-2.2%
2022	0.3%	-4.9%	-0.3%	1.7%	2.6%								-0.8%

ATTRIBUTION MAY-22

Long attribution	7.7%
Short attribution	-5.1%
Net	2.6%

MONTHLY PERFORMANCE PER THEME

TOP 3 ABSOLUTE P&L[1]

	Return on gross exposure of Theme	NAV Contribution
Solar	8%	1.1%
US shale producers	4%	1.0%
Land drilling vs completion	5%	0.8%

BOTTOM 3 ABSOLUTE P&L[1]

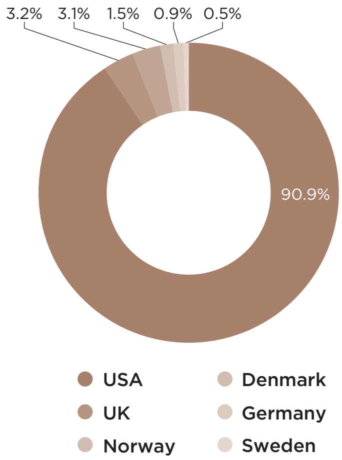
	Return on gross exposure of Theme	NAV Contribution
Majors	-7%	-0.8%
Wind equipment	-11%	-0.6%
US Integrated services	-2%	-0.3%

MONTH END EXPOSURES

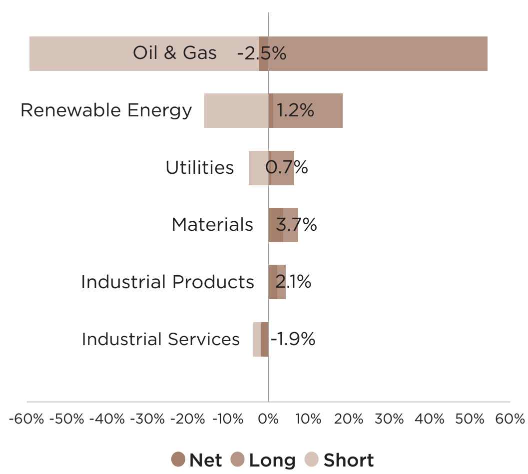
EXPOSURE, MONTH END[1]

No of long positions	29
No of short positions	29
Gross exposure	163%
Net exposure	3.6%
Net fossil fuel exposure	-2.5%
Largest long % NAV	6.1%
Largest short % NAV	8.5%
Top 5 longs % NAV	27%
Top 5 shorts % NAV	-30%
Liquidity (0-1 day, 20% participation)	95%

COUNTRY ALLOCATION[1]



SUB-SECTOR EXPOSURE[1]



1) Share Class I USD

Coeli

FUND MANAGER COMMENTARY

The fund returned 2.6% net of fees and expenses in May, and it is down 0.8% year to date. It is up 3.2% since the inception in August 2019.

Since shifting the geographic exposure to North America in mid-March, the fund performance and its risk profile has improved with tighter hedges and a more liquid portfolio during the continued high volatility in the energy markets. The fund is up 8.4% since the lows of March.

MARKET COMMENT – BEAR MARKET RALLY?

May was a volatile month and although the S&P 500 ended flat, it was down as much as 8% at one point. That low point took the S&P 500 into bear market territory, down more than 20% since its peak, and sparked a massive rally into the month end. Although there was a comment from a FED representative about possible pausing interest hikes in September, we believe the key triggers for the rally were mainly technicals and positioning. The markets were oversold, and sentiment indicators signaled extreme bearishness among institutional investors. On positioning, hedge funds gross and net levels were at very low levels and even retail investors had started selling shares.

Time will tell if this is a bear market rally or if the markets have bottomed. Nevertheless, as the FED is determined to bring inflation back down to 2% through tighter financial conditions, they are unlikely to appreciate a rally back to previous market highs at this point.

FOSSIL FUELS – EU EMBARGO ON RUSSIAN OIL

The oil price continued its ascent in May. Brent crude increased by another 10% and is up almost 50% year to date and more than 70% over the last 12 months. European gas prices declined by 10% during the month as Russian gas keeps flowing while LNG imports from the US are at record high levels. On the other hand, the US Henry Hub gas price was up by 10%, still only a third of the European price. Although European gas inventories are almost in line with historical levels at this time of the year, the market is clearly nervous with regards to the future gas flows from Russia, hence one year forward power prices are at record high levels both in Germany and in the Nordics.

The Ukraine war and further sanctions on Russian energy continues to be the key topic in the energy space, closely followed by China's net zero covid policy and its effect on oil demand. Towards the end of the month, the EU countries finally compromised on a deal to ban most Russian crude oil imports by the end of the year. The plan is to stop all Russian oil imports by sea, i.e. about two thirds of all imports, but allow piped oil to be imported for the foreseeable future. This was the only way to get Hungary to agree to any kind of sanctions.

However, Germany and Poland will voluntarily end piped oil import by the end of the year, which means that EU's import of Russian crude oil will drop by more than 90% early next year. If all goes to plan, Europe will only import about 250k barrels a day from Russia in 2022. Compared to pre-war export levels, Russia will need to find new buyers for about 3.75m barrels a day.

While we strongly support measures to weaken Russia's economy and its ability to wage war in Ukraine, we are not convinced that this embargo will have the desired economic effect. Despite of US and UK embargos and self-sanctioning by oil traders and large western oil companies, Russian oil exports have increased the last months after dipping when the war started. More importantly, its oil and gas revenues are estimated by Bloomberg Economics to be more than 20% higher in 2022 than in 2021.

In general, it is very hard to embargo oil that can be put on a ship. As most of the world is not involved in imposing sanctions, there are many willing buyers of discounted oil. So far, the biggest incremental importer has been India which in the first two months after the war broke out purchased 20% more oil than it did in all of 2021. We can only assume that Russia and importing countries will use the next six months to develop logistical channels that will be difficult to sanction.

We fully support the general sanctions on Russian industry and its economy. These are already devastating the Russian industrial base and they will slowly cripple the economy. However, disrupting the balance of such important commodity markets might be more damaging to Europe than to Russia. The political narrative seems to imply that fossil fuels are a discretionary spending item. It is not. If the winter is cold, it is about as discretionary as food.

We agree that it is unappealing, to say the least, to continue oil and gas imports from Russia, but the risks of cutting Russian supplies are also very high. Significantly lower production from Russia will likely have limited impact on Russian energy revenues as prices rise in tandem with lower global supply, at least in the near term. Not only Europe's economy will suffer, but if the situation becomes severe, poor people in the developing world will be priced out of the market.

The other key topic of the month was the development in the Chinese government's net zero Covid policies. Harsh lockdowns in Shanghai and other large cities caused a contraction in Chinese oil demand. There is, or at least was, a concern that lockdowns would last for months. Fortunately, as Shanghai at the end of May had no new Covid cases for three days in a row and the total number of new cases **nationwide** was only 20 (!), the restrictions were lifted for most of Shanghai's 25 million citizens on 1st of June.

We must admit that we thought it was impossible to suppress the Omicron variant and that the Chinese government would have to change their net zero policy sooner rather than later. Even if it would manage to eradicate Covid within its borders, how would it ever be able to open to the rest of the world or to allow the Chinese to travel abroad?

At the time of writing, we are unsure if there is a change in policy since it is reported that some districts of Shanghai, with more than 4 million citizens, were locked down again the day after the opening. At least one thing is changed though, the word 'lockdown' is allegedly banned from use in the Chinese media.

With or without increased Chinese oil demand, the US driving season commenced last week pushing up oil demand. Gasoline and diesel prices are hitting new records almost every day, and there is an increasing fear of demand destruction. As we discussed in the previous monthly report, the record high refining margins caused by tight refining capacity, implies that diesel and gasoline price are at levels commensurate with crude oil price in the range of USD 160-225 per barrel. This is well above the level that would normally trigger demand destruction and declining oil demand.

RENEWABLE ENERGY – POSITIVE BOOST FROM REPOWEREU

The key renewable energy indices were up by 3% to 10% in May but were all down more than 10% during the first two weeks of the month. Since most renewable energy companies are 'high-growth, no profit' companies, it is not a surprise that they sold off with the Nasdaq as investors fear inflation and higher interest rates. Nevertheless, the renewable energy indices bottomed almost two weeks before the Nasdaq rally started. We believe a key reason was expectations to the second installment of the EU's REPowerEU-plan that was announced in the third week of the month.

REpowerEU is EU's action plan on how to reduce its dependency on Russian natural gas. The first installment announced in March set targets to fill EU natural gas inventories, the second update contained even more ambitious targets on renewable energy build-out, and the third installment in June is expected to announce more specific targets, and hopefully measures, to reduce permitting issues, which is of utmost importance.

In the new installment, the EU is targeting renewable energy to account for 45% of EU's energy demand by 2030, this is approximately 15% more than last year's 'Fit for 55' plan and implies a nearly 3.5x increase in the renewable energy installed base vs 2021. Moreover, it means on average about 100 GW of annual additions until the end of the decade. Since the current annual run rate is about 30GW and it takes time to ramp up, it seems likely that the EU is targeting a run rate of close to 150GW at the end of this decade. That is about the same pace as the current annual wind and solar additions globally.

Looking into some of the details, the EU is wisely emphasizing solar which has a quicker turnaround and easier permitting process. According to the plan, solar PV capacity should double to 320GW by 2025 and should amount to about 600GW in 2030. We welcome that EU will be mandating rooftop solar on all commercial/public buildings by 2025, and on new residential buildings as of 2029. This should benefit several of our core solar holdings with exposure to Europe. We were also pleased to see the energy consumption reduction target increased from 9% to 13% by 2030. For too long the focus has been mainly on increasing supply and not on reducing demand for energy. It is never popular to call for lower energy consumption, but we believe the EU has the perfect crisis, or excuse, to ask its citizens to reduce their consumption.

The second installment also doubled EUs green hydrogen production target to 10mtpa (million tonnes per annum) by 2030 and an additional 10mtpa through imports. According to EU's numbers, this would require 65GW of electrolyser capacity in 2030 vs EUs current production capacity of less than 2GW a year. Unfortunately, EU is requiring, at least in this iteration of the plan, that from 2026 the green hydrogen can only be produced simultaneously as the renewable electricity is generated. This means that the electrolysers cannot draw electricity from the grid and due to renewables intermittency, there will be extended idle time for electrolysers and thus much higher costs to produce green hydrogen. We believe this proposal renders the ambitious target unachievable and we doubt the current text will survive the next iterations.

Considering the tightness in many input markets and the underdeveloped supply chains, we continue to see this ambitious plan as more of a political message. However, we welcome the aspirations and note that as 'fit for 55' is no longer only about decarbonization but also about energy security, we see financing as less of a risk.

We look forward to the next installment from the EU in some weeks. Permitting is the key bottleneck in developing wind and solar. In some countries, like Germany and Italy, permitting of solar can take as much as 4 years, while wind is closer to 10 years. We struggle to see how EU can get this down to 1 year in these countries, but with the new focus on energy security, we are hopeful of great improvements.

However, as much as we welcome EUs REPowerEU plan, we have to point out that this will not have any impact on EUs near term reliance on Russian oil and gas. We are still at the mercy of Putin's whims.

Finally, as we are writing this, some possibly great news. President Biden is finally willing to lend the solar industry a long needed helping hand. His administration has announced that it will use executive action to remove the risk of tariffs and retrospective tariffs on solar module imports for the next two years. In March this year, the Department of Commerce initiated an investigation into solar panels from four Asian countries that were suspected of circumventing US tariffs against Chinese manufacturers. This investigation resulted in many producers halting export to the US and consequently significant delays in many utility scale projects. We have discussed this at length in previous monthly reports. Biden has also invoked the Defense Production Act (DPA) to help US manufacturers of solar panels to increase their production. We look forward to receiving more details, but this is obviously positive news for the climate and for most solar energy exposed companies in the US as well as many of the holdings in our portfolio.

FUND PERFORMANCE – ANOTHER POSITIVE MONTH

Following the restructuring in March, the fund booked another positive month of performance. Two thirds of the themes and pair trades contributed positively, but there were no stand-out winning or losing themes in May. As P&L volatility has declined, we grossed up and ended the month at 163% vs 145% exposure at the end of April. Net long exposure averaged 3.7% and the short in fossil fuel averaged 3.4%. As can be expected in a month where both fossil and renewables rally, the performance was made on the long side with long attribution at 7.7% and shorts at -5.1%. The fund performed well in both the initial sell off and during the rally into month end.

"Solar" was the best performing theme, contributing 1.1% to NAV. The theme is dominated by some long-held positions in the solar inverter space like **Enphase Energy (ENPH US)** and **Solaredge Technologies (SEDG US)**. Both benefitted from the positive news flow with regards to REPowerEU and were up about 10% on the month. The theme continues to be skewed net long, while the "Hydrogen" theme was net short. "Hydrogen" also contributed positively in May, though.

"US Shale Producers" and "Land drilling vs completion" also added positively to NAV with 1.0% and 0.8%, respectively. The former benefitted from **Diamondback (FANG US)** recovering some of the relative underperformance into month end. In "Land drilling and Completion", **Patterson-UTI (PTEN US)** outperformed its larger drilling peer, while in Completion the fund benefitted from trading around positions.

The worst performing theme of the month was "Majors" deducting 0.8% from NAV. The main reason for the weak performance was the strong short skew. In fact, the key long **Shell PLC (SHEL US)** outperformed all shorts in May.

The "Wind equipment" theme also had poor month with a NAV contribution of -0.6%. Our preferred wind turbine manufacturer **Vestas Wind Systems (VWS DC)** was marginally down on the month, while one of its suppliers on the short side was up more than 15%.

We are still long-term believers in Vestas and the wind market. EU's new target of installed wind capacity of 510GW in 2030 vs 236GW today is ambitious. It would imply about 30GW in additions every year vs the historical (2011-2021) annual run rate of 10GW. It is hard to see the EU reaching this target without turbine manufacturers like Vestas making a positive return on equity. The industry is already very concentrated and as it is capital intensive with currently poor returns, it will be hard to attract new competitors.

Vestas and its peers are currently suffering from cost inflation and supply chain issues hitting orders entered into before and during the pandemic. However, the orders they are winning today and going forward will have accounted for the massive inflation in raw materials and logistics. The margins are thus likely to recover sometime in 2023 and into 2024.

On the other hand, the supplier on the short side belongs to the no profit, no or limited growth category. The company struggled to make a positive return even when cost inflation worked in the industry's favour. Its balance sheet is bloated with very expensive debt, and it is hard to see this company surviving if Vestas and it is peers are not able to improve its margins and profitability. We expect this pair trade to generate healthy returns over the next years.

OUTLOOK – FINALLY SUMMER

As the summer is upon us, we believe the market will continue its tug of war between recession and earnings fear on the one side and liquidity and positioning on the other side. In the background, the war in Ukraine is ongoing without any early end in sight. Its inflationary impacts are significant, and the margin for error is low in most of the impacted commodities. Will more countries ban export of energy and agricultural products? Will more countries start hoarding inventories? Will grain shipments out of the Black Sea at one point continue?

Despite the upside inflationary risks from the war, inflation measured on a year-on-year growth basis is still expected to peak out soon. However, the pace of the decline is uncertain. There is no doubt though that the goal of the FED is to tighten financial conditions to force inflation down towards their 2% target. We learned the hard way many years ago that you should not fight the FED and we are leaning towards that being unwise this time as well.

However, we acknowledge that retail investors have become a dominant force in the market through passive funds. Retail investors own more of the market than at any time since the 1960s and they did not sell down in the last brief bear market. Also, corporate profit and cash flows are close to record high levels as is also share buyback mandates supporting share prices. Some even argue that valuations are more attractive after having briefly hit bear market territory.

All in all, we believe it will be a tug of war between bulls and bear over the summer. It will likely be volatile but maybe somewhat range bound. Nevertheless with good trading opportunities for stock pickers. As such, we are pleased to have a more liquid and nimbler portfolio focused on the US which hopefully allows us to take advantage of the volatility and the trading opportunities that follows.

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 34m
Inception	16-aug-19
Fund type / Strategy	UCITS / Market Neutral equities
Net Exposure Target	+/-10%
Liquidity	Daily
Target assets	Listed equities
Geographical mix	~90% North America, ~10% 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

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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.

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