Positive Streak Despite Energy Market Collapse

Stockholm (HedgeNordic) – As the price of oil has collapsed to levels previously thought unimaginable – due to the biggest demand shock in history combined with a price war between two of the largest oil producers in the world, energy stocks tanked across the board. Despite the sharp fall in energy-exposed equities, energy-focused market-neutral equity fund **KLP Alfa Global Energi** was one of a handful of Nordic and global hedge funds that made money in both March and April.

KLP Alfa Global Energi, one of the two hedge funds under the umbrella of Norwegian pension provider KLP, is a market-neutral equity fund with a global mandate that invests in energy-related companies related to exploration & production, oil services, shipping and renewables. As Torkel Aaberg *(pictured)*, who manages the fund alongside Simon Roksund Johannessen, tells HedgeNordic, the fund employs "a fundamental investment strategy with detailed modelling of targeted companies, market research and due diligence of management and company strategies."

KLP Alfa Global Energi maintains very little market exposure and holds a portfolio with about 35-45 holdings on average (both long and short positions). The fund maintains a fairly equal number of long and short positions, with the long portfolio comprising "companies with decent pricing combined with strong operational capabilities, disciplined and realistic strategies and sound cash management," according to Aaberg. "On the short side, we are seeking companies with unattractive pricing, poor assets or weak operational capabilities, and a vulnerable balance sheet."

After gaining 5.7 percent in the first four months of 2020, KLP Alfa Global Energi gained an additional 2.0 percent month-to-date through May 25. "The strong performance in 2020 is due to a mix of several different situations," Aaberg tells HedgeNordic. "The large market volatility has created numerous opportunities for the ones that reacted quickly and took the right actions," he emphasizes. In shipping, for instance, "a strong contributor this year has been the combination of long positions in a strong tanker market coupled with shorts in levered companies exposed to reduced global demand like LNG and containers."

As the KLP team's negative market view on the oil services sector was reinforced by the Russia-Saudi Arabia oil price war and oil demand shock caused by COVID-19, Torkel Aaberg and Simon Roksund Johannessen "utilized the weak equity markets to cover several shorts, and also increase exposure in quality companies at attractive levels." In the renewable energy sector, "we have seen strong performance in companies with promising technological and operational capabilities, and paired these against more mature companies with demanding valuations," continues Aaberg.

According to Aaberg, the demand shock from COVID-19 and the oil price collapse that followed "has underlined the challenges quite a few of the energy-related companies, especially oil services, have been exposed to." The impact of COVID-19 and the price war have resulted in large discrepancies in the share price performances that KLP Alfa Global Energi has been able to capitalize on. The energy market carnage earlier this year "has also given us the opportunity to increase exposure to quality names that have been hit too hard by the market turmoil and that have recovered nicely since."