Valuation Worry Helps Proxy

Stockholm (HedgeNordic) – With stock valuations going higher and higher from the March lows, the team running **Proxy Renewable Long/Short Energy** reduced the net exposure to the low fifties at the end of August from over 80 percent during the summer. The hedging strategies and positions used to reduce the exposure "started to pay off in early September" and contributed to achieving the fund's sixth consecutive month of positive returns.

The energy transition-focused fund led by lead portfolio manager Jonas Dahlqvist *(pictured)* advanced 4.3 percent in September to bring the year-to-date performance to 37.5 percent. Proxy Renewable Long/Short Energy is among the top five best performing hedge funds across the Nordics in 2020. Last year, in its first full year of operations, Proxy Renewable Long/Short Energy ranked as the second-best performing hedge fund in the Nordics with a net return of 45.9 percent. The fund has generated a cumulative return of 85.8 percent since launching in mid-December of 2018 through the end of September this year.

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"In late July, we started to reduce the fund's net exposure and continued to do so in August," Dahlqvist writes in a letter to investors. "The decision was based on elevated short-term valuations of the sector, individual investments together with a more cautious view of markets in general." Proxy Renewable Long/Short Energy's net market exposure was reduced from 83 percent at the end of June, to 73 percent at the end of July and 53 percent at the end of August. "We apply various hedging strategies to reduce market risk depending on the exposure level we want to achieve," says Dahlqvist. Such hedging strategies paid off in early September and contributed to achieving the fund's sixth consecutive month of positive returns.

"Corrections in September mostly affected US equities and growth-related sectors which have enjoyed a strong development since the end of March," Dahlqvist writes in the letter. "From that perspective, corrections look more like a traditional set back based on normalization of valuation multiples." Energy transition-related sectors had similar developments as global equity markets last month. "At the beginning of the month, our US investments underperformed the European and Asian names. This was in line with global developments where earlier US outperformance gave back some of its valuation premium."

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The solar photovoltaics (PV) sector, the sector that contributed most to Proxy Renewable Long/Short Energy's returns in 2020 and experienced "strong growth in fundamentals this year," suffered a stronger correction in September than other sectors such as wind power and efficiency technology sectors. The team running the directional global long/short equity fund "took advantage of the market opportunity in September by adding to existing solar investments," according to the letter. The team also invested in hydrogen and fuel cell sectors due to a strong and compelling growth outlook in the long term. "Markets recovered towards the end of the month and these new investments started to pay off and had a positive contribution to performance in September," writes Dahlqvist.

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The fund’s net market exposure increased month-over-month to 78 percent at the end of September. “We remain optimistic about the mid- to long-term outlook and the growth trajectory of our sector, although we recognize that there are still short-term tail risk elements in the market which we must navigate,” says Dahlqvist.