

The Sun is Shining on Energy Transition

Stockholm (HedgeNordic) – With government, corporate and consumer interests aligning in favor of renewable energy, the sun has started to shine on the energy sector's transition to renewables and the investors betting on this energy transition. Energy transition-focused **Proxy Renewable Long/Short Energy** returned about 83 percent last year after advancing 46 percent in 2019 to bring its annualized return since launching in mid-December of 2018 to 54 percent.

"2020 was an exceptional year for the fund," Dan Lindström, the CEO of Stockholm-based Proxy P Management, writes in a letter to investors. "The strong returns delivered are a result of the portfolio that is made up of two parts: a long growth book and a relative or pairs trading book," explains Lindström. "The growth book aims to drive returns when the market climate is favorable, while the relative book aims to protect the portfolio during challenging market conditions."

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The Return-Generating Growth Book

According to Lindström, "the growth book is focusing on successfully investing in companies demonstrating growth related to the Energy Transition theme." The energy transition has gained significant momentum, creating opportunities and challenges in sectors as wide-ranging as oil and gas, energy technology, and others. While the Proxy team's process of building a portfolio set to benefit from the energy transition involves many layers, the "ambition is to offer the best exposure to the Energy Transition Theme globally."

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"We invest in what we believe to be the most attractive companies in our investment universe," explains Lindström, an investment universe divided into Renewable Energy and Energy Technology. "We analyze associated sub-sectors, ranging from renewable energy such as solar and wind power to batteries, hydrogen technologies and technologies aiming to improve energy efficiency and save energy usage," he continues. "During the year, our sub-sector positioning has been advantageous."

"It is equally important to determine how much exposure the portfolio should have towards associated sub-sectors such as solar and wind power," emphasizes Lindström. "In 2020, we were consistently overweight the solar power sector, which proved to be rewarding," he adds. "We believe that if the world's ambition is to phase out coal power, replace internal combustion engines in transports, and if green hydrogen will play a prominent role in the future, the expansion of solar power will be significant."

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The next stage of the selection process focuses on selecting the right thematic focus within each sub-sector, which involves finding the appropriate geographic exposure, or the most attractive part of the value chain or the most promising technology. “For each theme, we have identified companies that fit the desired thematic exposure and we have succeeded in picking the companies best positioned to turn this tailwind into growth,” further explains Lindström. The Proxy team has also sought to invest at the right price without taking on too much risk by paying attention to operating cash flows, ESG profiles, indebtedness, among other things. “There are many layers of the investment process to build the portfolio which created strong returns when the market was favorable,” says Lindström.

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The Protective Pairs Trading Book

Despite operating in a highly volatile market environment in 2020, Proxy Renewable Long/Short Energy experienced only one down month during the year, a loss of seven percent in March. “The market environment was not always strong in 2020, but was rather depressed during February and March and relatively weak in September and October,” Lindström writes in the latest letter to investors. “During such challenging environments, our relative book, consisting of highly correlated relative trades and strategical hedges, was supportive,” he adds. “The combination of the growth and relative book has had a decisive effect on the portfolio’s risk-adjusted development during the year.”

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The Energy Transition Heroes

The Proxy P team also praises businesses and consumers’ contribution to the ongoing and accelerating energy transition. “We want to highlight all our portfolio companies that make it possible for other businesses and households to choose a more sustainable path in their energy consumption,” says Lindström. “A development that aims to result in a fossil-free energy system, free from carbon dioxide emissions and greenhouse gases. This is the foundation the world depends on in its effort to switch to a fossil-free energy system.”

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“And finally, we would like to lift forward the end-consumers who have actively chosen sustainable alternatives, such as fossil-free transportation and renewable energy sources,” he continues. According to Lindström, “the journey does not lack challenges, but the important thing is that more and more people share the same vision and are working towards the same goal.” On this backdrop, the team at Proxy P Management “expect 2021 to be equally exceptional.”