

Juicy Returns with Market Neutrality

Stockholm (HedgeNordic) – Since market-neutral funds seek to generate attractive risk-adjusted returns by zeroing out market exposure, their performance is completely dependent on manager skill – rather than any beta exposure. A duo out of Oslo – Torkel A. Aaberg (*pictured right*) and Simon Roksund Johannessen (*pictured left*) – made their energy-focused market-neutral equity fund **KLP Alfa Global Energi** stand out by putting their skills to good use.

In the first month of 2021, KLP Alfa Global Energi has reached its best month since launching in early 2009 with an advance of 7.1 percent. In 2020, the market-neutral fund specializing in the energy sector had its best year on record after gaining 23.9 percent. Aaberg describes the fund's 2020 journey as very successful. "Last year, we didn't make any large mistakes," Aaberg tells HedgeNordic.

"Last year, we didn't make any large mistakes."

Market Neutrality in the Energy Sector

KLP Alfa Global Energi specializes in the energy sector, taking positions in all parts of the energy value chain, from exploration and production to transport and consumption. "We use a very research-based approach to investing," explains Aaberg. "We spend a lot of time analyzing companies, but, as energy specialists, we are looking all the time for the right sector exposure," he continues. "The stock selection process initially starts top-down, but strategy-wise, the stock selection is bottom-up, fundamentals-based."

"We use a very research-based approach to investing. The stock selection process initially starts top-down, but strategy-wise, the stock selection is bottom-up, fundamentals-based."

"We are not the kind of fund that has one investment strategy that we stick to all the time," Aaberg elaborates on their investment approach. "It is not purely value-based or momentum-based, it is a mix of what we think will work best at a given point in time," he continues. "In shipping and oil services, we are very value-based, while the renewables sector is a totally different ball game, where we consider a mix of factors such as growth, technology, competence, management. It is very difficult to pinpoint one strategy that we follow."

On average, over time, KLP Alfa Global Energi seeks to maintain neutrality at both the sector and particularly at the market level. "We are pretty much balanced intra-sector over time," says Aaberg. "Looking at shipping as an example, we can be long one sub-sector and short another sub-sector, but for the shipping sector as a whole, we are pretty balanced," he adds. However, the duo running KLP Alfa Global Energi has the flexibility to occasionally overweight or underweight some sectors. "We can have a 10 percent to 20 percent net overweight or underweight in certain sectors."

2020 Journey

Commenting on the fund's 2020 journey, Aaberg says that "we were very well positioned going into the COVID-19 situation, especially within oil services, where we had a lot of shorts." According to

Aaberg, “we would have gotten the reward from this position eventually, but this pandemic-triggered turmoil speeded up the process.” With short positions paying off, KLP Alfa Global Energi returned 3.9 percent for March, but market participants “overreacted on the negative side,” according to Aaberg. “As a result, we bought a lot of quality names during February and March before going the other way during the autumn, so we had two turns that contributed to performance.”

“We were very well positioned going into the COVID-19 situation, especially within oil services, where we had a lot of shorts.”

As Johannessen said last year, in the first half of 2020, “it was mainly short positions in shipping and oil services that contributed to a good return.” Johannessen went on to add that “throughout June and August, it is, first and foremost, the fund’s positions in renewable energy that have contributed to the fund’s strong return.” The fund’s positions in renewable energy ended up contributing strongly to performance in the second half of 2020 and the first month of 2021.

Tailwind in Renewables

“For the past three years, we have been doing a lot of research and fundamental work on renewables,” says Aaberg. “When things started to get active last year, we felt we were very well positioned to take the positions that we needed,” he continues. “We had already entered some positions that we were very comfortable with that performed strongly on the long side. On the short side, we have been seeking most of our exposure in mature companies that we deemed very expensive.” In the second part of 2020, KLP Alfa Global Energi “also participated in a few IPOs that had a solid performance, which also helped us with strong results.”

“As always, our positioning was pretty neutral going in 2021, but the portfolio had good potential because we had been positioning the fund for a couple of new investments, especially within the renewable sector, where we had a good reward.”

KLP Alfa Global Energi gained 7.1 percent in January, booking its best month yet in 12 years. “As always, our positioning was pretty neutral going in 2021, but the portfolio had good potential because we had been positioning the fund for a couple of new investments, especially within the renewable sector, where we had a good reward,” Aaberg discusses the fund’s performance in January. “It is not one or two companies driving the performance; it is a broader spread within renewables that has paid off.” The pricier and more mature companies within renewable energy have not performed so well as some younger companies in the space. “A lot of the newer, more immature, what we consider quality companies within renewables, have performed strongly,” says Aaberg. “We have also participated in a couple of new IPOs in December and January that has made a big impact in January.”

“When taking a little bit more of a top-down view, we see that the regulatory situation for renewables is giving the industry some tailwind.”

Aaberg and Johannessen both share a positive outlook on the renewables space. “When taking a little bit more of a top-down view, we see that the regulatory situation for renewables is giving the industry some tailwind,” says Aaberg. “The focus among the oil companies that we follow very

closely is obviously towards renewable energy," he continues. "And the focus from, not only the governments, but from companies, the oil companies, all the energy companies are going toward more renewables, so everything is going in one strong direction."

"This is not normal, this is unexpected. But one could expect that performance in market environments full of opportunities such as it was last year and in January this year."

KLP Alfa Global Energi has delivered an annualized return of 6.5 percent since January of 2009, well within its range of five to ten percent over an interest-rate benchmark. Whereas last year's advance of nearly 24 percent was "unexpected and not normal," this feat is not unachievable going forward. "This is not normal, this is unexpected, and this is not what investors should expect going forward," says Aaberg. "But one could expect that performance in market environments full of opportunities such as it was last year and in January this year."