ABOUT THE FUND

Proxy Renewable Long / Short Energy is an actively managed AIF fund that invests globally in public equities related to the Energy Transition Theme. The fund utilizes both long and short positions and invests in the renewable energy and energy tech sector.
The investment strategy is based on a combination of top down thematic and bottom up fundamental value-oriented approach.

RETURN HISTORY

SEK A SHARE CLASS, NET OF FEES

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2020	2.37%	7.45%	-7.01%	4.63%	2.76%								**9.98%**
2019	14.31%	5.35%	-0.73%	6.93%	-3.62%	5.79%	2.41%	1.82%	-0.03%	-2.07%	1.97%	7.50%	**45.86%**
2018												-7.40%	**-7.40%**

Performance Figures

Return since inception	**48.55%**
Return p.a.	**30.19%**
Volatility	**18.71%**
Sharpe	**1.61**
Max drawdown	**-7.40%**

Data as of 31 May 2020, Proxy P for SEK A share class

Risk Figures

VaR (1-day, 95%)	**6.50%**
Net exposure	**100%**
Gross exposure	**149%**
Longest single stock	**8.71%**
Shortest single stock	**-1.40%**

COMMENT BY THE PORTFOLIO MANAGER

Markets in general

After the turnaround in March and the subsequent recovery in April, markets continued trending upwards in May. The positive narrative around a fading Covid-19 will help bring the world economy back to normal while monetary and fiscal stimulus, as well as low rates, kept markets bullish for another month. Global equity markets (exemplified by the MSCI World NTR SEK) gained 1.1% in May resulting in -7.7% YTD return. Meanwhile, the renewable energy sector delivered positive returns of 3.7% over the month resulting in 1.6% YTD.

Proxy performance

In May, the Proxy Renewable Long Short Energy fund generated a monthly net return of 2.8%, bringing the fund to 10.0% YTD.

We added substantially to our net exposure during the selloff in March. We based this call on our view that the long-term growth trajectory for the sector is intact, despite the current recessionary environment. This view in combination with a level of valuations that we have not witnessed since December 2018 justified the increased net exposure. Since end of March we have maintained our positions and have been rewarded in both April and May. However, the recovery has been a lot stronger than we anticipated and current valuations discount a strong economic rebound in the second half of this year. From our point of view, it is important to understand both the short and long-term prospects of our investments. Therefore, we measure both the long and short-term outlook of individual companies as well as valuations and risk of failing on expectations. This combined view gives us an understanding of how to calibrate the portfolio in difficult times such as these.

During the first half of May, performance was derived primarily from the solar sector, while in the second half of the month our European investments were the main drivers of performance. Meanwhile, our Asian investments in wind power, battery production and EV production underperformed because of the dispute between the citizens of Hong Kong and the Chinese government. Most of our portfolio companies published their first quarter results during May which were positive in general. Management was expecting weak Q2 results due to the pandemic crisis, but for the second half this year they expect strong results because of few order book cancelations. The solar PV sector in particular is set to grow significantly this year despite the impact of the Corona crisis. This is very promising, especially from a long-term growth perspective.

Transition in energy markets

We put a lot of effort into understanding the fundamental conditions of Energy Transition for individual markets around the world. Understanding the top down macro environment is crucial to gain insight into the operating environment of individual companies. We do not invest in thematic macro calls but rather in single companies. We have been optimistic about solar PV power in the US for quite some time and have invested in a basket of different companies who have a direct or indirect relationship to the US market. One of those companies is Enphase Energy. When we started to analyze them in 2018, they had USD 316m in revenues and USD 20m in operating profit. Last year they ramped up sales to USD 624m and USD 127m in operating profit. This year, a recessionary year thanks to the Covid-19 pandemic, we still expect revenues to grow to USD 700m. Next year we expect them to grow revenues to between USD 1.1 – 1.3bn with a corresponding operating profit of around USD 300m. The operating profit next year is expected to be in line with sales in 2018. This is astonishing and consequently, it is one of our most profitable investments so far. It is a perfect example of how our investment process works well when we connect top down thematic views with bottom-up company analysis.

Oil and gas businesses in general have been highly profitable for decades, until recent years. Research from BloombergNEF show that ROE (Return on Equity) for the big integrated oil companies where on average about 25% pre-Lehman crisis. After the great recession they have been trending downwards and are hovering between 0 and 10% in recent years. This trend cannot be entirely blamed on lower oil prices. In fact, prices have been quite high with Brent oil on average USD 80 +/- 50 per barrel between 2009 and 2019. Weak ROE can be blamed on weak demand, i.e. volume growth, and high cost pressure.

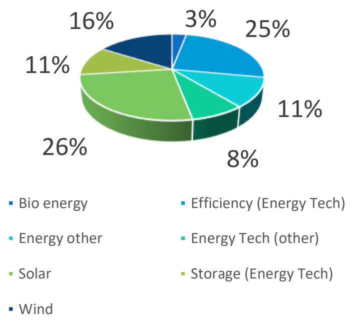
Transition in energy markets

This depressed ROE position matters right now because an oil company´s new normal ROE is lower than what BloombergNEF expects new renewable energy assets to achieve. In their latest levelized cost of electricity analysis, the global benchmark ROE for offshore wind is 11%, 9% for onshore wind and 8% for solar PV. These ROE expectations are higher than what most oil majors can expect in the current environment and do not involve a high cost of electricity.

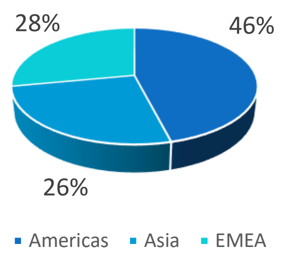
Wind and solar PV are now the lowest cost *new* sources of power generation for at least two thirds of the global population. This competitive position is a result of more than a decade of decline in cost of renewable electricity and battery energy storage. California has just published its annual review of the cost of its energy standard contracts. In 2010 the state paid USD 170 per megawatt-hour for renewables. Last year the corresponding number was USD 28.

This cost pressure is the foundation of the Energy Transition concept. It is not only making renewables and storage technologies more attractive. It also squeezes out *new* oil and coal investments. Companies who operate in a weak ROE environment, characterized by price and margin pressure, are rarely successful investments. That is why our investment process is so important since it carves out opportunities where volume growth and operational leverage eventually return strong earnings growth. Companies identified by our investment process have the desired characteristics such as the right product, in the right market at the right time. Enphase Energy is only one example of such a company.

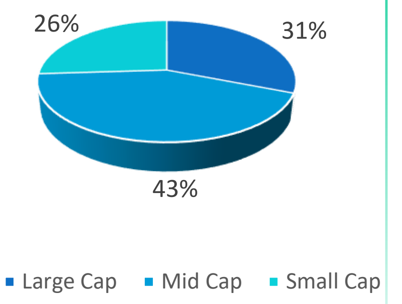
SECTOR EXPOSURE



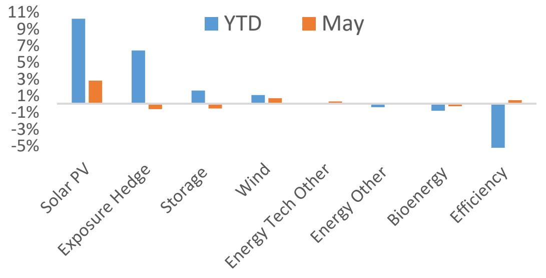
GEOGRAPHIC EXPOSURE



MARKET CAPITALISATION



SECTOR CONTRIBUTION



SHARE CLASSES – PRICES

SHARE CLASSES	*ISIN*	*PRICE*
SEK A	LU1925475474	148.55

OTHER INFORMATON

Fund Facts

Portfolio Manager	Jonas Dahlqvist
Inception	14 December 2018
Liquidity	Monthly
Management Fee	0.75% p.a
Performance Fee	20%
Hurdle Rate	5% p.a.
Lock in	None

Fund Facts

Depository	SEB S.A
Administrator	European Fund Administration S.A
Auditor	Deloitte Audit
Fund Jurisdiction	Luxembourg
Fund Company	Proxy P SICAV-SIF
Investment Manager	Proxy P Management AB

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