

Equity Long Short focusing on the global energy transition. The portfolio is based on the fundamentals and is relatively concentrated. The aim is to balance growth potential with capital preservation. ESG criteria are core to the fund's investment process.

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In accordance with article 8 of EU regulation 2019/2088, the fund promotes environmental, social and governance characteristics in accordance with European regulation. Notably, the fund's investment process excludes companies having low practice or standards in these sectors, or those with a high long term sustainability risk.

*From July 1st, 2022 the sub-fund changed name from North America L/S Equity into Volta L/S Equity.

Fund Performance

The Banor SICAV Volta Fund gained -0.85% net in September, returning +2.67% net YTD.

Unsurprisingly during a month when markets reacted negatively to a slowing global economy, it was the short side of the portfolio which performed best. Short positions in European automakers, US Solar and both country and market hedges all contributed, alongside the long position in Pilbara Minerals, which reflected the seemingly inexorable rise in Lithium prices. Losses from Ecopro BM, the South Korean cathode manufacturer, Neo Performance Materials, the Canadian rare earth separation company and Wolfspeed, the US SiC semiconductor manufacturer, all detracted from performance.

To what extent the global economy slows and how that influences the tightening by Central Banks are still the central questions impacting both equity and bond markets. In the absence of any clarity, markets may remain choppy, but the Energy Transition remains an area of intense focus for both public and private sector investment.

Market Overview

Deglobalisation is emerging from being lowdown on policymaker's wish list to being one of the imperative policy measures across the Northern Hemisphere.

If Covid betrayed the dangers of extended supply chains, then the Russian invasion of Ukraine has exposed the folly of relying on bad and potentially bad actors for supplies of energy and critical materials.

That the Energy Transition is delivering a demand shock of note to many hitherto obscure materials and that China dominates the secondary processing of these metals has, belatedly, caught the eye of policymakers and action is now being taken.

The Inflation Reduction Act (IRA) passed in August in the US, offers uncapped tax credits, potentially over \$780bn eventually (according to CS), to develop supply chains across the Wind, Solar and New Energy sectors. Separate to the IRA, the Bipartisan Infrastructure Law recently granted \$2.8bn in grants to companies operating in the battery material supply chain with a total of \$7bn available. The CHIPS and Science Act offers \$52bn in subsidies and over \$100bn in technology grants.

Allied to strict controls of technology exports to the Chinese semiconductor industry, it is clear that the desire to reshore is accelerating across many industries, but particularly the "new" ones crucial to the Energy Transition.

Some of these measures are inherently protectionist, such as the \$7500 tax credit for an EV made and mainly sourced in the US. This has led to complaints from European

and South Korean car manufacturers, but it would be unusual if deglobalisation and reshoring do not curtail competition in the short term.

Segment Summary

1. End Markets

New York has followed California in setting in motion a regulatory process to ban the sale of ICE passenger vehicles post-2035. New York and California together account for 18% of US passenger vehicle sales. Other states and municipalities are expected to follow suit and accelerate their own EV adoption plans in light of the lead set by the two large US states.

The US deployed a record 2.6GWh of grid scale energy storage in Q2/22, according to Wood Mackenzie. It was also a record quarter for residential ESS deployments, with 154MW/375MWh of BESS deployed. The survey reported a 26% increase in grid-scale battery system costs to US\$1994/kWh due to higher raw material prices. Note that the extension battery management systems make grid-scale ESS more expensive than comparable EV systems.

2. Battery Manufacturing

Consumer battery makers are feeling the pinch, with demand for small batteries (wearables, phones and power tools) falling away and raw material prices causing margin pressure. German battery maker Varta withdrew guidance for 2022 due to rising raw material and energy prices.

We continue to see huge investments in new cell manufacturing capacity, both in China and elsewhere. Over 100GWh of new capacity was announced in China in September, while major Chinese players such as CATL, Gotion and SVOLT are considering European and North American cell capacity as well. Bloomberg reported that the cost of European and US cell manufacturing capacity is nearly twice that of Chinese capacity at c.US\$100m/GWh.

3. Intermediates and recycling

Umicore announced a US\$2.9bn cathode and recycling JV with Volkswagen under which Umicore will eventually produce 160GWh worth of battery precursor and cathode materials. Much of this is expected from its new Polish plant which will start production in 2023, eventually producing over 200GWh of material post- 2030.

Redwood Materials, the US recycling and CAM start-up, set up by JD Straubel, has extended its sights to Europe and is planning to build two recycling facilities within the EU. It hasn't selected sites as yet but has rejected France and Poland because of their relative lack of renewable power.

4. Raw Materials

The EU has announced plans to introduce an enhanced strategy on Critical Minerals, without giving many details. The EU is a day late and a dollar short in this. It has had plenty of opportunity to do something about raw materials over the last five years but has focused on the Downstream part of the industry instead, leaving it still beholden to competing regions like North America and China for its raw materials supply. It is important, in our view, that Europe sorts itself out otherwise it runs the risk of being left behind in the EV race.

In what could become an important deal for the industry, Chinese EV maker Nio has become only the fourth OEM in this cycle to make an investment in a mining company and the first to discuss injecting funds at the project level. It signed a deal with Greenwing Resources, which is developing the early-stage San Jorge lithium brine project in Argentina. It injected US\$8m for a 12% share at the corporate level and has a call option to acquire 20-40% of the project after a JORC compliant resource has been published. We need to see more such deals if enough projects are to be built to source the EV event.

5. Renewables and Nuclear

France has announced plans to try to halve the time needed to develop wind and solar projects as the Energy Crisis takes hold in Europe. Draft legislation is being brought forward to cut red tape to quicken the administrative approvals process for new renewable developments. Legal proceedings against renewables developments will be limited to a duration of 30 months. France missed an EU target for renewable energy use in 2020 and lags both the UK and Germany with only 3% of its power from solar and 7% from wind in 2021.

The US is prioritising development of domestic uranium-enrichment capacity in order to end its dependency on Russian nuclear fuel. Russia enriches 40% of the world's uranium and supplies 25% of the US's nuclear fuel for its 93 operational reactors. The US only has one remaining commercial enrichment facility.

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