

ENERGY INVESTMENTS

Rechargeable batteries are leading the way in North America Fund's performance. Westbeck, the fund's advisor, is not scared by the semiconductors crisis

by Giulia Talone



Will Smith, Banor Capital

There are only a few sectors where private and public investments are in line, one of these is decarbonisation. It attracts surprisingly high volumes of funds both from government and investment companies. An example is Banor Sicav North America Fund that combines an equity long/short strategy focusing on the energy transition, paying a special attention to the role of the rechargeable batteries. The strategy has anticipated the EU proposal of stopping sales of diesel and petrol vehicles by 2035. Indeed the future is electrical and Will Smith, a partner of Westbeck Capital Management, from April advisor of Banor Sicav's fund, explained MF-Milano Finanza how the fund is anticipating and taking advantage of this trend. Year to date, the fund has returned 15.1% and since Westbeck is the advisor +7.3%.

Q. Can you explain Banor Sicav North America' investment strategy in more detail?

A. The fund invests in the five main sub sectors of the Energy Transition: End Users, Battery Manufacturers, Intermediates, Raw Materials and Renewables. Key to the strategy is identifying companies with undervalued transformational growth. The strategy employs a top-down approach to sector allocation as well as a bottom-up approach to individual company selection. We believe that fundamental research lies at the heart of a successful asset management and the work that we do to understand supply/demand trends in individual segments allows us to identify key trends ahead of the market. Given the cyclical nature of the underlying sectors, we believe that our long/short approach is key to the strategy.

Q. Why do you think the energy transition will become an asset class in the future? How important is public funding such as the Biden or NGEU plans?

A. We believe there will be an enormous growth in investment within the Energy Transition ecosystem from a very low base, as it has a strong political and social impact. End markets such as electric vehicles and renewables are set to grow over 15x by 2030. Indeed, the entire value chains needed to supply those industries must grow as well, from battery, solar and wind turbine manufacturers, to auto parts producers, engineering companies and cable manufacturers. Raw materials such as lithium, graphite, rare earth elements are structurally undersupplied and even larger materials markets like copper and nickel are likely to benefit from supranormal growth rates.

Q. Can you give us some data to understand how important the energy transition industry is today?

A. In 2020 we sold 3.1 million plug-in electric vehicles. We expect to sell 15.6m vehicles in 2025E and 34.6m by 2030E. There was 1516 GW of renewable energy capacity in 2020 and by 2030E that should have increased by four times. In 2020 power prices in parts of northern Europe went negative on a number of occasions because demand was lower due to Covid shutdowns and there was supply from renewable energy sources.

The incorporation of batteries into renewable power projects would eliminate this as an issue since power could be stored for future use.

Q. How do you diversify your portfolio and at the same time prioritize sustainability?

A. Since we invest all the way along the energy value chain, we are able to hedge out the risks experienced by some parts of the value chain in a natural way. Within each segment there are companies with different ESG ratings. We prioritise companies with higher ratings within the long side of the portfolio. Companies that do not pass our ESG methodology would only appear on the short side of the portfolio. The ability to short stocks is key to our risk management approach.

Q. According to some experts, the shortage of semiconductors could last until 2023. How do you intend to manage risk, considering that your strategy is very exposed to electrical vehicle components?

A. As we noted above, we have the ability to go short as well as long in key segments which means that we can hedge out semiconductor supply risk in some of our EV exposure. It's worth pointing out that, while EVs are a major component of the investment universe in terms of market value, they are substantially smaller in terms of numbers of stocks.