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Sheet 1 / 3

From energy transition to interesting opportunities in the battery sector

According to Westbeck CM, Banor Capital's advisor, the entire battery value chain is facing a period of unprecedented growth

To take advantage of the opportunities offered by the current global energy transition, the Banor SICAV North America Long Short Equity fund has changed advisor and investment strategy since April 2021. Banor Capital's product should also change name in the coming months, to better reflect the new strategy. Will Smith, Westbeck Capital Management Co-CIO and new advisor for the Banor SICAV North America Fund, with a long experience in managing Westbeck Volta Fund, tells MondoInvestor the opportunities in the energy transition from the battery segment, whose value chain is facing an unprecedented growth, as well as the renewed strategy of Banor Capital's fund.

Will smith Westbeck Capital Management Co-CIO and new advisor for the Banor SICAV North America Fund

You have become the Banor SICAV North America Fund's advisor since last April. How has the fund's strategy changed since your arrival?

We took over the running of an existing fund on the Banor SICAV platform on April 1st. From day 1 we started to transition the fund to be as close as possible to the Westbeck Volta Fund, our offshore vehicle, while keeping to the SICAV fund's mandate, i.e. 50% minimum exposure to North America. We have been managing the offshore fund since July 2019 in a similar manner to the SICAV format, so the transition has been relatively straight forward.

Briefly, how is the investment process of the fund structured today?

We employ a top-down approach to sector allocation as well as a bottom-up approach to individual company selection. The work we do on individual segment supply and demand will overlay our segment allocation, and individual company valuation will determine single stock allocation. Identifying the geopolitical factors influencing the macro drivers is a key element of risk management. Jurisdictional risk is an increasingly important factor when deciding allocations. As climate concern and air pollution challenges are at the heart of the electric transition, we apply a rigorous internal ESG process. ESG criteria are at the core of our investment process.

What do you think about the results recently achieved by COP 26? Will they give a major boost to the energy transition around the world?

With a looming energy crisis ahead of us, we believe that policymakers will sharpen their attention on the Energy Transition. In fact, the COP 26 fortnight in Glasgow reiterated policymakers' determination to decarbonise electricity production and limit global warming, but we were

concerned by the remarks of Antonio Guterres, the General Secretary of the UN, when he lambasted the mining industry, saying "we are digging our own graves". As we and many others have pointed out, there will be no Energy Transition without a massive increase in the supply of many critical materials needed to support it.
The entire battery value chain is facing a period of unprecedented growth - battery manufacturers but speciality chemical producers, recycling companies and critical material suppliers all face an upsurge in demand.

The issue of the energy transition involves numerous sectors and industries. In your opinion, which are the segments with the greatest investment opportunities today?
Batteries are key to the Energy Transition if are to store efficient and affordable energy. We focus on the transformational impact of the 'electric transition' on the rechargeable battery value chain. As a result, we look across the whole battery value chain which includes: end users, battery manufacturers, intermediates, raw materials and renewables.
A key theme remains the lack on investment in the critical materials needed to support Energy Transition. Demand for such materials such as lithium, cobalt, and rare earth elements will soar in the coming years. We believe that the current pinch point in the vast energy transition universe remains the supply of those critical materials necessary for the growth of wind farms, solar panels, EVs and batteries. Another key focus is the infrastructure to support the Energy Transition. In our view, those companies providing the infrastructure and construction of offshore wind farms and other renewables plants are also well poised to capitalise on the exponential growth and global deployment being planned and financed.

What are the main risks for those like you who invest in the energy transition (the increase in competition and of the valuations for the sector's assets, inflation, possible regulatory changes, technological developments, etc.)?
From our experience of previous investment super cycles, such as the emergence of China into the global economy via the WTO in 2021, we know that these events are by no means a straight line. The sub-sectors we focus on remain cyclical and whilst we are convinced of the strength and durability of the investment case across the Energy Transition, there will almost always be some sub-sector that suffers from overblown valuations, or a deteriorating short-term outlook. Such a massive investment shift offers the chance of a large misallocation of capital, with too much money chasing diminishing returns. We have seen that in 2021 in the wind turbine and blade manufacturers, where already thin margins have been crushed by inflationary costs.
The implications of the Omicron variant could be negative for industry in general and the Energy Transition in particular. Not insofar as the direct viral effects, but in terms of the disruption to the supply chain.
The ET supply chain has already been badly impacted by the Energy Crisis which has led to power outages throughout China which have impacted production of polysilicon, cathode and synthetic graphite, all key components of the battery and renewables supply chain.

How is the fund currently positioned? What are the main geographical and sectoral positions and why?
The Fund always seeks to invest in the areas of the Energy Transition where we see most upside, and these are often the areas of most pain.

Today those companies that are supplying the critical materials necessary for the Energy Transition are the beneficiaries of rapidly rising prices and limited competition.
Take battery materials for example, where we see a great mismatch between supply and demand. Over the last 3 years, EV manufacturers, Energy Storage Systems and a broader application of rechargeable batteries around the home have led to a rapid increase in demand for lithium ion batteries visible in the building or planning of over 250 Gigafactories globally over the next ten years, up from 88 operating today. While there is no shortage of lithium in the earth's crust, three years of falling prices which ended in late 2020 has meant that new mines have not been financed and built. A typical Gigafactory may take 2 years to construct, whereas it is doubtful whether a new lithium project could supply a qualified material to a customer in under 4 years.
We therefore are overweight not just the lithium producers, but also Rare Earth, nickel and polysilicon producers where similar supply/demand imbalances occur.
We also see a great opportunity in supplying the infrastructure necessary for the rollout of renewable energy systems such as offshore windfarms. Specialist cabling, connection and installation vessel companies all have long orderbooks and great market positioning given the shortage of skills and equipment.
Geographically, we seek to invest in Tier 1 jurisdictions where possible. Currently the US, Canada and Australia make up around 70% of the portfolio.

Finally, your strategy has performed significantly in terms of risk and return in recent months. What were the main drivers and are you satisfied with those results?
The main drivers of recent performance have been stock selection as our overall risk exposure has been relatively neutral. Contributions from our largest holdings Pilbara Minerals, the Australian Lithium producer, EcoproBM, the South Korean cathode manufacturer and Wolfspeed, the US silicon carbide semiconductor maker have been the main drivers.
We are rarely satisfied with results and are constantly seeking to review our past performance, while at the same time seeking new opportunities and responding to the everchanging market dynamics.