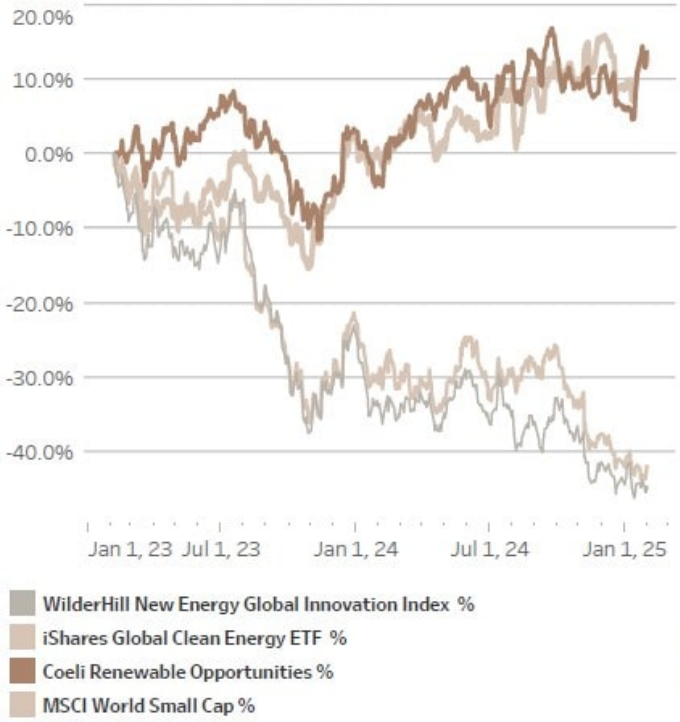
Coeli Renewable Opportunities Monthly Report January 2025 (I SEK)

This material is marketing communication.

Note that the information below describes the share class (I USD), which is a share class reserved for institutional investors. Investments in other share classes generally have other conditions regarding, among other things, fees, which affects the share class return. The information below regarding returns therefore differs from the returns in other share classes.

PERFORMANCE, NET OF FEES - IUSD



PERFORMANCE SINCE INCEPTION

ABSOLUTE PERFORMANCE (%)[1]

Coeli Renewable Opportunities	13.9%
IShares Global Clean Energy	-42.2%
WilderHill New Energy Global I	-45.1%
MSCI World Equity	32.4%
MSCI World Small Cap	12.6%

RELATIVE PERFORMANCE (%)[1]

IShares Global Clean Energy	56.0%
WilderHill New Energy Global I	59.0%
MSCI World Equity	-18.6%
MSCI World Small Cap	1.3%

Source: Bloomberg, Coeli January 2025

Please note that the indices referred to in this monthly report are included for informational and illustrative purposes only. The fund is not managed in reference to the indices, but the indices are deemed to be relevant and comparable to the fund.

PERFORMANCE IN SHARE CLASS CURRENCY (%)[1]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023		0.4%	1.6%	0.3%	-0.4%	5.9%	-1.4%	-3.1%	-5.2%	-6.3%	4.8%	7.4%	3.2%
2024	-6.9%	6.2%	5.0%	-0.8%	4.7%	-5.4%	6.8%	0.9%	-0.4%	-3.2%	2.0%	-4.6%	3.2%
2025	7.0%												7.0%

ATTRIBUTION JAN -25

Long	3.0%
Short	4.0%

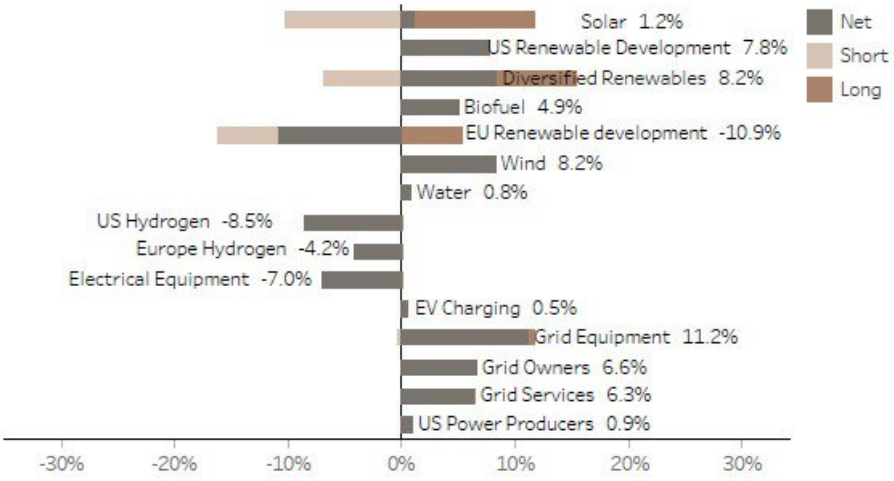
MONTH END EXPOSURES

EXPOSURE, MONTH END

No of long positions	27
No of short positions	18
Gross Exposure (%)	133%
Net Exposure (%)	26%
Max. Largest long % NAV	8%
Max. Largest short % NAV	6.3%
Top 5 shorts % NAV	-26%
Top 5 longs % NAV	33%

Source: Bloomberg, Coeli January 2025

STRATEGY EXPOSURE[1]



Past performance is not a guarantee of future returns. The price of the investment may go up or down and an investor may not get back the amount originally invested.

1) Share Class I USD

Performance for other share classes towards the end of the report.

FUND MANAGER COMMENTARY

The Coeli Renewable Opportunities fund gained 7.0 % net of fees and expenses in January (I USD share class). It is up 13.9 % since inception in February 2023.

The fund outperformed the most comparable indices, the Wilderhill New Energy Global index (NEX) and the iShares Global Clean Energy (ICLN) by 8% and 7% respectively, extending the outperformance since inception to 56% and 59%, respectively.

January was a strong start to the year for the fund and for the stock markets. The fund made money on both the long and the short side and two thirds of its themes were positive. The best performers were ’Diversified Renewables’ and ‘US Hydrogen’, contributing 2.3% and 2.2%, respectively, while the biggest loser was ’Solar’ at -0.4%.

Despite all the headlines from President Trump, the main event of the month was probably the release of the Chinese Deepseek-R1 AI model which caused a massive sell-off in everything AI related, including in our grid themes which are part of the ‘powering AI’ thematic.

We will elaborate on Deepseek and its implications below, however it is worth mentioning that during the sell-off, we actively traded a third of the NAV and reduced net exposure from the mid-40% range to the mid-20% range. This trading activity helped halve the net loss for the day to 2.1%. Meanwhile, gross exposure was trimmed by approximately 10 percentage points to around 125%.

We maintained these exposure levels through month-end, as uncertainty remains around Deepseek’s impact on power demand, significant IRA-related headline risks are still ahead, and we are only beginning to see the effects of the looming tariff risk.

MARKET COMMENT – EUROPE OUTPERFORMING THE US FOR ONCE

Although the S&P 500 Index rose 2.7% in January, it was overshadowed by Europe's Stoxx 600 Index, which surged 6.5% and reached multiple all-time highs. This outperformance was partly driven by a rotation out of US tech stocks following the release of Deepseek, but more importantly, it reflected initial optimism that tariff risks might be contained.

We initially expected market optimism to wane when the Trump administration began February by imposing 25% tariffs on Canada and Mexico, its two closest neighbors and key trading partners. However, the market quickly rebounded after these tariffs were delayed by a month as Trump secured some minor concessions. That said, the 10% tariff on Chinese goods remain in place, and Trump has hinted that the EU could be next in line for similar measures.

While it is often difficult to take President Trump's statements at face value, tariffs are an issue he genuinely prioritizes and believes in. More importantly, the Republican led Congress depends on tariff revenue to help finance the extension of the Tax Cuts and Jobs Act (TCJA) from Trump's first term. Without substantial tariff income – and despite significant cuts to federal budgets – the US could face a sharp rise in government deficits, necessitating increased borrowing and further inflating the already ballooning national debt. In a year where the US must refinance as much as a quarter of its USD 36 trillion national debt, this adds significant pressure to identify alternative revenue streams.

Given these dynamics, we believe the market's optimism regarding tariff risks may be premature.

DEEPSEEK AND ITS IMPACT ON POWER DEMAND

On January 20, 2025, Chinese AI startup DeepSeek released DeepSeek-R1, an open-source reasoning model apparently matching performance of leading US AI models like OpenAI's o1. What makes this development remarkable is not only that it emerged from China – a country previously perceived as lagging in the AI race – but also that it was allegedly developed at a cost of just USD 5.6 million, a fraction of the expenditure required for US models. This is particularly notable given it was allegedly developed using inferior chips as the sale of Nvidia's most advanced chips to China has been banned since October 2023.

Much has been written about DeepSeek and its potential implications for global technology companies, as well as for firms supplying equipment and power to data centers. However, it is important to clarify a key point: the USD 5.6 million figure represents only the cost of releasing this final iteration of the model and does not account for the substantial capital invested in earlier stages of development. To draw an analogy, it is like claiming that the only effort required to run a marathon is the effort expended during the final 42 kilometers, ignoring the months or years of training that precede the race.

Additionally, DeepSeek employs a technique called distillation, which transfers knowledge from larger pre-trained models developed by companies like OpenAI, Meta, and Anthropic. Without these foundational models and their enormous development costs, DeepSeek-R1 could not have been trained for USD 5.6 million. There has also been speculation that DeepSeek may have received support from the Chinese government, something which might explain that the release date coincided with Trump's inauguration.

That said, the true cost of DeepSeek-R1 is somewhat beside the point. What matters is that the world now has access to a powerful open-source model that can be distilled onto smaller models at minimal

expense. Moreover, DeepSeek appears to have made significant advancements in computational efficiency, representing a step change in the field. Improved efficiency implies lower power requirements, which is why the grid sector and other AI enablers experienced a sharp sell-off in January.

Was this sell-off justified? We believe so. The key question now is whether power demand estimates for AI data centers will be revised downward. On this, we are less certain. Initial updated forecasts suggest that power demand growth remains robust.

We expect DeepSeek's advancements to spur the development of more purposeful AI applications, likely increasing demand for inference data centers relative to those focused on large language model (LLM) training. However, it remains unclear whether this shift will reduce or increase overall demand for compute power.

One telling indicator is the capex budgets of hyperscalers, some of which were announced after DeepSeek's release, have increased significantly beyond market expectations, with no indication that less money will be spent for the same level of compute power. If anything, the opposite seems true, at least in the near term.

The longer-term outlook is more uncertain. We believe DeepSeek-R1 marks the beginning, rather than the end, of efficiency-driven breakthroughs in the race toward Artificial General Intelligence (AGI). This is undoubtedly positive news for AI adopters – companies leveraging AI technologies. Cheaper AI applications will democratize access, accelerate adoption, and likely boost global productivity.

The bigger question is what this means for the enablers, the companies supplying chips, infrastructure, and power. Will Microsoft CEO Satya Nadella's recent post on X prove prescient: "Jevons paradox strikes again!"? This 160-year-old economic principle, which posits that improvements in resource efficiency lead to increased rather than decreased resource consumption, has seen a resurgence in discussions over the past few weeks. In the context of AI, cheaper and more efficient models could lead to even greater investment and adoption, driving up demand for resources like power and infrastructure.

We believe this dynamic will hold true over time, though it is difficult to predict whether adoption will keep pace with efficiency improvements on a month-to-month or year-to-year basis.

In light of these developments, we believe the 'powering AI' trade – a popular theme and part of the fund's exposure – deserves a gentle reset. The valuation multiples at which some of these companies traded were difficult to justify based solely on grid and renewable energy demand. While the anticipated growth in AI data centers was expected to turbocharge demand for electrical components and related services, the increased uncertainty warrants a more cautious approach to valuations.

Having sharply reduced our net exposure to this thematic, we believe a reset will create more attractive entry points for the fund to rebuild positions in the future.

FUND PERFORMANCE – STRONG START TO THE YEAR

The fund delivered 7% net return during the first month of the year with 3% stemming from long positions and 4% from shorts. The renewable indices were largely flat in comparison.

As previously highlighted, the defining event of the month was the release of DeepSeek's R-1 model. This development sparked immediate uncertainty about long-term power demand, prompting us to

reduce our net exposure by more than 20 percentage points, bringing it well below our sweet spot of 40%-80%.

In our December 2024 monthly report, we wrote that AI-driven power demand was the “icing on the cake” for power demand growth. Many of the companies in our portfolio had seen their valuation multiples expand significantly in recent years, and we believed these multiples were becoming stretched. As regular readers of our monthly updates will know, we had already begun adding short positions in this thematic.

During the sharp sell-off on Monday, January 27, we reduced our net exposure to 17% intraday before selectively increasing some positions and covering short-term trades, ending the day at 26%. This active trading generated approximately 2% in profit, limiting the fund’s total loss for the day to 2.1%. Given that Morgan Stanley’s ‘Powering AI’ basket fell 17.5% on the same day, we are satisfied with the outcome.

Despite the significant sell-off toward month-end, January was a strong month for the fund. The ‘Diversified Renewables’ theme was the top performer, continuing its strong momentum from 2024. The biggest contributors were our holdings in **Chart Industries (GTLS)** and **Siemens Energy (ENR).** We reduced our position in **ENR** significantly on the 27th but bought back during the day, securing a tidy trading profit.

The second-best performing theme was ‘US Hydrogen’, which consists entirely of short positions. In fact, when combined with the ‘EU Hydrogen’ theme, hydrogen-related positions were the fund’s top-performing thematic during the month. We actively traded the news flow and added to a high-conviction short position, which turned out to be our single best performer in January.

On the flip side, the ‘Solar’ theme was the weakest performer, detracting 0.4% from NAV. Our solar exposure is primarily focused on **First Solar (FSLR)** on the long side, hedged with short positions in solar companies we consider overvalued or overly exposed to China-related risks. While other solar stocks may appear inexpensive, the risk of IRA (Inflation Reduction Act) revisions makes them too risky to hold. For **FSLR**, however, we believe the risk is worth taking.

First, we do not expect the IRA to be fully revoked, though it will be modified. Second, any changes to the IRA are unlikely to directly impact **FSLR**, as the manufacturing tax credits the company relies on enjoy support among many Republican members of Congress. Third, even in the unlikely event of an IRA repeal, **FSLR’s** recent investments would likely be grandfathered under standard US practices for transitioning fiscal incentives. Finally, as the only manufacturer with significant domestic capacity, **FSLR** stands to benefit from potential tariffs on imported solar equipment under a Trump administration.

Looking ahead, the uncertainty surrounding AI data center developments, ongoing IRA headline risks, and the unpredictable nature of US policy under the current administration lead us to maintain a lower net exposure than our typical sweet-spot range of 40%-80%. We believe more attractive entry points will emerge for many of our favored long-term holdings, and we currently see compelling trading opportunities on both the long and short side.

We look forward to providing another update at the end of February.

Sincerely

Vidar Kalvoy & Joel Etzler

PERFORMANCE IN SHARE CLASS CURRENCY (%)

IUSD

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023		0.4%	1.6%	0.3%	-0.4%	5.9%	-1.4%	-3.1%	-5.2%	-6.3%	4.8%	7.4%	3.2%
2024	-6.9%	6.2%	5.0%	-0.8%	4.7%	-5.4%	6.8%	0.9%	-0.4%	-3.2%	2.0%	-4.6%	3.2%
2025	7.0%												7.0%

ISEK

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023		0.3%	1.6%	0.2%	-0.5%	5.6%	-1.7%	-3.2%	-5.3%	-6.5%	4.6%	7.0%	1.0%
2024	-7.0%	6.0%	4.8%	-1.0%	5.1%	-5.6%	6.6%	0.8%	-0.6%	-3.3%	1.8%	-4.9%	1.4%
2025	6.7%												6.7%

RSEK

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2023		0.0%	1.4%	0.2%	-0.7%	5.6%	-1.7%	-3.4%	-5.4%	-6.5%	4.5%	7.0%	0.1%
2024	-7.1%	6.0%	4.8%	-1.0%	5.1%	-5.6%	6.6%	0.8%	-0.6%	-3.4%	1.7%	-4.9%	0.9%
2025	6.6%												6.6%

Source: Coeli January 2025

Past performance is not a guarantee of future returns. The price of the investment may go up or down and an investor may not get back the amount originally invested.

Date Created
2025/01/27