

## **Interview with Will Smith & Matt Fernley, co-managers of hedge fund Volta**

*RJ Management has been building a strong conviction in energies since 2020. This initially took the form of positions in direct stocks such as TotalEnergies and Shell, as well as a hedge fund specializing in oil trading.*

*Convinced by the necessity of the energy transition, we selected a long/short equity manager capable of capturing this secular trend with a vehicle offering daily liquidity and a strong ESG footprint.*

*Please find below an interview with the VOLTA fund management team.*



### ***Opportunity***

*Our Western world has long believed in the mirage of unrestricted energy at a good price. The crisis of 2022 has suddenly reminded us of our economic and physical limits. As specialists in energy investments, why do you think this environment offers so many opportunities?*

The goal to decarbonise our energy sources, but still make them affordable, is an enormous challenge that will require an unprecedented mobilisation of capital, both monetary and intellectual. This will require new technologies to succeed and grow, but others will fail, thus a long/short fund is the optimum vehicle over the next decades of this transition.

## **Geopolitics**

*The supply of fossil fuels has long guided international relations. The much-needed energy transition is leading us towards the use of new and old energies (nuclear). Do you think this re-evolution could change international stakes?*

Energy security was unfortunately neglected by policymakers until 2022 and the Russian invasion of Ukraine.

We believe a mix of energies will be required to fulfil stable supplies of energy and security. Nuclear will have to play a much larger role in the provision of decarbonised baseload power, a fact recognised everywhere, with the possible exception of Germany.

We do believe that Industry will gravitate towards those countries and regions with reliable and competitive energy supplies, and this should start to re-focus minds at a government level.

We also caution that an over-reliance on renewable power, without sufficient storage or baseload power supplies, risks increased volatility in both pricing and reliability.

## **Electricity**

*Electricity will play an important role in this revolution. However, the international community seems more divided over the production sources of these electrons. What do you see as the key ecological and economic issues in this phase of massive investment that lies ahead?*

It would be reasonable to suggest that if we are to meet the current decarbonisation targets then the use of electricity as a primary energy source will have to rise from 20% today to around 40% by 2050. This challenging target will have to overcome many hurdles, not the least of which will be permitting as a massive investment in the global grid infrastructure will be a prerequisite. What the centre decrees is not always well received in the extremities, where many of these wind, solar, nuclear and hydro projects are based.

It is important that governments streamline the planning environment for new energy supplies, raw material developers and, just as importantly, infrastructure. New projects can and should have a robust ESG overlay but modern operating best practice can realise viable operation even within stringent ESG guidelines.

## **Technology**

*Battery technologies are a major issue in the race to adopt electricity over fossil fuels. Both the materials used and research and development capabilities to improve their efficiency are strategic. What is your medium-term outlook for this segment?*

The race to secure supplies of battery and other critical materials has started, and the “West” is behind China by some distance. It is not just the raw materials (such as copper, nickel, lithium) but the ability to process these materials that is now a geopolitical struggle that will last for many years yet.

The passing of the Inflation Reduction Act last year was a massive boost to companies operating in , or near to the US, and has already attracted over \$100bn of investment. The “West” is now clear that it does not want to rely on China for the supply of the critical materials necessary for the Energy transition, and that has presented many opportunities for the Fund.

We believe that enough downstream projects are on the drawing board to equip the EV revolution, but that industry, finance and government have neglected the upstream. As a result, this part of the value chain looks very tight, especially if ESG standards become as important in the supply chain as we expect.

## **VOLTA**

*Your long-standing expertise in managing equity portfolios in this theme has already proved its worth. Why do you think the VOLTA strategy, with its long/short profile, offers investors a truly differentiating opportunity? How does your ESG approach fit into this UCITS fund?*

Whilst we are involved in the largest investment theme of the next few decades, we are also aware that there will be some spectacular misallocations of capital and with a long/short fund we aim to capitalise on these. We also remember previous super cycles, and these are not straight-line events. For example, the arrival of China onto the world stage starting in 2000 was not a bottom left to top right chart for resource companies as there were many severe drawdowns over the decade, and all the companies in our sector are still cyclical. We aim to protect our investors’ capital and also capture alpha by using the short side.

From the start of the Fund four years ago, we found the generic ESG ratings available to be somewhat inconsistent and decided to construct our own rating system. We differentiate from many in the sector by having some red lines in this protocol which preclude investment. These include certain jurisdictions we cannot invest in such as the DRC or Bolivia, companies that still drop tailings into watercourses or oceans, and companies that do not have transparent taxation policies. We have found over the years that this is, at the very least, a useful risk reduction tool, and as an example we had no Russian exposure last year as these all failed the governance and environmental criteria.