## Monthly Newsletter - October

Hello there,
Welcome to our newsletter for October. To our investors - thank you for investing alongside us for the long term. In this edition you'll find:

- October performance.
- Market looks for short-term gains in cyclical stocks.
- What's interesting to us?

## October Performance

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| Wholesale Strategy | 1.74% |
| Retail Strategy | 1.60% |

The Wholesale Strategy has returned 1.74% net of fees in October versus the ASX 200 1.92% and NASDAQ at -2.29%. The strategy has delivered investors 46.81% p.a. post fees since inception (July 2016).

The Retail Strategy has returned 1.60% net of fees in October and has delivered investors 33.55% p.a. post fees since inception (November 2017).

## Market assessment

Post U.S. election and with good news coming out of phase three trials of Pfizer and Moderna, the market has seen fit to roll out of growth and momentum stocks and into cyclical stocks. The belief is that there will be short-term gains to be made from companies affected by the COVID environment. This rotation has temporarily suppressed stock prices of companies in our strategies.

## What's interesting to us?

Recently we have been most interested in SolarEdge's transition into e mobility, difficulties faced in Europe in transitioning to sustainable economies and new evolution in the buy now pay later (BNPL) sector.

### SolarEdge begins production of electric drive trains

SolarEdge is currently gearing up to produce small numbers of electric powertrains to a large EV manufacturer whilst working on a number of other projects in the space. A typical powertrain kit includes batteries, inverters, motor, and vehicle control unit. Over the last six months tens of electric vehicles have been powered by SolarEdge's full powertrain units and have been accumulating miles in testing while undergoing an extensive qualification process. Next quarter SolarEdge anticipates to deliver between 100 to 200 power trains as mass production begins. The move underscores what dynamic forward thinkers the management of SolarEdge are in particular the vision for the company the late Guy Sella had in being not only a supplier of solar inverters but a sustainable solutions company encompassing solar power, virtual grids and e mobility.

### Europe faces difficulties in transitioning to sustainable power

In the past, power production was matched to grid demand whereby a coal or nuclear facility was ramped up or down to meet that demand. In the transition to sustainable economies grid demand is now met by variable supply from wind and solar as they naturally occur. That mismatch creates a challenge with the possibility of not supplying enough energy to meet demand or too much energy causing grid overload and failures. Europe has committed to net zero carbon emissions by 2050 and a 50% - 55% cut in emissions by 2030 compared to 1990 levels. This means an ambitious ramp up of renewables and with it an increasing mix of wind and solar. The problem of input variation is being met with mixed success in a number of ways including:

- Battery installations at wind sites that hold up to 4 hours of supply smoothing out grid input.
- Adaptive technologies designed to handle demand and supply mismatch at the site of grid connection.
- Decentralised gas turbines that handle temporary power shortfalls. These will need to be phased out to meet emissions targets and will likely be replaced by batteries.

**An incoming wave of EVs is likely to make the existing challenge more difficult**. The biggest factor currently holding back mass adoption of EVs is the purchase price of which the battery makes up by far the largest single component cost of an EV. Battery prices are falling quickly from $1,000 per kWh in 2010 to $150 per kWh in 2019. At around $100/kWh the price of an EV will likely be less than that of a comparable combustion engine vehicle and this will be an inflection point for the adoption of EVs. At current trends this is likely to happen in 2 to 3 years which brings me to the point of EV adoption and challenges in meeting grid demand using renewables.

Even when charged at home it is unlikely that a single residence will store enough power from solar production during the day to charge their EV at night. This will inevitably result in increased night-time power demand that needs to be drawn from renewables at which point there will only be wind and battery sources available.

**What we're left with is a two phased problem**. Phase one - Europe forces a transition to renewables in meeting their 2030 target and in doing so face a growing challenge of demand/supply mismatch. Phase two - Between 2023 and 2024 EVs reach price parity with the combustion engine leading to rapid adoption and with-it rising demand on the electrical grid further exacerbating demand/supply mismatch.

**Grid connected batteries may provide the solution**.It’s interesting to consider that the reason for increased electrical demand ( decreases in the cost of batteries) may also help to solve the problems it created, sustainable power supply at night from grid connected batteries for night time EV charging and in local areas for public charging stations.

**Alfen provides solutions accross the energy mix**. Based in The Netherlands and operating around Europe, Alfen provides smart grid, EV charging and grid connected battery solutions. In recent years Alfen has seen rising revenues based on fundamentals of increasing demand in solving demand/supply mismatch with smart grid technologies, public EV charging stations and grid connected battery solutions. We're still completing analysis on Alfen but it may present in our strategies in the future.

## BNPL sector keeps evolving

We see BNPL companies as the future of banking and a recent announcement by Afterpay has significantly strengthened that view. Afterpay and Westpac have entered into a collaborative agreement to provide Afterpay savings accounts to customers in Australia. We see this as a big move for the sector in transitioning from a single BNPL product towards a full banking service where the user can hold savings in their app account rather than having to work between two interfaces (bank app and BNPL app). The move is recognition of the continued transition of clients away from traditional banking models that has been accelerated by the consumer benefits of using a BNPL service vs a credit card. We're invested in Zip Co and believe they are well placed to provide a similar service.

Recently Zip also announced its acquisition of the Urge, an AI-powered visual fashion search engine that helps shoppers find items they're looking for and to compare prices. This is very similar to PayPal's honey acquisition that offers a similar solution and has been enormously successful on their app. We believe Zip is making the right moves in becoming a direct competitor to PayPal not only with this acquisition but also in moving into merchant finance, savings and money management facilitation and the recent addition of use anywhere functionality allowing Zip to compete with credit cards at every checkout.

All the best
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