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## Esplanade Capital Electron may be only solar-focused hedge fund

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Shawn Kravetz manages what he believes is the world's only hedge fund devoted exclusively to solar power companies, Esplanade Capital Electron Partners LP in Boston.

"It's not easy — if it were easy, everyone would do it," said Kravetz, founder and president of the fund. "We think it is quite hard, but quite rewarding if done well."

The fund, which began in June 2009, followed on what Kravetz said was a successful stint investing in solar firms through his original fund, Esplanade Capital Partners LLC. That fund had started investing in solar companies in 2004, and within four years, "we were seeing more investment opportunities in solar than we could prudently invest in through the original fund," he said.



SANDIE ALLEN  
Shawn Kravetz of Esplanade Capital

Hedge funds — private investment partnerships with stiff requirements for joining — offer a lot of advantages for investing in solar, including more investment flexibility than a typical mutual fund, Kravetz said. As a private fund, he said he couldn't disclose the dollar value of the funds.

There's one area that Kravetz said the funds have never gone, however, and won't any time soon — investments in private solar companies. Kravetz recently spoke about the fund at his office in Boston's Post Office Square.

### Why is a hedge fund well-suited for investing in solar?

We think a hedge fund structure is an ideal structure because of several reasons. One, we think it is extremely valuable to be able to be long and short ... Two, we also use derivatives, fairly simple calls and puts generally, but we think derivatives are extremely useful in investing in solar stocks ... The hedge fund structure also allows you to change your mind. Most of what we do every day is think about facts — doing research analysis, generating insight, trying to understand facts and patterns. In a dynamic sector like solar, they can change very quickly.

### Where are your investments?

We only invest in publicly traded securities, primarily stocks and options. In terms of what we invest in for solar, it's across the value chain. We have invested in downstream developers at one end of the spectrum, and at other end we have invested in polysilicon manufacturers. Basically every other stage in the supply chain we've invested in at some point, including wafer manufacturers, equipment companies, cell manufacturers, module manufacturers, and even to a certain extent financing companies. We believe that the financial side of solar will be a burgeoning sector of opportunity in the next few years.

### How many solar companies have you invested in through the two funds?

Over the years, we have had a position in over 30 solar-related companies. Our first solar investment was Evergreen Solar six years ago. At the time, it was one of the precious few public solar companies in the U.S. We sold that position quite a long time ago, thankfully, and have actually been quite saddened by virtually all aspects of the Evergreen Solar story. We have a small position in a company by the name of ATS Automation (ATA), a Canadian company which supplies Evergreen Solar with their string ribbon wafer equipment. Today we also have an investment in Trina Solar (TSL) and in two recent IPOs — JinkoSolar (JKS) and Daqo New Energy (DQ).

### What hooked you about solar?

Part of what has captured our attention over the past few years has been what we refer to as "green swans." By now, thanks to Nick Taleb, everyone knows what a black swan is — this very hard-to-predict event with enormous impact. We refer to a green swan as a black swan in green tech — and solar is loaded with them. Crazy things happen in solar, and that can move solar

companies and solar stocks wildly. For example, in 2007 Spain was a large solar market. They installed about 500 megawatts of solar. But thanks to extremely generous government policy, in 2008 Spain installed 2.5 gigawatts — grew five times — and represented about half of the global marketplace. Stunning.

The next year it collapsed to barely anything. ... So this green swan notion is something that we really live by, and that we try our best to stay on top of. Some of it is recognizing that there are things you won't be able to predict.

**How are you able to do this successfully?**

We do have six years investing in solar around the world, so we've seen a lot of this before. And by getting to know the companies, getting to know the markets, thinking about the markets, we think we have developed a nice edge.

**Any new solar technologies you're following closely?**

There isn't one company that we know of that has that magic bullet. There are lots of interesting companies out there, some of which are in our back yard. But it's funny — when you talk about solar, the knee-jerk reaction is always to talk about the next big thing, the breakthrough game changer in technology. The game changer is actually staring us in the face. It's these big established companies in China with audited financials, with respected auditors, with juicy profit margins and tremendous growth. Because it's those companies continuing to drive down the experience curve, lowering cost, entering new markets — that's what's going to get us closer to that grid parity, so that solar can compete with coal and natural gas. ... Right now we would much sooner place our bets with quality companies that can grow nicely, that may be trading at five or six times earnings, versus something that could be a multi-billion-dollar company, but has no revenues, is burning cash, etcetera. To us, we actually think that being a venture capitalist in solar — we're just glad we're not — we think that is a very, very challenging place to be. That's not to say there won't be winners and opportunities. But we think that is much harder than being a public securities investor today.

**Any local solar startups you're following?**

There's 1366 Technologies — incredible aspiration. They're trying to do something incredibly special, and if they succeed, it will have profound impact on the global solar manufacturing market. But the ambition means that there's risk to that.

**Kyle Alspach**  
Technology Editor  
*Boston Business Journal*

