FUND ANALYSIS TOOLS - FSRC<GO>

Bloomberg Funds data currently tracks more than 50k active sub-funds in the European Region. FSRC is our customizable funds search engine. See the example snapshot of the top-performing funds in March, whose holdings are at least 50% exposed to Oil and Gas. The following returns are as of 4/24/15.

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toptenEnergy2015 — 18 funds

	Ticker	Name	Fund Type	Fund Objective	Tot Ret 1M
1)	HERENRG LX	HERITAM-ENERGY FUND-USD	SICAV	Energy Sector	12.364
2)	WFECHA1 LX	WHITE FL II-ENERGY CHAMP-A1	SICAV	Energy Sector	11.911
3)	LOGBEIA LX	LO FUNDS-GLOBAL ENERGY-IA	SICAV	Energy Sector	11.044
4)	COLBENA LX	COLORS INV BLUE ENERGY-A	Mutual Fund	Energy Sector	10.835
5)	GUINGEA ID	GUINNESS GLOBAL ENERGY FD-A	OEIC	Energy Sector	10.723
6)	INVENFA LX	INVESCO ENERGY FUND-A	SICAV	Energy Sector	10.636
7)	GUIGLEI LX	INVESTEC GS GLOBAL ENERGY-A	Mutual Fund	Energy Sector	10.582
8)	SWLFENG LX	SWISSCANTO LU EQ SE ENERGY B	FCP	Energy Sector	9.624
9)	CLAEEFB LX	CS LUX ENERGY EQUITY-B USD	Mutual Fund	Energy Sector	9.528
10)	SHAENRG LX	SHARE ENERGY	SICAV	Energy Sector	8.979
11)	MGERUA1 LX	MFS MER-GBL ENERGY FD-A1USD	SICAV	Energy Sector	8.034
12)	ESPASIF LX	ES GLOBAL SICAV - ENERGY FND	SICAV	Energy Sector	7.901
13)	UBSENPA LX	UBS LUX EQ S-ENRG TR USD-PA	SICAV	Energy Sector	7.753
14)	AXWFJAU LX	AXA WF-FRM JUNIOR ENR-AUSD	SICAV	Energy Sector	7.658
15)	DEXENSC LX	CANDR EQUITIES L-GLB ENER-C	SICAV	Energy Sector	7.221
16)	AMEGLEE LX	THREADNEEDLE-GL ENERGY E-AU	SICAV	Energy Sector	7.053
17)	GEQ4427 LX	PARVEST EQY WLD ENERGY-CD	SICAV	Energy Sector	6.827
18)	INGLEGC LX	NN L - ENERGY-XC USD	SICAV	Energy Sector	6.163

ECF ->

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For more perspective we spoke to Pablo Gonzalez who manages the White Fleet II - Energy Champions Fund, (WFECHA1 LX) on Bloomberg. Please see our interview with Mr. Gonzalez below.

ANALYZING FUND PERFORMANCE
FUND<GO>

Pablo Gonzalez, CFA
Portfolio Manager
Independent Capital Group AG

1) With the price of crude oil falling, the value of the underlying assets in your portfolio has fallen. What percentage of your fund was in stocks tied to oil prices and are you continuing with those holdings?

Our long-only fund, the Energy Champions Fund (ECF) offers the investor the opportunity to invest in an actively managed portfolio of best-in-class energy companies. We analyze and continuously monitor the entire energy market (fossil fuels and renewables) and we select the most attractive energy sector for financial investors, the “champions sector”. Attractiveness is represented by the profit margins generated by each individual sector of the market. Currently, the most attractive energy sector continues to be oil and gas and therefore all of our holdings are oil and gas integrated and E&P companies. We expect that to continue for a while and will keep our exposure to that sector.

2) Do you foresee a turnaround in the near future with crude oil? If not, what types of strategies are you using to remain ahead of the curve?

We have currently an oversupplied oil market and it will take time to rebalance. Most analysts expect the situation to improve by year end but we think it’s very difficult to estimate. What we know is that the world will still run out of cheap oil over the next decade.

Remember that on the oil supply side, over the next 20 years the equivalent of 4 Saudi Arabia's need to be added just to replace declining production and to keep oil output flat. However, Goldman Sachs warned that $1tn of spending on future oil projects is at risk with oil at $70/bl or 7.5mb/d of new output over the coming decade, that's 8% of current global oil demand. The futures curve shape moved from backwardation into contango in less than 6 months. This extreme contango situation has been seen only twice in 20 years: near the oil bottom in 1998 and 2008. However, betting on a turnaround via futures may be less attractive because of the negative rolling effect. Therefore we prefer to look to the oil and gas companies. With the US shale oil boom, the oil landscape changed a bit and transformed the oil costs curve for new projects on all-in break-even levels. It's contributing a big volume part in the upper middle part of the cost curve and its unique drilling economics makes it the most flexible and fastest production capacity to adjust to new oil price levels. That is what the market is expecting to happen and we have already first signs showing a slowdown in the US e.g. the US oil rig counts that has already halved from the peak in Oct 2014. Drilling fell more quickly than in previous bear markets. But longer-term we think it's not necessarily US shale oil production that is killed but most probably high cost offshore projects. Further to that, over the last few years the oil and gas sector has seen a toxic combination of declining production (ex US) and rising costs eroding returns to relative low levels. Therefore we think a structural change is needed and is underway. The situation is nothing new to the oil and gas industry as it already happened twice in 1986 and 1998 with over supplied oil markets. In the 1980s as well as in the 1990s the oil and gas industry reduced capex and saved costs to survive. After that those companies outperformed the market. At the end of the 1990s there was also a big M&A wave (e.g. BP acquired Amoco, TotalFina acquired Elf, Exxon acquired Mobil, Chevron acquired Texaco, etc.). And today most oil and gas CEO's see this period right now as an opportunity to clean up the cost base of the company and readjust the economics of the industry. As you can read it day by day oil and gas companies are announcing meaningful efforts to cut capex and costs to bring it down to levels of cash neutrality and optimizing cash timing. We think those dynamics are probably underestimated and successful measures may result in even flat cash margins from next year on like in the late 1980s.

Therefore it's important to focus on financially healthy companies that operate on the lower end of the cost curve during this difficult time. These ones will come out stronger, and as history showed, these companies may also outperform. We think there is a high probability to see again big M&A activities like Shell & BG Group or Repsol & Talisman just demonstrated. Focus on companies with low reserve valuations is essential in this context.

3) What are your key criteria when picking stocks?

Our investment decisions are based on a knowledge-based investment process and an ECF Alpha Scorecard resulting from a proprietary database and methodology. Our proprietary ECF Alpha Scorecard selects the 25 "energy champions" stocks based on objective criteria. The three main pillars of the selected energy champions are assets, funding and sustainability. Every pillar contains different independent variables. Through the analysis of the most important variables within different areas and their aggregation to a common level companies with sustainable competitive advantages (so called "economic moats") get selected. The final weighting of each individual position within the portfolio is given by the company's rank within the ECF Alpha Scorecard. That's a non-discretionary stock selection process and also a non-predictive approach as the biggest part of the analysis is based on historical data. We consider it to be a quit unique and consistent methodological process which has been tested successfully.

4) What sort of hedging strategies do you have in place?

We are long only and to optimize risk-returns we may use standardized call and put options. Typically diversification does already reduce firm specific risks. However one-off events (so called black swan events) cannot be fully excluded. As protection against these one-offs the ECF started to hedge some of its positions. But to keep option premiums low hedging is only executed in a low volatility environment.

5) Your fund is looking to achieve returns in the long term. Are you currently in a wait and hold period?

An “energy champion” company doesn’t change from one day to the other. However, some of our variables in the ECF Alpha Scorecard are dynamic like the reserve valuation, the country risk, the FX effect on the cost base or the current oil and gas prices. Further to that right now we are screening all annual reports and SEC reports of the oil and gas companies to update our database and that’s usually the time when we have the biggest changes in the portfolio. But the focus is still the same to be invested in high quality companies. These best-in-class companies, the so called “energy champions”, are profitable, on a solid ground, have leadership in technology and set standards for the industry in the context of corporate governance and sustainability.

6) What is your favorite Bloomberg Function?

We like everything that is related to commodities like GLCO, CCRV, CPFC but our favourite is probably PORT related to the portfolio functions on Bloomberg. It’s of big value for us to have an up-to-date overview of the portfolio characteristics, financial metrics, scenarios, performance, risks and news. BMAP is also something we use every day to monitor key commodity assets of different companies or countries and to have a better understanding of geopolitical risks.

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