

# JUNIOR OILS TRUST

Investing in the oil giants of tomorrow

**10**  
**YEARS**  
**TRACK**  
**RECORD**

Update January 2015

## FUND PERFORMANCE

'C' Bid to Bid since launch:

10.10.04-31.1.15: -1.2%

31.12.14-31.1.15: -13.0%

12 months discrete:

31.1.14-31.1.15: -34.6%

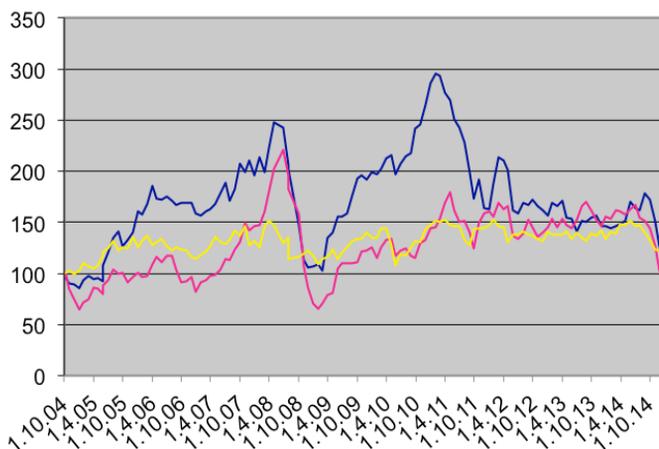
31.1.13-31.1.14: -14.6%

31.1.12-31.1.13: -10.2%

31.1.11-31.1.12: -36.4%

31.1.10-31.1.11: +49.8%

Past performance is not necessarily a guide to future performance. The value of your investment can go down as well as up.



Comparative Performance:

10.10.04-31.1.15

Sector Investment Managers Ltd



## KEY FACTS

**Fund Category:** Energy Specialist

**Charges: 'C' class:** 5.25% Initial, 1.75 % Annual

'I' class: 0.5% Initial, 1.25% Annual

'P' class: 0.5% Initial, 1.10% Annual

**Manager:** Marlborough Fund Managers Ltd

**Fund Adviser:** Angelos Damaskos

**Minimum Investment:** £1,000 or £100 per month

**Eligible for NISAs and SIPPs**

**Benchmark:** FTSE 350 Oil & Gas Index

**Net asset value at 31 January 2015:** £14.1 million

## MACRO-ECONOMIC POSITIONING

- Demand for oil is supported by Asian industrialisation
- Smaller Oil & Gas exploration and production companies tend to outperform their larger counterparts
- Emphasis on production and proven reserves
- Avoid political and pure exploration risks

## TOP 10 HOLDINGS

Company	% of Fund
1. FAR Ltd	11.9%
2. Carnarvon Petroleum	7.5%
3. Otto Energy	7.2%
4. Salamander Energy	6.2%
5. Parkmead Group	5.0%
6. Cooper Energy	4.6%
7. Victoria Oil & Gas	4.1%
8. Circle Oil	4.0%
9. Faroe Petroleum	3.9%
10. Caza Oil & Gas	3.8%
Total Top 10	58.2%
As at 31 January 2015	

## HOW TO INVEST

Call Marlborough Fund Managers:

**0808 145 2501**

For further information and documentation visit:

[www.junioroils.com](http://www.junioroils.com) or  
[www.sectorinvestments.com](http://www.sectorinvestments.com)

### Risk Considerations:

The fund invests in smaller companies which may carry a higher degree of risk than larger companies. The shares of smaller companies may be less liquid and more volatile over shorter term periods. Changes in exchange rates between currencies may cause the value of investments to diminish or increase. The fund focuses on a specific sector and has a concentrated portfolio which can lead to greater volatility.

11 February 2015

Dear Investor,

The Bank for International Settlements, known as the central bankers' bank, has just published its report on the oil sector, concluding that the over 50% drop in oil prices during the past six months cannot be satisfactorily attributed to a fundamental change in production and consumption. It argues that the collapse in prices happened at a time when production was slightly above consumption but there was clear visibility of the supply/demand balance in the market. Rather, the steepness of the price decline and the sharp rise in volatility was akin to a financial asset, whose price is driven by expectations for changes in future market conditions. The large indebtedness accumulated in the sector as a result of the high and stable oil prices over a long period, may have contributed to price volatility. In particular, hedging of future production, that is typically required by lenders, has resulted in a sharp rise in trading of derivatives, magnifying price swings. Negative rhetoric from Saudi-Arabia, as leader of Opec, on the supply forecasts most certainly influenced the price moves.

Whilst these arguments make sense, the analysis does not take into consideration the large drop in prices of other leading industrial commodities. During 2014, the Bloomberg Commodity Index (BCOM:IOM) fell by 26%, the price of copper declined by 22%, iron ore fell to a six-year low and the Baltic Dry Index, a key measure of industrial commodities' bulk transportation activity, to an all-time low. We believe that the price weakness of global industrial commodities has been driven by a slowing Chinese economy, at a time when China has been tightening regulation of large shadow-banking relationships. It is likely that financing imbalances will be adjusted during the course of the year and industry will soon start re-stocking the vital inputs to economic growth.

During the month of January, we met or spoke with the management of over 35 oil companies. It became clear to us that the response to the sharp drop in oil prices has been a dramatic cut in capital expenditure. This is likely to result in a sharp drop in production growth. Combined with the natural decline of existing wells, the response to low oil prices is expected to be swift and lead to a re-adjustment of the supply and demand balance. Should Chinese demand resume in the near future, the oil price would rebound equally quickly. In an environment of weak share prices and extraordinary value among quality exploration and production companies, we have re-focused the Junior Oils Trust portfolio mostly by deploying surplus cash. The exposure to North-American listed companies has been increased to approximately 26% by adding seven new holdings. An example of the new holdings, RMP Energy, focuses in West-Central Alberta and is still profitable at \$50/barrel. Its strong balance sheet enables it to adjust its future capital expenditure (capex) programme to organic cash flow generation. Even though it has cut its capex by half, it still expects to grow production significantly above last year's rate. The advantage of North American oil companies is their technological leadership that enables rapid adjustments. As long as operations are not constrained by large indebtedness and strict covenants imposed by creditors, the industry can be remarkably versatile. The recent indiscriminate sell-off has enabled us to acquire holdings in strong companies at very low valuation multiples. We believe that these holdings, along with the existing portfolio, will help the fund outperform as oil prices recover.

Angelos Damaskos  
Chief Executive Officer



**For dealing/inquiries on Junior Oils Trust call Marlborough Fund Managers: 0808 145 2501**

**For further information and documentation visit: [www.junioroils.com](http://www.junioroils.com) or [www.sectorinvestments.com](http://www.sectorinvestments.com)**

**Risk Warning:**

Past performance is not necessarily a guide to the future. The value of investments and the income from them may go down as well as up. Investors may not get back their original investment. The fund invests in smaller companies and some of which are listed on the Alternative Investment Market which may carry a higher degree of risk. The shares of smaller companies may be less liquid and more volatile over shorter term periods. Changes in exchange rates between currencies may cause the value of investments to diminish or increase.

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