

JUNIOR OILS TRUST

Investing in the oil giants of tomorrow

12
YEARS
TRACK
RECORD

Update October 2016

FUND PERFORMANCE

'C' Bid to Bid since launch:

10.10.04-31.10.16: -15.7%

30.9.16-31.10.16: +8.0%

12 months discrete:

31.10.15-31.10.16: +8.3%

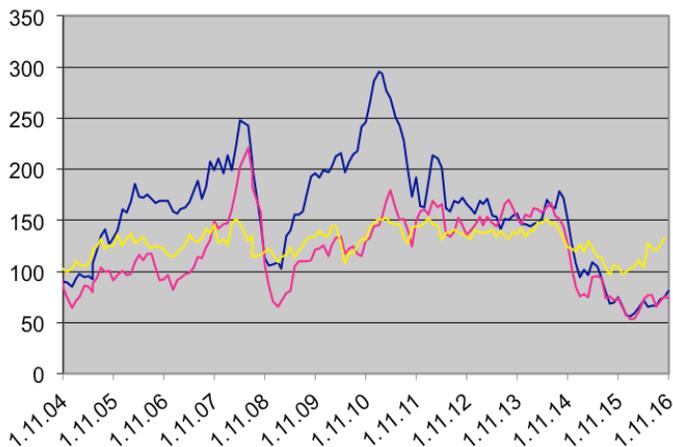
31.10.14-31.10.15: -51.1%

31.10.13-31.10.14: -3.2%

31.10.12-31.10.13: -5.5%

31.10.11-31.10.12: -13.6%

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



Comparative Performance:
10.10.04-31.10.16
Sector Investment Managers Ltd

— Junior Oils Trust
— WTI Oil Price
— FTSE 350 Oil & Gas

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 "C": £1,000 or £100 per month

Eligible for NISAs and SIPPs

Benchmark: FTSE 350 Oil & Gas Index

Net asset value at 31 October 2016: £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 despite higher short-term volatility
- Emphasis on production and proven reserves
- Avoid political and pure exploration risks

TOP 10 HOLDINGS

Company	% of Fund
1. Carnarvon Petroleum	8.3%
2. Cooper Energy	7.6%
3. Yangarra Resources	6.5%
4. Qwesterre Energy	6.3%
5. FAR Ltd	6.0%
6. Geopark	5.4%
7. Serica Energy	5.0%
8. Africa Oil	4.6%
9. Painted Pony	3.8%
10. Gran Tierra Energy	3.6%
Total Top 10	57.1%

As at 31 October 2016

HOW TO INVEST

Call Marlborough Fund Managers:

0808 145 2501

For further information and documentation visit:

www.junioroils.com or
www.sectorinvestments.com

Risk Considerations:

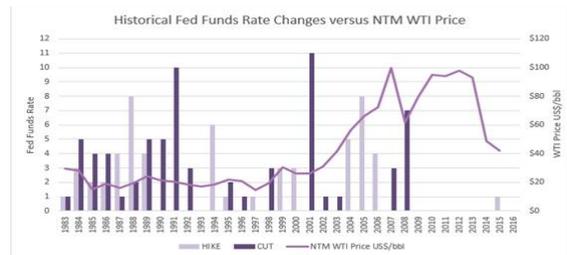
The fund invests in smaller companies which may carry a higher degree of risk than larger companies. The shares of smaller companies may be less liquid and more volatile over shorter term periods. Changes in exchange rates between currencies may cause the value of investments to diminish or increase.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

17 November 2016

Dear Investor,

The Trump victory in the US presidential elections has spurred a rally in the markets on optimism that his policy of infrastructure-led growth will revive the economy. The risks in this assumption are that the increased deficit of about \$5 trillion will have to be funded by debt, at a time of rapidly rising inflation and, therefore, bond yields. The consequent rally in the US dollar put pressure on oil prices in a market that appears to still be oversupplied. Even recent Saudi optimism that a deal to cut production will be reached at the OPEC meeting in late November failed to support oil. The fact remains that between Iran, Iraq, Saudi Arabia and Russia, 3.5 million barrels per day have been added since the beginning of 2015. As revenues declined due to the fall in the oil price, cash-strapped governments have been pumping as fast as they can. The longer-term impact of this, of course, is an accelerated depletion of mature fields, especially as capital expenditure in both development and exploration drilling has been cut dramatically. It will not be long before there will be natural declines in output from those countries as is now happening in China, Mexico and Venezuela. We still believe that demand will exceed supply in the first half of 2017, supporting prices higher.

Another interesting historical observation is the correlation between inflation expectations and the price of WTI crude oil. As the charts below demonstrate, there is a significant relationship that we attribute to the outlook in economic activity and the FED's response to inflation expectations by lowering or raising interest rates. Assuming the Trump administration is successful in implementing a growth-led policy focused on infrastructure spending, the consequent demand for energy and materials would be significant as would the inflationary effect on the US economy, causing the FED to raise rates. Given that other major economies such as the UK, Eurozone, China and Japan appear to be thinking along similar lines, this should be another factor driving oil prices higher, compounding the supply shortfall.



Source: National Bank Financial research

The Junior Oils Trust has started outperforming its benchmark in the Year to 31 October 2016, delivering +41.6% versus a gain of 36% in the FTSE 350 Oil & Gas index and a rise of 26.3% in the price of a barrel of WTI crude oil. Smaller capitalisation oil shares are catching up with their larger peers as improving fundamentals encourage investors to seek value. Notable success has come from some of our larger-weighted holdings, in particular Carnarvon Petroleum that announced a promising oil discovery with its latest drilling operation. Our long-term holding in Questerre Energy has benefited from the approval of a new hydrocarbons law in Quebec that should allow it to develop its vast gas reserves. Despite some profit-taking as its shares tripled during the last month, confirmation of the terms of approval could deliver a significant re-rating; our assessment of the unriskened value of the company's Quebec gas reserves is in excess of NOK20 per share, compared with the month-end price of NOK3.25. The fund's portfolio is overweight in solid, high conviction plays and further diversification should drive performance over the next twelve months.

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 or 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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