

## RISK

This is a marketing communication. Please refer to the prospectuses, KIDs and KIIDs for the Funds, which contain detailed information on their characteristics and objectives, before making any final investment decisions.

The Funds are equity funds. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Further details on the risk factors are included in the Funds' documentation, available on our website.

Past performance does not predict future returns.

## ABOUT THE STRATEGY

<b>Launch</b>	31.12.1998
<b>Index</b>	MSCI World Energy
<b>Sector</b>	IA Commodity/Natural Resources
<b>Managers</b>	Will Riley Jonathan Waghorn Tim Guinness
<b>Irish Domiciled</b>	Guinness Global Energy Fund
<b>UK Domiciled</b>	TB Guinness Global Energy Fund

## INVESTMENT POLICY

The Guinness Global Energy Funds invest in listed equities of companies engaged in the exploration, production and distribution of oil, gas and other energy sources. We believe that over the next twenty years the combined effects of population growth, developing world industrialisation and diminishing fossil fuel supplies will force energy prices higher and generate growing profits for energy companies. The Fund is actively managed and uses the MSCI World Energy Index as a comparator benchmark only.

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## COMMENTARY

### OIL

#### Brent/WTI down slightly over the month

Brent and WTI spot oil prices were down slightly over the month, with the positives of rising demand being offset by concerns around the banking sector and hence the strength of the economy. Brent and WTI closed the month at \$81/bl and \$76/bl, down \$1/bl respectively. Five-year forward prices traded a little higher, Brent closing at \$66/bl and WTI at \$60/bl.

### NATURAL GAS

#### US gas price declines; European and Asian prices up

The Asian and European gas prices (using UK national balancing point) closed March \$1 higher at \$15/\$15/mcf, whilst the US spot price (Henry Hub) fell from \$2.7/mcf to \$2.1/mcf. European gas inventories will exit the winter close to record high levels, thanks to unseasonably warm weather and depressed demand. Gas in storage in the US also higher than normal, with low prices starting to catalyse greater coal to gas switching in the power sector.

### EQUITIES

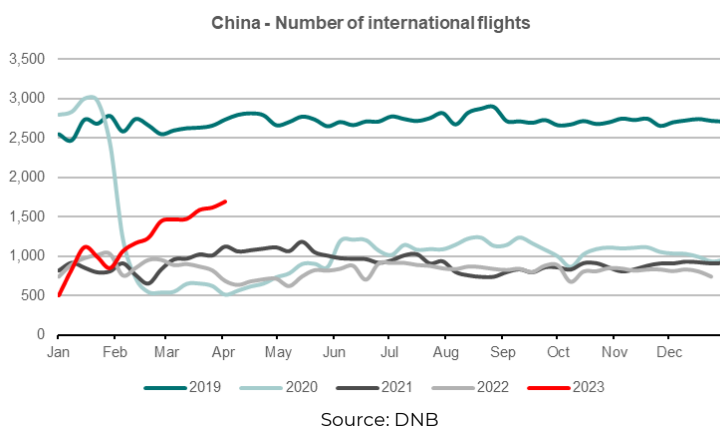
#### Energy underperforms the broad market in March

The MSCI World Energy Index (net return) declined by 1.7% in February, underperforming the MSCI World Index (net return) which rose by 3.1% over the month (all in US dollar terms).

### CHART OF THE MONTH

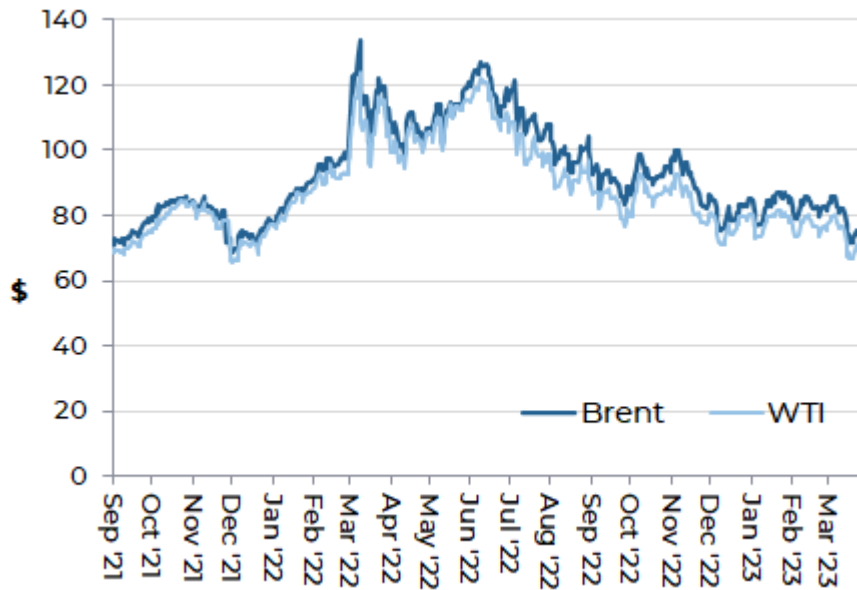
#### Chinese international flights rising

With all eyes on the Chinese reopening, it's interesting to note various Chinese mobility indices now suggesting rebounding activity. With a full reopening, we think Chinese oil demand could rise by 1.5m – 2m b/day.



## MARCH IN REVIEW

## i) Oil market

**Oil price (WTI and Brent \$/barrel): Sept 2021 to March 2023**

Source: Bloomberg; Guinness Global Investors

The West Texas Intermediate (WTI) oil price started March at \$77/bbl, declined sharply over the month to reach a low of \$67/bbl on March 17, before closing higher at \$76/bbl. WTI has averaged \$76/bbl so far this year, having averaged \$95/bbl in 2022 and \$68/bbl in 2021.

Brent oil traded in a similar shape, opening at \$82/bbl, troughing at \$72/bbl and closing the month back at \$80/bbl. Brent has averaged \$81/bbl so far in 2023, having averaged \$100/bbl in 2022 and \$70/bbl in 2021. The gap between the WTI and Brent benchmark oil prices narrowed slightly over the month, ending March at \$4.0/bbl. The Brent-WTI spread has averaged \$5.3/bbl so far in 2023.

#### Factors which strengthened WTI and Brent oil prices in March:

- **Continued evidence of Chinese demand recovery**

After nearly three years of closed borders, China finally reopened its economy in January, leading to hopes of a recovery in global oil demand. During the month more signs emerged that this process is now underway, with indicators such as Chinese commercial flights (see chart of the month) now tracking above 2019 level. As a reminder, China consumed around 15m b/day in 2022, which was the first year of negative demand growth in over 30 years. Should Chinese consumption revert to its pre-COVID trend we see scope for 1.5m - 2m b/day positive swing in global oil demand.

- **Kurdish export outages**

Oil exports from the Kurdistan region of Iraq were disrupted in the second half of March, owing to a dispute between Kurdistan's Regional Government (KRG) and the Iraqi government around sovereignty over the oil. Several operators in Kurdistan were directed by the KRG to cease pipeline exports from the region, halting the flow of around 0.45m b/day of oil to Mediterranean markets. Oil started to flow again in early April.

## Factors which weakened WTI and Brent oil prices in March:

- **Banking sector issues weakening prospects for global GDP**

The collapse of Silicon Valley Bank and the takeover of Credit Suisse by UBS in mid-March brought growing concerns of a developed world credit crisis. In turn, this has led to concerns of a deeper GDP slowdown, particularly in the US and Europe. Some commentators therefore have been pointing to slower than expected growth in oil demand in the second half of the year, and a less deep oil deficit than had previously been expected.

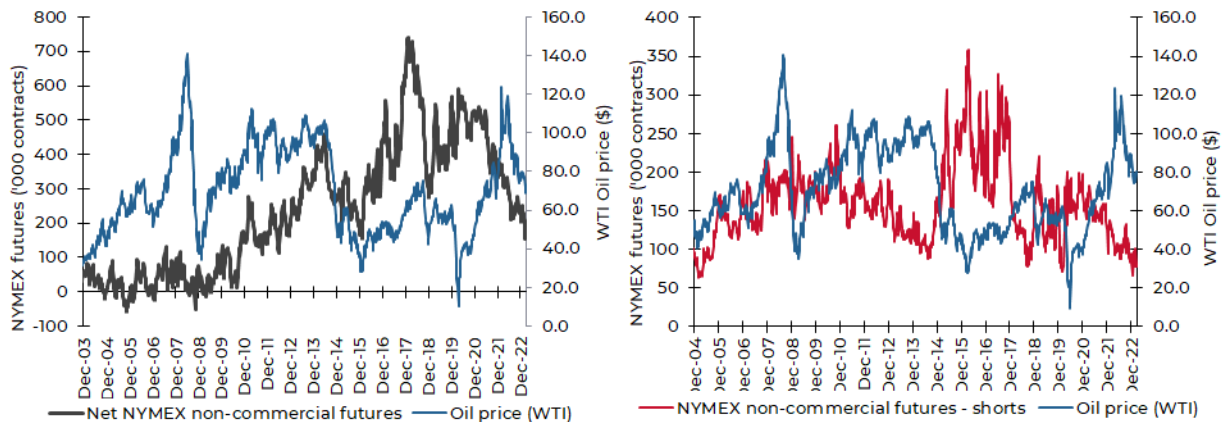
- **Resilient Russian supply**

Russia's seaborne crude oil exports held up well despite the Kremlin's pledge to cut production by 0.5m b/day during March. Seaborne exports of Russian oil were barely lower in March than at the start of the year. That said, there has been a significant build-up of Russian oil 'on water', suggesting that some of the exports are struggling to find a home.

## Speculative and investment flows

The New York Mercantile Exchange (NYMEX) net non-commercial crude oil futures open position was 181,000 contracts long at the end of March versus 215,800 contracts long at the end of February. The net position peaked in February 2018 at 739,000 contracts long. Typically, there is a positive correlation between the movement in net position and movement in the oil price. The gross short position declined to 109,000 contracts at the end of March versus 112,000 at the end of the previous month.

**NYMEX Non-commercial net and short futures contracts: WTI January 2004 – March 2023**

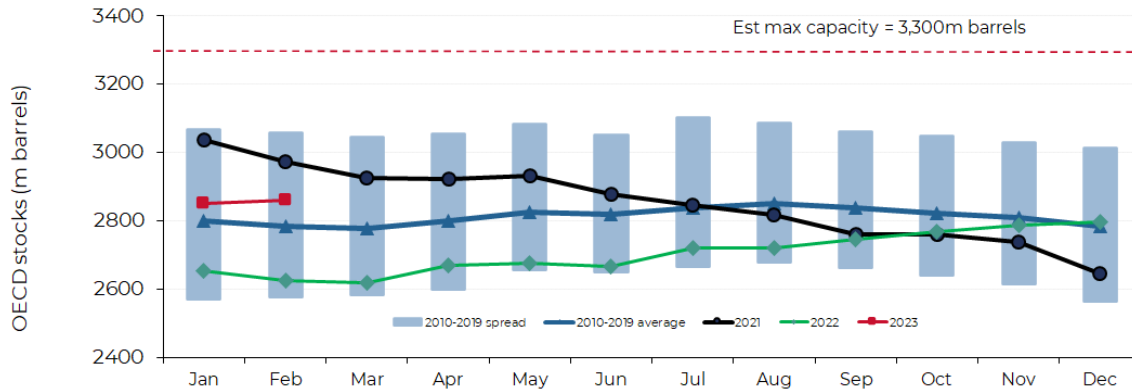


Source: Bloomberg LP/NYMEX/ICE (2023)

## OECD stocks

OECD total product and crude inventories at the end of January (latest data point) were estimated by the IEA to be 2,795m barrels, up by 28m barrels versus the level reported for December. This compares to a 10-year average build for January of 35m barrels, implying that the OECD market was undersupplied. The significant oversupply situation in 2020 pushed OECD inventory levels close to maximum capacity in August 2020 (c3.3bn barrels), with subsequent tightening taking inventories below normal levels. Despite remaining flat for the first half of 2022, inventories began to build again from June onwards, leading to levels currently sitting close to the 10-year average.

**OECD total product and crude inventories, monthly, 2004 to 2023**



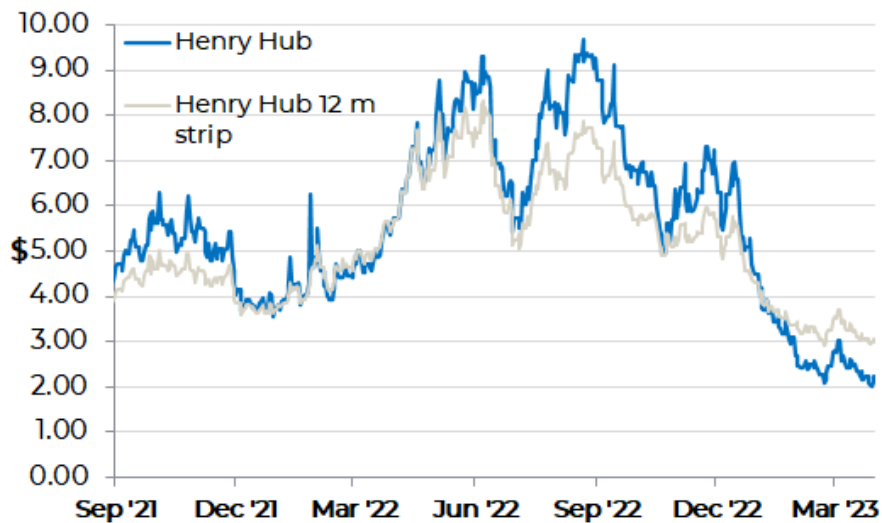
Source: IEA Oil Market Reports (March 2023 and older)

**ii) Natural gas market**

The US natural gas price (Henry Hub front month) opened March at \$2.75/mcf (1,000 cubic feet) and fell over the month, closing at \$2.10/mcf. The spot gas price has averaged \$2.79/mcf so far in 2023, having averaged \$6.52/mcf in 2022 and \$3.71/mcf in 2021.

The 12-month gas strip price (a simple average of settlement prices for the next 12 months' futures prices) also fell over the month, dropping from \$3.47/mcf to \$3.06/mcf. The strip price has averaged \$3.06/mcf so far in 2023, having averaged \$5.90 in 2022 and \$3.52 in 2021.

**Henry Hub gas spot price and 12m strip (\$/Mcf): August 2021 to March 2023**



Source: Bloomberg LP

**Factors which strengthened the US gas price in March included:**

- **Freeport LNG recovery driving record LNG exports**

After a prolonged outage, Freeport LNG resumed exports in February. In March, Freeport exports from the facility reached 2.2 Bcf/day (above nameplate capacity) and contributed to record US LNG exports. According to Refinitiv Eikon trade flows data, a total of 108 cargoes departed US ports in March, carrying 7.73 million tonnes of LNG, above the previous record of 7.67 million tonnes a year ago.

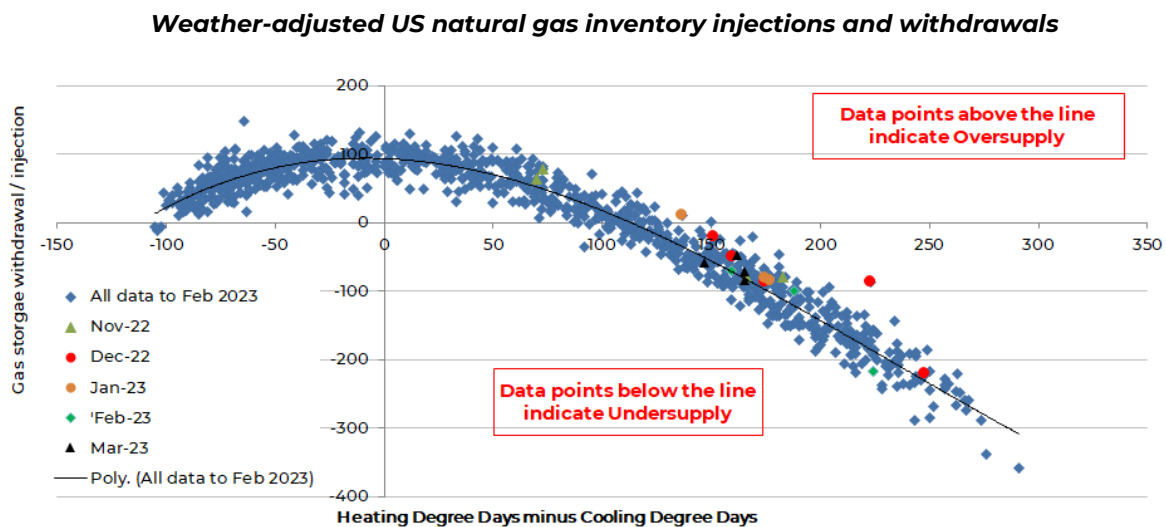
- **Coal to gas switching economics**

With the spread between US gas prices and coal prices having widened materially since the start of the year, we are starting to see the first signs of power producers switching from coal-based to electricity generation to gas-based. Goldman expects gas demand from the US power sector to rise by 1.2 Bcf/day on average this summer due to switching.

**Factors which weakened the US gas price in March included:**

- **Market oversupplied (ex-weather effects)**

Draws from US natural gas inventories during March were lower than expected for the time of year. Indeed, even adjusting for the impact of weather, the draws implied that the US gas market was, on average, 1 Bcf/day oversupplied.



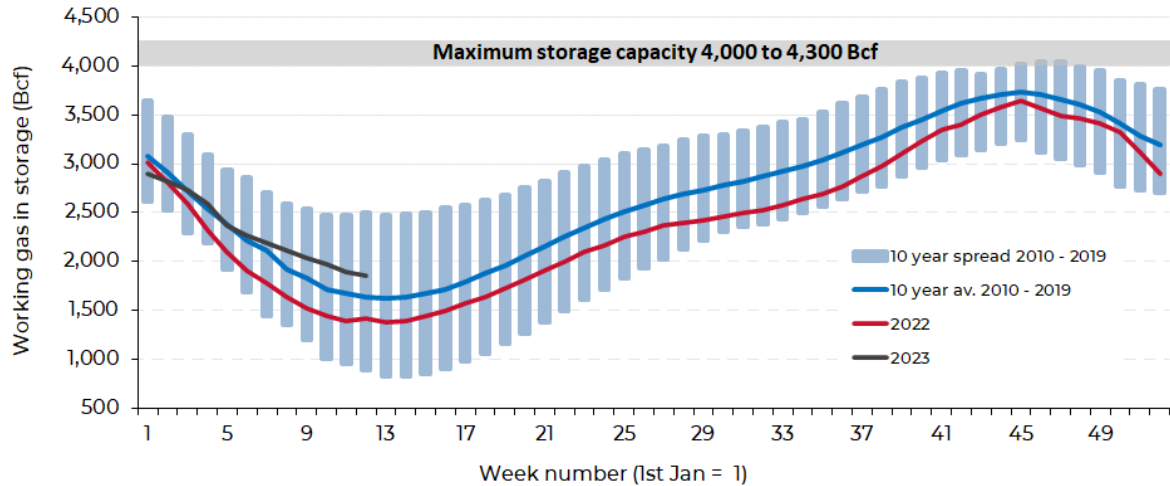
- **Excess gas in inventories**

Oversupply through the winter has boosted gas in storage. Inventories at the end of March are expected to be around 1.8 Tcf, which is 0.26 Tcf higher than the five-year average.

**Natural gas inventories**

Swings in the balance for US natural gas should, in theory, show up in movements in gas storage data. Natural gas inventories at the end of March were reported by the EIA to be 1.85 Tcf, above the 10-year average.

**Deviation from 10yr gas storage norm**



Source: Bloomberg; EIA (March 2023)

**MANAGERS' COMMENTS**

**OPEC double down on price-led strategy**

In last month's managers' comments, we focused on Saudi remaining price-makers in today's oil market. Our conclusion stated: "we think the current 'sweet spot' for Saudi is \$80-100/bl, which is an affordable price range for the world economy, generates fiscal surplus, and avoids excessive supply growth from the non-OPEC world. It is this range that Saudi and its allies will continue to work towards as the year progresses." In the event, Saudi have moved faster than we expected, announcing further quota cuts that will be in place from May to the end of the year. Here, we explore the rationale behind OPEC's actions, and conclude with a view on energy equity valuations.

**What has been announced?**

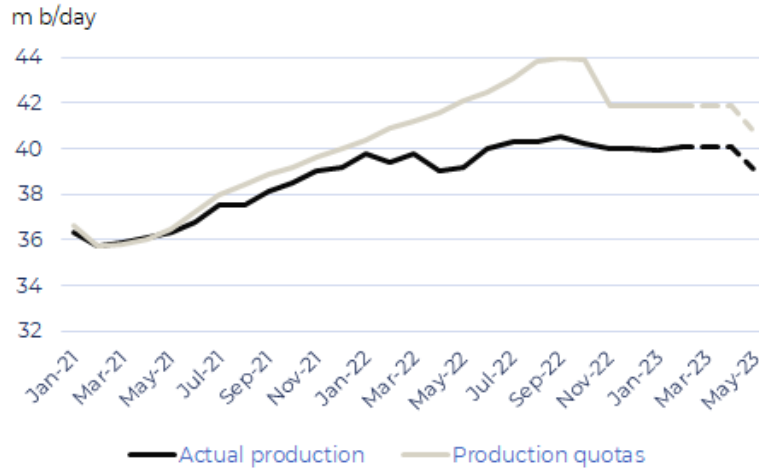
On April 2, a group of OPEC+ members announced a voluntary production cut of 1.15m b/day between May 2023 and the end of the year. The cut is distributed between Saudi (-500k b/day), Iraq (-211k b/day), UAE (-144k b/day), Kuwait (-128k b/day), Kazakhstan (-78k b/day), Algeria (-48k b/day), and Oman (40k b/day). In addition, Russia announced that it will extend its already announced cut of -500k b/day to the year-end. This takes the total voluntary cut to 1.65m b/day.

The voluntary production cuts were ratified on April 3 at OPEC's Joint Ministerial Monitoring Committee meeting, with the rationale provided being a "precautionary measure aimed at supporting the stability of the oil market".

Russia provided more direct reasoning for the action, describing the cuts as intending to keep "crude oil and petroleum product prices at a certain level".

This month's production cuts follow an effective reduction in OPEC supply in October 2022 of around 1m b/day. Most of the new cuts will be made by countries that are producing at or above quotas, which implies a higher share of the announced cuts will translate into real supply reductions.

## OPEC+ oil production vs production quotas



Sources: DNB; Bloomberg; Guinness Global Investors estimates. Data to 31.03.2023

### Why has OPEC+ taken this action?

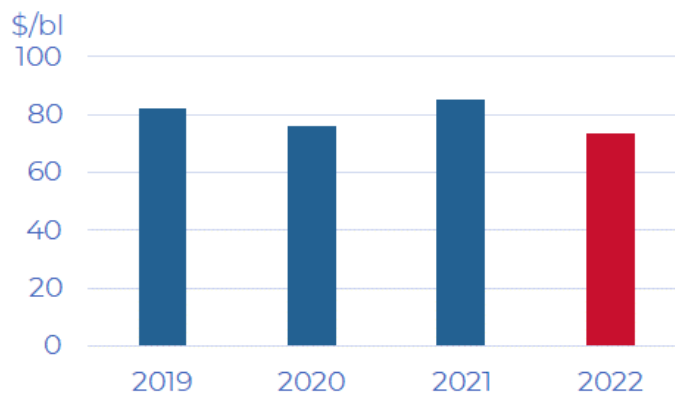
OPEC+'s actions at the start of April provided a strong signal to the market that Brent oil prices of less than \$80/bl are not to be tolerated by the group. Equally, the message shows a lack of fear around a non-OPEC supply response, and in particular that OPEC+ does not see shale oil production growth as a threat to its market share.

There was similar rationale to the production cuts announced in October 2022. However, the difference this time is a stronger backdrop, including positive momentum in oil demand driven by China reopening and a pick-up in aviation. It also comes at a time when the Brent forward curve is backwardated, and refining margins globally remain resilient.

Ultimately, the equation which drives OPEC+'s actions here is one of revenue maximisation. The calculation is that a 2.25% drop in sold oil volumes across the group (or 4.75% for Saudi) is likely to result in at least a 5% increase in oil prices, thereby driving higher overall revenues in the short term whilst also extending OPEC's reserve life.

For Saudi specifically, their actions at the head of the group have been designed to achieve an oil price that avoids fiscal deficit (Saudi's fiscal breakeven oil price is currently c.\$80/bl), whilst not spiking the oil price too high and over-stimulating non-OPEC supply.

## Saudi estimated breakeven oil price\* (\$/bl)



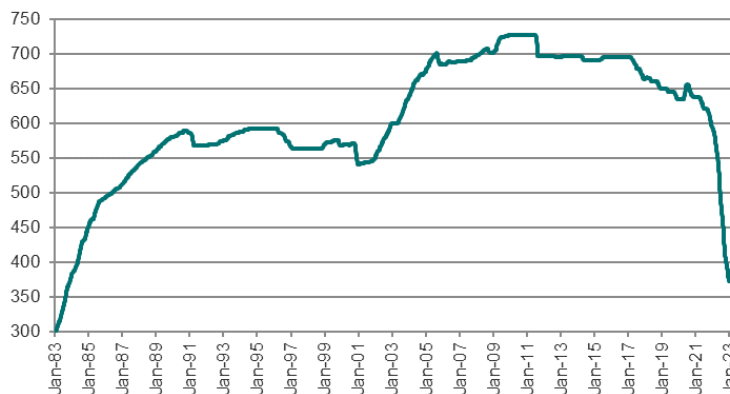
Sources: IMF; Guinness Global Investors. \*'Breakeven oil price' is defined as the oil price needed by Saudi to balance its fiscal budget. To 31.03.2023

### Biden's missed opportunity

In response to market tightness through much of 2022, the US and allies embarked on the largest release of oil from Strategic Oil Reserves (SPR) in history. This action was successful in contributing to a ceiling for the price at around \$120/bl and preventing commercial OECD oil inventories from dropping below the range of the last ten years. The US contributed over 200m barrels to the release effort in 2022, roughly the same as the entire growth in production from the US shale system last year. SPR releases continued in February 2023 with a further withdrawal of 26m barrels.

In March, WTI oil prices dipped below \$72/bl, a level which the US had previously described as sufficient to commence refilling the SPR. However, no purchasing took place, which now looks like a missed opportunity for President Biden. And with the US SPR now at levels where meaningful new releases are not feasible, OPEC+'s rationale for cutting production again in April will also have been driven by the US unable to play the SPR card again this year.

**US Total SPR Inventories (m barrels)**



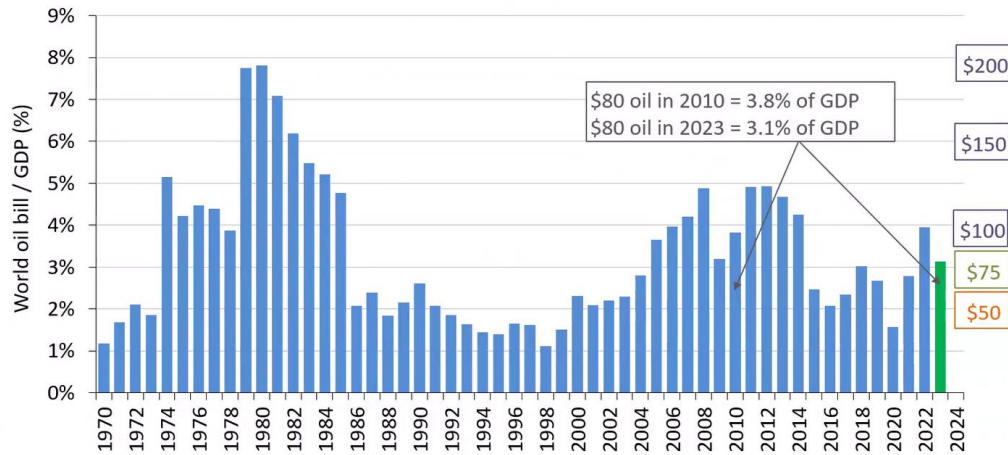
Source: DNB

### Inflationary but not that inflationary

OPEC+'s desire to put a floor under the oil price at around \$80/bl comes at a time when central banks continue to work hard against inflation. Any rise in the oil price is inherently inflationary, but we consider OPEC+'s ambitions not to be particularly destabilising. We believe that oil remains a 'good value' commodity. Based on a Brent oil price of around \$80/bl in 2023, we calculate that the world would spend around 3.1% of GDP on oil, in line with the 30-year average of around 3%. We believe that oil would need to increase to over \$120/bl, reflecting 5%+ of world GDP in 2023, if it were to have a noticeable negative impact on the global economy. Saudi know this, and we believe it is not part of their ambition to drive prices as high as \$120/bl+.

## Guinness Global Energy

### The world oil 'bill' as a percentage of GDP



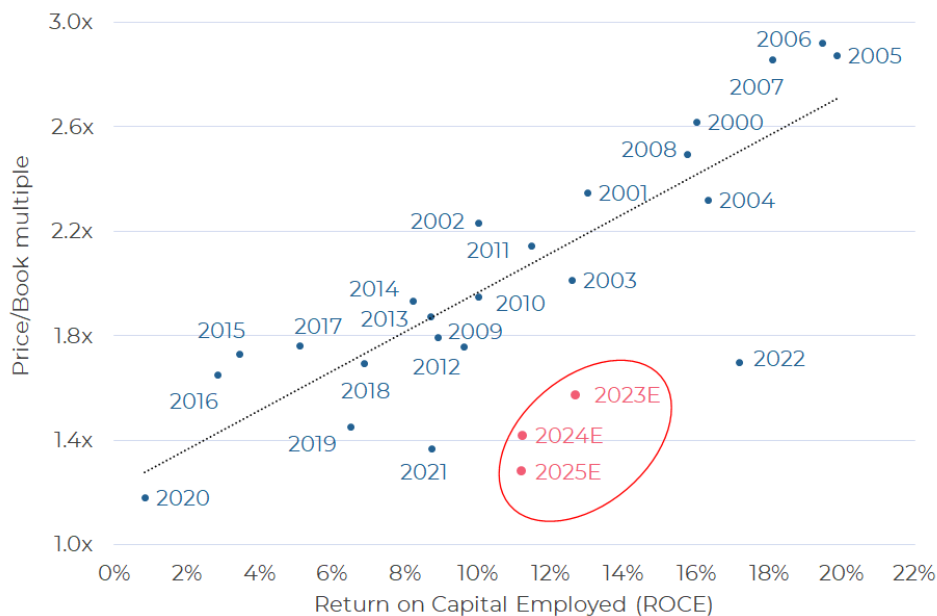
Source: IEA; Bloomberg; Guinness Global Investors estimates

### Energy equity valuations

The stock market has historically valued energy companies based on their sustainable levels of profitability (e.g. return on capital employed (ROCE)), whether it is delivered by self-help improvements or via increases in the long-term oil price.

Current valuation implies that the ROCE of our companies will stay at about 6%. If ROCE remains at 10-11% (which we forecast in a \$75/bl world) and the market were to pay for it sustainably, it would imply an increase in the equity valuation of around 30-35%.

### ROCE vs P/B multiple for Guinness global energy portfolio



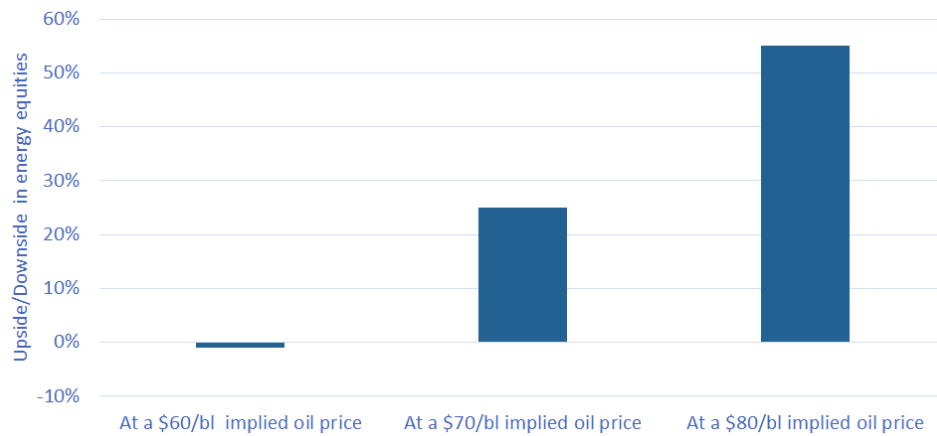
Source: Guinness Global Investors estimates as of 31.03.2023

To put this another way, we are often asked what oil price is implied in the portfolio, as a barometer of the expectation priced into the equities. At the end of March, we estimate that the valuation of our portfolio of energy equities reflected a long-

## Guinness Global Energy

term Brent/WTI oil price of around \$61/bl combined with a normalisation of global refining margins. If the market were to price in a long-term oil price of \$70/bl, it would imply around 25-30% upside while there would be around 55-60% upside at a long-term oil price of \$80/bl Brent:

### **Estimated upside/downside for Guinness global energy portfolio (1-year view)**



Source: Guinness Global Investors estimates as of 31.03.2023

## PERFORMANCE Guinness Global Energy Fund

Past performance is not a guide to future returns.

The main index of oil and gas equities, the MSCI World Energy Index (net return), declined by 1.7% in March, while the MSCI World Index (net return) rose by 3.1% in USD.

Within the Fund, March's strongest performers included Sinopec, Petrochina, Valero and Pioneer while the weakest performers included Halliburton, Schlumberger, Equinor, Suncor and Shell.

### Performance (in USD) as at 31.03.2023

Cumulative returns	YTD	1 year	3 years ann.	5 years ann.	Launch of strategy* ann. (31.12.98)		
<b>Guinness Global Energy Fund<sup>1</sup> (Class Y, 0.99% OCF)</b>	-4.1%	4.2%	32.3%	2.0%	8.1%		
<b>MSCI World Energy NR Index</b>	-3.4%	7.9%	34.9%	6.1%	6.2%		
Calendar year returns	2022	2021	2020	2019	2018	2017	2016
<b>Guinness Global Energy Fund<sup>1</sup> (Class Y, 0.99% OCF)</b>	32.4%	44.5%	-34.7%	9.8%	-19.7%	-1.3%	27.9%
<b>MSCI World Energy NR Index</b>	46.0%	40.1%	-31.5%	11.4%	-15.8%	5.0%	26.6%
	2015	2014	2013	2012	2011	2010	2009
<b>Guinness Global Energy Fund<sup>1</sup> (Class Y, 0.99% OCF)</b>	-27.6%	-19.1%	24.4%	3.0%	-13.7%	15.3%	61.8%
<b>MSCI World Energy NR Index</b>	-22.8%	-11.6%	18.1%	1.9%	0.2%	11.9%	26.2%
	2008*	2007*	2007*	2005*	2004*	2003*	2002*
<b>Guinness Global Energy Fund<sup>1</sup> (Class Y, 0.99% OCF)</b>	-48.2%	37.9%	37.9%	62.3%	41.0%	32.3%	6.7%
<b>MSCI World Energy NR Index</b>	-38.1%	29.8%	29.8%	28.7%	28.1%	25.9%	-6.4%
	2001*	2000*	1999*				
<b>Guinness Global Energy Fund<sup>1</sup> (Class Y, 0.99% OCF)</b>	-4.1%	39.6%	22.5%				
<b>MSCI World Energy NR Index</b>	-7.2%	6.0%	22.0%				

Source: FE fundinfo, Guinness Global Investors and Bloomberg, bid to bid, gross income reinvested, in US dollars

Calculation by Guinness Global Investors, \*Simulated past performance prior to 31.3.08, launch date of Guinness Global Energy Fund. The Guinness Global Energy investment team has been running global energy funds in accordance with the same methodology continuously since December 1998. These returns are calculated using a composite of the Investec GSF Global Energy Fund class A to 29.2.08 (managed by the Guinness team until this date); the Guinness Atkinson Global Energy Fund (sister US mutual fund) from 1.3.08 to 31.3.08 (launch date of this Fund), the Guinness Global Energy Fund class A (1.49% OCF) from launch to 02.09.08, and class Y (0.99% OCF) thereafter. Returns for share classes with a different OCF will vary accordingly.

Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The fund performance shown has been reduced by the current OCF of 0.99% per annum. Returns for share classes with different OCFs will vary accordingly. Performance returns do not reflect any initial charge; any such charge will also reduce the return.

## PORTFOLIO Guinness Global Energy Fund

### Buys/Sells

In March there were no buys or sells of full positions, but the portfolio was actively rebalanced.

### Sector Breakdown

The following table shows the asset allocation of the Fund at **March 31 2023**.

Asset allocation as %NAV	Current	Change	Last year end	Last year end	Previous year ends						
	Mar-23		Dec-22	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15	Dec-14
<b>Oil &amp; Gas</b>	<b>96.5%</b>	<b>-0.8%</b>	<b>97.4%</b>	<b>96.9%</b>	<b>94.8%</b>	<b>98.3%</b>	<b>96.7%</b>	<b>98.4%</b>	<b>96.7%</b>	<b>95.1%</b>	<b>93.7%</b>
Integrated	54.8%	0.1%	54.7%	57.7%	56.3%	51.1%	46.4%	42.9%	46.4%	41.5%	37.3%
Exploration & Production	21.5%	-1.6%	23.1%	23.7%	22.2%	29.6%	35.8%	36.9%	35.8%	36.5%	36.2%
Drilling	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	2.2%	1.9%	2.2%	1.5%	3.3%
Equipment & Services	8.6%	-0.4%	9.0%	4.0%	4.6%	9.6%	8.6%	9.5%	8.6%	11.4%	13.4%
Storage & Transportation	4.9%	0.0%	4.8%	4.3%	4.4%	4.0%	0.0%	3.5%	0.0%	0.0%	0.0%
Refining & Marketing	6.8%	1.0%	5.8%	7.2%	7.3%	3.8%	3.7%	3.7%	3.7%	4.2%	3.5%
Solar	0.6%	-0.1%	0.7%	1.0%	1.8%	0.7%	0.9%	1.4%	0.9%	4.7%	3.7%
Coal & Consumable Fuels	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction & Engineering	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	2.8%	0.9%	1.9%	2.1%	3.3%	1.1%	2.4%	0.2%	2.4%	0.2%	2.6%

Source: Guinness Global Investors. Basis: Global Industry Classification Standard (GICS)

The Fund at end of March 2023 was on a price to earnings ratio (P/E) for 2022/2023 of 6.2x/7.7x versus the MSCI World Index at 16.7x/15.4x as set out in the following table:

As at 31 March 2023	P/E		
	2022	2023E	2024E
Guinness Global Energy Fund	6.2x	7.7x	7.9x
MSCI World Index	15.9x	16.7x	15.4x
Fund Premium/(Discount)	-61%	-54%	-49%

Source: Bloomberg; Guinness Global Investors

### Portfolio holdings

Our integrated and similar stock exposure (c.55%) is comprised of a mix of mid-cap, mid/large-cap and large-cap stocks. Our five large caps are Chevron, BP, ExxonMobil, Royal Dutch Shell and Total. Mid/large and mid-caps are ENI, Equinor, GALP, Repsol and OMV. At March 31 2023 the median P/E ratio of this group was 5.9x 2023 earnings. We also have three Canadian integrated holdings, Suncor, Cenovus and Imperial Oil. All three companies have significant exposure to oil sands in addition to downstream assets.

Our exploration and production holdings (c.22%) give us exposure most directly to rising oil and natural gas prices. We include in this category non-integrated oil sands companies, as this is the GICS approach. The stock here with oil sands exposure is Canadian Natural Resources. The pure E&P stocks have a bias towards the US (EOG, Diamondback, Pioneer and

Devon), with one other name (ConocoPhillips) having a mix of US and international production. One of the key metrics behind a number of the E&P stocks held is low enterprise value / proven reserves.

We have exposure to two emerging market stocks, Petrochina and Sinopec, which in total represent around 3% of the portfolio.

The portfolio contains two midstream holdings, Enbridge and Kinder Morgan, two of North America's largest pipeline companies. With the growth of hydrocarbon demand expected in the US and Canada over the next five years, we believe both companies are well placed to execute their pipeline expansion plans.

We have reasonable exposure to oil service stocks, which comprise around 9% of the portfolio. The stocks we own provide exposure to both North American and international oil and natural gas development.

Our independent refining exposure is currently in the US in Valero, the largest of the US refiners. Valero has a reasonably large presence on the US Gulf Coast and is benefitting from a recovery in refining margins.

# Guinness Global Energy

## Portfolio at February 28 2023 (for compliance reasons disclosed one month in arrears)

Guinness Global Energy Fund (28 February 2023)			P/E			EV/EBITDA		
Stock	ISIN	% of NAV	2022	2023E	2024E	2022	2023E	2024E
<b>Integrated Oil &amp; Gas</b>								
Exxon Mobil Corp	US30231G1022	6.0%	7.9x	10.4x	11.0x	4.3x	5.5x	6.0x
Chevron Corp	US1667641005	5.0%	8.4x	10.6x	11.0x	4.5x	5.3x	5.7x
Shell PLC	GB00BP6MXD	5.3%	5.9x	6.4x	6.3x	3.0x	3.3x	3.6x
Total SA	FR0000120271	5.8%	4.4x	5.5x	6.4x	2.6x	3.1x	3.5x
BP PLC	GB000798059	5.9%	4.5x	6.1x	6.6x	2.6x	3.2x	3.5x
Equinor ASA	NO0010096981	3.6%	4.6x	5.8x	6.7x	1.0x	1.3x	1.6x
ENI SpA	IT0003132476	2.9%	3.5x	4.8x	5.8x	2.0x	2.4x	2.7x
Repsol SA	ES0173516115	4.1%	3.4x	4.8x	5.9x	1.8x	2.3x	2.6x
Galp Energia SGPS SA	PTGALOAM0001	3.1%	11.1x	9.3x	9.6x	3.1x	3.4x	3.5x
OMV AG	AT0000743055	2.9%	3.2x	4.5x	5.3x	1.7x	2.3x	2.7x
		<b>44.7%</b>						
<b>Integrated / Oil &amp; Gas E&amp;P - Canada</b>								
Suncor Energy Inc	CA8672241079	3.2%	5.5x	7.1x	6.9x	3.0x	3.8x	3.8x
Canadian Natural Resources Ltd	CA1363851017	3.3%	6.7x	8.9x	8.7x	4.1x	4.7x	4.7x
Cenovus Energy Inc	CA15135U1093	3.2%	7.1x	7.3x	7.0x	3.5x	3.9x	4.0x
Imperial Oil Ltd	CA4530384081	3.5%	6.1x	7.9x	7.3x	3.7x	4.6x	4.6x
		<b>13.2%</b>						
<b>Integrated Oil &amp; Gas - Emerging market</b>								
PetroChina Co Ltd	CNE1000003V1	1.6%	4.5x	5.3x	5.8x	2.9x	3.1x	3.1x
		<b>1.6%</b>						
<b>Oil &amp; Gas E&amp;P</b>								
ConocoPhillips	US20825C1045	4.4%	7.5x	9.3x	9.5x	3.6x	4.6x	4.8x
EOG Resources Inc	US26875P1012	3.3%	8.2x	8.5x	8.6x	4.3x	4.5x	4.4x
Diamondback Energy Co	US25278X1090	3.7%	5.8x	6.4x	6.2x	4.5x	4.7x	4.7x
Pioneer Natural Resources Co	US7237871071	3.0%	6.5x	8.7x	8.6x	4.0x	4.9x	4.9x
Devon Energy Corp	US25179M1036	3.3%	6.4x	7.3x	7.3x	4.0x	4.4x	4.4x
		<b>17.7%</b>						
<b>International E&amp;Ps</b>								
Pharos Energy PLC	GB00B572ZV9	0.1%	3.4x	5.3x	4.0x	1.2x	1.1x	1.3x
		<b>0.1%</b>						
<b>Midstream</b>								
Kinder Morgan Inc	US49456B1017	2.2%	14.8x	15.2x	14.3x	9.5x	9.2x	8.9x
Enbridge Inc	CA29250N105C	2.5%	17.6x	17.0x	16.8x	12.8x	12.3x	12.2x
		<b>4.7%</b>						
<b>Equipment &amp; Services</b>								
Schlumberger Ltd	AN8068571086	4.6%	24.5x	17.5x	14.2x	13.0x	10.4x	9.0x
Halliburton Co	US4062161017	1.9%	17.8x	11.9x	9.9x	9.4x	7.3x	6.4x
Baker Hughes a GE Co	US05722G1004	1.7%	34.4x	19.4x	14.6x	11.9x	9.4x	8.0x
Helix Energy Solutions Group Inc	US42330P1075	1.2%	n/a	23.7x	17.4x	11.0x	5.4x	4.9x
		<b>9.3%</b>						
<b>Oil &amp; Gas Refining &amp; Marketing</b>								
China Petroleum & Chemical Corp	CNE1000002Q	1.2%	6.2x	6.0x	6.0x	3.1x	3.0x	3.0x
Valero Energy Corp	US91913Y1001	5.0%	4.7x	5.8x	8.2x	3.1x	3.8x	5.2x
		<b>6.2%</b>						
<b>Research Portfolio</b>								
Deltic Energy PLC	GB00B6SYKFC	0.2%	n/a	n/a	n/a	n/a	n/a	n/a
EnQuest PLC	GB00B635TG2	0.3%	1.3x	1.4x	1.2x	1.1x	1.3x	1.2x
Reabold Resources PLC	GB00B95L0551	0.1%	n/a	n/a	n/a	n/a	n/a	n/a
Sunpower Corp	US8676524064	0.6%	48.3x	38.0x	21.6x	24.6x	17.7x	12.0x
Maxeon Solar Technologies Ltd	SGXZ25336314	0.1%	n/a	n/a	n/a	n/a	19.8x	10.8x
Diversified Energy Company	GB00BYX7JT7	0.4%	5.7x	8.2x	7.2x	5.0x	5.0x	5.6x
		<b>1.5%</b>						
Cash	Cash	0.9%						

The Fund's portfolio may change significantly over a short period of time; no recommendation is made for the purchase or sale of any particular stock.

## OUTLOOK

## i) Oil market

The table below illustrates the difference between the growth in world oil demand and non-OPEC supply since 2015:

	2015	2016	2017	2018	2019	2020	2021	2022	2023E
								IEA	IEA
<b>World Demand</b>	<b>95.3</b>	<b>96.4</b>	<b>98.2</b>	<b>99.5</b>	<b>100.5</b>	<b>91.5</b>	<b>97.7</b>	<b>100.0</b>	<b>102.0</b>
Non-OPEC supply (inc NGLs)	60.3	59.8	60.8	63.5	65.6	63.0	63.8	65.7	66.9
OPEC NGLs	5.2	5.3	5.4	5.5	5.3	5.1	5.1	5.3	5.4
<b>Non-OPEC supply plus OPEC NGLs</b>	<b>65.5</b>	<b>65.1</b>	<b>66.2</b>	<b>69.0</b>	<b>70.9</b>	<b>68.1</b>	<b>68.9</b>	<b>71.0</b>	<b>72.3</b>
<b>Call on OPEC (crude oil)</b>	<b>29.8</b>	<b>31.3</b>	<b>32.0</b>	<b>30.5</b>	<b>29.6</b>	<b>23.4</b>	<b>28.8</b>	<b>29.0</b>	<b>29.7</b>
Congo supply adjustment	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Gabon supply adjustment	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Eq Guinea supply adjustment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Call on OPEC-10 (crude oil)</b>	<b>29.2</b>	<b>30.7</b>	<b>31.4</b>	<b>29.9</b>	<b>29.0</b>	<b>22.8</b>	<b>28.2</b>	<b>28.4</b>	<b>29.1</b>

Source: Bloomberg; IEA; Guinness Global Investors

Global oil demand in 2019 was 13m b/day higher than the pre-financial crisis (2007) peak. The demand picture for 2020, down by around 9m b/day, was heavily clouded by the impact of the COVID-19 virus and efforts to mitigate its spread. Demand recovered in 2021 and 2022 by around 8.5m b/day, leaving overall consumption still around 0.5m b/day below the 2019 peak.

## OPEC

The last few years have proved testing for OPEC. They have tried to keep prices strong enough that OPEC economies are not running excessive deficits, whilst not pushing the price too high and over-stimulating non-OPEC supply.

The effect of \$100+/bl oil, enjoyed for most of the 2011-2014 period, emerged in 2014 in the form of an acceleration in US shale oil production and an acceleration in the number of large non-OPEC (ex US onshore) projects reaching production. OPEC met in late 2014 and responded to rising non-OPEC supply with a significant change in strategy to one that prioritised market share over price. Post the November 2014 meeting, OPEC not only maintained their quota but also raised production significantly, up over 18 months by 2.5m b/day. This contributed to an oversupplied market in 2015 and 2016.

In late 2016, faced with sharply lower oil prices, OPEC stepped back from their market share stance, announcing plans for the first production cut since 2008, opting for a new production limit of 32.5m b/day. The announcement included a cut in production from Russia (a non-OPEC country), creating for the first time the concept of an OPEC+ group.

### OPEC-10 oil production to Feb 2023

('000 b/day)	31-Dec-19	31-Jan-23	28-Feb-23	Current vs Dec 2019	Current vs last month
Saudi	9,730	10,380	<b>10,370</b>	640	-10
Iran	2,080	2,600	<b>2,560</b>	480	-40
Iraq	4,610	4,470	<b>4,460</b>	-150	-10
UAE	3,040	3,190	<b>3,230</b>	190	40
Kuwait	2,710	2,690	<b>2,690</b>	-20	0
Nigeria	1,820	1,360	<b>1,440</b>	-380	80
Venezuela	730	670	<b>700</b>	-30	30
Angola	1,390	1,140	<b>1,100</b>	-290	-40
Libya	1,110	1,100	<b>1,140</b>	30	40
Algeria	1,010	1,010	<b>1,010</b>	0	0
<b>OPEC-10</b>	<b>28,230</b>	<b>28,610</b>	<b>28,700</b>	<b>470</b>	<b>90</b>

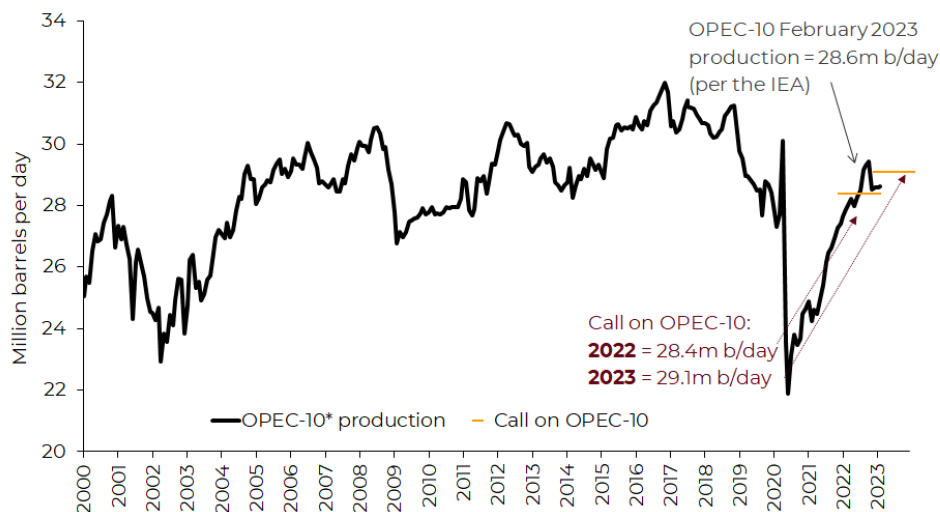
Source: Bloomberg; Guinness Global Investors

The 2017-19 period continued to be volatile for OPEC, with further production cuts necessary to balance ongoing non-OPEC supply growth.

The challenge for OPEC+ then ballooned in 2020 with the onset of COVID around the world. Initially, OPEC and their non-OPEC partners failed to reach agreement around their response to demand from the spread of the virus, precipitating a fall-out between participants and a short-lived price war. In light of extreme oil market oversupply, OPEC and non-OPEC partners reconvened in April 2020 and confirmed a deal to cut their production by 9.7m b/day, relative to their 'baseline' production level of October 2018.

In July 2021, the OPEC+ group agreed to taper their quota cuts at 0.4m b/day each month until September 2022, whilst still meeting monthly to ratify each production increase in light of the prevailing conditions. The agreement gave us confidence that OPEC was looking to do 'what it takes' to keep the market in balance, despite extreme challenges.

### OPEC-10 apparent production vs call on OPEC 2000 – 2023



Source: IEA Oil Market Report (March 2023 and prior); Guinness estimates

OPEC's actions in recent years have generally demonstrated a commitment to delivering a reasonable oil price to satisfy their own economies but also to incentivise investment in long-term projects. Saudi's actions at the head of OPEC have been designed to achieve an oil price that to some extent closes their fiscal deficit (c.\$75/bl is needed to close the gap fully), whilst not spiking the oil price too high and over-stimulating non-OPEC supply.

In the shorter term, the COVID-19 and Russia/Ukraine crises have created particularly challenging conditions, adding to oil price volatility. Longer-term, we believe that Saudi seek a 'good' oil price, one that satisfies their fiscal needs. Overall, we reiterate two important criteria for Saudi:

1. Saudi is interested in the average price of oil that they get; they have a longer investment horizon than most other market participants.
2. Saudi wants to maintain a balance between global oil supply and demand to maintain a price that is acceptable to both producers and consumers.

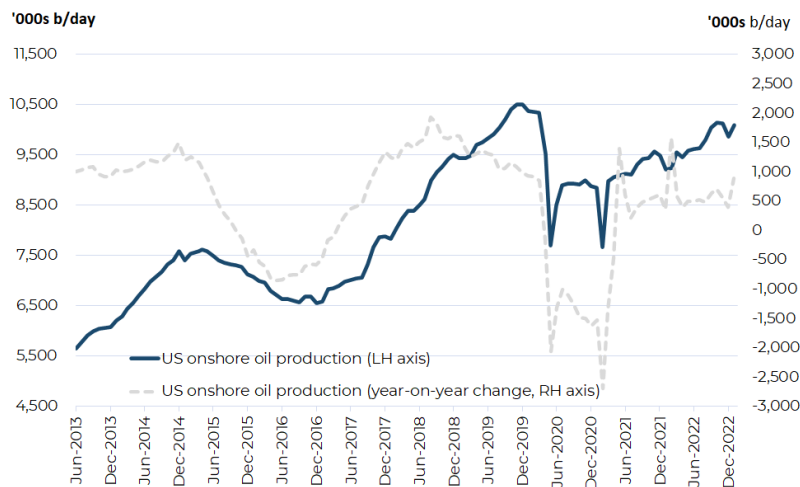
Nothing in the market in recent years has changed our view that OPEC can put a floor under the price – as they did in 2020, 2018, 2016, 2008, 2006, 2001 and 1998.

### Supply looking forward

The non-OPEC world has, since the 2008 Financial Crisis, grown its production more meaningfully than in the seven years before 2008. The growth was 0.9% p.a. from 2001-2008, increasing to 1.8% p.a. from 2008-2019.

Growth in the non-OPEC region since the start of the last decade has been dominated by the development of shale oil and oil sands in North America (up around 7m b/day between since 2010), implying that the rest of non-OPEC region has barely grown over this period, despite the sustained high oil price until mid-2014.

### US onshore oil production



Source: EIA; Guinness Global Investors

The growth in US shale oil production, in particular from the Permian basin, raises the question of how much more there is to come and at what price. Our assessment is that US shale oil is a capital-intensive source of oil but one where some growth is viable, on average, at around \$50 oil prices. In particular, there appears to be ample inventory in the Permian basin to allow growth into the mid-2020s. The rate of development is heavily dependent on the cashflow available to producing companies, which tends to be recycled immediately into new wells, and the underlying cost of services to drill and fracture the wells. Since 2019, we have seen increased shareholder pressure applied to US E&P companies to improve their capital discipline and to cut their reinvestment rates.

The collapse in oil prices at the start of 2020 to a level well below \$50/bl changed the landscape, with US E&P companies reducing capital spending further as they attempted to live within their cashflows. Despite a stronger oil price since then, the overall reduction in activity caused average US shale supply to decline in 2021. Production growth returned in 2022, albeit slower than the previous cycle, as the Russia/Ukraine crisis creates greater space again for US shale barrels in the world market.

Non-OPEC supply growth outside the US has been sustained in recent years, despite lower oil prices, with projects that were sanctioned before 2014 (when oil was \$100/bl+) continuing to come onstream. However, with a lack of major project additions post 2020, new supply is only strong enough to offset the decline profiles of existing production, causing overall supply to stagnate.

## Demand looking forward

The IEA estimate that 2023 oil demand will rise by around 2m b/day to 102.0m b/day, around 1.5m b/day ahead of the 2019 pre-COVID peak. The spread of the COVID virus globally initiated major restrictions on the movement of people which have now been largely reversed, but high prices and slower economic growth are curtailing demand growth in certain sectors.

Post the COVID demand recovery and assuming typical economic growth, we expect the world to settle back into annual oil demand growth of plus or minus 1m b/day, led by increased use in Asia. Historically, China has been the most important component of this growth and continues to be a major component, although signs are emerging that India will also grow rapidly.

The trajectory of global oil demand over the next few years will be a function of global GDP, the pace of the 'consumerisation' of developing economies, the development of alternative fuels, and price. At a \$75/bl oil price, the world oil bill as a percentage of GDP is around 3% and this will still be a stimulant of further demand growth. If oil prices persist in a higher range (say around \$100/bl, representing 4% of GDP), we probably return to the pattern established over the past five years, with a flatter picture in the OECD more than offset by growth in the non-OECD area. Flatter OECD demand reflects improving oil efficiency over time, dampened by economic, population and vehicle growth. Within the non-OECD, population growth and rising oil use per capita will both play a significant part.

We keep a close eye on developments in the 'new energy' vehicle fleet (electric vehicles; hybrids etc), but see little that makes a significant dent on the consumption of gasoline and diesel in the next few years. Sales of electric vehicles (pure electric and plug-in hybrid electrics) globally were around 10m in 2022, up from 6.1m in 2021 and 3.1m in 2020. We expect to see strong EV sales growth again in 2023, up to around 12.5m, or 16% of total global sales. Even applying an aggressive growth rate to EV sales, we see EVs comprising only around 3% of the global car fleet by the end of 2023. Looking further ahead, we expect the penetration of EVs to accelerate, causing global gasoline demand to peak at some point in the middle of the 2020s. However, owing to the weight of oil demand that comes from sources other than passenger vehicles (around 75%), which we expect to continue growing linked to GDP, we expect total oil demand not to peak until around 2030.

## Conclusions about oil

The table below summarises our view by showing our oil price forecasts for WTI and Brent in 2023 versus recent history.

### Average WTI & Brent yearly prices, and changes

Oil price (inflation adjusted)																	Est
12 month MAV	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
WTI	82	104	68	84	99	94	98	93	49	45	51	65	57	40	68	95	77
Brent	82	103	67	84	115	112	108	99	52	45	54	72	60	42	70	100	80
<b>Brent/WTI (12m MAV)</b>	<b>82</b>	<b>104</b>	<b>68</b>	<b>84</b>	<b>107</b>	<b>103</b>	<b>103</b>	<b>96</b>	<b>51</b>	<b>45</b>	<b>53</b>	<b>68</b>	<b>59</b>	<b>41</b>	<b>69</b>	<b>98</b>	<b>79</b>
<b>Brent/WTI y-on-y change</b>	9%	26%	-35%	24%	27%	-4%	0%	-7%	-47%	-11%	17%	30%	-14%	-30%	68%	41%	-19%
Brent/WTI (5yr MAV)	61	75	79	82	89	93	93	99	92	80	69	63	55	53	58	67	69

Source: Guinness Global Investors, Bloomberg

We believe that Saudi's long-term objective remains to maintain a 'good' oil price, something north of \$75/bl. The world oil bill at around \$75/bl represents 3.0% of 2022 Global GDP, under the average of the 1970 – 2021 period (3.4%).

## ii) Natural gas market

### US gas demand

On the demand side for the US, industrial gas demand and power generation gas demand, each about 25-30% of total US gas demand, are key. Commercial and residential demand, which make up a further quarter, have been fairly constant on average over the last decade – although yearly fluctuations due to the coldness of winter weather can be marked.

#### US natural gas demand

Bcf/day	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E
<b>US natural gas demand:</b>												
Residential/commercial	19.2	22.4	23.4	21.4	20.5	20.9	23.4	23.5	21.5	21.5	23.1	23.1
Power generation	24.9	22.3	22.3	26.5	27.3	25.3	29.0	30.9	31.7	30.9	32.6	31.0
Industrial	19.7	20.3	20.9	20.6	21.1	21.6	23.0	23.1	22.3	22.5	23.0	23.8
Pipeline exports (Mexico)	1.8	1.9	1.9	2.7	3.8	4.0	4.6	5.1	5.4	5.9	5.8	6.0
LNG exports	-	-	-	0.1	1.0	2.6	2.8	4.8	6.4	9.7	11.1	12.9
Pipeline/plant/other	6.1	6.7	6.3	6.5	6.4	6.5	7.0	7.8	7.7	7.8	8.1	8.5
<b>Total demand</b>	<b>71.7</b>	<b>73.6</b>	<b>74.8</b>	<b>77.8</b>	<b>80.1</b>	<b>80.9</b>	<b>89.8</b>	<b>95.2</b>	<b>95.0</b>	<b>98.3</b>	<b>103.7</b>	<b>105.3</b>
<b>Demand growth</b>	<b>3.1</b>	<b>1.9</b>	<b>1.2</b>	<b>3.0</b>	<b>2.3</b>	<b>0.8</b>	<b>8.9</b>	<b>5.4</b>	<b>- 0.2</b>	<b>3.3</b>	<b>5.4</b>	<b>1.6</b>

Source: Guinness estimates; MS (March 2023)

Industrial demand (of which around 35% comes from petrochemicals) tends to trend up and down depending on the strength of the economy and the differential between US and international gas prices. Electricity gas demand (i.e. power generation) is affected by weather, in particular warm summers which drive demand for air conditioning, but the underlying trend depends on GDP growth and the proportion of incremental new power generation each year that goes to natural gas versus the alternatives of coal, nuclear and renewables. Gas has been taking market share in this sector: in 2022, 38% of electricity generation was powered by gas, up from 22% in 2007. The big loser here is coal, which has consistently given up market share.

Total gas demand in 2022 (including Mexican and LNG exports) was around 103.7 Bcf/day, up by 5.4 Bcf/day versus 2021 and 12 Bcf/day (13%) higher than the 5-year average. The biggest contributors to the growth in demand in 2022 were Power Generation and Residential/Commercial. LNG exports were also a large contributor but were hampered by operational issues at some key export facilities.

We expect US demand in 2023, assuming prices average around \$3-4/mcf, to be up by around 1.6 Bcf/day. Looking further ahead to 2025, we believe that gas will take a good share of incremental power generation growth in the US and continue to take market share from coal. Our working assumption is for gas fired power generation to grow 0.8-1.2 Bcf/day per year, although this will be affected by actual gas prices. Beyond the mid-2020s, we expect power generation from gas to face stronger competition from renewables.

## US gas supply

Overall, whilst gas demand in the US has been strong over the past five years, it has been overshadowed by a rise in onshore supply, holding the gas price lower.

The supply side fundamentals for natural gas in the US are driven by three main moving parts: onshore and offshore domestic production, pipeline imports of gas from Canada, and LNG imports. Of these, onshore supply is the biggest component, making up over 90% of total supply.

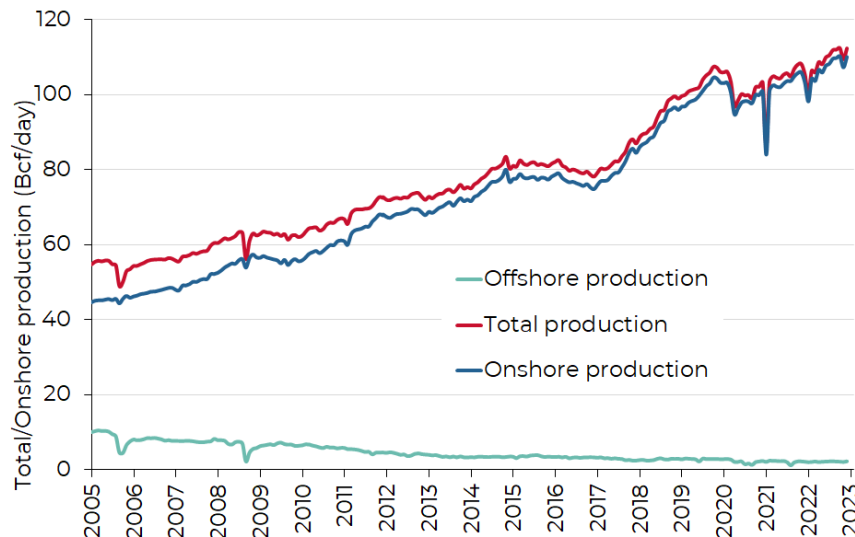
### US natural gas supply

Bcf/day	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E
<b>US natural gas supply:</b>												
US (onshore & offshore)	65.7	66.3	70.9	74.2	73.4	73.6	84.3	91.4	91.1	91.8	97.3	101.1
Net imports (Canada)	5.4	5.0	4.9	4.9	5.5	5.8	5.4	4.7	4.4	5.1	5.5	5.5
LNG imports & other	0.8	0.6	0.5	0.5	0.4	0.3	0.1	0.1	-	-	0.1	-
<b>Total supply</b>	<b>71.9</b>	<b>71.9</b>	<b>76.3</b>	<b>79.6</b>	<b>79.3</b>	<b>79.7</b>	<b>89.8</b>	<b>96.2</b>	<b>95.5</b>	<b>96.9</b>	<b>102.9</b>	<b>106.6</b>
<b>Supply growth</b>	<b>2.4</b>	<b>-</b>	<b>4.4</b>	<b>3.3</b>	<b>- 0.3</b>	<b>0.4</b>	<b>10.1</b>	<b>6.4</b>	<b>- 0.7</b>	<b>1.4</b>	<b>6.0</b>	<b>3.7</b>

Source: EIA; MS; Guinness estimates

Over the last 14 years or so, the weaker gas price in the US reflects growing onshore US production driven by rising shale gas and associated gas production (a by-product of growing onshore US oil production). Interestingly, the overall rise in onshore production has come despite a collapse in the number of rigs drilling for gas, which has dropped from a 1,606 peak in September 2008 to around 160 at the end of March 2023. However, offsetting the fall, the average productivity per rig has risen dramatically as producers focus their attention on the most prolific shale basins, whilst associated gas from oil production has grown handsomely.

### US natural gross gas production 2005 – 2023 (Lower 48 States)



Source: EIA 914 data (March 2023 data)

The outlook for gas production in the US depends on three key factors: the rise of associated gas (gas produced from wells classified as oil wells); expansion of the newer shale basins, principally the Marcellus/Utica, and the decline profile of legacy gas fields.

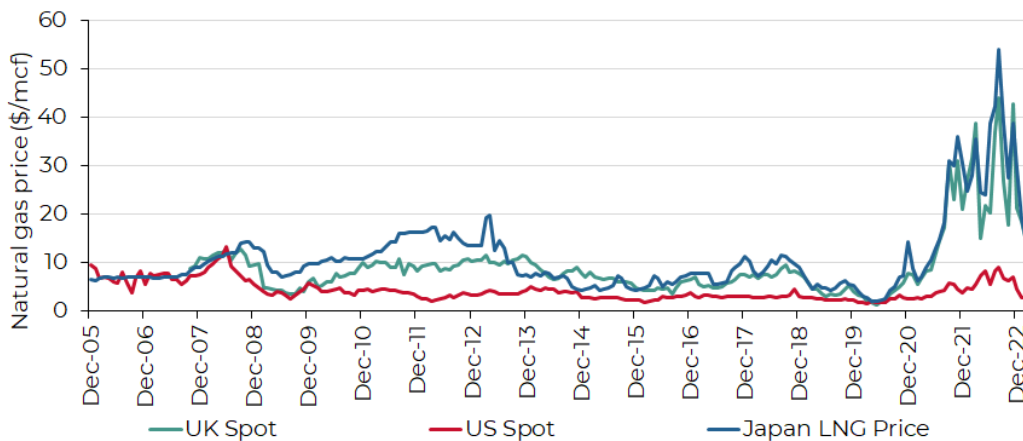
Associated gas production rebounded in 2022 and will rise again in 2023 as shale oil continues to grow. Generally, we expect to see rates of around 2-3 Bcf/day of associated gas per 1m b/day of oil production growth. The Marcellus/Utica region, which includes the largest producing gas field in the US and the surrounding region, reached production of around 29 Bcf/day in 2022. Moderate growth is likely in 2023.

Overall, if the price averages in the \$3-4/mcf range, we expect a rise in average onshore gas supply in 2023, up by around 4 Bcf/day versus 2022.

### Outlook for US LNG exports – global gas arbitrage

The prospects for US LNG exports depend on the differentials to European and Asian gas prices, and whether the economic incentive exists to carry out the trade. The UK national balancing point (NBP) gas price – which serves as a proxy to the European traded gas price – has moved to a significant premium to the US gas price (c.\$15-30/mcf versus c.\$2-7/mcf). Asian spot LNG prices have also been extraordinarily strong, averaging over \$34/mcf in 2022 and over \$16/mcf on a spot basis at the end of December 2022. There have been many factors at play, in particular the strong post-COVID demand recovery, and a shortage of Russian imports into Europe. The implied economics for US LNG exports into Europe and Asia are attractive assuming international prices are at least \$5/mcf higher than Henry Hub.

**International gas prices to March 2023**

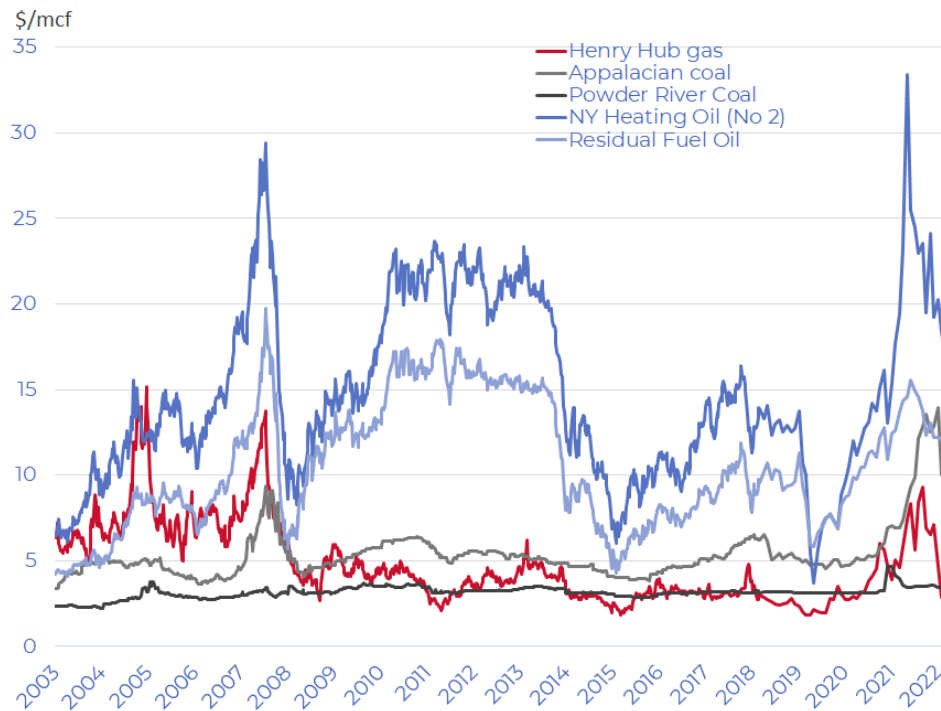


Source: Bloomberg; Guinness Global Investors (March 2023)

### Relationship with oil and coal

The following chart of the front month US natural gas price against heating oil (No 2), residual fuel oil (No 6) and coal (Sandy Barge adjusted for transport and environmental costs) seeks to illustrate how coal and residual fuel oil switching provide a floor and heating oil a ceiling to the natural gas price. When the gas price has traded below the coal price support level (2012 and 2016), resulting coal to gas switching for power generation was significant.

**Natural gas versus substitutes (fuel oil and coal) - Henry Hub vs residual fuel oil, heating oil, Sandy Barge (adjusted) and Powder River coal (adjusted)**



Source: Bloomberg; Guinness Global Investors (March 2023)

**Conclusions about US natural gas**

The US natural gas price was held back in the 2010s by continued strength in gas supply, particularly from the Marcellus/Utica and from gas produced as a by-product of shale oil. Natural gas prices averaged \$6.52/mcf in 2022, up from \$3.71/mcf in 2021, and we suspect that the (full cycle) marginal cost of supply is now around \$4/mcf. More controlled growth in associated gas supply over the next couple of years should allow gas prices to stay closer to the full cycle cost level.

## APPENDIX: Oil and gas markets historical context

Oil price (WTI \$) since 1989



Source: Bloomberg LP

For the oil market, the period since the Iraq/Kuwait war (1990/91) can be divided into four distinct periods:

- 1) **1990-1998:** broadly characterized by decline. The oil price steadily weakened 1991 – 1993, rallied between 1994 – 1996, and then sold off sharply, to test 20-year lows in late 1998. This latter decline was partly induced by a sharp contraction in demand growth from Asia, associated with the Asian crisis, partly by a rapid recovery in Iraq exports after the UN Oil for food deal, and partly by a perceived lack of discipline at OPEC in coping with these developments.
- 2) **1998-2014:** a much stronger price and upward trend. There was a very strong rally between 1999 and 2000 as OPEC implemented 4m b/day of production cuts. It was followed by a period of weakness caused by the rollback of these cuts, coinciding with the world economic slowdown, which reduced demand growth and a recovery in Russian exports from depressed levels in the mid 90's that increased supply. OPEC responded rapidly to this during 2001 and reintroduced production cuts that stabilized the market relatively quickly by the end of 2001.

Then, in late 2002 early 2003, war in Iraq and a general strike in Venezuela caused the price to spike upward. This was quickly followed by a sharp sell-off due to the swift capture of Iraq's Southern oil fields by Allied Forces and expectation that they would win easily. Then higher prices were generated when the anticipated recovery in Iraq production was slow to materialise. This was in mid to end 2003 followed by a much more normal phase with positive factors (China demand; Venezuelan production difficulties; strong world economy) balanced against negative ones (Iraq back to 2.5 m b/day; 2Q seasonal demand weakness) with stock levels and speculative activity needing to be monitored closely. OPEC's management skills appeared likely to be the critical determinant in this environment.

By mid-2004 the market had become unsettled by the deteriorating security situation in Iraq and Saudi Arabia and increasingly impressed by the regular upgrades in IEA forecasts of near record world oil demand growth in 2004 caused by a triple demand shock from strong demand simultaneously from China; the developed world (esp. USA) and Asia ex China. Higher production by OPEC has been one response and there was for a period some worry that this, if not curbed, together with demand and supply responses to higher prices, would cause an oil price sell off. Offsetting this has been an opposite worry that non-OPEC production could be within a decade of peaking; a growing view that OPEC would defend \$50 oil vigorously; upwards pressure on inventory levels from a move from JIT (just in time) to JIC (just in case); and pressure on futures markets from commodity fund investors.

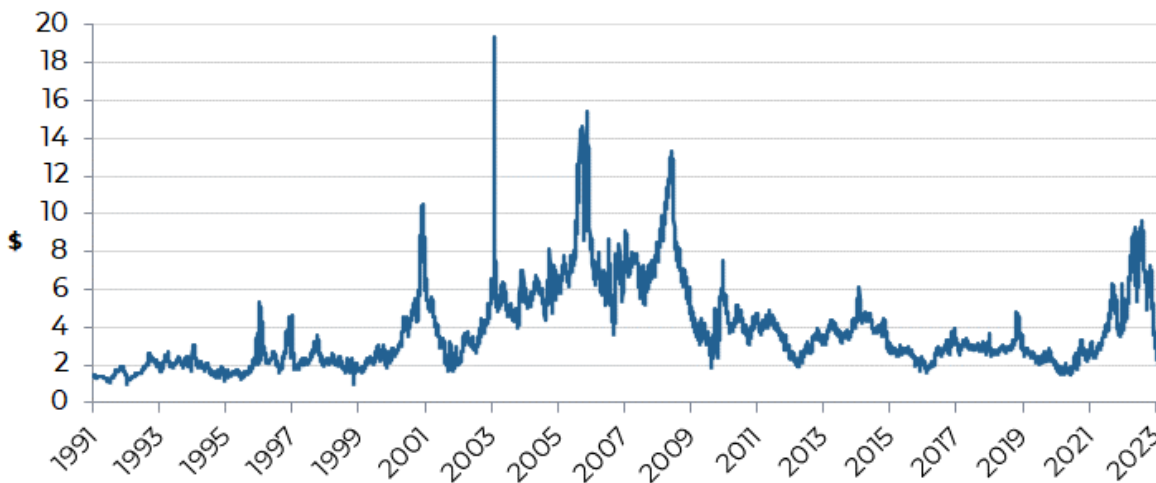
Continued expectations of a supply crunch by the end of the decade, coupled with increased speculative activity in oil markets, contributed to the oil price surging past \$90 in the final months of 2007 and as high as \$147 by the middle of

2008. This spike was brought to an abrupt end by the collapse of Lehman Brothers and the financial crisis and recession that followed, all of which contributed to the oil price falling back by early 2009 to just above \$30. OPEC's responded decisively and reduced output, helping the price to recover in 2009 and stabilise in the \$70-95 range where it remained for two years.

Prices during 2011-2014 moved higher, averaging around \$100, though WTI generally traded lower than Brent oil benchmarks due to US domestic oversupply affecting WTI. During this period, US unconventional oil supply grew strongly, but was offset by the pressures of rising non-OECD demand and supply tensions in the Middle East/North Africa.

- 3) **2014-2020:** a further downcycle in oil. Ten years of high prices leading up to 2014 catalysed a wall of new non-OPEC supply, sufficient that OPEC saw no choice but to stop supporting price and re-set the investment cycle. Oil prices found a bottom in 2016 (as a result of OPEC and non-OPEC partners cutting production again), but its recovery was capped by the volume of new supply still coming into the market from projects sanctioned pre the 2014 price crash. Average prices were pinned 2017-19 in the \$50-70/bl range, with prices at the top end of this range stimulating oversupply from US shale. The alliance between OPEC and non-OPEC partners fell apart briefly in March 2020 and, coupled with an unprecedented collapse in demand owing to the COVID-19 crisis, oil prices dropped back below \$30/bl, before recovering to around \$50/bl by the end of 2020 thanks to renewed OPEC+ action.
- 4) **2021 onwards:** Underinvestment in new oil capacity in the 2015-2020 period catalysed the start of a new cycle in 2021, pushing prices above \$75/bl.

**North American gas price since 1991 (Henry Hub \$/Mcf)**



Source: Bloomberg LP

With regard to the US natural gas market, the price traded between \$1.50 and \$3/Mcf for the period 1991 - 1999. The 2000s were a more volatile period for the gas price, with several spikes over \$8/mcf, but each lasting less than 12 months. On each occasion, the price spike induced a spurt of drilling which brought the price back down. Excepting these spikes, from 2004 to 2008, the price generally traded in the \$5-8 range. Since 2008, the price has averaged below \$4 as progress achieved in 2007-8 in developing shale plays boosted supply while the 2008-09 recession cut demand. Demand has been recovering since 2009 but this has been outpaced by continued growth in onshore production, driven by the prolific Marcellus/Utica field and associated gas as a by-product of shale oil production.

North American gas prices are important to many E&P companies. In the short term, they do not necessarily move in line with the oil price, as the gas market is essentially a local one. (In theory 6 Mcf of gas is equivalent to 1 barrel of oil so \$60 per barrel equals \$10/Mcf gas). It remains a regional market more than a global market, though the development of the LNG industry is creating a greater linkage.

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The documentation needed to make an investment, including the Prospectus, the Key Investor Information Document (KIID), Key Information Document (KID) and the Application Form, is available in English from [www.guinnessgi.com](http://www.guinnessgi.com) or free of charge from the Manager: Link Fund Manager Solutions (Ireland) Ltd (LFMSI), 2 Grand Canal Square, Grand Canal Harbour, Dublin 2, Ireland; or the Promoter and Investment Manager: Guinness Asset Management Ltd, 18 Smith Square, London SW1P 3HZ.

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### TB GUINNESS GLOBAL ENERGY FUND

#### Documentation

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General enquiries: 0115 988 8200.

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#### Structure & regulation

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Telephone calls will be recorded and monitored.