

ENERGY OPPORTUNITIES

3rd Annual Energy Investor Conference

November 2010



ENERGY opportunities
CAPITAL MANAGEMENT

- I. WELCOME
 - A. CELEBRATING THE 10 YEAR ANNIVERSARY OF THE ENERGY OPPORTUNITIES STRATEGY
 - B. FIRM MILESTONES

- II. INVESTMENT THESIS – THEN AND NOW
 - A. ENERGY SUPPLY AND DEMAND
 - B. MARKETS, PRICES AND RETURNS
 - C. GOING FORWARD – A GLOBAL TRANSITION

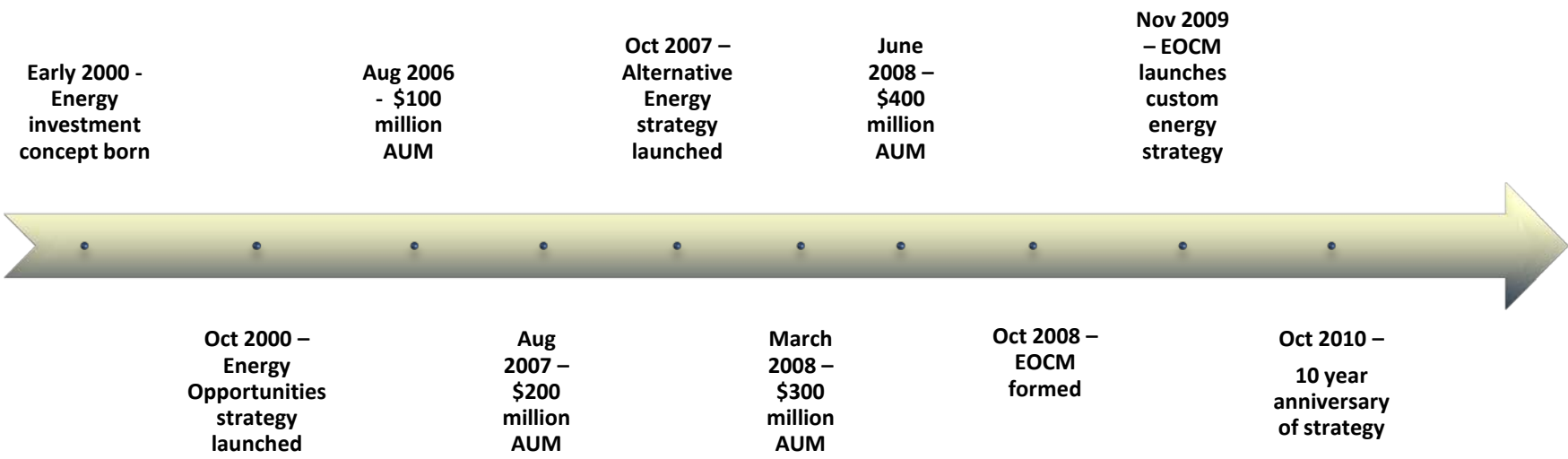
3RD ANNUAL ENERGY INVESTOR CONFERENCE



“When there were some new finds, I told them, ‘no, leave it in the ground, with grace from god, our children need it.’”

King Abdullah of Saudi Arabia

ENERGY OPPORTUNITIES MILESTONES



ENERGY OPPORTUNITIES - THEN AND NOW

THEN ORIGINAL PRESENTATION CIRCA 2000

- **Energy is the Backbone of the Worldwide Economy**
- **Consistent Oil Demand Growth Driven by Developing Economies**
 - 85% of incremental demand from developing nations
- **Supply Additions Battling Accelerating Decline Rates**
- **Supply Additions and Capital Spending are Inexorably Linked**

NOW THESIS UPDATE 2010

- **Continued proof of the direct link between GDP growth and energy demand growth.**
- **Over the last several years global energy demand growth has come exclusively from the developing nations.**
- **IEA decline rate study from 2008 confirms that global declines range from 6-9%, significantly higher than previously thought.**
- **Despite over a 100% increase in capital spending by the Big 5 IOCs over the last 6 years, oil production fell nearly 10%.**

ENERGY OPPORTUNITIES – MARKETS AND RETURNS

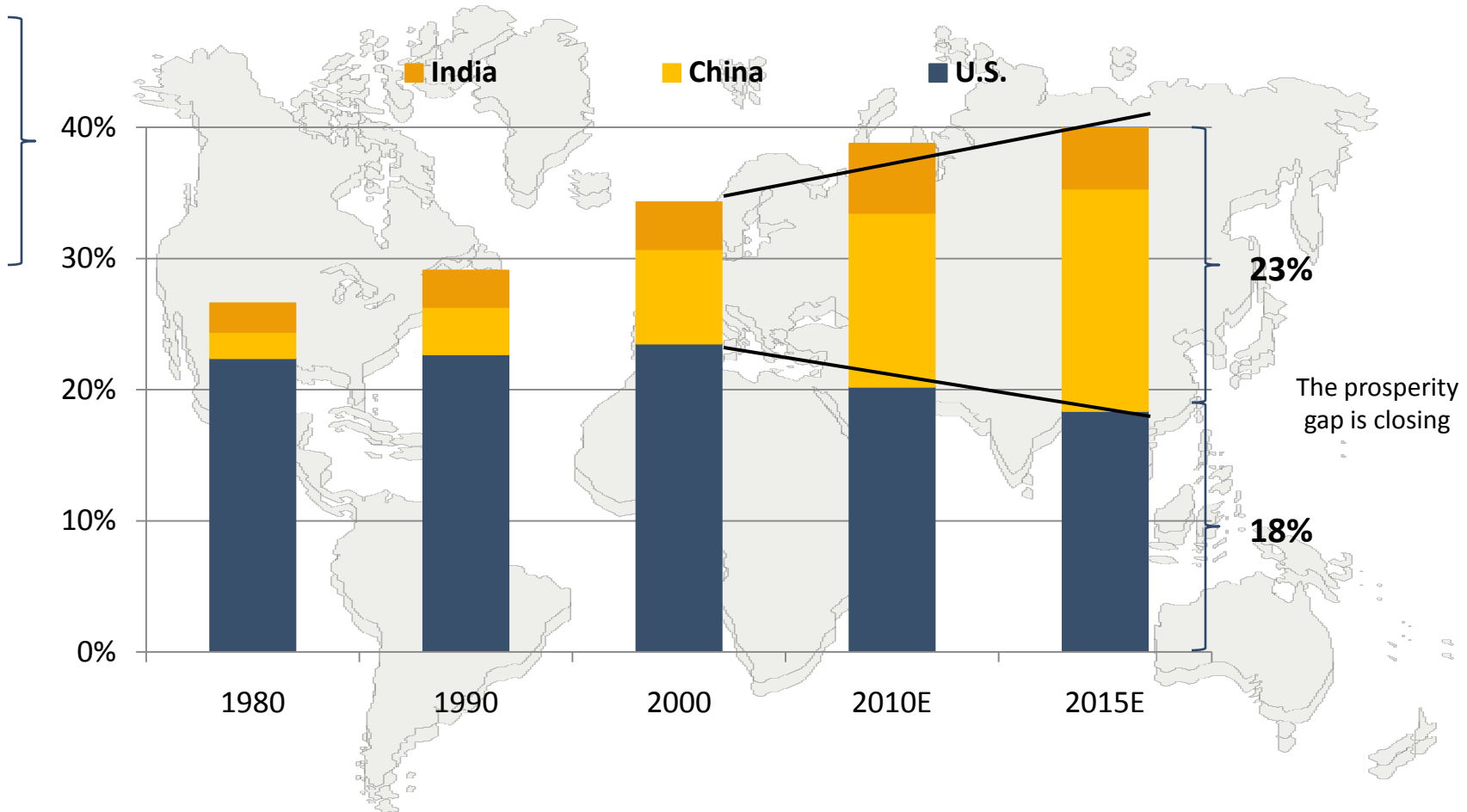
ORIGINAL PRESENTATION CIRCA 2000

LIKE THE 1970s, ENERGY SUPPLY AND DEMAND FUNDAMENTALS WILL ADVERSLY IMPACT BROAD MARKET EQUITIES BUT BENEFIT ENERGY STOCKS, AND OIL SERVICE IN PARTICULAR

	Value THEN Oct 2000	Value NOW Oct 2010	10 year Total Return
S&P 500	\$10,000,000	\$9,983,000	-0.17%
ExxonMobil	\$10,000,000	\$18,590,000	+85.90%
Energy Opportunities	\$10,000,000	\$28,143,000	+181.43%
Crude Oil	\$32.70/barrel	\$81.45/barrel	NA

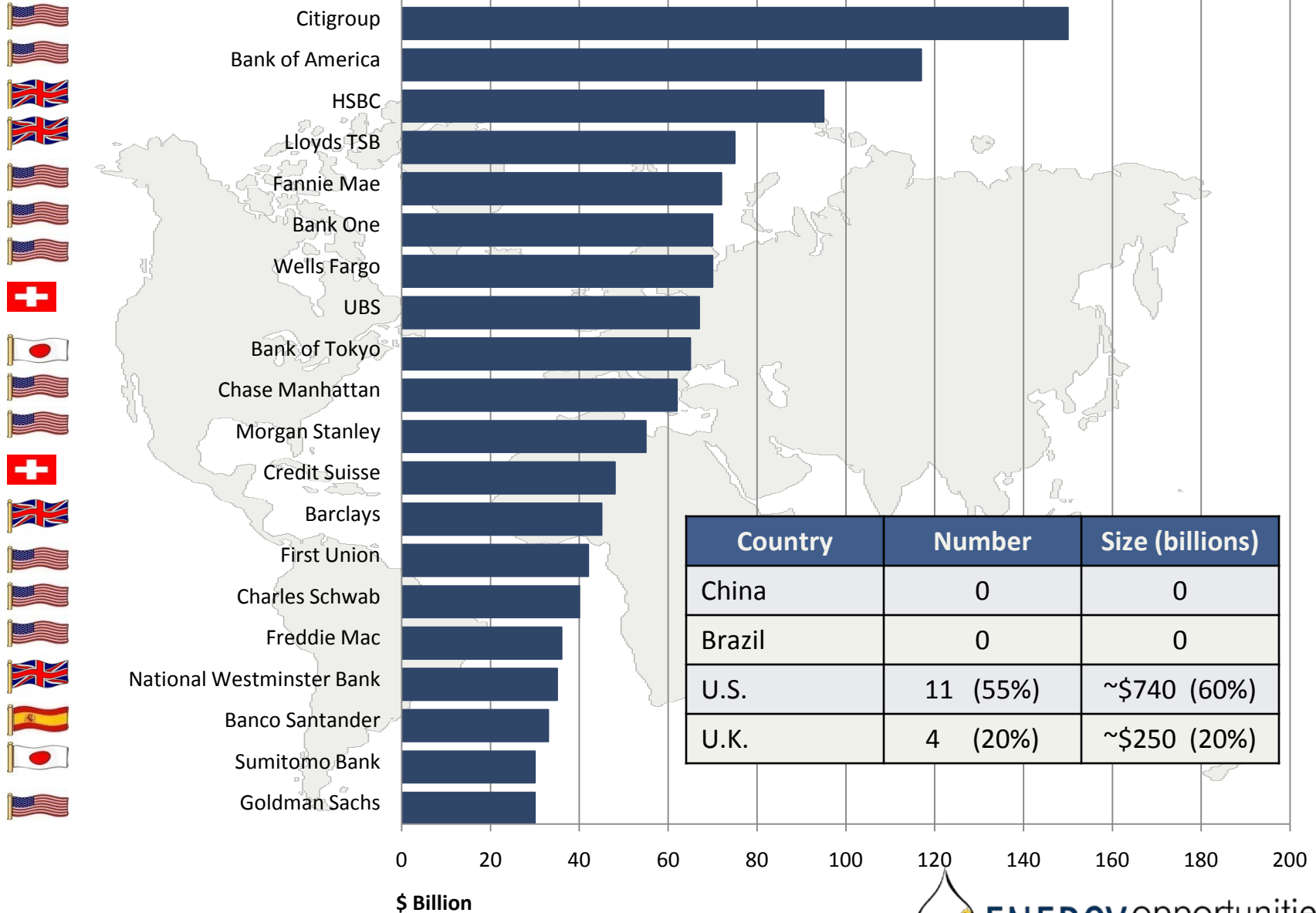
THE RISE OF NON-OECD ECONOMIES: A GLOBAL ECONOMIC TRANSITION

Percent of Global GDP: U.S., China and India



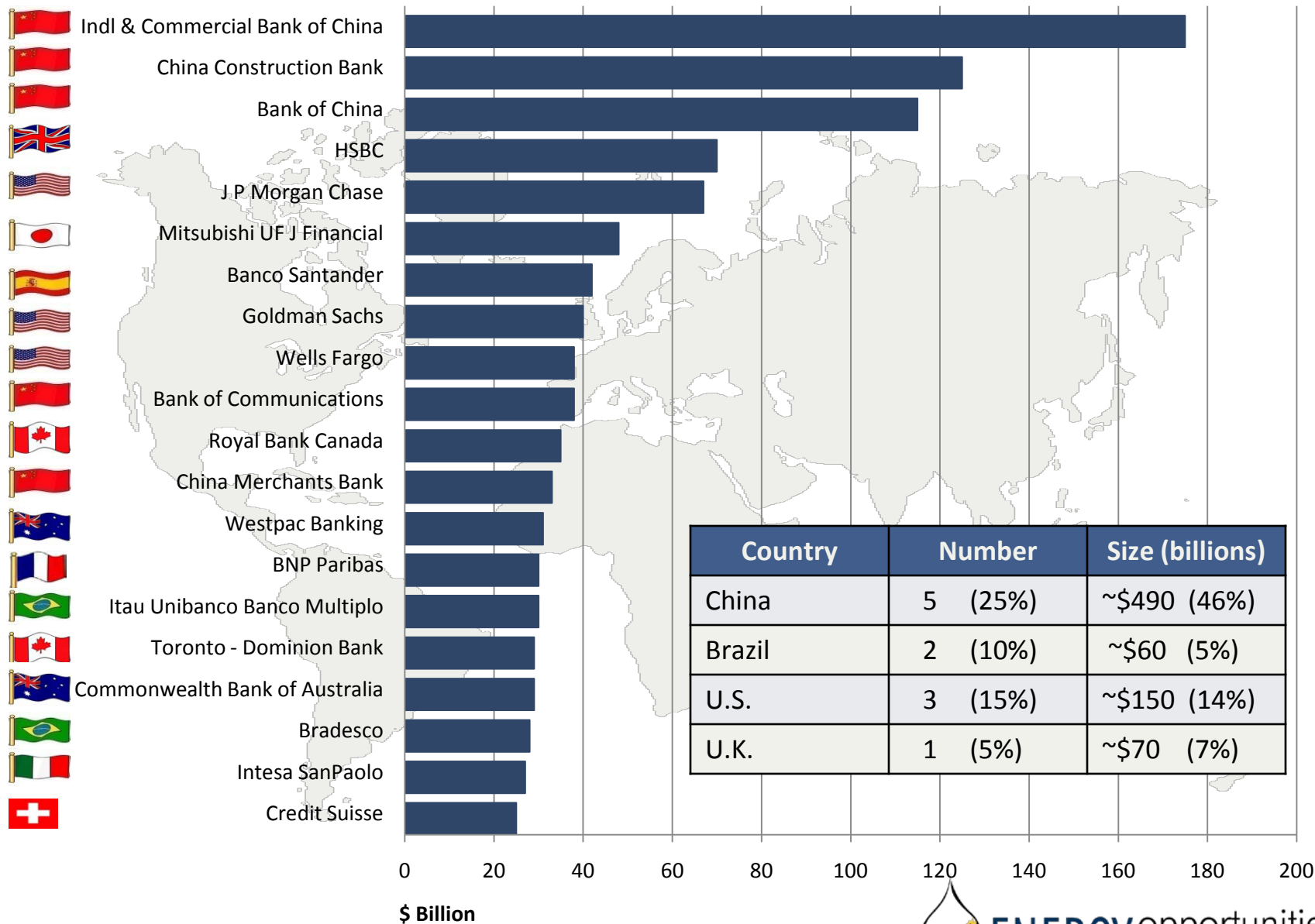
Source: IMF.

TOP 20 FINANCIAL INSTITUTIONS BY MARKET CAPITALIZATION – 1999



Source: Financial Times.

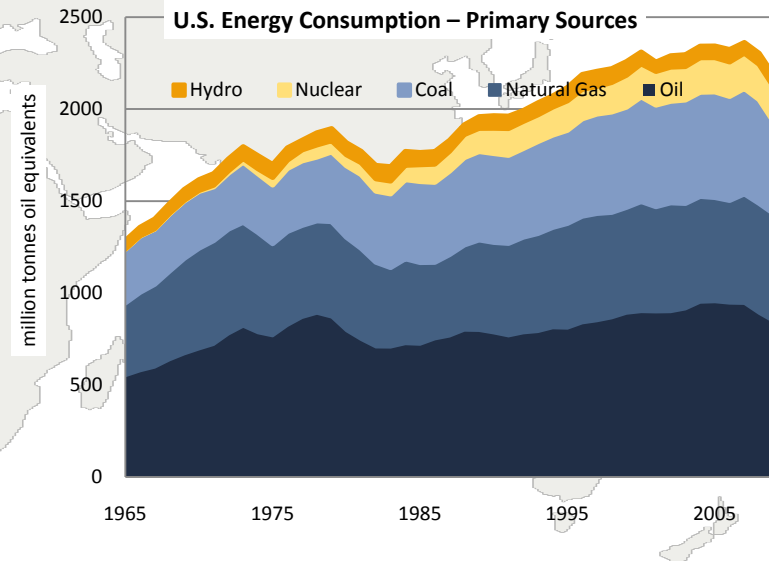
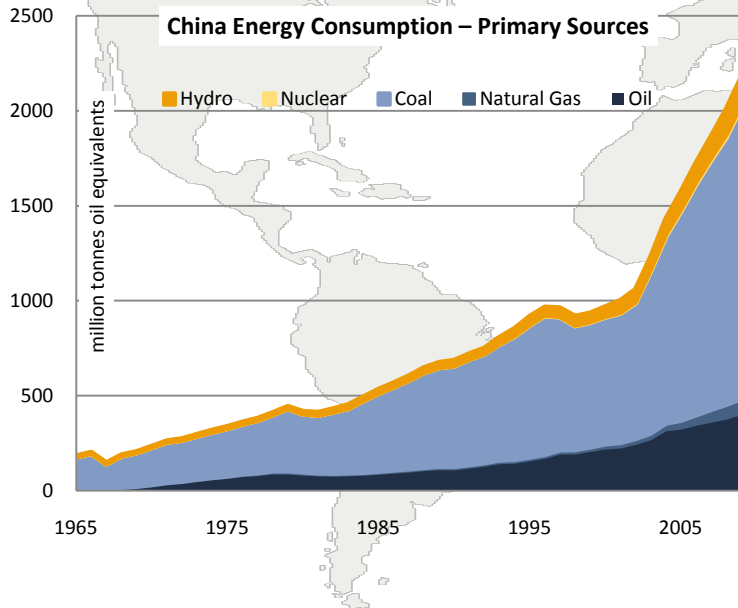
TOP 20 FINANCIAL INSTITUTIONS BY MARKET CAPITALIZATION – 2009



Source: Financial Times.

China's Insatiable Appetite for Energy:

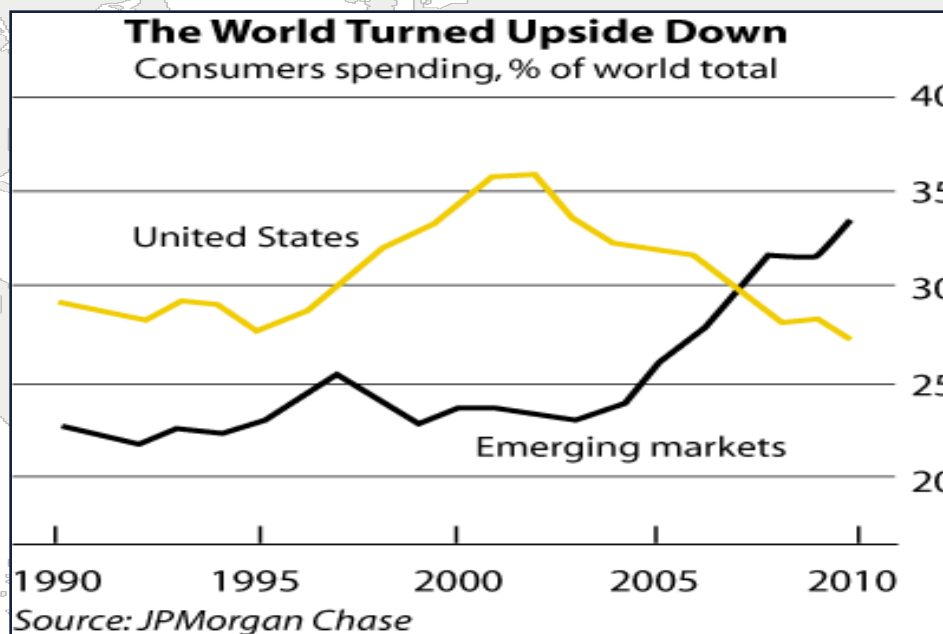
- In 2009, China surpassed the U.S. as the world's largest consumer of energy, consuming 2,252 million equivalent tons of oil, about 4% more than the U.S.
- This stat is made more amazing when considering in 2000, the U.S. consumed **twice** as much energy as China.
- China will be investing more than \$4 trillion over the next 20 years to satisfy its needs for energy.



EMERGING ECONOMY DATA POINTS – RACING PAST THE DEVELOPED WORLD

Emerging Market Data Points:

- At the end of 2007, consumption in emerging markets surpassed U.S. consumption for the first time and equaled 32% of global share.
- Emerging market nations are developing new trading routes between each other, further insulating their economies from weakening consumption by the West's middle class.
- By 2015, the number of Asian middle class consumers will equal the number in Europe and America (for the first time in 300 years). These new consumers will replace the shortfalls in forecasted U.S. consumer demand.

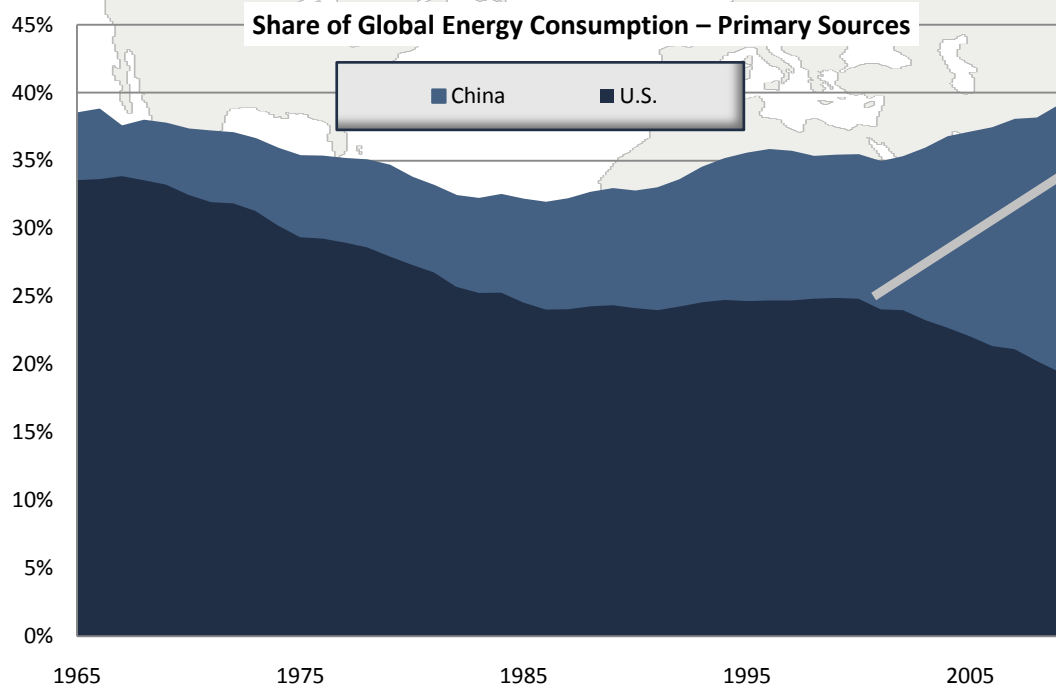


EMERGING ECONOMY DATA POINTS – ENERGY IMPLICATIONS OF A GLOBAL TRANSITION

Shifting Dynamics:

- In 1965, the combined economies of the U.S. and China consumed 38.5% of global primary energy sources. Then, China comprised just 4.8% of the total, whereas the U.S. comprised 33.7% of the total.
- In 2009, the combined economies of the U.S. and China consumed 39.0% of global primary energy sources, nearly the same percent of global share as 45 years ago. In fact, the range over this period of time is little changed, ranging from 31.9% to 39.0%.
- However, there has been a significant shift in relative consumption between these two economies as China's consumption has now surpassed that of the U.S.

Primary Energy Source Consumption Trend: U.S. Versus China (1965 – 2009)



Note that the transition becomes meaningful in 2000 as U.S. consumption begins to decline.

During the ten year period 1999 – 2009, U.S. consumption declines from 25% to under 20% of world total consumption.

During that same ten year period, the S&P 500 declined -9.1% while the Energy Sector of the S&P 500 rose +147%.

What about Now and Then (Future)?

- All current macroeconomic data confirms the Energy Opportunities investment thesis.
- The global transition toward the energy hungry developing economies of the world continues to accelerate.
- Confirmation and magnitude of global decline rates means capital spending must continue even in low demand growth environments - a unique investment dynamic.

Welcome to Austin.