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# Schroder ISF* Global Energy
# Fund Update

## In summary

During the month of February, the fund posted returns of -3.5%, as compared with the MSCI World Energy benchmark down -9.0%, with the average peer group energy fund down by -7.0% and the S&P Midcap Energy benchmark off by -8.5%. Year to date to the end of February, Schroders ISF Global Energy is up +1.2%, with the MSCI World Energy benchmark down -12.3%, the average peer group fund down -9.2%, and the S&P Midcap Energy benchmark down -8.8%.

On the macro front, February saw the continuation of recent relatively stable trading patterns in oil markets with Brent oil averaging $43.32 a barrel, following $44.72/barrel in January and $41.58/barrel in December. Natural gas markets have been considerably weaker in recent months with US prices averaging $4.52/mcf in February, down from $5.25/mcf in January and $5.84/mcf in December.

## The market and the drivers or fund performance

The fund performance during February benefited once again came from our holding in **Bankers Petroleum**, taking its year-to-date performance to +90%. Needless to say, we have not been slow to realise these profits. Elsewhere, strong performances from **Cairn Energy** and **BG group** in the UK, from **SBM Offshore** and **Aker Solutions** in Europe, and from **Suncor** in Canada offset weakness elsewhere in the portfolio.

Our activity during February was mostly profit-taking and cash-building. Early in February, we were quick to reduce holdings in **Venture**, BG Group, **Quicksilver** and **Progress** after all four had a strong relative run. Later in the month, we also cut our holding in Bankers Petroleum after another 50% surge in the name. These proceeds have been used to build cash positions to 8%, and also to re-build core positions in Quicksilver and Progress as both stocks had a very weak end to the month. We continue to hold $25 million of $/£ forward contracts that expire in early March, and intend to roll these over to protect the fund from further £ weakness.

## The market outlook and portfolio strategy

We are encouraged by the strong start to 2009 from the fund, but we are also mindful of the continued weak external environment. As such, our position remains one of cautious aggression, as we continue to run high-conviction stock positions, prudently matched by elevated cash positions. This will remain the case until we get closer to the very strong markets for oil and natural gas that we expect to see in the second half of 2009.

For 2009, we continue to take the view that crude oil is close to finding a bottom, with supply now catching up with demand, and demand looking like it may recover modestly as the de-stocking process comes to an end. In simple terms, with demand likely to fall ~1.5mnb/d in 2009 and OPEC cutting ~4.2mnb/d from the market, we are confident that OPEC will regain control of the crude market. Furthermore, with the number of rigs drilling for natural gas in the US having dropped by a breath-taking 40% in recent months, gas supplies will soon go into reverse in North America, setting the scene for an aggressive price rally in the latter half of 2009. With stock valuations languishing at multi-decade lows, we believe this external environment will deliver extremely volatile but ultimately very attractive fund returns for clients in 2009 after a nightmare end to 2008.



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