Unlocking The Energy Value Chain

"The U.S. Energy Boom will be like the Internet of the 1990's." – Jack Welch
ELCO Management Overview
Focus and Expertise

- ELCO was founded in 1995 and is an SEC Registered Investment Advisor specializing in the Energy and Infrastructure (Energy Value Chain) sectors.

- ELCO employs a fundamental top-down bottom-up research process and utilizes a strict and comprehensive risk management approach.

- ELCO manages a long-short fund focusing on the Energy Value Chain which has a compounded annualized return of 14.25% since inception in 2002

- ELCO has been consistently recognized as a top-ten energy manager by Barclays Managed Fund Report.

- Assets under management are currently $300 million firm wide

- General Partners have a significant investment in the investment strategies run by ELCO
ELCO specializes in the “Energy Value Chain” which includes oil, natural gas, MLPs, power and renewable energy.
Investment Styles

- ELCO investment style is fundamentally driven by the investment team’s expertise in the Energy space.
- The Energy value chain offers a large opportunity set and full range of investment styles in order to adapt to changing market conditions.
- Comprises of ~50% of the S&P 500 Index

<table>
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<th>Sub Sector</th>
<th>GARP</th>
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<th>Value</th>
<th>Momentum</th>
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Energy Value Chain Investing

- Subsectors of the Energy Value Chain have several drivers in common that affect their share prices to varying degrees: Energy prices, interest rates, weather, economic activity, local and geopolitics, technology, and broader market action.
- Themes/drivers tend to cycle through subsectors at varying rates or effects.
- There is demonstrable beta amongst subsectors which creates alpha opportunities.

Source: Bloomberg
Game Changing Themes
New Technologies Are Disrupting the Global Energy Landscape

- Technological advances in drilling and well stimulation have combined to unlock vast oil and gas reserves that until recently were thought to be uneconomic.

- Impact: This advancement has already affected the US energy value chain.

- The development of shale plays and ultra-deep wells have pushed the US past Russia as the world’s largest natural gas producer.

- Old Economy Renaissance: Due to the renewed certainty of supply and lower relative prices, natural gas-dependent industries such as Petrochemicals, Fertilizer, and Steel are investing in the US again - creating jobs across the chain.

- US oil production is now growing after declining for the last decade. The IEA’s projection shows US oil production peaking in 2020 at 11.1 million barrels per day, up from 8.1 million barrels per day in 2011.
Significant Global Implications

- There are around 600 known shale deposits.
- Worldwide recoverable reserves have been estimated at about 2.8-3.3 trillion barrels of shale oil. To put this in context Saudi Arabia’s oil reserves are estimated to be 260 billion barrels.
- The largest reserves are in the US which are estimated to hold 1.5-2.6 trillion barrels.
- Geopolitical implications - Global shale deposits are also prevalent in Poland, UK, Norway, Argentina, Venezuela, Australia, Sweden, Estonia, Jordan, France, Brazil, China, and Russia.
Opportunities along the Value Chain

The ELCO Edge – using the multiple investment styles across the value chain capturing alpha

- **E&P**
  - Geographic Position
  - Oil/Liquids/Gas
  - Well Results
  - Commodity Prices

- **Field Services/Drillers**
  - Geographic Position
  - Pressure Pumping
  - Well Servicing
  - Capital Equipment
  - Oil/Liquids/Gas
  - Domestic/Global
  - Commodity Prices

- **Midstream**
  - Geographic Position
  - Processing Margins
  - Commodity Hedging
  - Re-directing Flows
  - Coverage Ratios

- **E&C**
  - End Market Demand
  - Backlogs
  - Margins
  - Customer Base

- **Industrial/PetChem**
  - Cheap feed stock
  - Export potential
  - LNG

- **Utilities/Power Gen**
  - Power Prices
  - Geographic Location
  - Industrial Demand
  - Commodity Prices
  - Defense

- **Event Driven**
  - M&A
  - Divestitures
  - Spin-offs
  - Hidden Value
Investment Strategy

- Provide exposure to the Energy Value Chain in an optimal risk adjusted basis
- Lower volatility via multi-sector diversification coupled with strategic hedging
- To generate alpha while limiting risk through a rigorous stock selection and portfolio construction process
- To capitalize on the longer-term investment horizon unique to energy value chain assets— a capital intensive industry providing essential services
- Take advantage of shorter term themes through a disciplined approach within a relative value framework
- Target a diverse portfolio of total return opportunities across multiple energy subsectors including MLPs, royalty trusts, integrated pipeline companies and energy producers.
- Capitalize on event driven opportunities
- The investment strategy is managed for all market environments, emphasizing both top-down macro analysis and bottom-up fundamental research
Investment Process

• ELCO employs sector expertise and an intensive bottom-up fundamental research driven process

• Top down themes are developed by analyzing current industry trends

• Positions are modeled and selected on several criteria including:
  ✓ Earnings leverage to broader themes
  ✓ Strength of management
  ✓ Potential upside to fundamental price target
  ✓ Earnings stability and growth potential
  ✓ Free cash flow growth potential
  ✓ Dividend/distribution coverage ratio and quality of cash flow
Risk Management

• We screen for fundamental, macro or political issues
• We sell when a change in the fundamentals place earnings at risk
• We keep the portfolio diversified to avoid concentration or systemic risks
• We reassess, then typically trim as a position nears its fundamental price target
• We employ relative downside targets
• We average down when the stock price is negatively affected by drivers which do not compromise earnings (market sentiment for instance)
# Long/Short Performance*

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*Monthly performance numbers are unaudited and estimated as the performance and management fees are calculated at the end of the each year. As of 2/2006, management fee is 1.5%. Prior to October 31, 2002, the Fund was in a pre-launch phase with only one partner in addition to the general partner.*
ELCO Long/Short

One the ELCO funds is an equity long/short fund focused on the energy value chain including upstream E&P, midstream MLPs, renewables and downstream utility sectors; and includes related sectors when our research uncovers opportunities e.g., petrochemicals, transportation, etc. Our investment strategy utilizes top-down thematic research. We then employ bottom-up fundamental company analysis to determine the best risk/reward investment opportunities.

**Risk/Return Statistic**

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<tr>
<td>Compounded ROR</td>
<td>14.25%</td>
<td>Standard Deviation</td>
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<td>Cumulative Return since inception</td>
<td>309.44%</td>
<td>Downside Deviation (0.0%)</td>
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<tr>
<td>Percent Profitable Months</td>
<td>67%</td>
<td>Sharpe Ratio (0.0%)</td>
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<td>Average Monthly Return</td>
<td>1.3%</td>
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**Fund Information**

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Long/Short Portfolio

- Positions: 50 Long/25 Short
- Gross Long/Short: 130%/60%
- Portfolio Turnover: 94%
- Leverage: Limited
- Position Limits: Max 5% NAV @ cost
- Geographic Focus: Primarily U.S.
- Position Stop Loss: Automatic review down 10%

Diversification – Weighting of each individual sub sector depends on the management teams confidence according to their thematic approach

Market Capitalization – Majority large/mid caps

Shorting – Independent profit centers and hedges

Hedging – limit volatility, insurance, reduce market risk
Organizational Structure

“Cycle-tested” Team With Demonstrated Performance

Paul Elliot, CFA
Founder & CEO

Daniel Tulis, CFA
Chief Investment Officer

James Elliot, CFA
Senior Portfolio Manager

William Maze
Strategist/Portfolio Manager

Mayra Santos
Operations/Client Relations

Paul Doran
Analyst/Trader

Marianne Spedale
Office Manager

Michael Stolzar, Esq
Outside Legal Counsel
Management Team

Energy Value-Chain Investing Veterans

Paul Elliot, CFA  Founder and CEO

• More than 30 Years of Research and Asset Management Experience
• Expertise in Energy Infrastructure, Electrical Equipment, Master Limited Partnerships (MLPs)
• Served as Senior Research Analyst, Portfolio Manager and Partner at Cowen & Co. for 20 years
• CFA Designation 1972

Daniel Tulis, CFA CIO

• More than 30 Years Research Experience
• First Research Analyst Covering Energy Master Limited Partnerships (MLPs)
• Headed the Electric Power, Natural Gas, MLP Research as Senior Managing Director at Banc of America, S. Barney & Shearson Lehman
• Ranked as an All Star for 10 years by Institutional Investor Magazine (#1 in 1994)
• Expertise in Electric and Natural Gas Utilities, Oil and Gas Exploration/Production, Energy Infrastructure, MLPs, Energy Technology, and Special Situations
• CFA Designation 1968

James Elliot, CFA  Portfolio Manager and Senior Analyst

• More than 10 Years Research and Portfolio Management Experience
• Cowen Asset Management, Portfolio Manager, Research Analyst, Trader
• Co-Managed a $1 Billion Large Cap Core Portfolio - Invested Sectors: Financial, Technology, Consumer Staples, Consumer Discretional, Health Care, etc.
• Expertise in Power Technology, Alternative Energy and MLPs,
• CFA Designation 1995

William Maze  Strategist and Portfolio Manager

• More than 18 Years Research and Portfolio Management Experience
• Co-Managed $1.7 Billion energy-infrastructure and utility portfolio for Ecofin Ltd. Headed Neuberger Berman’s Utility, MLP, Coal and Energy Technology research.
• Consistently recognized for his research, valuation and stock selection skills in leading institutional research polls and was ranked by The Wall Street Journal as the number-one stock picker in his sector
• Expertise in Power, Natural Gas and MLPs,

Paul Doran  Analyst, Trader, Risk Officer

• More than 7 years Research, Trading, and Risk Management Experience
• Expertise in Oil and Gas Exploration/Production, Energy Services, Energy Infrastructure, MLPs
• UBS Financial Services, Wealth Management
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