SANNING CAPITAL

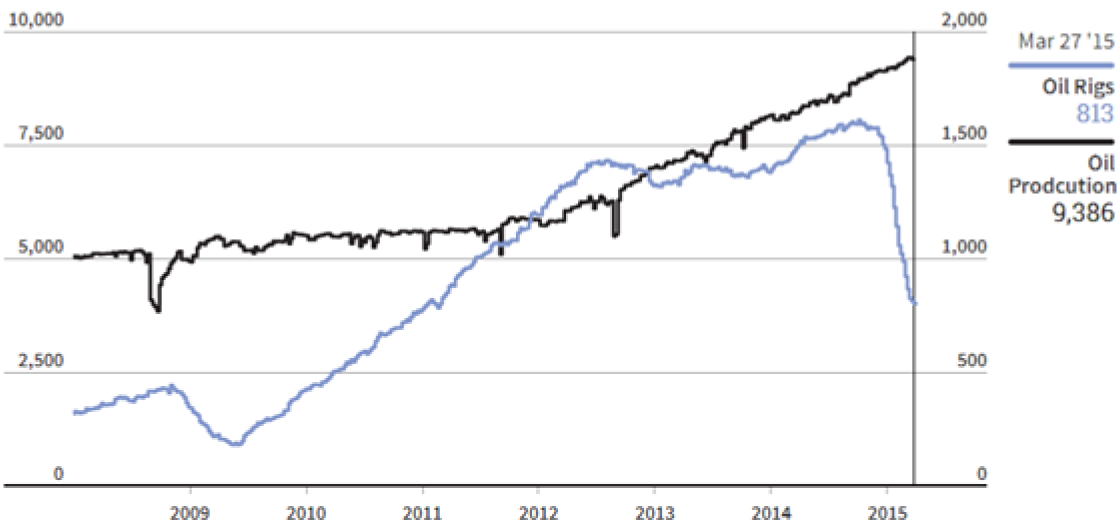
EFFICIENCY FUND

2015 March – Time to get into Oil?

Oil is now down more than 50% from 2014 high and we are thinking whether this is “once in a lifetime” opportunity or not. Will the oil price rebound? If yes, how do we play it? What are the risks of buying into oil right now?

Underlying reason for the fall is fundamental: there is a supply-demand gap of cca. 1 mil. b/d on the market which emerged progressively in the course of 2014 and is projected to stay for at least first half 2015. Seen from another angle, this surplus coincides with success of North American shale oil & gas (now pumping almost 10 mil. b/d) on one hand and only slowly increasing demand on the other.

While cash cost for the most oil producers are still way below today’s spot price, total all-in production costs per bbl imply that some marginal players above the cost curve will certainly fall off eventually. Currently, the most expensive producers on operating cash basis are those in Venezuela, Canada and Russia. Yet some impacts of the low price can be already seen in US, where supply reduction is already in play, as rig count dropped 50% from October peak of 1609 rigs. Producers started taking less efficient vertical and directional rigs out of service first, but in recent months they have also cut the more efficient horizontal rigs used most often in shale production. According to analysts from Reuters, rig count above 1000 operating rigs can keep the production steady; therefore current cca. 800 rigs inevitably translate into production shrinkage. However, US production continues to increase (see the graph below by Thomson Reuters).

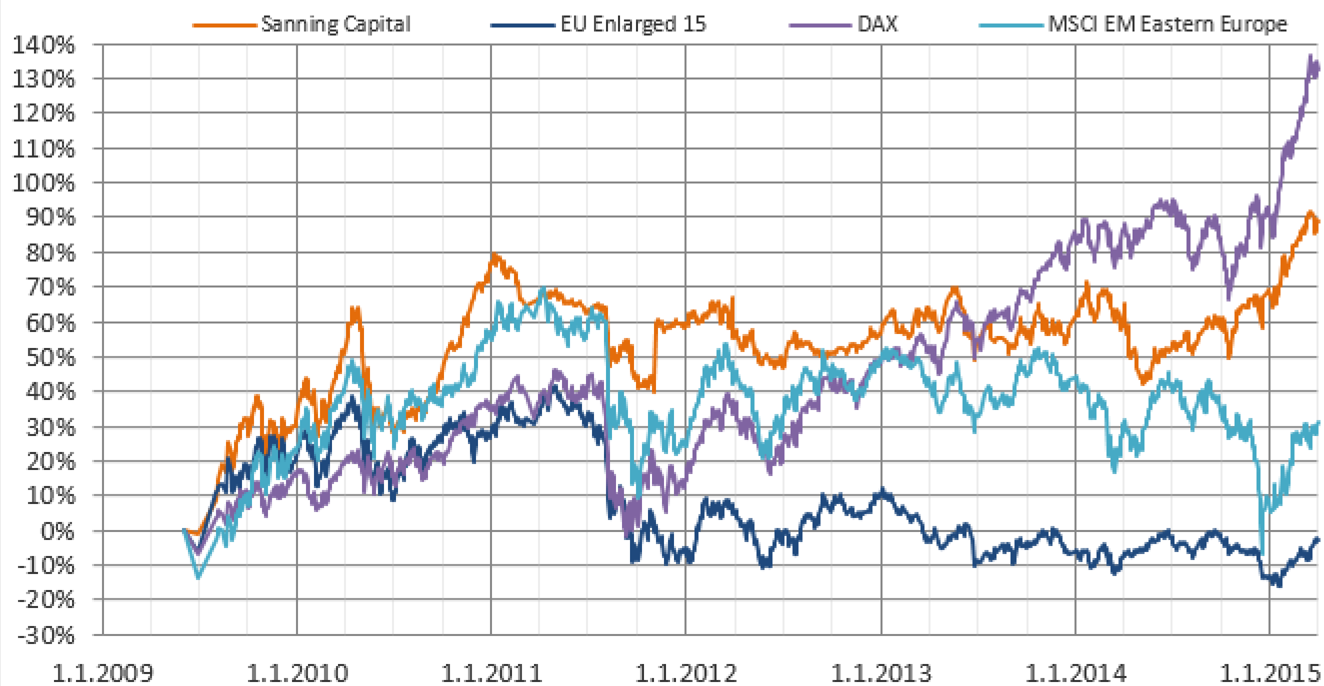


The coming hardship of US oil & gas is already visible in credit market: junk bond yields have risen, banks started revisiting their loan portfolios and some won’t be rolled over. Unproductive wells on a full cycle cost basis will be closed soon due to the fast declining production rate of US shale production (70% decline in the initial year).

The message is that supply won't rise forever and demand is unlikely to drop off soon. It may be in US, it may be in Venezuela, it may be in Canada: the less efficient wells will be shut off or postponed and price will eventually aim higher. Not so much if, but when is the question. Next time we will revisit this topic by identifying best way to play this and associated risks.

This month we added +**1.8%** to our NAV. Our benchmarks: **S&P 500** (-1.7%), **NASDAQ** (-1.3%), **DAX** (+5.0%), **EU Enlarged** (+2.8%) and **MSCI EM Eastern Europe** (+2.7%).

Fund vs. Indices



Fund Manager
Jan Pravda
Launch Date
2.6.09
Location
Prague
Fund Currency
EUR
Share Price
€ 1 886.35
Performance Fee
20 % HWM
Management Fee
2% p.a.

Cumulative Performance

Period	Sanning[1]	EU Enlarged[2]	MSCI EM EU[2]	DAX	S&P 500	Nasdaq
1 month	1.8%	2.8%	2.7%	5.0%	-1.7%	-1.3%
3 months	12.4%	12.3%	24.7%	22.0%	0.4%	3.5%
12 months	17.9%	4.9%	0.6%	25.2%	10.4%	16.7%
3 years	20.9%	-7.5%	-8.5%	72.3%	46.8%	58.5%
5 years	24.9%	-26.2%	-6.7%	94.5%	76.8%	104.4%
Since inception (2.6.2009)	**88.6%**	-2.6%	31.3%	132.6%	118.9%	166.8%

Further Characteristics

Beta relative to:		Volatility [3]	**18.4%**
EU Enlarged 15	**0.29**	Alpha (vs EU15)	**0.12**
DAX	**0.21**	Sharpe ratio	**0.64**

(1) Net off management fees, gross off performance fees

(2) These two indeces presented only to illustrate performance in 2009-2014, when focused on Central Eastern Europe

(3) Annualized standard deviation since inception

SANNING CAPITAL LIMITED is an opportunity fund based on fundamental research focused on investments into publicly traded companies providing global improvements of eifficiency and/or reduction of consumption of energy, capital and time. It is funded by the managers' own capital and several private investors.

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