

energising your portfolio

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Rising energy prices are often seen as bad news. But not if you look at them as investment opportunities, says **Ruairidh Stewart**, co-manager of the Martin Currie Global Energy Fund.



Booms, busts, gluts, shortages – nothing lasts forever. And low energy prices are no exception. In a bid to support prices, OPEC has cut production three times since last September. It seems to be working. The price of oil has risen sharply from its December nadir (\$33 per barrel), and at the time of writing is trading at over \$70 per barrel.

Will these rises continue? At Martin Currie, we're not in the business of forecasting commodity prices one month, six months or even a year from now. Trying to forecast energy prices is a mug's game: many try, most fail.

What we do know, however, is that a raft of projects to expand energy production were cancelled late last year, when oil and gas prices were low. Numerous producers slashed capital expenditure. As a result, declining output from mature fields has not been replaced by new capacity coming on-stream. Total production capacity has fallen. And, just as capacity has fallen, optimism about the global economy has returned, driving renewed demand for energy. The consequences have been predictable; the laws of supply and demand are inescapable.

As consumers, we all suffer when energy prices rise. As investors, however, we have the opportunity to profit. But rather than investing directly in barrels of oil, it is our belief that investing in the shares of energy

companies offers a more flexible and potentially profitable approach. Furthermore, that approach need not depend on rising oil prices to drive returns. We've been running the award-winning Martin Currie Global Resources Fund, which is part of our Luxembourg fund range, for three and a half years. Over that time, we've seen the price of oil rise, fall and rise again. No matter what direction energy prices have taken, however, we've always been able to generate strong returns in the energy sector. The Martin Currie Global Energy Fund gives investors a fund focused on the opportunities the energy sector presents. It is our experience that even when energy prices are falling, understanding the complex web of relationships that links the global energy industry will allow us to generate outstanding returns.

opportunity to profit

There is an assumption that publicly available information is always factored into share prices quickly and efficiently. But while efficient markets are nice in theory, they rarely exist in practice. For example, one company whose potential we believe many investors have overlooked is Australia Worldwide Exploration (AWE). Because of its low levels of exposure to two fashionable 'themes' in the energy sector at the moment – liquefied natural gas and coal-seam gas – it has been somewhat overlooked and its share price has lagged

some of its Australian peers. Our analysis, however, suggests that with a highly promising exploration programme due to begin in the summer, it has the potential to enjoy significant upside. Crucially, while that upside will be enhanced by further rises in energy prices, it is not dependent on them.

diverse universe

AWE is just one of many first-rate stocks our six-strong team is finding in the global energy sector. It's a diverse and liquid universe that extends well beyond primary energy producers to include downstream processing, service providers, engineers and shippers, as well as parallel value chains in alternative energy. By examining the global connections between these subsectors, specialists can exploit inefficiencies that the wider market can be slow to recognise. We repeatedly find instances where valuable information is either ignored or interpreted in a different way across sectors and regions.

These inefficiencies, of course, won't be around for long. At the moment, however, energy stocks are cheap and investors have an excellent opportunity to profit. But hurry – nothing lasts forever. ●

The Martin Currie Global Energy Fund is now available through Skandia's Selestia Investment Solutions platform.

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