Investec Asset Management

The Outlook for Global Energy
Aberdeen Energy Symposium

Tom Nelson, Portfolio Manager, Global Energy Fund
Head of Commodities & Resources

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Investec
Asset Management

Investec Commodities & Resources

Investment team

Investment Specialists

Financial Experience	Industrial Experience
accenture	bhpbilliton
BNY MELLON ASSET MANAGEMENT	bp
MACQUARIE	xstrata
HARGREAVES LANSDOWN	Brit Oil
KBC	British Steel
GUINNESS ASSET MANAGEMENT LTD	ARCO
	AngloAmerican
	CRU THE INDEPENDENT AUTHORITY™ MINING | METALS | FERTILIZERS

Diverse mix of industrial and financial experience; Average of 15 years' experience

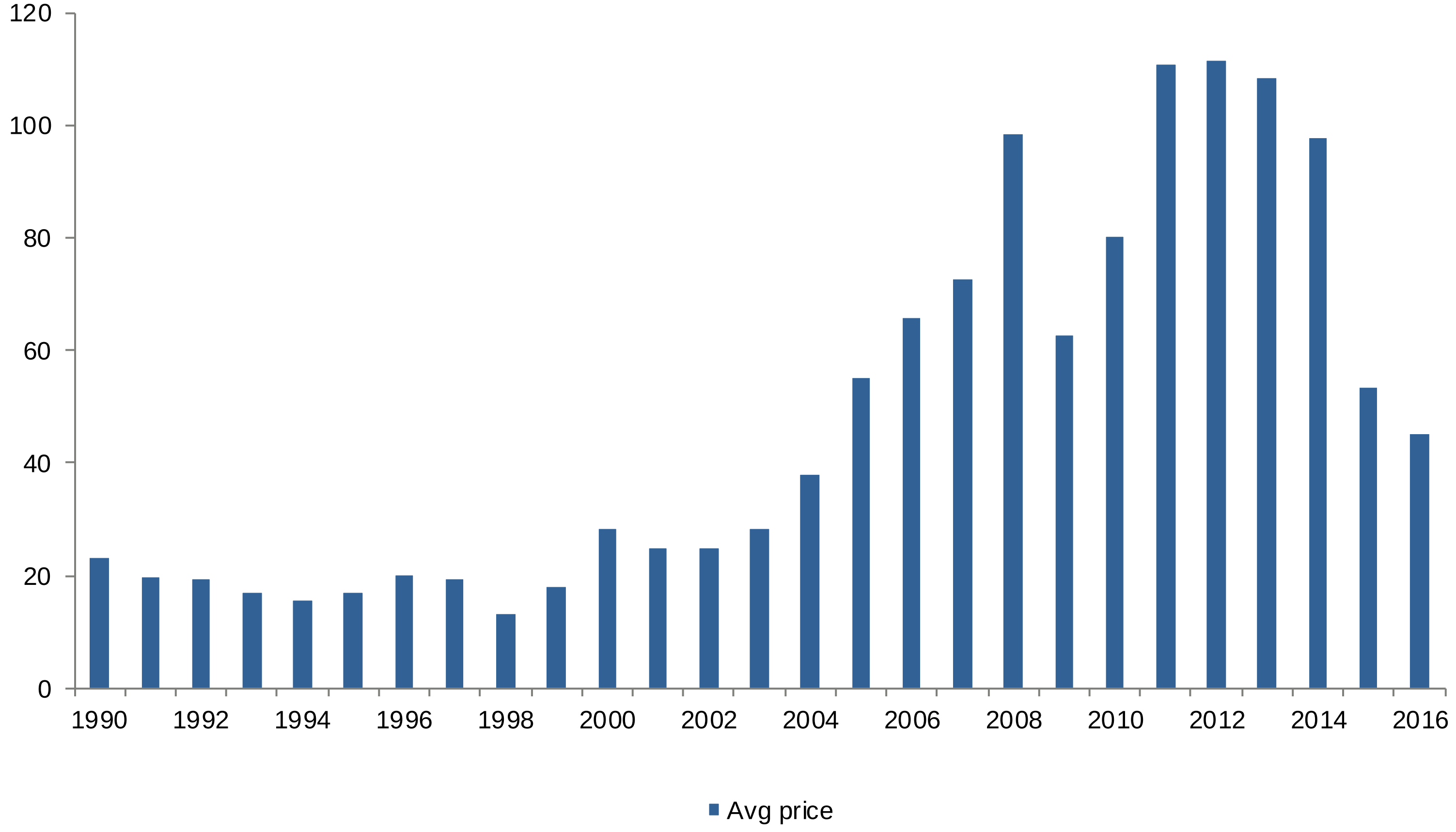
Source: Investec Asset Management, February 2017.

Oil market fundamentals

How did we get here?

Average global oil price

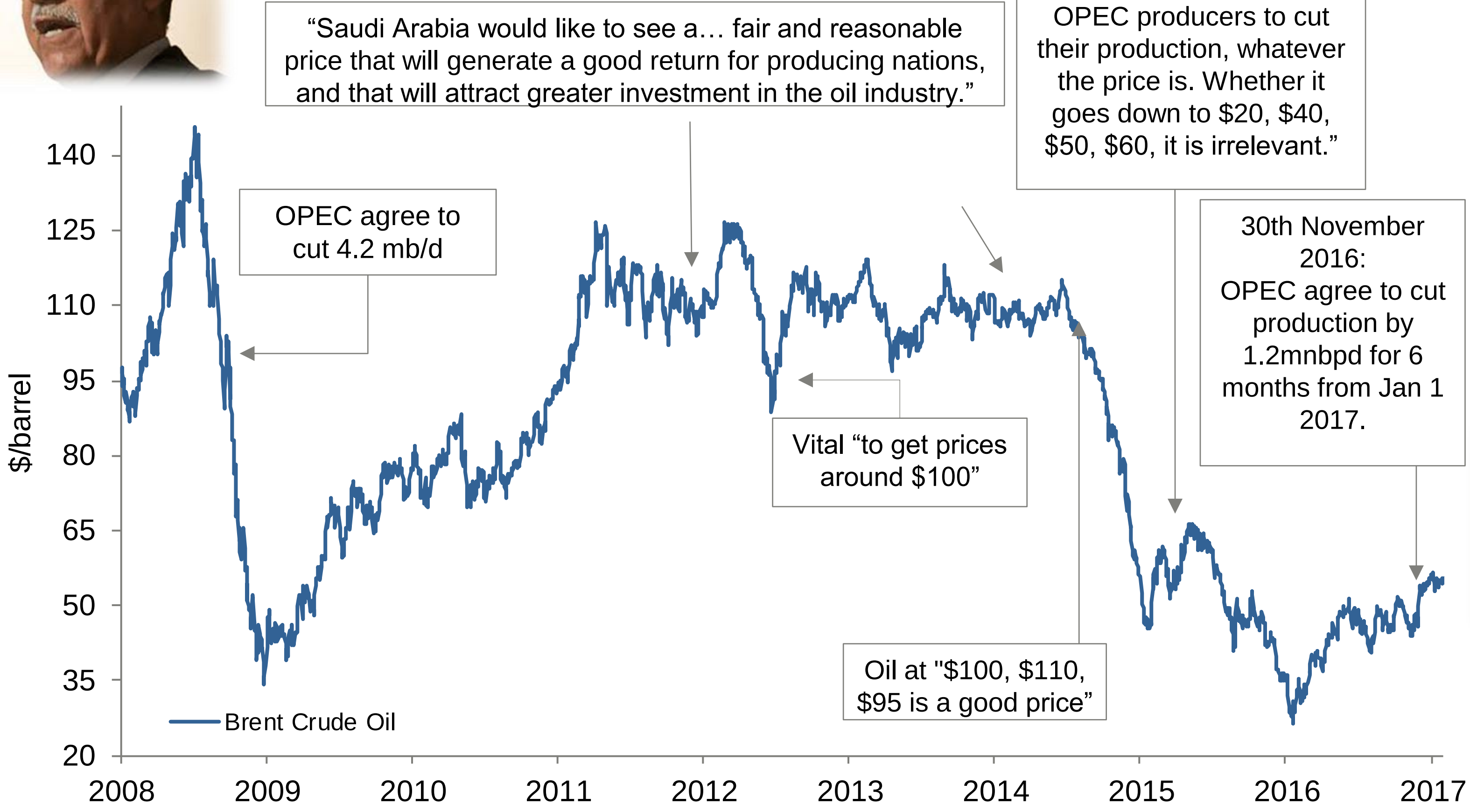
Average Brent Price



Source: Bloomberg 31st January 2017.

Recent history of the oil price

Double change in OPEC policy blindsides the market



Prince Mohammed bin Salman April 2016: Vision 2030, and Saudi Arabia’s plan for IPO of Aramco

Source: Bloomberg, Brent Crude Oil Price, from 1 January 2008 to 31 January 2017.

OPEC – Nov 2016 meeting confirmed strategy reversal

- OPEC’s November 2014 decision to protect market share resulted in oil market crash

- Oil market crash had dramatic consequences: industry investment collapsed, US shale production went into reverse, Oil exporters’ GDP plummeted

- Consequent pressure from within OPEC, Saudi ‘Vision 2030’ ambition and continuing Russian crisis led to change of OPEC strategy, and non-OPEC sharing the cuts

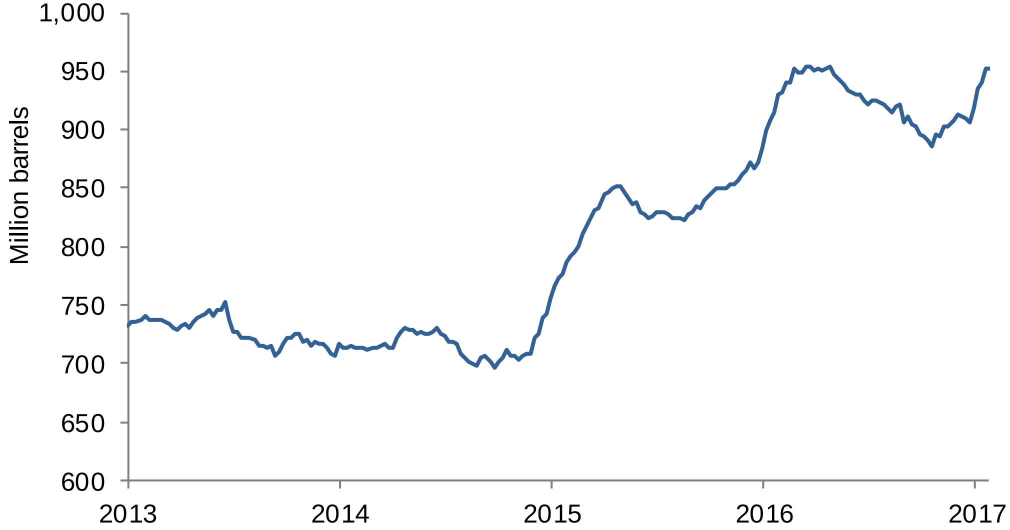
- Target cuts from 1 January 2017 are sufficient for global inventories to correct in H1 2017, with moderate compliance. Cuts are 1.2m b/day from OPEC and 0.6m b/day Non-OPEC

- Current cuts are for 6-month period, with intention to extend if necessary

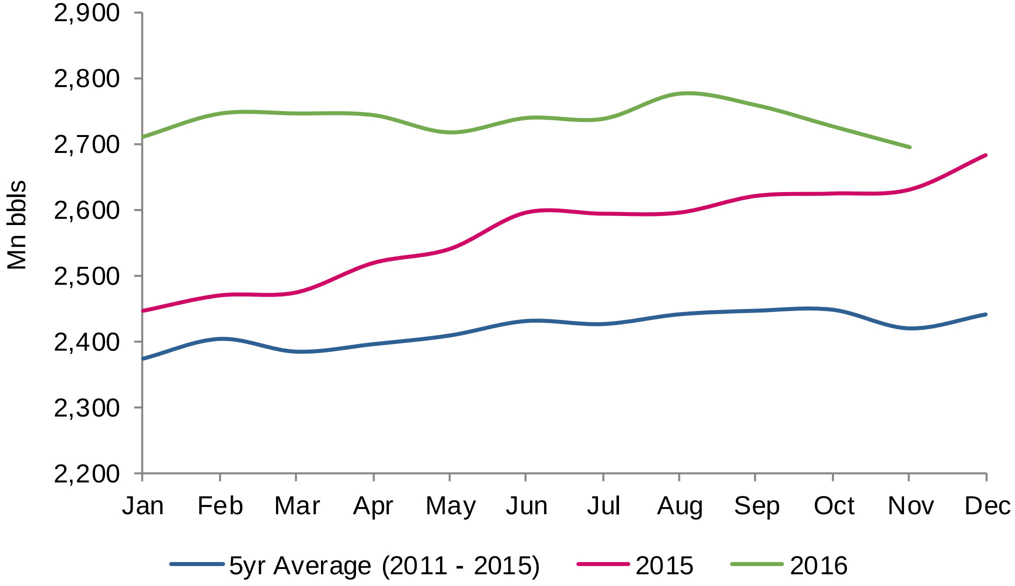
Inventory levels remain elevated

We believe inventories need to fall for sustained oil price recovery

Total US crude and product stocks*



Total OECD crude and product stocks



- US inventories still a long way above the 5-year average
- OECD oil inventory levels are approximately 300m barrels above 5-year average (12%)

OPEC: “vital that stock levels are drawn down to normal levels”

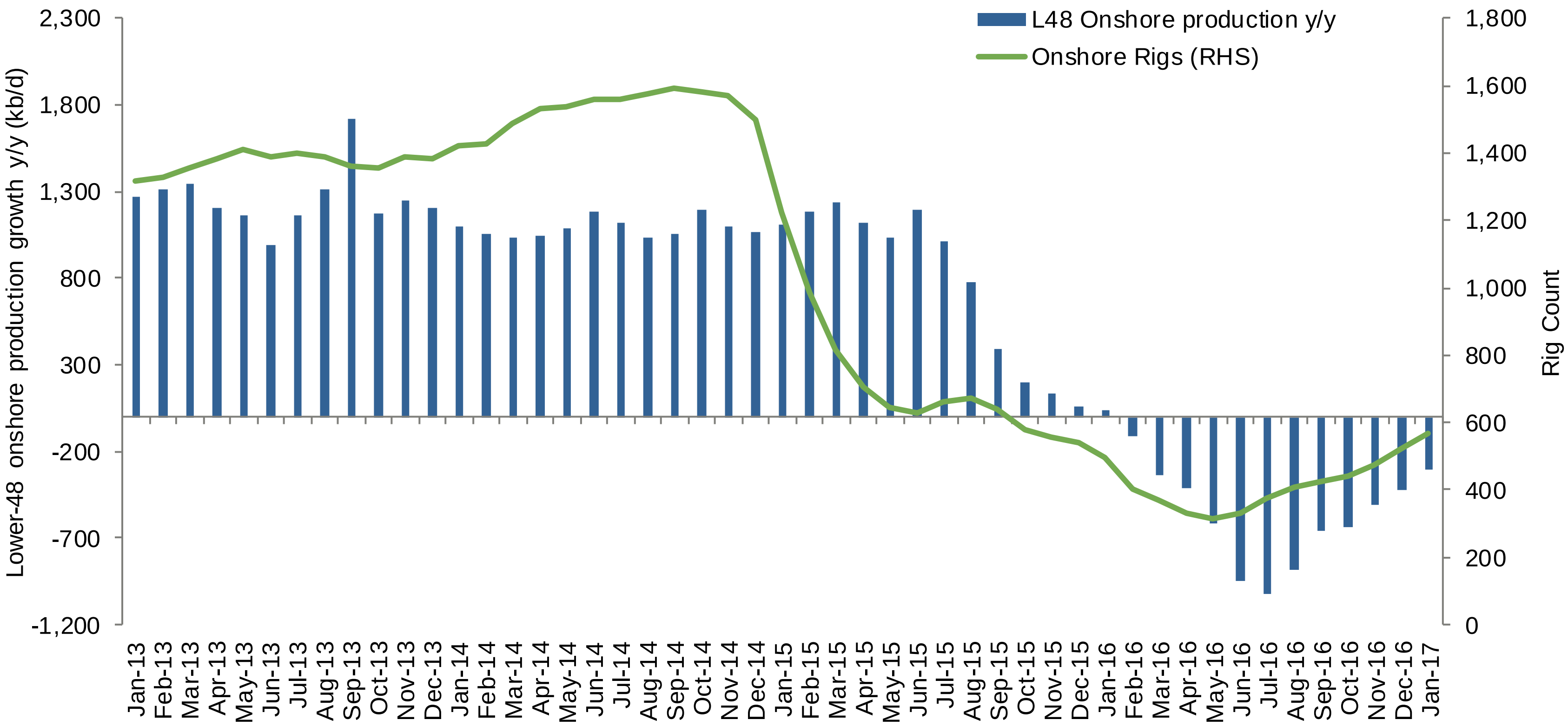
Source: IEA, 31 January 2017. *excludes chemical feedstocks. Time period selected for contextual and illustrative reasons.
For further information on investment process, please see the Important Information section.

Oil market fundamentals

Supply, demand and US shale economics

US onshore crude production

OPEC strategy worked; but shale is coming back

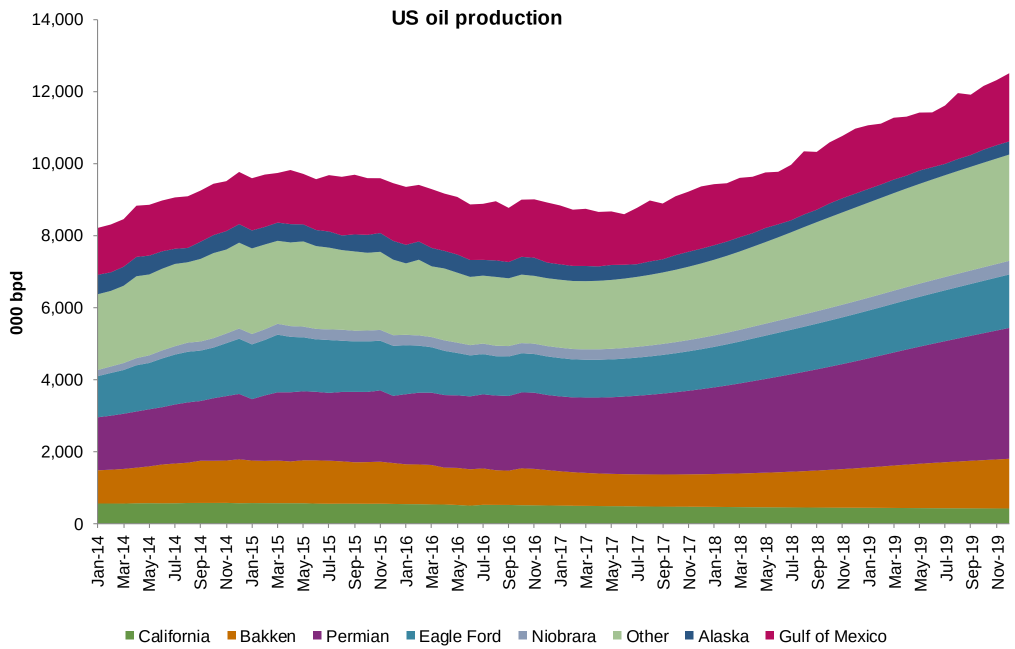


- Production fell 1.4 mb/d from peak
- Increase in rig count needed to reverse declines

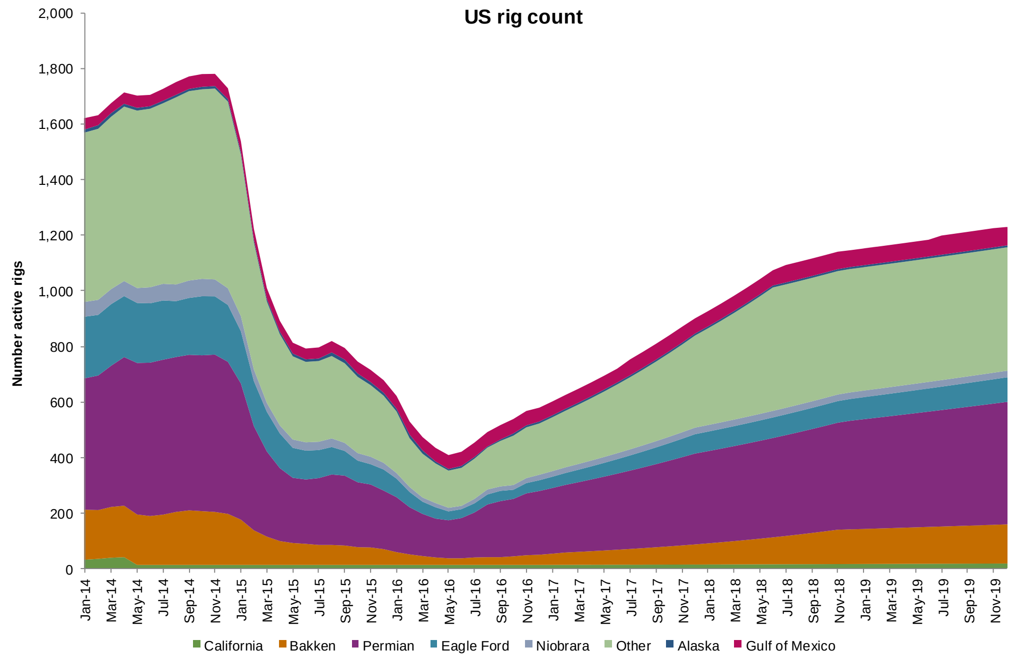
Source: Bloomberg, Investec Asset Management, 31 January 2017. Time period selected for contextual and illustrative reasons.
For further information on investment process, please see the Important Information section.

US onshore basin by basin analysis

Investec Asset Management model (base case)



- Require at least 250 additional rigs from end 2016 to generate +1mnbpd growth
- Forecast 493 additional rigs from trough to end 2017



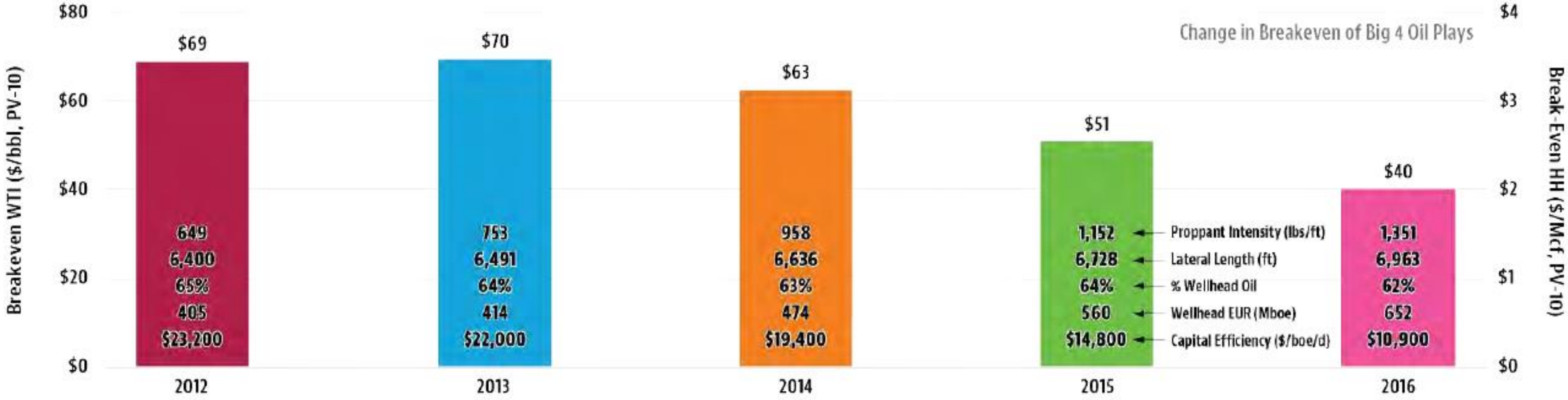
- Peak to trough production decline: -1.1mb/d
- US production average YoY change:
  - 2016: -592 kb/d
  - 2017: -179 kb/d
  - 2018: +1,173 kb/d

Source: Investec Asset Management, January 2017. Forecasts are inherently limited and should not be relied upon as an indicator of future performance.
Time period selected for contextual and illustrative reasons. This slide is updated periodically as our assumptions change. For further information on investment process, please see the Important Information section.

Dramatic change in break even costs

NB This is the Big 4 plays (Delaware, Midland,Bakken, Eagle Ford)

Change in breakeven by year

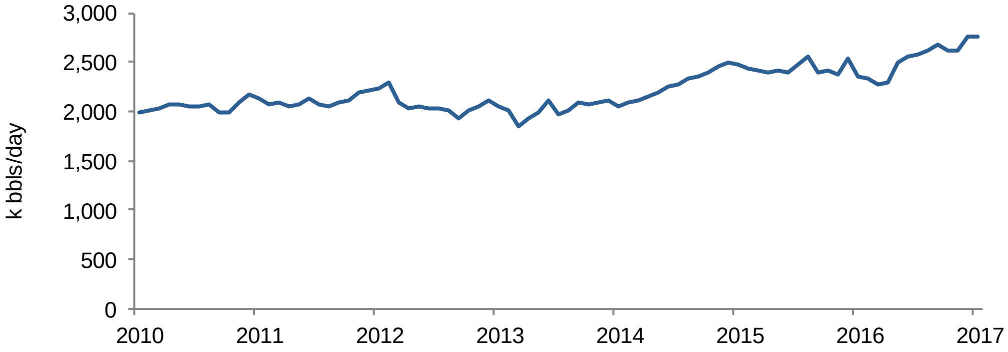


We believe US onshore service costs will rise significantly in 2017

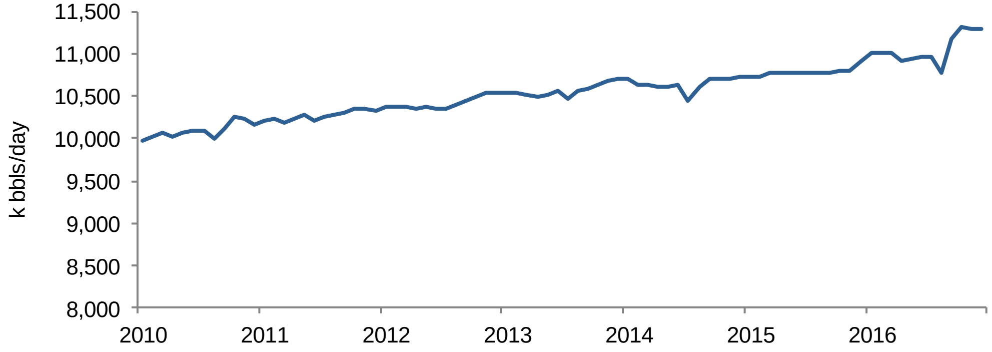
Source: RSEG, December 2016.

Non OPEC ex-US production

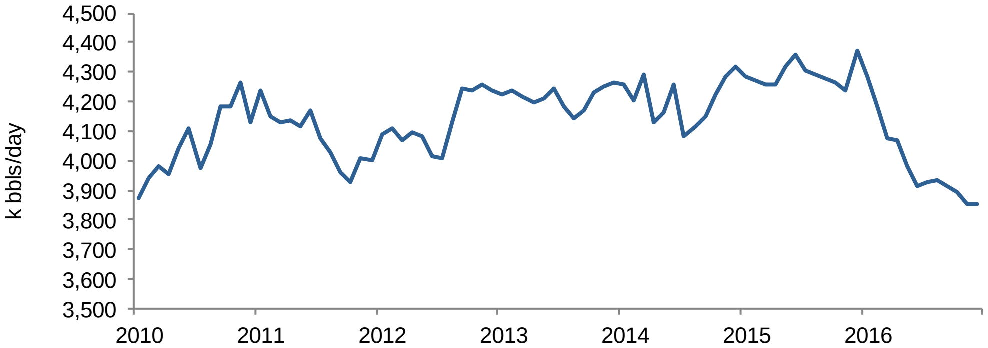
Brazil



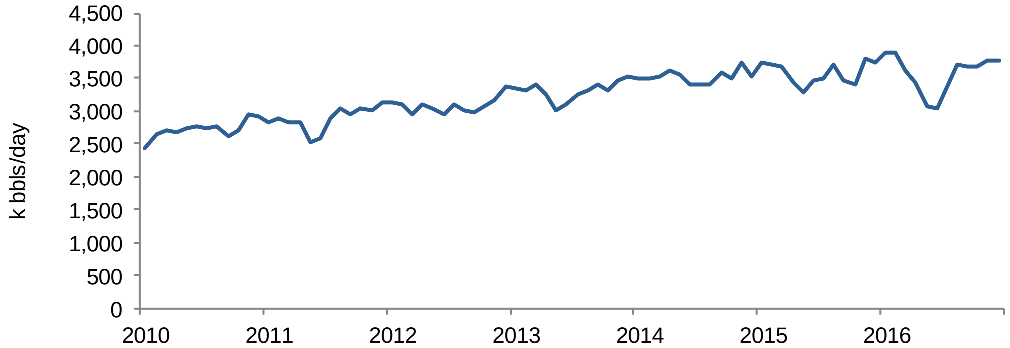
Russia production



China production



Canada production



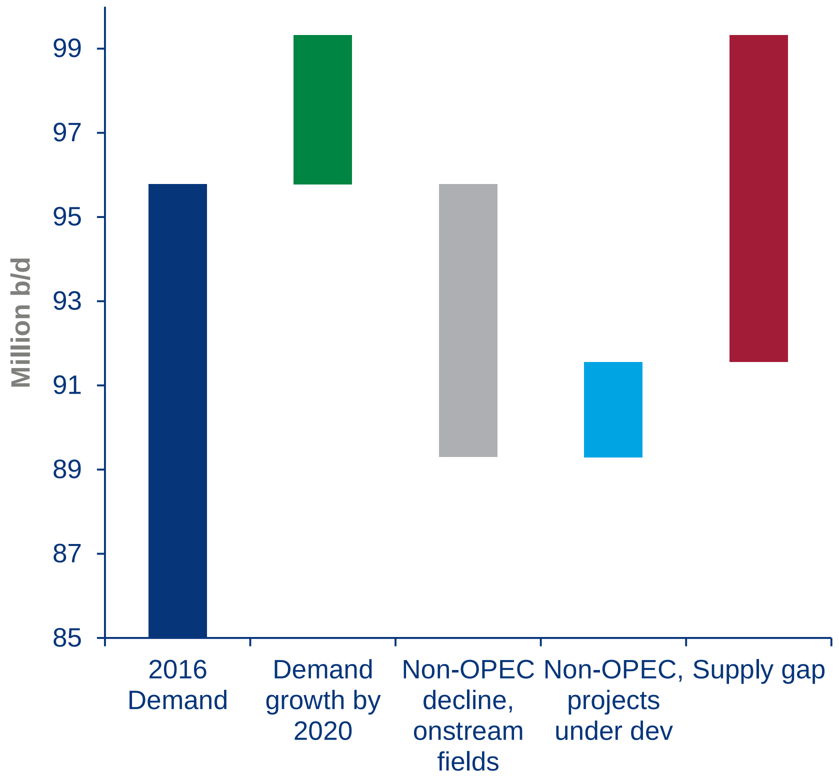
Production resilient so far, but China falling fast

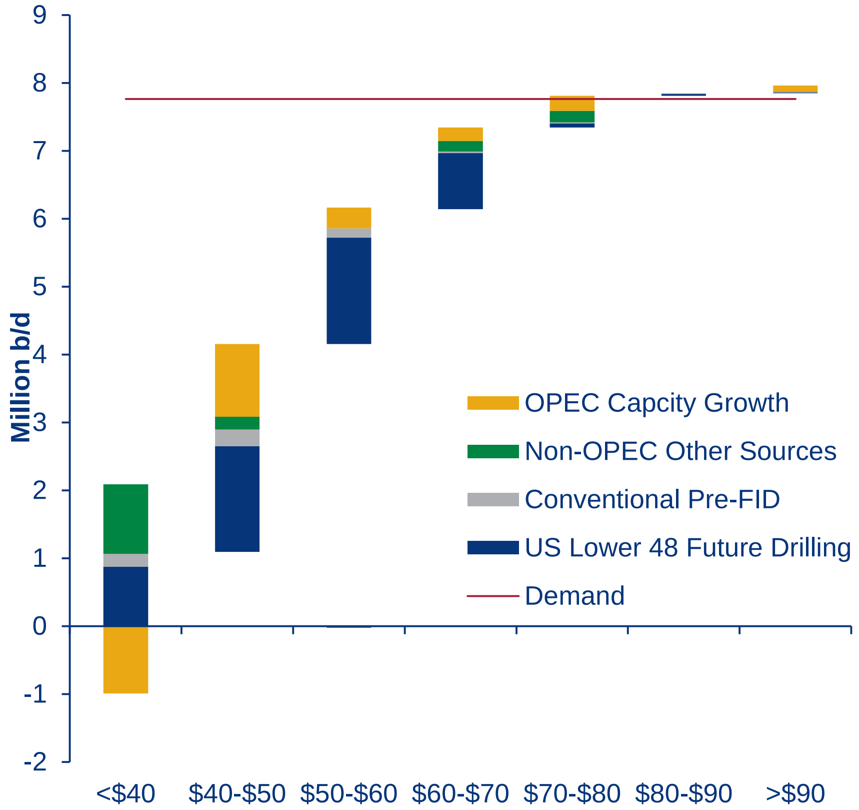
Source: Bloomberg, 31 January 2017.

8 million b/d of new supply is required by 2020

Wood Mackenzie study shows oil prices need to rise to fill the gap

Supply gap – 2016 to 2020, million bpd

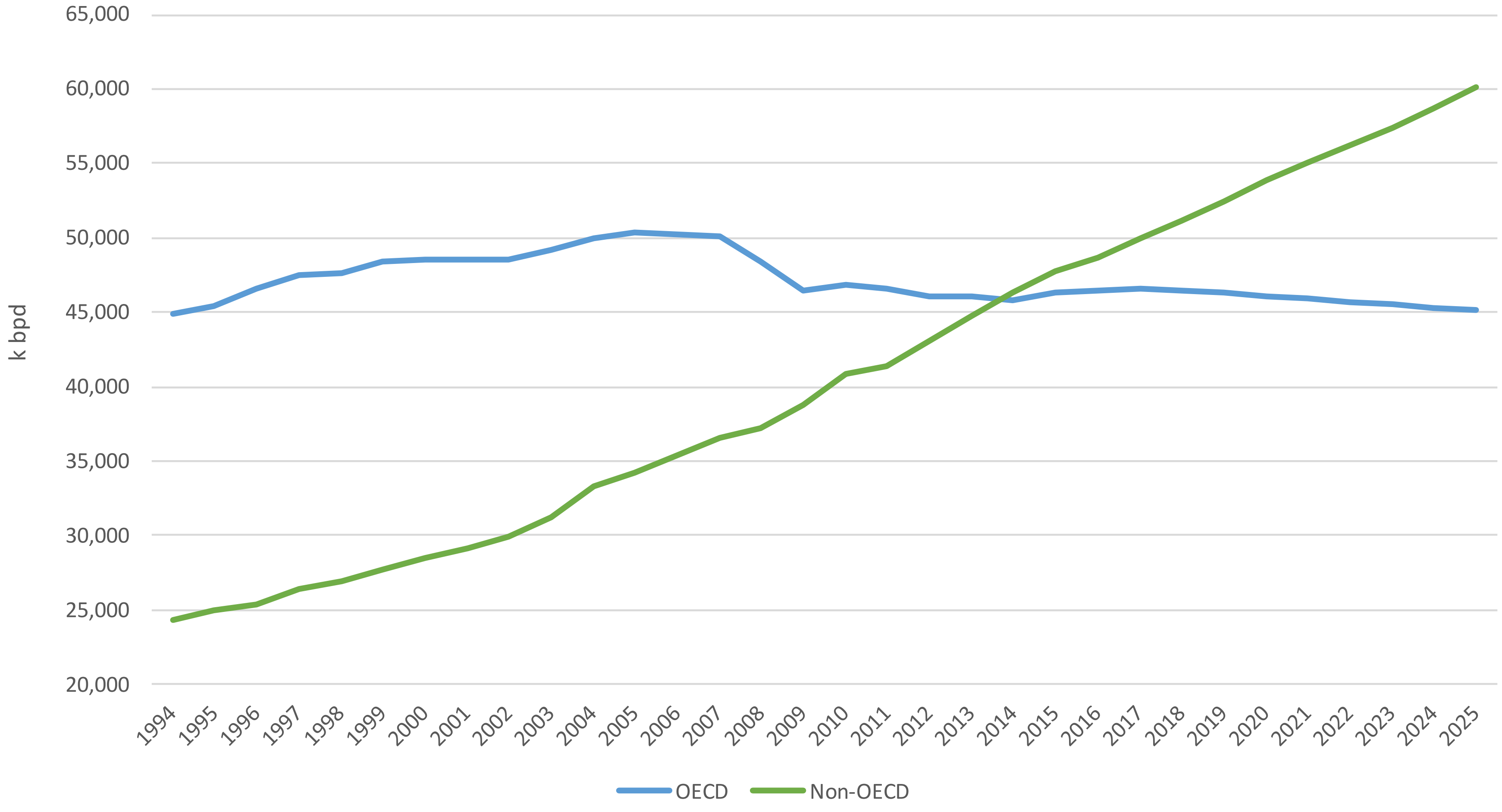




Source: Wood Mackenzie, January 2017. Point forward Breakevens, Onshore at 10% discount rate offshore at 15%. Forecasts are inherently limited and should not be relied upon as an indicator of future performance. For further information on investment process, please see the Important Information section.

Global oil demand

Non-OECD driving global oil demand

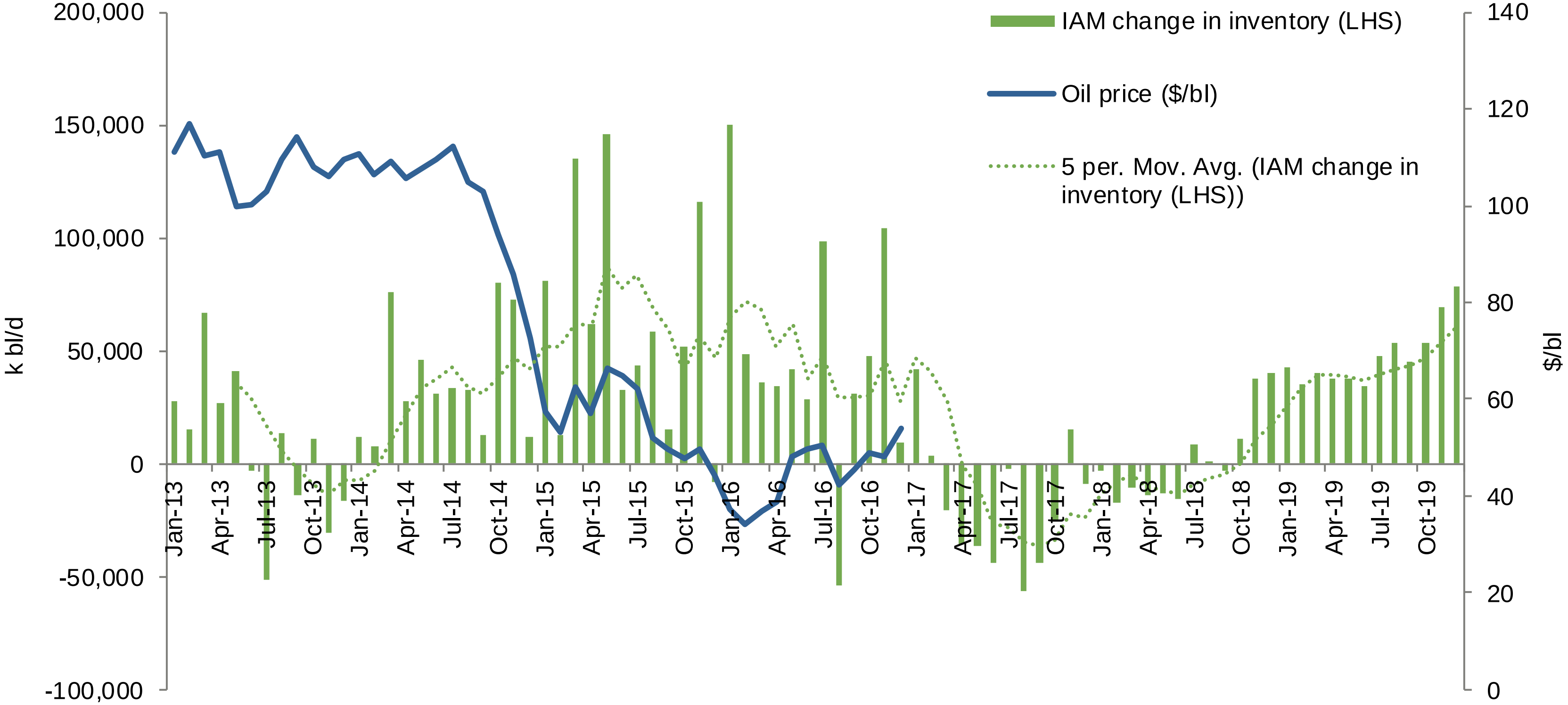


Global oil demand growth since 1994: + 1.3% p.a.

Source: IAM January 2017

Oil price vs global inventories

Strong inverse relationship



Inventory draws should drive oil prices towards marginal cost in 2017

Source: Investec Asset Management and Bloomberg, January 2017.

The outlook for companies

Corporate strategies: value over volume

- In the last cycle oil companies chased production growth, leading to:
  - Escalating costs, poor project delivery, and weak exploration performance
  - Deteriorating returns, even with significantly higher oil prices

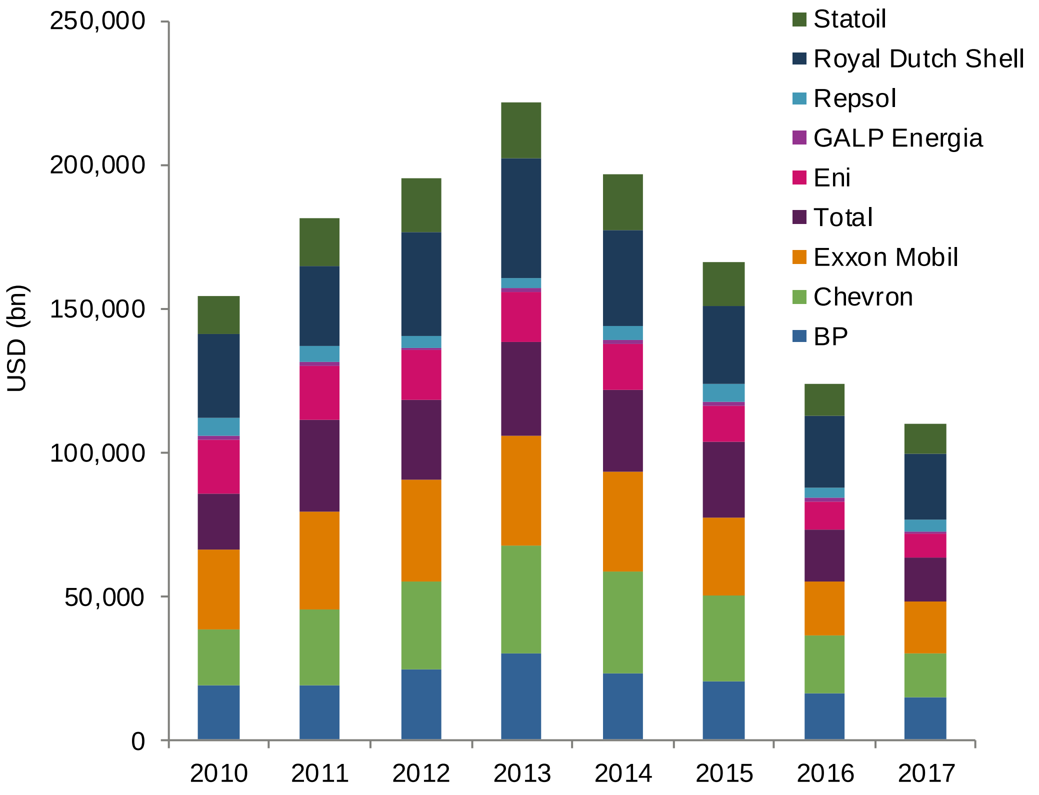
- The industry needed to reset priorities and behaviours, irrespective of the cycle. The deepest down-cycle for 30 years has provided the opportunity.

- A focus on ‘returns at the expense of growth’ should improve Return on Capital Employed, dividend payouts and total shareholder return over the next cycle

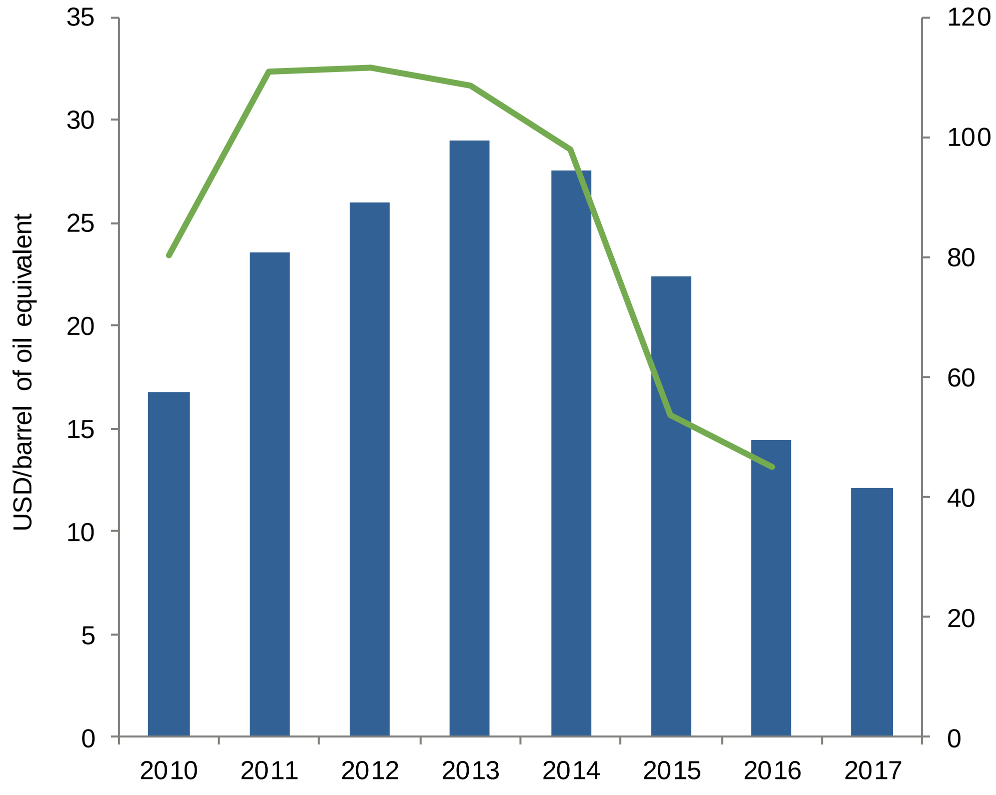
We expect improved corporate and equity performance through this cycle

Capex down >50% since 2013

'Big Oil' Capex by company 2010 - 2017

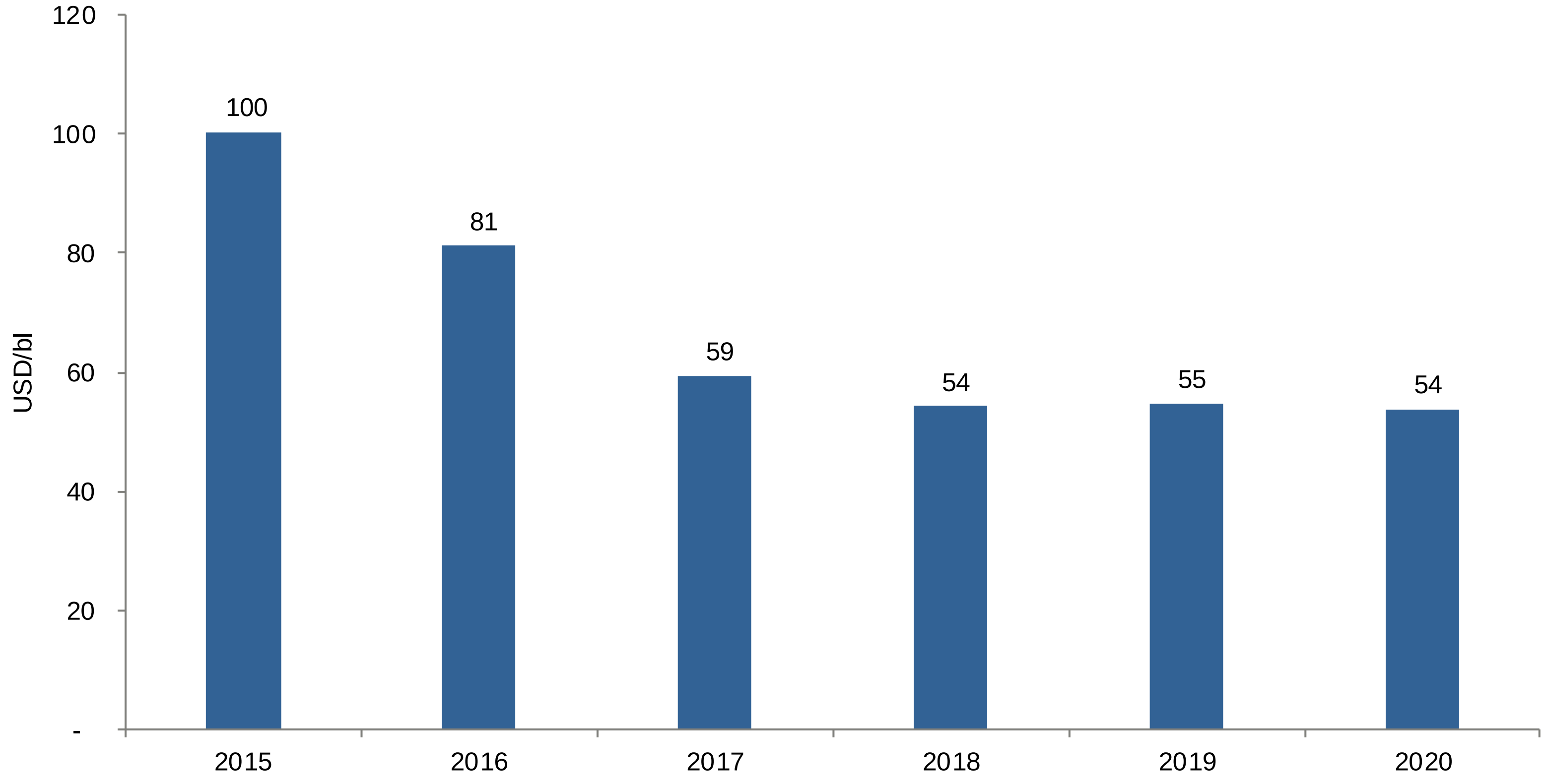


'Big Oil' upstream capital intensity vs. Brent



Source: Exane, January 2017. 'Big Oil' includes BP, Chevron, Eni, Exxon Mobil, GALP Energia, Repsol, Royal Dutch Shell, Statoil, Total.
Forecasts are inherently limited and are not a reliable indicator of future performance.

Cash breakeven price for Oil Majors



Source: Exane, January 2017. 'Big Oil' includes BP, Chevron, Eni, Exxon Mobil, GALP Energia, Repsol, Royal Dutch Shell, Statoil, Total.
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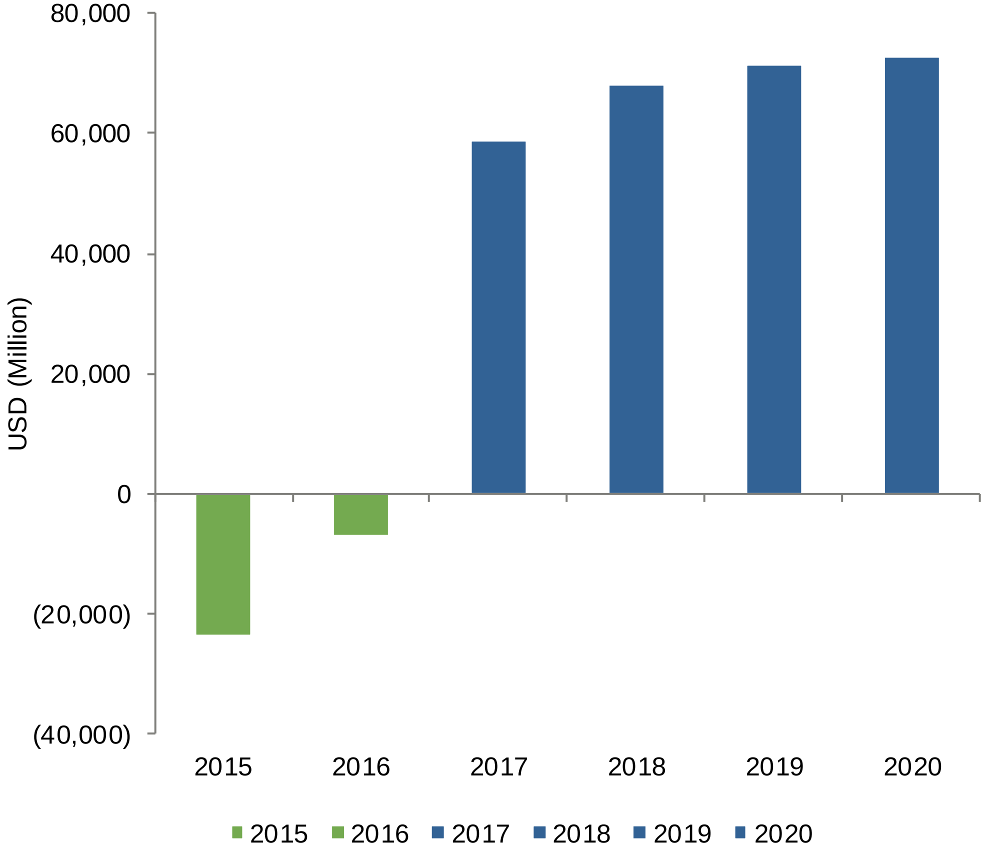
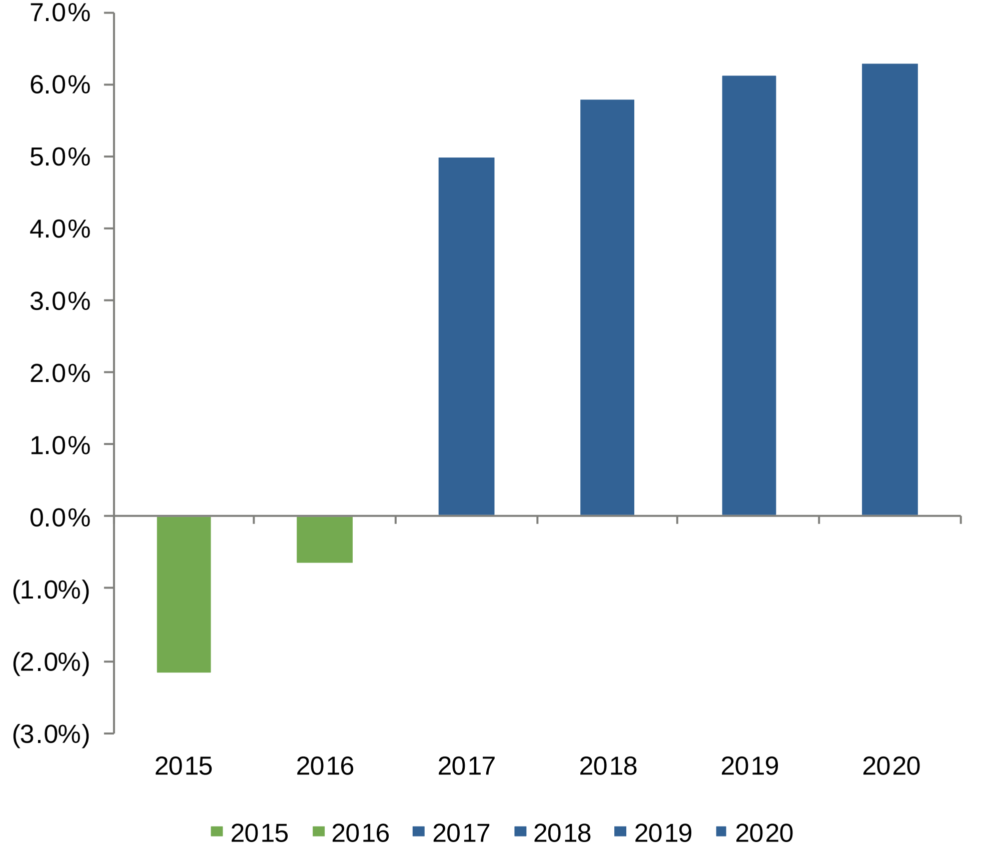
Cash-flow inflection point in 2017

'Big Oil' – Organic FCF



'Big Oil' – Organic FCF yield



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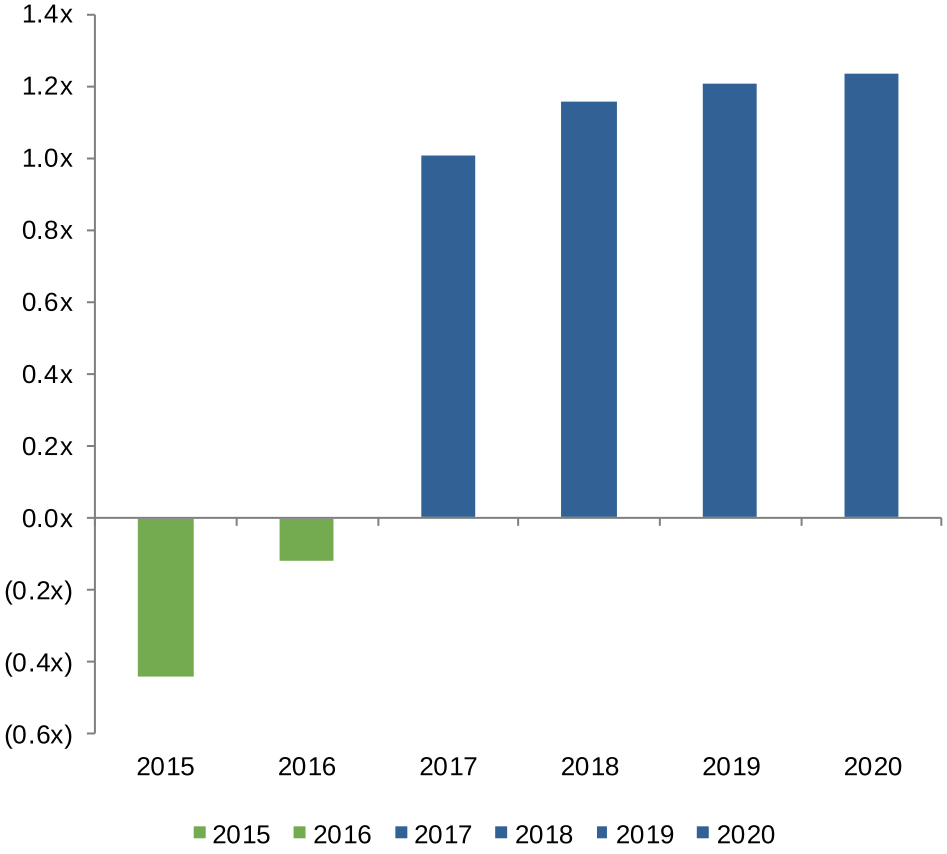
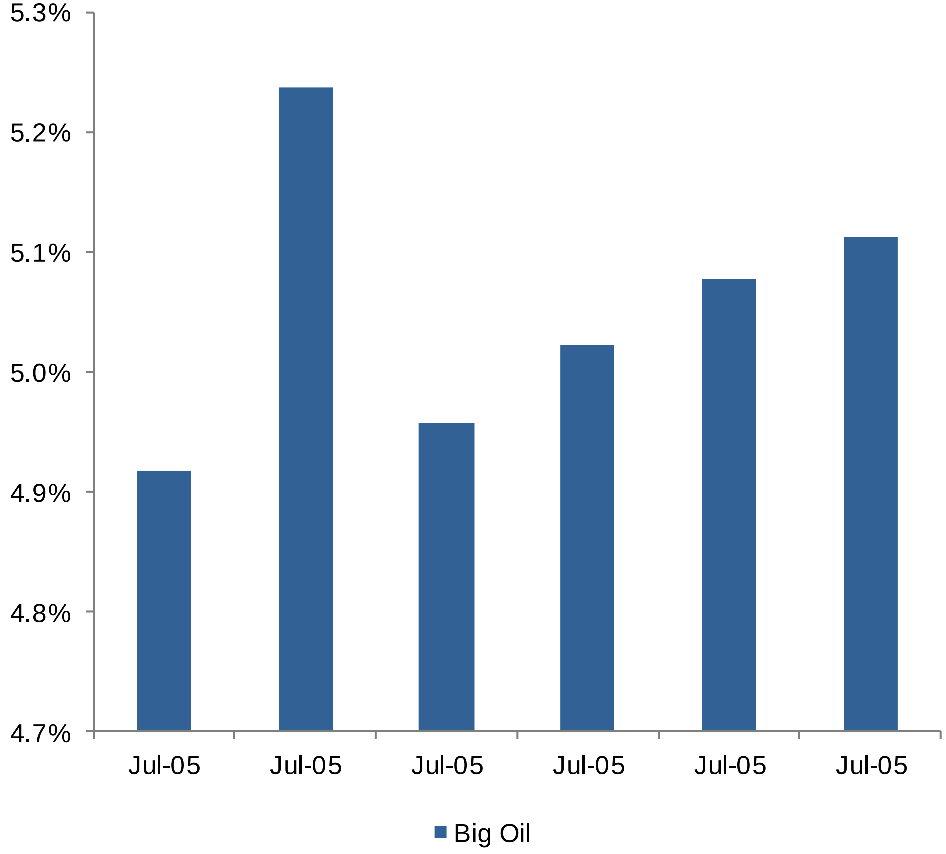
Dividends covered in 2017

'Big Oil' – Dividend cover by organic FCF



'Big Oil' – Dividend yield (%)



Source: Exane, January 2017. 'Big Oil' includes BP, Chevron, Eni, Exxon Mobil, GALP Energia, Repsol, Royal Dutch Shell, Statoil, Total
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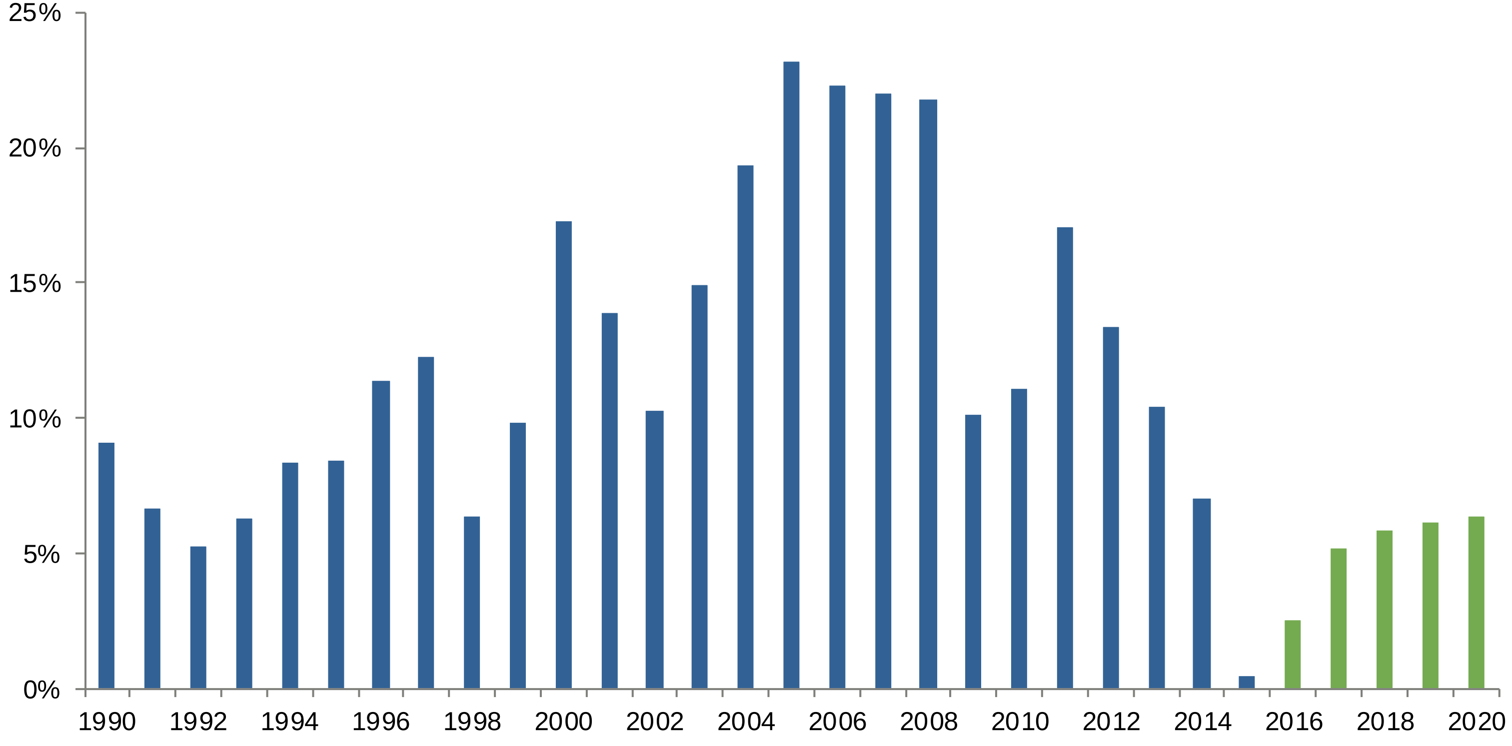
Significant change in ROCE over time



Change in ROCE drives outperformance

Source: 1990 – 2015, Bloomberg. 2016 – 2020 Forecasts, Exane, January 2017. 'Big Oil' includes BP, Chevron, Eni, Exxon Mobil, GALP Energia, Repsol, Royal Dutch Shell, Statoil, Total
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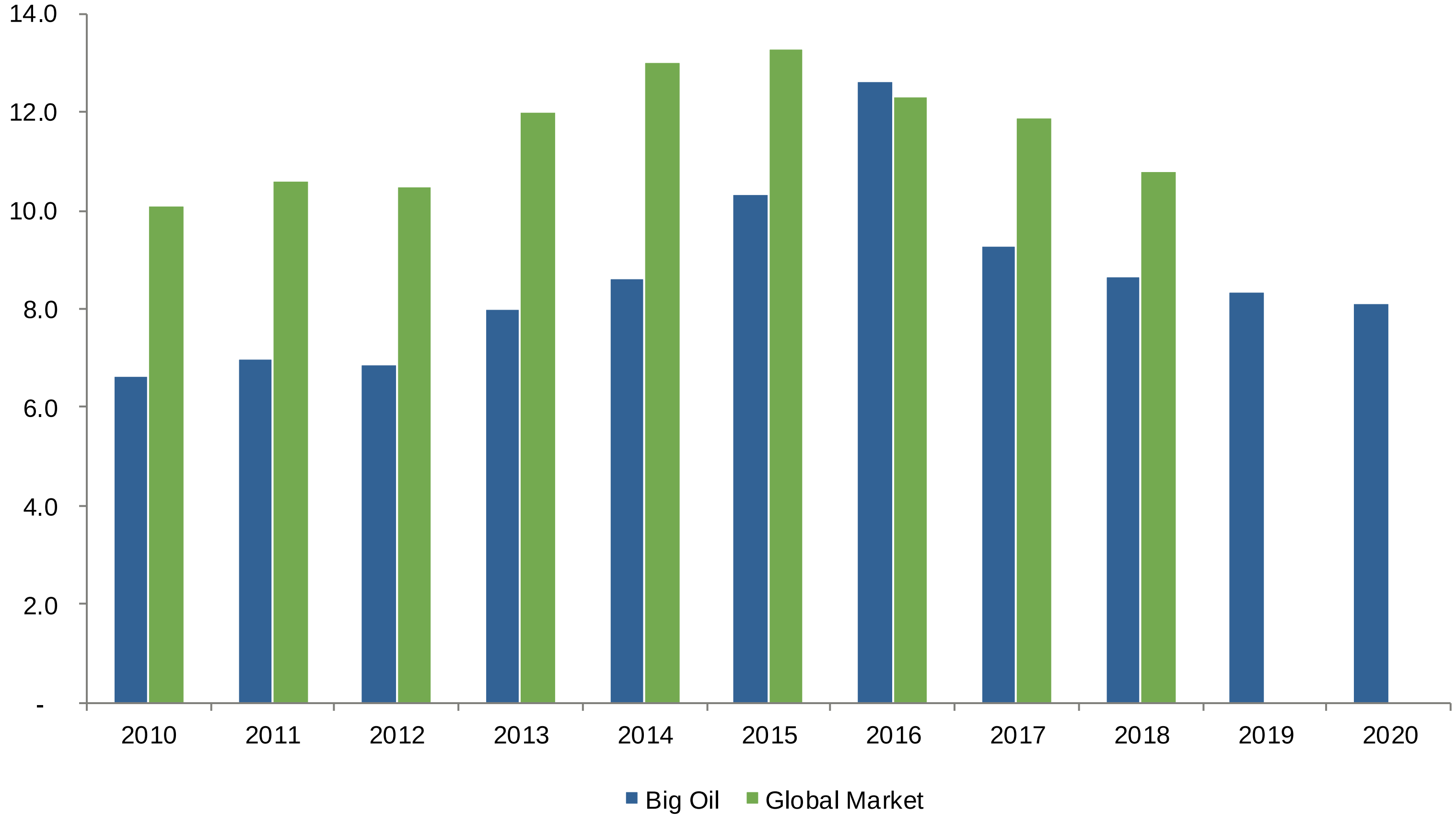
Valuation – EV/DACF



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Thank you

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