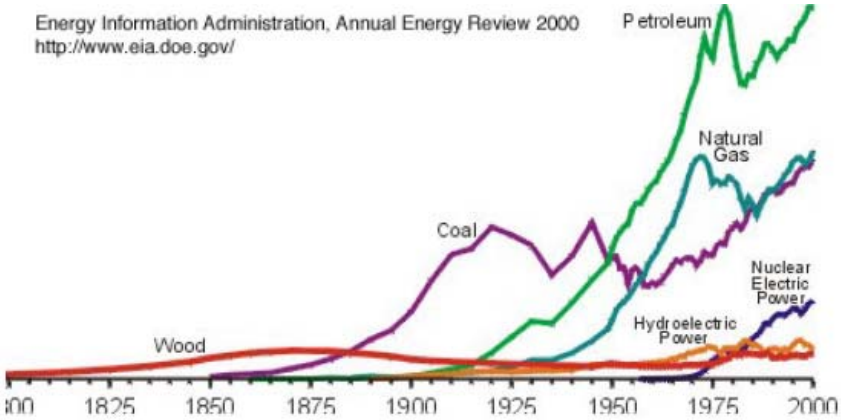
Energy/Alternate Energy Theme

Background

The world's dependence on fossil fuel, combined with the deterioration in our capacity to produce oil and gas, is ushering in an age in which alternate energy sources will be crucial. Respected oil industry analysts expect the price of crude oil to be $180 per barrel in 2015, and over $300 per barrel by 2020. The reality of this economic shift will affect our sources of energy, the cities we live in, the cars we drive – indeed, virtually every aspect of our lives.

Key Market Statistics:

- The peak in oil production is expected to occur in 2010.
- Existing oil reserves of major oil companies will run out between 2010 and 2015.
- Coal represents 56% of U.S. power generation. In addition, the U.S. has approximately 150 years of coal reserves.
- The worldwide market for alternate energy is expanding at a rate of 25% per year. About $30 billion was spent on renewable energy sources in 2005.
- The U.S. averages 26 barrel of oil per person per year in consumption; China averages 1 ½ barrels. A small increase in China's consumption will result in huge supply imbalances.
- Private industry produces only 23% of world oil supply. 77% is produced by largely unstable, unpredictable state-owned oil companies.



Investment Opportunities:

- Fossil Fuel
- Alternate Energy Producers

Fraser Management's Investments:

- Fossil Fuel:
  With increasing demand and decreasing supplies of traditional fossil fuels, we believe a meaningful investment position in this sector is appropriate. We have focused on companies that are producing on the frontiers of major new oil production, such as deepwater drilling in the Gulf of Mexico, Canada and western Africa.

- Alternate Energy Producers:
  Alternate energy companies are generally young companies with largely untested business models. However, as oil prices continue to rise, innovation in our sources of energy will become more likely and important. Additional governmental incentives, such as those recently implemented in California, will be essential to develop alternate sources of energy. In the alternate energy arena, our focus is on solar power and batteries.

Escalating worldwide fuel prices are increasing the demand for clean, alternative fuel sources dramatically, as well as spurring exploration for traditional fossil fuels in new locations. Providing for the ever increasing energy needs of the planet is going to take a wide range of alternate energy systems, and green technologies are finally beginning to establish themselves in a sector expected to grow tenfold within several years. We have avoided nuclear energy, wind, and ethanol. Nuclear plants, while a likely component of our energy sources, are too far in the future, and take at least 10 years to build. In addition, nuclear energy and wind power suffer from a "not in my backyard" stigma. The U.S. is at a decided disadvantage in ethanol production as a result of our primary crop – corn – being an inefficient source of ethanol in comparison to sugar cane.

The future is bright for alternate energy sources and a more sustainable world. The emerging hydrogen economy and developing infrastructures could change the way we obtain our energy. While there are still technological hurdles to overcome, micro fuel cells and stationary systems are beginning to reach the marketplace.