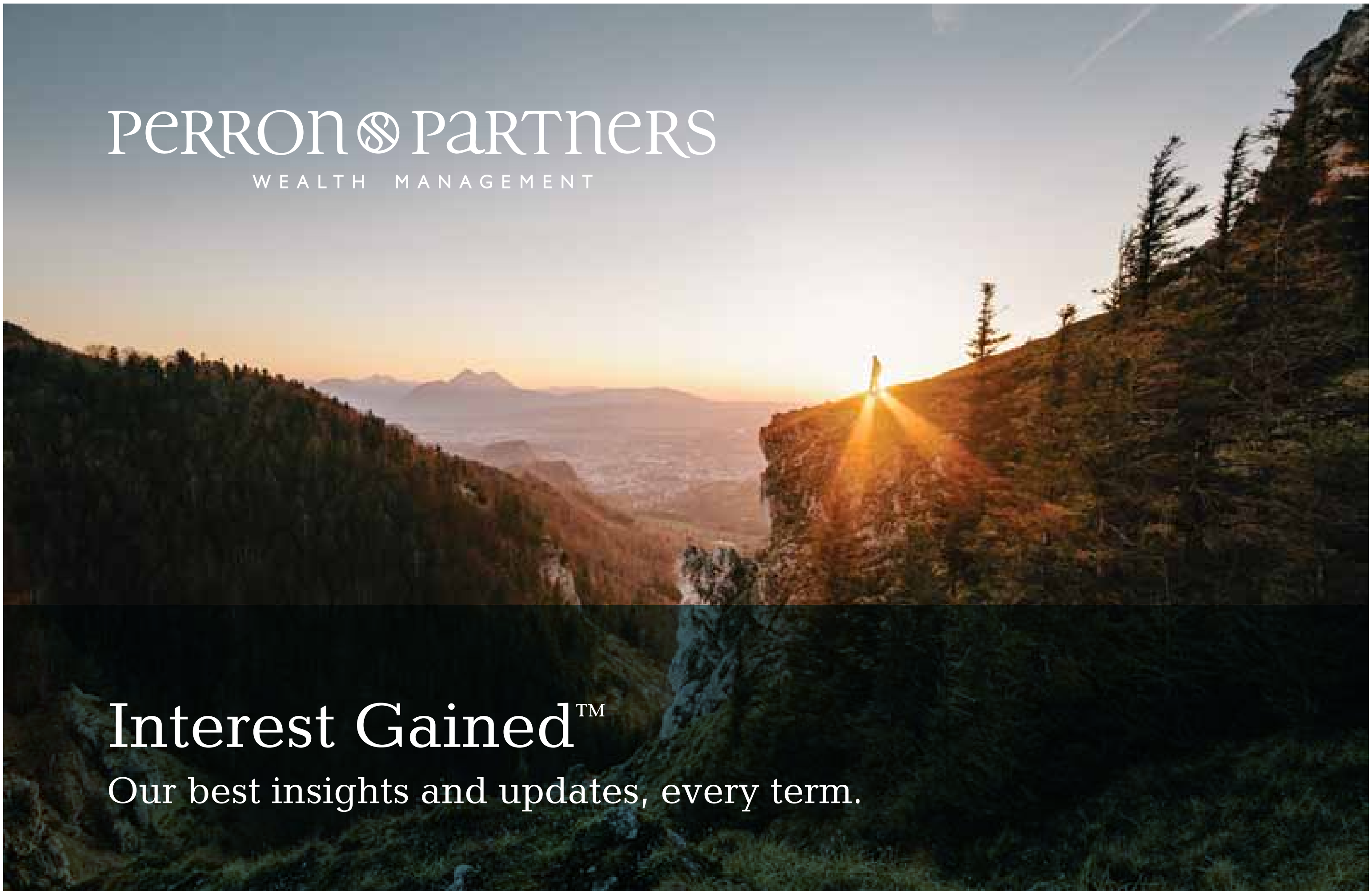


PERRON & PARTNERS
WEALTH MANAGEMENT

Interest Gained™

Our best insights and updates, every term.

July 2015 **Issue No. 04**

Featured Articles

"The last few months offered some interesting developments in the political and economic world. We'll shed some light on these as well as some of our top strategies."

Chris Bolton, CFA
Portfolio Manager

Close to the Money: Oil and Political Climate Call

Gary Perron, CFA, Portfolio Manager, Founder

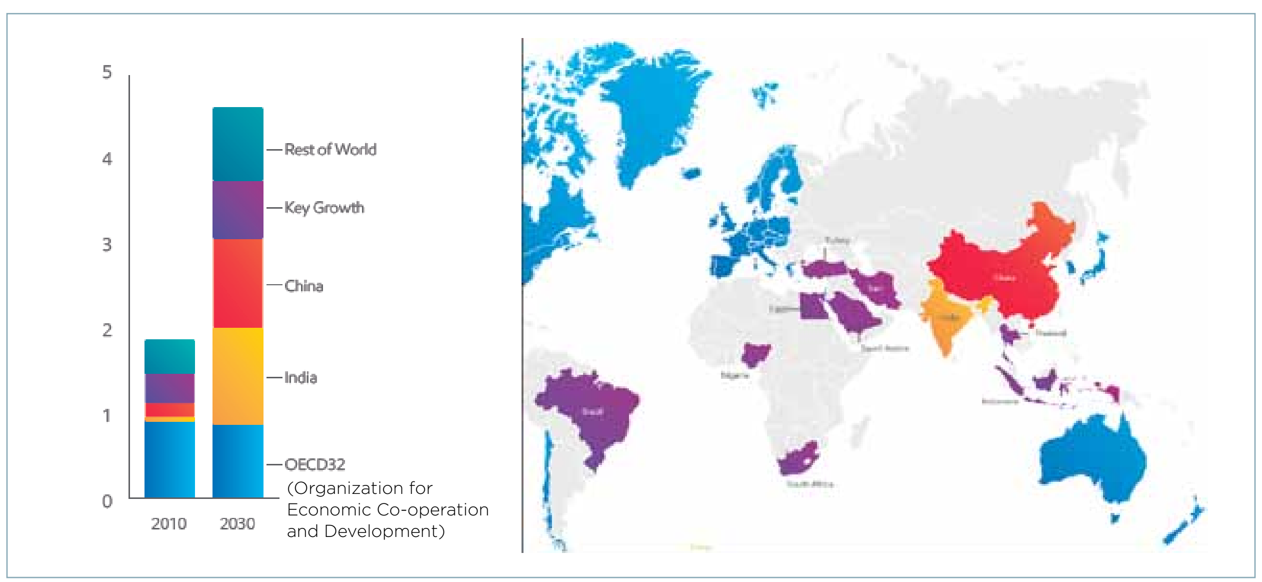
Greetings and welcome to our fourth Perron & Partners newsletter.

Chris Bolton and I recently hosted a conference call with clients summarizing our view on the current and future state of the energy industry and the political change in Alberta. Below are some of the highlights from that call.

Oil and World Energy

We addressed that world demand for energy will grow by 75% between 2000 and 2040, as stated by Exxon in their 2015 forecasts, driven by growth in the middle class in the developing economies around the world. We are confident that world oil demand currently at 94 million barrels a day will continue to grow, especially with Brent oil prices below $100 a barrel.

World oil supply is currently in excess of demand (approximately 2 million barrels a day), with OPEC currently producing close to capacity to protect their current market share, Russia maintaining their production and maybe sensitive political messages to fellow Middle Eastern countries and the USA. We expect USA shale production to decline in 2015 and especially into 2016 after a fairly healthy drop in oil drilling rig activity.



Source: The Brookings Institution *The world middle class is expected to more than double by 2040. This growing middle class is expected to lead to a 75% Increase in total fuel demand for aviation, marine and rail transportation from 2010 to 2040, according to ExxonMobil.*

In summary, the average price for WTI oil in the first half of 2015 is approximately $54. We expect demand/supply metrics to improve in the second half of 2015, and we fully expect oil prices to grind higher. The industry in general needs a $70-$80 oil price in order to generate reasonable economic rates of return on their invested capital.

“The NDP government in Alberta will introduce significant change in the Alberta economics of oil and natural gas producers.”

Change from the NDP

The NDP government in Alberta will introduce significant change in the Alberta economics of oil and natural gas producers.

We know that corporate taxes will increase by 20% and personal tax rates by 50%. We know oil and natural gas royalty rates will increase, but we will not know the exact numbers for at least a year. In the past, Alberta governments have always overshot the royalty rate increases and later realized the negative effect on drilling activity and revenues to the province. After realizing their effect on tax revenues, they later compensated by adding in incentives to mute the royalty rates.

This time, we also have a government fixated on carbon and environmental issues that will increase the taxes on oil by implementing them at the producer and/or consumer level. These headwinds will reduce capital commitments by the industry until they know all the taxes, at which point they can determine the economics of investing in Alberta oil resources.

Our Advice

Therefore, we have over 50% of our managed accounts invested outside of Canada today. This will grow in the future, as we look for more certainty and better oil industry investments that will be directly affected by oil price increase, without the headwinds of the Alberta (yet unknown) tax increases. Currently, 8%* of the assets in our managed accounts are invested in oil and gas producers. We will look to increase our exposure to energy producers, and we will focus on companies outside of Alberta.

Also in this Issue

Asset mix is the most important decision every investor has to determine, because it's the main driver of returns. In this newsletter, we have addressed asset mix and currency issues, as related to portfolio management.

We continue to build our corporate class private pools and will shortly introduce another enhanced pool with a proven external manager. We are very confident that our enhanced portfolio structure will deliver better risk-adjusted returns than a conventional 100% long portfolio. The corporate class pools will have both conventional and enhanced structures to suit all clients' investment needs. The articles that follow will address these topics.

Wishing you and your family a healthy and happy summer!

Gary Perron, CFA
Portfolio Manager, Founder

*Individual accounts may vary