FRANKLIN TEMPLETON INVESTMENTS

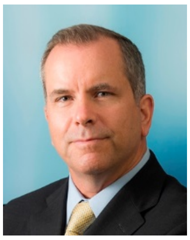
28 April 2016

Beyond Bulls & Bears Bulletin

INSIGHT FROM FRANKLIN TEMPLETON INVESTMENTS MANAGERS

IN THIS ISSUE: ***The articles in this issue are as at 28 April 2016.***

Oil-Price Pessimism May Be Presenting Opportunities



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In the first quarter, signs of optimism seemed to surface after oil prices fell to near 13-year lows. The oil industry's two biggest problems—oversupply and fears of weakening demand—are still with us, but demand appears relatively healthy and US shale and other producers have significantly reduced their capital spending. Meanwhile, global production by most estimates is expected to decline over the remainder of 2016.

In March, benchmark US West Texas Intermediate (WTI) crude-oil spot prices scored their largest monthly gain in almost a year, capping modest appreciation of 3.5% for the first quarter (to US$38.32 per barrel), even though supplies have accumulated steadily since mid-January and major oil-producing countries have yet to formalize a plan to maintain or reduce their output.[1] International prices, as gauged by UK-based Brent crude oil futures, commanded a higher geopolitical risk premium than WTI and rose 6.2% in the first quarter, to just under US$40 per barrel.[2] Speculation that the Organization of the Petroleum Exporting Countries (OPEC) would either cut or stabilize production levels to boost prices was a key reason for oil's exceptional rally, as were ongoing producer spending reductions, US production declines (amid guidance for further declines in 2016), smaller stockpile builds, and a significant increase in US gasoline demand (up more than 6% since March 2015).[3] These forces helped lift US crude oil prices 46% from an 11 February nadir of US$26.21 per barrel.[4] The sharp rebound, like the plunge that preceded it, unnerved some traders and analysts who said the moves were driven by expectations of improvement rather than an actual change in underlying supply and demand fundamentals. This view, in part, stemmed from a meeting in Doha, Qatar, on 17 April between OPEC heavyweight Saudi Arabia and non-OPEC producers, led by Russia, at which producers representing approximately 50% of world oil production discussed an agreement to "freeze" production in order to speed a recovery in oil prices. However, the meeting ended with little progress, as many expected, leaving the market to balance on its own, which seems well under way.

Overall, global crude-oil demand growth decelerated on a quarter-over-quarter basis, while worldwide supplies eased year-to-date through February.[5] Total US oil production trended lower amid sustained rig-count reductions, and in late March stood at 9.04 million barrels a day (mb/d); when compared with a year earlier, that output has fallen by 384,000 b/d.[6] Despite reduced output, overall US oil inventories reached a new record high of 534.8 mb in late March (+13.4% on a year-ago basis), even as a fall in the pace of imports drove a slowdown in inventory accumulation.[7] Three months after the United States lifted a 40-year ban on oil exports, a growing volume of American crude oil has reached virtually every corner of the market, including France, Germany, the Netherlands, Israel, China and Panama, which could relieve pressure on domestic storage capacity.[8]

Further first-quarter support of oil prices came from unplanned production outages in places such as Nigeria, Iraq (Kurdistan) and the United Arab Emirates; short covering and technical trading momentum; and expectations for stronger seasonal gasoline demand that, in turn, bolstered the demand outlook for oil. Currently, 2016 forecasts reflect potential record levels of gasoline demand in the United States.[9] The global oil supply also appeared to be tighter than previously thought. According to the International Energy Agency (IEA), last year the tally of unaccounted-for oil grew to its highest level in 17 years, potentially implying that either demand was stronger than estimated, supply was weaker, or a combination of the two. This underscores how tracking oil is an imperfect science and how much the discrepancy can matter at a time when the issue of oversupply dominates the oil industry. Last year, approximately 800,000 b/d of estimated oversupply were unaccounted for in inventory data.[10]

In March, members of Franklin Equity Group's Natural Resources research team, as well as energy and natural resources-focused investment professionals of the Franklin Templeton Fixed Income Group, Templeton Global Equity Group, Templeton Emerging Markets Group and others, participated in one of the energy industry's premier research gatherings. We had the opportunity to hear from chief executive officers and other top-level management representatives from energy companies around the world. Participating in these types of events is an important component of furthering the collaboration efforts of our global research teams. We gathered fresh insight on how companies were coping with the lower-price environment, what challenges they were facing, and what potential opportunities may be ahead. One broad takeaway we had was that US production resilience has been due, in part, to a shift towards markets with higher rig/well efficiency from low (i.e., Bakken to Permian shale-oil basins), and a focus on development options with the strongest economic return potential within each basin. This dynamic gave the impression that production was not responding to a declining rig count. Further efficiency gains in a price-recovery scenario will likely be offset by a reversal of this trend as producers step out from the "core of the core" and into higher-cost basins.

At this stage, we surmise there is likely little room for further efficiency gains in drilling time and cost savings, though production per well or the recovery rate (increasing the amount of oil that is recovered from each well vs. doing it quicker and at a lower cost) still has room for improvement. Meanwhile, in our view, gasoline demand looks to remain strong and distillate demand appears to be steady, while margins have improved from lows experienced earlier in the year. Our collaborative insights from others in the industry, in addition to our own in-house research, uncovered a few additional key themes we are watching.

Key Theme: Iran/Iraq Production

At present, aside from Iran and Iraq, there are few sources of incremental supply to potentially hit the market in the near term, with the exception of a potential for increased volumes out of Libya. Increased production from either country could prolong the energy sector's downturn. Iraq is believed to be "tapped out" due to reduced cash flow/spending and the need for a water-injection pipeline to significantly increase production, while Iran will require significant investment and time to reach its goals. Iran could be attractive to the "majors"—the world's largest, diversified and integrated energy firms—if contract terms are better than those in Iraq, but that seems unlikely to us. Most analysts believe the country could add approximately 500,000 b/d in production before significant investment will be required, which is lower than current expectations and the country's goal to grow production by 1 mb/d.

Key Theme: Strong Balance Sheets

As we see it, major integrated oil companies appear to be in a relatively strong position, given balance sheet flexibility and their potential ability to maintain or grow production in the face of significant capital expenditure reductions as long-cycle projects continue to come on line. The oil majors are also in a good position to acquire assets shaken out from the downturn and to increase spending on short-cycle projects in a recovery.

Key Theme: Exploration and Production (E&P) Spending and Cost-Cutting

Oilfield service companies have been focused on cutting capacity while maintaining the ability to respond to potential shifts in demand. With expectations for little recovery until 2017, we are seeing some early signs that demand may be improving somewhat.

Increased E&P spending has been a significant concern for investors who hold a general lack of conviction that companies will remain disciplined, even though they espouse a commitment to rationality. We believe the leg down in activity, when oil prices went below US$30/barrel, likely will result in lower-than-anticipated oilfield revenues in the first quarter, with a likely negative impact to margins. Some management teams opined that the downturn in oil industry stocks has been emotionally driven by commodity price volatility, rather than driven by corporate fundamentals, which set the energy sector up for a strong recovery over the past couple weeks.

Most management teams we met with pointed to an oil price range of US$50–US$60/barrel as necessary for them to increase spending/budgets. Although, in some basins such as the Permian, the cost to extract a barrel of oil is lower than average due to higher initial oil flows and large expected recovery rates. We anticipate that prices would need to rise 15%–20% above US$40/barrel to see significant increases in budgets and spending. In a recovery phase, bringing crews and rigs back into operation could take six to eight months. This task is made more difficult by the fact that overall energy sector E&P industry headcount has dropped significantly for some oilfield services companies from peak employment levels. E&P companies may initially focus more on balance-sheet repair than production growth, which could further delay any ramp-up of activity, and companies may be hesitant to increase spending from budgeted levels as a company's production may not fully respond until 2017.

It is hard for us to see much more in the way of lower costs as the low-hanging fruit seems to have been harvested. Additionally, service costs may go up once drilling activity starts to pick up again, which could create a tailwind for oilfield services companies, but a headwind for E&Ps. E&P companies report being somewhat hesitant to pressure service companies for lower contract prices, given that many service companies are already operating below cash-breakeven levels and producers want to ensure availability of service capacity and competition within the services industry when fundamentals begin to recover.

Key Theme: Tailwinds Offshore?

The consensus seems to be that deep-water development options are inferior to onshore unconventional resource development, including shale, which employs enhanced well drilling and completion techniques to produce previously uneconomic reserves. However, managements at integrated oil companies widely believe that deep-water oil operations can sufficiently compete with those in onshore US shale basins. Companies have conveyed that major project final investment decisions are likely to resume in 2017, after a hiatus the past two years as existing contracts expire and price deflation reaches its nadir. We think this should represent a tailwind for integrated oil companies in a recovery scenario. Many offshore projects are economically viable at current prices, host government terms are improving and bidding activity is relatively healthy. However, this activity has been constrained by a lack of cash, and actual contract awards have been very limited lately, though some management teams are seeing some signs of renewed urgency. Infill drilling—the addition of wells in an offshore field that utilise existing infrastructure "switched off" by the assessment of one company—and the pace of drilling these types of wells is now approximately 10 wells per year from 30 wells per year historically.

We continue to see potential opportunities in energy producers with low-cost resources, strong management teams, efficient operations and robust balance sheets. Although investors' overall sentiment towards commodities and natural resources equities improved in the latter half of the first quarter, they seemed to generally remain sceptical that commodity markets were on the mend. We see this scenario as potentially laying the groundwork for further gains going forward. In our view, the recent volatility in sector stocks serves to highlight the importance of assessing intrinsic value and taking a selective, opportunistic approach to investing in the natural resources sector.

We view the macroeconomic picture as a primary risk for market rebalancing in 2016, but according to our analysis, announced budget reductions and expectations for production declines are combining with apparently resilient demand. This, we think, is signalling the potential for higher prices in the near-to-intermediate term.

ZIRPs and NIRPs and Unintended Consequences

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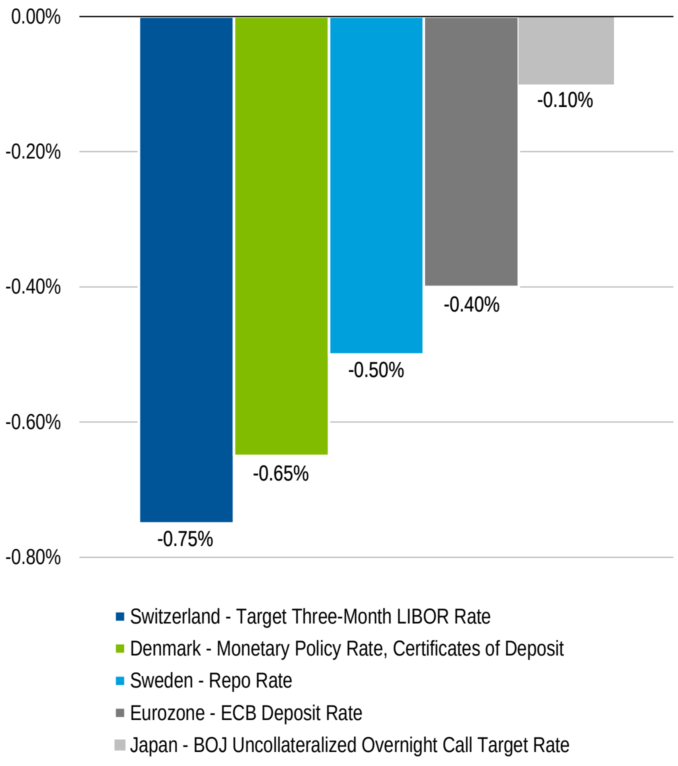
Central banks around the world have been gaining comfort with and embracing the concept of zero-interest-rate policies (ZIRPs) and negative-interest-rate policies (NIRPs) for some time. Despite unknown and perhaps significant unintended long-term consequences, the European Central Bank, the Bank of Japan, and the central banks of Sweden, Switzerland and Denmark have all moved interest rates into negative territory.

Bear in mind, negative interest rates are for all intents and purposes a mandate that will implicitly weaken sovereign banks. They are a contrarian command to what is seemingly rational and natural in the world of normally functioning markets. In essence, the banks are being told to go out and make as many loans as they can—even if they are potentially bad ones. Just keep lending the cash and forget about any risk compensation for doing so.

Exhibit 1: Central Banks with Negative Interest Rates
As at 6 April 2016



Sources: FactSet, Bank of Japan (BOJ), Denmark National Bank, European Central Bank (ECB), Central Bank of Sweden, Swiss National Bank.

Unintended Consequences

There are countless examples in history, some more hubristic than others, in which man's efforts to address a problem or control a system have resulted in miserable failure—regardless of best-laid plans. One example is how US policies implemented at the turn of the 20th century aimed at mitigating fire damage within the country's vast national forests were instead likely responsible for making today's fires much worse. Prior to 1890, fires in the American Southwest burned every five to 10 years on average and were mainly small fires that consumed grass, shrubs and seedlings; the big Ponderosa pine and Douglas fir trees were largely unscathed. The fuel sources that contributed to larger fires were thinned and the integrity of the overall ecosystem was protected. That was the norm until a series of particularly devastating fires (called "The Big Blowup") led the US Forest Service to direct its energies to suppressing fires at all costs. While its efforts proved highly successful, in hindsight many people concluded that the longer-term consequences of the policy likely negated short-term benefits. Absent periodic small blazes—which as a matter of course were regularly extinguished—these regions became major habitats for massive free-burning wildfires. Today the mountains of New Mexico, Arizona, Colorado and Utah are choked with grass, shrubs and trees of all sizes. The undergrowth is now exceptionally thick, and as such it ignites more easily and fuels much larger and more devastating conflagrations.

Today's fires are burning bigger and hotter, and are not only damaging forests but also wiping them out. In 2012 alone, more than 75,000 wildfires burned some 9 million acres in the United States, a disturbing statistic.[11] In short, the behaviour of fires in the western United States in recent years has become unprecedented and unpredictable, and certainly not something US Forest Service policymakers could have envisioned 75 years ago.

Similarly, as central banks globally continue to use aggressive monetary tools like NIRP to smother the deflationary flames left behind in the wake of the 2008–2009 global financial crisis, could it also be that their efforts are inadvertently incubating a much greater and more severe economic catastrophe down the road? We presume that the policymakers and academics at the central banks are fully aware of the potential for negative outcomes; nonetheless, they are compelled to press on.

It's in Their Academic DNA

As I see it, the majority of central bankers today are from the Keynesian school of economic thought (based on the theories and principles of British economist John Maynard Keynes), the prevailing orthodoxy taught in most universities over the last century. As Keynesians, they are vehemently opposed to the possibility of deflation in any form and believe all measures should be implemented to prevent it. Hence, they are compelled to push forward with easy monetary policy programs regardless of the lack of any evidence that would point to their efficacy.

Keynesian vs. Austrian Economic Theory

Of note, not everyone agrees with the path central banks have embarked on since the financial crisis, and indeed there have been some notable dissenters. Essentially the arguments for and against monetary easing can be distilled down to two distinct schools of thought: the aforementioned Keynesian school (representing the prevailing ideology driving decision-making in most developed-market central bank board rooms today) and Austrian economics. Austrian theory is based on the ideas of a collection of academics, some of whom were originally citizens of Austria-Hungary, including Ludwig von Mises.

At the risk of oversimplifying what are without doubt two extremely deep and detailed economic theories, I have attempted to summarize each as follows:

Keynesian

In the simplest of terms, Keynesians argue that private-sector business decisions may sometimes lead to inefficient outcomes, and therefore government intervention is occasionally needed to step in with active monetary policy actions. These actions may be coordinated around a central bank. Generally, the Keynesian view believes that spending is what drives economic growth, and deficit spending in a recession can be offset via fiscal surpluses in an expansion.

Austrian

Austrian theory argues for very limited government intervention in the economy, particularly in the area of money production. The Austrian school believes that central bank manipulation of economic cycles with artificial stimuli does more long-term harm than good, ultimately creating bubbles and recessions that are far worse than would be experienced in a natural economic cycle.

To summarise, the Austrian school suggests markets are self-correcting mechanisms that follow fairly smooth cycles, and it is better to let nature run its course (so to speak) as opposed to intervening when things may be less than optimal (e.g., recession). Keynesians believe economic cycles can be smoothed with tactical government monetary intervention, and that fiscal policy may be modified occasionally to better guide market cycles.

So which view is correct? Is it better to ease aggressively—and then ease some more when things still haven't improved—or should central banks simply remain on the sidelines and let the markets sort themselves out on their own? We do not live in an "either/or" world, and the optimal application of economic theory—in my humble opinion—probably lies somewhere in the middle. The problem is that we have long since moved away from the middle, and in dramatic fashion with the introduction of NIRP programs. The balance has decidedly tilted to one side.

The Metaphorical Forest Fire

I have serious concerns as to what the potential longer-term unintended consequences of easy monetary policy could be. Austrian economic theory is highly relevant to this issue, as the focus is on the cumulative effects of bank-related credit on supply-side economics. Austrian economists believe that savings are what grow an economy, as those savings can be utilised by others to borrow and grow businesses, as opposed to money borrowed on credit from a central bank. If there are more savers, money will be cheap to borrow (low interest rates) as the supply is greater than demand. If the pool of savers is less than the demand, however, interest rates will naturally rise, enticing the market to save more and borrow less. Theoretically, the result will be economic equilibrium, with an economy that may not grow rapidly in the short run, but will be more stable and sustaining in the long run.

So from an Austrian perspective, credit created by the banking system—as opposed to credit that is the result of genuine savings—may spur spending in the short run but also creates misallocations of real resources (so called "malinvestments") in the long run.

These malinvestments often yield returns that are inadequate to service the debts associated with their purchase. If additional loans are primarily used for productive investing, thereby creating a future extra income source for repaying debts later, then things should work out. However, as has been the case in Europe and the United States for much of the past several decades, it feels like an ever-smaller proportion of debt is used for investments, while an ever-larger proportion is used for extra consumption, imports and buying houses.

This type of spending does not generally create future revenue, and so interest and repayment obligations have therefore come to absorb an increasing proportion of individual incomes over the course of time—despite the fact that interest rates have been in a downtrend since 1980. In my view, this is a troubling development. From an Austrian view, the primary reason we are in this position of yet again attempting to jump-start growth via massive liquidity is because of—massive liquidity!

So the question remains: Has the trend towards credit accumulation over the past 75 years at long last reached its limit?

Efficacy of ZIRP to NIRP

At the end of the day, if we take Wall Street, global financial centres and banks out of the picture, we think it is fair to say that neither Europe nor Japan nor the United States for that matter have seen much of a significant economic recovery post-2008. Japan is still dealing with severe deflationary pressures, Europe looks to be teetering on the brink of recession again, and growth in the United States hasn't been as robust as hoped for. Meanwhile, policymakers are doubling down on their strategy.

Certainly, we don't see a compelling story from the data. Economists at the World Trade Organization lowered their forecast for trade growth in 2015 to 2.8%, from the 3.3% forecast in April 2015.[12] If these projections are realised, 2015 will mark the fourth consecutive year in which annual trade growth has fallen below 3%. The average for global trade growth in the last 20 years (1995–2015) has been 5%.[13]

As of the third quarter of 2015, trade growth in the United States is down 1% from peak export volumes, the EU is down 2% (exports globally not intra-EU), Japan is down 3%, and China/Hong Kong are off 5%.[14] These numbers may not seem exceptionally large, but I think it is unusual to see a coordinated decline in export volumes, particularly when it is shared by every major economy on Earth. When global trade volumes contract, the domestic political pressure to circle the monetary wagons (depreciate currency) and grab a larger slice of the ever-shrinking trade pie become even more paramount. This was evident in the 1930s with protectionist policies and tariffs and quotas, and it is evident today in the form of negative interest rates.

The Bottom Line

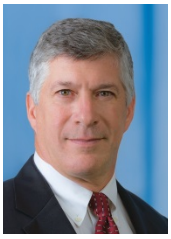
It has become clear to me that what the central banks have done with monetary tools has, to date, outside of staving off a systemic collapse of the financial system, done very little in the way of stimulating organic economic growth. As such, I have a hard time believing that a major NIRP campaign will help stave off deflation either.

I will leave you with a quote from former Dallas Federal Reserve (Fed) President Richard Fisher made to the Harvard Club of New York on 19 September 2012. This is always top of mind for me because I believe it speaks to the heart of the issue in a very succinct way:

"I believe that with each program we undertake to venture further in that direction (quantitative easing), we are sailing deeper into uncharted waters. We are blessed at the Fed with sophisticated econometric models and superb analysts. We can easily conjure up plausible theories as to what we will do when it comes to our next tack or eventually reversing course. The truth, however, is that nobody on the committee … really knows what is holding back the economy. Nobody really knows what will work to get the economy back on course. And nobody—in fact, no central bank anywhere on the planet—has the experience of successfully navigating a return home from the place in which we now find ourselves. No central bank—not, at least, the Federal Reserve—has ever been on this cruise before."

Pack your bags, but don't forget the fire extinguishers!

Tech Innovations: Best in Two Decades?



JP Scandalios
Vice President
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Franklin Equity Group

The technology sector prides itself on its dynamic advances, but one tech tenet has remained constant: Companies must think outside the box to become successful. As tech-trend watchers, we see this phenomenon every day. Start-up or emerging companies can't take a "me too" attitude; they have to either find a market where none exists today, or envision a solution to a problem that's not being addressed by the legacy or incumbent providers. We have experienced this in every generation: Many of the previous generation's technology leaders have fallen by the wayside, or have struggled and resorted to acquiring the next generation's innovator. The tech sector continuously reinvents itself, which typically leads to investment opportunities.

The volatility we have seen this year hasn't dampened our outlook for tech companies. In fact, in my 20+ years researching technology stocks I haven't seen a more robust period of innovation than we're experiencing today. The potential opportunities we see are not only coming from the household names that many market watchers envision when they think of the sector. They're also emerging from companies that have dominated what we might call the less-glamorous segments of the sector—companies that have been performing quite well but aren't subject to as much marketing hype, and thus are not as well-known to the public at large.

An example is an analog semiconductor company that designs and manufactures semiconductor chips that convert analog signals into digital signals, and vice versa. Analog signals are real-world phenomena (heat, pressure, sound, velocity, flow, vision, etc.), while digital signals are discrete on/off/binary bits that are processed. The ability to convert signals back and forth is increasingly vital in today's digital age. For example, when you "touch" a screen (phone, tablet, notebook, PC, TV, microwave, refrigerator, washing machine, etc.) to give a device a command, the data converter senses the pressure your touch creates, changes it to a digital command, and forwards it on to a processor to be acted upon.

This semiconductor company enjoys a large share of the data converter market, and we have learned that some of its competitors have curtailed further expansion in this area because of the company's dominance of the industry.

Breakthroughs for Everyday Life

The example above illustrates the less well-known areas of the market, but we're finding dynamic innovation and growth across myriad industries in the tech sector. I'm most fascinated by advances that are likely to impact our everyday lives. For example, each iteration and generation of automobiles has brought more sophisticated technology to the century-old task of driving. Sensors embedded in automobiles can record if tire pressure is low, if the engine is running too hot, how fast you are driving and how hard you are braking. By enabling cars to transmit and receive these data, you can have cars that react better than human drivers to dangerous conditions and, for example, engage the brakes to prevent a crash faster than a person could. It was recently announced that this automated braking technology, previously only available on high-end cars, is now slated to be a standard feature. We see opportunities in companies involved in the sensors and software that make these systems work—once integrated into a car, these safety systems are very sticky and can't be removed without significant redesign. Vehicle information in aggregate can also be used for better traffic management when integrated into systems that relay traffic information to other drivers or even to the systems that control traffic lights. These advances are the precursors to a fully driverless car, something we may see in the next five to 10 years.

I'm also intrigued by advancements that allow consumers to have their banking information embedded in their cell phone or on a digital card—allowing us to leave our wallets and credit cards at home. One example is near field communication (NFC) technology, which is a form of contactless communication between devices like smartphones or tablets. Contactless communication allows a user to wave the smartphone over an NFC-compatible device to send information without needing to touch the devices together or go through multiple steps setting up a connection. So I can buy a cup of coffee by waving my phone over an NFC-compatible device, instead of digging in my pocket for cash or a credit card. In addition to the chips that enable NFC, the rise of electronic payments also increases the need for robust encryption to safeguard your personal information.

In the health care sector, there is no shortage of innovation that should drive growth—and change our lives in the process. For example, we've already seen advances in genetic sequencing, which involves decoding a patient's DNA to identify if a person is predisposed to a certain disease and identify which drugs would be most effective to treat illness, and continuous glucose monitors, which use a tiny sensor placed under the skin to provide diabetics with real-time glucose readings so they can better control their blood sugar levels.

Expectations do tend to run high for technology companies' products—and sometimes for their earnings as well. Early in the year, I think some investors panicked after certain companies delivered disappointing fourth-quarter 2015 results and forward guidance. In my opinion, the market just wasn't prepared for the bad news, and investors indiscriminately sold off the entire sector. Market expectations for fourth-quarter 2015 earnings were not necessarily unrealistic, in my view, but I believe investors grew concerned that any negative news would extrapolate throughout the whole sector. Other factors likely contributed to the volatility we saw in the first quarter of 2016, but I believe the selloffs had more to do with fears about macro indicators such as lower oil prices and China's slowing economic growth rate than any issue specific to tech stocks.

However, indiscriminate selling typically gives us an opportunity to add to or initiate new positions in companies we like at bargain prices. In general, we think valuations for the technology sector look reasonable at the moment. While it's one of the most profitable sectors, its forward price-to-earnings (P/E) ratio is only slightly above the overall S&P 500's.[15] And when you compare the sector's P/E ratio relative to its growth rate, it's one of the least expensive sectors in the S&P 500.[16]

When searching for what we consider bargains in the tech sector, we think one of our strong suits as investment managers in this space is not only our bottom-up stock selection process, but also the fact that we are located right at the centre of technology innovation—within California's Silicon Valley. Our dedicated research team is able to visit these innovative companies and meet with management, right at our doorstep.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. Investing in a portfolio concentrating in the natural resources sector involves special risks, including increased susceptibility to adverse economic and regulatory developments affecting the sector. Smaller companies can be particularly sensitive to changes in economic conditions and have less certain growth prospects than larger, more established companies and can be volatile, especially over the short term. The portfolio may also invest in foreign companies, which involve special risks, including currency fluctuations and political uncertainty. Growth stock prices reflect projections of future earnings or revenues, and can, therefore, fall dramatically if the company fails to meet those projections. The technology sector has historically been volatile due to the rapid pace of product change and development within the sector. Technology companies can be small and/or relatively new and unseasoned. Smaller, mid-sized and relatively new or unseasoned companies can be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies.

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1. Source: Bloomberg, L.P.
2. Ibid.
3. Source: Energy Information Administration (US Energy Department).
4. Source: Bloomberg, L.P.
5. Source: International Energy Agency.
6. Source: Energy Information Administration (US Energy Department).
7. Ibid.
8. Ibid.
9. Source: Energy Information Administration (US Energy Department); International Energy Agency, as at 8 March 2016. There is no assurance that any estimate or forecast will be realised.
10. Source: International Energy Agency.
11. Source: US National Interagency Fire Center.
12. Source: World Trade Organization, September 2015. There is no assurance that any estimate or forecast will be realised.
13. Ibid.
14. Ibid.
15. Source: Bloomberg, as at 5 April 2016. The price-to-earnings ratio, or P/E ratio, is an equity valuation multiple defined as market price per share divided by annual earnings per share. US technology companies are represented by the S&P 500 Information Technology Index. Indexes are unmanaged, and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges. Past performance does not guarantee future results.
16. Ibid.

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