



## WAISC West Calgary 2013

# Kootenay Global Energy Absolute Return Fund

Confidential

June 2013

# Leadership & continuity

	Qualifications	Experience	Outside Interests
<b>Christopher Theal</b> President & CEO	<ul style="list-style-type: none"> <li>➤ <b>CFA</b> (2000)</li> <li>➤ <b>CIM</b> (2010)</li> <li>➤ MBA, Finance UBC (1996)</li> <li>➤ BA, Economics, with Distinction, RRMCC (1992)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Global Head, Oil &amp; Gas Research, Macquarie Capital</li> <li>➤ Head of Research, Tristone Capital (member Exec Committee)</li> <li>➤ 13-year, top-ten BWI ranked E&amp;P analyst</li> <li>➤ #2 for idea generation and sector knowledge</li> <li>➤ Military Officer – HMCS Kootenay</li> <li>➤ Recipient of the Sword of Honour for top all-round graduate RRMCC</li> </ul>	<ul style="list-style-type: none"> <li>➤ Director, Royal Military College Ex-Cadet Club, Calgary</li> <li>➤ Chair / Fundraiser, RMC Birchall Leadership Dinners</li> </ul>
<b>Leon Knight</b> Managing Director & Chief Operating Officer	<ul style="list-style-type: none"> <li>➤ <b>CFA</b> (2010)</li> <li>➤ BComm, U of C, (2004)</li> <li>➤ Calgary Portfolio Management Trust (2002-04)</li> </ul>	<ul style="list-style-type: none"> <li>➤ Business Analyst, Southeast Asia, Talisman Energy</li> <li>➤ Senior Oil &amp; Gas Analyst, Macquarie Securities and Tristone Capital Inc.</li> <li>➤ #5 overall stock picker in Canada – 2009 StarMine Analyst Awards</li> <li>➤ Co-lead on natural gas and LNG commodity research</li> </ul>	<ul style="list-style-type: none"> <li>➤ Mentor, Calgary Portfolio Management Trust, U of C</li> <li>➤ Accomplished musician – piano and percussion</li> </ul>
<b>Paul Wheaton</b> VP, Business Development & Investments	<ul style="list-style-type: none"> <li>➤ <b>CFA</b> (2006)</li> <li>➤ Licensed PM (2009)</li> <li>➤ H.BA (Business), with Distinction, Wilfrid Laurier (2004)</li> </ul>	<ul style="list-style-type: none"> <li>➤ VP, Risk Management &amp; Client Service, Gluskin Sheff + Associates</li> <li>➤ Client Service Analyst, Gluskin Sheff + Associates</li> </ul>	<ul style="list-style-type: none"> <li>➤ Member of Board of Directors, Theatre Junction</li> <li>➤ Avid Mountaineer and hiker</li> </ul>



# Kootenay Advisory Committee

**Robert Booth, QC**

Partner, Bennett Jones LLP

**Tom Ebborn, BSc, Geological Engineering, MBA**

CFO, Northwest Upgrader; Director, Nexen Inc.

**Ira Gluskin**

Co-founder & Vice Chairman, Gluskin Sheff & Associates Inc.

**Matt Janisch, BSc, Petroleum Engineering, MBA**

Vice President & CFO, Legacy Oil + Gas Inc.

**Brian Lavergne, BSc, Mechanical Engineering**

President & CEO, Storm Resources Ltd.

**H. Cameron Ross, Major General (ret'd), CMM, CD**

President, HCR Security International

**Chris Theal, CFA, CIM**

President & CEO, Kootenay Capital Management Corp.

Governance

Leadership

Advice



# Kootenay GEAR Fund overview

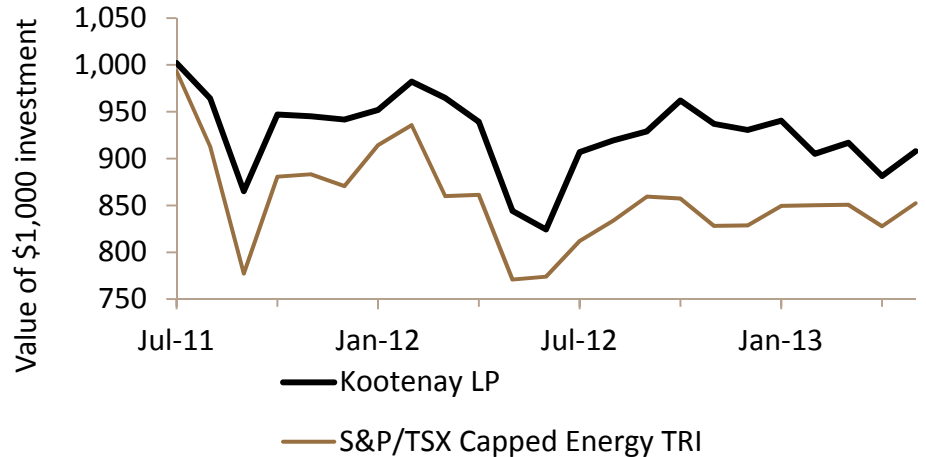
- **Focused long/short fund in energy**
  - Concentrated portfolio of 30-35 long and short positions
  - Top 10 long holdings typically represent half of invested capital
- **Invest in energy with half the volatility**
  - Consistent short book reduces fund volatility
  - Will invest in all aspects of energy sector – upstream, downstream, refining/transportation, energy services
- **Top down / bottom up fundamental value bias**
  - Use street as consensus/outlier views, model everything in-house
- **Access to uncorrelated / arbitrage strategies**
  - Largest source of alpha in the fund since inception
- **Leverage is a discipline – only for short sales**
- **Strong governance, investor base and aligned manager investment**



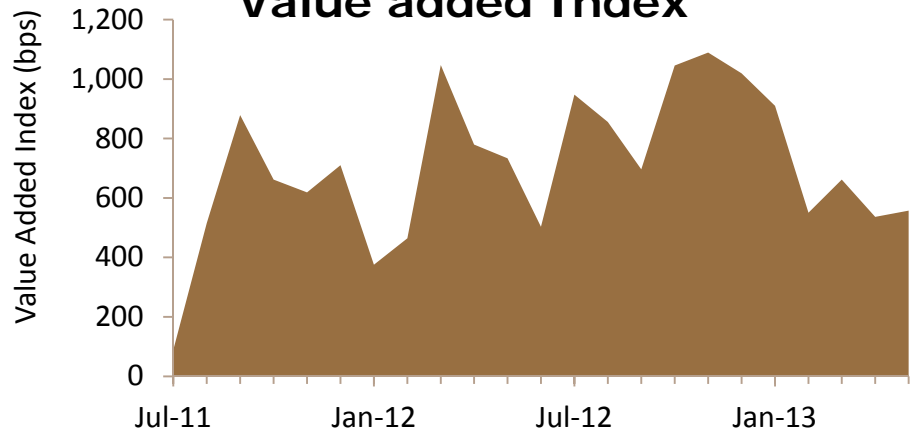
# Fund performance to date

- Since inception, outperformed the energy index by 557bps (316bps annualized)
- Consistent hedged portfolio reduces correlation
  - Returns to date realized with half the volatility vs. the Index
- The fund does not use leverage

## Relative Performance Since Inception



## Value added Index



### \*Notes:

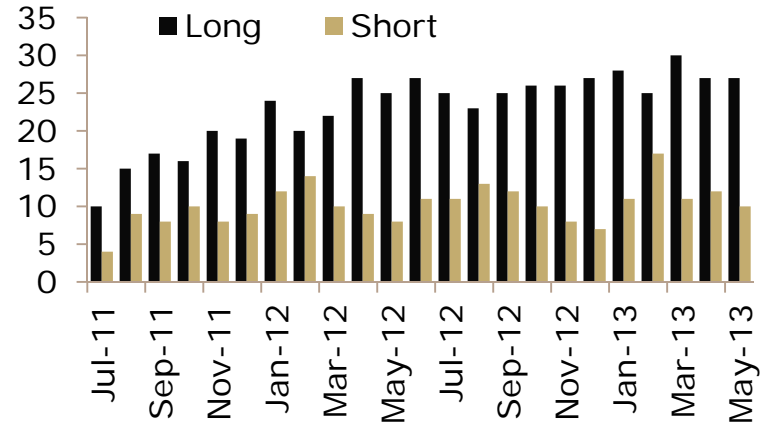
- Returns are since inception July 18, 2011 as of May 31, 2013 for the initial Kootenay LP Class 'A' series
- Kootenay LP returns are calculated net of transaction costs, management and performance fees
- Value Added Index is Kootenay LP return relative to the S&P/TSX Capped Energy Total Return Index since inception
- Source: Kootenay, Bloomberg



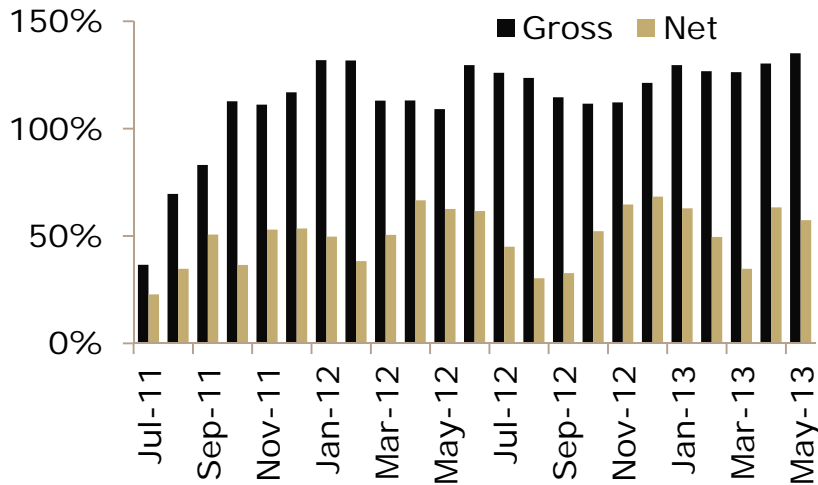
# Fund exposure & concentration

- The fund targets holding 25-35 long & short positions
- Net exposure has averaged 49% since inception. Daily Range has been between -2% and 80%
- Top 10 long holdings typically represent half of our invested capital

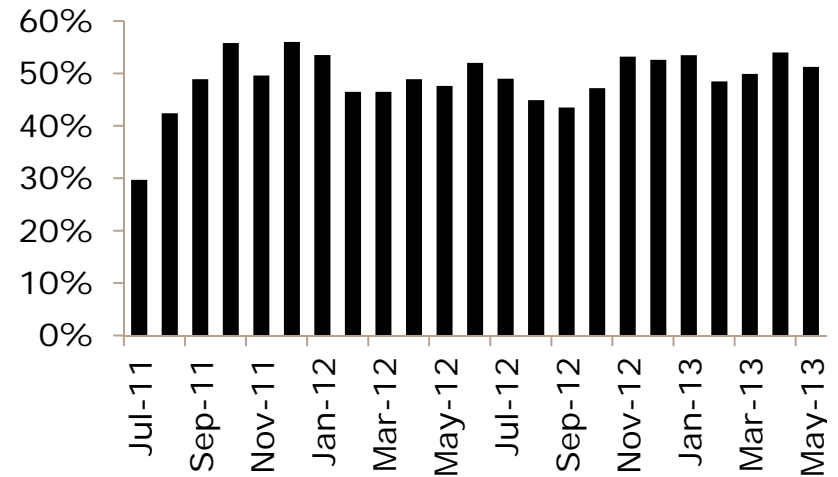
Monthly long / short positions



Gross / net exposure

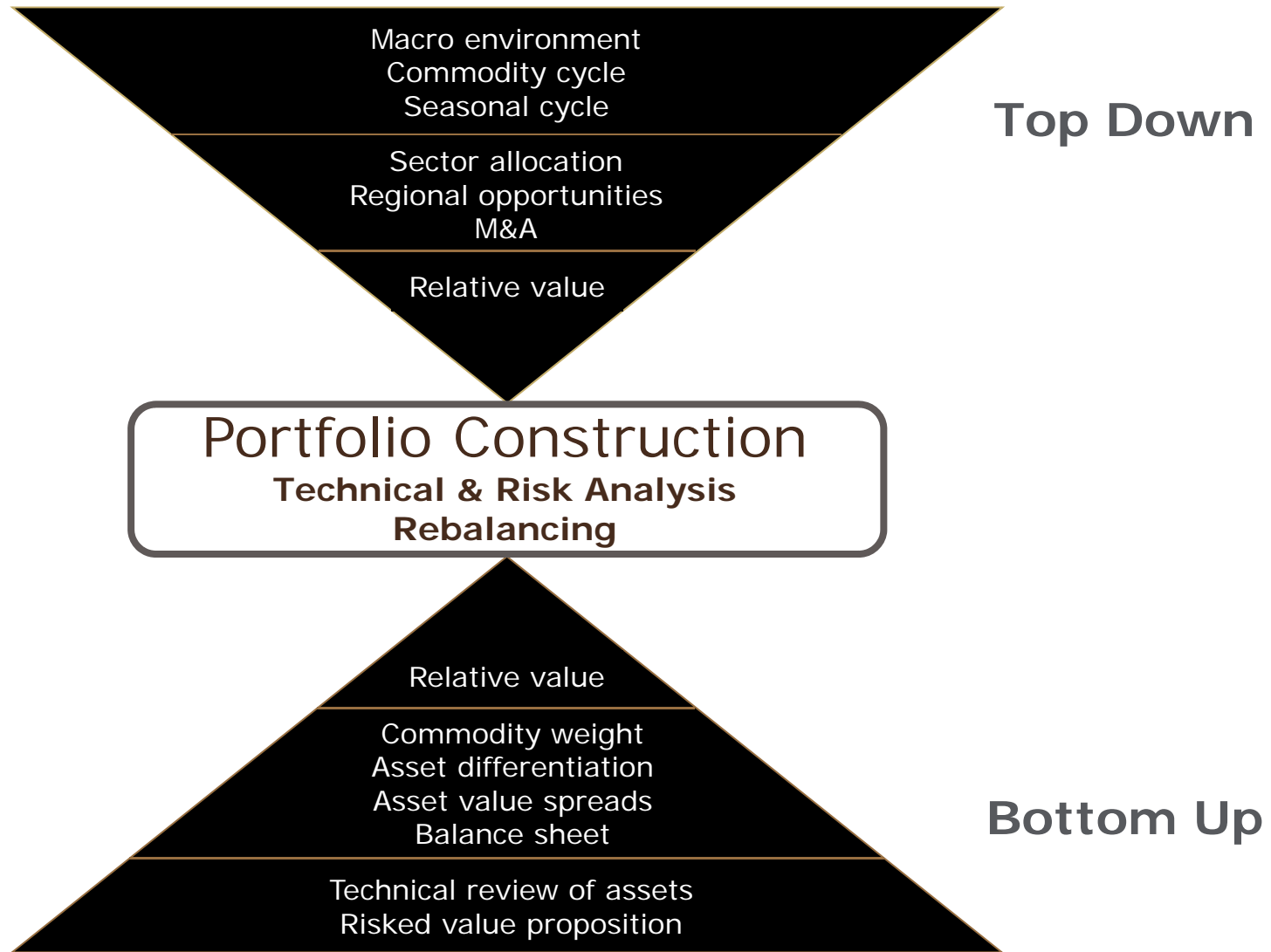


Top 10 Holdings (% of Fund)



Source: Kootenay

# Investment philosophy and process



# Top three shorts in 2012

## GASFRAC (GFS)

- Overcapitalized emerging / niche frac technology: LPG vs. water / oil
- Aggressively built capacity without contracts to underpin payout on investment – overcapitalized for stage of growth
- EBITDA generation was weak, debt covenants became risk



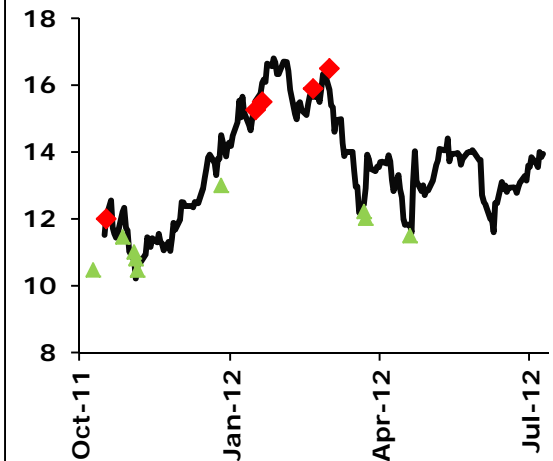
## Pinecrest Energy (PRY)

- **Short #1** Valuation was stretched on flush production adds. High declines and poor capital efficiencies set up for production shortfalls into summer
- **Short #2:** On STO deal Nov 21/12
- View of pro forma entity was high declines >50% and capital efficiencies >\$50k/boe/d vs. guidance of 40% and \$35k/boe/d
- Closed out position with purchase of STO



## Poseidon Concepts (PSN)

- **Long** - Accumulated position in Open Range (ONR) prior to spin-off of PSN
- Stock traded to rich valuation, observed shift in competitive landscape, sold position and established **Short** position
- Covered sub-\$12/sh



▲ Bot  
◆ Sold

Source: Bloomberg, Kootenay  
As at December 31, 2012



# Outlook for energy



*"The worse a situation becomes the less it takes to turn it around, the bigger the upside." Soros*

## Spring 1999



- \$10/b oil heading to \$5/b
- New technology and productivity gains
- Current slow growth of world economy

## Spring 2013



# As the basin reconnects, so too will Canadian energy funds flow

## 2010–2013: Out of favour

- **Range bound energy index**
  - Bitumen bubble drives record wide price discounts for Canadian oil
  - End of pipe gas basin is high cost
  - Services dependent on marginal capex from mid/small cap E&P

**International investors are underweight Canada**

## Today: At inflection point

- **Structural change is happening...now**
  - Heavy oil – all about market access
  - Differentials have normalized
  - Gas prices have doubled...and...
  - New, global consumers of OFS (oil field services) in town with gas export agendas

**Funds flow driver is market access for Canadian oil**



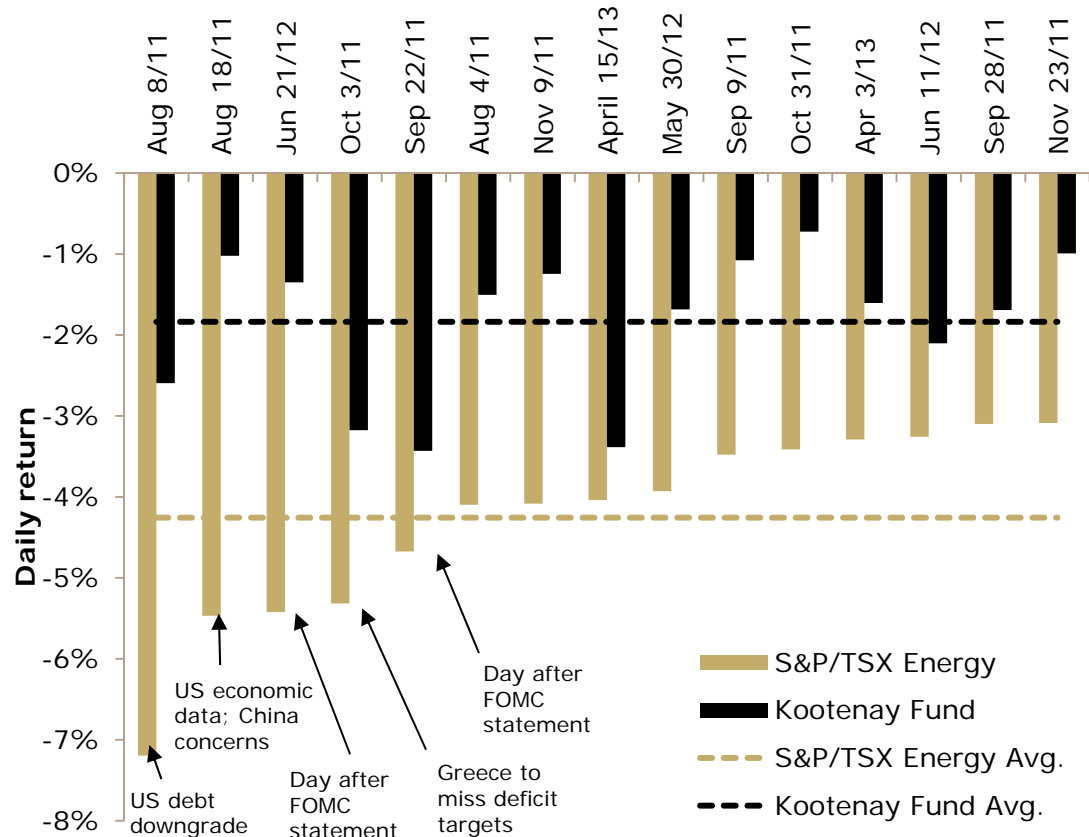
# Why a long/short fund



# Left tail events have been frequent

- Left tails can have a devastating impact on portfolio returns
- Tail risk hedging achieved by:
  - Long/short pairs
  - Fundamental shorts
  - Index hedging
  - Equity / index puts
  - Married call strategy
- Average left side tail risk return (<-3%) for Index since inception was -4.4%
  - Kootenay energy fund average return on same days was -1.7%
- Consistent hedged portfolio targets return per unit of risk

## Daily returns on downside 'tail risk' days

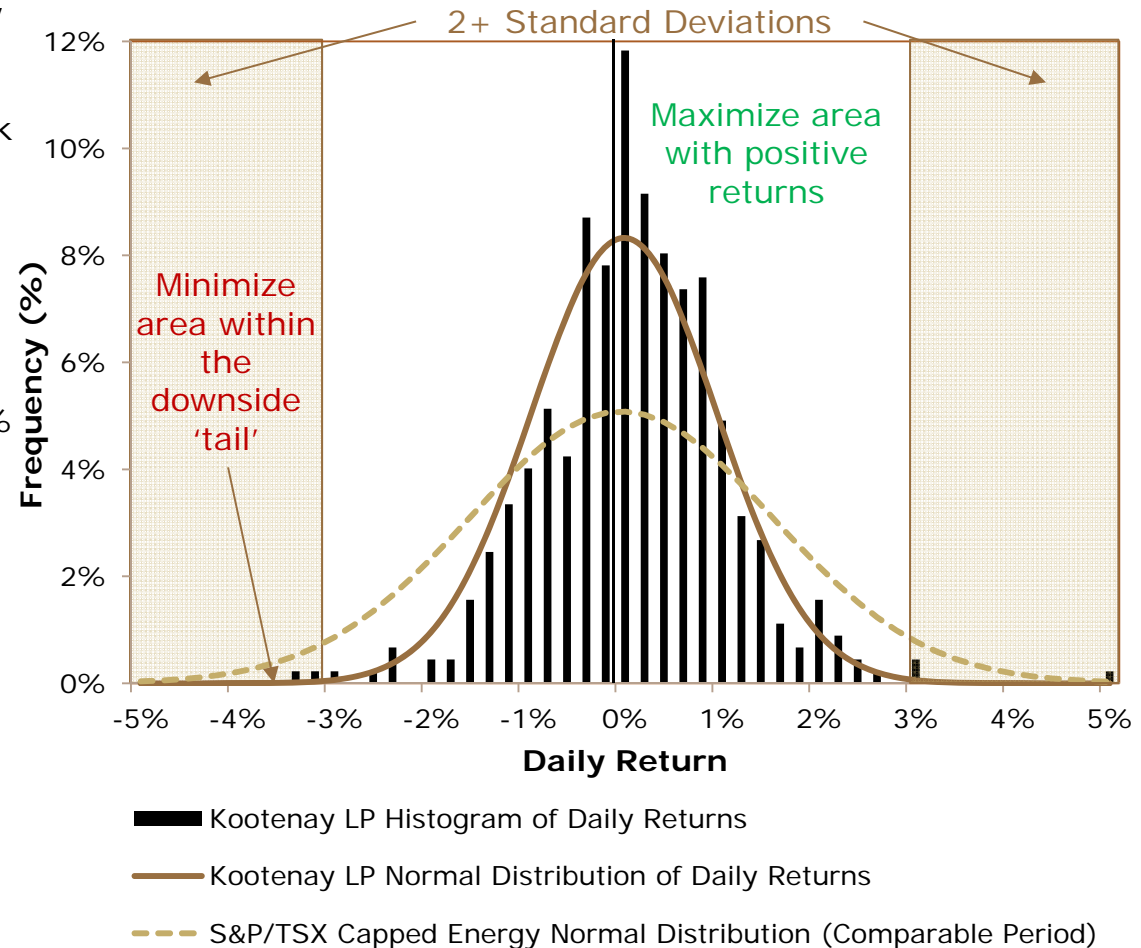


Source: Bloomberg, Kootenay

# Risk management

## Distribution of Daily Returns

- Disciplined hedging strategy results in **significant narrowing** of the Fund's **volatility** versus benchmark
- Objective to maximize area with positive returns; minimize exposure to downside 'tail risk' events
  - Frequency of <-3% days for Index is 4.4%
  - Frequency of <-3% days for Fund is 0.1%
- **Beta of 0.48** to the S&P/TSX Capped Energy Index since inception
- **Fund volatility of 15.5%** compares to **Energy Index volatility of 25.0%** over comparable period



Source: Bloomberg, Kootenay



# Fund Summary and Structure

<b>Fund type</b>	Fundamental long / short equity	
<b>Portfolio structure</b>	Seek low or negatively correlated strategies to reduce volatility and drawdowns	
<b>Fee structure</b>	2% Management Fee, 20% Performance Distribution	
<b>High water mark</b>	Yes; no reset	
<b>Hurdle rate</b>	None	
<b>Key manager reinvestment</b>	50%	
<b>Initial manager investment</b>	\$1.1 million	
<b>Key partners</b>	KPMG LLP (Auditor), CIBC World Markets Inc. (Prime Broker), Pinnacle Canada Fund Administration Ltd. (Administrator), Bennett Jones LLP (Legal Counsel)	
	<b>Limited Partnership</b>	<b>Mutual Fund Trust</b>
<b>Subscription amounts</b>	\$150,000 or at manager's discretion	\$25,000 or at manager's discretion
<b>Load Type</b>	No Load	No Load
<b>Purchase/redemption frequency</b>	Monthly	Monthly
<b>Early redemption charge</b>	5% redemption charge in first 6 months	5% redemption charge in first 6 months
<b>Eligible accounts</b>	Non-registered only	Non-registered and Registered (RRSP, RRIF, LIRA, LIF, TFSA, RESP)
<b>FundSERV codes</b>	n/a	Class 'A': KCM100 Class 'F': KCM101



Table is for reference only.  
Please refer to the Confidential Offering Memorandum for full details

# Kootenay contact information

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# Kootenay Capital Management Corp.

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In particular, this presentation contains forward-looking statements pertaining to the following: the Fund's process for selecting stocks; use and success of differing strategies; the Fund's assessment of factors driving resource play mispricing; the Fund's ability to benefit from merger and acquisition driven pricing inefficiencies; the Fund's ability to benefit from land sale arbitrage and the Fund's ability to capitalize on market inefficiency during reorganizations.

With respect to forward-looking statements and forward-looking information contained in this presentation, assumptions have been made regarding, among other things: merger and acquisition driven pricing inefficiencies; land sale pricing arbitrage; market inefficiencies during reorganization; the Fund's ability to obtain qualified staff in a timely and cost-efficient manner; the regulatory framework governing the Fund and its business; operating costs; future expenditures to be made by the Fund; availability of capital; the Fund's future debt levels; and the Fund's ability to successfully deploy capital.

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If this investor presentation, together with any amendment hereto, contains an untrue statement of a material fact or omits to state a material fact that is required to be stated or that is necessary in order to make any statement herein not false or misleading in light of the circumstances in which it was made (herein called a "misrepresentation"), an investor who purchases securities of the Fund during the period of distribution will be deemed to have relied upon such misrepresentation if it was a misrepresentation on the date of purchase and will have, subject as hereinafter provided, a right of action for damages which must be commenced not more than the earlier of (i) 180 days after the investor first had knowledge of the facts giving rise to the cause of action or (ii) three years after the date the securities were purchased hereunder, or, alternatively, for rescission, which must be commenced not more than 180 days after the date the securities were purchased hereunder, provided that:

- The Fund will not be held liable under this paragraph if the investor purchased the securities with knowledge of the misrepresentation;
- In an action for damages, the Fund will not be liable for all or any portion of such damages that it proves do not represent the depreciation in value of the securities as a result of the misrepresentation relied upon; and
- In no case will the amount recoverable under this paragraph exceed the price at which the securities were sold to the investor.

