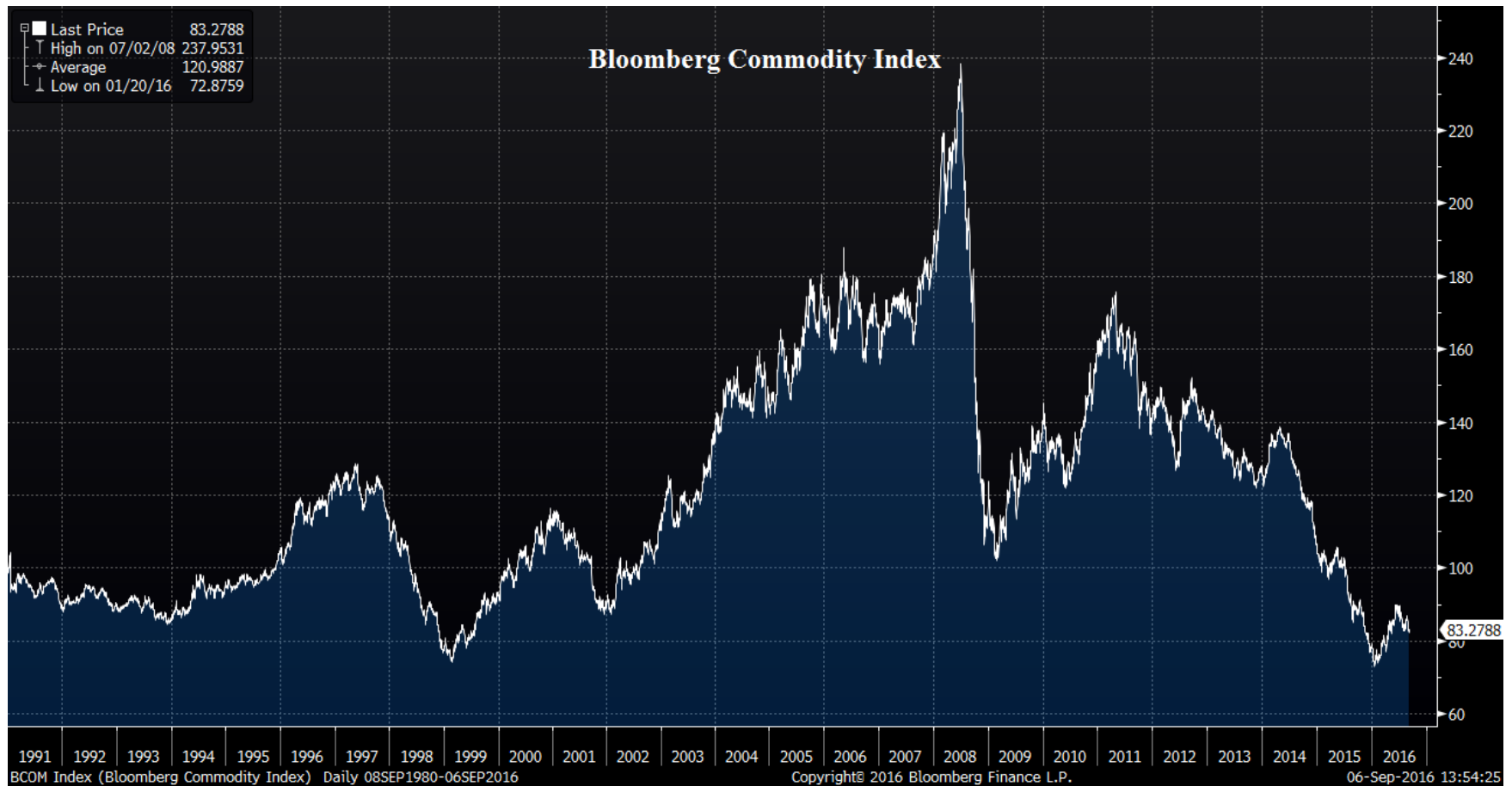




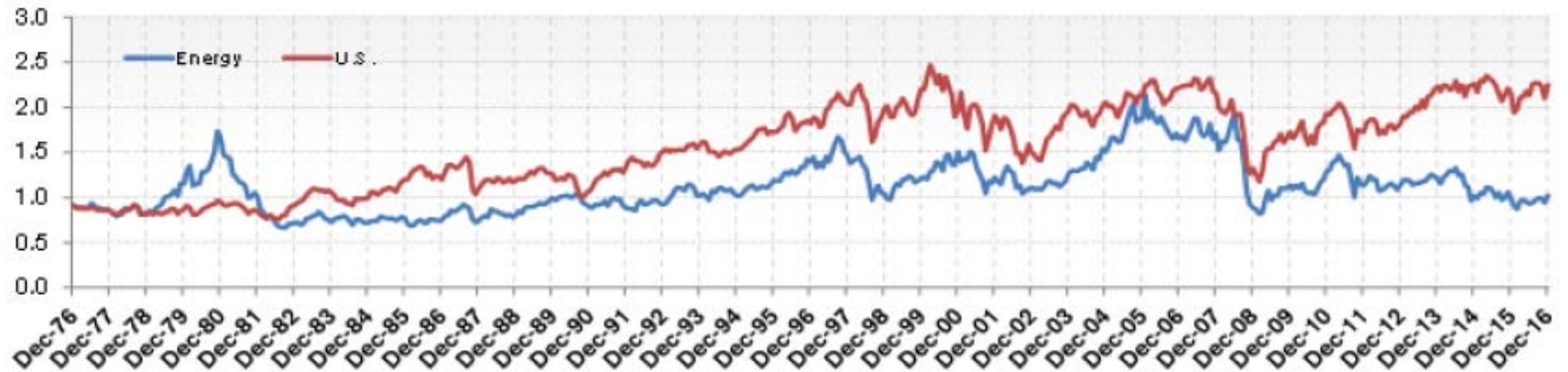
DePrince, Race & Zollo, Inc.
250 Park Avenue South • Suite 250 • Winter Park, Florida 32789
407/420-9903

Historical Commodity Prices



Sources: DRZ Research

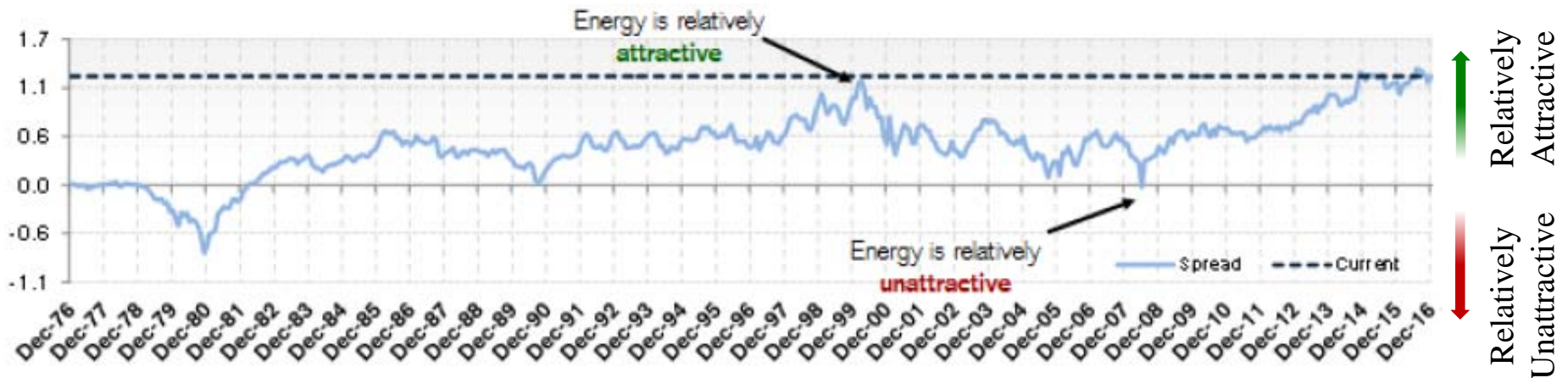
Valuation of Energy



- The P/Book Relative Is Still Wide Versus the S&P (Median Price/Book)

Valuation of Energy

Spread (Median P/B U.S. Energy Stocks)

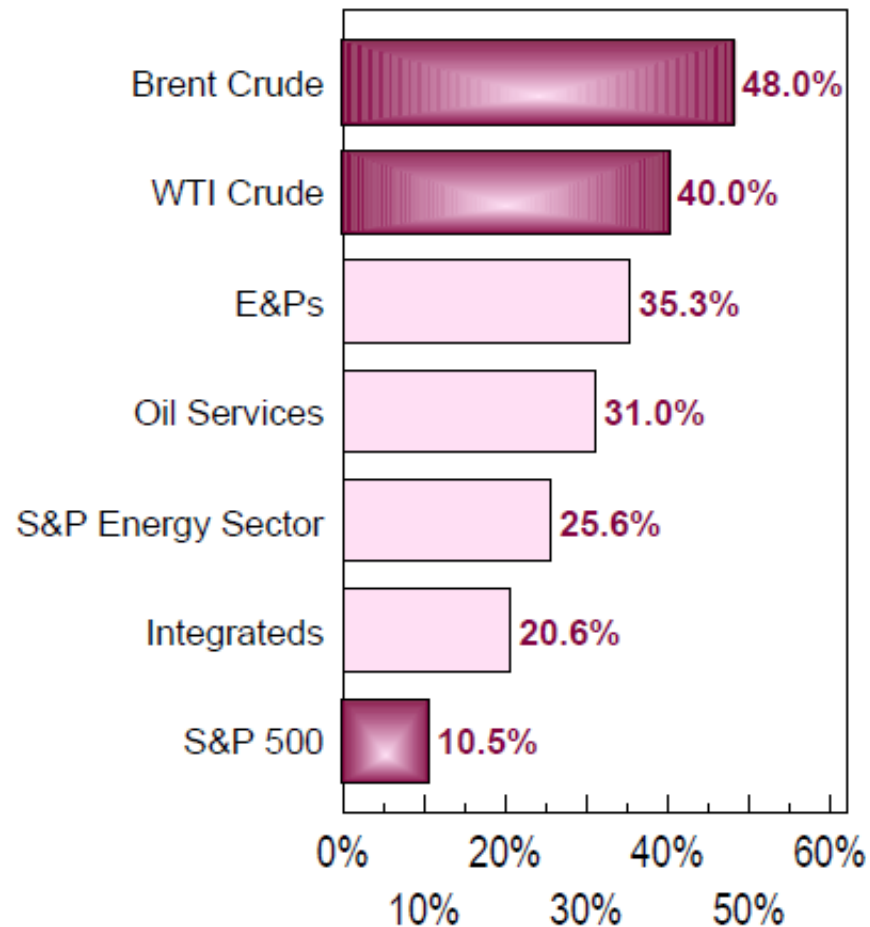


- The last time the spread was this wide, Energy went on to return 332% over the next 8 years or 16.7% annually vs. the S&P returning 32% or 3.2% annually.

Relative Valuation of Energy Stocks

YTD 2016

Performance



Upside Risks to \$80 Oil

- We believe global demand has outstripped supply in 2H16. We expect significant inventory draws through 2017 as OPEC production cuts take hold.
- Global supply naturally declines by ~4-5mm bpd annually.
- US Oil rig count is still down 67% from peak; Efficiency gains have plateaued.

Upside Risks to \$80 Oil

- Shale production will take ~12 months to return to growth; IEA projects 2016 Non-OPEC production to decline by ~900kbpd and 2017 to grow by ~200kbpd, with almost all of the growth coming outside the US.
- Industry has cut almost a half a trillion dollars in CAPEX globally; ~\$300B in CAPEX cuts equates to ~4.2mm bpd of future production.

Upside Risks to \$80 Oil

- Saudi Arabia is burning ~\$12B reserves per month; plans to IPO 5% of Saudi Aramco in 2018.
- OPEC will go broke before the US shale industry; US economy is a net beneficiary of lower oil prices; US Shale E&Ps will be the first to benefit from higher oil prices.

Upside Risks to \$80 Oil

- China demand growing +5% YoY and SPR build expected to add ~200kb/d; India 2016 demand growth +7% YoY or ~400kb/d; Will overtake Japan this year to become the world's 3rd largest oil consumer (10yrs ago wasn't even among the Top-10).

Upside Risks to \$80 Oil

- No premium being paid for escalating geopolitical tensions in the Middle East.
- Iranian Sanctions are put back on by the Trump Administration; Iran has increased production by ~870kpd in 2016.

Downside Risks to \$40 Oil

- OPEC Agreement fails with OPEC/Non-OPEC increasing production
- Global Recession & demand declines.
- USD strengthens w/ US raising rates.

U.S. Oil Rig Count & Oil Price

Total Rig Count (White Line) vs.
WTI Oil Price (Yellow Line)

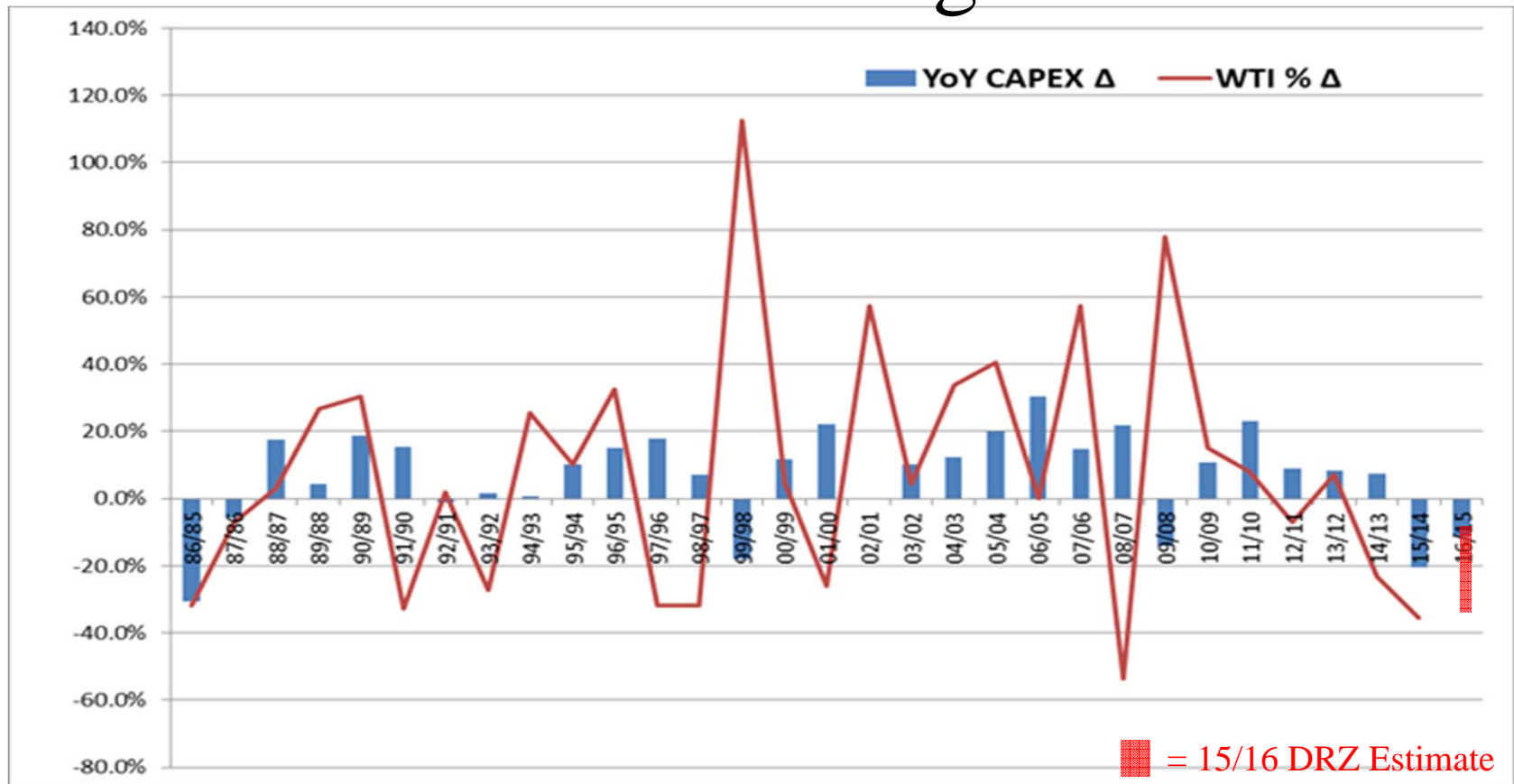


U.S. Oil Rig Count & Oil Price

- The Baker Hughes Oil rig count is down 1086 rigs from its peak in 2014 or ~67%. The US has added 213 oil rigs from its lows and will need to add another ~200 rigs just to keep production flat.
- The rig count reached its lowest level on record since Baker Hughes started collecting data in 1975.

Global E&P CAPEX

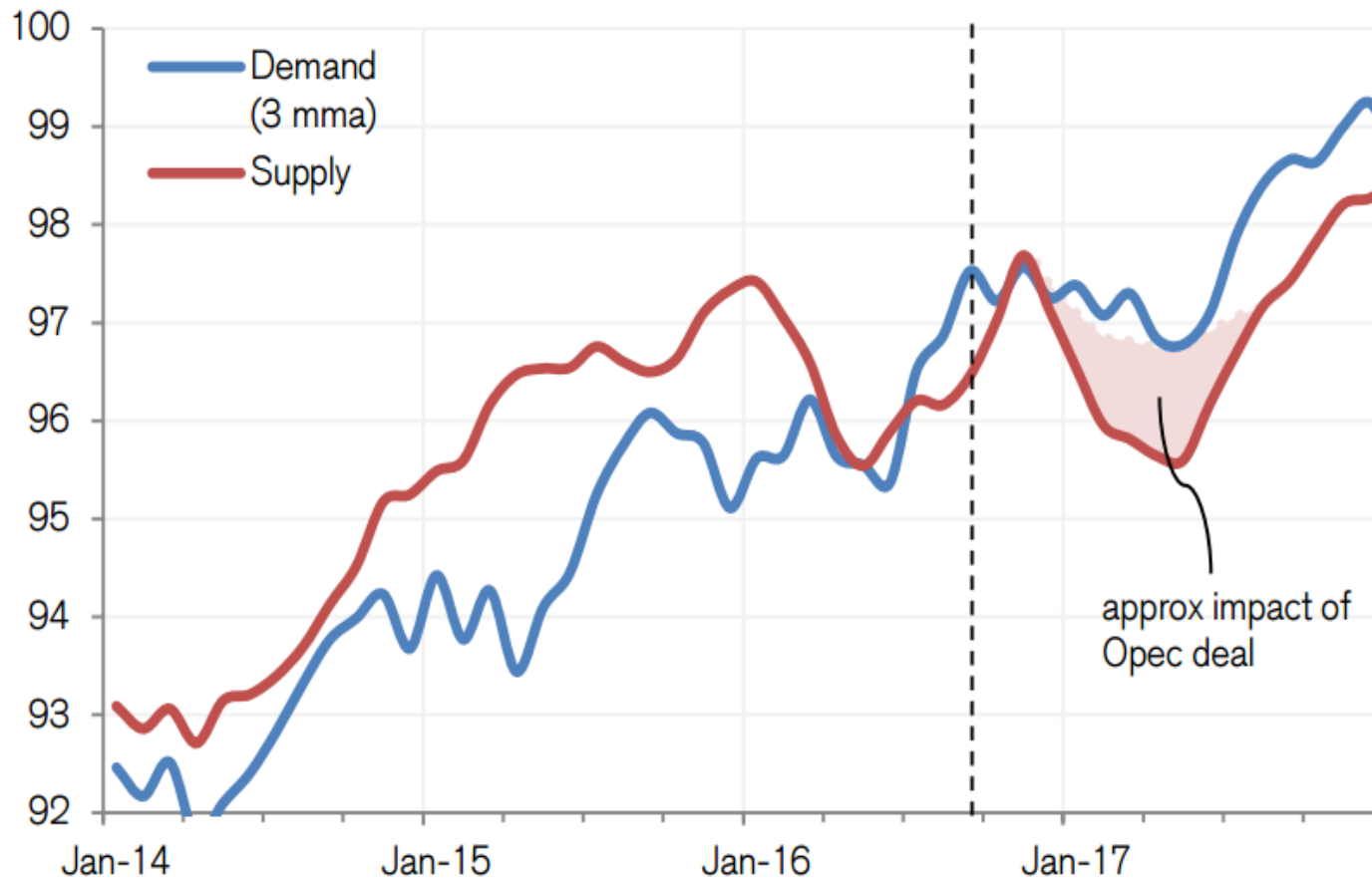
Global E&P CAPEX % Change vs.
WTI % Change



Global E&P CAPEX

- U.S. E&P Company CAPEX is guided to be down 50% in 2016 following a 35% decline in 2015. First time on record that Global energy CAPEX will be down by this magnitude over two consecutive years.
- 2015-16 will be the largest Global CAPEX % decline over a two year period in history.

Global Supply & Demand

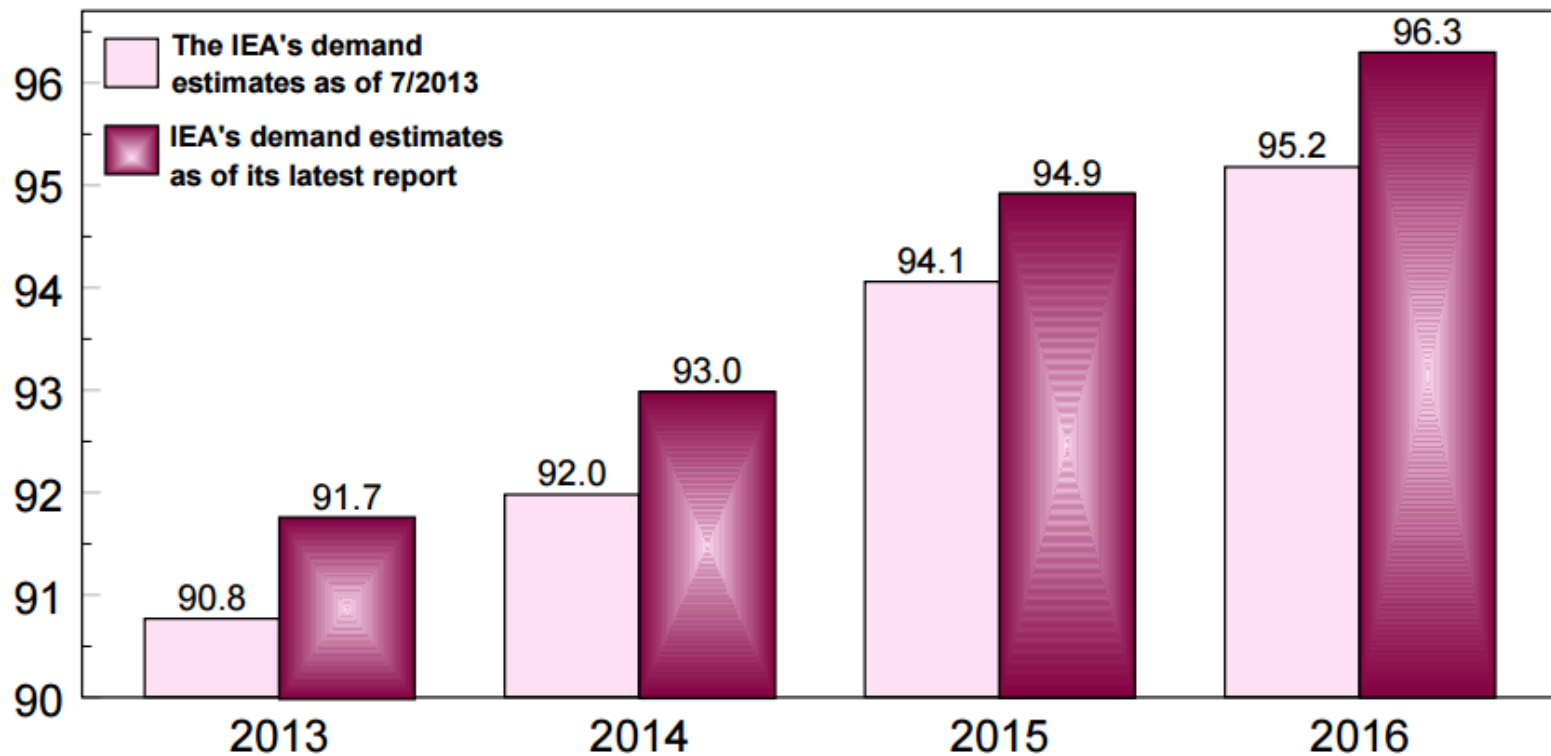


Global Supply & Demand

- Supply deficit is upon us. Regardless of OPEC agreement inventories would have declined, agreement speeds this process up.
- Demand trends (growth of more than 1.5% yoy) and supply trends (real declines nearly everywhere excluding the big three in the Persian Gulf and Russia) are the most important and are driving this rebalance.

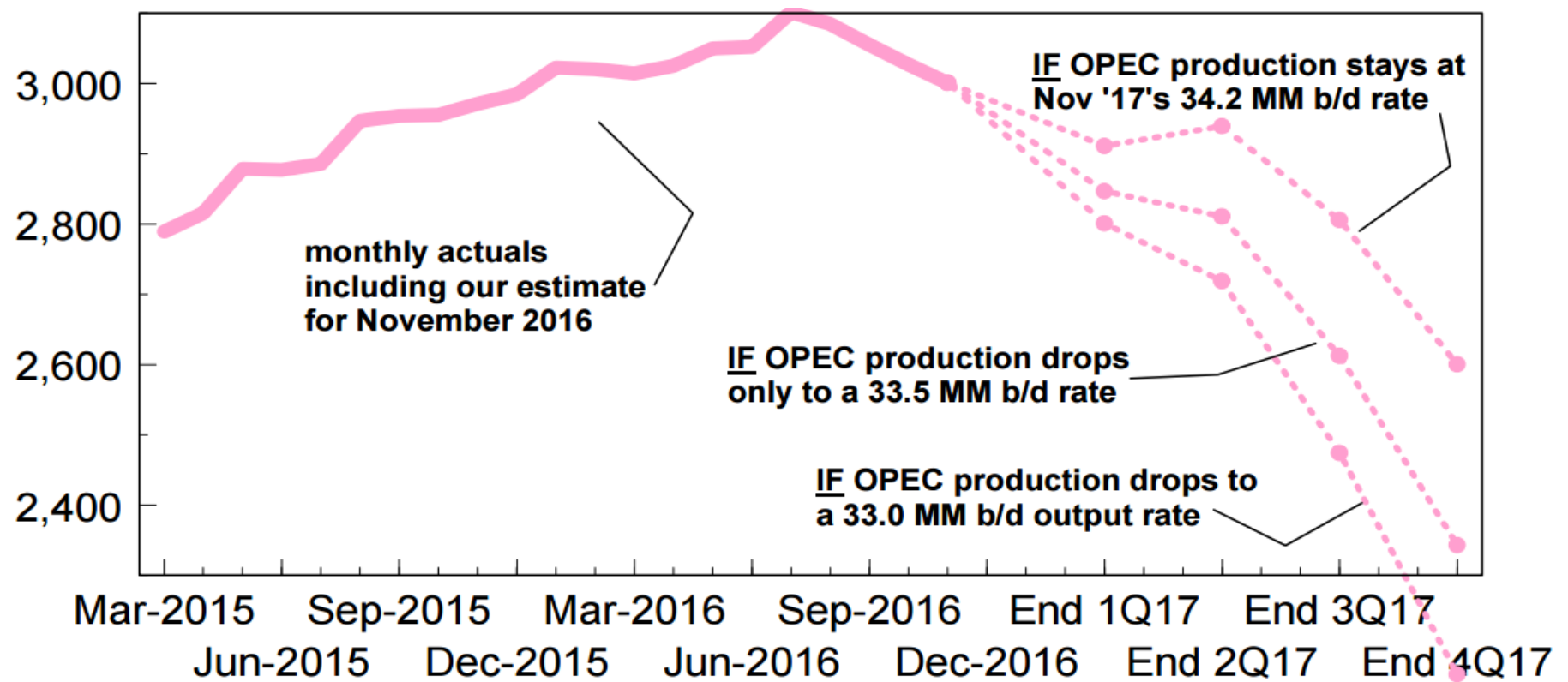
Underestimated IEA Demand

IEA's Annual Demand Estimates Original vs. revised figure, MM b/d

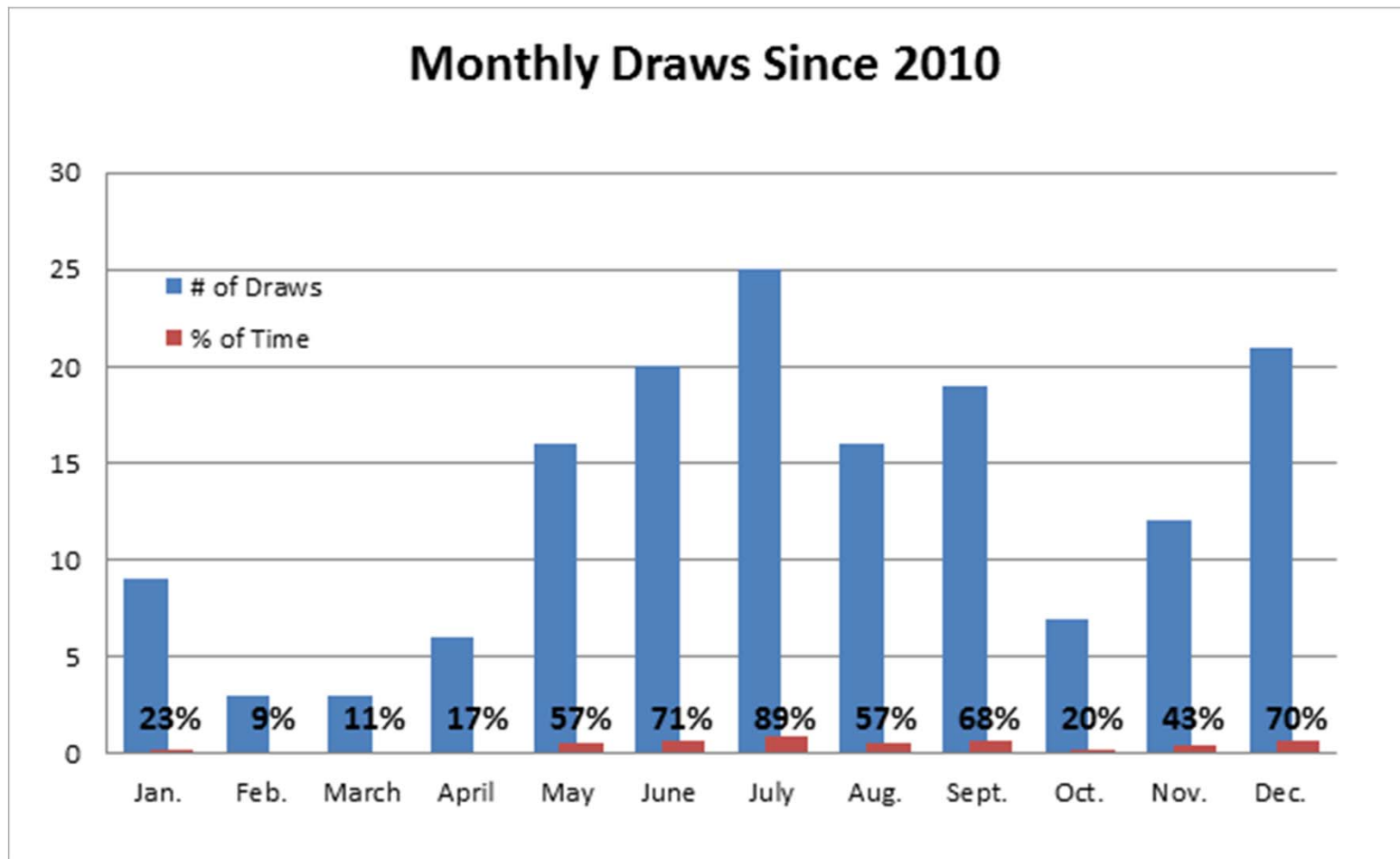


Global Oil Inventories

Month ending Global inventory level, actual and forecast, Million barrels



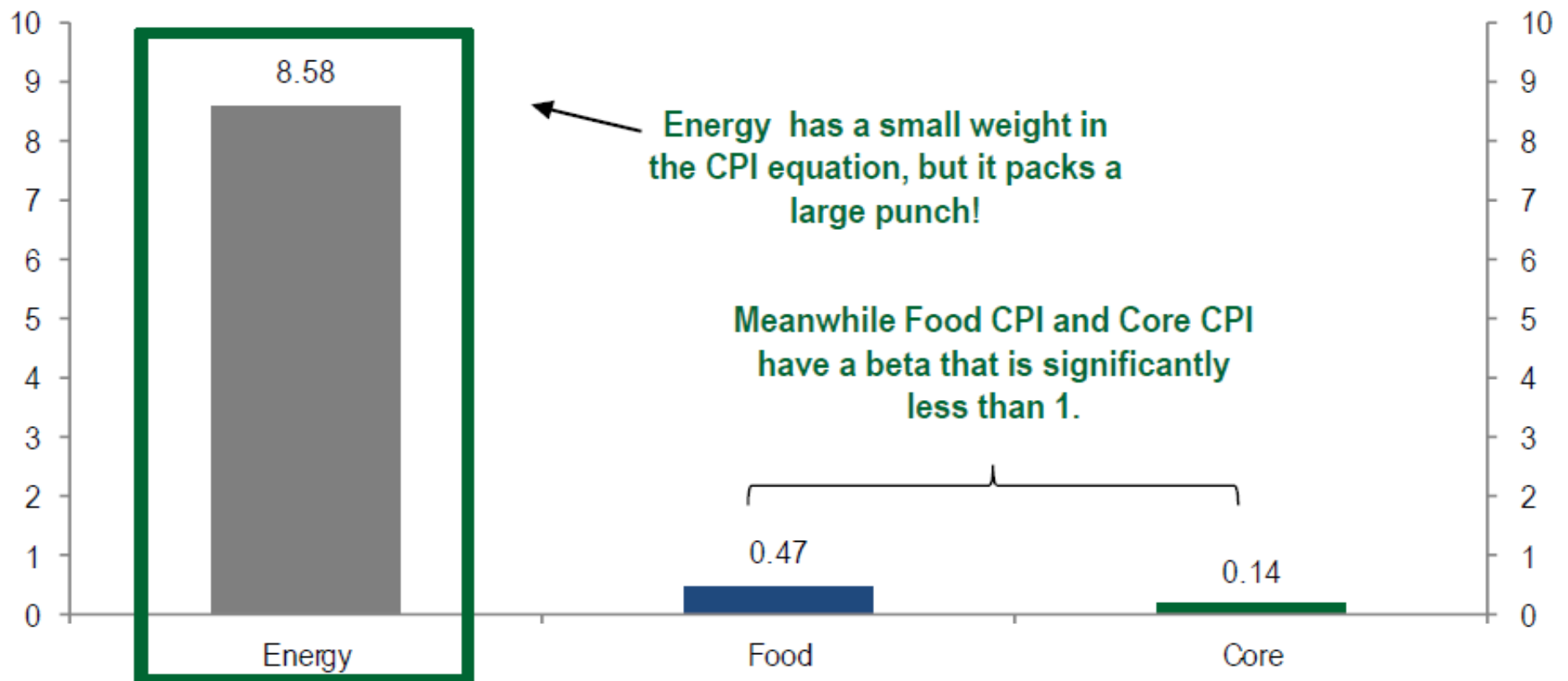
Oil Inventory Draws



Source: DRZ Research, Department of Energy

CPI Headed Higher?

Beta Of CPI Components Relative To Headline CPI



CPI Headed Higher?

- Although energy makes up less than 10% of the weight in headline CPI, energy trends explain more than 90% of the move in headline inflation.
- The chart prior shows the beta (volatility) of energy CPI is 8.5 compared to a beta of just 0.14 for Core CPI.