Energy Brief
November 2007
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Welcome to the November 2007 Guinness Atkinson Energy Brief.

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- Portfolio Review

In this Energy Brief we will look at the factors which are driving the record oil price. With WTI trading just below $100, we examine whether we think this is a short-term spike or a new trading range for oil. We also consider OPEC's reaction to the sharp run-up in the price in October.

Market Background in October 2007

The oil price (WTI) moved up significantly in October, following a strong rise in September also. It opened at $81.66 and after initially trading down to below $80 during the first week of the month, rose strongly to a series of new all-time highs, finishing the month at $94.53. From a low for the year of $50.48 in January, the oil price has risen by 87%.

Oil price (WTI) 18 months – May 1, 2006 to October 31, 2007

Source: Bloomberg

The strong run-up in October was aided by:

- **Turkey/PKK dispute**. Concerns over disruption to oil producing activities in northern Iraq were heightened in the month owing to an escalation in the ongoing dispute between Turkey and the Kurdistan Workers Party (PKK). On October 17 the Turkish government approved a military incursion into northern Iraq to pursue PKK rebels in response to various attacks against the Turkish military in the preceding weeks. While the majority of Iraq's oil production takes place in the south in the country, the dispute has affected pipeline links from the Kirkuk oil field in northern Iraq, about 100 miles from the Turkish border.

- **Iran-U.S. tension.** Oil supply concerns in the Middle East were also driven by the U.S. announcement on October 26 that they would bring new sanctions against Iran in response to concerns over Iran's uranium enrichment programme and alleged support for terrorism. Iran is the holder of the world's second-largest oil reserves and also controls the Straits of Hormuz, through which around 20% of the world's oil supply passes.

- **Hurricanes**. While hurricane activity in the Atlantic was less severe in October than the previous month, as is seasonally expected, there continued to be some weather-related disruption to the oil and gas facilities in the Gulf of Mexico. Most notably the Mexican National Oil Company, Pemex, shut down around a fifth of its daily oil production, or 600,000 barrels, because of a storm heading for the Gulf of Mexico in the final week of the month. This followed further disruption to Pemex's operations in the region the week before when another storm contributed to a collision between a Pemex oil rig and drilling platform which resulted in the deaths of 21 workers.

- **Crude oil inventories.** Inventory data reported in the month pointed to tighter crude oil markets. The August OECD total crude and product number (the latest data point available) showed a decrease of 21 million barrels, compared to a build of 25 million barrels for the same month last year. In the U.S., the domestic oil inventory level of 312.7 million barrels on October 31was the lowest since October 2005.

- **NYMEX Futures.** US speculators continue to push the oil price higher. October saw significant growth in the NYMEX non-commercial open long position. In September the open long position averaged 50,000 contracts, increasing to an average of 75,000 contracts long in October. That said the NYMEX net long position at the end of the month, at 83,100 contracts, was well below the record high of 127,000 contracts reported for July 31this year.

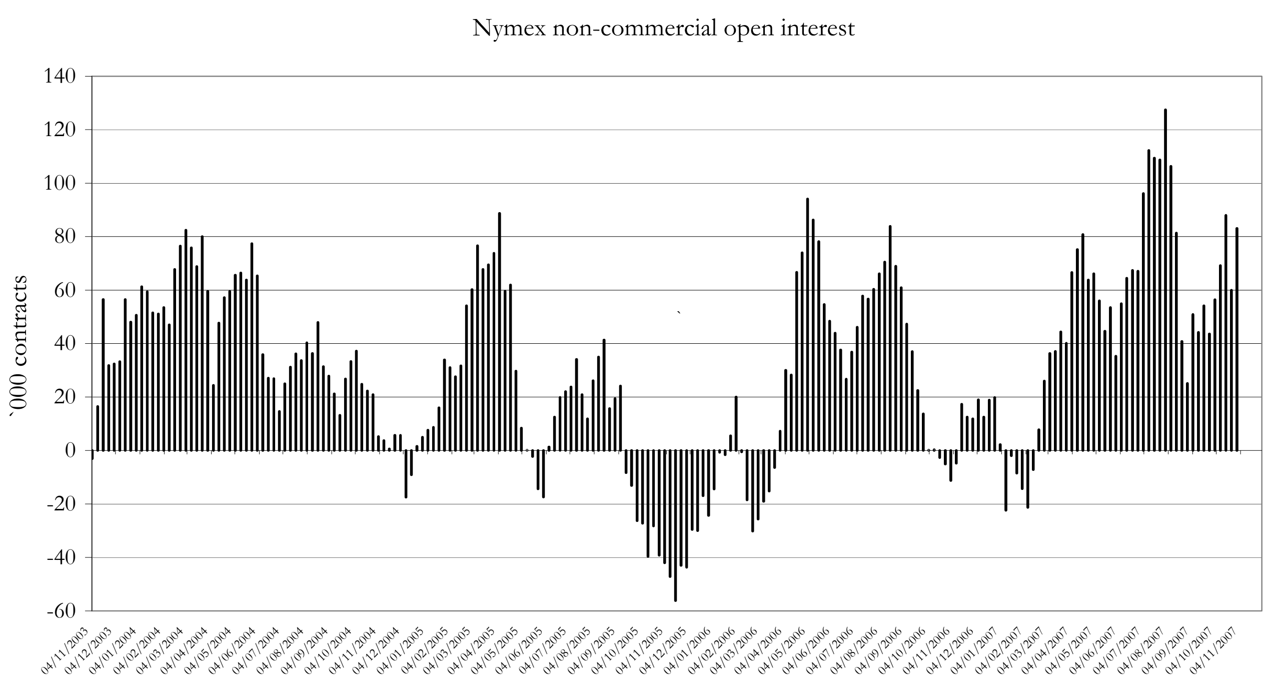
- **U.S. interest rates.** Following the half a percent interest rate cut announced by the Federal Reserve on 18 September, the rate was cut again by quarter of a percent on October 31. Cuts in U.S. interest rates are designed to sustain economic growth in the US, thereby counteracting any tendency for North American demand for oil to weaken. Also, to the extent lower interest rates in the U.S. led to a weakening in the dollar, the dollar price of oil could rise without affecting its value in other currencies. For example, when expressed in Euros the run up in the oil price from the January low is 68% (compared to 87% when expressed in dollar terms).

At the end of the month WTI was at a $4.24 premium to Brent and both futures curves remained in steep backwardation.

Speculative positions

As I mentioned above there was a lengthening in the NYMEX non-commercial open position in October – from an average of 50,000 contracts long in September to an average of 75,000 contracts long. The net position finished the month at 83,100 contracts long. The lengthening of the open position in the month likely supported the oil price rally.

Non-Commercial Net Futures: NYMEX crude contracts Nov 4, 2003 to Oct 31, 2007

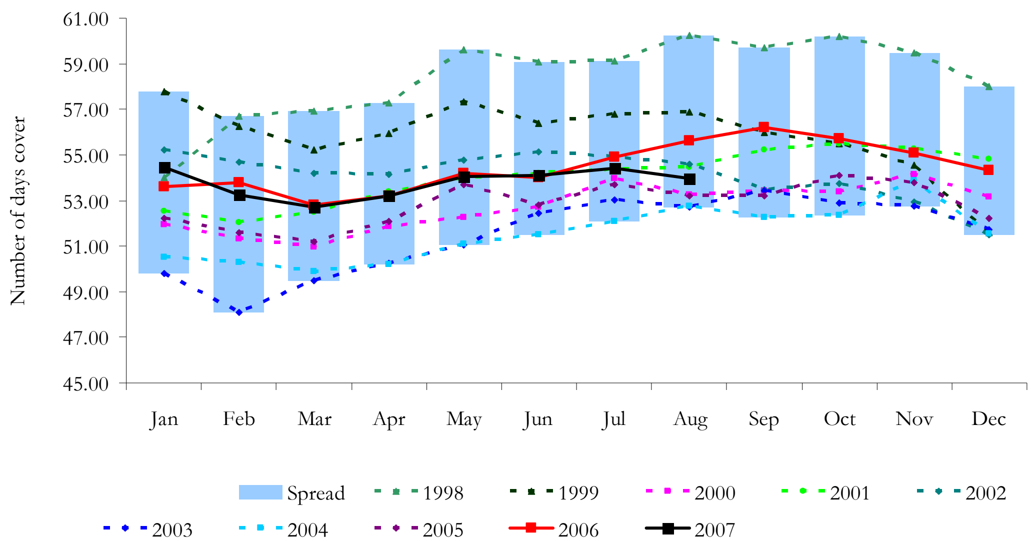


Source: Bloomberg/Nymex

OECD Stocks

The August OECD total crude and product number published in the October Oil Market Report (IEA) showed a decrease of 21 million barrels. This came after an increase of 15 million barrels in July. As I mentioned last month, the IEA updates historic OECD stock data if new information relating to historic stock numbers becomes available. Here the increase in July of 15 million barrels was originally reported last month as an increase of 30 million barrels. When expressed as number of days of demand cover (54.0 days) we see that we are well behind last year's number (55.6 days) and below the mid-point of the tight/loose spread of the last 10 years. The graph below illustrates the relatively low build up of inventories going into this summer and the divergence between days cover this year as compared to last year which has taken place over the past two months. It would not be true to describe the position as very tight, however – although a further draw in September would keep us towards the lower end of the tight/loose spread and maintain upward pressure on the oil price.

OECD Total Product and Crude Inventories – Monthly 1998 to August 2007



Source: IEA Oil market report

Gas Price ($/mcf)

The gas price (Henry Hub) opened at $6.14 and range-traded throughout October between $6.04 and $7.29 (peaking on 16 October), before closing at $7.22. The gas price has averaged $6.94 year to date, which is in line with our expectations.

The continuing weakness in the gas price, particularly relative to the oil price, can be attributed to the interplay of various factors. While there have been some cool days at the start of Autumn, the weather in the U.S. has remained generally mild, conditions which now dampen demand for heating, whereas the lack of extreme temperatures during the summer reduced the demand for air conditioning. Onshore gas production has been gently trending up, also. Weaker imports from Canada and higher demand from Mexico has not been enough to offset this. In addition, gas shut-ins in the Gulf of Mexico due to hurricane activity declined in October relative to the previous month as the 2007 hurricane season draws to a close. Gas storage levels have grown accordingly. Injections of gas going into underground storage in October were between 39 and 73 Bcf each week, resulting in an overall storage level at October 26 (the latest data point available) of 3,509 Bcf, which is 252 Bcf above the 5 year average (3,237 Bcf).

While the gas price has generally remained weak, a shortage of LNG imports has helped to keep the price above $6. The imports, which supplement U.S. gas production, fell to less than 1 Bcf/day for much of October (having peaked in the summer at around 3 Bcf/day), due to higher gas prices in Europe and Japan than in the U.S., both of which diverted LNG away from the U.S.

While we have seen the fundamentals weakening gas prices, the continuing strength of the oil price and coal to gas switching should pull in the other direction. An oil/gas price ratio ($ per bblWTI/$ per mcf H Hub) of nearly 13.1x at the end of October is considerably higher than a more normal ratio of 6-9x let alone the BTU equivalent of around 6X.

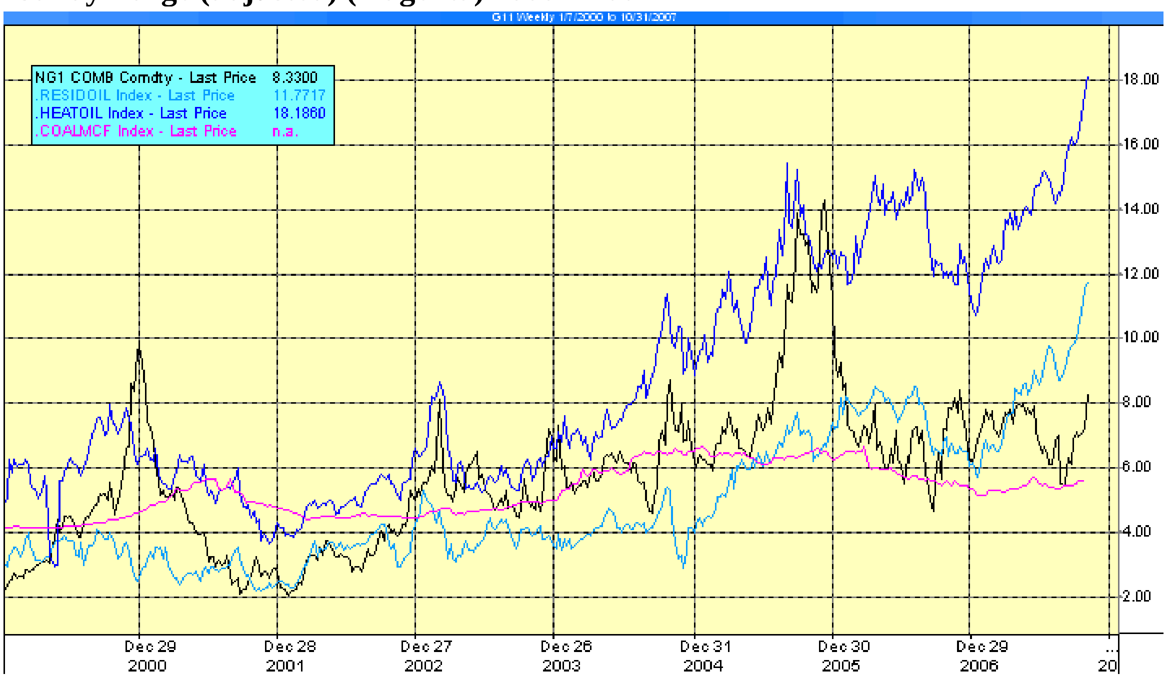
Henry Hub Gas price 18 months - May 1, 2006 to October 31, 2007

Source: Bloomberg

It is also important to observe the interplay between the four moving parts which act on this commodity in the U.S. – extra demand from switching either oil to gas (heating) or coal and nuclear to gas (electricity generation) when the gas price is low; falling production in the Gulf of Mexico; rising production onshore U.S. driven by high levels of unconventional gas drilling and LNG imports.

The chart of the U.S. natural gas price against heating oil (No2), residual fuel oil (No5) and coal (Sandy Barge) adjusted for transport and environmental costs shows how coal and residual fuel oil switching provide a floor and heating oil a ceiling to the natural gas price. The natural gas price has now fallen below the perceived support level of the residual fuel price but has rebounded off the level of the coal price. We should not be surprised to see the gas price rebound to within the trading band of the two crude oil product prices before long, although that is not a view to be found much in the market .

Natural gas price (black) vs Heating Oil (dark blue) and Residual fuel oil (light blue) and Sandy Barge (adjusted) (magenta) 2000 – 2007



Source: Bloomberg

Oil & gas equities.

The main index of oil and gas stocks, the MSCI World Energy Index, was up 3.87% over the month of October. For the year to date, the Index is up 27.36%. The S&P 500 was up 1.48% over the month of October and up 9.24% year to date.

Fund Performance Review

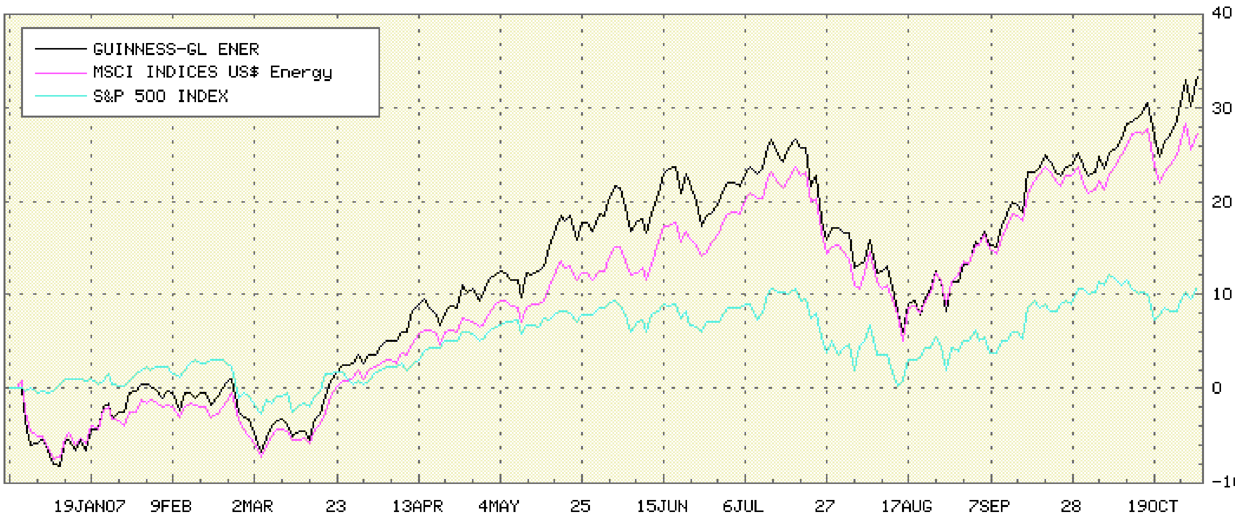
The Fund rose 7.74% in October and thus outperformed the MSCI World Energy Index by 3.87%. Within the Fund, October's stronger performers were Petrobras, Whiting, Sasol, Peabody and Suncor. Poorer performers were ENI, Chevron, ConocoPhillips, Ensign and Patterson.

Energy Fund vs S&P500 and MSCI World Energy Index - YTD to October 31, 2007

Range 12/29/06 - 10/31/07 Period D Daily 306 Day Period

Securities	Crncy	Prc Appr	Total Ret	Difference	Annual Eq
1 GAGEX US Equity	USD	33.52 %	33.52 %	6.16 %	41.17 %
2 MSGUENR Index	USD	27.36 %	27.36 %*		33.44 %
3 SPX Index	USD	9.24 %	10.87 %	-16.49 %	13.09 %

(* = No dividends or coupons)



Source: Bloomberg

Performance as of September 30, 2007

Inception date June 30 2004	**Q2 2007**	**Q3 2007**	**Last 2 years (annualised)**	**Full Year 2005**	**Full Year 2006**	**One year (annualised)**	**Inception to end 2006 (annualised)**	**Since Inception (annualised)**
Global Energy Fund	**16.63%**	**3.30%**	**13.81%**	**63.99%**	**9.80%**	**35.09%**	**37.02%**	**36.13%**
MSCI Energy Index*	**15.27%**	**5.15%**	**14.89%**	**26.20%**	**15.80%**	**33.15%**	**23.51%**	**25.27%**
S&P 500 Index	**6.28%**	**2.03%**	**13.62%**	**4.91%**	**15.79%**	**16.49%**	**11.14%**	**11.43%**

Expense Ratio 1.38% gross; 1.45% net**

Source: Bloomberg
*no dividends

Performance as of October 31, 2007

Inception date June 30 2004	**Q3 2007**	**October 2007**	**Last 2 years (annualised)**	**Full Year 2005**	**Full Year 2006**	**One year (annualised)**	**Inception to end 2006 (annualised)**	**Since Inception (annualised)**
Global Energy Fund	**3.30%**	**7.74%**	**24.67%**	**63.99%**	**9.80%**	**39.68%**	**37.02%**	**38.05%**
MSCI Energy Index*	**5.15%**	**3.87%**	**22.98%**	**26.20%**	**15.80%**	**31.97%**	**23.51%**	**25.93%**
S&P 500 Index	**2.03%**	**1.59%**	**15.45%**	**4.91%**	**15.79%**	**14.56%**	**11.14%**	**11.63%**

Source: Bloomberg
*no dividends

**The Global Energy Fund has an expense cap in place and the advisor is contractually obligated to cap the total expenses at least through June 30, 2008.

Performance data quoted represent past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the Fund may be lower or higher than the performance quoted. For most recent month-end and quarter-end performance, visit www.gafunds.com/performance.asp or call (800) 915-6566.

The Fund imposes a 2% redemption fee on shares held for less than 30 days. Total returns reflect a fee waiver in effect and in the absence of this waiver, the total returns would be lower.

Performance data does not reflect the redemption fee and, if deducted the fee would reduce the performance noted.

Buys/Sells

There were no changes made to the portfolio in October.

The following table shows the asset allocation at various dates since end December 2004:

%'s	31 Dec 2004	31 Dec 2005	31 Dec 2006	31 Oct 2007	Change in 2007
Integrated	23.5	20.6	23.8	42.6	+18.8
E&P Refining	7.3	6.9	6.7	3.4	-3.3
Sub-total Integrated	**30.8**	**27.5**	**30.5**	**46.0**	**+15.5**
Emerging Mkts.	16.4	14.8	11.6	10.0	-1.6
Sub-total Emerging Mkts.	**16.4**	**14.8**	**11.6**	**10.0**	**-1.6**
E&P Oil Sands	19.1	17.7	17.6	16.7	-0.9
E&P	25.2	27.3	17.4	14.4	-3.0
Sub-total E&P	**44.3**	**45.0**	**35.0**	**31.1**	**-3.9**
Oil Services & Equipment	4.0	2.3	13.0	10.8	-2.2
Refining	-	7.0	6.6	-	-6.6
Other	4.5	3.4	3.3	2.1	-1.2
Total	**100**	**100**	**100**	**100**	**-**

Market Outlook

Equity valuation

While it is hard to be precise, the current price of energy equities reflects a medium to long-term oil price of around $50/bbl. You can make a rough calculation that takes the 2006 Price Earnings Ratio of this Fund (13.0X) which reflected earnings when the oil price was $66 and works out what oil price would reduce earnings by 31% and so put the Fund on the same PER as the broad market, currently (the S&P500 on 18.9X 2007). Today that is $52.

Oil price outlook

Supply and demand recent past

We can see in the table below that world demand has grown by 8.2 million barrels per day over the last 5 years, while non-OPEC supply (plus OPEC NGLs) has increased by only 4.1 million. This disappointing non-OPEC supply growth can be attributed to a mix of inadequate growth from newer areas such as the Caspian and Brazil and declining mature basins. It should be noted that the list of non-OPEC countries whose oil production has peaked or will soon be peaking now includes: USA, Mexico, UK, Norway, Argentina, Colombia, Egypt, Syria, Oman, Brunei, Gabon, Cameroon, China, Malaysia and Australia.

Estimated Annual World Oil Demand Growth 2000 – 2007

(Million Barrels per Day)	2000	2001	2002	2003	2004	2005	2006	2007
World demand	**76.7**	**77.4**	**77.7**	**79.3**	**82.5**	**83.9**	**84.7**	**85.9**
*Non-OPEC supply (excl. Angola)**	*45.4*	*46.1*	*47.2*	*48.2*	*49.3*	*49.1*	*49.5*	*50.2*
OPEC NGLs	*3.1*	*3.4*	*3.7*	*3.7*	*4.2*	*4.5*	*4.6*	*4.8*
	48.5	**49.5**	**50.9**	**51.9**	**53.5**	**53.6**	**54.1**	**55.0**
Call on OPEC	**28.2**	**27.9**	**26.8**	**27.4**	**29.0**	**30.3**	**30.6**	**30.9**
Iraq Production	*2.6*	*2.4*	*2.0*	*1.3*	*2.0*	*1.8*	*1.9*	*2.1*
Angola Production	*0.7*	*0.7*	*0.9*	*0.9*	*1.0*	*1.2*	*1.4*	*1.6*
Call on OPEC excl. Angola & Iraq	**24.9**	**24.8**	**23.9**	**25.2**	**25.9**	**27.2**	**27.3**	**27.2**
World demand growth	*0.7*	*0.7*	*0.3*	*1.6*	*3.2*	*1.4*	*0.8*	*1.2*
Non OPEC supply plus OPEC NGLs growth	*1.2*	*1.0*	*1.4*	*1.1*	*1.6*	*0.1*	*0.5*	*0.9*
*Call on OPEC excl. Iraq & Angola growth**	*-0.5*	*-0.1*	*-0.9*	*1.3*	*0.7*	*1.3*	*0.1*	*-0.1*

Source: IEA Oil Market Report
*Angola switched from non-OPEC to OPEC

OPEC

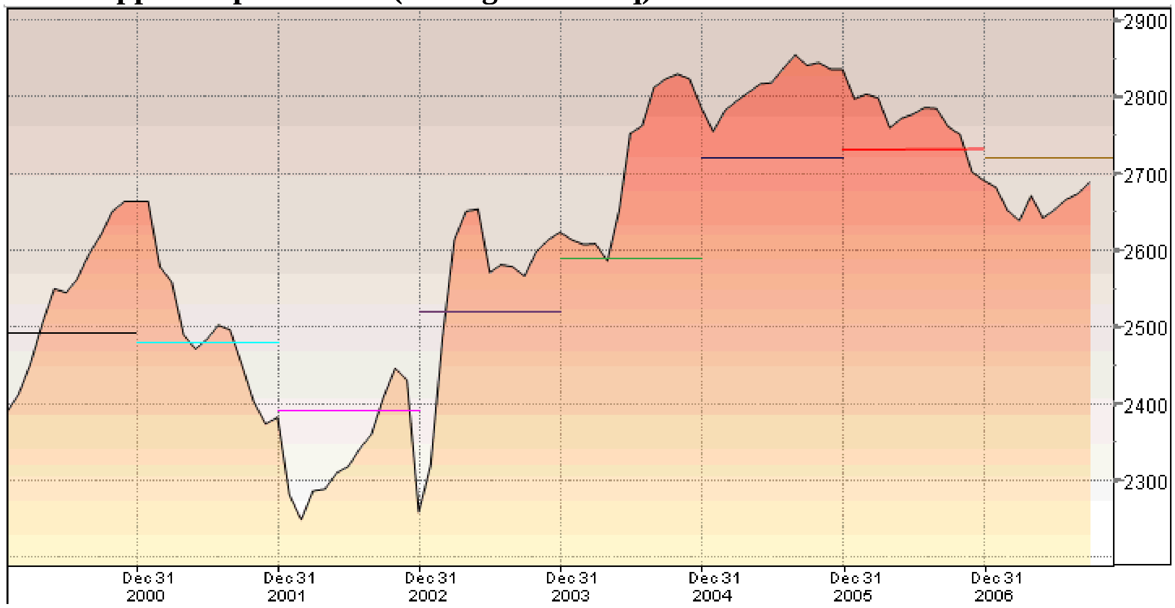
The widening gap between global demand and non-OPEC supply means that the world is more dependent on OPEC oil than ever before, as illustrated by the increased call on OPEC since 2002. Angola joined in February 2007, meaning that a further 1.6 million barrels a day are now controlled by OPEC. I note, too, that Ecuador has been invited to the OPEC summit later this month: having been a member since 1973 Ecuador suspended its membership in December 1992. Current daily production is 0.5m barrels, and is forecast to remain fairly flat until 2012.

Having decided to increase production by 500,000 barrels per day from November 1 OPEC saw oil prices move steadily higher in October. On October 16th they released the following statement:

"OPEC is carefully watching developments in the oil market and has observed with concern the recent escalation in oil prices. While the Organization does not favour oil prices at this level ($87), it strongly believes that fundamentals are not supporting current high prices and that the market is very well supplied…Forward cover, which stands at 53.5 days, is at a comfortable level….The rising oil prices which we are currently witnessing are, however, largely being driven by market speculators."

The OPEC summit this month in Riyadh will not cover production targets but they will be very much on the agenda at the December meeting in Abu Dhabi.

OPEC apparent production (ex Angola & Iraq) vs Call on OPEC 2000 – 2007



Source: Bloomberg/IEA Oil Market Report (11.10.07)

Supply looking Forward

There have been no great changes to long-term supply forecasts since the IEA produced its Medium Term Oil Market Report (OMR) in July. However, there were two changes to 2007 numbers this month which combined to decrease the 2007 call on OPEC ex-Angola and Iraq by 0.3 million barrels per day. FSU production was increased by 0.2 million barrels per day and Iraqi production was increased by 0.1 million barrels per day.

Taking into account the increased production from November, OPEC’s effective spare capacity (excluding Indonesia, Iraq, Nigeria and Venezuela) will be 2.7 million barrels per day, of which 81% comes from Saudi Arabia.

The next Medium Term Oil Market Report is expected later this month.

Demand looking forward

I observed last month that the IEA had reined in its 2007 and 2008 global oil demand forecasts, if only by 0.1 and 0.2 million barrels per day, and many expected further decreases in the October monthly report. They did not materialise, although the ‘disclaimer’ was more specific: “As noted in previous reports, however, these forecasts are liable to be revised once the potential effects of the ongoing subprime woes are fully appraised by the main international economic institutions (IMF and OECD) and if winter temperatures were to be milder than currently expected.”
The effect on oil demand of a $50-80 oil price continues to be surprisingly modest. The world is appears to be handling a doubled/trebled oil price without difficulty. At $25 oil was cheap and its rise in price by 2X – 3.5X is neither comparable to the 8X increase in the 1970s nor apparently

enough to dampen consumer demand seriously. Whether or not demand will continue undented in the face of $90+ oil remains to be seen.

Inventory Levels

As we discussed earlier in the report (page 4), OECD total crude and product inventories have tightened. They are now well below last year's levels and below the mid-point of the tight-loose spread of the last ten years, although they are not alarmingly tight: the OPEC statement described the forward cover as "comfortable", and we still have the extra OPEC barrels to come into the market.

Other factors

While looking at non-OPEC supply forecasts and OPEC production numbers we must not forget that the oil market is highly sensitive to geopolitical issues and conflict. The OPEC press statement on October 16th was quick to make this point: "Ongoing geopolitical problems in the Middle East…also continue to play a role in pushing oil prices higher. Additional political tensions, seen during recent days, are also pressurizing oil prices upwards." The ongoing dispute between Turkey and the Kurdish PKK illustrates how the threat of conflict in the Middle East can affect global oil prices, and added to this is the ongoing stand-off between the U.S. and Iran. Venezuela, Ecuador, Bolivia and Russia are to a greater or lesser extent nationalizing or renationalizing their oil assets, while Sudan, Iraq, Nigeria and Colombia are in varying states of civil war. Add to this the seasonal threat of hurricanes, which has played a part again this month, and you have a global oil market founded on some very uncertain ground.

Conclusions

We predicted in January that oil would range trade between $50 and $70 this year and said last month that the trading range had moved up to $60-$80, with the possibility of a move up towards $100. As I write the front month WTI contract is trading above $95. So is this the significant move up, or a short term spike? It still feels to me like a short-term spike, and over time I think $60-$80 will be a more likely range, but the role of short-term speculators in the market can never be discounted. There are clearly plenty of market participants who are ready for $100 oil.

Even with $95 oil the average price for the year is just over $68, versus $66 for 2006. It is easy to forget that we did not see $70 oil in 2007 until the last day of June.

There are risks in all of this theorising, of course. The ones I worry most about are either a marked slow down in economic growth in China or a very rapid expansion in production in Iraq occurring without OPEC making the necessary cuts to accommodate it. At the moment I do not think these are very likely but one can never be sure, and the reported increase in Iraq's production for September reminds us of that.

Current portfolio

The invested fund at October 30, 2007 was on a Price Earnings Ratio (2007) of 13.6X (13.0X 2006) with a median PER (2007) of stocks held of 13.5X. By comparison the S&P500 Index at 1549.38 was on a PER of 18.8X (2007) (*Based on S&P500 earnings per share estimates of 82.47 for 2007, 81.02 for 2006, 65.58 for 2005).* This is shown in the following table:

	2005	**2006**	**2007**
Fund PER	16.3X	13.0X	13.6X
S&P500 PER	23.6X	19.1X	18.8X
Premium (+)/Discount (-)	-30.9%	-31.9%	-27.7%
Fund 2005 vs S&P500 2006	**-14.7%**	**Fund 2006 vs S&P500 2007**	**-30.9%**
WTI average	$56.6/barrel	$66.1/barrel	$68.3/barrel (YTD)

Portfolio Holdings
Our **integrated** and similar stock exposure (c.45%) is comprised of a mix of mid-cap and large-cap stocks. Mid-caps are ConocoPhillips, Statoil, Occidental, OMV, Hess, Petro-Canada, ENI and Total. Our four large caps are Exxon, Royal Dutch Shell, BP and Chevron. The median P/E ratio of this group is 10.7X 2007 earnings, which looks cheap when you consider that the S&P500 Index is on 18.8X 2007 earnings.

Our **E&P and Oil Sands** exposure (c.31%) gives us exposure most directly to a rising or sustained high oil price. The stocks with oil sands exposure are Imperial Oil, Encana, Canadian Oil Sands Trust, OPTI Canada, Nexen and Suncor. The pure E&P stocks are all now in the U.S. (Anadarko, Apache, Pioneer Natural Resources, Plains Exploration and Whiting). The metrics behind three of the stocks held are low EV/Proven Reserves (Whiting, Plains and Pioneer). Whiting and Plains have above average oil exposure. Apache and Anadarko continue to give us exposure to North American natural gas (they are both c 50% oil only) through one of the industry leaders (Apache) and one of the more leveraged companies (Anadarko).

We have exposure to two **Emerging Markets** stocks (c.9%). Petrobras is mainly E&P focused while Sasol is a leader in coal/gas to oil technology. Petrobras has growth potential and advantages as a national champion. Sasol is a unique growth stock with significant opportunities to grow from joint ventures, licensing, and using its know-how and experience arising from its pre-eminent position in coal and gas to liquids technology. This growth brings its projected June 2008 earnings multiple down to 11.4X.

We have useful exposure to **North American Oil Service** stocks having concluded in late 2005 that a sustained high oil and natural gas price meant the extraordinarily good trading environment for them outweighed concerns we have felt about valuation levels. On estimated 2007 earnings they are all trading between 8.2X and 14.7X. - Global Santafe (11.4X), Patterson UTI (8.2X), Helix (used to be Cal Dive) (14.7X), Ensign (11.0X), Hercules (10.6X) and Unit Corp (8.5X). With the advantage of hindsight we have been over exposed to gas sensitive drillers and had too little in the large global service companies. However, our current view is that the pendulum is swinging and the valuations of our drillers will look very low in a better natural gas price environment and the large caps are over extended.

Of other holdings, Peabody gives exposure to steadily improving coal prices if and when higher oil prices drag them up. Their earnings are projected to more than double between 2007 and 2010 and their energy reserves (on a Btu basis) are far greater than Exxon's.

Overall, the Fund continues to seek to be well placed to benefit from a sustained high oil price environment.

Tim Guinness
November 5, 2007

Commentary for our views on alternative energy and Asia markets is available on our website. Please click here to view.

The Fund's holdings, industry sector weightings and geographic weightings may change at any time due to ongoing portfolio management. References to specific investments and weightings should not be construed as a recommendation by the Fund or Guinness Atkinson Asset Management, Inc. to buy or sell the securities.

Mutual fund investing involves risk and loss of principal is possible. The Fund invests in foreign securities which will involve greater volatility, political, economic and currency risks and differences in accounting methods. The Fund is non-diversified meaning it concentrates its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund also invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The MSCI World Energy Index is an unmanaged index composed of more than 1,400 stocks listed on exchanges in the U.S., Europe, Canada, Australia, New Zealand and the Far East. They assume reinvestment of dividends, capital gains and excludes management fees and expenses. They are not available for investment.

Price to earnings ratio reflects the multiple of earnings at which a stock sells.

Earnings per share is the portion of a company's profit allocated to each outstanding share of common stock. The amount is computed by dividing net earnings by the number of outstanding shares of common stock.

This information is authorized for use when preceded or accompanied by a prospectus for the Guinness Atkinson Global Energy Fund. The prospectus contains more complete information, including investment objectives, risks, charges and expenses related to an ongoing investment in the Fund. Please read the prospectus carefully before investing.

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Historical Context

Oil price (WTI) last 18 years.

Source: Bloomberg

For the oil market, the period since the Iraq Kuwait war (1990/91) can be divided into two distinct periods: the first 8-year period was broadly characterised by decline. The oil price steadily weakened 1991 - 1993, rallied between 1994 –1996, and then sold off sharply, to test 20 year lows in late 1998. This latter decline was partly induced by a sharp contraction in demand growth from Asia, associated with the Asian crisis, partly by a rapid recovery in Iraq exports after the UN Oil for food deal, and partly by a perceived lack of discipline at OPEC in coping with these developments.

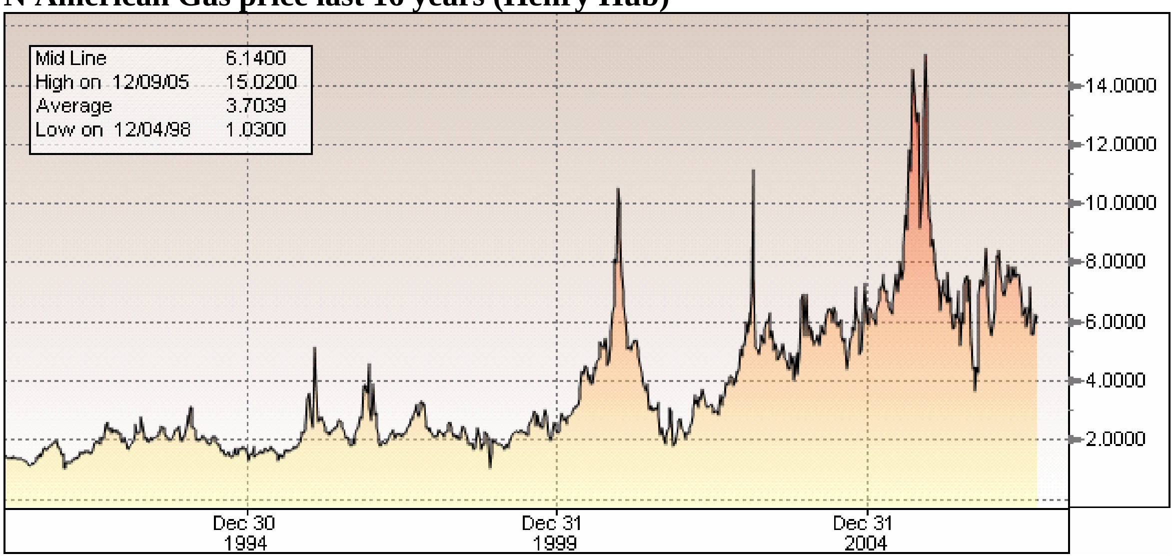
The last 9 1/2 years, by contrast, have seen a much stronger price and upward trend. There was a very strong rally between 1999 and 2000 as OPEC implemented 4 m b/d of production cuts. It was followed by a period of weakness caused by the roll back of these cuts, coinciding with the world economic slowdown, which reduced demand growth and a recovery in Russian exports from depressed levels in the mid 1990s that increased supply. OPEC responded rapidly to this during 2001 and reintroduced production cuts that stabilised the market relatively quickly by the end of 2001.

Then, in late 2002 early 2003, war in Iraq and a general strike in Venezuela caused the price to spike upward. This was quickly followed by a sharp sell off due to the swift capture of Iraq's Southern oil fields by Allied Forces and expectation that they would win easily. Then higher prices were generated when the anticipated recovery in Iraq production was slow to materialise. This was in mid to end 2003 followed by a much more normal phase with positive factors (China demand; Venezuelan production difficulties; strong world economy) balanced against negative ones (Iraq back to 2.5m b/d; 2Q seasonal demand weakness) with stock levels and speculative activity needing to be monitored closely. OPEC's management skills appeared likely to be the critical determinant in this environment.

By mid 2004 the market had become unsettled by the deteriorating security situation in Iraq and Saudi Arabia and increasingly impressed by the regular upgrades in IEA forecasts of near record world oil demand growth in 2004 caused by a triple demand shock from strong demand simultaneously from China; the developed world (esp USA) and Asia (ex China). Higher production by OPEC has been one response and there was for a period some worry that this, if not curbed, together with demand and supply responses to higher prices, would cause an oil price sell off. Offsetting this has been an opposite worry that non OPEC production could be within a decade of peaking; a growing view that OPEC would defend $50 oil vigorously; upwards pressure on inventory levels from a move from JIT (just in time) to JIC (just in case); and pressure on futures markets from commodity fund investors.

Since 2005 we have seen a further strong run-up in the oil price. Hurricanes Katrina and Rita which devastated New Orleans caused oil to spike up to $70 in August 2005, and it spiked up again in July 2006 to $78 after a three week conflict between Israel and Lebanon threatened supply from the Middle East. OPEC implemented cuts in late 2006 and early 2007 of 1.7 million barrels per day to defend $50 oil and with non-OPEC supply growth at best anaemic it would appear that OPEC will continue to act a price-setter in the market. The threat of hurricanes and continued expectations of a supply crunch by the end of the decade have recently forced WTI up to and above $80.

N American Gas price last 16 years (Henry Hub)



Source: Bloomberg

On the gas market, the price traded between $1.50 and $3/Mcf for the period 1991 - 1999. This was followed by two significant spikes up to $8-10/Mcf, one in late 2000 and one early in 2003. The spikes were caused by very tight supply situations because there is an underlying problem with supply in the rapid depletion of North American gas reserves. On both occasions, the price spike induced a spurt of drilling which brought the price back down. More recently we have seen another period of very firm (over $5/Mcf) gas prices followed by a hurricane induced spike. Since the big spike in late 2005 the gas price has traded mainly in the $6-$8 range, with a significant move down precipitated by the collapse of Amaranth. North American gas prices are important to many E&P companies. In the short-term, they do not necessarily move in line with the oil price, as the gas market is essentially a local one. (In theory 6 Mcf of gas is equivalent to

1 barrel of oil so $60 per barrel equals $10/Mcf gas). It is a regional market more than a global market because Liquid Natural Gas imports cannot rapidly respond to increased demand because of the high infrastructure spending needed to increase capacity but that is slowly becoming less true as LNG infrastructure is put in place.

Portfolio at October 31, 2007

Global Energy Fund GAGEX 31st October 2007

Holding	Stock	Country	% of NAV	2006 IBES median PER	2007 IBES median PER	Sector	30.09.07 Mkt Cap
199,285	BP PLC	UK	3.78	10.6	12.8	Integrated	220.23
64,271	ROYAL DUTCH SHELL	UK	4.11	9.6	10.7	Integrated	263.36
29,500	TOTAL	France	3.47	10.9	10.3	Integrated	194.22
66,300	ENI	Italy	3.53	10.1	10.0	Integrated	148.19
29,000	EXXON MOBIL CORP	US	3.89	14.0	13.2	Integrated	513.36
28,726	CHEVRON CORP	US	3.83	11.7	11.0	Integrated	199.49
31,328	CONOCOPHILLIPS	US	3.88	8.8	9.4	Integrated	142.82
43,608	OCCIDENTAL PETE CORP	US	4.39	13.4	13.9	Integrated	53.23
44,630	PETRO-CANADA	Canada	3.76	17.5	10.3	Integrated	28.02
29,133	OMV AG	Austria	3.19	11.2	10.7	Integrated	20.00
79,700	STATOILHYDRO ASA	Norway	3.96	9.7	11.5	Integrated	73.55
32,243	HESS CORPORATION	US	3.37	11.8	12.6	E&P/Refining	21.16
40,030	PETROLEO BRASILEIRO	Brazil	4.86	15.3	14.1	Emerging Mkts	155.62
53,447	SASOL	S Africa	3.98	15.0	13.6	Emerging Mkts	27.06
31,759	DRAGON OIL	FSU	0.30	16.5	13.6	Emerging Mkts	2.35
600	IMPERIAL ENERGY CO	FSU	0.03	nm	197.1	Emerging Mkts	1.15
99,000	AFREN	W Africa	0.28	nm	nm	Emerging Mkts	0.37
914,780	SHANDONG MOLONG PE	China	0.36	52.8	35.2	Emerging Mkts	0.91
11,399	SUNCOR ENERGY INC	Canada	1.82	16.0	20.4	E&P/Oil sands	43.77
23,536	ENCANA CORPORATION	Canada	2.40	9.6	13.5	E&P/Oil sands	46.51
48,107	IMPERIAL OIL LTD	Canada	3.82	16.5	16.8	E&P/Oil sands	45.80
36,158	CDN OIL SANDS TRUST	Canada	1.94	19.5	15.7	E&P/Oil sands	15.88
60,029	NEXEN INC	Canada	2.97	19.6	13.0	E&P/Oil sands	16.09
95,888	OPTI CANADA INC	Canada	2.82	nm	nm	E&P/Oil sands	3.26
42,200	SYNENCO ENERGY	Canada	0.63	138.6	nm	E&P/Oil sands	0.57
16,309	APACHE CORP	US	2.47	13.6	13.9	E&P	29.90
26,470	ANADARKO PETE	US	2.28	9.8	16.3	E&P	25.03
308,000	ENCORE OIL	UK	0.18	nm	nm	E&P	0.09
25,320	PIONEER NATURAL RES	US	1.88	35.9	23.8	E&P	5.54
43,630	PLAINS EXPL & PRODTN	US	3.24	18.7	34.2	E&P	3.22
45,211	WHITING PETE CORP	US	3.57	12.7	22.1	E&P	1.89
364,358	COASTAL ENERGY COM	Canada	0.39	nm	35.0	E&P	0.17
6,200	GREY WOLF EXPL	Canada	0.02	20.0	110.0	E&P	0.09
67,091	GRANBY OIL & GAS	UK	0.14	nm	nm	E&P	0.05
28,760	GLOBALSANTAFE CORP	US	3.40	19.6	11.4	Eqt & Services	17.20
48,070	PATTERSON UTI ENERGY	US	1.40	5.0	8.2	Eqt & Services	3.55
48,080	HELIX ENRGY SOLNS	US	3.24	12.0	14.7	Eqt & Services	3.88
35,282	ENSIGN ENERGY SERVCS	Canada	0.93	7.8	11.0	Eqt & Services	2.88
21,763	HERCULES OFFSHORE	US	0.86	9.1	10.6	Eqt & Services	2.32
11,310	UNIT CORP	US	0.79	7.1	8.5	Eqt & Services	2.25
25,630	PEABODY ENERGY CORP	US	2.08	25.0	29.8	Coal Mining	12.71
			98.27				**16.09**
	Cash		**1.73**	**33.0**	33.0		**Median**
			100.00				
			Fund PER ex cash	13.0	13.6		
			Fund PER inc cash	**13.2**	**13.8**		
			Med. PER	**13.4**	**13.5**		