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There is little to write about this week, other than the growing price differentials that Canadian producers are becoming increasingly exposed to. Many natural gas companies have been saved from low natural gas prices (\$2/mcf in Canada) by the liquids that get produced along with their natural gas. This phenomenon is called liquid rich gas production. Many of the liquid streams sell at 50% to 105% of light oil pricing. Over the past several years, as the price of natural gas has decreased, many companies whom did not have exposure to light oil aggressively built land positions in reservoirs with liquids attached to the natural gas stream (having natural gas with strong liquids can increase realized revenue by over 100%). Fast forward to today, and industry has found itself a victim of its own success. Although exacerbated by warm weather, the price of many of these liquids has decreased due to an oversupply from continued liquids rich natural gas drilling. Propane for example is down approximately 25% over the past 3 months. The drop in liquids pricing will prevent some companies from chasing reservoirs that are high in liquids (the exception being condensate), and the consequent decrease in drilling activity will eventually assist in the eventual correction of the current supply glut of natural gas. Investors however need to be wary of this changing pricing dynamic, and it is something that is increasingly preoccupying our analysis. The Energy Fund is positioned accordingly. Oil producers have not escaped increasing differentials either. Due to pipeline bottlenecks and several refineries undergoing unexpected downtime, the differential between Canadian light oil (Edmonton Light) and WTI has increased to around \$10/bbl. While this is expected to be corrected by late Spring, Q1 results will likely catch some investors off guard.

The fund is somewhat defensively positioned today, with a larger than normal cash weighting and a 3.5% short position (in natural gas names). Strength in many oil names has been pronounced, and the fund has dry powder in the event of a temporary pull back in some names. The medium to longer term outlook remains very good. Liquidity remains excellent with a weighted average market cap of ~\$5.5BN, and the Fund remains very overweight oil producers.



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