

RISK

This is a marketing communication. Please refer to the prospectus, supplement and KID/KIID for the Funds, which contain detailed information on their characteristics and objectives, before making any final investment decisions.

The Funds are equity funds. Investors should be willing and able to assume the risks of equity investing. The value of an investment and the income from it can fall as well as rise as a result of market and currency movement, and you may not get back the amount originally invested. Further details on the risk factors are included in the Funds' documentation, available on our website.

Past performance does not predict future returns.

ABOUT THE STRATEGY

Launch	31.12.1998
Index	MSCI World Energy
Sector	IA Commodity/Natural Resources
Managers	Will Riley Jonathan Waghorn Tim Guinness
EU Domiciled	Guinness Global Energy Fund
UK Domiciled	WS Guinness Global Energy Fund

INVESTMENT POLICY

The Guinness Global Energy Funds invest in listed equities of companies engaged in the exploration, production and distribution of oil, gas and other energy sources. We believe that over the next twenty years the combined effects of population growth, developing world industrialisation and diminishing fossil fuel supplies will force energy prices higher and generate growing profits for energy companies. The Funds are actively managed and use the MSCI World Energy Index as a comparator benchmark only.

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COMMENTARY

OIL

Spot prices broadly flat in October

Brent and WTI spot oil prices ended up \$1/bl in October with WTI closing the month at \$69/bl and Brent at \$73/bl. The IEA expect global oil demand growth of nearly 0.9m b/day in 2024, with weaker demand growth in China. Tensions between Iran and Israel dictated daily price movements with OPEC+ "continually assessing market conditions". OPEC decided at the end of the month to support price and delay adding 0.2m b/day back into the market from December.

NATURAL GAS

US gas price lower despite undersupplied market

US natural gas prices fell, closing October just over \$2.7/mcf (vs \$2.9/mcf last month). On a weather-adjusted basis, the market appeared to be undersupplied in October by c.2 bcf/day. Inventories ended the US injection season at 3.8 Tcf, around 0.2 Tcf ahead of average levels.

EQUITIES

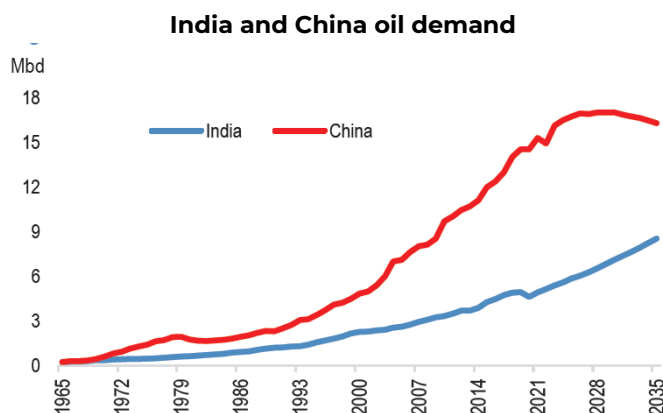
Energy outperforms the broad market in October

The MSCI World Energy Index (net return) rose by 0.2% (USD) in October, beating the MSCI World Index (net return) which fell by 2.0%. Year-to-date, MSCI World Energy is up by 5.9% vs the MSCI World Index up 16.5%.

CHART OF THE MONTH

Long term oil demand outlook for China and India

In its recent long-term commodity trends report, JP Morgan presented oil demand outlooks for China and India, which together represent over 35% of the world's population. Chinese oil demand peaks around 2030 while India's grows throughout the forecast period (to 2035).

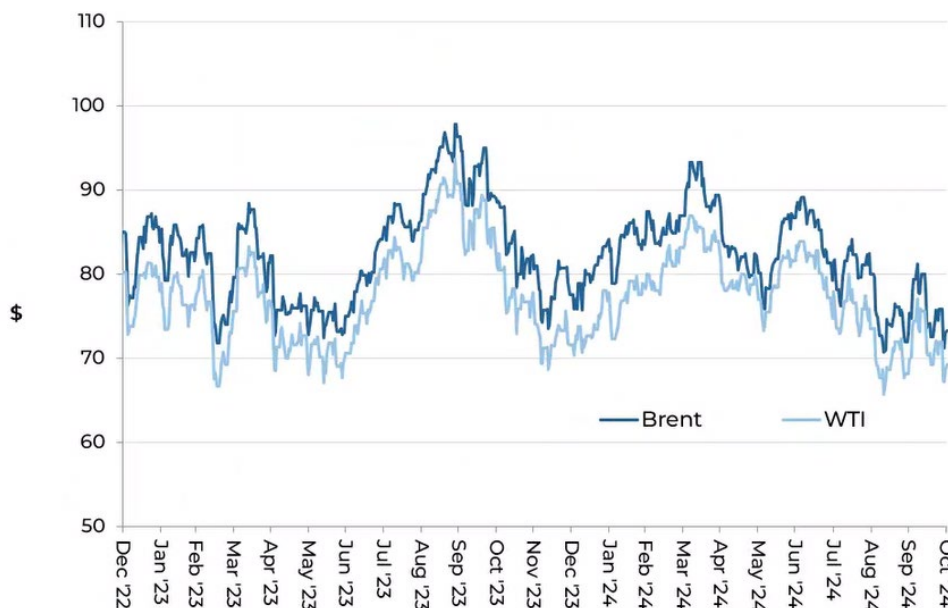


Source: JP Morgan, Oct 2024

OCTOBER IN REVIEW

i) Oil market

Oil price (WTI and Brent \$/barrel): December 2022 to October 2024



Source: Bloomberg; Guinness Global Investors

The West Texas Intermediate (WTI) oil price began October at \$68/bl, and traded in a \$68/bl to \$77/bl range through the month, ultimately ending up at \$69/bl at the end of October. WTI has averaged around \$77/bl so far this year, having averaged \$78/bl in 2023 and \$95/bl in 2022. Brent oil traded in a similar shape, opening at \$72/bl and trading in a \$71/bl to \$81/bl range, before closing at \$73/bl. Brent has averaged \$81/bl so far in 2024, having averaged \$83/bl in 2023 and \$100/bl in 2022. The gap between the WTI and Brent benchmark oil prices narrowed over the month, ending October at \$4/bl. The Brent-WTI spread has averaged \$5/bl so far in 2024 after averaging a similar amount in 2023.

Factors which were neutral or strengthened WTI and Brent oil prices in October:

- **Middle East conflict / Iranian sanction fears rising**

Since late July, there has been an escalation of Middle East tensions. On July 31, it was reported that Hamas political leader Ismael Haniyeh was killed during a visit to Iran, raising the risk of Iranian reprisal. And on September 27, Israel announced the death via airstrike of Hassan Nasrallah, leader of the Iran-backed militant group Hezbollah. At the start of October, Iran launched around 200 ballistic missiles at targets in Israel and then, in retaliation, Israel attacked Iranian military sites on October 25. Tensions remain high and the scale of the responses from either side remain unclear.

Latest data suggests that Iran is producing around 3.3m b/day of oil, up significantly from 12 months ago. Any disruption to Iranian oil exports would clearly have a tightening effect on the world market. Despite these issues, we believe there was close to no geopolitical premium in the Brent oil price at the end of October (\$73/bl).

- **OPEC hinting at returning, and then delaying the return of, barrels to the market in December**

At the end of September, key members of OPEC+ hinted that they were ready to increase their supply by 0.2m b/day in December, initially swapping barrels in for pledged cuts from other OPEC+ countries that had been overproducing versus quotas. Weaker oil prices in the second half of October led OPEC+ to suggest that new supply additions would continue to be delayed. Ultimately, at the end of month, OPEC delayed its plan to increase supply by one month and this serves as a clear indication that OPEC+ is not comfortable with oil prices in low-\$70s/bl range.

Factors which weakened WTI and Brent oil prices in October:

- **Weaker Chinese demand data**

Chinese demand data for September suggests continued weakness in overall oil consumption. The main culprit here has been lower-than-expected diesel demand (-4% year-on-year YTD), reflecting a slowdown in industrial and construction activities). Chinese oil demand is currently forecast by the IEA to grow by 0.2m b/day in 2024 to 16.7m b/day, representing only 20% of global demand growth both this year and next year, compared to almost 70% in 2023.

- **Weaker Indian demand data**

In September, India's total oil demand posted negative year-on-year growth for the second time this year as an intense monsoon season depressed road fuel demand. Annual demand growth in jet fuel remained strong in September at 10% year-on-year, as rebounding tourism figures, new airline routes, affordable flights and new airports are boosting demand.

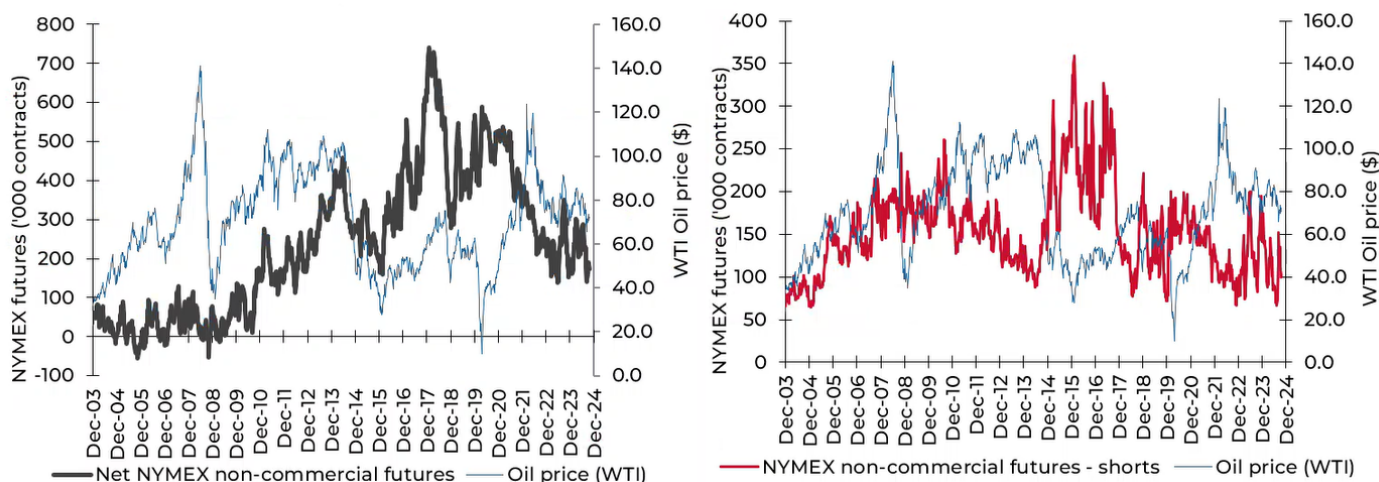
- **Solid non-OPEC supply growth**

Non-OPEC supply growth for 2024 is forecast by the International Energy Agency (IEA) to be around 1.0m b/day. Whilst this figure has been revised lower since the start of the year, it still implies that the 'call on OPEC' to balance the market has shrunk versus 2023. Data from the IEA showed a large increase in US oil production in August, up 0.2m b/day versus July, to reach 13.4m b/day. The key driver of the growth was the Permian basin.

Speculative and investment flows

The New York Mercantile Exchange (NYMEX) net non-commercial crude oil futures open position was 174,000 contracts long at the end of October versus 159,000 contracts long at the end of September. The net position peaked in February 2018 at 739,000 contracts long. Typically, there is a positive correlation between the movement in net position and movement in the oil price. The gross short position fell to 103,000 contracts at the end of October versus 133,000 at the end of the previous month.

NYMEX Non-commercial net and short futures contracts: WTI January 2004 – October 2024

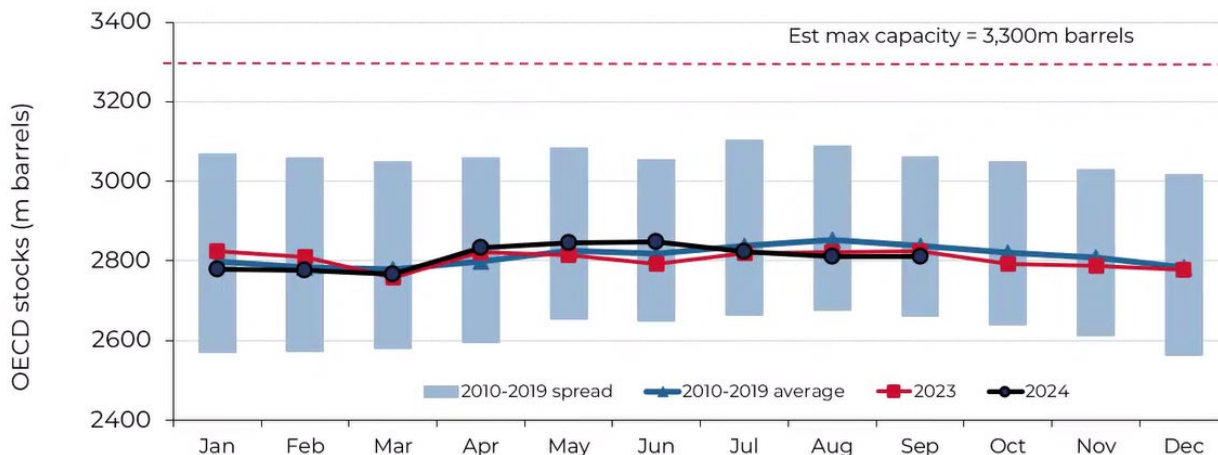


Source: Bloomberg LP/NYMEX/ICE (2024)

OECD stocks

OECD total product and crude inventories at the end of September (latest data point) were estimated by the IEA to be 2,810m barrels, down by 1m barrels versus the level reported for the previous month. The fall in September compares to a 10-year average (pre COVID) fall of 14m barrels, implying that the OECD market was looser than normal. The significant oversupply situation in 2020 pushed OECD inventory levels close to maximum capacity in August 2020 (c.3.3bn barrels), with subsequent tightening taking inventories below normal levels.

OECD total product and crude inventories, monthly, 2010 to September 2024



Source: IEA Oil Market Reports (Oct 2024 and older)

ii) Natural gas market

The US natural gas price (Henry Hub front month) opened October at \$2.92/Mcf (1,000 cubic feet) and traded steadily lower over the month to reach \$2.13/Mcf before rallying to close at \$2.71/Mcf. The spot gas price has averaged \$2.26/Mcf so far in 2024, having averaged \$2.67/Mcf in 2023 and \$6.52/Mcf in 2022.

The 12-month gas strip price (a simple average of settlement prices for the next 12 months' futures prices) traded in a similar pattern, opening at \$3.26/Mcf and closing the month at \$2.93/Mcf. The strip price has averaged \$2.93/Mcf so far in 2024, having averaged \$3.19 in 2023 and \$5.90 in 2022.

Henry Hub gas spot price and 12m strip (\$/Mcf): December 2022 to October 2024



Source: Bloomberg LP

Factors which strengthened the US gas price in October included:

- Falling rig count**

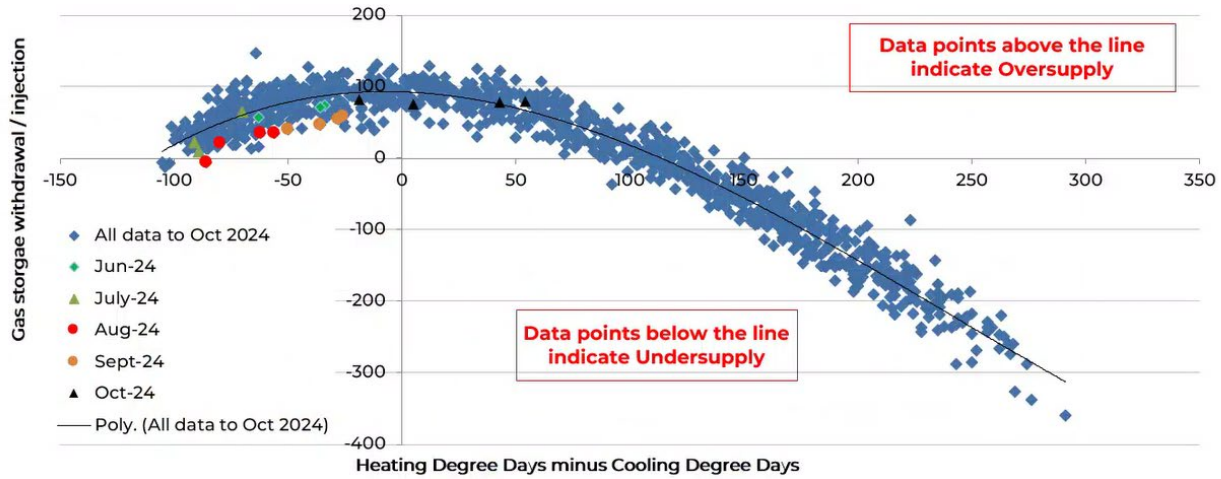
The number of rigs drilling for natural gas in the US has fallen from 160 rigs in the middle of 2022 to a low of 94 rigs in mid-September, before increasing to 101 rigs at the end of October 2024. This has slowed gas production growth, though 'associated gas' production (a byproduct of shale oil) has continued to grow this year from the Permian basin.

- Market undersupplied (ex-weather effects)**

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Adjusting for the impact of weather, the US gas market was, on average, around 2 Bcf (billion cubic feet) per day undersupplied during October. While this is less than the undersupply for September, it is still a material level of undersupply, as illustrated in the chart below.

Weather-adjusted US natural gas inventory injections and withdrawals



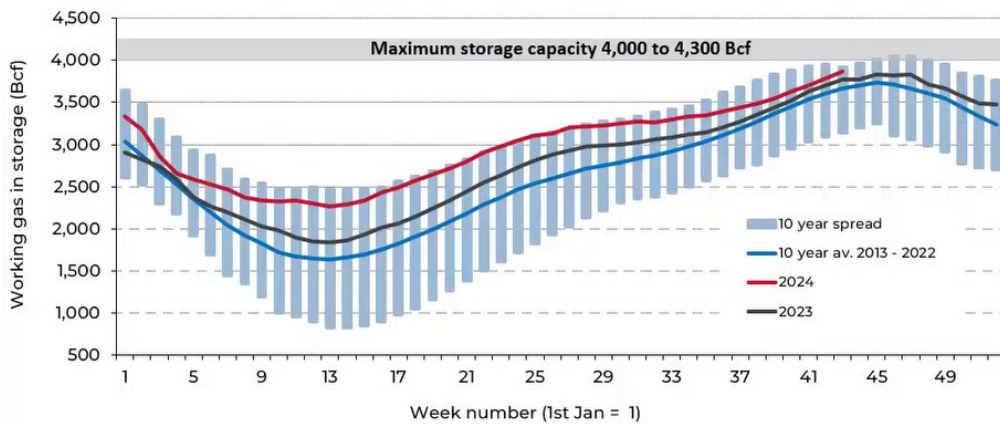
Source: Bloomberg LP; Guinness Global Investors, Nov 2024

Factors which weakened the US gas price in October included:

- **Natural gas in inventories towards the top of the historic range**

US natural gas inventories have been running higher than seasonal norms throughout 2024, driven by a warmer-than-expected winter and early spring that has brought lower-than-expected heating demand. Inventories levels moved to the top of the 10-year range but tightened in the third quarter ending October, and the 2024 natural gas injection season, at around 3.86 trillion cubic feet (around 0.2 Tcf above the 10-year average).

Deviation from 10yr US gas storage norm



Source: Bloomberg; Energy Information Administration (EIA), Nov 2024

MANAGERS' COMMENTS

Free cash flow remains king. This month, we reflect on TotalEnergies' latest targets and see their approach as emblematic of the approach of many global integrated oil companies, especially the Europeans. With net debt levels under control and capital discipline firmly in place, a focus on free cash generation will persist and should allow the Guinness Global Energy portfolio to deliver nearly 10% free cash flow yield in 2024, at \$80/bl oil.

A consistent theme in our Global Energy portfolio is the high level of free cash flow being generated by companies across most sectors invested in. This is especially true within our European integrated holdings, where we think the potential for superior returns to shareholders stands out even compared to other oil & gas subsectors. It was interesting, therefore, to see the plans laid out at TotalEnergies' capital markets day in early October, as an example of the value we see in our portfolio.

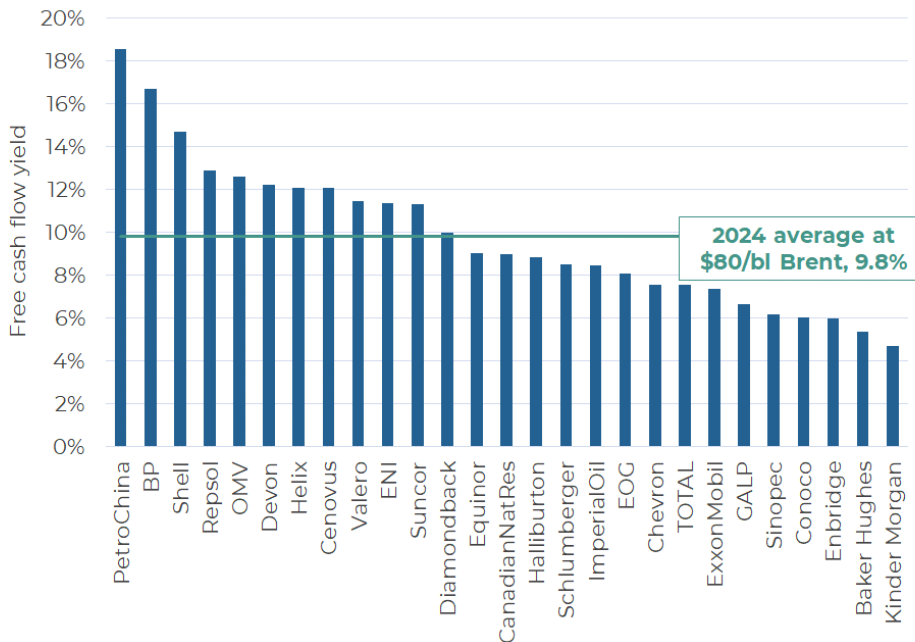
TotalEnergies maintained its strong free cash flow outlook and extended the forecast period a further two years, from 2028 to 2030. Based on its targets, assuming Brent at \$80/bl, TotalEnergies should generate free cash flow (after capex) in excess of \$110bn cumulatively to 2030, representing over 70% of its market capitalization. Critical to this is the expectation that net capital expenditure is unchanged versus the previous plan at \$16-18bn per annum, with around \$5bn per annum being allocated to low-carbon energy activities. Despite unchanged capex, TotalEnergies sees a more optimistic growth outlook with plans to grow hydrocarbon production by c.3% per year to 2030 (up from prior 2-3% between 2023-28 previously) with global energy production (oil, gas, electricity, bioenergy) up by 4% per year through 2030.

In common with most of its integrated peers, TotalEnergies has already cleaned up its balance sheet, allowing greater focus on shareholder distributions via dividends and buybacks. Dividend cover for TotalEnergies is over two times and dividends are likely to rise over the next couple of years, with 5% targeted for 2025. In addition, share buybacks of \$2bn for 4Q24 (implying US\$8 bn for 2024E) and \$2bn for each quarter in 2025E under reasonable market conditions (which management described as Brent prices being higher than \$65/bl) are targeted. A long-term distribution payout ratio of over 40% of cash flow beyond 2024 has been confirmed.

TotalEnergies' core oil & gas business is underpinned by projects in Brazil, US Gulf of Mexico, Suriname, Mexico, Mozambique and Qatar. But the company also sees meaningful growth in its integrated power division, which combines gas and renewable power generation, with storage and trading. Power sales are likely to be split between the regulated and merchant markets. Confidence has grown in the stability of returns from this part of the business, with a 12% return on capital employed (ROCE) now expected and for the business to be net cash positive by 2028. TotalEnergies expects to generate over 100 TWh of electricity from its Integrated Power division by 2030, which should represent nearly 20% of the company's energy production.

We see TotalEnergies' plans as emblematic of the European integrated sector: companies that generate outsized free cashflow today, whilst achieving a pragmatic balance of legacy oil & gas production and investment into an increasingly electrified global economy. The chart shows free cashflow yields generated by the main holdings in our portfolio and we note the higher free cash flow of the European companies.

2024 Free cash flow yield of main holdings in the Guinness Global Energy Fund



Source: Guinness Global Investors, October 2024

Continued importance of free cashflow in the sector

The trend towards free cash generation is more than just a theme among the European integrated oil companies. On a broader basis, the capital allocation framework for oil & gas companies structurally changed in 2020, shifting emphasis from production growth to free cash flow and shareholder returns.

Nowhere was this more apparent than among the US onshore shale companies. Capital discipline is now the main driver of strategic, financial and operating planning, with around 65% of compensation incentives for exploration and production (E&P) management teams now being driven by profitability, cash flow and operational metrics (such as cost reduction) versus only 44% in 2014. In contrast, growth in reserves and production now represent only 6% of incentives versus 26% back in 2014.

US shale E&P management incentive changes (2014-2022)

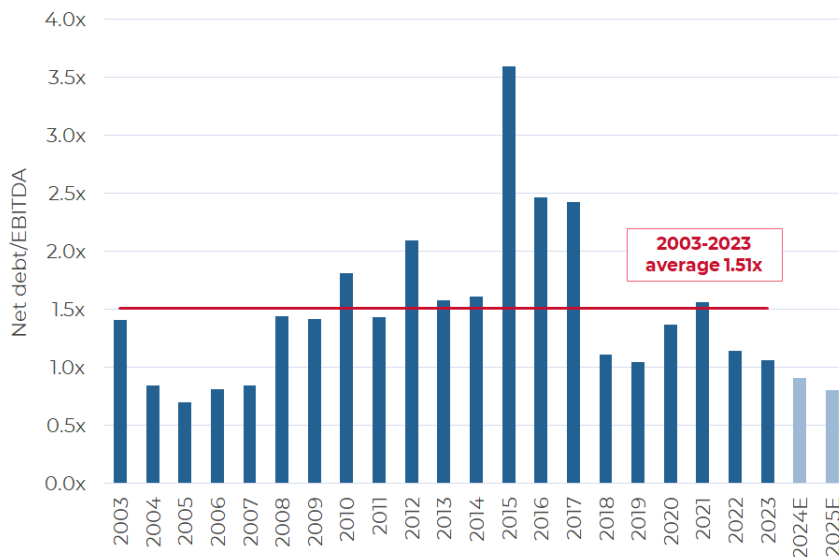
Criteria	2022	2014
Profitability and cash flow	39.0%	22.0%
Operational metrics (eg cost reduction)	26.0%	22.0%
Safety and ESG	22.0%	11.0%
Reserve and production growth	6.0%	26.0%
Strategic actions	4.0%	15.0%
Shareholder returns	3.0%	0.0%
Other	0.0%	4.0%
Total	100.0%	100.0%

Source: Guinness Global Investors, DNB; October 2024

This transition has helped the industry to shrink its outstanding debt and turn towards higher shareholder distributions. The main holdings in the Guinness Global Energy Fund now have average net debt/EBITDA at around 0.9x in 2024 and 0.8x in 2025, assuming \$80/bi oil in both years. This is lower than the 1.5x average of the last 20 years, reflecting management focus on maintaining healthier balance sheets. In 2025, it would take a reduction in EBITDA of nearly 50% to see net debt/EBITDA levels to get back to the 20-year average and a reduction of 75% to get back to the peak net debt/EBITDA levels seen in 2015.

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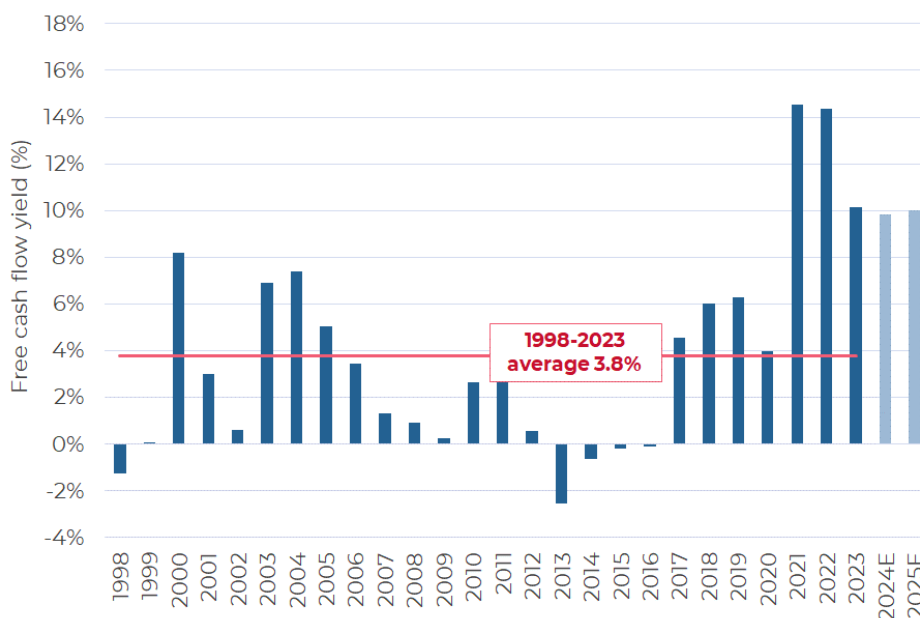
Net debt/EBITDA for current Guinness Global Energy Fund holdings



Source: Guinness Global Investors, October 2024

The continued focus on returns over growth will help to deliver similar levels of free cashflows this year as seen in 2023, driven by the tailwinds of efficiency improvements and service cost deflation. Free cash flow yields are likely to stay around this level in 2025 and would still exceed 8% in 2025 if Brent oil prices averaged only \$70/bl.

FCF yield for current Guinness Global Energy Fund holdings



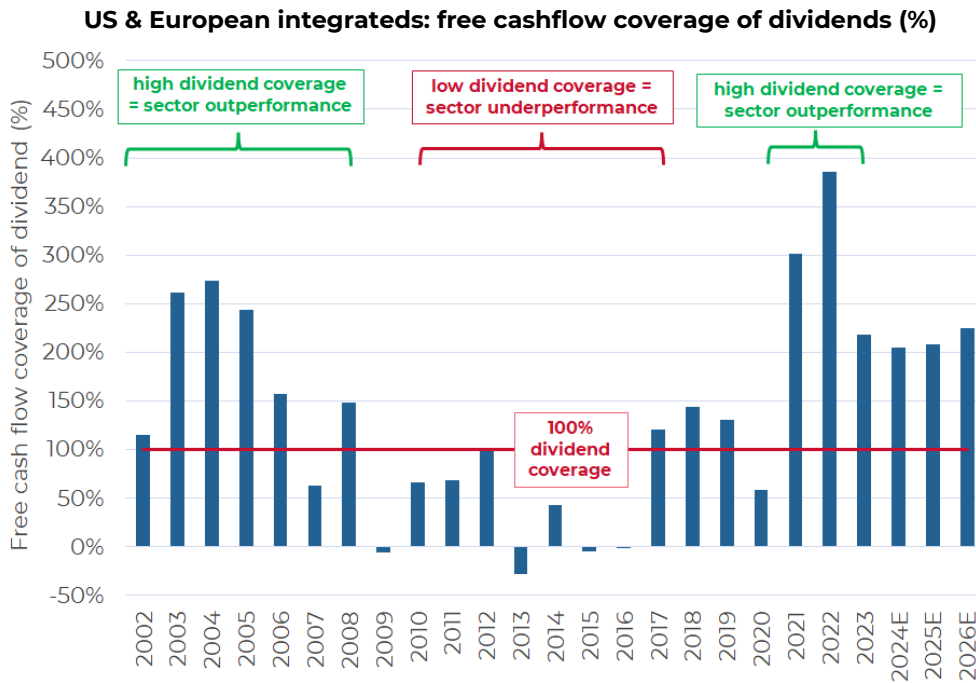
Source: Guinness Global Investors, October 2024

What are the risks to this being delivered?

Our companies are generally planning pragmatic use of these free cash flows. We note that free cash flows are always at risk from company-specific issues such as greater reinvestment levels, higher operating costs, higher inflation or M&A and also from external factors such as oil and natural gas prices. Current signs are that free cash flow will be defended and TotalEnergies reiterated that point by not increasing its net capital expenditure plans.

Dividend cover will remain elevated

For integrated oil & gas companies, one of the consequences of high free cashflow is strong dividend cover. We note a continued preference from the companies in general to grow their dividends at acceptable rates and rely on share buybacks and special dividends to return cash to shareholders in a variable manner, rather than ramp dividend payout ratios to levels that are not sustainable with lower oil prices. Generally, we observe that periods of high dividend coverage in the energy sector coincide with outperformance versus broader equities. We saw this play out for much of the early to mid 2000s, when dividend coverage of 150%+ provided companies with the latitude to raise dividends consistently. By contrast, much of the relative bear market for energy equities post the Financial Crisis (i.e. the 2010s) coincided with dividend coverage at or below 100%, meaning dividends were only just covered or being paid for via the balance sheet. Since 2021, we have returned to a period of high dividend coverage, and assuming at least \$80/bl Brent oil from 2024 onwards, we see coverage remaining at 200% or better. In these circumstances, we see good scope for continued dividend increases.



Source: Guinness Global Investors, October 2024

PERFORMANCE

The main index of oil and gas equities, the MSCI World Energy Index (net return), increased by 0.2% in October, while the MSCI World Index (net return) fell by 2.0% in USD.

Within the portfolio, October's strongest performers included Kinder Morgan, Imperial Oil, Baker Hughes, ConocoPhillips and Diamondback while the weakest performers included Helix Energy Solutions, Sinopec, Galp, PetroChina and BP.

Past performance does not predict future returns.

**Guinness Global Energy Fund
Performance (in USD) as at 31.10.2024**

Cumulative returns	YTD	1 year	3 years ann.	5 years ann.	Launch of strategy* ann. (31.12.98)		
Guinness Global Energy Fund	2.7%	2.2%	10.5%	7.1%	8.1%		
MSCI World Energy NR Index	5.9%	6.2%	15.3%	10.2%	6.3%		
Calendar year returns	2023	2022	2021	2020	2019	2018	2017
Guinness Global Energy Fund	2.6%	32.4%	44.5%	-34.7%	9.8%	-19.7%	-1.3%
MSCI World Energy NR Index	2.5%	46.0%	40.1%	-31.5%	11.4%	-15.8%	5.0%
	2016	2015	2014	2013	2012	2011	2010
Guinness Global Energy Fund	27.9%	-27.6%	-19.1%	24.4%	3.0%	-13.7%	15.3%
MSCI World Energy NR Index	26.6%	-22.8%	-11.6%	18.1%	1.9%	0.2%	11.9%
	2009	2008*	2007*	2006*	2005*	2004*	2003*
Guinness Global Energy Fund	61.8%	-48.2%	37.9%	10.0%	62.3%	41.0%	32.3%
MSCI World Energy NR Index	26.2%	-38.1%	29.8%	17.9%	28.7%	28.1%	25.9%
	2002*	2001*	2000*	1999*			
Guinness Global Energy Fund	6.7%	-4.1%	39.6%	22.5%			
MSCI World Energy NR Index	-6.4%	-7.2%	6.0%	22.0%			

Source: FE fundinfo, Guinness Global Investors and Bloomberg, bid to bid, gross income reinvested, in US dollars

Calculation by Guinness Global Investors. *Simulated past performance prior to 31.03.2008, launch date of Guinness Global Energy Fund. The Guinness Global Energy investment team has been running global energy funds in accordance with the same methodology continuously since December 1998. These returns are calculated using a composite of the Investec GSF Global Energy Fund class A to 29.2.08 (managed by the Guinness team until this date); the Guinness Atkinson Global Energy Fund (sister US mutual fund) from 1.3.08 to 31.3.08 (launch date of this Fund), the Guinness Global Energy Fund class A (1.49% OCF) from launch to 02.09.08, and class Y (0.99% OCF) thereafter. Returns for share classes with a different OCF will vary accordingly.

Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The fund performance shown has been reduced by the current OCF of 0.99% per annum. Returns for share classes with different OCFs will vary accordingly. Performance returns do not reflect any initial charge; any such charge will also reduce the return.

Guinness Global Energy

Past performance does not predict future returns.

WS Guinness Global Energy Fund Performance (in GBP) as at 31.05.2024

Cumulative returns	YTD	1 year	3 years ann.	5 years ann.		
WS Guinness Global Energy Fund	0.3%	-4.6%	12.6%	7.2%		
MSCI World Energy NR Index	5.0%	0.2%	17.8%	10.3%		

Calendar year returns	2023	2022	2021	2020	2019	2018
WS Guinness Global Energy Fund	-3.2%	49.9%	45.7%	-35.7%	12.6%	-6.3%
MSCI World Energy NR Index	-3.3%	64.4%	41.4%	-33.6%	7.2%	-10.6%

	2017	2016	2015	2013	2012
WS Guinness Global Energy Fund	-7.2%	65.2%	-29.6%	-26.6%	-4.7%
MSCI World Energy NR Index	-4.1%	51.0%	-18.3%	-6.1%	15.9%

Source: FE fundinfo, bid to bid, gross income reinvested, in GBP

Investors should note that fees and expenses are charged to the capital of the Fund. This reduces the return on your investment by an amount equivalent to the Ongoing Charges Figure (OCF). The fund performance shown has been reduced by the current OCF of 0.96% per annum. Returns for share classes with different OCFs will vary accordingly. Performance returns do not reflect any initial charge; any such charge will also reduce the return. Fund launched 21.04.2011.

PORTFOLIO

Buys/Sells

In October there were no buys or sells of full positions, but the portfolio was actively rebalanced.

Sector Breakdown

The following table shows the asset allocation of the Guinness Global Energy Fund at **October 31 2024**.

Asset allocation as %NAV	Current	Change	Last year end				Previous year ends					
	Oct-24		Dec-23	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18	Dec-17	Dec-16	Dec-15	Dec-14
Oil & Gas	98.7%	-0.2%	98.9%	97.4%	96.9%	94.8%	98.3%	96.7%	98.4%	96.7%	95.1%	93.7%
Integrated	56.5%	1.8%	54.7%	54.7%	57.7%	56.3%	51.1%	46.4%	42.9%	46.4%	41.5%	37.3%
Exploration & Production	20.0%	-3.3%	23.2%	23.1%	23.7%	22.2%	29.6%	35.8%	36.9%	35.8%	36.5%	36.2%
Drilling	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	2.2%	1.9%	2.2%	1.5%	3.3%
Equipment & Services	9.4%	-0.5%	10.0%	9.0%	4.0%	4.6%	9.6%	8.6%	9.5%	8.6%	11.4%	13.4%
Storage & Transportation	7.1%	2.1%	5.0%	4.8%	4.3%	4.4%	4.0%	0.0%	3.5%	0.0%	0.0%	0.0%
Refining & Marketing	5.6%	-0.4%	6.0%	5.8%	7.2%	7.3%	3.8%	3.7%	3.7%	3.7%	4.2%	3.5%
Solar	0.0%	-0.2%	0.2%	0.7%	1.0%	1.8%	0.7%	0.9%	1.4%	0.9%	4.7%	3.7%
Coal & Consumable Fuels	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Construction & Engineering	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cash	1.3%	0.5%	0.9%	1.9%	2.1%	3.3%	1.1%	2.4%	0.2%	2.4%	0.2%	2.6%

Source: Guinness Global Investors. Basis: Global Industry Classification Standard (GICS)

The Fund at end of October 2024 was on a price to earnings (PE) ratio for 2024/2025 of 9.4x/9.2x versus the MSCI World Index at 20.6x/18.5x as set out in the following table:

As at 30 September 2024	PE		
	2023	2024E	2025E
Guinness Global Energy Fund	9.0x	9.4x	9.2x
MSCI World Index	22.1x	20.6x	18.5x
Fund Premium/(Discount)	-52%	-51%	-47%

Source: Bloomberg; Guinness Global Investors

Portfolio holdings

Our integrated and similar stock exposure (c.57%) is comprised of a mix of mid-cap, mid/large-cap and large-cap stocks. Our five large-caps are Chevron, BP, ExxonMobil, Shell and TotalEnergies. Mid/large and mid-caps are ENI, Equinor, GALP, Repsol and OMV. At September 30 2024 the median P/E ratio of this group was 8.2x 2024 earnings. We also have three Canadian integrated holdings, Suncor, Cenovus and Imperial Oil. All three companies have significant exposure to oil sands in addition to downstream assets.

Our exploration and production holdings (c.20%) give us exposure most directly to rising oil and natural gas prices. We include in this category non-integrated oil sands companies, as this is the GICS approach. The stock here with oil sands exposure is Canadian Natural Resources. The pure E&P stocks have a bias towards the US (EOG, Diamondback and Devon), with one other name (ConocoPhillips) having a mix of US and international production. One of the key metrics behind a number of the E&P stocks held is low enterprise value / proven reserves.

We have exposure to two emerging market stocks, Petrochina and Sinopec, which in total represent around 4% of the portfolio.

The portfolio contains two midstream holdings, Enbridge and Kinder Morgan, two of North America's largest pipeline companies. With the growth of hydrocarbon demand expected in the US and Canada over the next five years, we believe both companies are well placed to execute their pipeline expansion plans.

We have reasonable exposure to oil service stocks, which comprise over 9% of the portfolio. The stocks we own provide exposure to both North American and international oil and natural gas development.

Guinness Global Energy

Our independent refining exposure is currently in the US in Valero, the largest of the US refiners. Valero has a reasonably large presence on the US Gulf Coast and is benefitting from a recovery in refining margins.

Portfolio at September 30 2024 (for compliance reasons disclosed one month in arrears)

Guinness Global Energy Fund (30 September 2024)			P/E			EV/EBITDA			Price/Book		
Stock	ISIN	% of NAV	2023	2024E	2025E	2023	2024E	2025E	2023	2024E	2025E
Integrated Oil & Gas											
Exxon Mobil Corp	US30231G1022	6.2%	12.3x	14.2x	13.3x	7.9x	7.4x	7.0x	2.3x	1.9x	1.9x
Chevron Corp	US1667641005	5.6%	11.7x	13.3x	11.8x	5.9x	6.2x	5.8x	1.7x	1.7x	1.7x
Shell PLC	GB00BP6MXD84	5.6%	8.1x	7.5x	7.3x	3.8x	3.7x	3.9x	1.1x	1.1x	1.0x
Total SA	FR0000120271	5.6%	6.7x	7.7x	7.7x	3.8x	4.4x	4.4x	1.3x	1.3x	1.1x
BP PLC	GB0007980591	4.7%	7.5x	7.7x	6.9x	3.3x	3.3x	3.3x	1.3x	1.2x	1.1x
Equinor ASA	NO0010096985	3.3%	6.3x	7.7x	7.7x	1.4x	1.7x	1.7x	1.5x	1.7x	1.6x
ENI SpA	IT0003132476	3.5%	5.7x	7.1x	6.8x	3.1x	3.3x	3.4x	0.8x	0.8x	0.8x
Repsol SA	ES0173516115	3.2%	4.0x	4.0x	4.5x	3.2x	2.8x	2.9x	0.6x	0.5x	0.5x
Galp Energia SGPS SA	PTGAL0AM0009	3.6%	11.7x	12.8x	14.4x	4.6x	4.9x	5.1x	3.0x	2.8x	2.7x
OMV AG	AT0000743059	2.7%	6.4x	5.7x	6.2x	3.0x	3.3x	3.4x	0.8x	0.7x	0.7x
		44.1%									
Integrated / Oil & Gas E&P - Canada											
Suncor Energy Inc	CA8672241079	4.0%	11.1x	9.7x	10.3x	5.3x	4.6x	4.7x	1.5x	1.4x	1.3x
Canadian Natural Resources Ltd	CA1363851017	3.7%	11.9x	12.8x	11.9x	6.3x	6.4x	6.0x	2.4x	2.4x	2.4x
Cenovus Energy Inc	CA15135U1093	3.2%	9.0x	9.1x	8.9x	4.4x	4.2x	4.2x	1.5x	1.4x	1.3x
Imperial Oil Ltd	CA4530384086	4.2%	11.3x	10.5x	11.1x	6.4x	6.3x	6.9x	2.2x	2.1x	2.0x
		15.1%									
Integrated Oil & Gas - Emerging market											
PetroChina Co Ltd	CNE1000003W8	2.3%	5.7x	6.2x	6.1x	3.6x	3.8x	3.7x	0.7x	0.7x	0.6x
		2.3%									
Oil & Gas E&P											
ConocoPhillips	US20825C1045	4.8%	11.9x	12.9x	12.1x	5.7x	5.3x	4.7x	2.5x	2.1x	2.1x
EOG Resources Inc	US26875P1012	3.7%	12.1x	10.5x	10.7x	6.1x	5.3x	5.6x	2.5x	2.3x	2.0x
Diamondback Energy Co	US25278X1090	3.6%	9.5x	9.5x	9.3x	9.2x	7.9x	5.4x	1.9x	1.4x	1.5x
Devon Energy Corp	US25179M1036	2.8%	6.8x	7.7x	7.3x	4.0x	4.0x	3.6x	2.1x	1.8x	1.6x
		14.9%									
International E&Ps											
Pharos Energy PLC	GB00B572ZV91	0.2%	n.m.	4.9x	n.m.	n.m.	1.5x	1.6x	0.5x	n.m.	n.m.
		0.2%									
Midstream											
Kinder Morgan Inc	US49456B1017	3.3%	20.8x	18.4x	17.6x	12.4x	10.2x	9.9x	1.6x	1.6x	1.6x
Enbridge Inc	CA29250N1050	3.4%	19.1x	17.5x	16.6x	15.7x	11.9x	11.2x	2.0x	2.0x	2.0x
		6.7%									
Equipment & Services											
Schlumberger Ltd	AN8068571086	3.2%	13.7x	12.0x	10.2x	7.4x	7.6x	6.5x	3.0x	2.6x	2.3x
Halliburton Co	US4062161017	2.9%	9.6x	9.2x	8.2x	6.0x	6.2x	5.8x	2.8x	2.4x	2.0x
Baker Hughes a GE Co	US05722G1004	2.4%	21.3x	16.0x	13.8x	9.9x	8.8x	7.9x	2.3x	2.2x	2.0x
Helix Energy Solutions Group Inc	US42330P1075	1.1%	32.1x	28.8x	13.4x	6.1x	7.1x	5.6x	1.1x	1.1x	1.0x
		9.6%									
Oil & Gas Refining & Marketing											
China Petroleum & Chemical Corp	CNE1000002Q2	1.7%	9.1x	7.9x	7.5x	6.1x	5.6x	5.3x	0.7x	0.6x	0.6x
Valero Energy Corp	US91913Y1001	4.1%	5.4x	12.5x	11.1x	3.4x	6.8x	6.4x	1.7x	1.7x	1.6x
		5.8%									
Research Portfolio											
Deltic Energy PLC	GB00BNTY2N01	0.0%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	4.7x	n.m.	n.m.
EnQuest PLC	GB00B635TG28	0.2%	11.3x	1.9x	1.9x	1.2x	1.1x	1.1x	0.6x	0.4x	0.4x
Reabold Resources PLC	GB00B95L0551	0.0%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	0.2x	n.m.	n.m.
Diversified Energy Company	GB00BQHP5P93	0.2%	n.m.	7.2x	10.1x	6.7x	4.8x	4.9x	0.9x	n.m.	n.m.
		0.5%									

The Fund's portfolio may change significantly over a short period of time; no recommendation is made for the purchase or sale of any particular stock.

OUTLOOK

i) Oil market

The table below illustrates the difference between the growth in world oil demand and non-OPEC supply since 2015:

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E	
											IEA	IEA
World Demand	95.3	96.4	98.2	99.5	100.7	91.8	97.5	100.0	102.0	102.8	103.8	
Non-OPEC supply (inc NGLs)	62.7	61.5	62.5	65.0	67.0	64.4	65.0	66.9	69.3	70.2	72.0	
OPEC NGLs	5.2	5.3	5.4	5.5	5.3	5.2	5.3	5.4	5.5	5.6	5.7	
Non-OPEC supply plus OPEC NGLs	67.3	66.8	67.9	70.5	72.3	69.6	70.3	72.3	74.8	75.8	77.7	
Call on OPEC (crude oil)	28.0	29.6	30.3	29.0	28.4	22.2	27.2	27.7	27.2	27.0	26.1	
Congo supply adjustment	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Gabon supply adjustment	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Eq Guinea supply adjustment	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	
Call on OPEC-9 (crude oil)	27.4	29.0	29.7	28.4	27.8	21.6	26.6	27.1	26.6	26.4	25.5	

Source: Bloomberg; IEA; Guinness Global Investors, Nov 2024

Global oil demand in 2019 was 13m b/day higher than the pre-Financial Crisis (2007) peak. The demand picture for 2020, down by around 9m b/day, was heavily clouded by the impact of the COVID-19 virus and efforts to mitigate its spread. Demand rebounded between 2021 and 2023 by over 10m b/day, leaving overall consumption in 2023 over 1m b/day higher than the 2019 peak.

OPEC

The last few years have proved testing for OPEC. They have tried to keep prices strong enough that OPEC economies are not running excessive deficits, whilst not pushing the price too high and over-stimulating non-OPEC supply.

The effect of \$100+/bl oil, enjoyed for most of the 2011-2014 period, emerged in 2014 in the form of an acceleration in US shale oil production and an acceleration in the number of large non-OPEC (ex US onshore) projects reaching production. OPEC met in late 2014 and responded to rising non-OPEC supply with a significant change in strategy to one that prioritised market share over price. Post the November 2014 meeting, OPEC not only maintained their quota but also raised production significantly, up by 2.5m b/day over the subsequent 18 months. This contributed to an oversupplied market in 2015 and 2016.

In late 2016, faced with sharply lower oil prices, OPEC stepped back from their market share stance, announcing plans for the first production cut since 2008. The announcement included a cut in production from Russia (a non-OPEC country), creating for the first time the concept of an OPEC+ group.

Guinness Global Energy

OPEC-9 oil production to August 2024

('000 b/day)	31-Dec-19	31-Aug-24	30-Sep-24	Current vs Dec 2019	Current vs last month
Saudi	9,730	8,990	8,990	-740	0
Iran	2,080	3,370	3,340	1,260	-30
Iraq	4,610	4,320	4,250	-360	-70
UAE	3,040	3,170	3,220	180	50
Kuwait	2,710	2,470	2,450	-260	-20
Nigeria	1,820	1,480	1,470	-350	-10
Venezuela	730	900	880	150	-20
Libya	1,110	960	600	-510	-360
Algeria	1,010	890	900	-110	10
OPEC-9	26,840	26,550	26,100	-740	-450

Source: Bloomberg; Guinness Global Investors

The 2017-19 period continued to be volatile for OPEC, with further production cuts necessary to balance ongoing non-OPEC supply growth.

The challenge for OPEC+ then ballooned in 2020 with the onset of COVID around the world. Initially, OPEC and their non-OPEC partners failed to reach agreement around their response to demand from the spread of the virus, precipitating a fall-out between participants and a short-lived price war. In light of extreme oil market oversupply, OPEC and non-OPEC partners reconvened in April 2020 and confirmed a deal to cut their production by nearly 10m b/day.

In July 2021, with demand largely recovered after COVID, the OPEC+ group agreed to taper their quota cuts at 0.4m b/day each month until September 2022. The actions of OPEC through the pandemic gave us confidence that OPEC was looking to do 'what it takes' to keep the market in balance, despite extreme challenges. Since the end of 2022, OPEC have adjusted their production to match closely the prevailing call on the group.

OPEC-9 apparent production vs call on OPEC 2000 – 2024



Source: IEA Oil Market Report (Oct 2024 and prior); Guinness estimates

OPEC's actions in recent years have generally demonstrated a commitment to delivering a reasonable oil price to satisfy their own economies but also to incentivise investment in long-term projects. Saudi's actions at the head of OPEC have

been designed to achieve an oil price that to some extent closes their fiscal deficit (c.\$95/bl is needed to close the gap fully), whilst not spiking the oil price too high and over-stimulating non-OPEC supply.

In the shorter term, the COVID-19 and Russia/Ukraine crises have created particularly challenging conditions, adding to oil price volatility. Longer-term, we believe that Saudi seek a 'good' oil price, one that satisfies their fiscal needs. Overall, we reiterate two important criteria for Saudi:

1. Saudi is interested in the average price of oil that they get; they have a longer investment horizon than most other market participants.
2. Saudi wants to maintain a balance between global oil supply and demand to maintain a price that is acceptable to both producers and consumers.

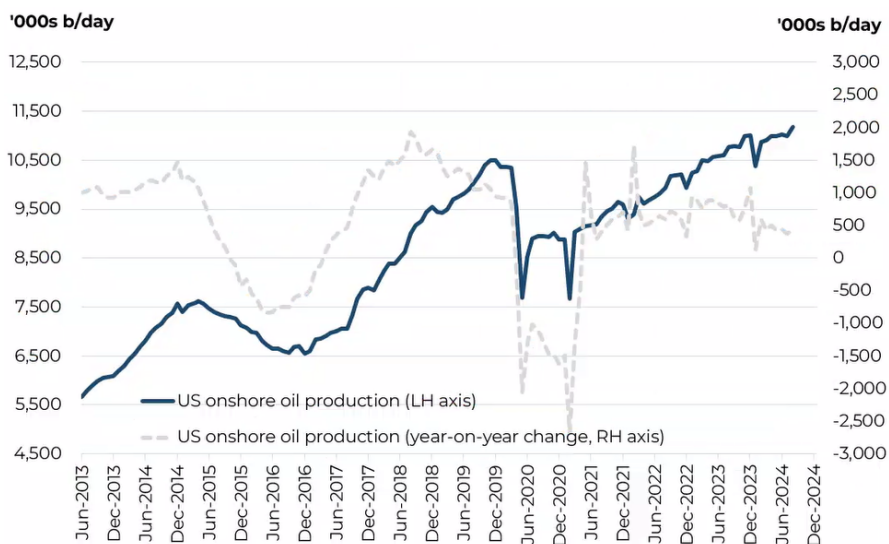
Nothing in the market in recent years has changed our view that OPEC can put a floor under the price – as they did in 2020, 2018, 2016, 2008, 2006, 2001 and 1998.

Supply looking forward

The non-OPEC world has, since the 2008 financial crisis, grown its production more meaningfully than in the period before 2008. The growth was 0.9% p.a. from 2001-2008, increasing to 1.6% p.a. from 2009-2023.

Growth in the non-OPEC region since the start of the last decade has been dominated by the development of shale oil and oil sands in North America (up around 8m b/day between since 2010), implying that the rest of the non-OPEC region has barely grown over this period, despite the sustained high oil price until mid-2014.

US onshore oil production



Source: EIA; Guinness Global Investors, Nov 2024

The growth in US shale oil production, especially the Permian Basin, raises the question of how much more there is to come and at what price. Our assessment is that US shale oil is capital-intensive but some growth is viable, on average, at around \$70 oil prices. In particular, there appears to be ample inventory in the Permian Basin to allow growth into the mid-2020s. The rate of development is heavily dependent on the cashflow available to producing companies, which tends to be recycled immediately into new wells, and the underlying cost of services to drill and fracture the wells. Since 2019, we have seen increased shareholder pressure applied to US E&P companies to improve their capital discipline and to cut their reinvestment rates.

The collapse in oil prices at the start of 2020 to a level well below \$50/bl changed the landscape, with US E&P companies reducing capital spending further as they attempted to live within their cashflows. Shale oil production dropped by nearly 3m b/day in 2020 (peak to trough) and took nearly three years to recover to the previous peak of late 2019.

Non-OPEC supply growth outside the US has been sustained in recent years, by a handful major project additions, notably in Guyana and Brazil. Net growth remains sluggish, however, as much of the new oil has been required to offset natural declines in more mature basins.

Future demand

The IEA estimate that 2024 oil demand will rise by around 0.9m b/day to 103.0m b/day, around 2.5m b/day ahead of the 2019 pre-COVID peak. Post the COVID demand recovery, the world is settling back into annual oil demand growth of plus or minus 1m b/day, led by increased use in the non-OECD region. China has been, and continues to be, a key part of this growth, although signs are emerging that India will also grow rapidly.

The trajectory of global oil demand over the next few years will be a function of global GDP, the pace of the ‘consumerisation’ of developing economies, the development of alternative fuels, and price. At \$80/bl, the world oil bill as a percentage of GDP is around 2.8%, and this will still be a stimulant of further demand growth. If oil prices were in a higher range (say around \$110/bl, representing 3.8% of GDP), we would probably return to the pattern established over the past five years, with a flatter picture in the OECD more than offset by growth in the non-OECD area. Flatter OECD demand reflects improving oil efficiency over time, dampened by economic, population and vehicle growth. Within the non-OECD, population growth and rising oil use per capita will both play a significant part.

We keep a close eye on developments in the ‘new energy’ vehicle fleet (electric vehicles; hybrids etc). Sales of electric vehicles (pure electric and plug-in hybrid electrics) globally were around 14m in 2023, up from 10m in 2022. We expect to see strong EV sales growth again in 2024, up to over 16m, around 20% of total global sales. Even applying an aggressive growth rate to EV sales, we see EVs comprising only around 5-6% of the global car fleet by the end of 2025. Looking further ahead, we expect the penetration of EVs to accelerate, causing global gasoline demand to peak at some point in the middle of the 2020s. However, owing to the weight of oil demand that comes from sources other than passenger vehicles (around 75%), which we expect to continue growing linked to GDP, we expect total oil demand not to peak until around 2030.

Conclusions about oil

The table below summarises our view by showing our oil price forecasts for WTI and Brent in 2024 versus recent history.

Average WTI & Brent yearly prices, and changes

Oil price																		Est
12 month MAV	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
WTI	72	100	62	80	95	94	98	93	49	43	51	65	57	39	68	94	78	79
Brent	73	99	63	80	111	112	109	99	54	45	55	72	64	43	71	99	83	83
Brent/WTI (12m MAV)	73	99	62	80	103	103	103	96	51	44	53	68	61	41	70	97	80	81
Brent/WTI y-on-y change	-3%	37%	-37%	28%	29%	0%	0%	-7%	-47%	-13%	19%	29%	-11%	-32%	68%	39%	-17%	1%
Brent/WTI (5yr MAV)	59	72	75	78	83	89	90	97	91	80	70	63	55	53	58	67	70	74

Source: Guinness Global Investors estimates, Bloomberg

We believe that Saudi’s long-term objective remains to maintain a ‘good’ oil price, something north of \$80/bl. The world oil bill at around \$80/bl represents 2.8% of 2024 global GDP, well under the average of the 1970 – 2021 period (3.4%).

ii) Natural gas market

US gas demand

On the demand side for the US, industrial gas demand and power generation gas demand (each about 25-35% of total US gas demand) are key. Commercial and residential demand, which make up a further quarter, have been fairly constant on average over the last decade – although yearly fluctuations due to the severity of winter weather can be marked.

Guinness Global Energy

US natural gas demand

Bcf/day	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
US natural gas demand:														
Residential/commercial	19.2	22.4	23.4	21.4	20.5	20.9	23.4	23.5	21.5	21.5	23.2	21.3	21.4	22.4
Power generation	24.9	22.3	22.3	26.5	27.3	25.3	29.0	30.9	31.7	30.9	33.1	35.3	36.0	33.7
Industrial	19.7	20.3	20.9	20.6	21.1	21.6	23.0	23.1	22.3	22.5	23.2	23.3	23.4	24.2
Pipeline exports (Mexico)	1.8	1.9	1.9	2.7	3.8	4.0	4.6	5.1	5.4	5.9	5.7	6.1	6.5	6.9
LNG exports	-	-	-	0.1	1.0	2.6	2.8	4.8	6.4	9.7	12.0	13.0	13.3	15.9
Pipeline/plant/other	6.1	6.7	6.3	6.5	6.4	6.5	7.0	7.8	7.7	7.8	7.4	7.7	7.7	7.8
Total demand	71.7	73.6	74.8	77.8	80.1	80.9	89.8	95.2	95.0	98.3	104.6	106.7	108.3	110.9
Demand growth	3.1	1.9	1.2	3.0	2.3	0.8	8.9	5.4	- 0.2	3.3	6.3	2.1	1.6	2.6

Source: EIA; GS; Guinness estimates, Sept 2024

Industrial demand (of which around 35% comes from petrochemicals) trends up and down depending on the strength of the economy and the differential between US and international gas prices. Electricity gas demand (i.e. power generation) is affected by weather, in particular by warm summers, which drive demand for air conditioning, but the underlying trend depends on GDP growth and the proportion of incremental new power generation each year that goes to natural gas versus the alternatives of coal, nuclear and renewables. Gas has been taking market share in this sector: in 2022 38% of electricity generation was powered by gas, up from 22% in 2007. The big loser here is coal, which has consistently given up market share.

Total gas demand in 2023 (including Mexican and LNG exports) was around 106.7 Bcf/day, up by 2.1 Bcf/day versus 2022 and 7 Bcf/day (7%) higher than the 5-year average. The biggest contributors to the growth in demand in 2023 were LNG exports and power generation.

We expect US demand growth in 2024 of 1.6 Bcf/day versus average growth of nearly 4 Bcf/day between 2021 and 2023. Growth is expected to be driven by higher LNG exports and a strong US economy lifting residential, commercial and industrial demand. Beyond 2024, we expect to see a material increase in US LNG export capacity as higher international gas prices incentivise new LNG export investment. Proposed projects imply capacity growth of around 3 Bcf/day by the end of 2025 and a further 5-6 Bcf/day in 2026-2028, bringing total export capacity to over 20 Bcf/day by 2028.

US gas supply

Overall, whilst gas demand in the US has been strong over the past five years, it has been overshadowed by a rise in onshore supply, holding the gas price lower.

The supply side fundamentals for natural gas in the US are driven by three main moving parts: onshore and offshore domestic production, pipeline imports of gas from Canada, and LNG imports. Of these, onshore supply is the biggest component, making up over 90% of total supply.

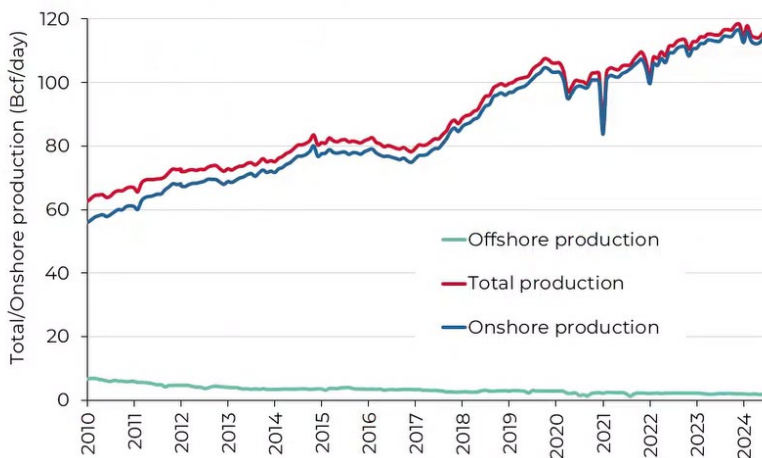
US natural gas supply

Bcf/day	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
US natural gas supply:														
US (onshore & offshore)	65.7	66.3	70.9	74.2	73.4	73.6	84.3	91.4	91.1	91.8	97.4	102.3	101.6	104.2
Net imports (Canada)	5.4	5.0	4.9	4.9	5.5	5.8	5.4	4.7	4.4	5.1	5.6	5.2	5.7	5.7
LNG imports & other	0.8	0.6	0.5	0.5	0.4	0.3	0.1	0.1	-	-	0.1	-	-	-
Total supply	71.9	71.9	76.3	79.6	79.3	79.7	89.8	96.2	95.5	96.9	103.1	107.5	107.3	109.9
Supply growth	2.4	-	4.4	3.3	- 0.3	0.4	10.1	6.4	- 0.7	1.4	6.2	4.4	- 0.2	2.6
(Supply)/demand balance	- 0.2	1.7	- 1.5	- 1.8	0.8	1.2	-	- 1.0	- 0.5	1.4	1.5	- 0.8	1.0	1.0

Source: EIA; GS; Guinness estimates, Sept 2024

Since 2010, the weaker gas price in the US reflects growing onshore US production driven by rising shale gas and associated gas production (a by-product of growing onshore US oil production). Interestingly, the overall rise in onshore production has come despite a collapse in the number of rigs drilling for gas, which has dropped from a 1,606 peak in September 2008 to a trough of 68 in July 2020, before recovering to around 100 at the end of October 2024. However, offsetting the fall, the average productivity per rig has risen dramatically as producers focus their attention on the most prolific shale basins, whilst associated gas from oil production has grown handsomely.

US natural gross gas production 2010 – 2024 (Lower 48 States)



Source: EIA 914 data (Oct 2024 data)

The outlook for gas production in the US depends on three key factors: the rise of associated gas (gas produced from wells classified as oil wells); expansion of the newer shale basins, principally the Marcellus/Utica, and the decline profile of legacy gas fields.

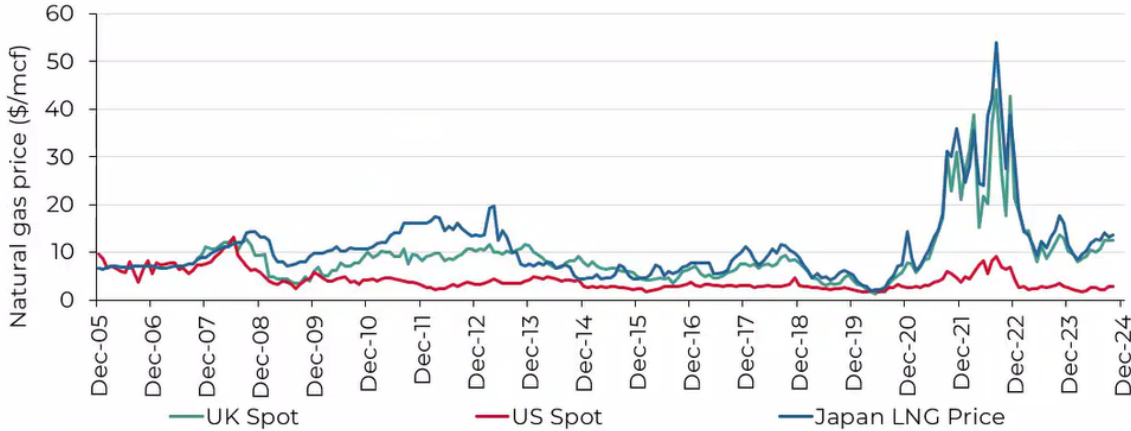
Associated gas production is expected to rise again in 2024 albeit at a slower pace (+0.8 Bcf/day) than in 2022 (+5.5 Bcf/day) and 2023 (+3.6 Bcf/day). Lower supply growth is expected from onshore properties as weaker natural gas prices have brought a lower rig count and lower investment.

Outlook for US LNG exports – global gas arbitrage

We expect the LNG market is going to be quite finely balanced over the next couple of years. In the event of moderate Chinese LNG demand and “normal” European winters, LNG supply and demand appear to be roughly in balance and global LNG prices appear to be fairly priced at around \$10/mcf. However, stronger Asian demand (including South Korea and Japan as well as China) or a colder than expected European winter could easily see LNG in tight supply and cause international gas prices spike, although it is unlikely that they revert to the \$40-\$50 levels seen in winter 2022/2023.

Looking further ahead, we see international gas prices settling in a \$9-11/mcf range. This price range should be sufficient to incentivise new US LNG supply to come online from 2025. It would also allow Europe to displace permanently almost all its Russian gas imports. An international gas price in the \$9-11/mcf is well down on the highs seen in 2022, but would leave the market at a higher price point than that seen in the few years prior to COVID and the Russian invasion of Ukraine.

International gas prices to October 2024

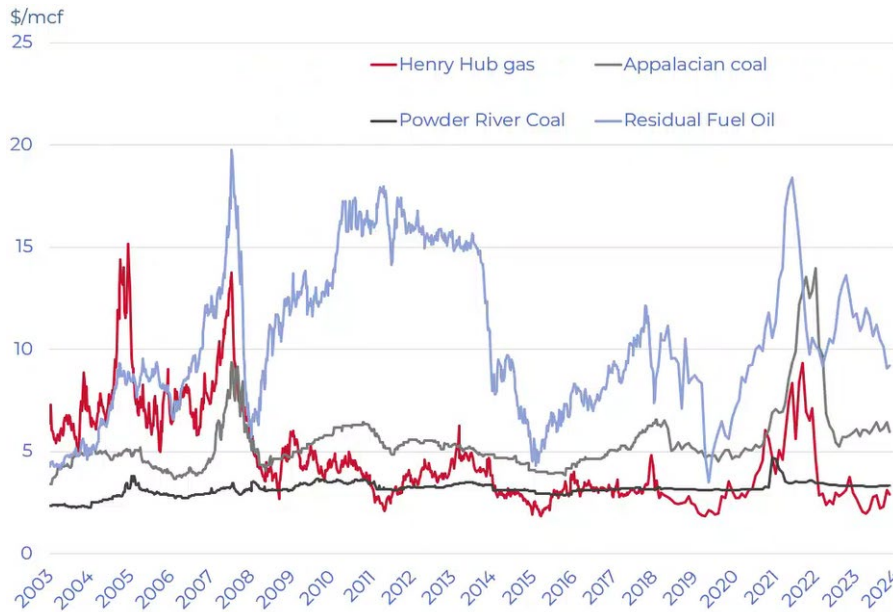


Source: Bloomberg; Guinness Global Investors (Nov 2024)

Relationship with oil and coal

The following chart of the front month US natural gas price against heating oil (No 2), residual fuel oil (No 6) and coal (Sandy Barge adjusted for transport and environmental costs) seeks to illustrate how coal and residual fuel oil switching provide a floor and heating oil a ceiling to the natural gas price. When the gas price has traded below the coal price support level (2012 and 2016), resulting coal-to-gas switching for power generation was significant.

Natural gas versus substitutes (fuel oil and coal) - Henry Hub vs residual fuel oil, heating oil, Sandy Barge (adjusted) and Powder River coal (adjusted)



Source: Bloomberg; Guinness Global Investors (Nov 2024)

Conclusions about US natural gas

The US natural gas price since 2010 has mainly fluctuated between \$2 and \$4/mcf. The extremes of this range have tended to coincide with warm and cold winters, and any sustained recovery over \$3.50/mcf has generally been muted by strength in gas supply. With inflationary pressures, we estimate that new onshore supply has an incentive price of around \$3.50/mcf. Assuming normal weather in 2024, we expect a Henry Hub price at around this level.

APPENDIX: Oil and gas markets historical context

Oil price (WTI \$) since 1989



Source: Bloomberg, November 2024

For the oil market, the period since the Iraq/Kuwait war (1990/91) can be divided into four distinct periods:

- 1) **1990-1998:** broadly characterized 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.
- 2) **1998-2014:** a much stronger price and upward trend. There was a very strong rally between 1999 and 2000 as OPEC implemented 4m b/day of production cuts. It was followed by a period of weakness caused by the rollback 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 90's that increased supply. OPEC responded rapidly to this during 2001 and reintroduced production cuts that stabilized 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 2.5 m b/day; 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.

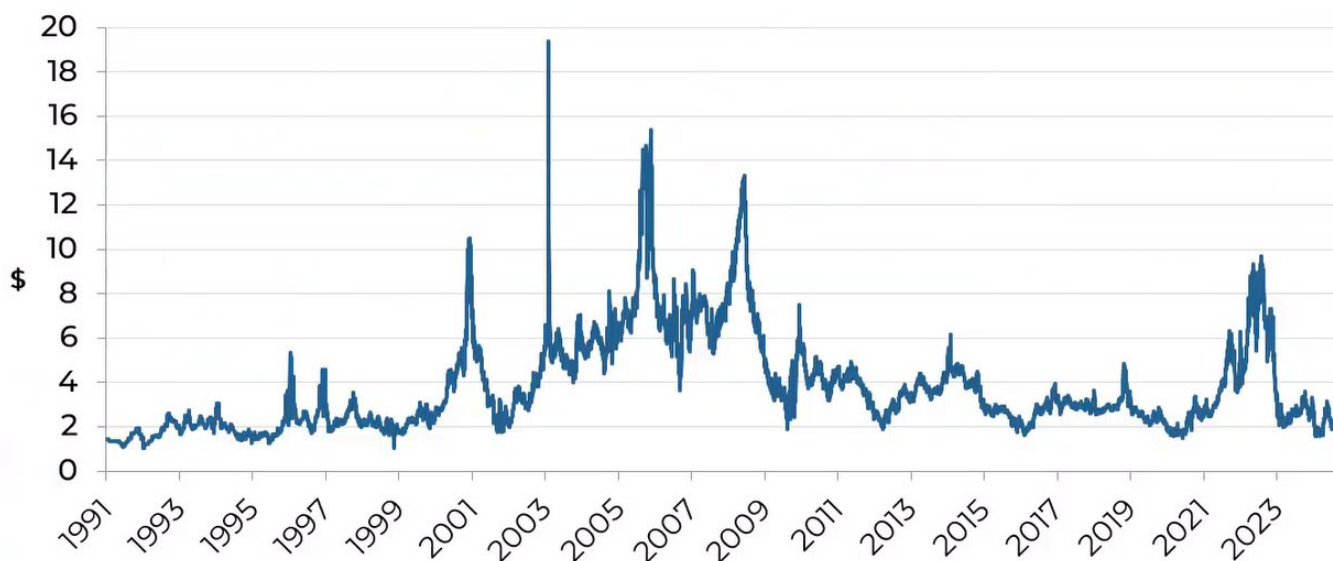
Continued expectations of a supply crunch by the end of the decade, coupled with increased speculative activity in oil markets, contributed to the oil price surging past \$90 in the final months of 2007 and as high as \$147 by the middle of 2008. This spike was brought to an abrupt end by the collapse of Lehman Brothers and the financial crisis and recession

that followed, all of which contributed to the oil price falling back by early 2009 to just above \$30. OPEC responded decisively and reduced output, helping the price to recover in 2009 and stabilise in the \$70-95 range where it remained for two years.

Prices during 2011-2014 moved higher, averaging around \$100, though WTI generally traded lower than Brent oil benchmarks due to US domestic oversupply affecting WTI. During this period, US unconventional oil supply grew strongly, but was offset by the pressures of rising non-OECD demand and supply tensions in the Middle East/North Africa.

- 3) **2014-2020:** a further downcycle in oil. Ten years of high prices leading up to 2014 catalysed a wall of new non-OPEC supply, sufficient that OPEC saw no choice but to stop supporting price and re-set the investment cycle. Oil prices found a bottom in 2016 (as a result of OPEC and non-OPEC partners cutting production again), but its recovery was capped by the volume of new supply still coming into the market from projects sanctioned pre the 2014 price crash. Average prices were pinned 2017-19 in the \$50-70/bl range, with prices at the top end of this range stimulating oversupply from US shale. The alliance between OPEC and non-OPEC partners fell apart briefly in March 2020 and, coupled with an unprecedented collapse in demand owing to the COVID-19 crisis, oil prices dropped back below \$30/bl, before recovering to around \$50/bl by the end of 2020 thanks to renewed OPEC+ action.
- 4) **2021 onwards:** Underinvestment in new oil capacity in the 2015-2020 period catalysed the start of a new cycle in 2021, pushing prices above \$75/bl.

North American gas price since 1991 (Henry Hub \$/Mcf)



Source: Bloomberg, Nov 2024

With regard to the US natural gas market, the price traded between \$1.50 and \$3/Mcf for the period 1991 - 1999. The 2000s were a more volatile period for the gas price, with several spikes over \$8/mcf, but each lasting less than 12 months. On each occasion, the price spike induced a spurt of drilling which brought the price back down. Excepting these spikes, from 2004 to 2008, the price generally traded in the \$5-8 range. Since 2008, the price has averaged below \$4 as progress achieved in 2007-8 in developing shale plays boosted supply while the 2008-09 recession cut demand. Demand has been extremely strong over the last decade but this has been outpaced by continued growth in onshore production, driven by the prolific Marcellus/Utica field and associated gas as a by-product of shale oil production.

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 remains a regional market more than a global market, though the development of the LNG industry is creating a greater linkage.

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GUINNESS GLOBAL ENERGY FUND

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