



AA  
07/2011

## Earth Energy Fund UI (EUR R)

### Product Profile

Fund Name	Earth Energy Fund UI (EUR R)
ISIN	DE000A0M WKJ7
Investment universe	Equity (World) Energy
Benchmark	–
Base Currency	EUR
Earnings	Accumulation
Inception date	09/10/07
Fund Advisor	42.73 mill EUR (85.49 mill EUR in total – including I-Tranche) as of 31/05/11
Management Fee	1.5% per annum (plus 15% per annum Performance Fee; Hurdle Rate 7% per annum; High Watermark)
TER	2.4% (as of 30/09/10)
Fund Manager	Willem de Meyer
Company	Fund Advisor: Earth Energy Investments AG; (Inv. Trust: Universal-Investment GmbH)
Internet	www.earth-investment.com

### Investor's Profile

Investment horizon	long term
Risk classification	high
Return expectations	The aim of the fund is to maximize the portfolio return
Loss Tolerance	short-term losses are possible

## TELOS Comment

The *Earth Energy Fund UI (EUR R)* (EEF) is managed using a stringent and coherent investment process, based on the in-depth knowledge of the lead advisor, *Willem de Meyer*, and the company's team of analysts in the energy and resources sectors. The aim of the fund is to maximize the portfolio return. The basic fund concept involves building a concentrated portfolio of energy shares (35-45 stocks), which re-present balanced diversification between global small, mid and large caps. The fund seeks out undervalued and undiscovered equities, for which a significant improvement in corporate value appears likely in the short term. Adequate liquidity is critical. Particular account is taken of the need to evaluate each company with consideration to the opportunities and risks associated with its current development phase (established company, reserves discovered, exploration phase etc.). In this respect, the comparative advantage inherent in the industrial expertise of the team in the energy sector plays a key role. The fund's approach produces a bias towards mid caps, although its investments are currently divided more or less equally between the three size categories.

An in-house database is used during the selection process. It is populated in two steps : First, by using the results of a macroanalysis which is conducted for the purposes of regional, country and sector assessment. These results are used in particular to determine weightings. Second, potential investments are selected using a bottom-up approach, at which point a ranking procedure is used.

The attractiveness of each company is determined by the ratio of the NAV (estimated by a discounted cash flow-analysis; DCF analysis) to the current market valuation.

Based on the results of the DCF analysis the fair value is calculated by using further aspects such as cash ratio, hedge book, gearing, etc.. Special attention is given to the NAV growth. The DCF analysis examines the company in great depth, right down to the level of the individual operations and projects. The company's M&A potential is also included in the equation. Finally, an in-house risk analysis tool complements the DCF analysis. The tool provides not only a measure of risk, but is also a means to appraise the investments quality, e.g. by ranking the country risks. It examines in particular the stability of an investment under different scenarios, by means of simulation calculations. The analysis looks at questions associated with the political environment and the infrastructure, alongside the critical questions that are of relevance to energy companies, such as the sustainability of the resources and the reserve capacities, and also their quality and the production trends. The risk management tool provides the portfolio management team with additional creative input. Each analyst, who has around 20 companies under continuous and close scrutiny, uses this selection process and independently develops his own investment ideas. Using the results of the financial modelling and a detailed presentation of his investment idea, he "defends" his proposal within the team. If the team votes in favour of the idea, it proposes a weighting and target price to the Lead Advisor.

Except for 2008 (the year of the financial crisis), the fund performed in the desired manner. The overall risk of the fund, measured on the basis of volatility, may be described as higher than average.

The *Earth Energy Fund (UI) (EUR R)* is rated **AA**.

## Investment Process

*Earth Energy Investments AG (EEI)*, registered in Zug, Suisse, is part of the *Earth Resource Investment Group (ERIG)*, an umbrella brand of companies, which advise *Universal-Investment-Gesellschaft mbH* on investments in the resources and energy sector. *Willem de Meyer* (lead advisor, analyst) and *Jordaan Fouché* (lead analyst), who are both based in South Africa, are primarily responsible for the product. They work within a team that includes five of their colleagues from ERIG. The distinctive feature of the active product's management is the dual qualification of each team member, namely their extensive and complementary technical expertise in the energy/resources sector coupled with their financial and economic knowledge. Employing a long-only strategy the fund seeks to maximize the portfolio return. With this in mind, it invests in what the management consider to be undervalued stocks in the energy sector (primarily oil/gas [current focus], uranium [no longer an investment target following the recent earthquake in Japan], oil-bearing sands and coals), whose growth and/or deposit potential is not yet fully appreciated by the market. The alternative energy sector is not currently being considered. However, consideration is given to companies along the entire value-added chain (exploration, mining, production/processing and equipment), and at all levels of capitalisation (small, mid and large caps, excluding super majors). The portfolio is biased towards the mid cap range, although it is currently weighted almost

equally between the three size categories. Higher risk small cap positions are essentially built up slowly. The investment universe comprises around 300 companies around the world and is the result of the team's continual observation of the sector. There are consistently around 140 stocks under continuous and close scrutiny. The investment team makes its decisions by exploiting opportunities that are outside the scope of well-established mainstream investments, and the fund does not track an index. A bottom-up driven stock selection approach is used (stock picker qualities), coupled with macroanalysis for regional, country and sector assessment. This is especially useful when considering portfolio weightings. Single stock selection represents the core of the process, for that purpose an in-house ranking system, backed by a database, is used. Particular emphasis is placed on the NAV and its anticipated growth. Only companies with adequate liquidity are included in the portfolio. The NAV is calculated using a free cash flow model. Established companies, are combined within the portfolio with smaller alpha generating (undiscovered) firms. In this way it is possible to exploit the special feature of the smaller companies, namely that at an early stage, the commodity prices have little effect on their valuation. A target price, which also takes into consideration the company's M&A potential, is set for each investment. The stock is sold when that price is reached.

## Quality Management

Performance is continually monitored via peer group comparison. The performance measurement specialist DPG-Deutsche Performancemessungs-Gesellschaft für Wertpapierportfolios mbH also conducts external monitoring in the form of a performance and attribution analysis. The risk associated with the fund is additionally limited by the maximum weighting of each individual investment and of individual investment groups (e.g. based on risk classification or market capitalisation). Constant monitoring of the

quality of each investment and of the associated financial requirements is undertaken using an in-house risk analysis tool (RMT). This provides a graphic illustration of the financial consequences of the technical economic risks of each company. Political and infrastructural parameters are considered alongside specific variables that are of relevance to production, which include, among other things, the reserve situation and production trends.

## Team

Lead Advisor is *Willem de Meyer*, who also performs analytical functions. EEI is his first post with these responsibilities. However, he has over 25 years of extensive practical experience in the oil industry, and in technical, commercial and managerial capacities; he also has a solid background in the natural sciences (geophysics) and an academic qualification in business. *Jordaan Fouché*, who

offers a similar level of expertise, is the senior analyst. They are assisted during the analysis process by five colleagues from ERIG, all of whom have relevant academic qualifications in the natural sciences and complementary lengthy periods of practical experience in the natural resources sector.

## Investment Characteristics

<i>Important external factors</i>	<i>Important control factors</i>
Commodity prices	Asset selection
Economic environment	Sector weighting
Equity market (level)	Credit-worthiness
Equity market (volatility)	Asset weighting
Liquidity	Country allocation

## Product History

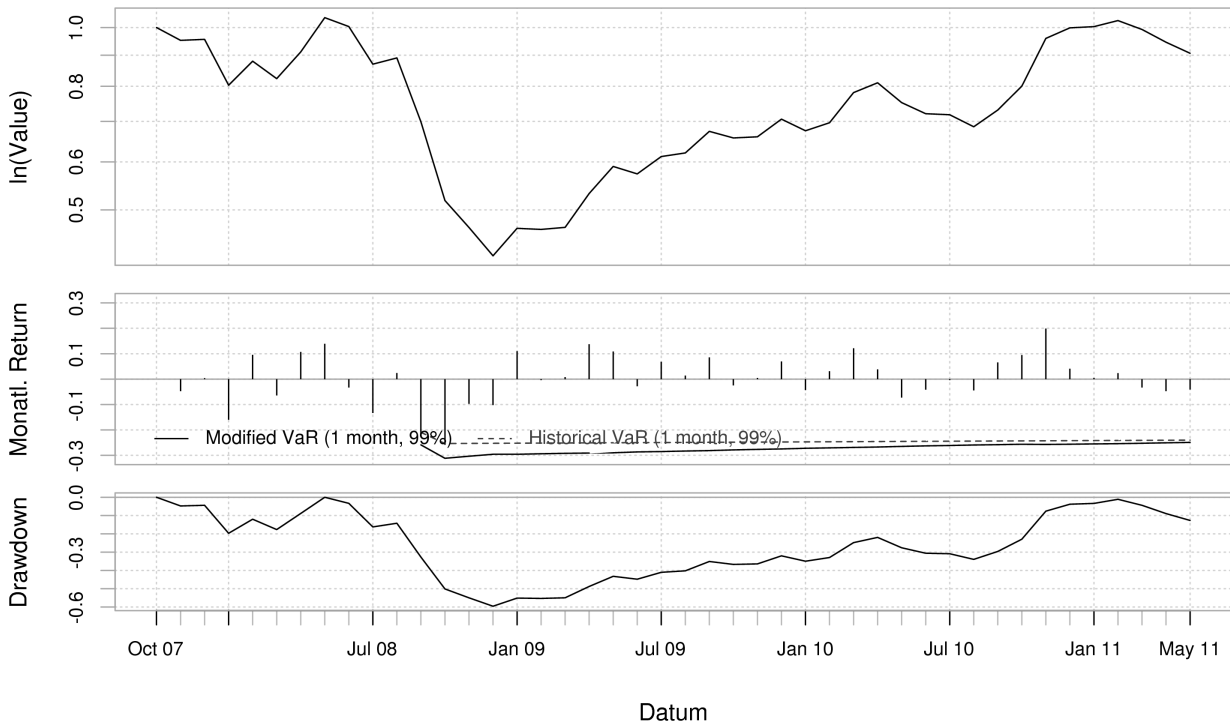
### Monthly Returns

	2007	2008	2009	2010	2011
<b>Jan</b>	-	-16.0	11.0	-4.3	0.5
<b>Feb</b>	-	9.6	-0.4	3.1	2.3
<b>Mar</b>	-	-6.4	0.8	12.1	-3.3
<b>Apr</b>	-	10.7	13.7	3.8	-4.7
<b>May</b>	-	13.9	10.8	-7.3	-4.1
<b>Jun</b>	-	-3.3	-2.8	-4.1	-
<b>Jul</b>	-	-13.3	6.8	-0.4	-
<b>Aug</b>	-	2.4	1.4	-4.5	-
<b>Sep</b>	-	-21.6	8.6	6.6	-
<b>Oct</b>	-	-25.9	-2.5	9.5	-
<b>Nov</b>	-4.8	-9.7	0.4	19.9	-
<b>Dec</b>	0.4	-10.2	6.9	4.1	-
<b>Produkt</b>	-4.4	-56.1	68.1	41.5	-9.2

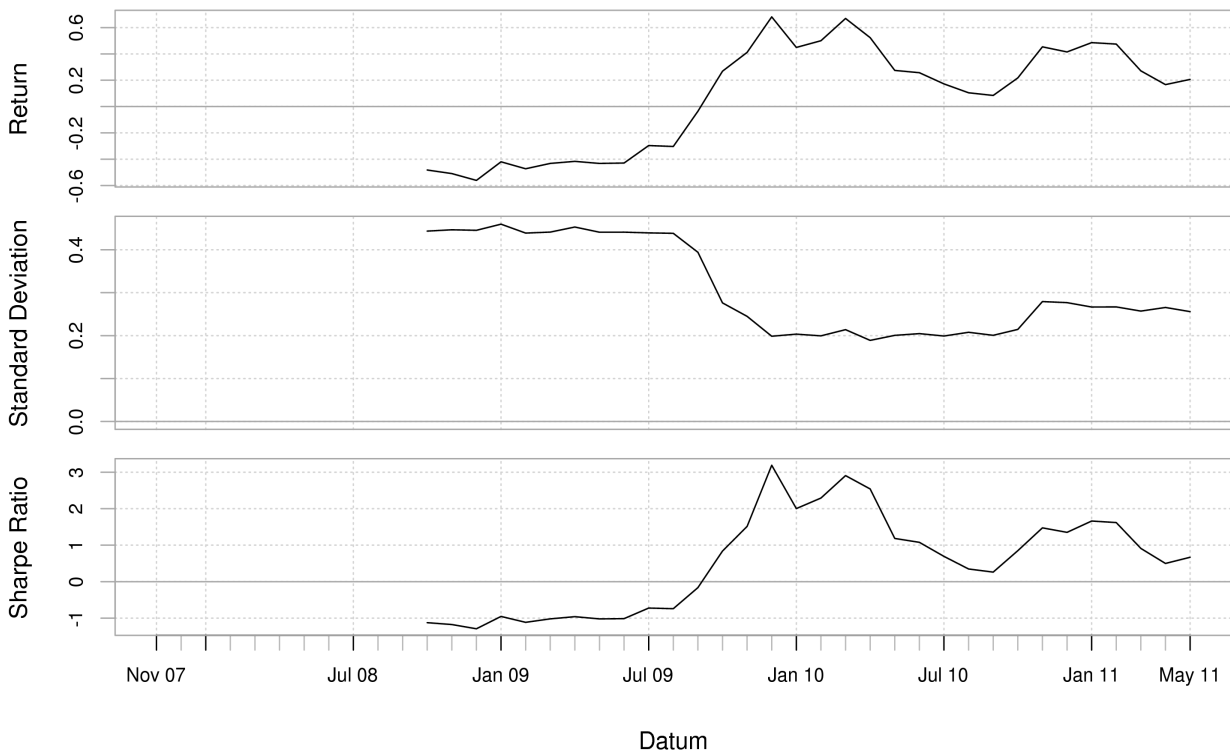
<i>Statistics per end of May 11</i>	<i>6 M</i>	<i>1 Jahr</i>	<i>2 Jahre</i>	<i>3 Jahre</i>
<i>Performance (annualised)</i>	-10.69%	20.63%	24.00%	-4.41%
<i>Volatility (annualised)</i>	12.79%	25.59%	22.50%	32.19%
<i>Sharpe-Ratio</i>	-1.07	0.69	0.93	-0.23
<i>Best monthly result</i>	4.10%	19.91%	19.91%	19.91%
<i>Worst monthly result</i>	-4.73%	-4.73%	-7.26%	-25.87%
<i>Median of monthly results</i>	-1.43%	0.03%	0.92%	0.45%
<i>Best 12-month result</i>		20.63%	48.57%	68.13%
<i>Worst 12 month result</i>		20.63%	8.45%	-43.21%
<i>Median of 12-month results</i>		20.63%	25.72%	26.87%
<i>Maximum loss period*</i>	3	4	6	36
<i>Maximum loss</i>	-11.69%	-11.69%	-15.40%	-59.56%

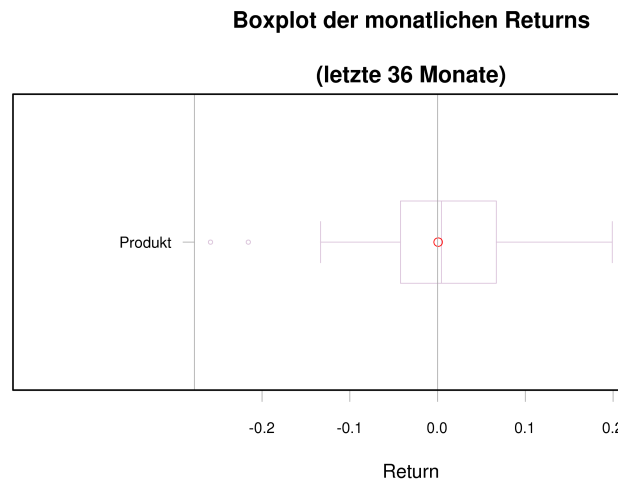
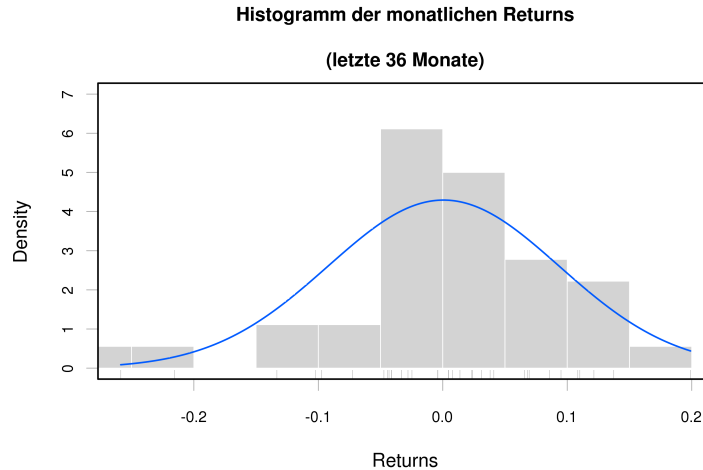
\* "Maximum loss period" is defined as the longest maximum drawdown period in months.

**Performance**



**Rollierende 12-Monats- Performance**





## Explanations

### TELOS Rating Scale

AAA	The fund complies with highest quality standards
AA	The fund complies with very high quality standards
A	The fund complies with high quality standards
N	The fund does currently not comply with the TELOS quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point

of view of the fund management – the most important external determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The **performance** of the fund is calculated based on reinvested prices: profit distributions are being invested in

new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually comparable. This approach corresponds to the "BVI method" of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

The *Sharpe Ratio* provides information about the "excess return" of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken. The risk free rate used in this report is 3%, and the *volatility* is the annualised standard deviation of the monthly returns.

The *median of monthly results* is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to "outlier results" than, for instance, the mean (average) value of monthly returns. In an analogous way, the *median of 12-month results* should be interpreted. The *longest loss period* is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used. Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under consideration – starting from the highest value reached earlier during this period.

*Jensen Alpha* measures the beta-risk-adjusted (cf.

beta) outperformance of the fund versus the benchmark and is calculated using monthly returns. A positive value indicates the generation of added-value by the fund's management.

*Beta* is a measure of the fund's market risk exposure. A Beta larger (smaller) than one indicates that the fund will be more (less) volatile than the benchmark.

$R^2$  is the square of the correlation coefficient (cf. correlation). It is the measure of the quality of a linear fit on the fund's vs. the market's returns. It ranges between 0 (bad fit) and 1 (good fit).

*Correlation* is a measure of how the fund and the market move in relation to each other. Correlation ranges between -1 and +1. The extreme values i.e. -1/+1 indicate that the fund and the market always move in lockstep, for -1 in opposite directions, for +1 in the same direction. 0 indicates there is no clear relationship.

The *tracking error* is the standard deviation of differences between fund and benchmark returns. The lower the tracking error, the more closely the portfolio follows the index.

*Active Premium* or excess return measures the Out/Underperformance of a fund vs. its benchmark.

The *Information Ratio* is the active Premium divided by the tracking error. The higher the information ratio, the higher the active premium of the fund, given the same level of risk.

The *Treynor Ratio* is the return in excess of the riskfree rate, divided by beta. The Treynor ratio is a beta-risk-adjusted measure of outperformance vs the riskfree rate.

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