ALTMAN INVESTMENT MANAGEMENT

INDUSTRY RESEARCH INSIGHTS: ENERGY

SEPTEMBER, 2007

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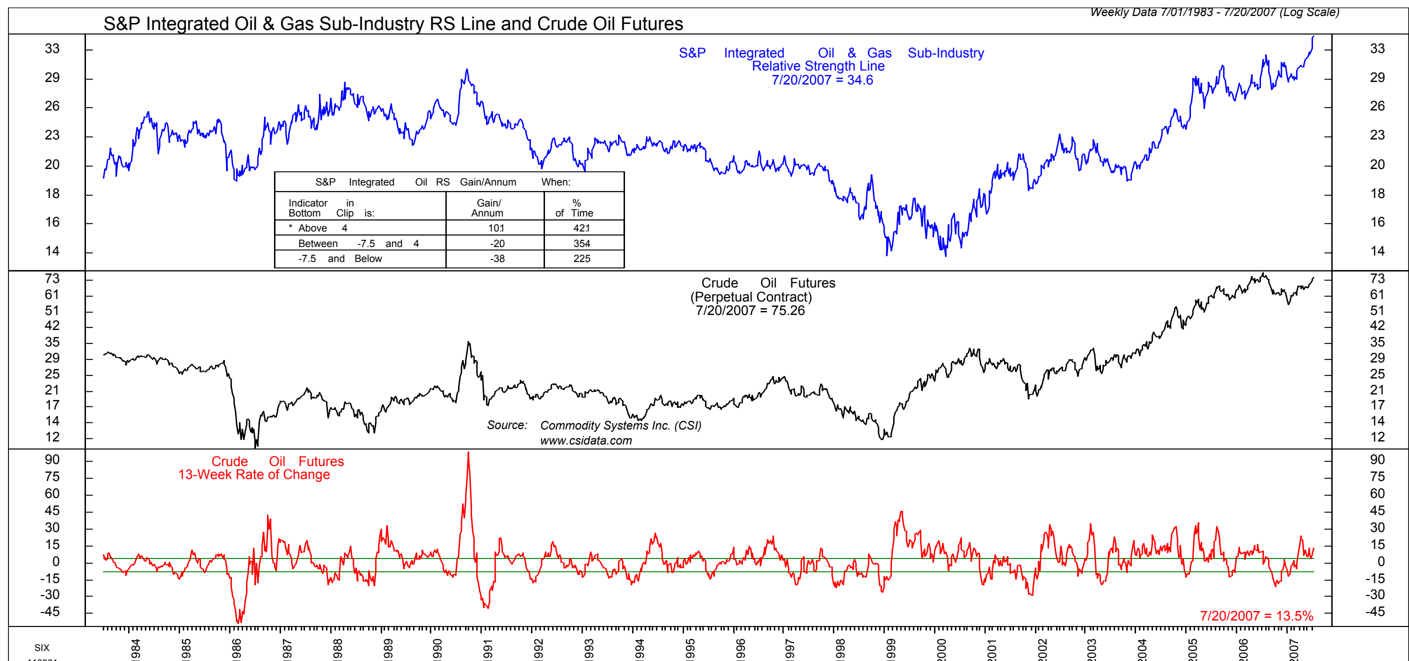
"CLOSE UP" - THE ENERGY SECTOR

- **As we begin the fourth quarter, we continue to emphasize integrated oil companies within our energy representation, despite our overall underweight position in the sector for the past several quarters. This reflects the disparity in valuations within the sector and relative performance over the past 18 months.** The oil service group has been one of the highlights in this past quarter as momentum has been building all year for accelerated drilling programs. The price of oil per barrel has climbed to the high end of its historic range, and sentiment appears to be improving from the overly pessimistic levels experienced earlier in the year. Before upgrading the sector weight, we would like to see a more supportive Fed that ensures the U.S. economic slow down is assured a soft landing. The bullish case on energy consists of declining flexibility in production increases, strong demand from emerging markets, and rising costs of finding and developing new reserves (a positive for oil field service and drilling companies). While stock valuations are not excessive under the assumption of high $50 to mid $60 long term oil, the consensus expectations reflect higher oil prices comparable to earlier estimates of $60 average prices in 2006. It's still worth mentioning that the assumption of roughly $70 oil in 2008 is now priced into the markets and appears to be a more reasonable level as world economies begin to slow. Despite a forecast of a global slow down, energy prices have remained relatively high. This suggests that energy is no longer trading as a cyclical commodity but more like a "growth" company, where the base case scenario extrapolates the most recent pricing experience rather than the more traditional method of mean reversion. Although it would appear that energy may be susceptible to further earnings revisions, and fluctuations in inventory and spot markets, it is likely that any further increases in the oil price above $80 a barrel will begin to precipitate a demand response. (1)



S&P Integrated Oil RS Gain/Annum When:		
Indicator in Bottom Clip is:	Gain/ Annum	% of Time
* Above 4	10.1	42.1
Between -7.5 and 4	-20	35.4
-7.5 and Below	-38	225

Figure I

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(1) "Twilight in the Desert, The Coming Saudi Oil Shock and the World Economy" by Matthew R. Simmons published by John Wiley & Sons in 2005.

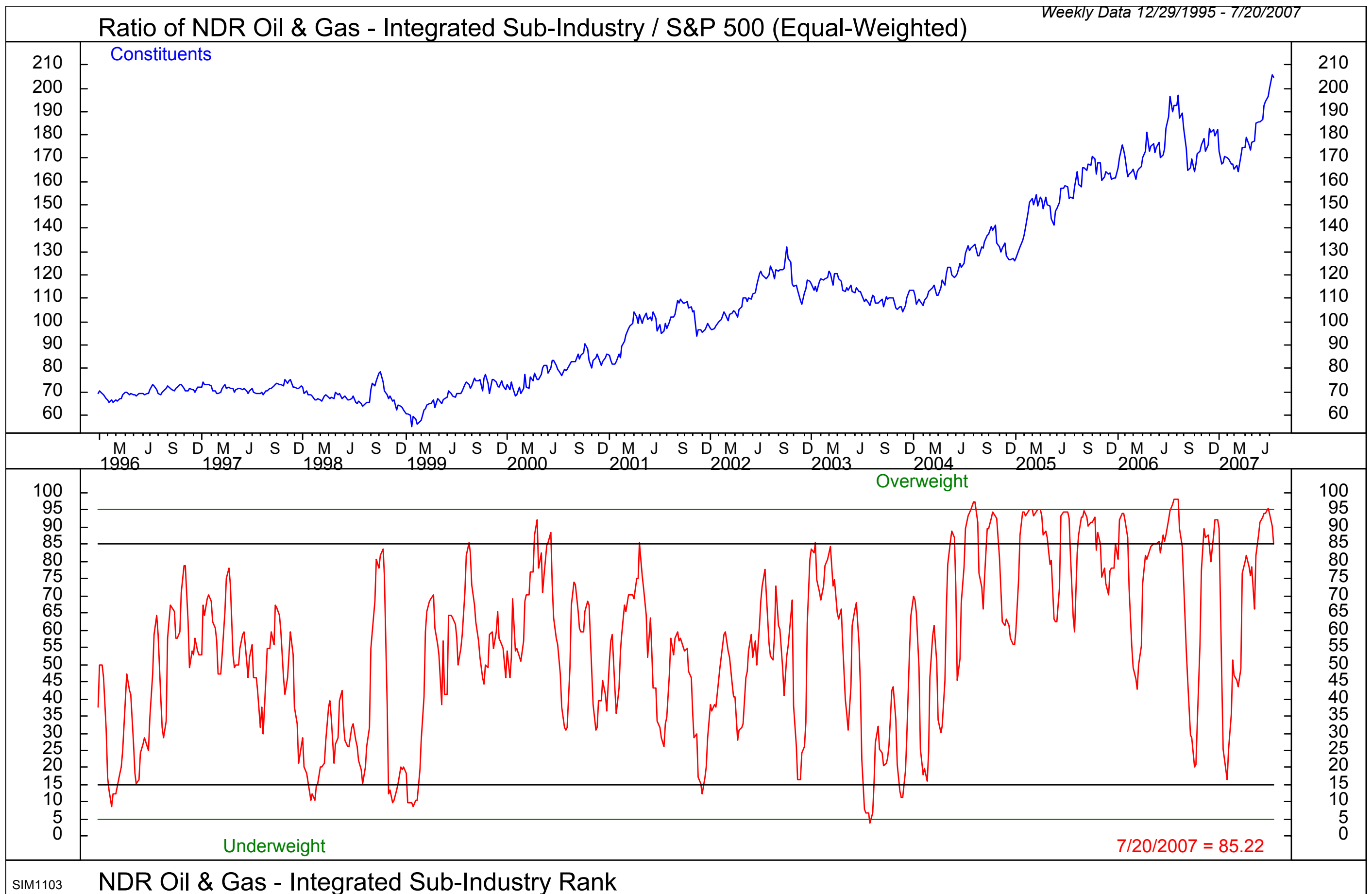


Figure II

- **The energy sector is entering a seasonally strong period of the year and should persist through the fourth quarter**. Despite rising oil prices in July, we don't expect that the commodity price for perpetual contracts to maintain price levels in the mid $80's per barrel for long periods of time. In the mid summer, natural gas and crude rose about 2.5 percent. As July drew to a close OPEC's Secretary-General HE Abdullah Salem El-Badri stated that if oil should reach $80 per barrel, he would "activate" OPEC's 3.5 million bpd of spare capacity, and that he would need significant evidence of a supply shortage before it would require OPEC to institute an increase in the oil output. Figure I illustrates that the correlation between Crude Oil Futures and the Relative Strength (RS) Line of the industry participants is very high. On closer examination it appears that the share performance has lead the commodity by several months in most instances.

"LOOKING BACK" - A PERSPECTIVE ON THE FUTURE

- **As early as mid 2006, after a significant run up in the share prices of the energy participants**, we began to take a more defensive position with regards to energy portfolios and placed a greater emphasis on the low cost producers and select drillers. We have included two charts Figures III and IV for a detailed analysis of the industry allocation of the large capitalized value performance benchmark as well as Figure I that shows one of our research partners, NDR Research, weighting analystics against the Standard and Poor's 500 our process benchmark.. Despite our concern about approaching the top of the current business cycle in a long-term secular upward trend in energy fundamentals, we focused on companies who display a better record at replacing reserves more rapidly than the average player in the exploration and production business. However, we did not expect an increasing role of the

financial players in the market place. This new participant made future predictions of commodity prices even more challenging. Questions still remain such as: will we see any further downside in the price of the commodity and whether the Brent-WTI spread will ever close? Will the larger capitalized integrated oil companies begin to outperform the less capitalized smaller companies in a macro environment that is slowing? Does this new fundamental outlook for global energy warrant multiple revaluations? And lastly when is a good time to draw down our cash reserves in the investment portfolio? See Table I and II.

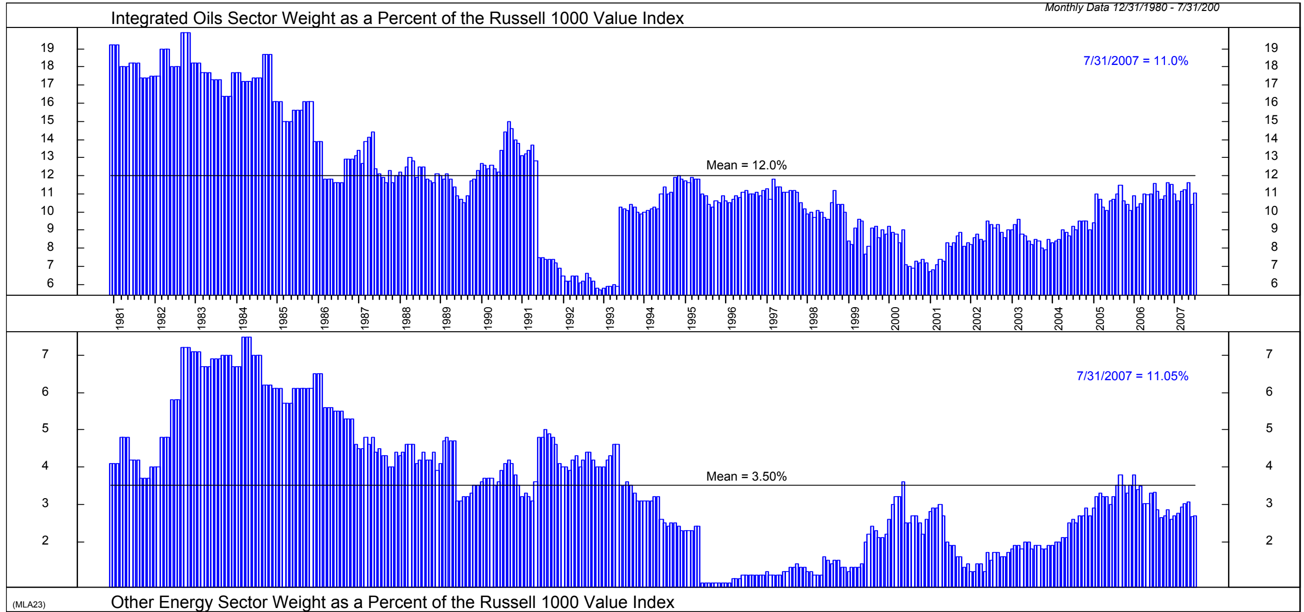


Figure III

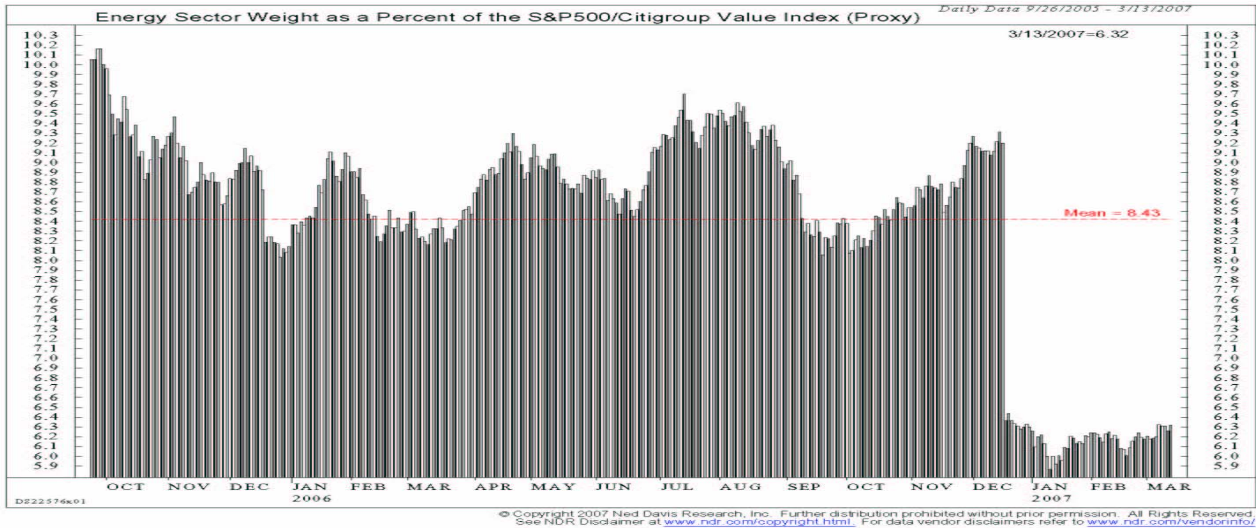


Figure IV

Reserve Analysis of Current Holdings

- Although oil supplies on average are not meeting current demand, the reserves in the companies we own remained constant compared to a year ago. In 2003 we overweighted the energy sector in our diversified funds reflecting the longer term rising marginal cost of oil and gas. These rising prices have been driven by the decline in reserves size per well in the U.S. which, according to EIA and Bernstein Research, was down to 0.15 MMboe or 35% over the last five years and continues the downward trend.

Table I

Name	BOE PR 2006	BOE PR 2005	Replacement	Share Price	Shares	Crude Oil/B†	Shares*SharePrice/BOE06*CrudeOil/B
Anadarko Petroleum	3,011,000,000	2,499,000,000	42%	48.74	463,926,000	65.77	493.9139856
Chevron	11,620,000,000	11,906,000,000	-	82.18	2,149,237,000	65.77	999.7056791
ConocoPhillips	9,400,000,000	7,900,000,000	>300%	75.85	1,634,400,000	65.77	867.3890335
Exxon Mobil	22,110,000,000	21,642,000,000	129%	82.77	5,633,270,000	65.77	1386.987738
Canadian Natural Resources	1,949,000,000	1,592,000,000	295%	68.00	539,263,000	65.77	1237.443956
Chesapeake Energy Corp.	1,493,000,000	1,253,000,000	348%	36.19	460,736,000	65.77	734.528692
Devon Energy Corp.	2,376,000,000	2,102,000,000	-	79.50	444,981,000	65.77	979.2419316
EOG Resources Inc.	1,133,500,000	1,032,400,000	-	78.56	244,596,000	65.77	1114.954495
EnCana Corp.	2,069,666,666	1,964,000,000	-	63.50	762,957,000	65.77	1539.576325
Apache Corporation	2,313,000,000	2,117,000,000	-	82.80	331,160,000	65.77	779.6872274
XTO Energy Inc.	1,424,766,666	1,270,366,666	-	61.43	368,367,000	65.77	1044.588712
Murphy Oil Corp.	88,500,000	38,466,667	-	89.98	188,127,000	65.77	12580.03038

Table II

Name	P/S	P/B	Natural Gas*	CO, C, NGLs*	%Developed	Shares*SharePrice/BOE05*CrudeOil/B
Anadarko Petroleum	2.02	1.5	10.486 Tcf	1.264 Billion	66%	595.1080475
Chevron	0.87	2.5	19.910 Tcf	5.294 Billion	60%	975.6912474
ConocoPhillips	0.69	1.5	22.884 Tcf	7.806 Billion	76%	1032.083154
Exxon Mobil	1.25	4.1	67.560 Tcf	11.709 Billion	63%	1416.98082
Canadian Natural Resources	3.69	3.5	3.798 Tcf	1.316 Billion	61%	1514.9361
Chesapeake Energy Corp.	2.27	1.7	8.328 Tcf	0.106 Billion	62%	875.2205405
Devon Energy Corp.	3.18	1.8	8.356 Tcf	0.275 Billion	70%	1106.888121
EOG Resources Inc.	5.01	1.4	6.095 Tcf	0.118 Billion	70%	1224.138822
EnCana Corp.	2.72	2.5	12.418 Tcf	1.133 Billion	62%	1622.408248
Apache Corporation	2.96	2.1	13.878 Tcf	1.061 Billion	68%	851.8736689
XTO Energy Inc.	5.01	3.8	8.549 Tcf	0.268 Billion	67%	1171.547725
Murphy Oil Corp.	0.73	2.6	0.531 Tcf	0.174 Billion	61%	28942.79087

Key
* = Proved Reserves only
† = Crude Oil Futures Price per barrel as of May 23, 2007
BOE = Barrels of Oil Equivalent
Tcf = Trillion cubic feet
PR = Proved Reserves
PDR = Proved Developed Reserves
TPR = Total Proved Reserves
MMBbls = Million Barrels
CO, C, NGLs = Crude Oil, Condensate, Natural Gas Liquids

Source: Altman Investment Management, LLC and Corporate Releases.

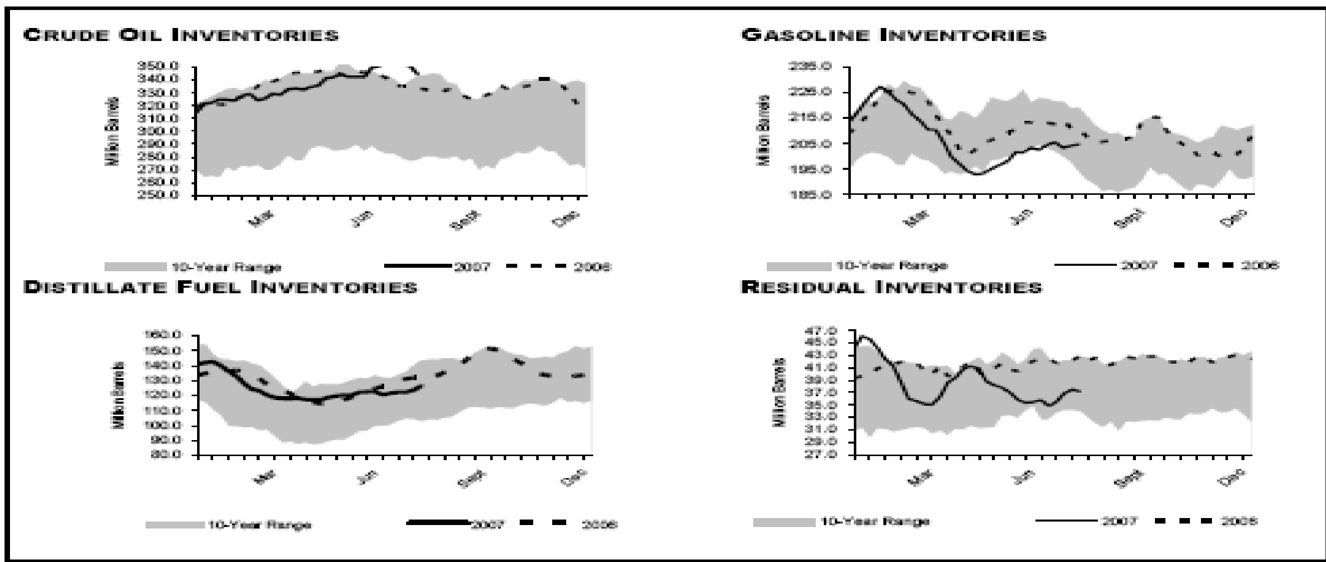
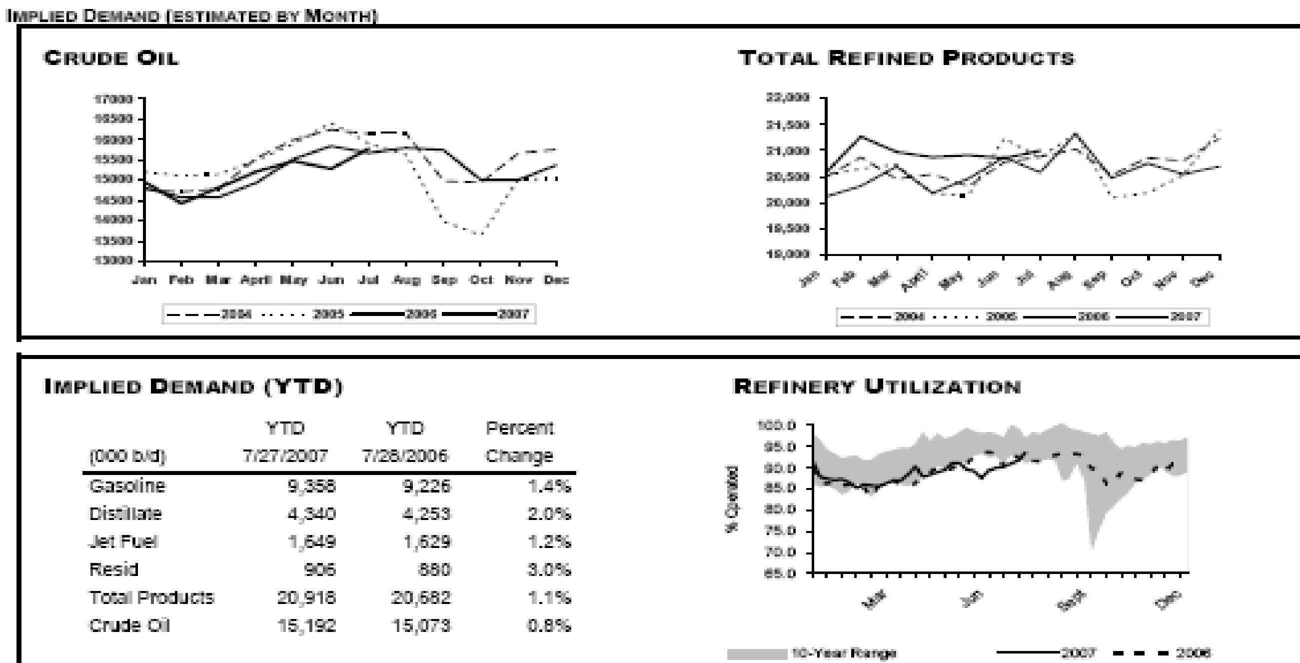


Figure V



IMPLIED DEMAND (YTD)

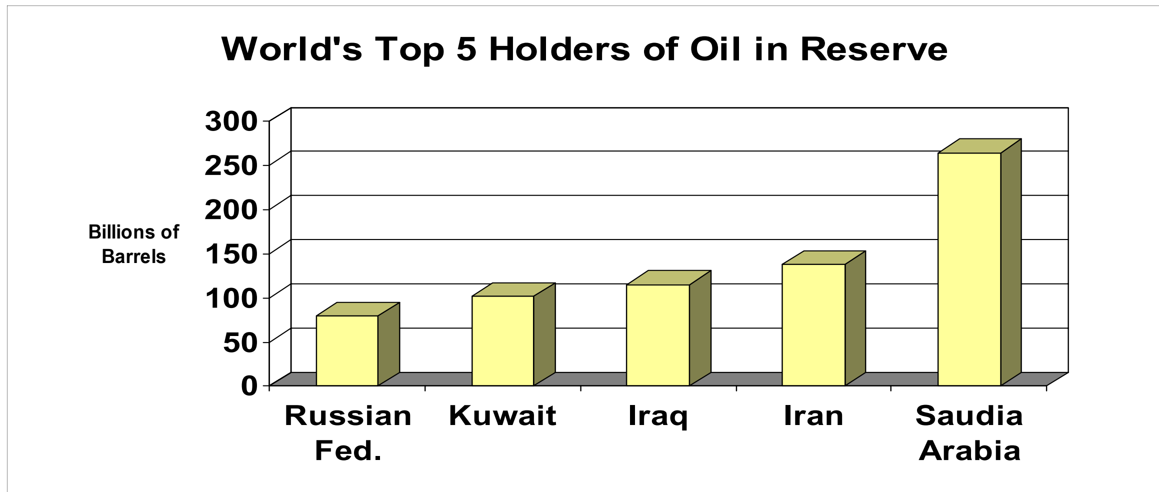
(000 b/d)	YTD 7/27/2007	YTD 7/28/2006	Percent Change
Gasoline	9,358	9,226	1.4%
Distillate	4,340	4,253	2.0%
Jet Fuel	1,649	1,629	1.2%
Resid	906	880	3.0%
Total Products	20,918	20,682	1.1%
Crude Oil	15,192	15,073	0.8%

SOURCE: U.S. DEPARTMENT OF ENERGY: ENERGY INFORMATION ADMINISTRATION; BEAR, STEARNS & CO. INC. ESTIMATES.
Implied demand is calculated by Bear Stearns by adding imports and production, minus change in inventories/7.

Figure VI

Long Term Fundamentals of Oil and Gas:

- **Prior to the U.S. invasion four years ago, Iraq was pumping 2.6 million barrels a day**. It currently pumps 1.95 million barrels a day, while using only 27 of its 78 known oil fields. The U.S. Energy Information Administration states that only about 10 percent of Iraq has been examined for oil. Furthermore, companies were prohibited from investing in Iraq by United Nations sanctions until 2003. Considering that the war's end would likely bring more investment, and the possibilities of implementing new technology, Iraq stands to possibly double its oil production. Stability in Iraq and the end of the war lays the ground work for a significant oil production increase. (Bloomberg Market- Aug. 2007)



Source: BP Statistical Review of World Energy, 2007

Figure VII

- **Oil consumption started exceeding the rate of oil discovery about 17 years ago,** and the disparity has grown each year. Energy is now being consumed at about twice the discovery rate. The net decline in reserves per well started as ealy as 1996. EIA shows that the average reserve size per well in the US was down some 35% over the past 5 years and continues this trend today. This geological phenomenon has supported a global rig count that has almost tripled from the late 90's and capital in U.S. upstream industry exceeding the levels we saw in the late 70's. With the rapid growth and industrialization of China and other Asian countries, this deficit will continue to widen as the demand continues to outstrip supply. Oil prices continue to reflect this secular story and have been rising as the marginal upstream operator maintains adequate rate of return at current levels. The imbalances between supply and demand ensure that oil participants should remain bullish for some time to come. On a short term basis, the International Energy Agency (IEA) and the Energy Information Administration (EIA) are both expecting a crude oil miss of about one million barrels per day by the end of 2007. As demand drives the costs up, the main beneficiaries of this pending supply-and-demand issue continues to be energy companies. We are increasingly interested in exploring alternative energy solutions. See our report titled *Alternative Energy Research*, November 2007. While energy stocks have recently been on the rise since late summer, their price earnings ratios have not changed significantly and the yields on the shares have been expanding rapidly, leading the S&P 500 in year over year dividend growth.

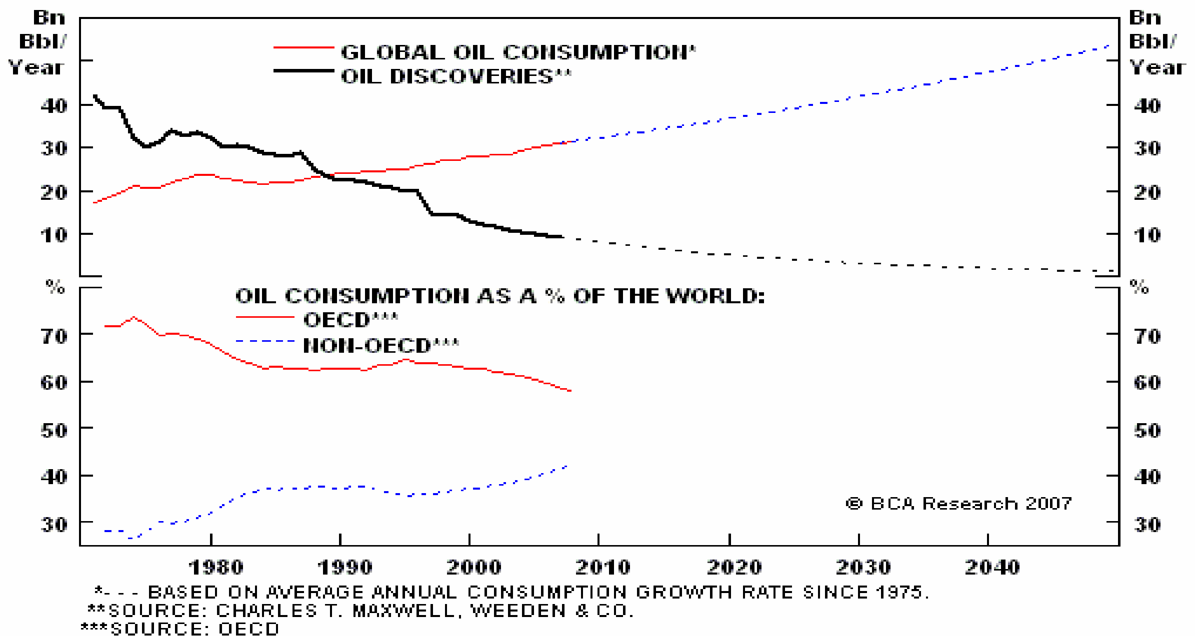
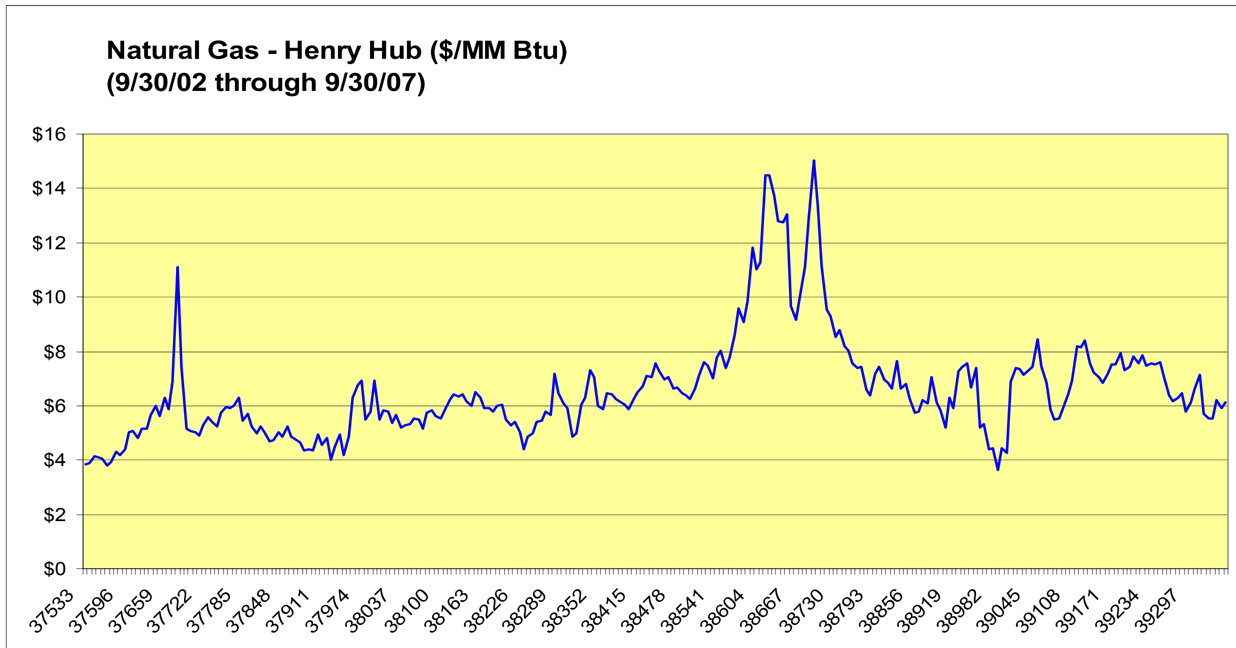


Figure VIII

- **We expect natural gas prices to rise in the fourth quarter to the upper end of its near term trading range between $5.5 and 6.5 /MM BTU typical of past seasonal patterns.** In 2008 we are forecasting that gas will rise above the average price of $6.6 experienced for the past five years. Crude oil, in contrast, has increased significantly from around $50 per barrel at the beginning of the year to the high $70's per barrel by September. Natural gas has hovered around $6.5 for most of 2007 thus far. We forecast that this large gap should lead to an increase in demand for U.S. natural gas over time. This steady rate has led to a decrease in gasoline imports, but should change over the ensuing weeks. U.S. gasoline production currently runs between 9.0 to 9.5 million bbl per day, exceeding the 5-year average of about 8.7 at this time of year. OPEC states that it can increase production by 15% and not yet close to maximum production.

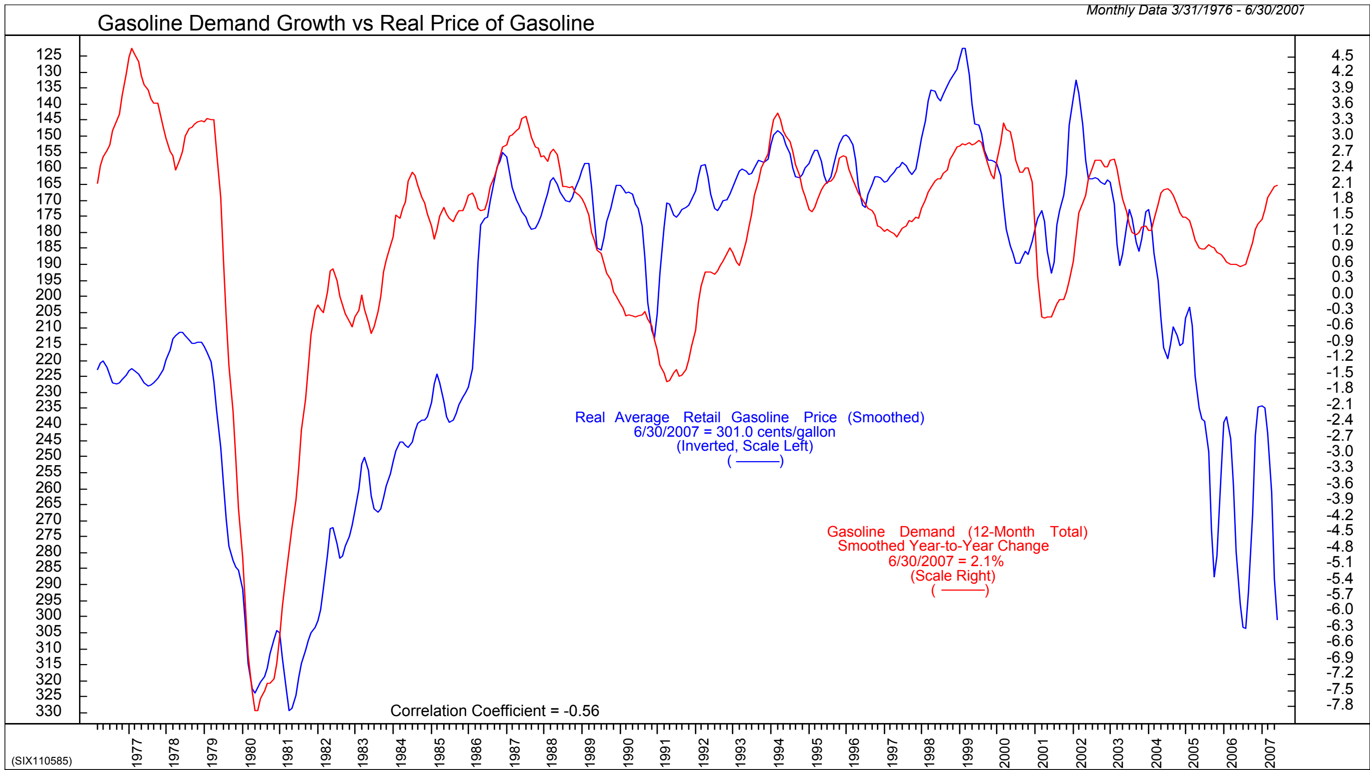


Source: Bloomberg

Figure IX

- **While we believe the secular uptrend is still in place, the return on capital employed has reached such unprecendented levels (close to 23%) that we would expect this to encourage further investment**. Our macro economic forecast for global growth in 2008 should begin to reduce the overall demand for energy. This phenomenon, coupled with increasing inventories, should compress overall returns and lower absolute oil prices. Despite the fact that OPEC believes that demand growth will approach normal levels of 1.5% in 2007 and 1.6% in 2008 the IEA continues to carry a higher forecast than those made in 2006, despite the recent global developments that suggest a weaker macro environment and unseasonably warmer weather moving into the fall.

- **As spare capacity has grown and inventories have risen to levels that we would expect to see a price response, we remain somewhat cautious.** The natural gas markets have not had the same experience showing a stronger relationship between underlying fundamentals in the domestic economy than the oil sector. For this reason, we believe energy portfolios should begin adding to investment positions that are leveraged to natural gas prices as we enter a favorable season of the year.



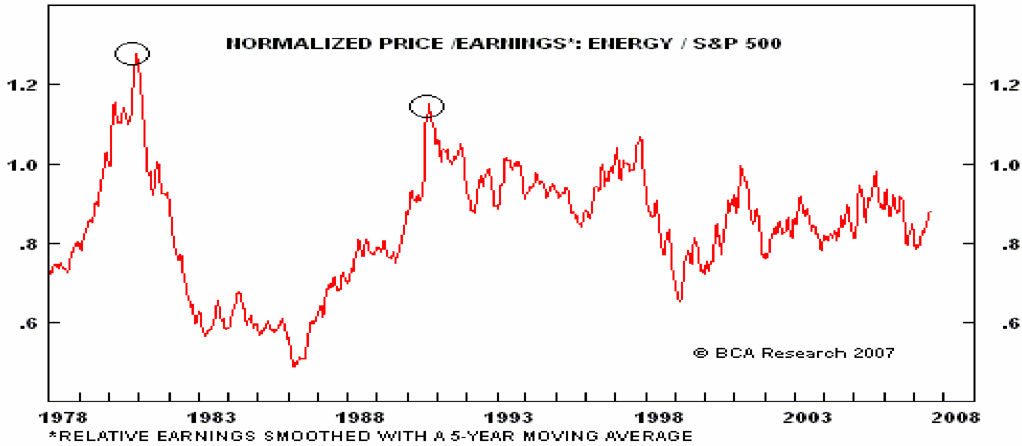


Figure X

- **The Oil-Equipment & Services industry has seen significant M&A activity since the beginning of 2006.** We believe that this trend will continue as the capital markets settle down from the recent credit turmoil. This activity could continue for the next several years as Bear Stearns research emphasizes that there will be an "acute skilled labor shortage, a high-stakes race for technological leadership, overcapitalization, and undervaluation," all of which contribute to the likelihood of increased M&A. As global demand far exceeds supply, the need for increased exploration is imperative. The oil service industry has reaped large profits from the soaring energy prices, and is now overcapitalized. Consolidation is necessary for the industry to become more efficient and competitive. Cash flows are strong and debts are low, giving the companies the tools necessary to make investments and acquisitions, and to create synergies. Since 2006 Bear Stearns reports that the average premium for target companies one day after the announcements were made were approximately twenty-seven percent higher than the previous days close. Continued M&A activity for oil services companies bolsters the case for further investment, and serves as another catalyst for the underlying industry trend.

- **The United States imports sixty percent of its oil, with over forty percent coming from OPEC.** In terms of the safety of U.S. imports amidst fears of terrorism or war, "only a naval power of the United States" strength could seriously disrupt oil shipments, but the United States is more likely to protect shipping on the high seas than to do anything to endanger it." (2)

- **With the high oil prices, governments have been supporting alternative sources of energy**. In the U.S. in cooperation with corn growers, ethanol producers have successfully lobbied for corn as a critical alternative; the government decided to heavily subsidize corn-based ethanol. This comes even as other sources, such as wood chips, are potentially a more efficient energy source. The corn industry has grown at alarming rates, with production capacity scheduled to reach about 11.5 billion gallons in 2008. In the summer season of 2007, U.S. farmers have planted 19 percent more corn than the summer season of 2006, and soybean plantings declined 15 percent. However, heavy conversion of corn to ethanol has U.S. domestic corn supplies on pace to be cut in half within only a few years.

- **In the first quarter of this year, corn futures hit $4.38 a bushel, a ten-year high**. Corn has taken acres away from wheat, rice, and soybeans, driving those prices higher. This also creates a problem for farmers, as feed prices rise, causing price increases for livestock and poultry as well. Ultimately, the rising prices of these futures get passed onto consumers. Many companies, including powerhouse General Mills, have already raised prices. The United States' 2006 consumption of ethanol was about 6 billion gallons. Demand for oil will continue to rise with the advancement of India and China.

- **With the long-term future of oil reserves looking bleak, oil prices have an almost endless ceiling for price increases.** This would potentially prompt significant rises in corn future prices as well. Even with grasses, trees, and wheat available to be converted to ethanol, the tax-breaks and government subsidies associated with corn production will keep corn the primary crop for ethanol production. (3).

- **In an interesting new development, the U.S. Securities and Exchange Commission is talking about creating new rules to allow companies to report probable reserves, in addition to the proven reserves.** Currently, companies are not being valued correctly because the probably reserves are unrecognized. This potential upside should benefit Andarko Petroleum Corp., Apache Corp., Chesapeake Energy Corp. Pioneer Natural Resources Co. is also another beneficiary that we do not currently own but shows up as attractive on this basis as well.

- **Recent evidence of Exxon Mobil and BP reports of lowered investment capital for finding new oil has** negatively impacted their relative share prices. This further confirms investor sensitivity to replacement issues as a key factor in share price performance. Their rationale may be that alternative energy is a better use of capital given their recent experience in finding sizable fields that could reverse their corporate trend. We are now predicting that oil will hover at $75 per barrel by year end and approach $80 a barrel by mid 2008 barring no major change in global growth assumptions from current levels.

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2. *Smooth Sailing – The World's Shipping Lanes Are Safe, by* Dennis Blair and Kenneth Lieberthal
3. *Ethanol's Real Cost*, Foreign Affairs May/June 2007 by Runge & Senauer
   How Biofuels Could Starve the Poor, Foreign Affairs, by C. Ford Runge and Benjamin Senauer)

"LOOKING AHEAD"- ENERGY PORTFOLIO STRATEGY

- **At this juncture, based on relative and historic valuations parameters, these high oil and gas prices favor a heavy emphasis on integrated oil companies**: Chevron Texaco Corp., Conoco Phillips, Exxon Mobil Corporation, and Murphy Oil Corp. Our underlying assumption continues to focus on the fact that global demand for oil remains strong and continues to be negatively impacted by tight supply within the context of a weakened U.S. dollar.

ENERGY PORTFOLIO VALUATION CHARACTERISTICS

Table III

EIP Composite

9/28/07

			PRICE		PRICE	P/E	07 P/E TO	08 P/E TO		P/S	MRKT CAP	PR/CF	
	P/E EST	P/E EST	TO	BETA	TO	LATEST	LT FUTURE	LT FUTURE	DIV	LATEST	(MILS)	TO 5 YR	REINV'MT
COMPANY NAME	CURR YR	NEXT YR	CASHFLOW	SPX	BOOK	4 QTRS	GR RATE	GR RATE	YIELD	4 QTRS	9/28/07	AVG	YIELD
ENERGY													
APACHE	12.4	11.1	7.4	0.71	2.1	13.5	1.4	1.2	0.7%	3.44	29,901.00	1.4	6.8%
ANADARKO PETROLEUM	14.0	13.1	5.7	0.68	1.6	10.5	3.5	3.3	0.7%	1.97	24,935.00	1.2	8.9%
CANADIAN NATR'L RSC	21.7	18.6	10.4	0.73	3.7	21.9	4.3	3.7	0.4%	4.20	40,864.00	2.2	4.2%
CHESAPEAKE ENERGY	11.7	11.0	5.4	0.79	1.7	10.7	0.5	0.5	0.8%	2.17	16,256.00	1.3	8.7%
EOG RESOURCES	17.3	15.0	9.3	0.83	2.8	16.4	2.2	1.9	0.5%	4.62	17,707.00	1.3	5.7%
ENCANA	12.5	13.6	7.0	0.67	2.5	13.1	2.1	2.3	1.3%	2.64	46,588.00	1.2	6.5%
XTO ENERGY	13.8	14.6	9.4	0.85	3.2	14.3	1.1	1.1	0.8%	4.98	23,859.00	1.4	6.2%
CHEVRON	11.3	11.2	8.0	0.82	2.7	11.5	2.3	2.2	2.5%	0.97	199,485.00	1.2	6.4%
CONOCOPHILLIPS	9.3	9.3	6.5	0.85	1.7	9.6	1.2	1.2	1.9%	0.79	142,818.00	1.2	8.6%
MURPHY OIL	17.7	13.0	11.7	0.64	2.9	18.4	1.8	1.3	1.1%	0.85	13,174.00	1.4	4.5%
EXXON MOBIL	13.3	13.5	10.3	0.87	4.4	13.4	2.2	2.2	1.5%	1.37	513,362.00	1.1	6.0%
CROSS TIMBERS RYL TR	-	-	10.4	0.06	12.6	9.7	-	-	8.5%	9.56	240.00	0.7	0.7%
BAKER HUGHES	18.9	15.5	15.7	0.75	4.9	20.5	1.2	1.0	0.6%	2.96	28,878.00	1.1	4.3%
SCHLUMBERGER	25.2	20.6	20.9	0.96	9.7	28.3	1.3	1.0	0.7%	5.85	125,167.00	1.6	2.9%
DEVON ENERGY	13.7	12.2	7.2	0.62	1.9	13.6	1.7	1.5	0.7%	3.46	37,107.00	1.7	6.7%
HUGOTON ROYL TR TEX	11.6	10.0	15.6	0.41	5.9	13.8	1.2	1.0	8.8%	6.02	946.00	1.0	0.1%
FLOTEK INDUSTRIES	39.7	24.4	44.7	0.50	12.1	52.9	-	-	0.0%	6.00	812.00	3.4	1.9%
GLOBALSANTAFE	10.8	8.4	11.5	0.81	3.3	14.5	0.3	0.2	1.2%	4.48	17,202.00	0.8	5.7%
SECTOR AVER($ WT)	13.6	12.9	8.2	0.78	2.6	13.8	1.2	1.2	1.0%	2.10	80,385.00	1.2	6.3%
MATERIALS													
NORTHERN ORION RSC	15.4	14.1	17.4	1.51	2.3	17.4	-	-	0.0%	5.98	991.00	1.6	5.8%
ALLEGHENY TECH	13.8	12.6	13.8	2.67	6.0	15.4	0.8	0.7	0.5%	2.03	11,239.00	0.8	6.0%
SECTOR AVER($ WT)	14.7	13.4	15.7	1.98	3.1	16.5	0.8	0.7	0.2%	3.34	5,153.00	1.2	5.9%
UTILITIES													
DOMINION RESOURCES	15.6	13.7	7.7	0.57	2.3	16.7	2.2	2.0	3.4%	1.49	24,533.00	1.1	2.6%
SECTOR AVER($ WT)	15.6	13.7	7.7	0.57	2.3	16.7	2.2	2.0	3.4%	1.49	24,533.00	1.1	2.6%
VARIOUS OTHER HLDGS													
ISHARES GOLDMAN NAT	-	-	-	0.92	-	-	-	-	0.9%	-	2,144.00	-	-
CASH	-	-	-	0.00	-	-	-	-	0.0%	-	-	-	-
S&P BARRA VALUE IDX	~	~	~	~	~	~	~	~	~	~	~	~	~
SECTOR AVER($ WT)	-	-	-	0.07	-	-	-	-	0.1%	-	2,144.00	-	-
UNIVERSE AVER($ WT)	13.6	12.9	8.4	0.74	2.6	13.9	1.2	1.2	0.9%	2.14	74,295.00	1.2	6.2%
MARKET INDICES													
S&P 500	16.1	15.2	11.0	1.00	2.9	16.5	2.0	1.9	1.7%	1.56	109,722.00	1.0	4.3%
CRB INDEX	-	-	-	0.10	-	-	-	-	-	-	-	-	-
AMEX DEUTSCHE ENERGY	-	-	-	0.83	-	-	-	-	-	-	-	-	-
AMEX NATURAL GAS IDX	-	-	-	0.84	-	-	-	-	-	-	-	-	-
AMEX OIL	-	-	-	0.88	-	-	-	-	-	-	-	-	-
ENERGY	12.9	12.1	12.4	0.85	3.4	13.3	1.2	1.1	1.3%	1.34	225,998.00	1.6	6.2%
PHLX OIL SERVICE IDX	-	-	-	0.83	-	-	-	-	-	-	-	-	-
R-INTEGRATED OILS	12.0	11.9	8.9	0.88	3.0	12.1	2.0	2.0	1.7%	1.33	336,165.00	1.0	6.6%
R-OTHER ENERGY	15.8	13.5	10.9	0.91	3.1	16.3	0.9	0.8	0.5%	1.98	33,116.00	1.3	5.6%
S&P/TSX CP ENERGY C$	-	-	-	0.34	-	-	-	-	-	-	-	-	-
SIG OIL EXPLR&PRDCTN	-	-	-	-0.25	-	-	-	-	-	-	-	-	-
U.S. DOLLAR INDEX	-	-	-	-0.02	-	-	-	-	-	-	-	-	-

Source: Thomson Financial

- **We also have placed a heavier emphasis on a laggard group, the oil equipment and service industry**, as the majors begin to expand their drilling programs at these elevated prices. We would also like to point out that there does not appear to be a material shift yet in consumer purchasing habits in response to escalating gas prices at the pump. Although prices may be near record levels in absolute dollar terms, they are below these record levels on an inflation adjusted basis. Furthermore, cars are far more efficient today offsetting a portion of the energy costs as consumers fill-up their tanks less frequently and achieve more miles per gallon than ever before.

- **There has been a disconnect this year between the price of oil and the price of natural gas.** Oil has increased some 20% in price over the last three months, while natural gas has fallen almost as much over the same time period. Oil is currently at $78.50 per barrel, or 5.0% above last years levels, and continues advancing to new all time highs consistently all month. An explanation perhaps for the disparity between oil and gas can be found in the fact that gas is more of a domestic commodity than is oil and is affected greatly by weather and storage related issues rather than global demand. An abnormally cold winter in 2005 followed by an exceptionally warm 2006 in the U.S. caused natural gas prices to plummet. These factors don't necessarily affect the global community or demand for energy in the emerging markets of the world. (You can reference our *Market Research Insights: from Russia with Returns,* published in August 2007, available on our web site.) (4)

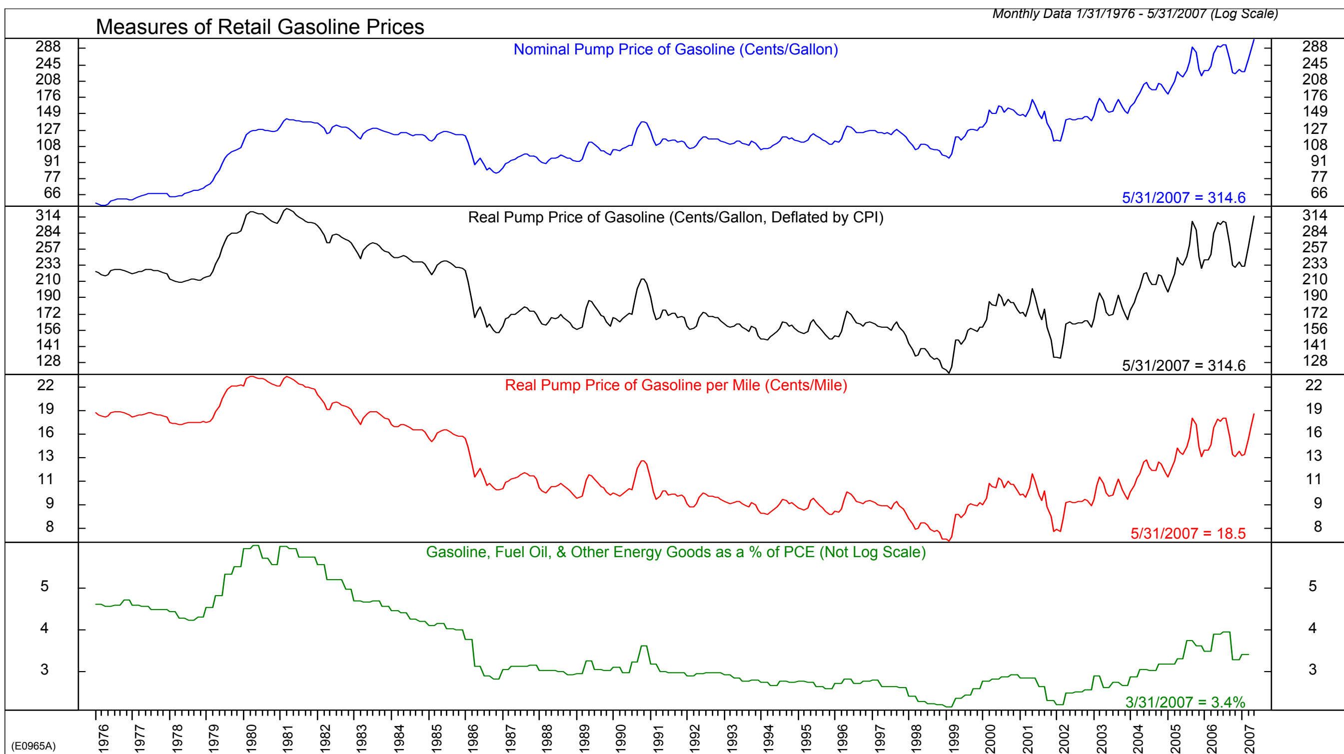

Figure XII

- **As the third quarter of 2007 is underway, we are maintaining a market underweight in the energy sector by 15.7%,** reflecting the significant advance in the shares over the past several quarters as well as valuation characteristics that exceed historical benchmarks. As the long term bullish case for oil remains intact, we would look for better entry levels in the spring of 2008 before expanding our representation. See Figures III & IV to get a historical perspective on oil/energy as a percentage of the Russell 1000 Value and Standard and Poor's 500 Citigroup Value benchmarks. Remember that there is also a large percentage of energy exposure in the utility sector of the Russell 1000 Value Index (estimated at 13%). Most of the larger capitalized companies in this sector of the index have significant leverage to unregulated energy businesses. We estimate that the energy exposure of the Russell 1000 Value Index approached 20% in 2006.

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