Energy Positions

Pioneer Natural Resources	(1999)	12%
Loews Corporation Subsidiaries	(1993/00)	5%
Boardwalk Pipelines Partners	(2008/14)	4%
CVR Energy	(2013/14)	2%
Noble Corporation	(2014)	2%
Energy as percent of total portfolio		25%

PXD Profile

- One of the largest independent oil and gas exploration and production company (E&P)
- Operates primarily today in Permian Basin (Sprayberry/Wolfcamp play) and Eagle-Ford Shale play in Texas
- Proved reserves of 0.8 BBOE, but growing recognition of significantly more reserves (up to 11 BBOE). Stock price has been volatile.
- Innovatively applying horizontal drilling techniques
- Conservatively financed for an E&P (debt is 29% of total capital)

PXD Profile

- Growing production at a CAGR of 16 to 20% and expecting to double output by 2018
- Cash Flow growing rapidly (2009-13 CAGR 33%) to $15 per share at yearend. All being reinvested in exploration opportunities.
- Company expects forward cash flow growth of at least 15% for 2014 based on hedging of current production.
- Management is highly regarded in energy industry.

Loew's Energy Subsidiaries

- Loews is a conglomerate controlled by the Tisch family who are highly regarded as long term value investors. Their reputation is to acquire undervalued assets managing through difficult environments, making changes as necessary. Three energy subs. account for about 35% of the holding company's value.
  - 51% ownership of Diamond Offshore (DO) 1982
  - 53% ownership of Boardwalk Pipelines (BWP) 2002
  - 100% ownership of Highmount Expl. & Devel. 2008
- Recently, all 3 subsidiaries have faced challenging markets for their production and services. Outlook remains difficult for 2014.
- Boardwalk projects a 30% drop in cash flow this year and earlier announced an 80% reduction in their quarterly distribution causing their unit price to drop 50%.

Boardwalk Pipeline Partners

- Structured as an MLP
- Includes 3 large pipeline systems (14,450 miles)
- This pipeline system for several decades has transported natural gas from producing fields in gulf coast region to upper midwest and northeast customers.
- Growing volumes of production from Marcellus and Utica shale plays in Ohio, PA. and NY have been displacing customers causing shrinking margins.

Boardwalk cont.

- LT debt has increased to 46% of total capital and at 4.6 times projected 2014 cash flow exceeded the company’s target of 4.0
- BWP decided to cut the distribution to strengthen the balance sheet and provide internal cash for growth capex
- Unit price plunged from $24 to $12 immediately (now 7 times the reduced cash flow forecast and 5 times 2013 cash flow)
- Co. pursuing the re-purposing of a portion of its system to reverse delivery routes in response to changing gas market fundamentals to address the declining margins

CVR Energy (CVI)

- 82% owned by Icahn Enterprises (IEP)
- Operates as a holding company that owns majority interests in two separate operating subsidiaries: CVR Refining, LP (NYSE:CVRR) and CVR Partners, LP (NYSE:UAN). Facilities are in Kansas and Oklahoma serving the mid-continent.
- CVR Refining is an independent petroleum refiner and marketer of high-value transportation fuels in the mid-continent of the United States
- CVR Partners is a leading nitrogen fertilizer producer in the heart of the Corn Belt

CVR Energy cont.

- Refineries have favorable locations and economics. Benefits from widening crack spread as sourced oil (Bakken, other mid-continent and Canadian) is now in oversupply causing favorable wholesale purchase variance. This will change over time.
- Conservatively financed (LT debt is 36% of total capital).
- PE at purchase was 9
- Company pays a dividend of $3/share = a 6.1% yield on $49 current share price.

Noble Corporation (NE)

- Premier offshore driller with global operations
- 77 drilling rigs and ships - Recent fleet upgrade ending with addition of deeper water rigs
- Growing earnings and free cash flow from new rigs—large contract backlog for existing rigs and most of their new-builds
- Expecting to increase dividends and share repurchase activity as more free cash available
- Price has declined significantly due to investor concern of near-term weak rig day-rates
- Current PE is 9 and dividend yield of 4.9%

Lessons from Investing in Energy

- Best opportunities occur during periods of weak energy markets when prices collapse.
- Invest in companies with well-regarded managements that are proven shareholder-friendly.
- Shun over-leveraged companies for a margin of safety. Long term debt to total capital <40%
- Have a long-term horizon to allow economics to improve through the cycle.

Lessons from Investing in Energy

- When investing in an E&P company, examine the trends in their proved reserves, balance sheet debt, production output and cash flow growth.
- Buy E&P companies at single digit multiples of cash flow (not free cash flow) preferably below 5.
- Buy Pipelines and Refiners at single digit multiples of net income and free cash flow

  < 10.