

Dear Investor Friends,

We now manage more than 500 million euros in our three investment funds. For the sixth year running we have achieved good results, and we have collected about 200 million euros since January the 1st. Most of the funds collected have been for the "Autour du Monde" fund, and we are delighted by this. Internationally, there is more liquidity on our favourite companies, and the expansion of our network of contacts meets a need. Size will be an advantage for us. Up to a certain point. We shall remain vigilant.

The markets are encountering turbulence again, and this time our funds have suffered like the others. Small companies are being attacked heavily, generally falling in no volume. We have a little cash (you can never have enough at such times), hedging on 10% of the portfolios, and good positions in the oil industry which should be more than resilient with oil prices above US\$75 per barrel. We are very sorry about the trouble that volatility could cause you, but for our part we are delighted by it. The market sometimes offers us surprising buying opportunities. In 2002, for example, we bought Ad Pepper shares at around one euro. The price was a steal, because the company had cash of nearly 3 euros per share! In 2005 we sold at around 5 euros, and last year the shares climbed to over 12 euros! Today, we are buying the shares again at just over 3 euros. A real bargain price, just like in the good old days: slightly more expensive than the company's cash in the bank, but this time there are no longer any losses, its expertise and experience are consolidated, and the business model has been validated. Above all, the market has forgotten that Ad Pepper sold to Google a 7.8% stake in the firm dMarc Broadcasting. For a modest price of 8 million dollars paid in 2006, but with success fees that could amount to more than 88 million dollars (i.e., more than 1.5 times Ad Pepper's market cap). dMarc Broadcasting is one of the major players in radio on the Net, and it so happens that Google places great hopes in this company. Which promises large extra payouts. For example, after 1.8 million dollars in the first quarter, 6.2 million dollars were paid recently, and this is just a start. Of course, to understand and analyse this situation, you have to read the annual reports of Ad Pepper and Google. Information that is too implausible for Mr. Market, whom we thank warmly.

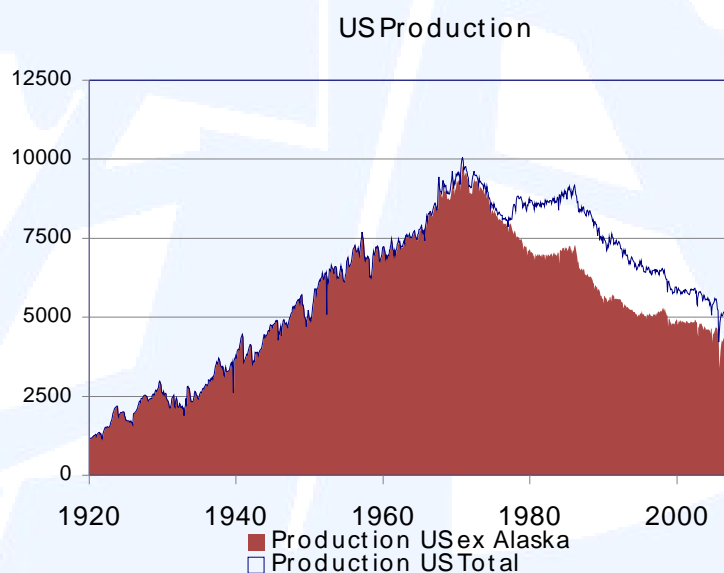
To get back on our feet, as usual, we shall work very hard. We are now a team of eight investment professionals. Since the 1st of January, we have spent more than six "man-months" in the four corners of the planet, sometimes in very respectable places surrounded by New York hedge fund managers, but most of the time in very unlikely places such as industrial zones of Sao Paulo and Bangkok, for example, Texan oil fields and Norwegian fjords. Every day, we try to learn and progress. We regularly bring ourselves into question, analyse our errors and endeavour to refine our decision-making process. This is a crucial factor, that can always be improved, but which is probably one of the strengths of our team. For example, we recently invested in the company Genesys, which sells conference call minutes. Not satisfied with having found a fine company in a high-growth sector, we now have available to us a great means of communication and organization. Try it yourself, you'll save time and money, while contributing to environmental protection. Genesys offers the best service at the best price, and spares you traffic jams, overbooking and railway sandwiches.

## SEXTANT PEAK OIL

Over the last three years, as you know, we have been closely interested in energy. We have often spoken to you about oil. Contrary to the imperialistic views of the majors, the leading financial media and the International Energy Agency, we had understood that the Saudis and even South Americans had done Harvard like everyone, later, no doubt, but nevertheless in time to know how to manage an oligopoly. For this reason, and because production in the US and North Sea is in free fall, and the Chinese, to mention just them, have the right to pollute like everyone else - and increasingly so, we had wagered that oil prices would stay high, well above the forecasts constantly revised upward by financial analysts. We were also interested by the Peak Oil phenomenon.

### Background concerning Peak Oil

In the 1950s, the renowned Shell geologist Marion King Hubbert demonstrated how US production would peak in 1970<sup>1</sup>. Now, here is US crude production since 1920:



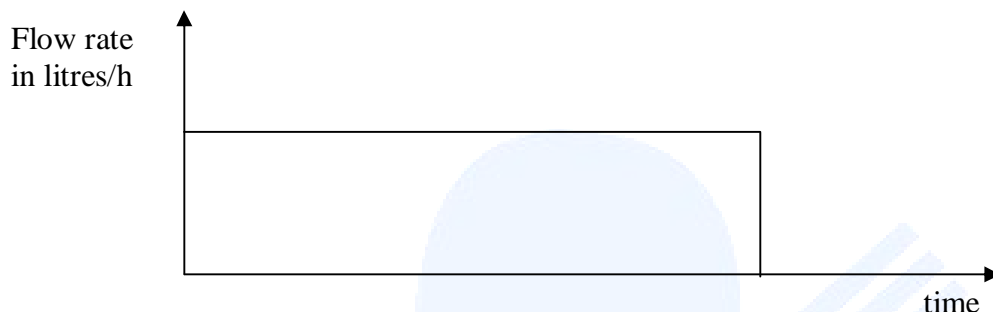
No doubt aided by luck, Hubbert had nevertheless put his finger on an obvious truth: to produce oil you first have to discover it. To predict the production level for a region, therefore, all that was needed was to record its discoveries, then add up their production plans with a time lag of several dozen years to allow for field development lead times.

### The production profile of a field

Contrary to what might be thought, an oil field is not a vast underground lake full of petrol. Rather, it is a cluster of more or less porous rocks, bathing in a more or less viscous oil.

<sup>1</sup> After his demonstration, he was asked to resign and go and take up a position as university professor. Thinking is often prohibited.

Above the oil, there is gas. Below, there is water. All this is subjected to huge pressure<sup>2</sup>. If an oil field could be emptied like a swimming pool, the production profile would be as follows:



But if you have already damaged your teeth by trying to drink Breizh Cola<sup>3</sup> in crushed ice, you will understand why the production profile of a field looks more like this:



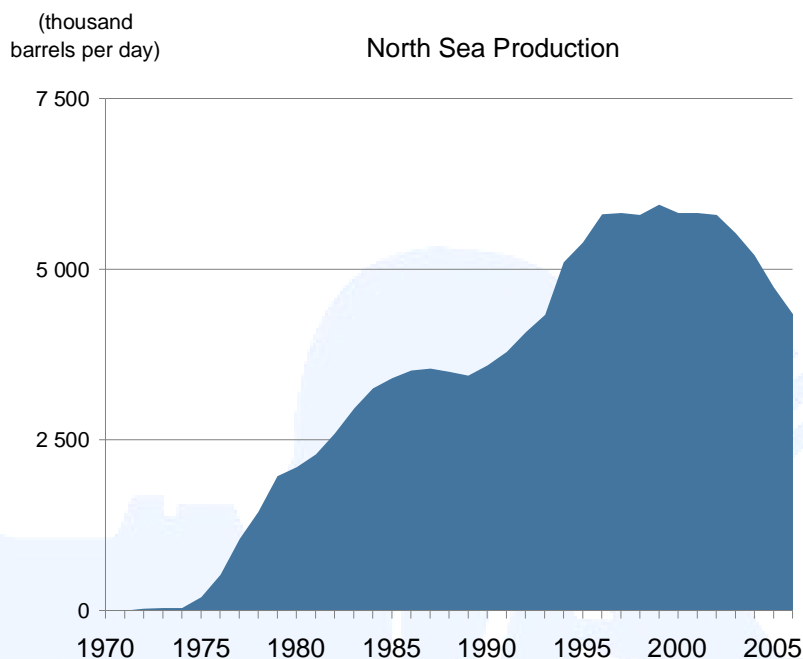
At the start, you can drink heartily, directly in the glass. When the ice comes dangerously close to your lips, you are obliged to take a straw to pump up your Mecca Cola<sup>3</sup>. The flow of liquid in your throat decreases. The ice melts. The less Beuk Cola<sup>3</sup> remains, the more it is mixed with water. In the end, you swallow a horrible mixture of chlorinated water, air and Petro Cola, and then you give up. There is still quite a lot of Coca in your glass, but it is economically undrinkable.

### **Peak Oil: an event almost as common as an indigestible, greasy lunch at Big Burger**

Peak Oil is a phenomenon that has already occurred thousands of times. On the scale of single wells, but also vast regions, such as France, the USA, the United Kingdom, Mexico, about fifty other countries, or the entire North Sea area:

<sup>2</sup> Due to the thousands of tonnes of layers of rocks, salts and other soil components located above.

<sup>3</sup> Beuk Cola and Breizh Cola: authentic Brittany Cola. You will find the list of all the colas, including the famous Mecca Cola, in the world on the fantastic Wikipedia website.



The accelerating decline in North Sea production is a very good illustration of what Peak Oil could be. Nobody was expecting it. Even today the suddenness of the phenomenon surprises the greatest specialists. If Statoil regularly announces downward revisions of its production targets, it's clearly because this Norwegian company is suffering from the fast pace of depletion of its fields. It is therefore by no means illogical to think that this phenomenon will soon occur on a global scale. Especially since King Hubbert (everyone can make mistakes) predicted that world production would peak in the year 2000.

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### **Launch of the Sextant Peak Oil fund**

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Today we have two strong convictions:

1. On the one hand, the market has not yet factored the extent of the rise in crude prices into its valuation of the oil companies. Like in 2004, it is slow to realize the situation, enabling us to make the same win/win wager again as we did then. Since the analysts are still basing their long-term forecasts on those of the oil majors' bosses (currently a price of US\$60 per barrel), we shall be winners if oil drops heavily, stabilizes or rises. We are counting on OPEC to be sufficiently intelligent not to loosen the grip of the oligopoly, and thus avoid the scenario of a collapse in prices below US\$60.
2. At the same time, we consider that there is a significant possibility of seeing oil prices rise on average 10% to 20% per year from the current \$90 level, or even spike upward to \$120 or \$150 as of 2008.

That is why we are launching the Sextant Peak Oil investment fund which will enable us to profit from an investment configuration that we consider quite exceptional. The philosophy is still the same: we want to invest in energy and employ every means to become very experienced in this area. We believe that the launch of this fund is a good idea for the next

twenty years, and will enable us to be better in our management of the other Sextant funds. We shall invest personally in Sextant Peak Oil, and we offer you the chance of doing so with us.

I say we, because once again we are creating this fund to meet our own needs, and in no case to profit from a fashionable trend to raise capital. Besides, there is no Peak Oil fashion, the financial community never speaks of it, and we are rather taking the risk of being considered as cranks. You can check for yourself that the media do not speak of this rather politically incorrect subject, or mock those who take an interest in it. Every reason is put forward to explain the rise in oil prices: the lack of investment by the oil industry over the last ten years, inadequate refining capacity (personally I have never really understood this argument which, on the contrary, should reduce demand, but OK, I haven't been to Harvard either. If enough light crude were produced, there would be no refining problem, don't you think?), the concentration of reserves in a few hands which, moreover, are not necessarily friendly, an aging labour force and too few young people entering the market (also hard to understand when you have gone around the campus of Calgary University which is full of students from all countries, but I am not a demographer), and finally the decline of the US dollar. The latter argument is nevertheless interesting. It reminds me of the day on which I understood why you had to buy gold. At the cinema, with my little nephews. It's the moment when Charlie wants to sell his ticket for the visit to the Chocolate Factory, in order to feed his family:

Charlie: *"We need the money more than we need the chocolate."*

Grandpa: *"There is plenty of money out there. They print more every day..."*

*But this ticket, there's only five of them in the whole world... and that's all there is ever going to be.... Only a dummy would give this up for something as common as money...*

*Are you a dummy?"*

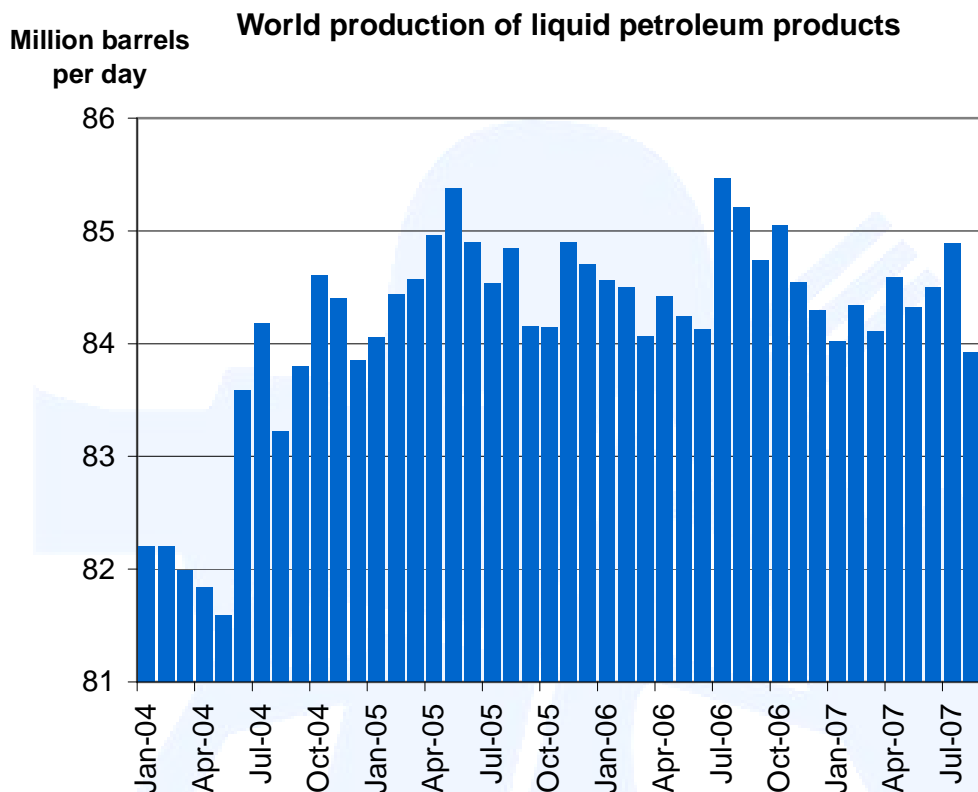
It's silly, but since then the Grand Large fund has a little gold in the portfolio and has generally benefited from this (before seeing Charlie and the Chocolate Factory, we had nevertheless thought a lot about gold, but sometimes a little something is needed to trigger a decision). So to get back to oil. Like the tickets for the Chocolate Factory, oil is no longer printed. Dollars are. So financiers buy oil and push up prices. A good argument, no doubt, but if the Saudis could open the valves wide and print oil, as Daniel Yergin claims, there would no longer be any chocolate for the speculators.

### **Why launch Sextant Peak Oil at present?**

Opinions remain divided concerning the date of Peak Oil. According to the CERA (Cambridge Energy Research Associates) of Daniel Yergin, it will occur between 2030 and 2040, followed by a long production plateau. In short, an ideal scenario for the oil majors. According to Jean Laherrère, it will be in 2011. In fact, the real date does not interest us too much. We analyze rather the risks and probabilities. The economic risks relating to Peak Oil are fairly obvious. Energy consumption and growth are closely linked. But since this has never occurred, there is also the risk of uncertainty, nobody really knows what will happen. The probabilities of rapid occurrence, for their part, grow stronger day by day. Here's why:

1. Conventional crude production reached a peak in May 2005, at 74 million barrels per day (only just above 72 million in recent months!), while total production of liquid

petroleum products has stayed at a ceiling of about 86 million barrels per day since 2006:



3. OPEC refuses to increase its production sharply even though prices are sky-high, putting forward arguments that are more or less understandable. Worrying. Especially since consumption in these countries is rising sharply, limiting their exports all the more.
4. Many players have revised sharply downward their forecasts for maximum world production. French oil firm Total, for example, speaks of 100 million barrels per day, a very sharp downward revision by comparison with the 120 or 130 million more commonly suggested.
5. The market is no longer functioning, because the rise in prices is leading to neither a rise in production nor a fall in demand. In fact, a market in which production is limited and the demand is strong, is adjusted by prices. Peak Oil will never result in a shortage. You will always be able to buy petrol. But it will be more expensive. Sufficiently so for your neighbour to decide to exchange his ridiculous 4WD for an electric scooter.
6. Economists, who are always able to draw lines to extrapolate trends, are optimistic and see no Peak Oil on the horizon.
7. The geologists are more worried. Especially those who can speak freely. Curiously, the members of the ASPO (Association for the Studies of Peak Oil) are nearly all retired.
8. Aramco's position is clear: there is no problem, it will meet the increase in world demand. The position of its former head of exploration-production, retired for three years now, is far more cautious. Or even alarming. According to Sadad Al-Husseini,

Saudi Arabia's production will not exceed 12 million barrels per day, versus 9 million on average in 2007. Now this country has always been the great market regulator. If it can no longer increase its production, huge discoveries will have to be made in other regions of the world. At the North Pole perhaps? Dirty. And expensive.

With Sextant Peak Oil, we want to make a win/win punt. The aim is not at all to count on Peak Oil in 2005 and an oil price of \$200 per barrel next year. But to be prepared for all possibilities. The market offers us a fine margin of safety. It does not believe in Peak Oil. The oil companies' valuations are based on a long-term oil price of between \$50 and \$70 per barrel. We can make the same win/win punt again as in 2004: if it rises I win, if it stays at the same level I win, if it drops sharply I win, and if it collapses then that is because the OPEC bosses are completely stupid or because nuclear fusion has been mastered 40 years ahead of schedule. Now, the Saudis have been to Harvard for a long time now, and nuclear fusion is a science-fiction subject. But all the same, if you think that oil prices could fall back below 60 dollars permanently, don't buy our fund, things won't go very well.

Of course we shall not confine ourselves to the oil industry. We shall include all those firms that could profit from Peak Oil. Renewable energy is an obvious sector, but hard for us. These are generally high-tech companies, and we are not very much at ease in this area. But there are also insulation, trains, electric cars, telephone conferencing, relocatable industries, and so on.

### **Peak Oil: a good thing for humanity?**

There are many alarmist views about Peak Oil. De-industrialization, widespread impoverishment, energy wars, etc. We are more optimistic. We believe on the contrary that an oil price of 100 euros per barrel would be a good thing for humanity. For the good of our children, oil prices (and Sextant Peak Oil) must rise sky-high. The interests of business and protection of the planet would be aligned. Millions of jobs would be created, in industry, agriculture and research. The great book by Maximilien Rouer and Anne Gouyon, "Réparer la Planète" (Repairing the Planet), offers us an optimistic scenario of what a post-Peak-Oil world could be. If you have some overvalued, useless works of art in your lounge, sell them and go and plant trees in the desert. I don't really know what can be done, on the stock exchange in any case, but I love trees, deserts and long-term projects. If you are keen on gardening and you love travel and adventure, give me a phone call. At Amiral Gestion we love projects that are good fun and where we can earn a lot of money at the end. Planting trees in the desert is admittedly a very risky bet. But we're thinking about this.

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### **RISKS INVOLVED IN SEXTANT PEAK OIL**

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It is important for you to know the risks related to this fund:

- Oil stocks are very volatile. The investment fund will therefore very probably be highly volatile. Intra-day sector variations of 3% to 4% are very frequent. Each stock also reacts to the news very violently. A project falling behind schedule, higher than expected costs, and very quickly there are hundreds of millions of dollars involved. There is always great short-term uncertainty.
- We have never managed a fund of this type and we do not consider ourselves energy specialists. We have been able to find about ten companies offering very high

performance over the last three years, but managing a specialist investment fund requires more experience. As with the "Autour du Monde" fund, we hope to progress very quickly.

- We have generally missed out on the renewable energy sector, despite our keen interest since 2003 and very good investments in Semapa in Portugal and Séchilienne in France. We are well aware of the phenomenal growth potential of this sector, but we have missed the entry points. Nowadays the finest businesses are selling for more than sixty times profits, and we are no longer able to value them. You therefore take the risk with this fund of missing out on a possible sharp rise in the renewable energy sector.
- In the same line of thought, humanity could suddenly become fully aware of the risk of global warming and launch an unprecedented industrial research and development campaign in renewable energy sources. In fact, the trend is already underway, supported by great visionaries and businessmen (Al Gore in partnership with Kleiner Perkins, the founders of Google, etc.). It is therefore possible that the fossil energy industry may be rendered obsolete by less expensive and/or cleaner technologies and that we may not be capable of recognizing the value of these innovations in time.
- Many of the most brilliant analysts and strategists think that oil prices are likely to undergo a sharp downward correction in the coming months. Moreover, prices recently lost about ten dollars in a few days.
- We could achieve a performance below that of the various energy-related indices. Moreover, we have absolutely no knowledge of their composition. We are going to manage this fund as we would manage our own portfolio. It is highly possible that there may be a lot of cash during the first few months, as was the case for "Autour du Monde". This is because we shall take our time to seize good opportunities.

If, despite everything, you want to invest with us in Sextant Peak Oil, we would be delighted. Of course, we think that you would be making a very good decision. Peak Oil will be one of the most important events of the industrial era. It could radically change our habits and how the economy works. We believe that a long-term investor cannot ignore this subject at present. At Amiral Gestion, we shall be ready.

See you soon

François Badelon