Global Energy Strategy

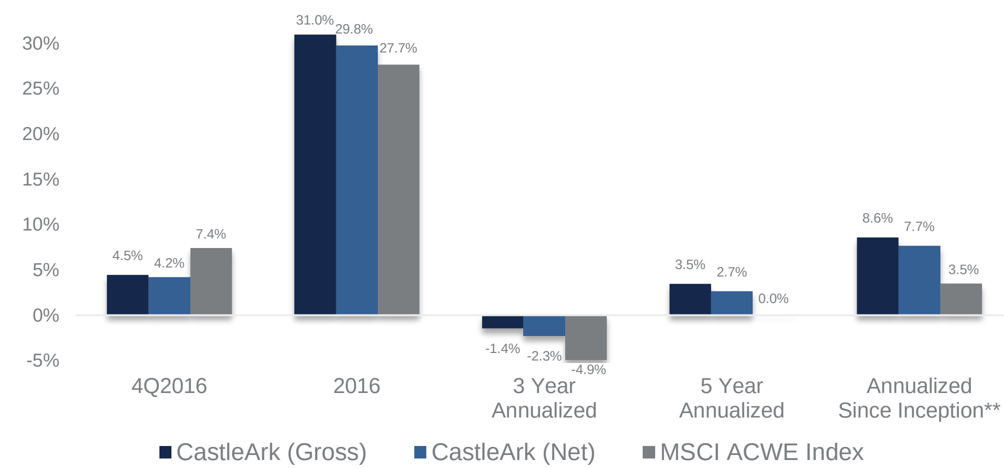
CASTLEARK

December 31, 2016

Fourth Quarter 2016 – Performance Update

The Global Energy Strategy rose +4.46% (gross) and +4.22% (net) during the third quarter, underperforming MSCI's All Country World Energy (ACWE) which rose +7.44%. Through 2016, the Strategy is up +30.99% (gross) and +29.77% (net) vs the ACWE's up +27.66%. Since Inception, June 2009, the Global Energy Strategy has outperformed and returned an annualized +8.58% (gross) and +7.69% (net) compared to the +3.51% return of the ACWE benchmark for the period ending December 31, 2016.

CastleArk Global Energy Performance



Past performance is no guarantee of future results.
**Inception 06/30/2009

Fourth Quarter 2016 – Portfolio Review

Thank you 4th Quarter rallies. Investment markets over the past 3 months massively reversed the negative YTD returns that had been recorded by end of September. Global developed market** returns for all of 2016 closed up +1.6%; while Emerging market indices*** posted a +11.4% annual rise. Relatively impressive given consensus views of economic growth & recessions in a rising rate environment.

The genesis for the reversal may have been related to a couple of political aftershocks following the June Brexit earthquake. First, the US elected the first non politician to the presidency since 1951; and then, the Italians rejected consolidating more power in their federal structure. The same economic challenges remain in the world, but the new powers in office are expected to a adopt a more localized & capitalist approach to solutions in the US & the UK. Europe, meanwhile, holds its breath leading up to national French & German elections in the middle of 2017.

As election outcomes and market expectations have completely flipped, global investors are now awaiting changes in company spending plans. Campaign rhetoric does not translate to national policy, so it is too early as of this letter to note where commitments of capital will be targeted. However, suffice it to say in the US, that if there is passage of a new tax policy and some end to the rise in regulatory and structural organizational costs (healthcare now estimated at ~20% of the US GDP) US companies are likely to start investing in growth projects again. How much of this will be offset by higher interest rates and labor costs remains to be seen. But the revenue potential side of the equation appears to have more upside than it has had in a number of years.

**MSCI-EAFE Developed Market Index
***MSCI-EAFE Emerging Market Index

Top 10 Portfolio Holdings*

BP PLC-SPONS ADR	4.4%
Suncor Energy, Inc.	4.4%
Chevron Corp.	4.3%
Chesapeake Energy Corp.	4.2%
Encana Corp.	4.0%
Royal Dutch Shell PLC - ADR	3.6%
Halliburton Co.	3.2%
Exxon Mobil Corp.	3.1%
Range Resources Corp.	3.1%
Apache Corp.	3.1%
Percentage of Total Assets	**37.5%**

Portfolio Characteristics*

	CastleArk Global Energy	MSCI All Country World Energy
Number of Companies	47	135
Forward P/E	21.7x	16.9x
Historical EPS Growth	-25.7%	-26.0%
Expected Growth	7.2%	10.4%
Return on Equity	-15.5%	-4.4%
LT Debt/Capital	36.7%	33.4%
Weight by Market Cap	$63.0B	$125.0B
Median Market Cap	$25.3B	$11.6B

*Representative client portfolio.

Global Energy Team

Jerry Castellini
Tim Clark
Troy Logan CFA
Joe Hagan, CPA CFA
Chris Noll

Contact

CastleArk Management, LLC

1 North Wacker Drive, Suite 3950
Chicago, IL 60606

Phone: 312.456.9682
For inquiries: info@castleark.com

CASTLEARK

December 31, 2016

Fourth Quarter 2016 - Portfolio Review (continued)

The Global Energy world also watched the annual OPEC meeting in the 4th Quarter, hailed as the Grand Bargain. The deal: (1) Major producers would cut back ~600kb/d on the 1.6 mmb/d of production that had ramped up since May. (2) Get a couple of non-OPEC members to join in the cuts (Russia, Kazakhstan); while (3) Allowing some of the war-torn countries like Libya & Nigeria quota space to catch back up. In exchange for lower production, and as demand edges higher, inventories will run lower and prices will rise. As of year end 2016, the front month Brent crude strip is $57.70, ~14% higher after the OPEC meeting in November.

In monitoring this deal, there are more than a few dynamics that come into play. First, logistics. January & some February crude loadings have already been posted & committed. Second, the seasonality during the winter months in the northern hemisphere that see softer product demand levels. Third, the forecasting challenges to modeling when wars and revolutionary ideologies give way to base economics in 3rd world countries. Finally, there is the time lag to the monitoring of those committed cuts. It will likely be March at the earliest when the market will get its first, verifiable look at what is happening on the ground.

However, the good news continues to be economics and geologic declines. Both will continue to march on while the market observes this OPEC accord, and why consensus points to a ‘balancing’ in the 2nd half of 2017. In 6-9 months, declines will remove another 1.4 mmb/d from the market. Inventories are likely to move sideways (perhaps even up a little in 1Q) after topping out in the 2nd Q of 2016.

Global demand continues to be firm, even though retail prices are ~60% higher than trough levels posted in February of 2016. In spite of US$ strength (+5%) and the +14% crude price rise, the International Energy Agency says the Non-OECD basket, the largest demand group in the world, will still grow GDP ~ 2.5% in 2017 for a total of almost 1.5 mmb/d.

In response to the commodity price markets over the last 2 years, there has been a material change in the service costs of finding & developing (F&D) a barrel of oil. Look for US upstream producers to be the quickest to respond to the supply vacuum that has been created by the $46 average WTI price over this time period. F&D costs will likely come in 60% lower this year than in 2014. Operating expenses are down about 40% in the same time frame. In the 4th Quarter, US producers signed up 30% more horizontal rigs than were working 3 months earlier. Oilfield service activities & consumable volumes are also up commensurately.

Market and Portfolio Outlook

As witnessed in the early stages of 3Q16, positive sentiment continues to grow around the Energy sector for both top line & cash flow growth. Generalist investors who missed 2016 are now actively sizing up potential holdings. Market sentiment has disappeared around the narrative that product shortfalls will easily be covered by the global energy industry. We continue to expect the market to be surprised, both by the magnitude of the capital expenditure effort required; as well as the duration needed to return to a surplus inventory situation.

With the coming market balance in near term, the Strategy shifts to those companies who have positioned both capital and acreage to accelerate activity in a $55 price deck. Equally, these holdings have an advantaged operational competence that will allow them to get back to work in the oilfields much sooner than the majority of their upstream competitors.

CastleArk Global Energy Strategy

CastleArk’s investment philosophy follows the discipline of identifying growth companies that have demonstrated a consistent ability to generate high returns on a fully loaded capital basis through a normal commodity cycle. Our team uses fundamental analysis to construct a high-conviction portfolio of holdings that seeks to diversify across all subsectors of the global energy universe. Active monitoring of the Strategy’s custom factors and portfolio tracking error are the principal drivers of risk management. There are size limits on all holdings, and we look to exit positions when long-term growth fundamentals and growth outlook have deteriorated to the market’s consensus levels.

Fourth Quarter 2016 Best and Worst Contributors*

Best:	Contri-bution
1. Chevron Corporation	0.78%
2. Chesapeake Energy Corp.	0.78%
3. Suncor Energy, Inc.	0.74%
4. Encana Corporation	0.70%
5. Patterson-UTI Energy, Inc.	0.42%
6. U.S. Silica Holdings, Inc.	0.42%
7. ConocoPhillips	0.42%
8. Baker Hughes, Inc.	0.37%
9. Marathon Petroleum Corp.	0.36%
10.Royal Dutch Shell PLC	0.35%

Worst:	Contri-bution
1. Rice Energy, Inc.	-0.73%
2. Cabot Oil & Gas Corporation	-0.39%
3. Pioneer Natural Resources Co.	-0.32%
4. Range Resources Corporation	-0.30%
5. EQT Corporation	-0.29%
6. Southwestern Energy Company	-0.20%
7. Cheniere Energy Company	-0.13%
8. Concho Resources, Inc.	-0.13%
9. SM Energy Company	-0.11%
10.Enbridge, Inc.	-0.11%

*Representative client portfolio. A complete list of each security’s contribution to performance and description of the calculation methodology is available upon request.

Contact

CastleArk Management, LLC

1 North Wacker Drive, Suite 3950
Chicago, IL 60606

Phone: 312.456.9682
For inquiries: info@castleark.com