

Aureus Asset Management, LLC
Investment Perspectives
July 2008

The Impact of Gas at \$4.00 per Gallon

Fundamental market forces are the primary factors behind today's high price of fuel. Emerging countries now represent approximately 50% of world oil demand and their appetite for fossil fuels should continue to be strong over the long-term. World supply has become less responsive, creating a tight market for oil.

World Oil Demand and Supply
(millions of barrels / day)

	<u>2005</u>	<u>2006</u>	<u>2007</u>
<i>Demand</i>			
Industrialized World	44.2	43.8	43.3
Emerging Countries	<u>39.9</u>	<u>41.4</u>	<u>42.7</u>
Total	84.1	85.2	86.0
<i>Supply</i>			
Non OPEC	54.8	55.3	54.6
OPEC	<u>29.7</u>	<u>29.7</u>	<u>30.8</u>
Total	84.5	85.0	85.4

Shorter-term price fluctuations may be rapid as well as difficult to predict as governments, OPEC, foreign exchange rates, political instability, and one-time special factors like stockpiling can influence the price of oil. Yet, given a continuation of global growth, the current slim margin between supply and demand should remain.

To offset this tight supply/demand relationship, the US, Europe and Japan must emphasize policies of substitution, conservation, and increased efficiency. Over the long term, new technologies are our best hope to reduce the world's dependence on fossil fuels.

The percentage of after tax income that Americans spend on oil has not quite reached the peak levels of the 1970's. Looking ahead, there are reasons to believe we may exceed historic maximums and that these conditions may persist, driving fundamental changes in individual and corporate behavior. We have been thinking about the investment impact these conditions can have as we meet the challenges by substituting, conserving, and bringing new technology to market. The following table summarizes our thoughts to date:

Substitution: Impact of Less Driving

Benefits	Hurts
<ul style="list-style-type: none"> • Hybrid cars, motorbikes, bicycles, related equipment • Public transportation • Home-based entertainment and leisure • Urban dwelling • Home offices, teleconferencing, related equipment • Local products and services • On-line learning 	<ul style="list-style-type: none"> • Traditional auto companies and dealers • Gas stations/convenience stores • Driving-dependent hotels, restaurants, and entertainment • Distant, commuting-based, suburban living • Delivery companies • Stand-alone destination retail

Substitution: Impact of Less Flying

Benefits	Hurts
<ul style="list-style-type: none"> • Teleconferencing and video equipment • Online collaboration software • Rail transportation • Buses 	<ul style="list-style-type: none"> • Air travel and freight • Food and other services for airlines • Duty free shopping • Limos and taxis • Resort hotels • Importers with high shipping costs • Luggage manufacturers

Conservation: Impact of Less Disposable Income

Benefits	Hurts
<ul style="list-style-type: none"> • Low cost cable and phone plans • Discount retailers • Bankruptcy lawyers • Credit cards • Online classifieds and auction platforms 	<ul style="list-style-type: none"> • Premium cable and phone plans • High end retail • Motor yachts, boat yards, private air travel • Investment companies • Health clubs and weight loss programs • Elective surgery and cosmetic dentistry • Luxury brands with mass appeal

New Technology: Impact on Manufacturing and Enterprises

Benefits	Hurts
<ul style="list-style-type: none"> • Alternative fuel companies (wind, solar, biofuels, other) • Clean-up services for oil and gas drilling • Companies with energy efficient production processes and facilities • Green engineering firms (residential and commercial) • Battery and energy storage companies 	<ul style="list-style-type: none"> • Traditional auto manufacturers • Traditional energy producers • Companies offering free shipping • Importers of consumer goods • Packaged goods manufacturers with fuel-based products • Freight forwarders and trucking companies

The Impact of Gas at \$4.00 a Gallon- continued

Some of these changes have manifested themselves recently. For example, we have seen a sharp decline in the demand for SUVs and pick-up trucks as hybrid cars are gaining broader consumer acceptance and the use of public transportation and bicycles has increased. Airlines are rationalizing flight schedules to stay alive. “Green” buildings are becoming fashionable and a competitive advantage, record amounts of venture capital are being invested in alternative fuels and related technologies, and traditional oil firms are positioning themselves as energy “solutions” companies.

Substitution, conservation, increased efficiency and new technologies will each create investment opportunities as the world confronts the challenges posed by a tightening market for oil and the higher price of fuel. At Aureus Asset Management we believe there are compelling investment situations being created by these changing conditions, which we are analyzing and incorporating in our portfolios.