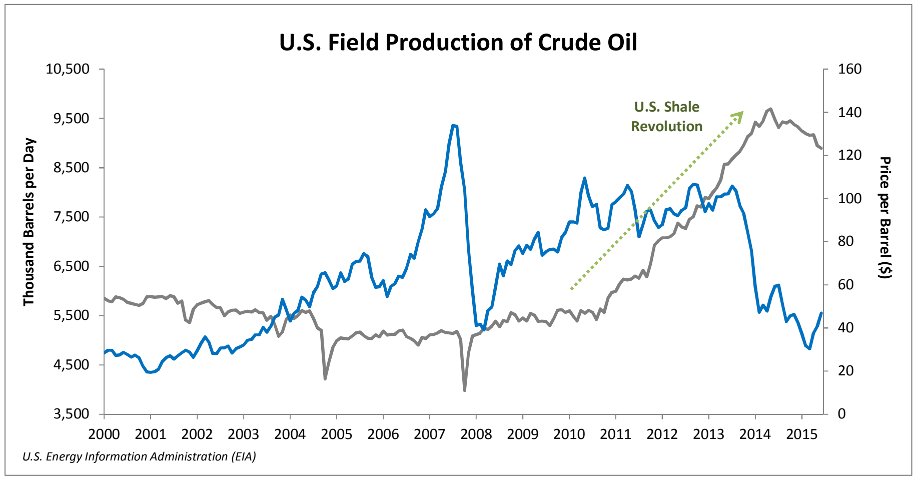
INTRODUCTION

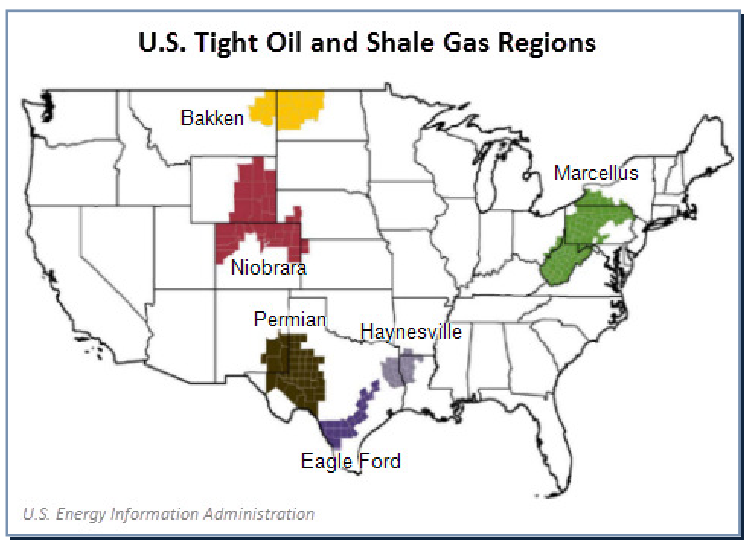


The precipitous decline in crude oil prices that began in August 2014 has wreaked havoc on Energy stocks. Following a period of steady global demand for the commodity, easing geopolitical tensions combined with rapidly rising U.S. oil production pushed prices sharply lower. Crude oil prices seemed to stabilize around $45 per barrel in 2015, but the commodity price experienced a further decline to $27 per barrel in early 2016. Compared to the commodity's quick recovery following the Great Recession, this recovery has been uneven and elongated.

As a consequence of lower oil prices, U.S. oilfield activity, as measured by the Baker Hughes Rig Count, has declined roughly 80% since levels peaked in late 2014. The remaining drilling activity has focused on accelerating efficiency gains within the most prolific regions. The result is a select group of U.S. Exploration and Production companies (E&Ps) with drilling economics that compare favorably to most international and offshore locales.

In this publication we provide an overview of the U.S. onshore landscape, highlight the impact of recent innovation, discuss how Waycross evaluates companies, and identify the investment opportunity within the industry.

U.S. LAND DRILLING OVERVIEW



"Tight oil" is the term used to describe oil that is trapped underground. It is extracted using hydraulic fracturing, a mining technique that dates back to 1949[1] but has been enhanced in recent years by new technology. Hydraulic fracturing, or fracking, involves a combination of vertical and then horizontal drilling. Once the site is drilled a mixture of water, sand, and additives is pumped at a high pressure through horizontal perforations to create small fractures in the rock. This process releases both oil and natural gas. Within the U.S. there are four key regions for tight oil: Bakken, Niobrara, Permian, and Eagle Ford.

SOURCES [1] Society of Petroleum Engineers

IMPACT OF INNOVATION

The shale revolution would not have been possible without technological advances. Today, innovation continues to play an important role in the industry as E&Ps strive for capital efficiency which is generated by an increase in production without a proportional increase in cost.

- **Longer Wells.** E&Ps have enhanced economic returns by extending well lateral lengths. For example, in the Permian region industry leaders are consistently drilling 10,000 feet laterals compared to just 5,000 feet a few years ago.
- **Fracking Advances.** In conjunction with longer laterals, E&Ps have also increased fracking intensity by pumping more of the mixture and shortening the fracking segments. This allows oil to flow more freely from the surrounding rock.
- **Sub-Surface Data.** Although more difficult to quantify, E&Ps continue to benefit from technology which allows more precise targeting of the project site, resulting in improved consistency between wells. Early unconventional oil development was hamstrung by performance that varied greatly from well-to-well.

KEY FACTOR APPROACH

Key Factor	Favorable
U.S. Drilling Inventory	20 to 30 Years
Balance Sheet Leverage	Low
Capital Efficiency	$8-10 per barrel

The Waycross Key Factor approach to fundamental analysis provides the framework for how we evaluate E&Ps. We screen the industry universe on size and quality of U.S. land acreage, balance sheet leverage, and capital efficiency. More precisely, we favor E&Ps that are in the beginning stages of field development. This means enough wells have been drilled to ensure economic viability but not so many that the innovation mentioned above is exhausted. Further, we look for E&Ps that can produce more oil and gas than consensus expectations for a given level of capital spending.

INVESTMENT FOCUS

Although few corporate acquisitions have occurred during the downturn, many domestic E&Ps have been aggressively adding land in their core development areas through asset acquisitions. We believe the most forward-thinking E&Ps appreciate the finite nature of economic drilling inventory and, as a result, desire to have 20 to 30 years of undrilled inventory. In our view, the best performing E&Ps over time will be the companies that have the balance sheet and resource base that allows for consistent production growth without the need for expensive acquisitions. Pioneer Natural Resources (PXD), Newfield Exploration (NFX), and Cimarex Energy (XEC) appear best positioned to be relative long-term winners. In contrast, we believe E&Ps with minimal land exposure and meaningful offshore operations will be disadvantaged. Longer-term, large domestic E&Ps are attractive acquisition candidates for the major integrated producers, and we expect some consolidation within the industry.

Before investing in the Fund, please refer to the prospectus for important information about the Fund, including investment objectives, risks, charges and expenses. You may obtain a hard copy of the prospectus by calling (866) 267-4304. The prospectus should be read carefully before you invest or send money. The Fund is distributed by Ultimus Fund Distributors, LLC.