

## Fund commentary ODIN Offshore



also had a substantial holding in Pride International, a US-based rig company that was acquired by Enasco.

### Contributions

Pride International and Aker Drilling were two of our strongest performers in 2011 after both companies were acquired with a significant share price premium. Transocean, previously the rig company with the world's largest market cap, now second after Seadrill, has been a strong contributor for ODIN Offshore, as we managed to exit the position at a peak level before it collapsed down to current low levels. EMGS, one of few companies that acquire and process marine controlled-source electromagnetic data, has gained this year and is one of our favorite takeover candidates.

On the other hand, our position in BW Offshore has been disappointing. We expected the company to be a stable provider of cashflow and dividend yield, but cost over-runs in relation to conversions and lack of new projects have disappointed the market. The dividend yield is still high and we believe the risk has now been reduced.

Our position in Archer has so far performed poorly, but we believe the company will be able to improve margins and regain some of the confidence in 2012 that it lost in 2011. The supply company DOF has been growing organically and have ordered significant numbers of newbuilds. Unfortunately, the company had to issue new equity to finance some of these newbuilds and this share issue was concluded at 50 percent discount to net asset value. We believe the company has learned from its mistakes and we believe focus will now turn to profitability rather than growth.

### Outlook

We believe 2012 will be another strong year for the oil service companies. Exploration and production spending are estimated to increase in 2012 by another 10 percent compared to 2011, a year with high activity. It could turn out to be even higher if oil prices stay firm at these high levels. Oil companies' budgets are based on much higher oil prices now and both Brazil and Saudi Arabia plan their state budgets with an oil price of 80-90 USD per barrel Brent oil price.

Longer term activity should definitely be considerably spurred by the exploration successes in 2011. Oil companies reported huge finds, in the North Sea (Aldous/Avaldsnes), Brazil and West Africa, creating strong demand for oil services in the years to come.

We continue to believe we are in the early stages of a multi-year, double-digit growth spending upcycle characterized by increased drilling in complex geologies on land and exploration and development of traditional and emerging deep water basins offshore.

### About ODIN

ODIN is a boutique manager specializing in focused, bottom-up value investing. Our 20 years of experience in asset management have taught us valuable lessons.

### Lesson 1: Focus on the horizon

In ODIN, we focus on fundamentals, basing our expectations on competitive advantages, product development, financial viability, leadership and strategic positioning of individual companies. These factors tend to be consistent across short term business cycles. Our confidence in the long term viability of our investments means that we are prepared to stay invested for a long time, and engage actively in corporate governance. Sound and sustainable value creation is a slow and steady process, not a get rich quick-scheme. But we find it is worth the wait.

### Lesson 2: Think independently

Unlike passive investors, insights gained through thorough analysis enable us to form an independent view of the fundamental value of a company. This is key in order to identify companies where strong companies are available with compelling value propositions. And in our experience opportunities abound, especially in periods where fear and panic are driving the markets. Under such circumstances many investors fail to maintain focus on the fundamental value of individual companies.

### Lesson 3: Stay on target

Strategy drift is an expression used to describe how some asset managers try to adjust their investment process according to what the market currently seems to favour. We do not adjust our philosophy to the latest fads or fashions in the investment industry. We are constantly on alert to avoid letting fear or greed cloud our judgment and steal our attention away from the fundamentals of individual companies.

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### **About ODIN Offshore**

ODIN Offshore can only invest in companies that are primarily engaged in the oil and gas sector, which includes other service companies and companies engaged in recovery, production, processing and transport/distribution. The long-term aim of the fund is to give a higher return than the equity market for oil service companies.

### **We would like to remind you that...**

In this report ODIN has referred to sources that are regarded as reliable. ODIN can however not guarantee that the information derived from these sources is either accurate or complete. Statements made in this report reflect ODIN's market view when the report was produced.

Employees in ODIN are entitled to trade on own account in several financial instruments. This implies that employees in ODIN may hold securities in companies mentioned in this report as well as units in ODIN's funds. Employees' own account trading shall comply with ODIN's internal guidelines. These guidelines are prepared in accordance with the Norwegian Act on Securities Trading and business standards issued by the Norwegian Mutual Fund Association.

Past performance is no guarantee for future performance. Future performance will depend, among other things, on movements in the market, the manager's skills, the fund's level of risk and the subscription, management and redemption costs. The value of the fund may decline as a result of a general fall in share prices.

*For further information please visit [www.odinfundmanagement.com](http://www.odinfundmanagement.com)*