

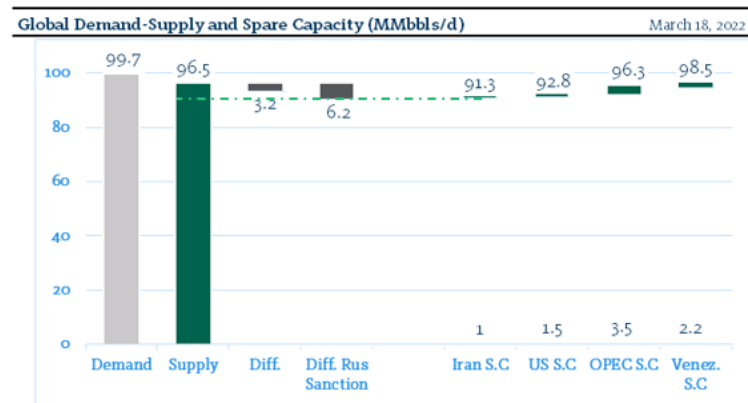
Pathfinder Investment Outlook

For the week ending March 18th, 2022

Portfolio Diversification and Commodities

Continuing with our commodities theme, we look at oil. Oil has seen a lot of press recently as concerns regarding global production grow due to Russian sanctions from the Ukraine conflict, and correspondingly oil prices have risen and remain highly volatile. How meaningful are Russian sanctions from an investor's standpoint?

While it is very hard to predict with any type of certainty, let's look at overall demand and supply. Both OPEC and EIA provide data and short-term forecasts on the production of oil. As of the end of December 2021, demand (~99.7MMbbls/d) likely outpaced supply by about 3.2MMbbls/d. This gap is expected to be maintained somewhat throughout 2022 and this is helping drive oil prices higher. Russian sanctions could impact up to 3MMbbls/d, or 30% of Russian production (66% of their export volumes), which would put the demand-supply differential roughly at 6.2MMbbls/d. This differential could have significant consequences for oil prices.



Source: EIA, OPEC, Pathfinder Asset Management

Russia's pipeline capacity to the west-supporting countries is approximately 3MMbbls/d. Assuming Russia can't re-route some of their sanctioned oil friendly markets, then the 3MMbbl/d will need to be replaced by other countries.

OPEC has roughly 3.5MMbbls/d of spare oil capacity. Iran could provide 1MMbbls/d of production if the US were to lift sanctions, but this might not be real spare capacity due to Iranians likely skirting the sanctions. Venezuela previously produced closer to 3MMbbls/d, but is currently at 790kbbbls/d. However, it might take months or years to get to that capacity for OPEC and Venezuela.

"This means that" if Russian sanctions are implemented long-term on the fully exposed 3MMbbls/d, within a year the world *could* have reasonably recovered a significant portion of the missing production. But between disciplined drilling in North America and questionable spare capacity elsewhere, it might take longer. Our view is that the underlying fundamentals of oil, regardless of sanctions, remains very strong in the near term 1-2 years and Russian sanctions are less meaningful than other fundamental drivers, contrary to what headlines may have us believe.

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Sources: Bloomberg, Pathfinder Asset Management Limited

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*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the masters series of each fund. The Pathfinder North American Equity Portfolio and The Pathfinder North American Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High-Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April, 2013), and Pathfinder International Fund (November 2014).

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