From: Ens, Amanda [redacted]
Sent: Wednesday, December 28, 2016 4:39 PM
To: jeffrey E.; Richard Kahn
Subject: Energy

We continue to like owning upside in the E&Ps. We think Saudi and other Gulf Cooperation Council members will likely reduce crude output as stated, while Russia and others are likely to either freeze it or reduce it only modestly. We also project EM demand growth next year of 1.2mn b/d led by China and India, and see a modest demand contraction in OECD economies. On these assumptions, Brent should average $61/bbl in 2017 and hit $70/bbl at the peak of the US driving season.

We've discussed Hess in the past which is still a high conviction pick but it's already moved a lot in relation to the sector. XOP – the Oil & Gas E&P ETF – is an easy way to express the view with more diversification. Flat call skew (20th percentile historically) makes the "appearing" call spread, similar to what we traded for financials, look attractive.

* Buy a 6 month XOP 110% call with a short 117.5% call that knock in if XOP trades above 125% during the life of the trade for 2.45% premium cost

o Gross max payoff if knock-in is triggered: 3.1x (7.5%/2.45%)

o Gross max payoff if knock-in is not triggered: 6.1x (14.9%/2.45%) – you have upside up to 124.9%

Regards,

Amanda

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