



IntegrityVikingFunds®

THE NICHE FUND GROUP

# AMERICAN ENERGY

*Integrity*

## Mid-North American Resources Fund

*ICWIX // ICPAX // ICPUX*

*Strategic Petroleum Reserve*

*Portfolio Manager Update*

*Winner's Circle: New Fortress Energy*

June 2022



# Strategic Petroleum Reserve // SPR

Salt caverns along the Gulf Coast have been used for storage for many years by the petrochemical industry

## History

The Strategic Petroleum Reserve (SPR) was initiated in 1975 as a result of the 1973 energy crisis spawned by the OPEC oil embargo that led to massive oil shortages across the globe. In November of 1974, the U.S. joined the International Energy Program Agreement (IEP) and became the founding member of the International Energy Agency (IEA). One of the key commitments made by the agreements signatories was to maintain oil stocks of at least 90 days of net imports to serve as emergency stockpiles to counter severe supply interruptions.

The U.S. SPR is located in four different sites along the Gulf of Mexico in Texas and Louisiana. The storage sites were created by drilling out salt domes approximately 3,300 feet below the surface. The authorized storage capacity of the reserve is slightly over 700 million barrels of crude oil. The highest inventory on record for the SPR was recorded in December of 2009 at a mark of 726.6 million barrels.

**Investment to Date**  
 ≈ \$26 Billion  
 \$5B facilities / \$20.7B crude oil

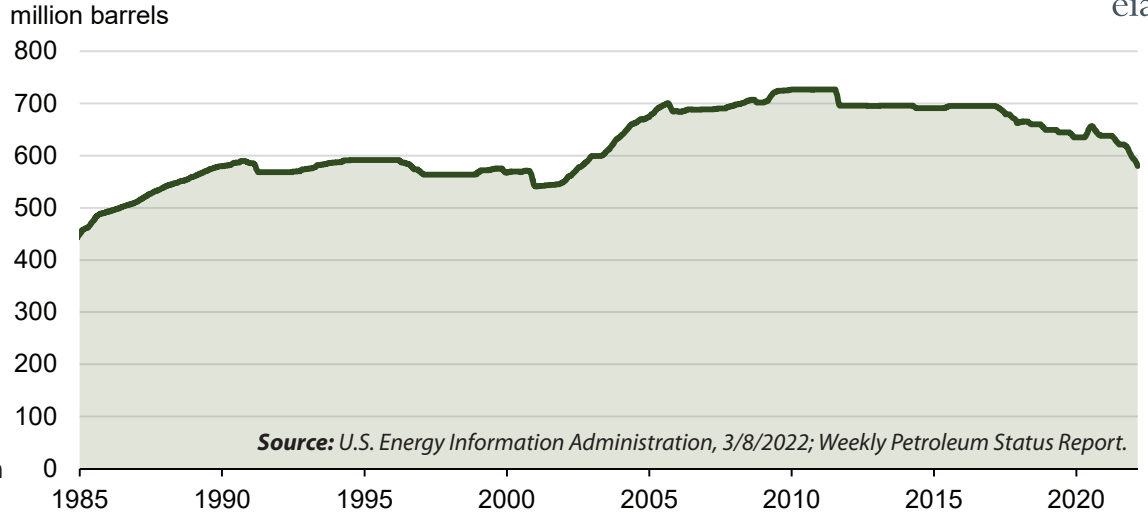
**SPR Average Price**  
 \$29.70 / barrel

## Today

Drawdowns to the SPR are certainly not uncommon. In fact, Congress has enacted seven unpublicized sales of more than 130 million barrels to fund the deficit since 2017. Most recently, the Biden administration has announced three releases -- 50 million barrels in November 2021 which is the largest release in SPR history, along with another 30 million barrels in March 2022 followed by one million barrels per day for next 6 months. This totals 260

million barrels of releases over the last five months. Today, the SPR has a current stockpile of 538 million barrels, the lowest level since 1987. With the current legislation in place, the amount of oil in the SPR could fall well below 300 million barrels which would equate to a 67% reduction since 2010.

**Weekly U.S. Strategic Petroleum Reserve crude oil stocks (Jan 1985–Feb 25, 2022)**



Filling of the Nation's emergency oil reserve began in July of 1977 when approximately 412,000 barrels of Saudi Arabian light crude was delivered to the SPR



Source: Energy.gov.

# Energy Industry Update

From the Portfolio Management Team of the Integrity Mid-North American Resources Fund



Michael Morey



Shannon Radke



Trey Welstad, CFA

## Bullish Thesis

Despite the energy sector's rapid ascent year-to-date, we believe the fundamental backdrop for investing in energy looks better than almost any point in the last decade. Our bullish thesis on energy is predicated by multiple tailwinds for the energy sector. The primary tailwind is bleak inventories for both crude oil and refined products, as well as limited global spare capacity. OPEC+ recently announced an acceleration in production, however this does little to change the long term supply and demand issues driven by years of underinvestment. Strong demand is another tailwind that is building as China reopens from COVID-19 lockdowns.

Outside of China demand has been strong, particularly within emerging markets. The energy sector is also the cheapest sector on multiple valuations metrics and its weight in the S&P 500 is historically low. The energy sector is currently trading at a 2.6x turn discount to the 20 year average (11.5x forward P/E versus 14.1x 20-year average) compared to the S&P 500 trading at a 4x turn premium (19.5x vs 15.5x 20-year average).

Lastly, strong cash returns remain well supported by low cash breakevens for crude oil producers. At current strip prices, the energy sector has the ability to return over a quarter of market capitalization to shareholders via dividends and share repurchases over the next three years.

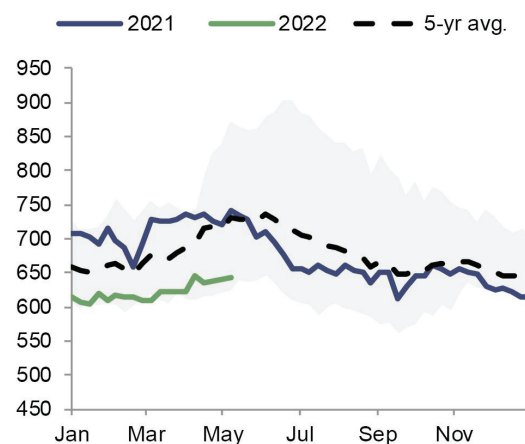
European Union (EU) sanctions on seaborne Russian crude oil has the world reshuffling barrels creating further upside for the commodity. Roughly 1.5 million barrels of oil per day are shipped by sea towards the EU. The clear winner in this environment is India, which has ramped imports of Russian crude. India has maxed out refinery runs, captured sky-high crack spreads and has exported gasoline and diesel to Europe for a handsome profit.

## Energy Crisis

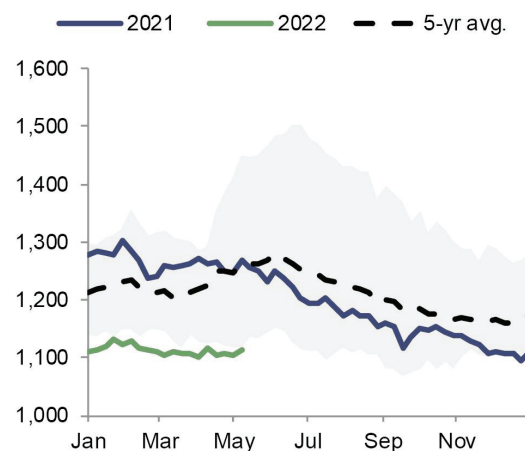
The world is in an extensive energy crisis and capital expenditures need to rise for all forms of energy. Energy shortages across the world highlight the importance of fossil fuels and the necessity of an "all of the above" approach to secure energy availability. The importance of fossil fuels can be seen in the durability of consumption. While the world continues to progress towards renewable energy, 84% of global energy consumption came from fossil fuels in 2020. That is the same percentage as in 1980. The energy landscape is changing and the growth prospects for renewable energy are undeniable, but fossil fuels are here to stay if the world wants affordable and dependable energy.

## Global Crude & Total Oil Inventories

### Crude Oil (mmbbls)



### Total Crude + Oil Products (mmbbls)



Source: Bloomberg, PAJ, S&P Global Platts/FedCom, TPH Research.

**"We believe the fundamental backdrop for investing in energy looks better than almost any point in the last decade."**

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.



# Winner's Circle // New Fortress Energy



## Liquefied Natural Gas

New Fortress Energy is a liquefied natural gas (LNG) company founded in 2014 with the belief that access to affordable, reliable and cleaner energy is not a privilege, but a human right. Creating that access -- in an environmentally responsible way -- is their fundamental mission.

Their story began when Founder Wes Edens sought to convert a freight rail to run on cleaner, more efficient fuel. That's when Florida's first LNG production facility was built and New Fortress Energy was born. Soon after, the company made a significant investment to deliver LNG to Jamaica for the first time. Since then, New Fortress Energy has embarked on an international expansion, driven by their vision of a world in which electricity is no longer a luxury.

Providing turnkey, customized energy solutions to customers of all sizes around the world, New Fortress helps to replace oil-based fuels with LNG quickly and efficiently. Their world-class expertise in power, infrastructure and transportation allows them to manage the entire process of switching to LNG from building and operating liquefaction facilities to onshore and offshore regasification terminals, pipelines, power plants, and small-scale solutions.

New Fortress has a long-term goal of becoming the world's leading provider of carbon-free power and believes LNG is the most expedient and cost-effective option for bringing affordable, cleaner energy to millions.

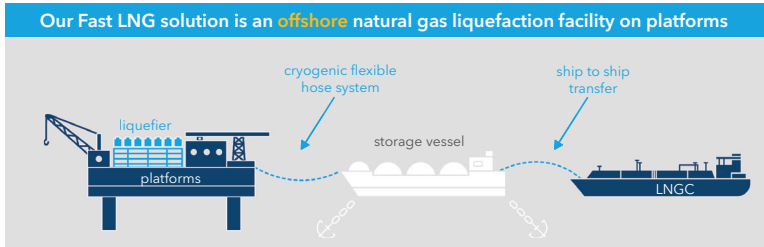
Ticker	NFE
Headquarters	NY, NY
Founded	2014
Employees	671
Market Cap	8.02B (4/30/22)

## Fast LNG

New Fortress announced the completion of an application to the U.S. Coast Guard in April for the ownership, construction, operation, and eventual decommissioning of an offshore natural gas export deepwater port. Known as the New Fortress Energy Louisiana FLNG, it will be located in Federal waters approximately 16 nautical miles off the southeast coast of Louisiana. The deepwater port would allow for the export of approximately 145 billion cubic feet of natural gas per year, equivalent to approximately 2.8 million tons per annum (MTPA) of LNG.

"This is a significant step forward for our effort to build the first Fast LNG facility in the United States," said Edens. "With rapid deployment, this project can help address the energy crisis in Europe and support our efforts to reduce energy poverty by providing more affordable, reliable and cleaner fuel to our growing portfolio of customers."

### Our Fast LNG solution is significantly faster & less expensive to build than traditional liquefaction facilities



	Traditional LNG	NFE liquefier
Time	60 months	50% to 70% less
Est. cost of construction	~\$1.2bn	30% to 50% less
Environmental footprint	Significant	Minimal

### Why offshore?

Floating storage is

- ✓ Cheaper
- ✓ Faster
- ✓ Safer
- ✓ Better for the environment

than land-based storage

Accessing abundant U.S. gas supply by leveraging existing infrastructure, NFE's Fast LNG liquefaction design pairs the latest advancements in technology with jack up rigs or similar offshore infrastructure to enable a much lower cost and faster deployment schedule than today's floating liquefaction vessels and onshore liquefaction terminals.

Source: New Fortress Energy - Fast LNG Update; April 2022.

**Investments may lose value. The Fund is sold by prospectus only. An investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. You may obtain a prospectus at no cost from your financial adviser or at [www.integrityvikingfunds.com](http://www.integrityvikingfunds.com). Please read the prospectus carefully before investing.**

The Fund's top ten holdings as of 3/31/2022 are: Devon Energy 8.19%, Cactus Inc 5.42%, Cheniere Energy Inc 5.20%, ChampionX Corp 4.52%, Phillips 66 4.48%, Diamondback Energy 4.30%, Pioneer Natural Resources 4.26%, Baker Hughes 4.22%, Valero Energy 4.22%, Exxon Mobil 4.11% and represented 48.92% of the Fund's portfolio. Enphase Energy represented 4.65% of the Fund's portfolio as of 3/31/2022. The portfolio may or may not hold and is not restricted to the companies listed.

Because the Fund normally invests in common stocks of companies engaged in natural resources-related activities in a limited geographical area, the Fund's performance largely depends on the overall economic condition of the related sectors and geographical area. Additionally, diplomatic, political or economic developments in foreign countries could adversely impact the Fund's investment in securities of foreign companies.



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Integrity Funds Distributor, LLC | 1 Main Street North | Minot, ND 58703  
800-276-1262 | Member: FINRA | [integrityvikingfunds.com](http://integrityvikingfunds.com)

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