

NOTOS QUARTERLY Q2/2016

NOTOS SHIPPING INDICES: MEASURING PERFORMANCE AND RISK OF SHIPPING STOCKS

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To measure the performance and the risk of investments in shipping stocks, last year we created the Notos Shipping Index or 'NSI'. Currently, the NSI comprises 118 listed shipping companies with a total market capitalization of USD 123bn. Only companies with a market capitalization of at least USD 50m are included in the index in order to avoid excessive volatility.

SUB-INDICES FOR EACH MARKET SEGMENT

The Notos Shipping Index is divided into seven sub-indices, one for each of the market segments: Bulk (NBI), Container (NCI), Tankers (NTI), Offshore (NOI), Gas (NGI), Liner (NLI) and 'Diversified' (NDI). There are further additional indices, for example for Master Limited Partnership (MLP) companies, yards or cruise/ferry companies.

A company operating more than half of its assets in a specific sector is included in the index for that sector. Companies with a diversified fleet operating in more than one sector are assigned to the 'Diversified' index.

All the stocks in an index are weighted equally. Weighting individual stocks with their specific market capitalization would result in some stocks, such as Maersk, dominating the value of that index.

The average of the changes of the aforementioned seven sub-indices is

ADJUSTMENTS TO THE INDICES

	REMOVED	ADDED
NTI	Neste Oil OYT Frontline 2012 Ltd.	
NBI	Dry Ships Inc. Eagle Bulk Shipping, Inc. Wilson ASA Mercator Lines (Singapore) Ltd. Paragon Shipping Inc. Pioneer Marine Inc	
NCI	Euroseas Ltd	
NOI	Deep Sea Supply plc Eidesvik Offshore ASA Havila Shipping ASA Reach Subsea ASA	
NDI	Marco Polo Marine Ltd. International Shipholding Corporation Premuda SPA	Ocean Yield ASA
NGI		Navigator Holdings Ltd. Flex LNG Ltd.

used to calculate the daily changes in the Notos Shipping Index.

CALCULATION METHODS ADJUSTED

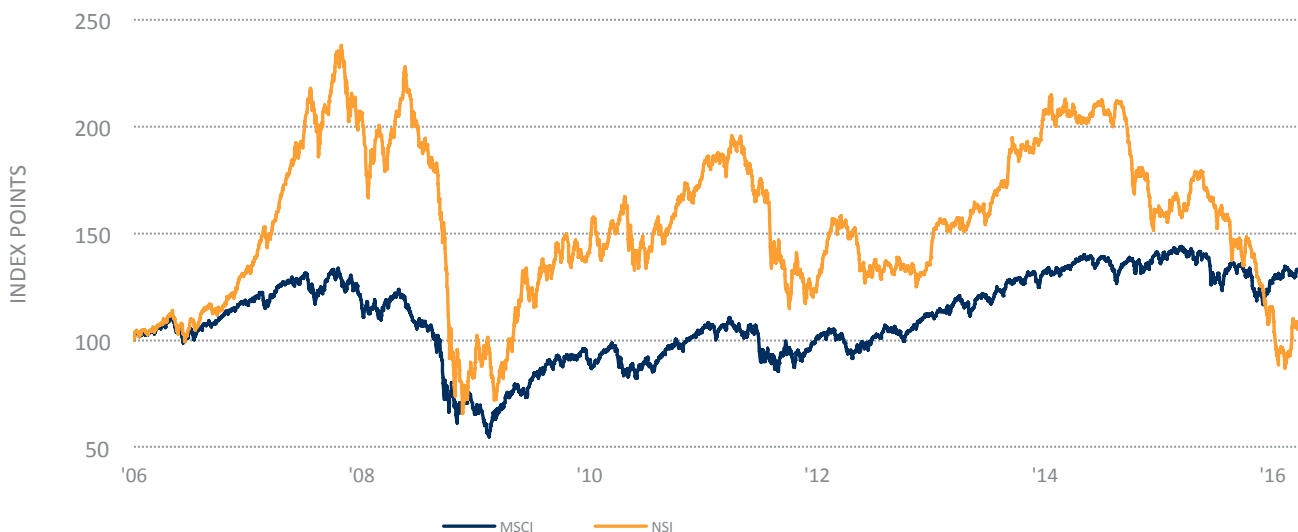
The indices are re-examined for their composition every quarter. The table to the right shows the titles removed from, or added to, their respective indices since the beginning of this year.

In addition, at the start of this year, the calculation process of indices was slightly modified to reflect dividend payments, stock splits and share capital increases in more detail.

NSI OUTPERFORMED THE MSCI WORLD INDEX FOR A LONG PERIOD

A first look at the price development of the Notos Shipping Index compared to the MSCI World Index reveals the NSI's disproportionately

LONG-TERM OUTPERFORMANCE OF NSI OVER MSCI



Source: Notos Group, Thomson Reuters 06/2016

high volatility and high beta. For example, the NSI rose 135% in the period from beginning of 2006 to end 2007, which was significantly more than the MSCI World. The manifestation of the low during the financial crisis in 2008 was not quite as profound as the MSCI.

In long-term comparison from 2006 till fall 2015, the NSI performed better than the MSCI World Index.

However, measured until this summer, the overall performance of the NSI is below the MSCI World's. The reason is the NSI's recent strong underperformance relative to the MSCI World Index since 2014.

PERFORMANCE OF DIFFERENT SECTORS VARIES IN LONG-TERM VIEW

A deeper analysis, however, reveals a

very heterogeneous performance of shipping stocks across sectors from 2006 until now. The lowest performance was recorded by the Notos Container Index at -9.1% return p.a. By contrast, the Notos Gas Index improved 6.7% per annum over the same period and is well above the

SECTORS' RISK AND RETURNS 2006-2016

	NSI	NBI	NCI	NTI	NGI	NDI	NOI	NLI	MSCI
RETURN P.A.	0.1%	-3.5%	-9.1%	-3.3%	6.7%	2.4%	-4.8%	0.7%	2.5%
VOLATILITY P.A.	22.4%	87.3%	35.2%	60.3%	34.5%	36.2%	105.8%	27.8%	17.5%
RETURN 1Y	-37.9%	-43.3%	-58.8%	-25.2%	-31.6%	-26.6%	-45.8%	-21.8%	-4.8%
RETURN 5Y	-41.3%	-71.7%	-56.6%	-8.5%	13.4%	-24.6%	-77.1%	-14.9%	24.2%
RETURN 10Y	-7.2%	-36.5%	-56.1%	-38.3%	61.9%	26.3%	-56.5%	12.6%	25.3%

Source: Notos Group, Thomson Reuters 06/2016

MSCI World Index performance of 2.5%. The most and the least volatile segments have been the offshore sector and the container liner segment, with an annualized volatility of over 100% and 27.8% respectively.

OUTLOOK: WAITING FOR THE MARKETS TO PICK UP IN THE SECOND HALF OF THE YEAR

Looking at the performance of the Notos Shipping Index since the beginning of the year, the market appears to be forming a bottom. When observing the relative performance of the NSI against the MSCI

World Index, shipping stocks have again outperformed the MSCI World Index since mid-February. However, this relative out-performance seems very fragile, as the recent losses in June indicate.

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