



# Independent Stock Idea

April 17, 2014

## **Proxy Voting Underway**

**Permian (PBT), Sabine (SBR), Cross Timbers (CRT) and Hugoton (HGT)**

### **Summary and Recommendation**

We intend to vote the units we own FOR the Appointment of Successor Trustee at **Permian Basin Royalty Trust (PBT), Sabine Royalty Trust (SBR), Cross Timbers Royalty Trust (CRT) and Hugoton Royalty Trust (HGT)**. We intend to vote AGAINST the proposal for amendments regarding asset sales. We like each of the trusts as components of our Royalty Trust Fund (RTF) that we encourage investors to create for themselves and/or their clients.

Regarding asset sales, each proxy statement describes a proposal “to permit the trustee to sell up to one percent (1%) of the value (based on year-end engineering reports) of the royalties in any twelve month period.” Since it would likely not to be changed once voted we fear that down the road the provision could lead to the cumulative weakening of the trusts at sales below what long-term holders would agree to. The engineer’s analysis uses artificial, backward-looking assumptions that can produce estimates of present value that are widely misleading as to oil and gas investment value. That technique invites manipulation. A customer of a trustee institution could select a property grossly underestimated in value by the rules the engineer applies and pressure the trustee to accept a bid at a slight premium to the engineer’s number.

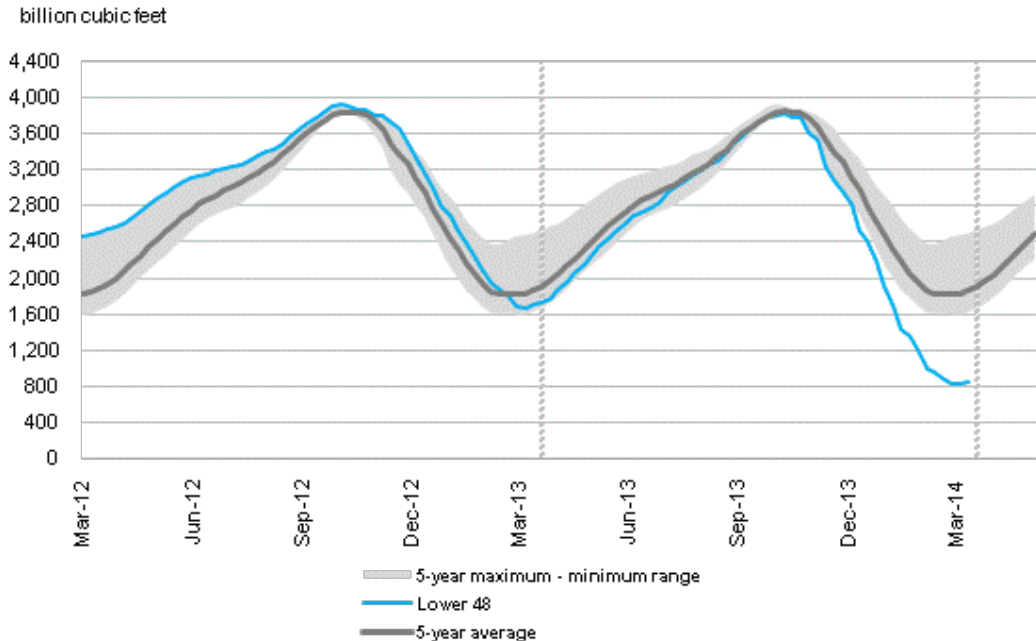
Perhaps with added safeguards, we could be more constructive on asset sales. Those provisions might include notification of unitholders, description of the properties to be sold, the price offered and the identity of the bidder.

Finally, we intend to vote FOR all the remaining proposals.

Meanwhile the outlook for oil and natural gas price appears quite positive. Six-year futures for both fuels look to have resumed an uptrend after a long downtrend. Natural gas inventories reported today point to an unusually strong near-term price outlook (see chart [Gas in Underground Storage](#) on page 2).

Kurt H. Wulff, CFA

## Working gas in underground storage compared with the 5-year maximum and minimum



 Source: U.S. Energy Information Administration

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