



THE ENERGY SECTOR

When people think about investing in the energy sector, they may naturally look to the companies that supply the fuel we use. But an investment in energy could also mean investing in companies that construct and maintain oil rigs and gas wells, or investing in companies that explore or market solar energy and similar green alternatives. As the table to the right demonstrates, the Standard & Poor's (S&P) GICS Energy sector is limited to seven distinct industry groups, but energy-related companies are found within other S&P sectors as well. Companies involved with solar energy can be found in the Industrials sector, alternative energy companies can be found in the Information Technology sector, while others with an energy emphasis can be found in the Utilities sector.

DEMAND FOR ENERGY

In 2009, world primary energy consumption – including oil, natural gas, coal, nuclear, and hydro power – fell by 1.1%, the first decline since 1982, due in large part to the global economic recession.^a Three things though will fuel the increase in demand for energy over the coming decades. These are population growth, economic growth, and a global desire to increase living standards (especially in developing countries).

As a result of economic and population growth, some project world energy demand to increase at about 1.2% per year between 2008 and 2035 – an increase of 36%.^b However, these amounts could be higher if broad policy commitments and plans focusing on climate change and energy security announced by countries around the world are not implemented.^c

FOSSIL FUELS

Although oil has been and, for the foreseeable future, will continue to be the largest source of energy, renewable energy and coal are estimated to be the fastest growing energy sources. Oil demand is projected to continue to grow at a steady pace, reaching about 99 million barrels per day by 2035 – 15 million barrels per day higher than in 2009.^d However, oil output is expected to reach an undulating plateau by 2020, while natural gas liquids and unconventional oil grow steadily.^e

Natural gas is expected to play a central role in meeting the world's energy needs in the future. It is the only fossil fuel expected to have a higher demand in 2035 than in 2008. Unconventional oil sources, from Canadian oil sands to Venezuelan extra-heavy oil to oil shales, are making an important contribution to the world's future energy security, and while unconventional oil reserves are thought to be very large, they are difficult and costly to extract.

Coal remains the leading source of electricity generation now and in the future. Simply put, oil and other fossil fuels (mainly coal and natural gas) are finite resources.

RENEWABLE ENERGY

With countries making a commitment to reduce their greenhouse-gas emissions, renewable-based energy generation stands to make significant gains in the energy mix. Renewable energy sources, including wind power, solar power, and hydro power, generally require more capital than fossil fuels, but this investment could be justified by the energy-security and environmental benefits they bring. According to the International Energy Agency's World Energy Outlook 2010, "The greatest scope for increasing the use of renewables in absolute terms lies in the power sector."^f Renewable-based electricity generation is expected to increase from 19% in 2008 to almost one-third by 2035 (catching up with coal).^g

SUMMARY

The worldwide demand for energy is projected to grow as emerging countries prosper. As their citizens move toward more modern technologies, energy usage will increase. Traditional energy sources like fossil fuels, though finite, will still play a major role in the future of energy. But as technology allows renewable energy and other alternatives to be more easily harvested (making them more cost-competitive), these energy sources could play a larger part in meeting the increasing energy demands.

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S&P SECTOR	INDUSTRY
Energy	Oil & Gas Drilling
Energy	Integrated Oil & Gas
Energy	Oil & Gas Equipment & Services
Energy	Oil & Gas Exploration & Production
Energy	Oil & Gas Refining & Marketing
Energy	Oil & Gas Storage & Transportation
Energy	Coal & Consumable Fuel
Information Technology	Semiconductors & Semiconductor Equipment
Industrials	Industrial Conglomerates
Utilities	Gas Utilities
Utilities	Electric Utilities
Utilities	Power Producers & Energy Traders

Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment.

SOURCES

^aBP Statistical Review of World Energy, June 2010, pg. 2

^bInternational Energy Agency, World Energy Outlook 2010 Executive Summary, pg 4

^cInternational Energy Agency, World Energy Outlook 2010 Executive Summary, pgs 3-4

^dInternational Energy Agency, World Energy Outlook 2010 Executive Summary, pg 6

^eInternational Energy Agency, World Energy Outlook 2010 Executive Summary, pg 6

^fInternational Energy Agency, World Energy Outlook 2010 Executive Summary, pg 9

^gInternational Energy Agency, World Energy Outlook 2010 Executive Summary, pg 9