KEYNOTE ADDRESS
- Steve Standbridge, **Capstone Partners**

Over the last several years, we have seen the natural resources fundraising environment evolve. After a tumultuous 2015, we were happy to see a re-emergence of interest in the natural resources space. Many investors spent 2015 asking and answering questions about their existing portfolios with little ability to focus on new opportunities. Fortunately, commodity prices, especially WTI and certain metals like gold and silver, improved over the course of 2016 and there was at least a feeling among investors that we had seen the worst and had reached some level of price stability with upside potential. As a result, we saw LPs that had gone offline for the prior 12 months begin to leg back into the market, albeit with an increased level of caution. More specifically, we witnessed increased interest in upstream and midstream energy opportunities, especially in the US.

In the upstream energy space, investors were very focused on finding groups that survived the price meltdown because they had low-cost production in the most delineated basins and were prudent with their use of leverage. This situation is similar to the Global Financial Crisis when there was a bifurcation among buyout groups with some managers experiencing pressure through the downturn but ultimately performing well, while others with overleveraged portfolios lacked the flexibility to manage through the crisis and were left behind. In 2016, we also saw an increase in the number of upstream funds launched by owner-operators. Historically, these groups acted as management teams for traditional finance-oriented energy private equity funds for which they received a promote based on the performance of the portfolio company. By going directly to institutional limited partners, their argument is that investors can avoid a double fee structure and partner with the managers that are closest to the assets. Several of these groups have successfully raised funds, although there is always some scepticism regarding an operator's ability to allocate capital judiciously as a principal investor. In other words, some investors still take comfort in having a finance-oriented governor with less attachment to specific assets and a keener focus on capital efficiency.

In the midstream energy sector, we also saw LPs re-engage, although there is quite a bit of dry powder in the space as many greenfield development projects where GPs had originally committed capital were scaled back or abandoned. As a result, we have seen the focus of many GPs shift from development to acquisition of non-core assets being shed by MLPs that are still under pressure to generate cash to deleverage their balance sheets. In general, LPs considering midstream managers are spending a significant amount of time understanding the deployment plans of the current fund before they are willing to commit to a follow-on fund. Investors are heavily focused on managers' abilities to get capital invested, not just committed, quickly and prudently.

As it relates to metals & mining, we continued to see funds raised, but as in most sectors, there were the haves and the have nots. Four to five years ago, there was a great deal of optimism that there was a unique private equity opportunity for a value play through investments in thinly traded public mining companies that were starved for capital. Unfortunately, metal prices continued to decline and many of the funds raised in 2013 and 2014 significantly underperformed expectations; as a result, investors started to question whether the return premium offset the illiquidity associated with private equity-style structures. In 2016, LPs that were inclined to invest in metals & mining seemed to gain confidence in the knowledge that prices had at least stabilized, and we saw increased velocity of commitments, although there was clearly a flight to quality as groups that overleveraged their assets or underestimated capital needs continued to struggle. Provided valuations for mining assets continue to increase over the next year, portfolio performance should improve, which may increase investors' overall interest in the sector.

The fundraising market in 2017 continues to be strong, but there is clearly a feeling of uncertainty in the US surrounding the current administration and its potential impact on the global economy and by association real asset/commodity markets. The potential impact of renegotiated or abandoned trade deals, increased tensions with China and/or Russia over territorial aggression, the ever present concern over North Korea and the Middle East, OPEC deciding to abandon its production limitations, or an unforeseen impact relating to Brexit, while not new concerns, can certainly be seen as continued threats to an improving commodity market. We expect investors to remain relatively cautious, stick to quality, and seek defensive positions where possible. However, as long as the fundamentals of the global economy remain strong, we suspect investors will continue to allocate capital to real asset strategies.

CAPSTONE PARTNERS
Founded in 2001, Capstone Partners is a leading independent placement agent focused on raising capital for private equity, credit, real assets and infrastructure firms from around the world.

STEVE STANDBRIDGE
Steve Standbridge is a Managing Partner responsible for North American client origination and distribution in the Northeastern United States.

www.csplp.com