preqin

Press Release

21st June 2018

Unlisted Natural Resources Fund Performance Improves

Returns for more recent funds match other asset classes after historical underperformance

Unlisted natural resources funds have typically underperformed compared to other private capital asset classes. Median net IRRs for every vintage year 2005-2014 have been lower than comparative returns for buyout, venture capital and infrastructure funds. However, younger natural resources funds have seen improved performance, with more recent vintage years showing higher net IRRs than their predecessors. In fact, among 2015 vintage funds natural resources vehicles have a median IRR of 14%, higher than any other private capital strategy. Over the longer term, the PrEQIn index has not seen natural resources rise to match private equity levels, but there has been a strong rally in returns since the middle of 2016. This has prompted improved investor sentiment: almost four out of five investors feel that natural resources funds met or exceeded expectations in 2017. This contributed towards growth in assets held by the industry, pushing it up 8% in the first nine months of the year to a record $563bn.

For more information and analysis, see the full *June 2018 Real Assets Spotlight* here:
http://docs.preqin.com/newsletters/ra/Preqin-Real-Assets-Spotlight-June-2018.pdf

Key Natural Resources Performance Facts:

- **Natural resources funds have historically underperformed** other private capital funds – funds of vintages 2005-2014 have median IRRs lower than for buyout, venture capital or infrastructure funds.
- However, **returns among more recent vintage funds have improved**. 2005 vintage funds have a median net IRR of 2.7%, but among 2015 vintage funds it is 14%.
- In fact, **2015 vintage natural resources funds have a higher median IRR than buyout** (13%), venture capital (8.6%) or infrastructure (9.0%) funds.
- Over the longer term, the PrEQIn index of natural resources performance declined in line with oil prices from December 2014, but has rallied since June 2016, and sits at 133 points as of September 2017 – **just short of the highpoint of 136 points** seen in September 2014.
- The **S&P Global Oil Index TR, meanwhile, fell more sharply** in 2014 and has not recovered as strongly, sitting at 87 points as of September (when rebased to 100 as of December 2007).
- **Stronger performance has helped drive growth in assets under management**. The first nine months of 2017 saw AUM grow from $520bn to $563bn, an 8% increase.
- Dry powder, on the other hand, has seen a decrease of 5% in that time period, from $201bn to $192bn.
- It may have also influenced a **recovery in investor sentiment**. Seventy-nine percent of investors said in December 2017 that their natural resources investments had met or exceeded their expectations in the past 12 months. This is up from just 47% which said the same a year prior.

Patrick Adefuye, Head of Real Assets Products:

"The natural resources industry has seen strong growth in recent years, and assets under management stand at a record high as the value of assets deployed by fund managers has jumped in recent months. Dry powder, however, has decreased for the first time in a decade. This is an encouraging sign for the industry, as it indicates that fund managers are able to source attractive investment opportunities and are putting capital to work. Unlisted natural resources funds could also be viewed as a safer route for investors, because although unlisted fund performance is impacted by changes in oil prices, it is more insulated from short-term volatility than listed fund returns.

Investors are satisfied with the asset class and over three-quarters of investors surveyed by Preqin in December 2017 feel that their natural resources investments met or exceeded expectations. Performance is a key component of investor satisfaction, and it is likely that the high reported investor satisfaction is in part due to natural resources of more recent vintage years generating higher returns. Although these younger funds are relatively early in their fund cycles and their IRRs are likely to fluctuate further, continued strong natural resources performance in tandem with significant industry growth will bode extremely well for investor satisfaction."

For more information, contact our dedicated press team at press@preqin.com or call (+44) 20 3207 0265.

New York	London	Singapore	San Francisco	Hong Kong	Manila	Guangzhou
+1 212 350 0100	+44 20 3207 0200	+65 6305 2200	+1 415 316 0580	+852 3892 0200		

www.preqin.com / info@preqin.com