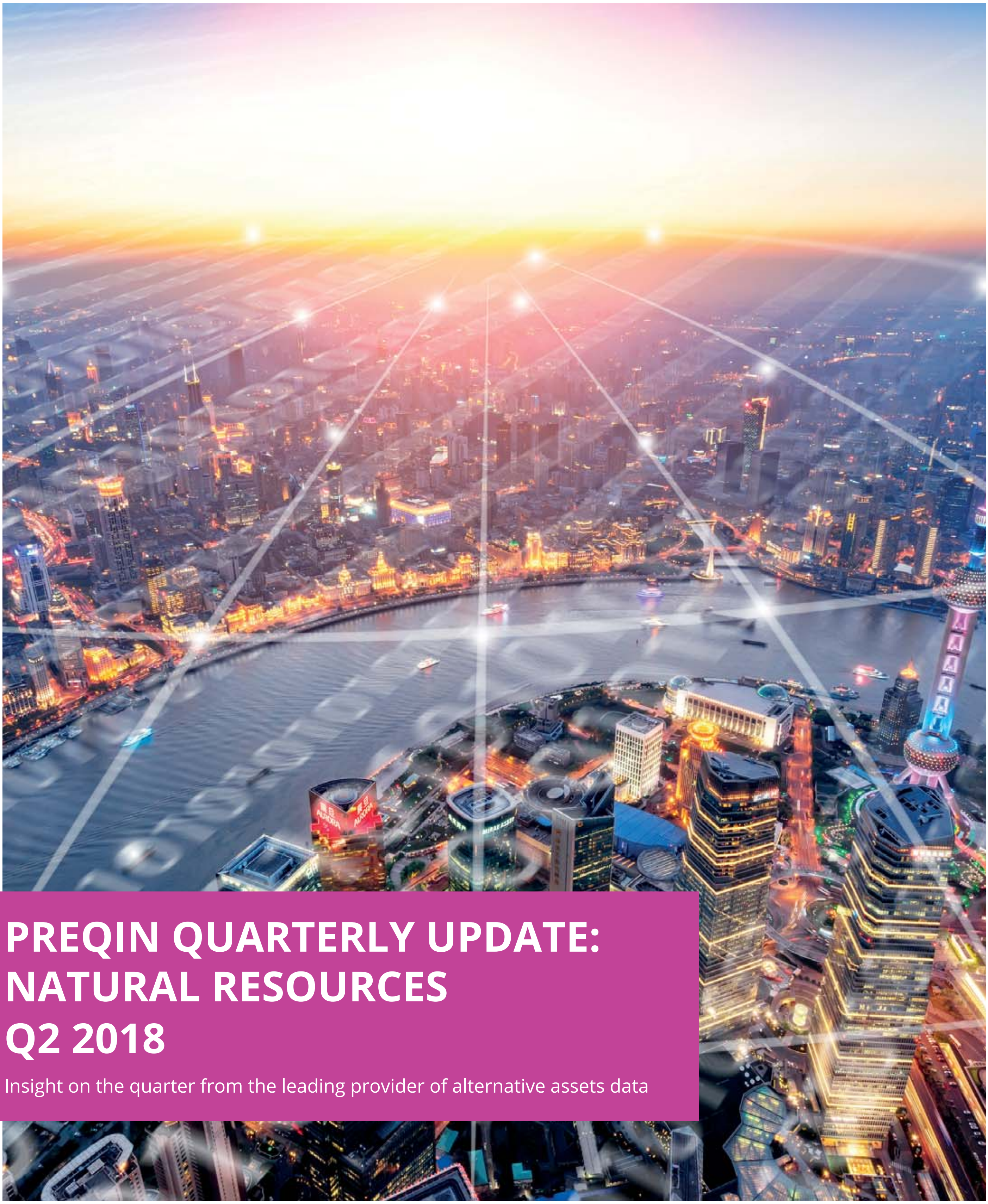

PREQIN QUARTERLY UPDATE: NATURAL RESOURCES Q2 2018

Insight on the quarter from the leading provider of alternative assets data

Content includes:

Fundraising
Funds in Market
Institutional Investors
Fund Performance and Dry Powder

FOREWORD - Patrick Adefuye, Preqin

The number of unlisted natural resources funds securing a final close dropped to 19 in Q2 2018 – the lowest quarterly total recorded in the past five years – although $23bn in aggregate capital was raised. These figures highlight the trend of fewer, larger vehicles successfully raising capital, with the average fund size reaching a five-year high of $1.2bn. Although the proportion of vehicles successfully reaching or exceeding their target is higher among funds closed in 2018 so far than in 2017 (80% vs. 58%), funds are generally spending a longer time in market. This is the challenge facing the 288 unlisted natural resources funds on the road seeking a combined $145bn, as they work to differentiate themselves to increasingly selective investors.

North America-focused funds represent the majority of unlisted natural resources funds closed both in terms of number and aggregate capital raised. The fundraising landscape also remains dominated by energy-focused funds: 84% of all funds closed in Q2 2018 have an energy-specific focus, and these funds are responsible for 95% of aggregate capital raised.

The PrEQIn Natural Resources Index continues to show improved performance for the asset class having increased by 3.1 points between June and September 2017; the index has risen for each consecutive quarter since March 2016, in tandem with the recovery in oil prices. This is also reflected in the performance of recent vintage funds, with energy and natural resources funds of vintage 2015 in particular comparing favourably to other real assets, unencumbered by poor past performance. Investors in turn are displaying positivity towards the asset class: 74% of those interviewed in June 2018 indicated that their natural resources fund investments had met or exceeded their performance expectations in the past 12 months (up from 70% in June 2017).

Industry dry powder stands at $192bn as at September 2017, down from $201bn in December 2016 as managers have put capital to work. The vast majority (85%) of this is held in energy-focused funds.

We hope you find this report useful and welcome any feedback you may have. For more information, please visit www.preqin.com or contact info@preqin.com.

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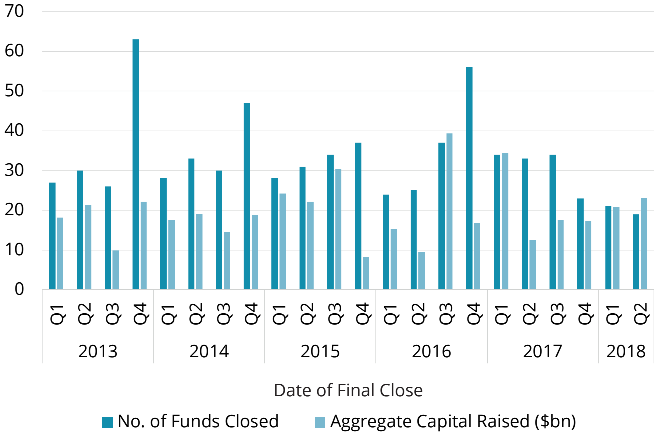
FUNDRAISING

Nineteen unlisted natural resources funds reached a final close in Q2 2018, with the $23bn secured in capital commitments marking a five-quarter high since Q1 2017 when 34 funds closed on an aggregate $34bn (Fig. 1). Funds closed in 2018 so far have been relatively successful, with 80% meeting or exceeding their target size, compared to just 58% of those closed in 2017. Despite this success, the fundraising market has had its challenges, with the average time spent on the road reaching 19 months for funds closed in 2018 to date, compared to 16 months in 2017 and 14 months in 2016.

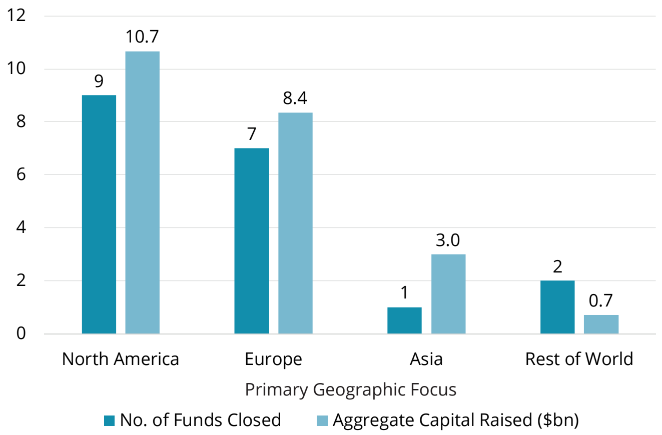
The vast majority (84%) of funds closed in Q2 2018 are North America- or Europe-focused vehicles; only one Asia-focused fund reached a final close, raising $3.0bn in investor capital (Fig. 2). Energy-focused funds continue to dominate with 16 funds closed, securing $22bn, well ahead of all other primary strategies (Fig. 3).

Fig. 1: Global Quarterly Unlisted Natural Resources Fundraising, Q1 2013 - Q2 2018



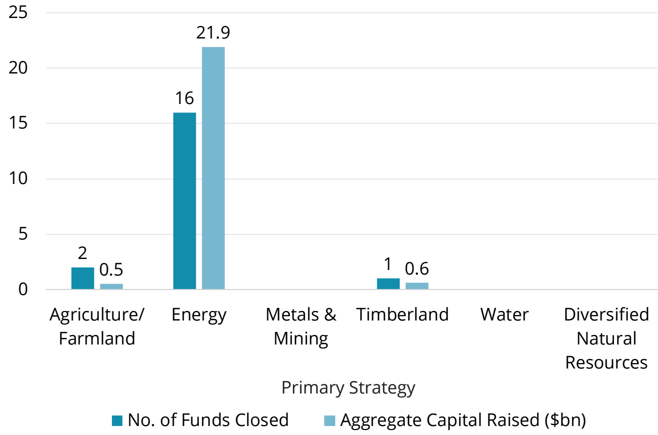
Source: Preqin

Fig. 2: Unlisted Natural Resources Fundraising in Q2 2018 by Primary Geographic Focus



Source: Preqin

Fig. 3. Unlisted Natural Resources Fundraising in Q2 2018 by Primary Strategy



Source: Preqin

Fig. 4: Largest Unlisted Natural Resources Funds Closed in Q2 2018

Fund	Firm	Headquarters	Fund Size (mn)	Primary Strategy	Geographic Focus	Final Close Date
ISQ Global Infrastructure Fund II	I Squared Capital	New York, US	6,500 USD	Energy	US	Jun-18
Macquarie Asia Infrastructure Fund II	Macquarie Infrastructure and Real Assets (MIRA)	London, UK	3,300 USD	Energy	Asia	Apr-18
Infracapital Partners III	Infracapital	London, UK	1,850 GBP	Energy	Europe	May-18
DIF Infrastructure V	DIF	Schiphol, Netherlands	1,900 EUR	Energy	Europe	May-18
European Diversified Infrastructure Fund II Series Two	Colonial First State Global Asset Management/First State Investments	Sydney, Australia	1,400 EUR	Energy	Europe	Jun-18
Waterous Energy Fund I	Waterous Energy	Calgary, Canada	1,400 CAD	Energy	US	Jun-18
PIP Multi-Strategy Infrastructure Fund	Pensions Infrastructure Platform	London, UK	610 GBP	Energy	Europe	Apr-18
Ardian Americas Infrastructure Fund IV	Ardian	Paris, France	800 USD	Energy	US	May-18
SCF Fund IX	SCF Partners	Houston, US	800 USD	Energy	US	Apr-18
CIM Infrastructure Fund II	CIM Group	Los Angeles, US	718 USD	Energy	US	Apr-18

Source: Preqin

Coming Soon

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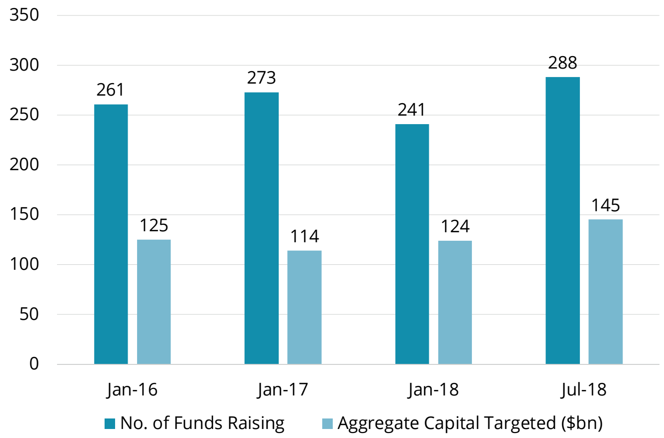
FUNDS IN MARKET

There are 288 unlisted natural resources funds in market at the beginning of Q3 2018, up from 241 at the start of 2018, and aggregate capital targeted is up from $124bn to $145bn (Fig. 5). Over half (51%) of natural resources funds currently in market target opportunities primarily in North America, followed by Europe (23%) and Asia (7%, Fig. 6). These North America- and Europe-focused funds account for $111bn (77%) of aggregate capital targeted.

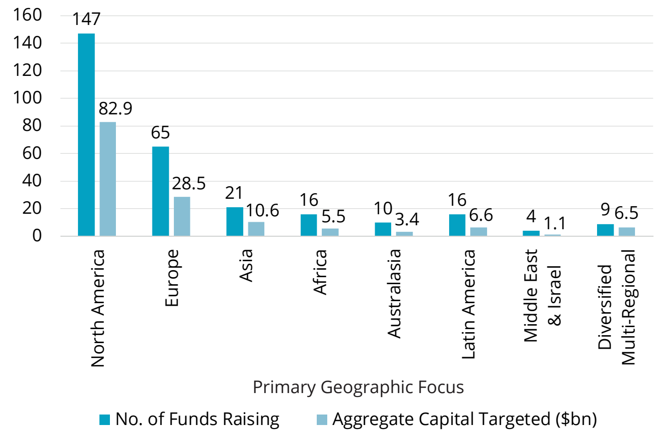
Sixty-eight percent of funds in market target the energy sector, and account for 84% of the aggregate capital targeted (Fig. 7). The dominance of the energy sector within unlisted natural resources fundraising is further evidenced in Fig. 8, with the five largest funds currently in market targeting energy as a primary strategy.

Fig. 5: Unlisted Natural Resources Funds in Market over Time, 2016 - 2018 (As at July 2018)



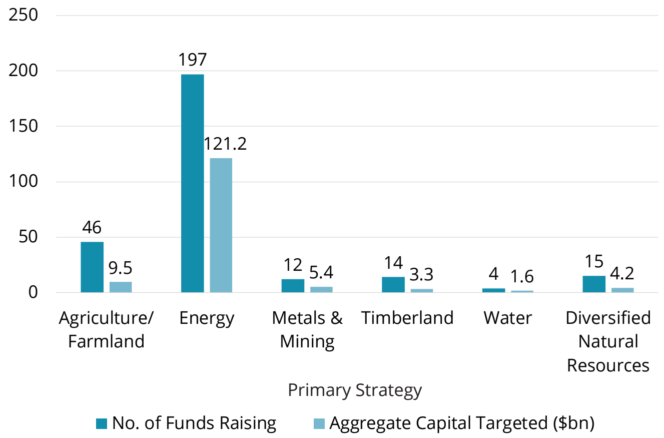
Source: Preqin

Fig. 6: Unlisted Natural Resources Funds in Market by Primary Geographic Focus (As at July 2018)



Source: Preqin

Fig. 7: Unlisted Natural Resources Funds in Market by Primary Strategy (As at July 2018)



Source: Preqin

Fig. 8: Largest Unlisted Natural Resources Funds in Market (As at July 2018)

Fund	Firm	Headquarters	Target Size (mn)	Primary Strategy	Geographic Focus	Status
Energy Capital Partners IV	Energy Capital Partners	Short Hills, US	6,000 USD	Energy	US	Third Close
NGP Natural Resources XII	NGP Energy Capital Management	Irving, US	5,300 USD	Energy	US	Raising
Quantum Energy Partners VII	Quantum Energy Partners	Houston, US	5,250 USD	Energy	US	Second Close
Alinda Infrastructure Fund III	Alinda Capital Partners	Greenwich, US	5,000 USD	Energy	US	First Close
EIG Energy Fund XVII	EIG Global Energy Partners	Washington D.C., US	5,000 USD	Energy	US	Third Close

Source: Preqin

INSTITUTIONAL INVESTORS

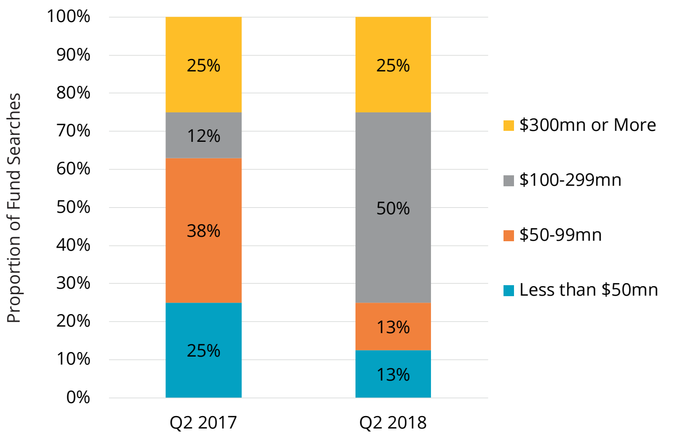
As at Q2 2018, investors plan to commit larger amounts of capital to natural resources funds over the next 12 months than at this point last year. Three-quarters of investors intend to commit $100mn or more to the asset class in the next 12 months, a sizeable increase from 37% in Q2 2017 (Fig. 9). Furthermore, the proportion of investors planning to commit less than $50mn to the asset class has dropped from 25% to 13%.

North America and Europe remain the most targeted regions, with the proportion of investors focusing on each of these regions increasing to 56% from 38% and 34% respectively (Fig. 10). Investor interest in Asia-Pacific has also increased, with 38% of investors looking to target the region in the next 12 months, compared to 28% in Q2 2017.

Energy remains the most targeted strategy, with 82% of investors planning to commit capital to the strategy in the year ahead (Fig. 11). Timberland and metals & mining have both experienced an uptick in investor interest compared to a year ago.

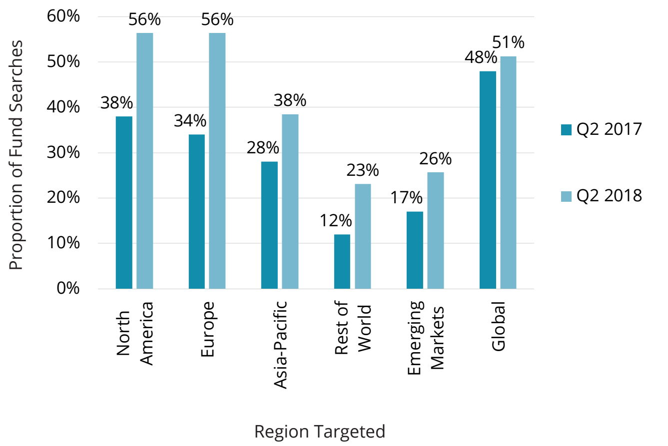
Similar to this time last year, the majority (81%) of investors prefer unlisted funds as their route to market in the year ahead (Fig. 12). While interest in listed funds for the next 12 months dropped from 8% one year ago to 3%, investor interest in direct investment rose from 30% to 36%.

Fig. 9: Amount of Capital Investors Plan to Commit to Unlisted Natural Resources Funds in the Next 12 Months, Q2 2017 vs. Q2 2018



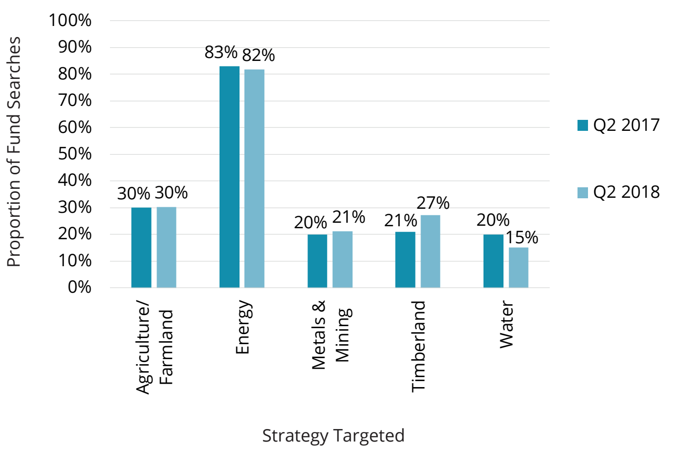
Source: Preqin

Fig. 10: Regions Targeted by Natural Resources Investors in the Next 12 Months, Q2 2017 vs. Q2 2018



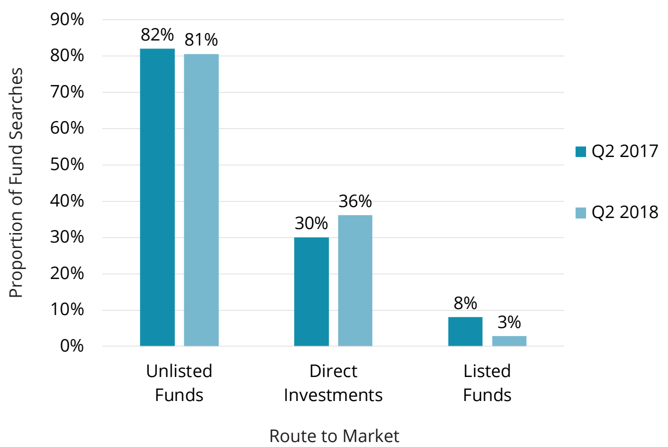
Source: Preqin

Fig. 11: Strategies Targeted by Natural Resources Investors in the Next 12 Months, Q2 2017 vs. Q2 2018



Source: Preqin

Fig. 12: Preferred Route to Market of Natural Resources Investors for the Next 12 Months, Q2 2017 vs. Q2 2018



Source: Preqin

FUND PERFORMANCE AND DRY POWDER

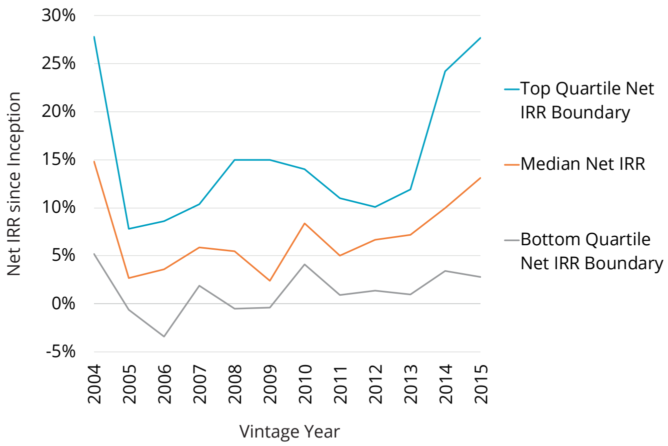
Vintage 2015 natural resources funds have seen more volatile returns in comparison to earlier vintages: the percentage point range between the top and bottom net IRR quartiles currently stands at 25, showing that the gap between the best and worst performing funds has widened for vintage 2015 funds (Fig. 13).

Across seven of the 10 vintage years examined, natural resources and energy funds have underperformed compared with infrastructure and real estate funds. However, 2015 vintage natural resources and energy funds have marked a turning point: energy-focused funds currently have the highest median net IRR at 14.4% (Fig. 14).

Natural resources dry powder currently stands at $192bn as at September 2017, which marks a slight fall since December 2016 following growth over five consecutive years (Fig. 15). Energy-focused funds account for the majority (85%) of natural resources dry powder, while the amount of agriculture/farmland-focused dry powder has steadily grown over the past decade.

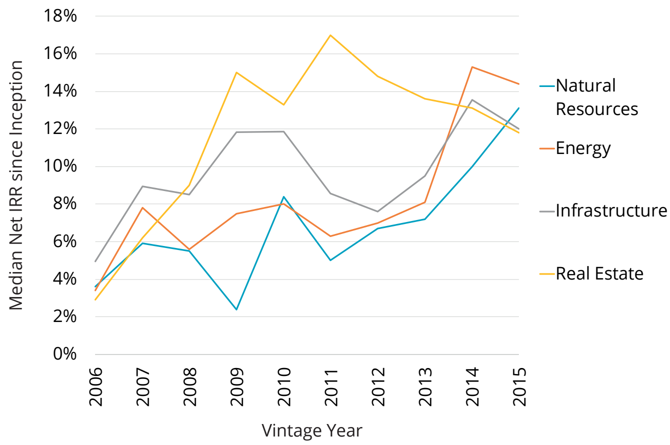
The PrEQIn Natural Resources Index increased by 3.1 points between Q2 and Q3 2017, continuing a consecutive increase each quarter since March 2016, when the index reached 110.8 points (Fig. 16). PrEQIn Natural Resources, as at September 2017, hit 132.8 points; in comparison, the S&P Global Oil Index stood at 87.0 points, the lowest figure of all indices reviewed in Fig. 16.

Fig. 13: Unlisted Natural Resources: Median Net IRRs and Quartile Boundaries by Vintage Year



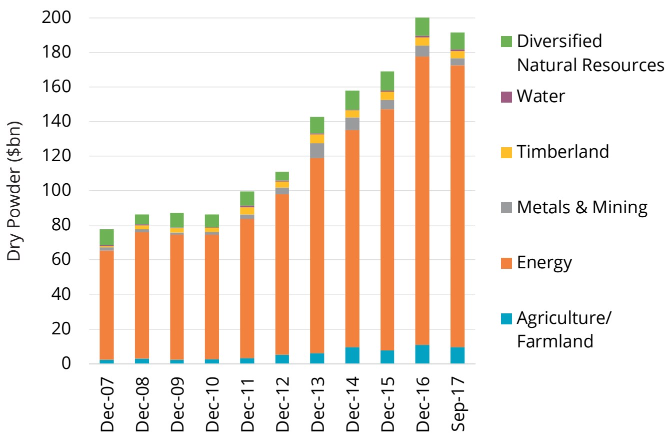
Source: Preqin

Fig. 14: Median Net IRRs by Vintage Year: Natural Resources vs. Energy, Infrastructure and Real Estate



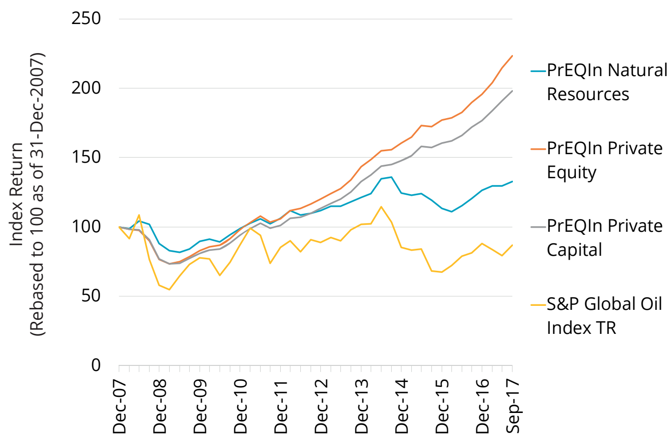
Source: Preqin

Fig. 15: Unlisted Natural Resources: Dry Powder by Primary Strategy, 2007 - 2017



Source: Preqin

Fig. 16: PrEQIn Index: Natural Resources vs. Private Equity, Private Capital and S&P Global Oil Index TR (Rebased to 100 as of 31 December 2007)



Source: Preqin

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