

A photograph of the Chicago skyline, featuring the Willis Tower as the central focus. The sky is blue with scattered white clouds. In the foreground, there are green trees and a white boat with a red stripe on the water.

# PREQIN QUARTERLY UPDATE: NATURAL RESOURCES Q3 2017

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



alternative assets. intelligent data.

# FOREWORD - Tom Carr, Preqin

The natural resources fundraising landscape remains challenging; fewer funds are reaching a final close than in previous years, with the closure of 18 funds in Q3 2017 representing the lowest quarterly number for nearly a decade. This being said, investor sentiment towards the natural resources market is improving. In Preqin's **Investor Outlook: Alternative Assets, H2 2017**, 70% of investors interviewed reported that their natural resources portfolios had met or exceeded their performance expectations, an increase of over 20 percentage points from Preqin's previous survey in December 2016. Furthermore, just 7% of respondents indicated plans to reduce the amount of capital they commit to the natural resources sector in the coming year, with two in five investors planning to increase their capital commitments.

Given this improving investor sentiment, several positive trends have emerged from the fundraising market. The level of capital secured by funds holding a final close in Q3 2017 increased 24% from the previous quarter, driven by several funds securing over \$1bn, including the latest offerings from AMP Capital Investors and BlackRock. While fewer funds are entering the market, those that have closed in 2017 so far have achieved their capital goals, with one-quarter of funds overachieving their target by 25% or more. Investors are also seeing the improved performance from their natural resources investments: the PrEQIn Natural Resources index has delivered three consecutive quarters of growth, increasing 12.4% from Q1 2016 to Q4 2016.

With the increasing amount of capital raised by unlisted natural resources funds, it is perhaps unsurprising to see industry dry powder continuing to grow. However, as the amount of capital available to invest increases, so do asset valuations: 34% of investors interviewed by Preqin in June 2017 believed valuations were a key issue facing the industry over the next 12 months. Furthermore, nearly half of respondents believe renewable energy assets are expensive in the current marketplace, likely fuelled by the level of capital targeting the energy sector: 83% of the \$195bn in estimated dry powder is held in energy funds.

Against a backdrop of industry growth, many fund managers are looking to bring funds to market, and with 239 funds currently seeking an aggregate \$114bn in capital commitments, the industry will likely see increased activity and further growth in the coming year.

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## NATURAL RESOURCES ONLINE

Natural Resources Online offers a comprehensive overview of the natural resources fund industry, covering funds, fund managers, performance and institutional investors.

Information is constantly updated by our dedicated teams of analysts, ensuring that we provide the most extensive, up-to-date information available on all aspects of the industry.

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# FUNDRAISING

Despite only 18 unlisted natural resources funds reaching a final close in Q3 2017 (the fewest fund closures since eight in Q3 2009), an aggregate \$12bn in institutional investor commitments was secured, an increase of 24% from the \$9.2bn raised by 20 funds closed in Q2 2017 (Fig. 1). One of the largest funds closed was BlackRock Global Renewable Power Fund II, which secured \$1.7bn to invest in solar and wind renewables opportunities, predominantly in the US, as well as in Europe and other OECD countries.

Of all capital raised by unlisted natural resources funds closed in Q3 2017, 84% will primarily target the North American natural resources market, in line with the longer-term trend.

With regards to primary strategy, 93% of all capital raised globally by funds closed in Q3 2017 will target energy opportunities, up

from 52% in Q2 2017, with 13 energy-focused funds raising \$11bn between them this quarter (Fig. 3). Twelve of all natural resources funds closed this quarter were raised by US-based managers, while two were raised by Europe-based firms, including Estonia-based Birdeye Capital, which raised the only primarily timberland-focused fund closed in Q3 2017. Birdeye Timber Fund will invest in forestland in Estonia with a focus on environmentally and socially responsible investments.

Funds closed so far in 2017 have, on average, reached their initial target size, up from 94% and 95% of target size achieved by funds closed in 2015 and 2016 respectively (Fig. 4). Furthermore, 61% of funds closed in 2017 YTD met or exceeded their targets (Fig. 5).

## KEY FACTS



**\$12bn**

Total capital raised by the 18 funds that reached a final close in Q3 2017.



**100%**

The average proportion of target size achieved by funds closed in 2017 YTD.



**24%**

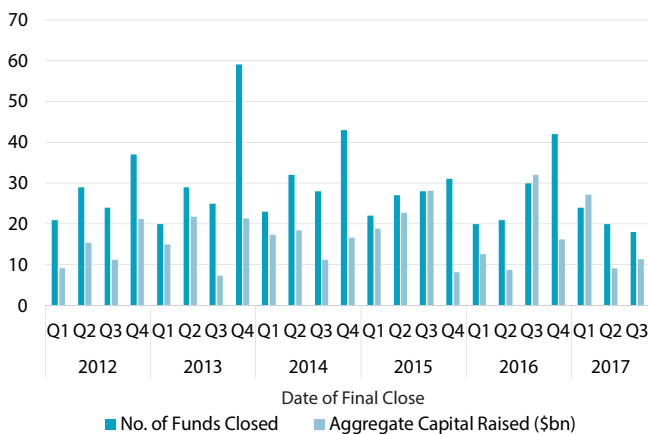
Increase in capital raised from Q2 to Q3 2017.



**\$11bn**

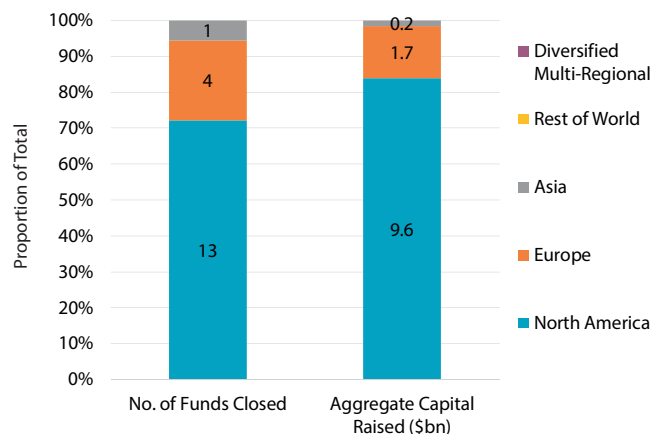
The large majority of capital raised in Q3 2017 will target the energy industry.

Fig. 1: Unlisted Natural Resources Fundraising, Q1 2012 - Q3 2017



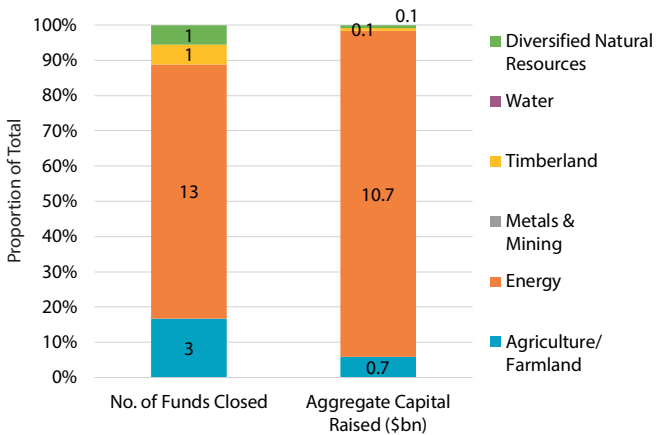
Source: Preqin Natural Resources Online

Fig. 2: Unlisted Natural Resources Fundraising in Q3 2017 by Primary Geographic Focus



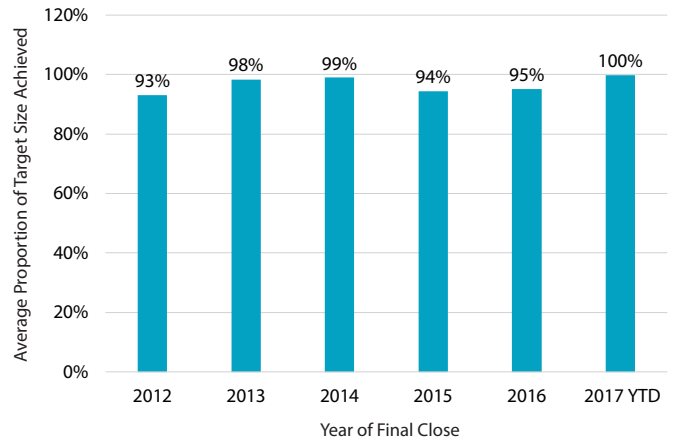
Source: Preqin Natural Resources Online

**Fig. 3: Unlisted Natural Resources Fundraising in Q3 2017 by Primary Strategy**



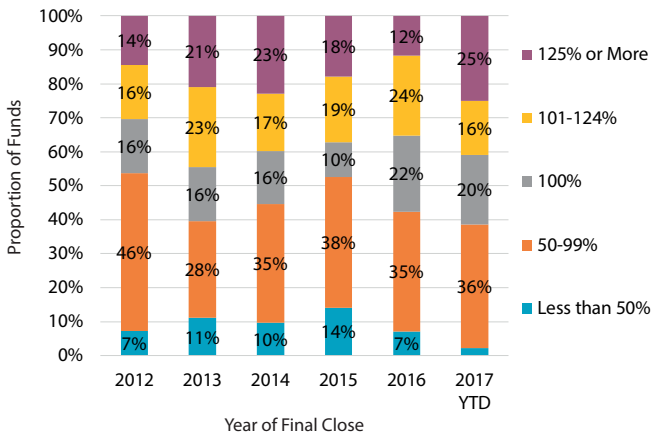
Source: Preqin Natural Resources Online

**Fig. 4: Average Proportion of Target Size Achieved by Unlisted Natural Resources Funds, 2012 - 2017 YTD**



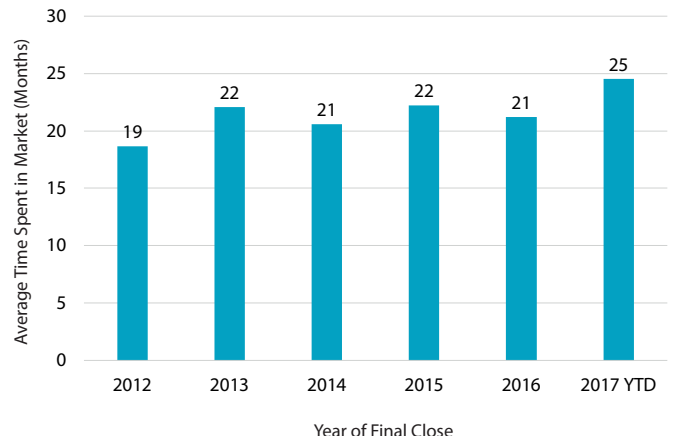
Source: Preqin Natural Resources Online

**Fig. 5: Unlisted Natural Resources Funds by Proportion of Target Size Achieved, 2012 - 2017 YTD**



Source: Preqin Natural Resources Online

**Fig. 6: Average Time Spent in Market by Unlisted Natural Resources Funds, 2012 - 2017 YTD**



Source: Preqin Natural Resources Online

**Fig. 7: Five Largest Unlisted Natural Resources Funds Closed in Q3 2017**

Fund	Firm	Fund Size (mn)	Strategy	Geographic Focus
AMP Capital Infrastructure Debt Fund III	AMP Capital Investors	2,500 USD	Energy	North America
BlackRock Global Renewable Power Fund II	BlackRock	1,650 USD	Energy	North America
BlackRock Renewable Income UK Fund	BlackRock	1,100 GBP	Energy	Europe
First Infrastructure Capital	First Infrastructure Capital Advisors	1,000 USD	Energy	North America
Ares EIF Management V	Ares EIF Management	800 USD	Energy	North America

Source: Preqin Natural Resources Online

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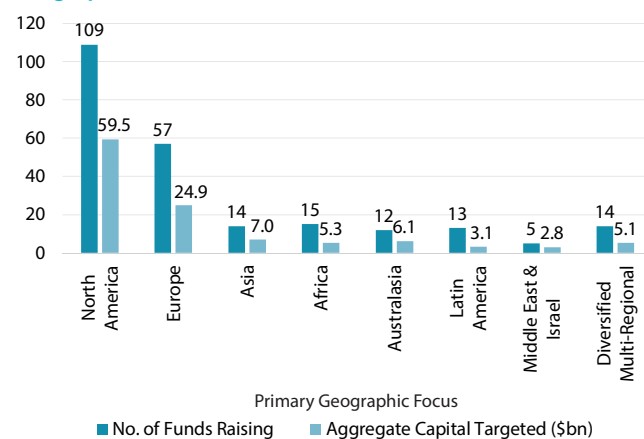
# FUNDS IN MARKET

At the start of Q4 2017, there are 239 unlisted natural resources funds in market targeting an aggregate \$114bn in institutional investor commitments; this marks an increase of \$4bn since the end of Q2 2017, despite 10 fewer funds in market. Just under three-quarters (72%) of unlisted natural resources funds in market have been raising capital for over a year (Fig. 10), although 51% have already held an interim close.

North America-focused funds continue to dominate the fundraising landscape, accounting for 109 funds on the road and \$60bn in targeted capital (Fig. 8). Europe remains the second most prominent single region for natural resources fundraising, representing just under a quarter (22%) of all targeted capital. Funds focused outside North America, Europe and Asia also have a strong presence in the fundraising market, collectively representing 19% of funds in market and 15% of capital targeted.

Energy-focused funds represent the majority of the number of funds in market (62%) and aggregate targeted capital (74%, Fig. 9). This is reflected in the five largest unlisted natural resources funds in market, which all seek to invest in the North American energy market (Fig. 11). The largest fund in market is EnCap Energy Capital Fund XI, the eleventh in the series from EnCap Investments which is targeting \$6.5bn for the provision of growth

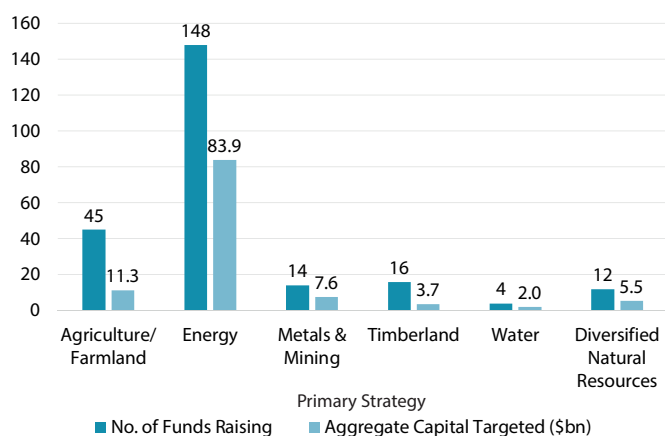
**Fig. 8: Unlisted Natural Resources Funds in Market by Primary Geographic Focus**



Source: Preqin Natural Resources Online

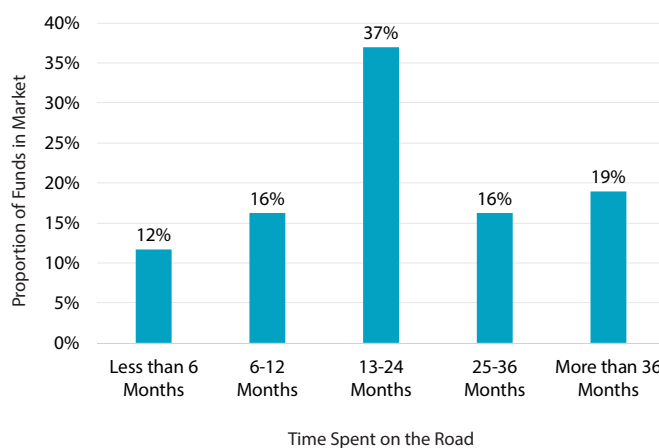
capital to US-based upstream and midstream oil & gas companies. Similarly, NGP Natural Resources XII, which is targeting \$5.3bn, is also focused on midstream oil & gas in the US and has already secured commitments from Arkansas Teacher Retirement System and Teachers' Retirement System of the State of Illinois, among other US-based public pension funds.

**Fig. 9: Unlisted Natural Resources Funds in Market by Primary Strategy**



Source: Preqin Natural Resources Online

**Fig. 10: Time Spent on the Road by Unlisted Natural Resources Funds in Market**



Source: Preqin Natural Resources Online

**Fig. 11: Five Largest Unlisted Natural Resources Funds in Market**

Fund	Firm	Target Size (mn)	Strategy	Geographic Focus
EnCap Energy Capital Fund XI	EnCap Investments	6,500 USD	Energy	North America
NGP Natural Resources XII	NGP Energy Capital Management	5,300 USD	Energy	North America
Alinda Infrastructure Fund III	Alinda Capital Partners	5,000 USD	Energy	North America
ISQ Global Infrastructure Fund II	I Squared Capital	5,000 USD	Energy	North America
Quantum Energy Partners VII	Quantum Energy Partners	4,500 USD	Energy	North America

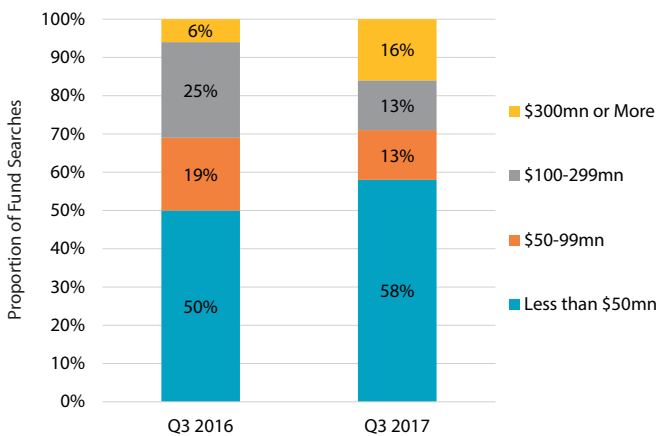
Source: Preqin Natural Resources Online

# INSTITUTIONAL INVESTORS

Natural resources investments remain a prominent part of institutional investors' alternative assets portfolios: the majority (58%) of investors plan to commit up to \$50mn to the asset class over the next 12 months, an increase from 50% in Q3 2016 (Fig. 12). The proportion of investors looking to commit large amounts of capital has also increased, with 16% of investors planning to commit \$300mn or more in the next 12 months, compared to just 6% in Q3 2016.

Although the proportion of investors targeting unlisted funds in the year ahead has decreased by six percentage points since Q3 2016, it remains the route to market most favoured by investors (76%, Fig. 13). In contrast, there has been a seven-percentage-point increase in the proportion of investors planning to invest directly in the next 12 months compared to last year.

**Fig. 12: Amount of Capital Investors Plan to Commit to Unlisted Natural Resources Funds in the Next 12 Months, Q3 2016 vs. Q3 2017**

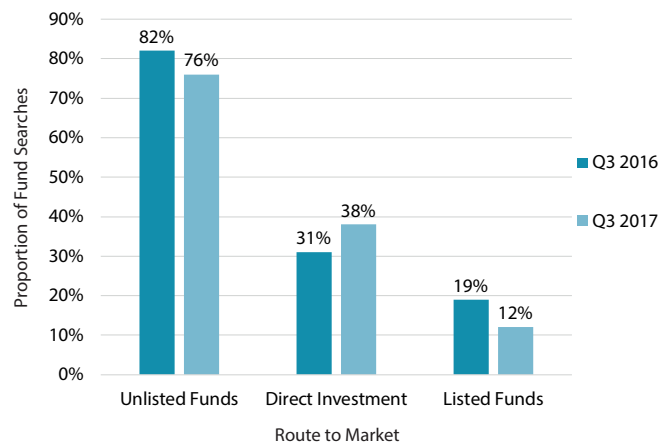


Source: Preqin Natural Resources Online

Energy remains the most targeted strategy among investors (Fig. 14), whereas the proportion of investors targeting metals & mining and timberland investments has decreased by 13 and 10 percentage points from Q3 2016 respectively.

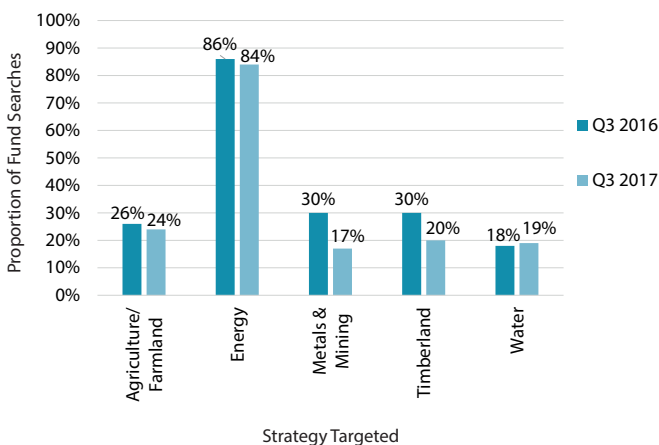
Europe is the most sought-after region, accounting for 43% of fund searches in Q3 2017, with more investors now seeking exposure to this region specifically over global investments (42%). The proportion of natural resources investors looking to commit capital to the Asia-Pacific region has almost doubled, (29%), up from 15% this time last year (Fig. 15).

**Fig. 13: Preferred Route to Market of Natural Resources Investors in the Next 12 Months, Q3 2016 vs. Q3 2017**



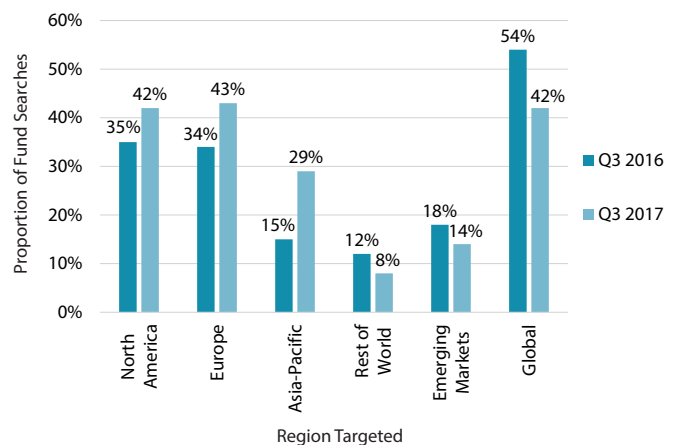
Source: Preqin Natural Resources Online

**Fig. 14: Strategies Targeted by Natural Resources Investors in the Next 12 Months Q3 2016 vs. Q3 2017**



Source: Preqin Natural Resources Online

**Fig. 15: Regions Targeted by Natural Resources Investors in the Next 12 Months, Q3 2016 vs. Q3 2017**



Source: Preqin Natural Resources Online



# FUND PERFORMANCE AND DRY POWDER

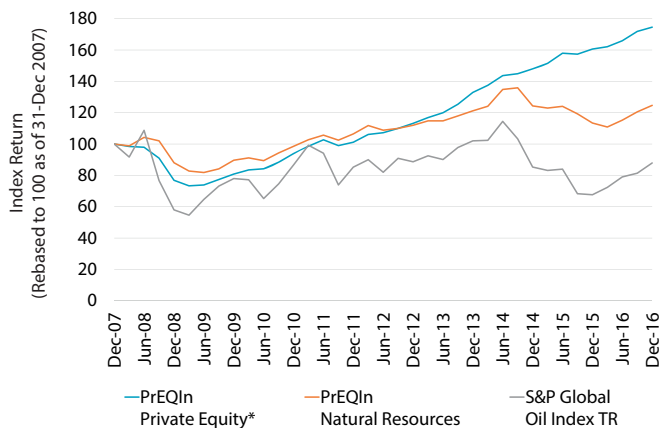
The natural resources industry has continued its period of recovery from March 2016: the PrEQIn Natural Resources Index increased by 8% to 124.7 over the two quarters preceding December 2016, coinciding with a period of growth recorded by the S&P Global Oil Index over the same period.

Natural resources has continued to underperform compared to infrastructure and real estate across all vintages since 2007; however, the more recent 2014 vintage energy funds have posted stronger IRRs, which may lead to improved performance in future

vintages across the wider asset class (Fig. 17). The median net IRR of natural resources funds is fairly consistent across all vintages, although top-quartile funds have seen greater volatility (Fig. 18).

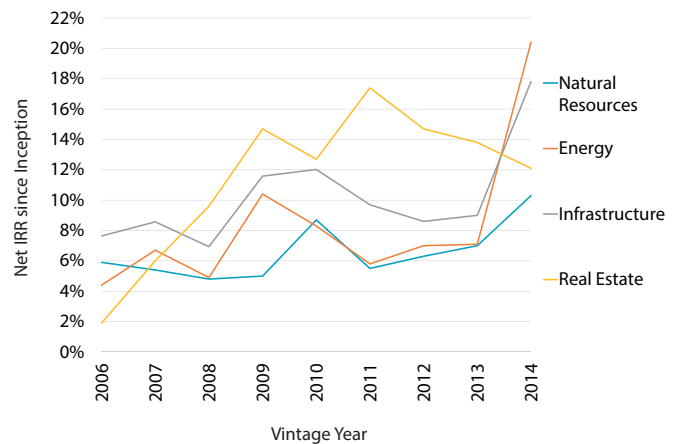
In December 2015, dry powder available to natural resources funds stood at \$163bn, a figure that's grown substantially to \$195bn at the end of 2016, with energy-focused funds continuing to account for the greatest proportion (83%) of total available capital in the industry (Fig. 19).

**Fig. 16: PrEQIn Index: Natural Resources vs. All Private Equity and S&P Global Oil Index TR (Rebased to 100 as at December 2007)**



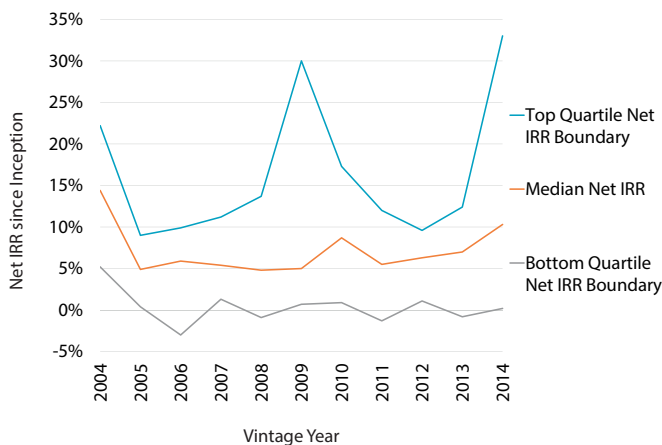
Source: Preqin Natural Resources Online

**Fig. 17: Natural Resources Funds: Median Net IRRs by Strategy and Vintage Year**



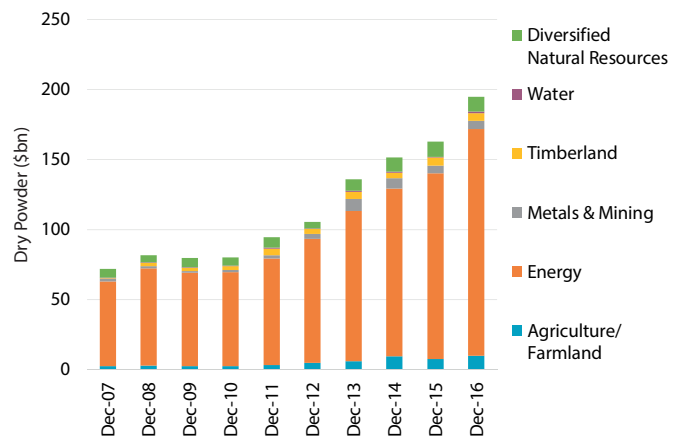
Source: Preqin Natural Resources Online

**Fig. 18: Natural Resources: Median Net IRRs and Quartile Boundaries by Vintage Year**



Source: Preqin Natural Resources Online

**Fig. 19: Unlisted Natural Resources Dry Powder by Primary Strategy, 2007 - 2016**



Source: Preqin Natural Resources Online

\*PrEQIn All Private Equity Index comprises private equity, real estate, infrastructure, natural resources and private debt (excluding direct lending).



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