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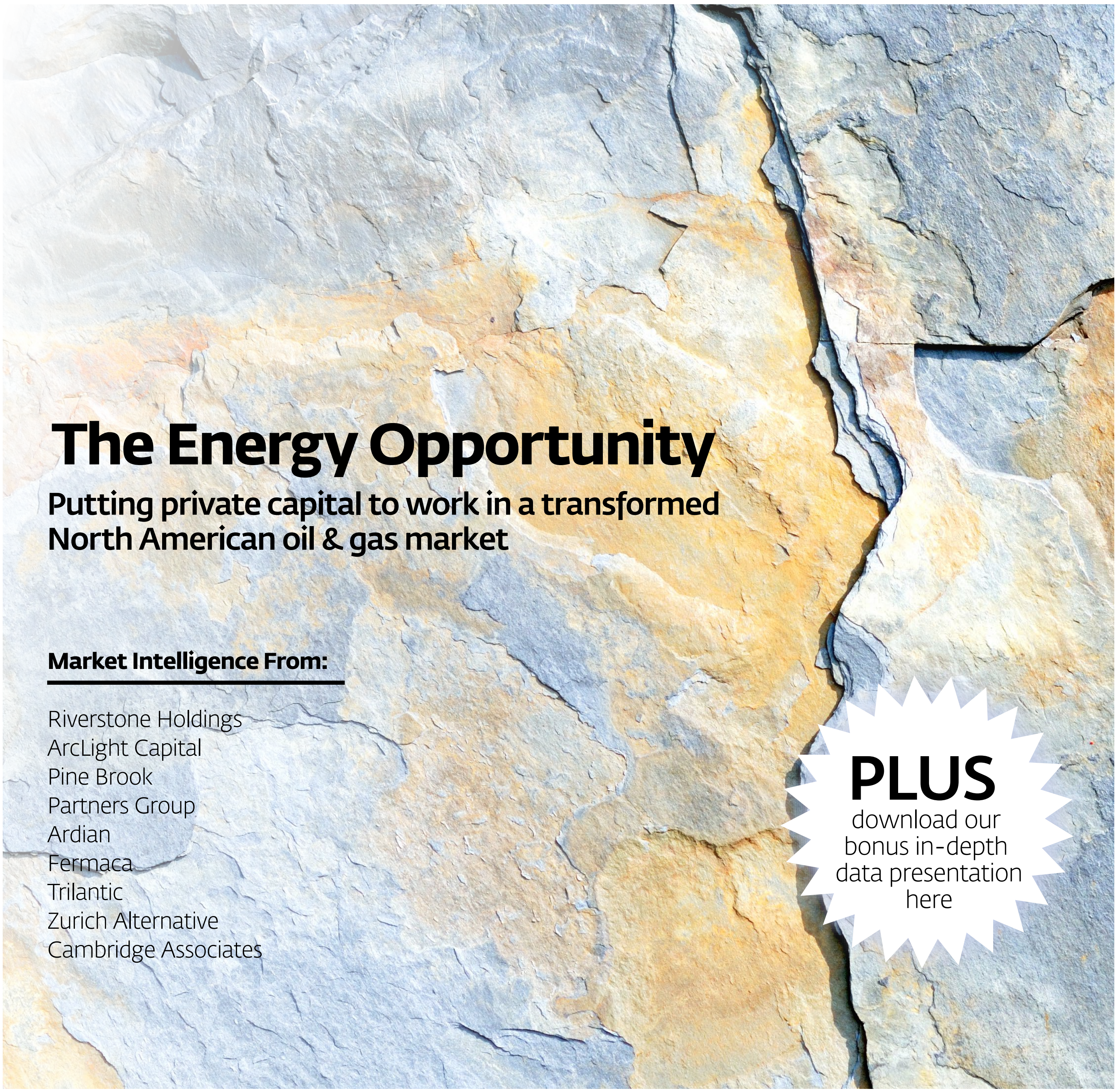

The Energy Opportunity

Putting private capital to work in a transformed North American oil & gas market

Market Intelligence From:

Riverstone Holdings
ArcLight Capital
Pine Brook
Partners Group
Ardian
Fermaca
Trilantic
Zurich Alternative
Cambridge Associates

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In Case You Missed It...

Must-see thought leadership from **Privcap.com**

Do You 'Calibrate' Your Valuations?
The latest buzzword in valuations is "calibration," and whether or not PE CFOs know it, many of them are already doing it, say experts from McGladrey, EIF, and W Capital Partners.

Pensions and Private Equity
Adveq's Sven Liden tells Privcap about recent research by the London Business School, examining what influences pension fund allocations have on PE.

How Secure is Your Firm's Data?
In an era of huge data breaches at top corporations, how carefully must PE firms guard their portfolio and investor data? The answer: very carefully, say experts from Gen II Fund Services, MatlinPatterson, and Castle Harlan.

Caspian's Dedication to Co-investment
There has been a large appetite for co-investment in the past year, says Nitin Gupta of Caspian Private Equity. He talks about how a dedicated co-investment fund works, investment diversification, and why outreach is key.

How Data is Changing Private Equity
Rick Kushel of iLevel discusses the platform and its implications for GP-LP relationships.

Top Tips for Co-investors
Being an excellent co-investment partner means doing your homework, saying "no" quickly, and being credible in front of a seller, say panelists from Cohesive Capital Partners and Neuberger Berman.

About Privcap Special Reports

Privcap Special Reports are exclusively for subscribers to Privcap, the definitive channel for thought leadership in private capital. Each month Privcap focuses on a critical theme and produces a "bundle" of thought-leadership content in multiple formats—a digital report, video interviews and panel discussions, and audio programs. We capture the market intelligence of leading authorities, whose expertise forms the core of each report. Privcap Special Reports help market participants better understand opportunities and practices in private capital, as well as gain deep insights into the people with whom they may become long-term investment partners.

Videos in This Report

Daniel Revers, ArcLight Capital Partners

On Camera

COMING SOON on Privcap

Pioneering PE in Vietnam
Mekong Capital's Chris Ovel on PE's inroads in Vietnam, selecting management teams, and their banner investment in Mobile World.

MidOcean, Riverside: Operating Platforms Compared
Execs from Riverside and MidOcean compare their approaches to deploying operating talent in their investment processes.

UPCOMING REPORTS

Q3
Deal Flow

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Compensation & Careers

This special report includes the following new video programs. Watch them at Privcap.com

Western Exposure—TriWest's Canadian Strategy
TriWest's Cody Church explains the firm's focus on western Canada. Cross-border investments diversify their energy portfolio.

An Insurance Group Backs Energy and ESG
Ferdinand Seibert of Zurich Alternative explains the attraction of backing private companies in the energy space over simply buying "a bunch of indices."

Ardian Enters Energy
Vladimir Colas of Paris-based investment manager Ardian (formerly AXA Private Equity) discusses the firm's interest in the energy sector and the importance of ESG.

How EnCap Successfully Partnered with PennEnergy
Execs from private equity firm EnCap and portfolio company PennEnergy on how they structured a relationship to build a high-value energy platform.

How Energy GPs Build Platforms
A major private equity GP and the CEO of an energy portfolio company describe the process of staging capital in an upstream energy deal.

Technological Advances Boost PE's Energy Interest
Experts from ArcLight, Trilantic, and Pine Brook on how the energy opportunity for PE has changed in the past decade and possible risks lurking ahead.

Wanted: Knowledgeable Energy Operating Teams
Private equity firms looking to take advantage of the North American energy opportunity are facing a shortage of operating team talent, says an expert panel.

A Peek into Energy Investment Styles
Panelists from ArcLight, Trilantic, and Pine Brook share stories of notable energy investments their firms have made.

Partners Group's Shale Play in Mexico
Partners Group backed Mexican gas pipeline company Fermaca with $750M—here's the story.

'Exponential Growth' in Energy Capital Needs
The co-founders of Riverstone Holdings on PE's role in the capital needs of the North American energy opportunity, technology, and the fracking controversy.

PE Fights MLPs in Midstream Opportunity
Investment options in the midstream energy sector have grown, say Riverstone's co-founders. They explain how PE can compete with MLPs in the space.

The Story of Riverstone
Riverstone began after founders Pierre Lapeyre and David Leuschen met at Goldman Sachs. They opted to focus the firm more on energy, less on PE.

PRIVCAP/
SPECIAL REPORTS

In This Issue

Interviews in this report have been edited for length and clarity.

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U.S. Energy Needs More Private Equity

Private equity is transforming the oil and gas landscape. Meanwhile, capital-intensive energy investing is transforming private equity.

Market Analysis by Privcap CEO **David Snow**

The best way to get the attention of a private equity investor is by saying, "Ultra-long-term investment play that requires truckloads of patient capital."

Not surprisingly, the U.S. energy opportunity has private equity players' full attention.

Pitched the right way, the "shale revolution" and the global private equity market seem a perfect match. On the capital side of the marriage are huge institutional investors around the world looking for places other than the debt market to park their money. The North American shale play appeals for many reasons, chief among them a sense of controlled risk mixed with actuarially pleasing potential returns.

On the execution side stands private equity, an industry adept at raising and managing huge amounts of money for long periods. These general partners see an opportunity to become the financial managers of a long-term industrial project that will transform the U.S.A. into Saudi America and, in the process, turn their firms into a new breed of Wall Street giants.

"Energy loves capital, and capital loves energy. What remains unknown is whether the capital put to work in the U.S. energy sector will generate the kind of returns that adequately reward investors for putting so much of their capital at risk."

Rising enthusiasm for North American energy investing is evident everywhere. At Harvard Business School's most recent private equity conference, both of the keynote speakers declared that U.S. energy was the top investment opportunity for their respective firms. After his speech, The Carlyle Group co-founder David Rubenstein was unequivocal in his assessment that U.S. oil and gas was the investment play of the next decade. Carlyle also happens to be raising a reported $7B for energy funds.

The other Harvard conference keynote, Blackstone's global head of private equity, Joe Baratta, said that energy looms largest as an investment play. For its part, Blackstone raised a $2.5B energy fund in 2012 and further raised its profile with a $2B investment in a Louisiana natural gas export business called Cheniere Energy.

Another megafirm, Warburg Pincus, is raising a separate $2.5B energy vehicle, despite years of insisting that the one-big-fund model was best. Perhaps the firm found that LP interest in energy was so substantial that merely folding this huge industry vertical into the main fund didn't adequately capture the earmarked capital.

The energy opportunity is transforming the private equity market. Slowly and steadily, energy-focused firms have positioned themselves among the world's largest GPs. Just about every major private equity firm has added an energy investment business. In the PEI 300 ranking of private equity firms by size, three of the top 20 are

"The energy opportunity is transforming the private equity market. Slowly and steadily, energy-focused firms have positioned themselves among the world's largest GPs."

energy-focused. (There are no other sector-specific firms in the top 20.) And of the top 20, most, like Carlyle and KKR, have significant energy platforms. Only two firms do not invest in the sector.

Given private equity mega-GPs' ambitions of growing ever larger, it is possible to see the compelling shale revolution story as a convenient fund-raising tool. But today's energy opportunity really does require more capital. The process used to extract energy from the earth has changed significantly, and the technology is both better and more expensive.

In a wide-ranging interview with Privcap, David Leuschen, a founder of one of the largest PE firms, energy-focused Riverstone Holdings, summed up the current state of affairs. "The shale revolution… is creating exponential growth in the capital needs for the industry. We're a terrific beneficiary of that. [It's because of] new production techniques and all the expensive wells that go into horizontal drilling and hydraulic fracking, among other things."

Private capital is also transforming the energy market. Private equity has advantages, besides just capital (or a talent for gathering capital), to offer the energy sector. The best firms have developed an ability to manage risk with large amounts of fresh capital. This is important in a landscape with so many different variables, from the quality of the rocks themselves to the regulations. Institutional investors are wary of simply handing over capital to energy operators who may have the technical skills but lack a focus on maximizing the return on capital.

Private equity also is in many cases willing to go where big energy is not. For example, as the biggest oil players have moved on from older properties, flexible private equity players have come in, using new techniques to extract what's left—albeit at greater cost and with greater complexity. Leuschen calls this "sucking on the straw harder," and says private equity firms are better able to do this than corporate entities.

The revolution in energy is largely characterized by a new ability to extract oil and gas from previously useless rocks. The more difficult the job, the more likely it is that private capital will back it.

Energy loves capital, and capital loves energy. What remains unknown is whether the capital put to work in the U.S. energy sector will generate the kind of returns that adequately reward investors for putting so much of their capital at risk. The average historic performance of energy private equity funds has been very strong, at more than 15 percent net IRR during the past 25 years. Will the newer, more capital-intensive projects produce similar results? This is the question that has everyone at the capital-energy wedding hesitating. ■

The Energy Bonanza

Opportunities abound for private equity investments in the energy sector, but experts from **Trilantic, ArcLight,** and **Pine Brook** tell Privcap there are regulatory risks ahead and a shortage of qualified management teams

Burba

Jacobson

Revers

Participants

Andre Burba
Managing director
Pine Brook Partners

Glenn Jacobson
Managing director
Trilantic North America

Daniel Revers
Founder, managing partner
ArcLight Capital Partners

Bios

Andre Burba is responsible for Pine Brook's Canadian activities and its investment committee and represents them as a director of Saguaro Resources and Serafina Energy. Prior to joining Pine Brook, he worked at Credit Suisse and Milbank, Tweed, Hadley & McCloy. He received degrees from West Virginia University and Vanderbilt University Law School.

Glenn Jacobson is a managing director of Trilantic's North American division, focusing on the energy sector investments. He joined Lehman Brothers Merchant Banking in 2005 and is currently a director of The Cross Group, MacLean Power Systems, Templar Energy, and Trail Ridge Energy, and previously of Mediterranean Resources and TLP Energy. He received a degree from Dartmouth College.

Daniel Revers was previously a managing director in the corporate finance group at John Hancock Financial Services and held various financial positions at Wheelabrator Technologies. He received a degree from Lafayette College and an MBA from the Amos Tuck School of Business Administration at Dartmouth College.

Videos

1. Technological Advances Boost PE's Energy Interest
2. Wanted: Knowledgeable Energy Operating Teams
3. A Peek Into Energy Investment Styles

CONTINUES ON NEXT PAGE

Video 1

Opportunities Now, Risk Ahead

Privcap: It's been remarkable to see the growth of energy-focused PE firms. What is different in the energy opportunity now, particularly in North America, that compares to 10 years ago?

Daniel Revers, ArcLight: The big buzzword out there is shale; a lot of people talk about the shale revolution, and I don't think you could overstate how much this is transforming the energy industry. It's creating opportunities in scope and scale that didn't exist 10 years ago. The size of the opportunity is more dramatic, but it's also a much more dynamic business than it was 10 years ago.

Now we have a completely unregulated, multi-trillion-dollar industry that's finding its way.

Andre Burba, Pine Brook: That's spot-on. The technological changes that we've seen in the industry over the last 10 years—the development of the unconventional drilling and modern completion techniques—have unlocked a vast amount of resources in the U.S. In the last five years, the industry has gone from returning capital to its investor base to being a voracious consumer of capital.

Glenn Jacobson, Trilantic: There's been a constructive commodity price environment and this extreme technology shift with a lot of the majors and large independents that have moved away from the U.S. and come back to develop hydrocarbons. The reality is, they require oil and gas prices that are not $10 and $20 a barrel but $60, $80, $100 a barrel. From the standpoint of a private investor and investor interest, on top of the supply-and-demand mismatch of capital, the industry's done a nice job through technology of mitigating dry-hole risk.

> **"The scarcest resource on the planet right now is a good midstream operating team. It's great to get these hydrocarbons out of the ground, but if you can't get them to market, they're not doing anybody any good."**
>
> *–Daniel Revers, ArcLight Capital Partners*

We've mentioned geopolitics, commodity prices, things that are outside the control of the investor and manager. What would need to change in the North American opportunity to change the way you invest?

Burba: To us, the biggest uncontrollable risk is the prospect of a massive change in the regulatory environment. We've all been witnessing the pockets of opposition to certain types of completion techniques that are being used by the industry. If that movement gains momentum and results in regulatory changes, that could certainly have an adverse material impact on the industry.

Jacobson: We're less worried about a widespread ban on fracking. We tend to focus on states like Texas and Oklahoma that have long histories of being pro oil and gas. It's likely there will be a change in regulation for a lot of the ancillary activities that won't necessarily ban fracking but make it more expensive. It may knock some plays from commercial to uncommercial, and that's something we worry about.

Revers: The thing that keeps me up isn't a ban of fracking, but regulatory creep that makes this more and more costly. These technologies make sense at $60 to $100 a barrel, but if it comes down, all of a sudden your costs go up and you get to a tipping point.

Video 2

A Scarcity of Management Teams

In the oil and gas opportunity, you need to back teams that will execute a plan, get energy out of the ground, and sell it. What characteristics does a management team need for you to make a capital commitment?

Jacobson: Playing in the energy space, particularly upstream, there's a wide variety of skill sets you need. You need to understand where the oil is, where the gas is, how to get it out of the ground, how to get it to market, how to finance your business.

We need someone who's the chief risk manager and shot caller at the company. A multidiscipline team led by someone with a science or technical background has worked for us.

Burba: We make sure that the competencies inside

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the management team are married well to the business plan. And we parse out the E&P sector into roughly six different business plans, from prospect generation all the way to development.

Revers: We're typically picking up our E&P deals at the development stage—so not so much E, more on the P side. The most important thing is granular-basin knowledge. The rock, the production capacity, and profile is very different from basin to basin.

Is there sufficient human capital to match the capital flowing from the financial side? Is it difficult to source talented teams?

Revers: The scarcest resource on the planet right now is a good midstream operating team. It's great to get these hydrocarbons out of the ground, but if you can't get them to market, they're not doing anybody any good. Finding people who understand today's midstream business, which is night and day from a decade ago, is very hard.

Burba: Certainly management teams are the scarce resource in this business. Luckily for us, the types of management teams that we would be excited to back tend to gravitate towards private equity firms that are in the business permanently, rather than transitioning in and out of the sector.

What kinds of people in your respective firms communicate with and support the operating teams? Has that changed over the years?

Revers: Fifteen years ago, when we started, we were a passive financial investor. We had a team of smart energy investors but didn't have a lot of industry experts on staff, and in 2005 we saw that changing. So we built up an in-house operations-and-maintenance team to about 400 people right now.

It's a 50-50 partnership with ourselves and Sutton Ventures. The idea is, when you have the operators on the ground doing that work, the knowledge that they get from talking to customers, working with service providers, talking to regulators, accrues back to our firm.

Jacobson: We have specific energy-investment professionals who understand risk analysis and deal structuring and the like in the sectors. We've chosen not to bring on staff reservoir engineers and geologists.

Burba: We don't have in-house technical resources and think of ourselves as partners to our management teams. That said, we have a powerful network that allows us to reference both people and ideas.

Video 3

Tales from the Front Line

The best way to learn about what's happening on the ground in the North American energy-investment opportunity is to hear stories in the form of some recent investments you've made.

Burba: We first and foremost look for talented management teams.

We recently completed an investment in Canada where we started thinking about the implications of changes in the U.S. transportation landscape on Canadian heavy oil businesses. What will Keystone XL, for example, do to Canadian heavy oil prices? We concluded that long-term, those bottlenecks would be solved. We found a management team that saw the macro opportunity the same way and had an interesting micro opportunity to capture small-scale thermo projects in Saskatchewan. So we put them in business with a $250M line of equity.

Revers: One of the advantages of investing across the whole value chain is that you can get ahead of trends, and we did that back in the early part of the last decade in renewable power. We did our first shale-related deal in 2006 and recently did the first-of-its-kind privately owned floating production system in the Gulf of Mexico. We had gotten into the Gulf by buying an orphan asset, the SONAT transportation system. A lot of people were moving their gas production onshore, and nobody really cared about those assets. We were able to buy them dirt cheap. We saw an opportunity where you can get comparable assets in terms of their profitability for a fraction of the cost of what assets were going for onshore.

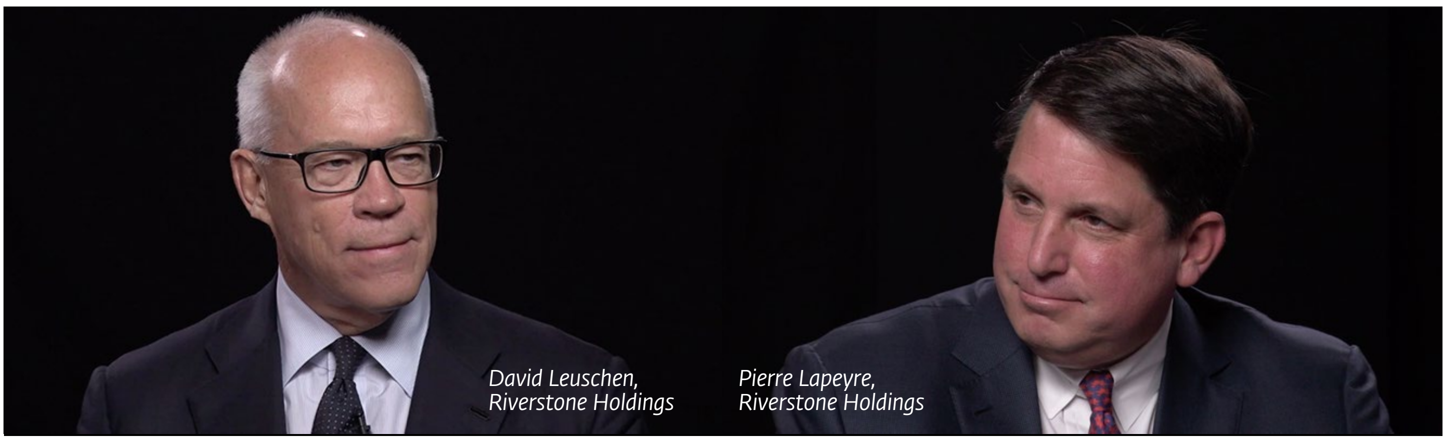
Jacobson: I'll share the story of TLP Energy, because it's the most recent investment, and a buildout and sell of one of our E&P firms.

Upon the start of the transaction, we had about $50M invested and had effectively one-to-one equity protection with the subordination below us. At the end, once we had funded $250M, the $50M of subordination was not all that much protection, but we had significantly de-risked the business plan.

We brought in First Reserve to be partners with us to expand the equity facility. And we—together with the management team and First Reserve—grew this business over 15 months and wound up selling it to a strategic buyer. ■

Betting on North American Energy

Riverstone Holdings is one of the world's major PE firms, and the largest in energy. Co-founders **David Leuschen** and **Pierre Lapeyre** discuss changes in energy investment, the firm's beginnings, and the fracking controversy.



Bios

David Leuschen was previously a partner and managing director at Goldman Sachs and head of the firm's Global Energy and Power Group. He received a degree from Dartmouth College.

Pierre Lapeyre previously was a managing director at Goldman Sachs' Global Energy and Power Group. He received a degree from the University of Kentucky and an M.B.A. from the University of North Carolina at Chapel Hill.

Videos:

1. Riverstone: 'Exponential Growth' in Energy Capital Needs
2. PE Fights MLPs in Midstream Opportunity
3. The Story of Riverstone

Video 1

Opportunities and Challenges

Privcap: You run one of the largest PE firms in the world, and certainly the largest in the energy space. The private capital going into energy is tremendous and looks like it's set to grow. What stands out as being notable about the current energy investment opportunity?

David Leuschen, Riverstone: It's obvious that the shale or energy revolution is creating exponential growth in the capital needs for the industry. The amount of capital required is manifold what it was 10 or 15 years ago. We use something like $1.5T a year of spend in the business, another half-trillion to a trillion on M&A activity. That number is up substantially from 14 years ago, when we created Riverstone, largely attributed to the shale revolution and new production techniques in expensive wells that go into horizontal drilling and hydraulic frack-

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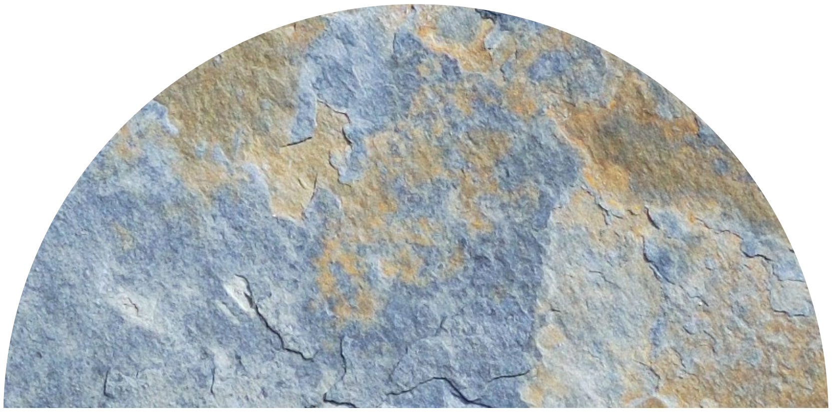

"Management teams are our oxygen... PE is perfectly poised to create these buildup teams, and I'm amused and flattered that some of the biggest companies in the industry have come to our doorstep to try to buy companies that we birthed."

–David Leuschen, Riverstone Holdings

ing. Deep water drilling also has exponential growth in capital needs.

Is it simply because the technology works, but it takes more capital to get to energy that previously wasn't thought to be accessible?

Pierre Lapeyre, Riverstone: The real reason the intensity is many-fold the historical activity is because the surface costs are three to four times what they were. The good news is that while it's capital-intensive, you get at resources that we haven't been able to figure out how to produce before, and relatively quickly. Overall, the economics are extremely attractive.

How has the role of private capital in the broader energy landscape changed, compared to other forms of capital or corporate organizations that try to accomplish the same goals?

Leuschen: Management teams are our oxygen. Without them, we'd be out of business. One of the nice things about the oil business is that acreage turns over time, and that's forced some of the big companies to give up some of the best acreage, particularly in deep water. In the shale plays, you're seeing a lot of acreage turnover. Private equity is perfectly poised to create these buildup teams, and I'm amused and flattered that some of the biggest companies in the industry have come to our doorstep to try to buy companies that we birthed.

Lapeyre: Ours is flexible capital, and it's incredibly focused. So we can try new things, which is what led to the shale revolution to begin with. We can do them relatively quickly and in a way that produces a profitable result in a fraction of the time that might exist inside a larger, more bureaucratic 10-year or strategic-planning model.

Deep water drilling is something that maybe not a lot of LP investors know about. What are the capital needs and nuances there, in terms of putting capital to work in that opportunity?

Leuschen: We all read about the shale revolution and horizontal drilling and hydraulic fracking, but really a huge driver of this business today is that success rates have improved dramatically offshore. Technology is a big part of that. What we call well control is a big part of that, meaning as you drill more wells you're going to be more successful because you have all the data from previous wells to leverage off of.

The availability of those management teams that I mentioned earlier, our capital, technology, and the turnover of acreage has allowed us to birth 12 companies in the water. We currently have eight in the Gulf of Mexico. Virtually every one of those was a startup or a buildup. It's allowed us to compete with the large companies in this business because the technology is relatively flat.

It's worth noting that your firm recently opened an office in Mexico City. What does that say about your view on the opportunity there?

Leuschen: We are cautiously optimistic about Mexico. We look at it from a macro standpoint; the U.S. is headed towards 10 million barrels a day of production, Canada has the possibility of something like five [million], and we look at Mexico at two [million] with a possibility of getting to five. That's a North American block in the energy picture that could be 20 million barrels a day of production. You can't ignore Mexico.

It comes with many issues. We're humble when it comes to the kind of opportunities we expect there.

Despite the fact that both of you are from oil and gas backgrounds, you have invested in renewables. Do you have an appetite to continue investing in renewables, and what opportunities will be there going forward?

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Pierre Lapeyre, Riverstone

David Leuschen, Riverstone

"We put our pants on in the morning thinking about what can we do to improve the energy assets we have or we'd like to own, and who are the people we think are best in class at operating, which is different than the average private equity business."

–Pierre Lapeyre, Riverstone Holdings

Lapeyre: We always have an appetite. It's a much tougher industry sector or vertical versus the conventional energy business for a number of reasons. The return thresholds are definitely lower—it needs more support, whether that's high alternative prices or a subsidiary to compete against the conventional business— and it takes a lot longer. It's not yet an industry.

In the same way horizontal drilling and fracking helped open new doors on the conventional side of the business, there are improvements and technological changes that will do the same in renewables. I'm wondering how worried investors should be of the vocal anti-fracking sentiment, and what you say when they do express any worry.

Leuschen: We focus on best-in-class management teams and best practices as it relates to how and when and where you drill wells. We could give you many examples of that, but we're operating at a level that is the absolute highest level of any company or group of companies in this business. It'll be the bad operator that ruins it for everybody, and we don't want to be that entity.

So the evidence shows that fracking is safe?

Lapeyre: If you look at the number of wells drilled and fracked versus accidents, overwhelmingly the answer's yes. The focus has to be not on regulations such that you're so constrained you can't do it, but on making sure that the fines and oversight are sufficient so everyone is driven to be a best-in-class operator. There's a lot of emotion around the topic, but when you actually peel back the layers of the onion and look at what the biggest concerns are, the industry has addressed a lot of those in the way they drill and frack the wells, and it seems different than what is portrayed in the media.

Leuschen: We live in a global village and have to be mindful of that. But if you look at the evolution of the objections raised about fracking, one you almost never hear anymore is groundwater contamination, because it's been demonstrated that a horizontal frack two miles below the surface has virtually no possibility of contaminating groundwater. Today the issues tend to be more around seismicity. There is some evidence that fracking has in some cases caused small earthquakes. There's the issue around methane leaks in gas wells. And the third issue concerning us today is the safety issue of transportation by rail. We're in that business to some degree. Again, it's best practices, but there will be regulation that evolves, and we'll support that wholeheartedly.

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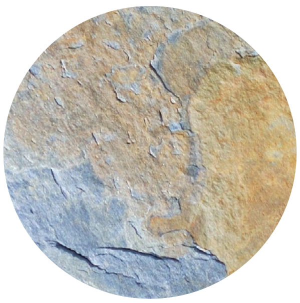
Video 2

PE Fights MLPs for Midstream

Can you walk us through some of the more exciting opportunities in the midstream sector?



Lapeyre: In a nutshell, what's going on in that sector is a dramatic shift from what it used to be five, six, seven years ago, and you can't really talk about midstream without talking about a capital market vehicle called the master limited partnership [MLP]. That's a structure for holding midstream that's essentially a yield-with-growth vehicle that has tremendous capital market appeal today.

There is literally hundreds of billions of dollars of capital needed to build out that midstream infrastructure to get all the upstream resource to a place where we can consume it. The issue is competition because of cheap public capital that's available.

How can private equity compete against MLP?

Lapeyre: Relationship-driven access to proprietary opportunities and having the management teams that can get things done quickly on budget and efficiently. As the MLPs or other industrial entities get bigger, the projects they need to move the needle get much larger. They want $1B, $2B, $3B opportunities. They're not willing to focus time and attention on a $250M to $500M opportunity. We'll tend to be more successful getting our returns focusing where others don't, or in sectors that the broader industry hasn't paid attention to yet.

Leuschen: Today it's a more organic business—where we're building pipe from a source of supply to a demand center—that we'll ultimately sell to an MLP. We may compete with an MLP to build that in some cases, but I always analogize this to the building of the interstate highway system. If you look at how the system was built to population centers, in our business today it's as if everybody in San Francisco and L.A. moved to Nevada. We have to build all new highways.

Video 3

Riverstone's Formation

I know you like to be thought of as energy guys, not private equity guys. How has that formed the kind of firm you've built?

Lapeyre: It dates back to David growing up out west ranching and around the energy business, and I grew up in Louisiana around the energy business. We met at Goldman [Sachs] doing advisory work for the energy business, but the real reason we prefer to be thought of as industry versus private equity is that PE has a relatively limiting connotation.

Our business was built out of a true belief that there's lots of low- hanging fruit, so to speak, in the industry that is large for us but too small for industry. A focus on operations and unique relationships was the bedrock of building an investment franchise at Goldman, and key to finding attractive investment opportunities.

We put our pants on in the morning thinking about what can we do to improve the energy assets we have or we'd like to own, and who are the people we think are best in class at operating, which is different than the average private equity business.

How did the conversation begin at Goldman about doing something on your own, creating a private equity way to approach this opportunity?

Leuschen: We met at Goldman in 1986. Pierre was in the utility part of the business; I was in the energy part. They convened a group of us whose job it was to build the energy infrastructure of Goldman, including Pierre and I. We got the bit in our mouth and found that we really enjoyed that side of the business more than we did the banking side.

Around the mid-'90s, it was becoming clear to us that there was going to be a time when we would want to get more directly into the energy and investment business.

What do you see happening going forward, whether it's new strategies or new sources of capital to bring into your organization?

Leuschen: If you look at the business today and what the shale revolution has offered us—the dramatic increase and success in deep water's offering, what Mexico's offering—it's obvious what we ought to be doing. That's why we opened an office in Mexico. We're making a bet there.

We haven't talked about the large amount of shadow oil and gas assets available from major oil companies. One thing we're most active in today is finding new management teams, if we don't already have them in our portfolio, to go out and optimize production from those assets when and if we get them. ■

By David Haarmeyer

The North American Energy Revolution

Privcap takes a closer look at the shifting dynamics of the booming oil and gas sector

The North American energy revolution is transforming the industry and broader economy. Technology unleashed the region's shale oil and gas revolution, and today capital is driving it.

The opportunity is enormous: an estimated $5T in investment is expected to be required across the energy value chain through 2035. An investment opportunity this size raises a host of questions for investors, fund managers, and industry participants: Why is private equity especially advantaged to play a leading role in what will be a multi-decade, multi-trillion-dollar investment program? What are the different vehicle options investors have in order to participate in the North American capital revolution? What has been the asset class's track record in generating returns for investors in the energy business? What are the opportunities offered by the significant restructuring efforts of the oil and gas majors?

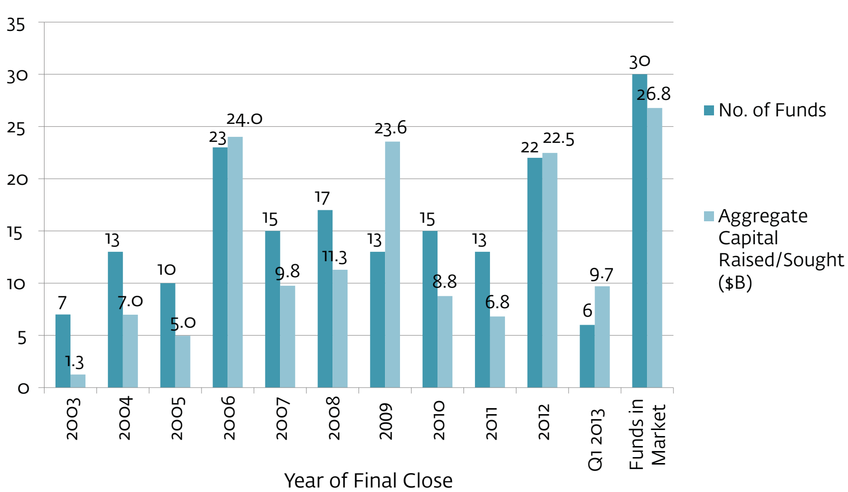
Fundraising trends suggest investor confidence. During the past three years, the 10 top firms have collectively raised more than $53B for energy and related investments—and six of the top 10 have raised at least five funds. At the same time, first-time fund manager Kerogen Capital closed a $1B-plus maiden oil and gas vehicle in 2012.

The sector's growing capital requirements are driving deal activity, which spans the oil and gas value chain. Last year there was a slowdown in transactions as the earlier upstream deals were digested. Going forward, how will deal dynamics evolve as the industry turns its attention to production, consolidation, and putting in place the midstream infrastructure to move oil and gas to the market?

The shale gas and oil opportunity raises a number of risks, some of which private equity is better able to shoulder than others. What is clear is that North America has proven to be an especially fertile ground for today's energy revolution, thanks to secure property rights, available infrastructure, and a deep skill base. Ultimately, as a proven model for creating tremendous value, the long-term disciplined capital that private equity brings is a perfect match for participating in, as well as driving, the North American energy revolution. ■

Fundraising for Natural Resources is Growing

Annual Natural Resources Fundraising, 2003 - Q1 2013 and Funds in Market



Source: Preqin Funds in Market

Drilling Down into Energy Partnerships

Leaders from shale development company **PennEnergy Resources** and its backer **EnCap Investments** tell Privcap about how they partnered to build a business

Richard Weber, PennEnergy Resources   *Jason DeLorenzo, EnCap Investments*

Bios

Richard Weber is chairman and CEO of PennEnergy and was previously president and CEO of Atlas Energy until the company was sold to Chevron in 2011. Prior to joining Atlas in 2006, he worked at McDonald & Company Securities for 14 years. He has also worked for First Chicago Venture Capital and NBD Bancorp. He received a degree from Ohio's Miami University and an MBA from Tulane University.

Jason DeLorenzo is a partner at EnCap, joining the firm in 1999 after spending four years at ING Barings' corporate finance business focusing on energy. He previously worked as an associate at Wells Fargo Bank's energy group. He received a degree from the University of Texas at Austin.

Videos:

1. How EnCap Successfully Partnered with PennEnergy
2. How Energy GPs Build Platforms

Privcap: We're here to learn about the relationship that exists between private equity firms and the energy operating companies they invest in. Rich, can you tell us about the relationship between PennEnergy and EnCap?

Richard Weber, PennEnergy Resources: EnCap is our lead equity sponsor. It really has provided the financial backing that allows our company to exist. We're a company focused primarily in the Marcellus shale opportunity in Pennsylvania, as well as the Upper Devonian shale opportunities and, to a lesser extent, the Utica.

And it's roughly a $300M commitment?

Jason DeLorenzo, EnCap Investments: That's accurate. Rich and I go back to 1996; he was in banking for about 18 years before he became president of Atlas Energy, which was a publicly traded company focused on the Marcellus shale that sold to Chevron for about $4.2B.

We watched Rich and his leadership of the company and the team he assembled in that play and the success they had. EnCap looks for guys who have a

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"We are really growth equity at EnCap. We're starting with a management team and a business plan and no assets, and we're trying to grow an opportunity set that will be attractive one day in the sale market."

–Jason DeLorenzo, EnCap Investments

lot of industry experience, a lot of great relationships in the industry where they can put together a comprehensive team that covers all the disciplines from the engineering, geology, land, finance side, and put together a comprehensive team and business plan that we believe will succeed over the long term.

From your firm's point of view, what does deal flow look like? When you're meeting with teams of potential partners, what are the important characteristics that they need to show in order for your firm to agree to give them financial backing?

DeLorenzo: We see a lot of management teams; we are very selective and probably back two to three per year. In this environment, to get into plays with attractive economics, it comes down to being able to evaluate an area that you want to get into, then having the deal and skill set to actually get into that play in an economic way. It can be through acquisition; it could be through partnering in a JV with an existing operator.

These days it's all about execution, which means turning this land into producing reserves and cash flow. We're at the beginning stages of that with PennEnergy. Other guys are drilling wells and hooking up wet gas and dry gas into the pipeline systems and creating revenue and cash flow. So it's really about the team with a strong leader.

Rich, can you talk a bit more about why private equity made sense as a partner, and why EnCap?

Weber: Private equity is long-term focused, and when you're starting a company, you need to have a plan, a vision. This is a process that takes a few years to realize. My partner and I said there's still room for us to build another company, particularly in the Marcellus shale, and we started thinking about who we would partner with. I heard from EnCap quickly. We talked to several other big private equity providers, and we had some criteria. Size mattered.

This is a business that takes a lot of capital, so we needed scale. We wanted a firm that had expertise and experience. It's more than just the money. We also wanted people that shared our same values. Greg [Muse, PennEnergy president and COO]and I were very deliberate about establishing a value set for this company. We wanted people that share those.

And as a portfolio company, you really take a leap of faith that your equity sponsor is going to follow through with the commitments they make to you.

How important is the plan and the target assets when a proposal is presented to your firm? How much time do you spend looking at the land and even the science behind the plan to get the energy turned into cash flow?

DeLorenzo: We're trying to be in a top-tier economic area. In today's world, on the gas side, that's the Marcellus and the Utica shale. PennEnergy is trying to create an opportunity set that one day somebody larger—a public company, usually—will want to buy. Or alternatively, we could take the company public. So in order to achieve those goals, you need to be in an area that produces top economic returns regardless of the commodity price cycle. Oil and gas are volatile commodities; prices will go up and down.

What are some important aspects to get right in structuring a long-term partnership with an operating group?

Weber: The arrangement we have with EnCap really does align us along the same interests. That's one thing we were attracted to. Greg and I wanted to build a company to sell. It's not impossible that we could go public, but our real focus is to sell the company. The arrangement that we have requires Greg and I to put up our own capital, which we understand and are glad to do. It also aligns us, in that if we are able to generate attractive returns to EnCap and its partners, we can share in some of that upside. That's highly motivating.

Can you talk about how the capital initially gets deployed, and the communications that both of you have as you decide to deploy further capital?

DeLorenzo: The $300M commitment initially went towards covering overhead and building up the staff of the company to succeed in the future while they went out and found transactions to acquire and/or lease. So as they come to the board, and as they have opportunities to deploy capital that fits with the

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"Private equity is long-term focused, and when you're starting a company, you need to have a plan, a vision. This is a process that takes a few years to realize."

–Richard Weber, PennEnergy Resources

business plan we've all agreed on, we advance the capital.

PennEnergy came up with a pretty sizable transaction in the first year. So we went out and acquired some land, and it was roughly a $100M transaction. We're still in a position where we have a lot of capital left on the $300M commitment to support a drilling program.

Rich, can you talk about the kind of communication that takes place between you and EnCap as you're building your business?

Weber: We try to be as transparent as possible with what's going on with the business, where we're planning to take the business. We believe that transparency ensures we get the best advice and coaching from the guys at EnCap, and we set up expectations so there's an anticipation of how we're building the business. We have formal board meetings, but there are many more conversations in person and over the phone.

And what are some of the key metrics?

DeLorenzo: You buy something and have a pre-drill estimate of what the rates of return will look like—in other words, what it'll cost to drill a well, what kind of reserves will come out of the ground, and what kind of cash flow it will generate. Then, as we drill wells and see the actual performance versus the pre-drill estimate, we make decisions to potentially deploy more capital. Alternatively, there are situations where the rates of return or the drilling program present some challenges. In those instances, which we have not had at PennEnergy, you try to bring in a partner; you try to bring in some alternative source of capital to diversify risk. You deploy capital elsewhere in a known area.

For a well or a project that is generating revenue, what do you do with that capital? Is it put back into the business?

DeLorenzo: We are growth equity at EnCap. We're starting with a management team and a business plan and no assets, and we're trying to grow an opportunity set that will be attractive one day in the sale market. So in this growth equity phase, you are constantly feeding the company capital early—in later stages, some moderate amount of debt—but you're always reinvesting that cash flow to develop the growth of the business.

Where's PennEnergy as a project now? What percentage of the capital has been deployed, and are there any big milestones that are coming up?

Weber: We're well along the way towards a successful enterprise. We're moving towards our execution phase in terms of development. It's our desire to have an asset that is fairly substantial in scale but where we have de-risked and essentially proven the acreage from a development standpoint and, importantly, built the infrastructure to allow a buyer of a company to accelerate development, which is important in getting value. ■

By **Ainslie Chandler**

Click to watch this video at privcap.com

Ardian's Secondary Exposure

After starting in primary energy investments, **Vladimir Colas** of Paris-based LP **Ardian** says the firm has ventured into secondaries

Bio

Vladimir Colas joined AXA Private Equity in 2003 and previously worked in BNP Paribas' sell-side equity research department.

"Right now we're very U.S.-focused, but we're gradually expanding to outside of the U.S."

–Vladimir Colas, Ardian

Ardian was a relative latecomer to the energy investment space, only launching its program about three years ago.

Buoyed by their success in the sector, the firm has since moved quickly, says managing director Vladimir Colas.

"We started on the primary side, committing to a few funds that had energy exposure and then increasing that exposure through secondary purchases, and we now have a dedicated secondary energy side pocket to our new fund," he says.

"And it's a market that's performed very well. Right now we're U.S.-focused, but we're gradually expanding to outside of the U.S. And we see a lot of growth still."

Initially, the blind pool risk that prevails in private equity seemed even more prevalent in energy funds, says Colas, and it took some time to get a view on the assets the funds invested in.

"But we've really gotten comfortable with that after a while by knowing the managers better and knowing the teams that they back that you start to see over and over again in several projects."

On the secondary side, some of the risk was eliminated because investors could get a view of the assets that the management teams had already contracted.

Green energy is now a particular focus for Ardian, which is working with its GPs to better define what they do in their portfolio companies from an ESG perspective.

Ardian also has direct investments in wind and solar energy through its infrastructure program.

"We think this market will grow, particularly in Europe," says Colas. "In the U.S. we haven't done as much so far, but it's definitely something we're looking at." ■

By **Ainslie Chandler**

Click to watch this video at privcap.com

Improving Performance With PE Know-how

Using the private equity tool kit to add value to energy companies is a focus for **Zurich Alternative Asset Management,** says the firm's **Ferdinand Seibert**

The "shale revolution" has prompted private equity groups to take a closer look at the energy sector, says Ferdinand Seibert, senior vice president at Zurich Alternative Asset Management. But shale is only one part of a far greater investment opportunity.

"We have always had energy in the sense of power generation, distribution downstream, but nowadays many people think of energy in connection with the opportunities offered by the shale," Seibert says. "We look at it as one way of investing in energy."

His focus at the firm is on companies where private equity can add value and where capital can be invested and grown for a number of years.

"Our interest in this energy in private equity format is to achieve something that cannot simply be done by purchasing a bunch of indices," he says.

"Not purchasing assets like a plot of land with some oil or hydrocarbons beneath it, or a power plant, but developing something that is in a nascent form and requires management skill, supervision, and the entire private equity tool kit—incentivizing management, giving them guidance, thinking about capital markets."

The opportunity does not stop at oil and gas, Seibert says. Investors, particularly those in Europe, are also taking a close look at renewable-energy opportunities.

"There is a strong interest that has also percolated down to investing in private equity, and we are thinking about responsible investments and renewable energies—socially impactful types of investments that do good as well as do well."■

Ferdinand Seibert, Zurich Alternative Asset Management

Bio

Ferdinand Seibert has previously worked as investment principal at Swiss Life Private Equity Partners and has held positions in M&A at CSFB and BNP Paribas. He received degrees from Frankfurt University of Applied Sciences, University of St. Gallen, and EM Lyon.

"Our interest in this energy in private equity format is to achieve something that cannot simply be done by purchasing a bunch of indices."

–Ferdinand Seibert, Zurich Alternative Asset Management

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Western Canada Focus, Cross-border Opportunity

PE group **TriWest Capital Partners** shies away from oil and gas exploration, preferring to focus on companies that service the sector in Canada and across the border, says the firm's **Cody Church**

Bio

Cody Church co-founded TriWest in 1998, after several years with private equity firm EXOR. He was previously with Credit Suisse First Boston's leveraged finance group. Church received a bachelor's degree from Harvard University.

Privcap:
Let's start with the focus of your firm, which is not on Canada but western Canada. Why the regional focus?

Church: The partners of TriWest are all based in, and have grown up in, western Canada, so it's a market we understand. It's a very different market. It's energy, forestry and agriculture. It's got a more industrial, natural resource spin to it. So we don't have consumer products or food products. We don't have technology- oriented companies. We felt that over time we have gotten much better at understanding western Canadian companies.

I'm glad you mentioned energy. Talk about how your firm is investing with the oil and gas boom as a backdrop, and how you differ from what folks might expect a Calgary-based firm to focus on.

Church: We don't do oil and gas exploration. There are lots of guys in Calgary smarter than us who know how to do exploration and production. What we focus on is oil field service and some of the businesses that surround the energy market. And quite frankly, the horizontal, multi-stage fracking that's revolutionized the shale basins in the United States has also happened in Canada and it's changed the dynamic of that marketplace. We're focused on trying to partner with companies that are partners of the industry. We've just invested in a business that is dedicated to getting frack sand into Canada, where frack sand use has just absolutely exploded in the last five years, as long horizontal wells with multi-stage fracking have really taken off.

We like to say that people aren't exploring for oil anymore, they're producing oil, manufacturing oil. You want to be part of the manufacturing process.

You mentioned a business that is bringing sand into the Canada. Can you talk about the importance of creating cross-border growth initiatives for some of your lower-middle-market businesses?

Church: Ten years ago, oil field service businesses that we might look at would almost be exclusively focused on a particular region. Today, the companies are almost all cross-border and that's because that long, horizontal, multi-stage fracking technology is across the border. We've got three companies, with operations in North Dakota and Saskatchewan, in the Marcellus, and then in Canada, because the technology and capabilities are transferable. We love it because it diversifies our risk. The cost and netbacks for those plays are different. In a commodity market where the oil and gas prices are going to go up and down, you want to be across a number of geographical areas. ■

Click to watch this video at privcap.com

Tapping the Mexican Gas Opportunity

Two **Partners Group** executives and the CEO of **Fermaca,** the Mexican gas pipeline owner the PE group backed with a $750M investment, discuss the huge opportunity for the oil and gas market in that country

Alvarez

Perarnaud

Bright

Participants

Fernando Calvillo Alvarez
President and CEO
Fermaca

Jean Perarnaud
Managing director
Partners Group

Todd Bright
Managing director
Partners Group

Bios

Fernando Calvillo Alvarez joined Mexican energy infrastructure group Fermaca more than 14 years ago. He was co-founder of Cía. Mexicana de Gas Natural and received a law degree from the Universidad Nacional Autónoma de México.

Jean Perarnaud joined Partner's group's private infrastructure team in 2013, after serving as a director at HgCapital. He previously worked in ING Bank's structured finance division and at Mercer Oliver Wyman and Credit Lyonnais. He received a chemical engineering degree from ENSIC and an MBA from INSEAD.

Todd Bright has worked in Partner's group's private infrastructure group since 2013. He was previously a managing director at Denham Capital Management and had senior positions at Waypoint Energy, Lars Energy, and Conectiv Energy. He received an MBA from George Washington University and an undergraduate degree from the University of Richmond's Robins School of Business.

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Privcap: Fernando, talk briefly about what Fermaca does, how you got in touch with Partners Group, and why the opportunity to partner with them seemed attractive.

Fernando Calvillo Alvarez, Fermaca: My father was a founder of Fermaca 52 years ago. We started as an engineering, procurement, and construction company. For many years in Mexico the government handled the monopoly of almost everything, and we learned how to develop infrastructure. By the mid-'90s, President Zedillo modified the constitution and allowed the investment of private groups, foreign and national, in the natural gas industry. I was in the correct place at the correct moment when a project came to the table, because of the need for natural gas. What we knew about natural gas was just building the pipelines, but nothing about operation and maintenance. But we were able to make the most important Mexican natural gas company today.

Last year we started looking for a partner who knew about infrastructure and all about natural gas. We were very lucky to meet one of the people from Partners Group here in New York, and they understood very well what we were talking about.

Jean, when you came across the opportunity to invest in Fermaca, how did that fit into your investment thesis?

Jean Perarnaud, Partners Group: What we were trying to do for many years was get into the midstream space in the U.S., to ride the shale and gas opportunity. But the fact is that in the U.S. you have a lot of competition from MLPs and foreign investors like ourselves, looking at investing 6 to 8 percent in this sector.

So we started looking south when Fermaca came to us, because it's the same resource, the same shale gas that we would be transporting through our pipelines, and the difference is only a line on the floor that separates Mexico from south Texas. The attraction was to find a management team that could not only help us to operate the existing asset but also grow the business.

How much of a difference is there in development of the oil and gas pipeline in neighboring Texas versus Mexico?

Perarnaud: There's a huge opportunity for Fermaca to grow. The state of Texas has about 500,000 miles of pipeline laid in the ground. Mexico has only 13,000 kilometers of pipeline operating, of which three are completely obsolete and need to be replaced. So you're talking about a massive potential growth for Mexico. In the next 24 months, we're going to see a huge amount of new tenders that Fermaca will participate in to bring even more gas into the country and develop this backbone of pipelines.

"The state of Texas has about 500,000 miles of pipeline laid in the ground. Mexico has only 13,000 kilometers of pipeline operating, of which three are completely obsolete and need to be replaced. So you're talking about a massive potential growth for Mexico."

–Jean Perarnaud, Partners Group

How important to the success of your company are the regulatory reforms in Mexico? Will your company be able to grow regardless of the regulatory environment ?

Calvillo Alvarez: We have a clear and a strong regulated environment in Mexico. The energy reform might help us, because today we're talking about several mainstream assets that we can develop: crude-oil pipelines, refined-products pipelines, terminals. So there is a whole range of new opportunities to invest in these asset types. The crucial thing is that we will have a power market, and when you have the cheapest gas in the world in front of you and the talent to bring that gas to Mexico, it presents a range of opportunities.

Jean, can you talk about where Fermaca can go from here with the power plants? You have the long contracts for the transportation of gas, but can it be more of a growth play if executed correctly?

Perarnaud: One of the attractions of the investment was what else we can do with the asset, which we own and operate. In Mexico, what you have is the ability to transport the gas. If you have a pipeline that can carry more gas than originally contracted, you can sell it to third parties. So one of the upsides we have from the energy reform is the creation of a new energy power market for electricity, and that means more gas will be needed to fire private consumption. In that sense, we are looking for new customers who can take more gas out of the pipe-

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“Mexico is moving up the energy-per-capita consumption curve, driven by a growing middle class and urbanization, and Fermaca is capitalizing on both of those dynamics in two different geographies at one time. That’s a powerful thing for our investors.”

–Todd Bright, Partners Group

line than we currently own.

Todd, how did a deal like this fit into the broader ambitions of Partners Group to become more active as a direct investor in infrastructure around the world?

Todd Bright, Partners Group: We tend to look at the global infrastructure opportunity on a relative value basis. What that means is, we’re constantly assessing the opportunity set globally, across a number of different dimensions. Fermaca has a number of the characteristics that we like from a relative value standpoint.

Fermaca sits at the nexus between two important global and international dynamics within the infrastructure space. Jean talked about the shale gas boom in the U.S. That’s taken us from 30 years of gas supply a few years ago to more than 100 years right now, and turning the U.S. into a major gas exporter. On the other hand, Mexico is moving up the energy-per-capita consumption curve, driven by a growing middle class and urbanization, and Fermaca is capitalizing on both of those dynamics in two different geographies at one time. That’s a powerful thing for our investors.

Do you expect to see Mexican professionals returning to Mexico from elsewhere, like the United States, to participate in the growth?

Calvillo Alvarez: Right now Mexico is in the hands of a generation between 35 and 45 years old. A lot of people who are running the country’s government, private sector, and economics are people who had the opportunity to study in the U.S. or Europe.

I don’t think we need a lot of talent coming into the country. What we need is more technology; we need companies with expertise. ■

By David Snow

Undefeated: Energy PE Funds

In the long term, energy funds on average have outperformed most equity and debt indices

An investment professional at a major limited partner recently explained to Privcap the challenge in evaluating energy fund managers: Too many of them have turned in great performances. "If I built a portfolio based only on performance, 80 percent of my portfolio would be energy funds," says the investment professional.

The average performance of energy-focused private equity funds in the long term looks exceptionally attractive, according to Cambridge Associates. During the past 20 years, on an annualized basis, energy funds have on average delivered a net IRR of 15.29 percent versus general private equity's 13.59 percent. Of course, both of these performances compare very well to the S&P 500's annualized 9.22 percent over the same time period.

Investors are keenly interested in finding out whether energy's outperformance is based in long-term cyclical trends related to commodity prices, to manager skill, or to a combination of the two.

The "shale revolution" requires unprecedented amounts of capital, and if LPs can determine that during the coming 20 years their investment in this vast opportunity might be rewarded with returns similar to the prior 20 years, that capital will certainly be delivered. ■

> **"If I built a portfolio based only on performance, 80 percent of my portfolio would be energy funds."**
>
> *–U.S. Limited Partner*

Energy Outpaces the Rest

A comparison of the performances of select indices. All figures are end-to-end pooled returns (%), net

Index	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr
Energy Private Equity*	8.15	9.24	11.48	16.71	16.18	15.29	15.14
U.S. Private Equity**	20.63	14.91	15.81	13.97	12.09	13.59	13.59
Dow Jones Industrial Average	29.65	15.71	16.74	7.44	6.47	10.22	11.25
S&P 500	32.39	16.18	17.94	7.41	4.68	9.22	10.27
Barclays Govt/Credit Bond Index	(2.35)	3.63	4.40	4.52	5.23	5.74	6.85

**Cambridge Energy Upstream & Royalties and Private Equity*
***Cambridge Associates LLC U.S. Private Equity Index*

Source: Cambridge Associates

From the Archives

Explore Privcap's vault of videos examining critical market trends

DEALMAKING

Sale-Leaseback Case Study: Kraft Headquarters

With Jason Fox of W. P. Carey Inc.

Carving, Then Thriving

With panelists from Grant Thornton, Sun Capital, and Blue Wolf Capital

Human Capital Is Central to Value Creation

With Roberto Ferranti of Baird Capital

Total Alignment: the Fundless Approach Advantage

With Steve Karol of Watermill Group

Pine Brook's Capital-Intensive Opportunities

With Michael McMahon of Pine Brook

PORTFOLIO OPERATIONS

Investing in Digital Europe: Philipp Freise

With Philipp Freise of KKR

Preparing for an 'Intense' Sale Process

With Philippe Leroy of EY

Private Equity Meets Venture Capital

With David Hellier of Bertram Partners

Exit Planning Starts Early

With Philip Bass of EY

Thomas H. Lee's Strategy

With Scott Sperling of Thomas H. Lee Partners

ESG

Measuring 'Impact'

With panelists from EY, EMPEA, and Siguler Guff

Why LPs Care About Diversity

With Yokasta Segura-Baez of Pantheon Ventures

What Has Bonderman Seeing Green?

With David Bonderman of TPG Capital

Sign Here for Responsible Investing

With Rob Lake of the Principles for Responsible Investment Initiative

Defining and Being 'Responsible'

With panelists from Hermes Equity Ownership Services and OPTrust

REAL ASSETS

How Small Institutions Tap Private Equity

With Martin Day of Caledon Capital Management

Daniel Revers of ArcLight on Energy

With Dan Revers of ArcLight

LatAm Energy Investing

With experts from Conduit Capital Partners and Rio Bravo Investimentos

Infrastructure Upswing

With Mark Weisdorf of J.P. Morgan Infrastructure Investments Group

Sourcing, Financing & Closing Deals

With panelists from Vision Brazil Investments, Denham Capital, and EY

Expert Q&A/

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with Rick Bailine, Principal, Washington National Tax Leader, McGladrey

Rick Bailine, Partner, Washington National Tax Leader, McGladrey

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How does McGladrey work with private equity firms with regard to taxes?

First and foremost, McGladrey is a full-service public accounting firm. We offer audit services, tax services, and consulting services. Frankly, private equity needs all three of those services.

A simple example of what we do would be: If a private equity company is looking at making an acquisition, they have to do due diligence, meaning they have to have a team go look at the target corporation they're considering buying. That typically includes both audit and tax folks because you need to look over their tax returns, make sure all their returns are filed, and the positions on their returns are correct.

Snapshot

Experience:
Bailine has more than 30 years of experience in corporate tax, including transactions, mergers, spin-offs, internal restructurings, and cross-border acquisitions.

Education:
B.B.A. from Ohio University; J.D. from Western New England College School of Law; Master of Law and Taxation from the College of William and Mary, Marshall-Wythe School of Law.

Now that you decide to make the acquisition, you have ongoing needs for an audit of the company you just bought. We would offer those services and all the corollary services that go along with that audit. The company needs to have a tax return filed. We would be delighted to do the compliance work and file that portfolio company's tax return. By the same token, there are tax issues that company faces on a daily basis, just like any corporation, and we do tax consulting as well as tax compliance. We would be happy to help you in planning your business in a tax-efficient manner. ■