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INVESTORS PUT A MANUFACTURER'S LENS OVER ENERGY AS MARKET MATURES

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Investors during the Pension Bridge Annual Conference's Energy panel last week discussed the changing landscape of energy investments for institutional investors, and the important considerations emerging outside of traditional methods such as tracking oil prices.

Michael Elio, Partner at Stepstone Group, discussed how the mature oil market in North America is changing the way institutional investors are approaching the asset class.

"We already know where all of the oil is [in North America], we're not going to find anymore," Elio said, "it's all about the price of production. We're looking at it as a manufacturing exposure. When you take the private market lens and put a manufacturing perspective over it, you'll find that you'll invest much differently than before."

Jim Gasperoni, Head of Real Assets Aberdeen Standard Investments continued on Elio's point, saying that his firm evaluates the raw materials that go into manufacturing, including water rights, minerals, and other considerations. "When you step back and look at [energy] from that perspective, it's a great asset class to invest in, even with the side benefits that real assets provides to a portfolio."

The maturation of the energy market also provokes a shift in the overall investment strategy for the space, the panelists argued. "Gone are the days, from a private markets perspective, where you could sprinkle a number of investments across all basins, across all geographies, whether that's midstream or upstream and assume you're going to capture all of those inefficiencies", Gasperoni continued, "What we're finding is it's better to be targeted, if you're partnering with the right people, have the right orientation towards the type of risk that you're taking, you're probably going to do quite well."

The panelists continued with the consideration of several other attributes connected with evaluating energy investments from a manufacturer's state of mind. They noted that investors are now evaluating the equipment being used in the basin, the partner company's experience handling basins, and if there's a way to potentially isolate the most productive areas of the basin to invest in as a protectionary method against volatility in the sector. "If you look at the most productive basins with the lowest marginal cost, the investment field has significantly shifted. Now you are concerned with who you are partnering with, and what is the nature and quality of the infrastructure feeding that basin?"

The cost of production, including some of the improvements on the services side of the market – represent a "wildcard" from the investor's perspective, they added. Focusing on manufacturing elements related to energy investments allows for less volatility when projecting changes in the demand-supply curve related to these investments.

Gasperoni also touched on the influence of the rapid growth of energy funds, as some fundraises have represented an almost doubling of their predecessor funds. The large influx of capital in the space is driving upward pressure on asset values in the sector.

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