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Unconventional Thinking — A Reset of the Investment Opportunity in Upstream Energy

by Dan Connell

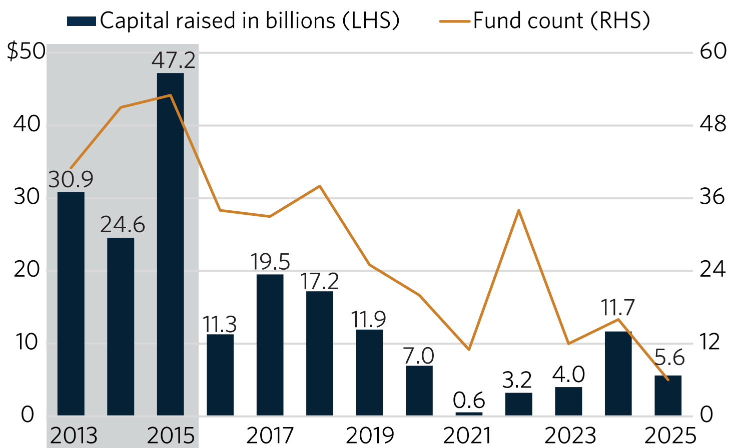
Step back in time a little over a decade ago to 2014 and recall the state of the global economy. Five years earlier, global GDP had experienced a significant contraction in the wake of the Global Financial Crisis. Massive amounts of fiscal stimulus followed. As institutional investors sought options to manage exposure to the potential for unexpected inflation, they turned their eyes to the burgeoning renaissance brewing in the shale fields of the United States.

THE BOOM...

This period, from 2013 to 2015, was one of tremendous fundraising success for private natural resources resulting in an influx of over $100 billion during that period.

UPSTREAM CAPITAL MARKETS

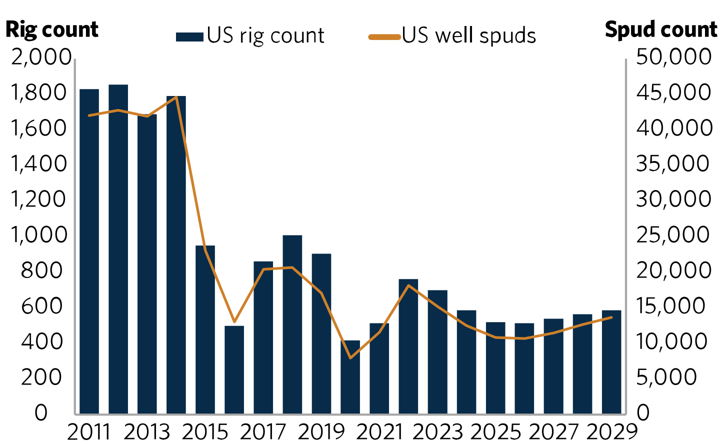
Annual oil and gas private equity fundraising



Source: Pitchbook, Q2 2025 Global Private Market Fundraising Report. Chart data as of June 30, 2025.

The results that followed were, in retrospect, not altogether surprising. The combination of capital availability, along with improving drilling and completion techniques, led to a period of "growth at all costs" and created conditions for a classic boom-bust. Rig counts (the units used to drill wells) and well spuds (the commencement of drilling a well) went from hugely elevated levels in 2014 to a series of quick collapses and modest recoveries in the ensuing half decade.

TOTAL UNITED STATES RIG AND WELL SPUD COUNT



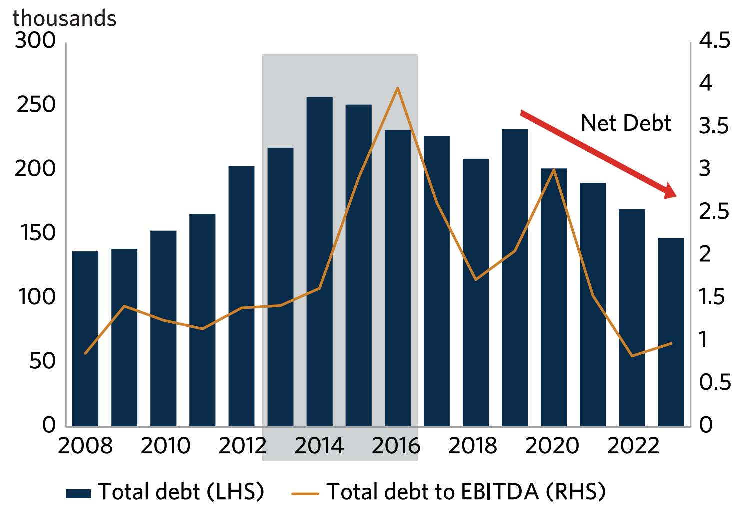
Data compiled May 19, 2025.
Source: S&P Global, "North American Upstream Spending - Issue 38" (July 2025)

...AND THE BUST

Growth at all costs was not solely fueled by the influx of equity capital, but also a heavy reliance on debt capital. As United States production grew, and an OPEC-led price war unfolded, producers found themselves with excessive levels of leverage.

ANNUAL NORTH AMERICAN E&PS DEBT TRENDS

As of February 25, 2025



Source: S&P Global, "Global Upstream M&A Review and Outlook: Revival of the Fittest: M&A Opportunities in a Shifting Landscape." (April 2, 2025)

Debt levels for North American upstream businesses rose significantly post-Global Financial Crisis and peaked in 2016. The froth in fundraising and emphasis on production growth over profitability had laid the groundwork for a collapse, the oil price war tipping the market.

All this combined to generate a decade of poor returns, as depicted on the following page.

The combination of this bust coupled with decisions by some institutions to eschew exposure to fossil fuel investments resulted in a significant decline in capital available to the upstream market.

POOLED IRRS BY STRATEGY

As of December 31, 2024

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Middle-market buyout 29.1%	Natural resources -0.4%	Private debt 19.1%	Secondaries 23.5%	Secondaries 19.4%	Buyout megafunds 17.8%	Buyout megafunds 26.1%	VC 21.0%	Buyout megafunds 19.0%	Middle-market buyout 19.7%	Buyout megafunds 19.5%	VC 20.3%	Middle-market buyout 18.2%	VC 43.2%	PE growth 55.6%	Natural resources 25.0%	Buyout megafunds 12.2%	Natural resources 12.6%
Secondaries 28.8%	Infrastructure -5.2%	Middle-market buyout 9.4%	Buyout megafunds 22.0%	Natural resources 16.3%	Opportunistic real estate 13.7%	VC 22.4%	Opportunistic real estate 16.8%	Value-add real estate 16.2%	Natural resources 16.5%	Middle-market buyout 17.6%	PE growth 19.4%	PE growth 18.1%	PE growth 34.9%	VC 55.1%	Infrastructure 14.1%	Private debt 10.5%	Infrastructure 11.5%
Infrastructure 27.7%	Secondaries -12.1%	Buyout megafunds 9.3%	PE growth 20.2%	Opportunistic real estate 12.8%	Private debt 13.4%	PE growth 17.6%	Buyout megafunds 16.8%	Middle-market buyout 11.9%	All private capital 10.8%	Secondaries 17.3%	Secondaries 16.6%	VC 17.0%	Buyout megafunds 28.0%	FoF 51.8%	Value-add real estate 10.0%	Middle-market buyout 9.4%	Buyout megafunds 10.1%
Opportunistic real estate 26.0%	VC -12.2%	PE growth 7.1%	Private debt 19.2%	Value-add real estate 11.9%	PE growth 13.0%	Value-add real estate 17.3%	Middle-market buyout 16.0%	Secondaries 11.9%	Opportunistic real estate 10.4%	PE growth 16.2%	Middle-market buyout 16.1%	Buyout megafunds 15.5%	FoF 27.9%	Secondaries 45.5%	Opportunistic real estate 9.9%	PE growth 6.9%	PE growth 9.9%
All private capital 19.7%	FoF -14.3%	Natural resources 3.6%	Opportunistic real estate 19.2%	PE growth 11.6%	Secondaries 12.2%	All private capital 17.0%	Value-add real estate 15.9%	VC 11.8%	Private debt 9.8%	All private capital 13.9%	FoF 15.6%	Secondaries 13.1%	Middle-market buyout 27.6%	Buyout megafunds 44.8%	Middle-market buyout 5.9%	All private capital 5.8%	Middle-market buyout 8.7%
FoF 19.4%	Middle-market buyout -14.7%	FoF 3.5%	Natural resources 18.8%	VC 11.5%	All private capital 12.2%	Middle-market buyout 16.4%	PE growth 15.2%	Opportunistic real estate 11.8%	Value-add real estate 9.4%	Private debt 12.1%	Value-add real estate 11.8%	Opportunistic real estate 12.4%	All private capital 19.6%	Middle-market buyout 40.2%	Private debt 5.0%	Infrastructure 4.8%	All private capital 7.9%
Buyout megafunds 15.6%	PE growth -17.3%	All private capital 2.3%	All private capital 16.8%	Middle-market buyout 11.4%	Middle-market buyout 11.6%	Opportunistic real estate 14.8%	Infrastructure 15.2%	PE growth 11.7%	Buyout megafunds 8.7%	FoF 11.8%	All private capital 11.0%	All private capital 11.6%	Secondaries 14.3%	All private capital 39.0%	Secondaries 2.8%	Secondaries 3.0%	Private debt 7.8%
Private debt 14.4%	All private capital -19.7%	VC -0.1%	Middle-market buyout 15.7%	FoF 10.6%	Value-add real estate 11.1%	Private debt 13.0%	All private capital 15.1%	FoF 11.4%	Infrastructure 8.7%	Value-add real estate 10.1%	Infrastructure 8.8%	FoF 11.4%	Private debt 6.3%	Natural resources 30.2%	All private capital 0.7%	FoF 2.6%	VC 4.6%
VC 13.9%	Value-add real estate -25.6%	Infrastructure -5.0%	Infrastructure 13.2%	All private capital 9.8%	FoF 7.4%	FoF 12.6%	Private debt 14.2%	All private capital 10.3%	PE growth 8.3%	VC 9.2%	Buyout megafunds 6.9%	Value-add real estate 8.4%	Infrastructure 5.7%	Opportunistic real estate 29.7%	Buyout megafunds -5.0%	Natural resources -3.6%	Secondaries 3.3%
Natural resources 12.2%	Buyout megafunds -27.5%	Secondaries -7.1%	VC 12.3%	Buyout megafunds 9.0%	Infrastructure 7.4%	Secondaries 7.7%	FoF 14.1%	Infrastructure 8.9%	FoF 7.3%	Natural resources 9.0%	Private debt 5.7%	Private debt 8.1%	Value-add real estate 5.6%	Value-add real estate 28.7%	PE growth -6.2%	VC -5.2%	FoF 2.9%
PE growth 10.0%	Private debt -27.7%	Opportunistic real estate -44.6%	FoF 11.4%	Infrastructure 5.0%	VC 7.1%	Natural resources 7.1%	Secondaries 13.4%	Private debt 3.3%	Secondaries 5.8%	Opportunistic real estate 8.9%	Opportunistic real estate 5.2%	Infrastructure 4.1%	Opportunistic real estate 3.6%	Infrastructure 18.3%	FoF -7.6%	Opportunistic real estate -5.4%	Opportunistic real estate -0.6%
Value-add real estate -3.9%	Opportunistic real estate -29.7%	Value-add real estate -45.0%	Value-add real estate -2.4%	Private debt 4.1%	Natural resources 5.9%	Infrastructure 6.1%	Natural resources -0.7%	Natural resources -17.6%	VC 0.2%	Infrastructure 8.7%	Natural resources 4.5%	Natural resources -9.7%	Natural resources -14.8%	Private debt 17.1%	VC -17.2%	Value-add real estate -10.3%	Value-add real estate -2.2%

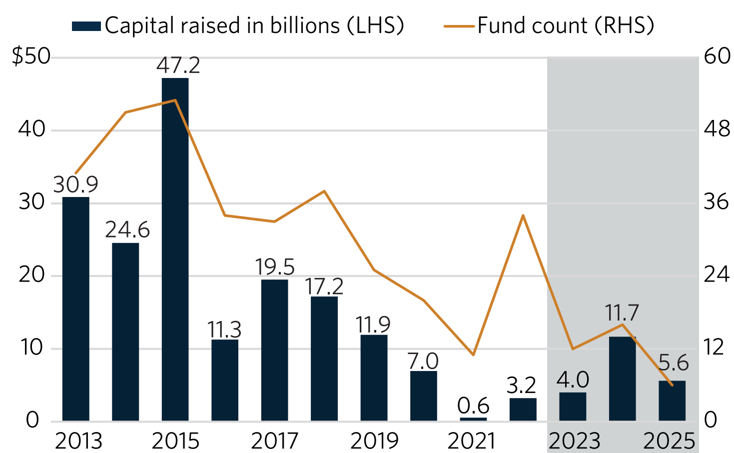
There is no guarantee that any historical trend illustrated in this chart will be repeated in the future.Note: Middle-market buyout funds are those between $100 million and $5 billion. Buyout megafunds are $5 billion or larger.
Source: Pitchbook, "US Market Insights - A Quantitative Perspective on US Private Markets." (Q3 2025)

THE RECOVERY

Returning to the present, we similarly sit at a moment where the global economy is a few years removed from a contraction in global GDP – this time driven by the Covid pandemic and ensuing shutdowns. Again, significant fiscal stimulus followed to support economic recovery. However, many investors – still smarting from a challenging decade for natural resources investing – continue to allocate their capital to other segments of the market.

UPSTREAM CAPITAL MARKETS

Annual oil and gas private equity fundraising



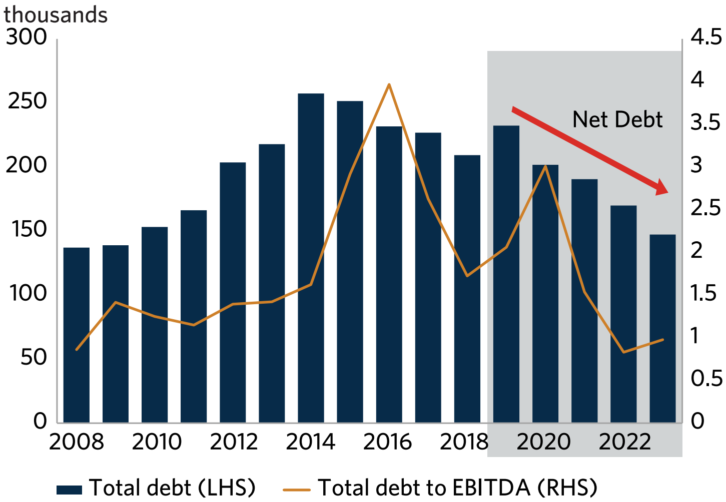
Source: Pitchbook, Q2 2025 Global Private Market Fundraising Report. Chart data as of June 30, 2025.

Capital formation in natural resources private markets rebounded modestly in 2024 but remains well below even the depressed levels of capital formation in the latter half of the 2010s. The poor performance of that prior decade is certainly a major culprit. This evacuation of capital coincided with a period of inflationary pressure, historically a factor that led institutional investors to incorporate more natural resources exposure in their portfolios.

Companies with over-levered balance sheets were often wiped from the market in the latter half of the 2010s and, even as Covid lockdowns drove a commodity price dip in 2020, the trend toward far healthier balance sheets remained evident.

ANNUAL NORTH AMERICAN E&PS DEBT TRENDS

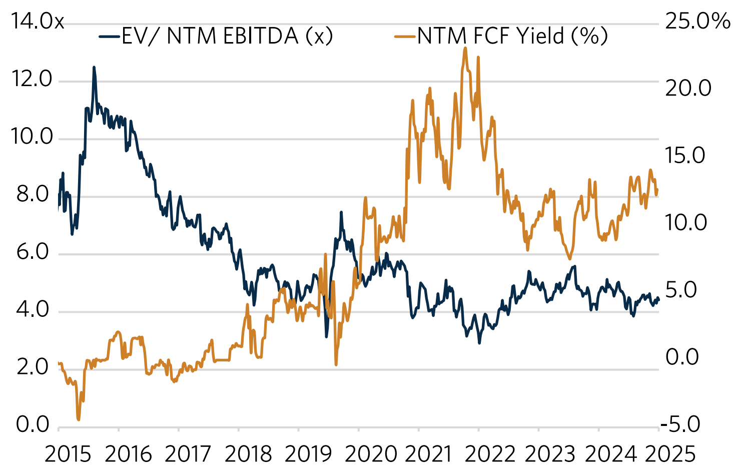
As of February 25, 2025



Source: S&P Global, "Global Upstream M&A Review and Outlook: Revival of the Fittest: M&A Opportunities in a Shifting Landscape." (April 2, 2025)

The result? Valuations, as expressed in the public markets, compressed during the period heading into Covid and remained muted (as seen in the Enterprise Value to Next Twelve Months EBITDA multiples below). Simultaneously, free cash flow yields rose as upstream companies heeded investor pressure for discipline and continued to prioritize distributable cash over re-investment (as seen in following chart).

PUBLIC UPSTREAM MULTIPLES DECLINE AS YIELDS RISE



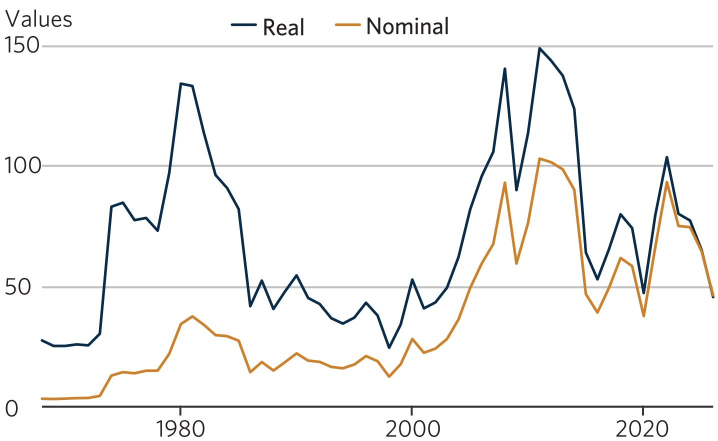
U.S. E&P Index: APA, COP, CTRA, DVN, EOG, FANG, OVV, OXY, PR, CIVI, CRC, MGY, MTDR, MUR, SM, TALO, AR, CNX, EXE, CTRA, EQT, GPOR, NFG, RRC

Source: Bloomberg

At a time when many institutional investors had pivoted their real assets allocations to real estate at the expense of natural resources, financial performance recovered meaningfully in the space. In fact, natural resources returns led private markets in 2022 and 2024 as shown on page 2.

Commodity markets, despite significant geopolitical volatility directly involving key crude producers (such as Russia and Iran) remain relatively muted on an inflation adjusted basis as demand has recovered from pandemic-related declines.

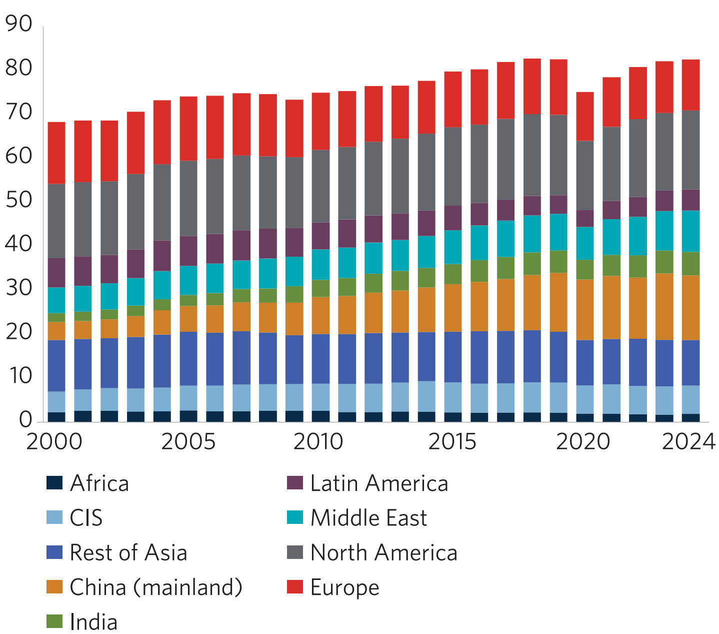
IMPORTED CRUDE OIL PRICES



Source: US Energy Informatoin Administration (EIA). "Shoter-Term Energy Outlook - Real Prices Viewer." (Released October 7, 2025; Accessed Pctpner 21, 2025.

CRUDE AND CONDENSATE RUNS

By region (millsion b/d)



Source: S&P Global, "Q3 2025 Global Fundamentals Crude Oil Markets Long-Term Outlook." (August 20, 2025)

THE OUTLOOK – SECONDARIES IN A DISLOCATED RESOURCES CAPITAL MARKET?

Taken together, these dynamics yield an interesting set of market conditions. Capital access remains constrained in the natural resources space relative to historic levels. Commodity pricing is not overly elevated (relative to historic levels, as depicted above) despite the risk for, and in the case of Russian sanctions, the actual existence of, disruptions to supply. Valuations are significantly below levels seen a decade ago as cash yields remain robust. Many investors remain cautious, and some continue to retreat from the space, creating dislocation. One place where this dynamic expresses itself is in the secondary market. Jefferies recently noted in their Global Secondary Market Review that "the GP-led real assets secondaries market, estimated to be ~$15 billion in 2025, continues to grow and mature, driven by energy and infrastructure sponsors' demand for tailored liquidity solutions...Year-to-date, several sponsors have used [Continuation Vehicles] to monetize top performing energy assets, achieving strong returns and providing liquidity at attractive valuations."[1] Jefferies similarly noted a meaningful volume of energy and infrastructure Limited Partner (LP) stakes transactions in the first half of 2025, accounting for 9 percent of the LP stakes market.[2]

In our view, this dynamic suggests a compelling entry point for natural resources investing in the private markets – one where secondaries are poised to play a unique role as dislocation persists.

1 Jefferies, "H1 2025 Global Secondary Market Review." (July 2025)
2 Ibid.

Important Notes

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