GOT MINERALS?

Oil and gas mineral interests are in the spotlight—and institutions and private equity teams seeking passive income have noticed.

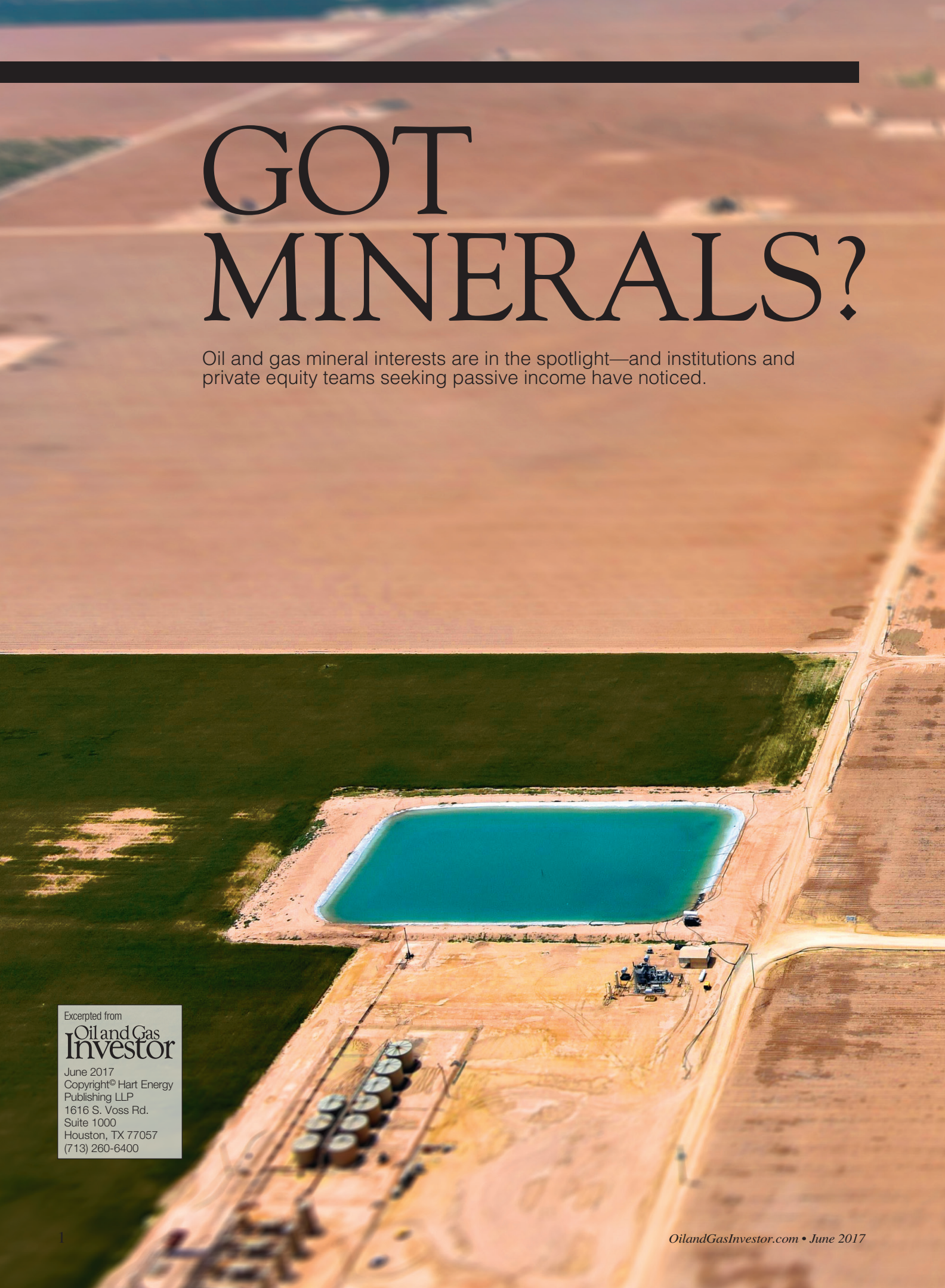

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PHOTO BY KIMBELL ROYALTY PARTNERS LP

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"The meek shall inherit the earth, but not the mineral rights," eccentric billionaire wildcatter J. Paul Getty famously said decades ago.

But in fact, after talking with close to a dozen individual investors, companies and institutions that are buying minerals today, we can safely say minerals are having a moment. This asset class is undergoing modernization, consolidation and greater visibility on Wall Street. Prices are rising.

A mineral interest creates cash flow out of oil and gas production in the form of a royalty payment, or "mailbox money." Whether under a single well or 10,000 wells spread across the country, minerals entitle the owner to receive a payment for however long production continues. This passive income is pretty carefree, too—tax-free to institutions.

"The simplicity of a royalty is that it's a straight interest in a well with no costs attached," said RBC Capital Markets Managing Director Rick Brice. "There's no call on capital for drilling and completions, reworks, environmental liabilities or lease operating expenses. By law minerals are considered real property just like real estate, so they are shielded from bankruptcy. You don't have to worry as much, as long as you bought it well, cost-wise."

One private equity player said, "Minerals have been the oil industry's best-kept secret." Well, maybe not so much anymore.

Interest has grown rapidly due to several factors. Sources cited Big Data, institutional attention in the space thanks to some mineral IPOs, and a generational shift in who wants to own—or sell—minerals.

Leasing and production data have become more readily available from sources such as IHS Markit, Drillinginfo and online auction houses, aiding mineral buyers. At the same time, sellers have gotten more savvy, and aggressive, about the value of their holdings. Specialized websites allow for sharing information; several software and consulting firms help owners manage their minerals. An estimated 12 million Americans own a mineral interest, but of course, not all of their acreage has been developed.

Meanwhile, institutions are waking up to the idea. They regard minerals as a big opportunity to own a low-cost, long-life asset with yield. What's more, the space is ripe for consolidation, a favorite tactic for these investors.

"Most of the big New York and Texas private equity firms have a minerals team or strategy," said Brice. RBC co-led the February IPO of Kimbell Royalty Partners LP. "The space is so fragmented … if you figure there is an average 20% royalty on every property out there, that's a lot to aggregate. It's a great niche with many different ways to be successful."

Private equity provider Quantum Energy Partners has committed to backing minerals teams because as president D Verma said, "It's an interesting asset class if you have the technical understanding of the rock and its likelihood of getting developed in a reasonable time frame. While many see it as a separate asset class, we see it as an extension of our core E&P franchise."

Several analysts who attended the NAPE Expo in February noted a lot of interest in minerals, reinforcing the consensus view that much like drilling leases, the price for mineral rights is trending to record levels in the hottest basins. "There were even a number of buyers who suggested they would buy minerals in less attractive areas for the right price and sit on them, believing that drilling activity could eventually follow," wrote Neal Dingmann, E&P analyst at SunTrust Robinson Humphrey Inc.

Some of the entities bent on aggregating these interests have massive buy-side operations, noted Chris Atherton, CEO of online auction house EnergyNet, which sells minerals. "Think about sending out 500,000 solicitation letters a year, to get 5,000 to respond, to acquire $5 million in royalty/mineral assets. Hundreds of companies do this year in and year out.

"Consolidating the space is the equivalent of consolidating the blades of grass on your front lawn. One, you typically have to cut one blade of grass at a time because you have so many unique owners; and two, more blades of grass are always sprouting up."

Institutional interest really kicked off in 2010 or so when private equity funds such as EnCap Investments, Quantum, Apollo, Blackstone Energy Partners and others began funneling more dollars to management teams dedicated to aggregating minerals, adding to their established stable of operating companies.

"A huge amount of capital is out there chasing minerals, and private equity is all in," said Brendan Fikes, vice president and co-founder of Santa Elena Minerals LP, which is backed

Preceding page, in the vast Permian Basin, this rig is drilling for Parsley Energy Inc. in Upton County on acreage where Kimbell Royalty Partners owns mineral rights.

by EnCap. The latter has committed up to $1 billion in aggregate to the space, via Santa Elena and Fortis Minerals.

"We think we can generate PE-type returns," said EnCap Managing Partner Doug Swanson. "We're focused on buying minerals ahead of the drillbit on acres we think are very likely to be drilled. By maintaining our philosophy of only buying assets with the best economics, we can buy nonproducing minerals focused in the most attractive basins, and have confidence those minerals will get drilled. By organically growing this cash flow, we don't have to compete with the very low yields that producing minerals currently trade for."

Swanson said there is definitely more competition today since minerals became compelling for EnCap in 2013, when it began buying these interests alongside a portfolio company, Felix Energy I. It was a logical move.

"The competition was becoming intense on the working interest side, and since we already had the title work done on these properties, this extension made sense to us," he said.

Investors can also invest in minerals through other entities, and the number of new entrants to the space keeps growing. Last year The Mitchell Group and Jack Nichols of Redhawk Investment Group, both of Dallas, formed the $58-million Redhawk Minerals Fund I LP. It will acquire, own and administer mineral interests in the Stack play in the Anadarko Basin, and through this new fund, qualified individuals can get direct ownership of mineral rights.

Tudor, Pickering, Holt & Co. recently speculated in a research note that if Chevron Corp. were to sell its minerals and royalties under its vast Permian Basin leasehold, they might fetch at least $6 billion.

Then again, why would any E&P with mineral rights under the leases it drills want to sell? By owning the minerals there's no need

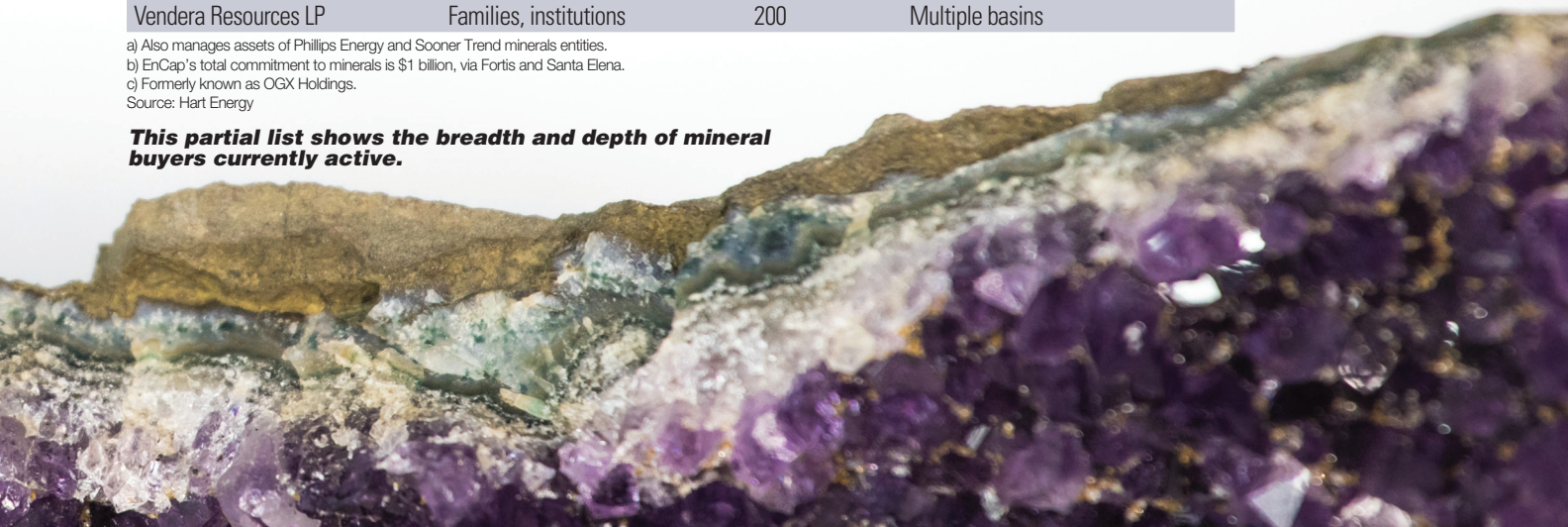
Private equity "is all in," said Brendan Fikes, co-founder of Santa Elena Minerals LP.

Sampling Of Minerals Teams

Company	Fund Source	$MM Commitment	Comments/Focus
Brigham Minerals LLC	Pine Brook Partners	N/A	4 basins, 32,500 net ac
Brix & Harvest Royalties	Blackstone Energy Partners	$100-plus	Haynesville
Buckhorn Minerals III LP	22 investors	N/A	Multiple basins
CrownRock Minerals LP	Lime Rock	N/A	Permian Basin
Fortis Minerals LLC a)	EnCap Investments	b)	Multiple oily basins
Haymaker Minerals & Royalties LLC	KKR, Kayne Anderson	N/A	Multiple basins, has made 500-plus acquisitions (some over $100 MM)
Live Oak Resource Partners I LLC	Family offices	11.3	Natural gas
Long Point Minerals LLC	Canada Pension Plan Investment Board , et al.	632	Permian, Scoop/Stack
Luxe Minerals LLC	NGP et al.	254	7 oily basins
MAP Royalty	College endowments	2,000	
Mavros Minerals II	Post Oak Energy Capital	N/A	Permian Basin
Red Hawk Minerals Fund I	The Mitchell Group	58	Scoop/Stack
San Jacinto Minerals LLC	Lime Rock	N/A	Marcellus Shale
Santa Elena Minerals LP c)	EnCap Investments	N/A	Permian Basin
Saxet II Minerals LLC	Post Oak Capital	100	Multiple basins
Senex Energy Partners LLC		N/A	Ark-La-Tex plays
Springbok Energy Partners LLC	NGP	100	Unconventional basins
Stone Hill Minerals LLC	Quantum Energy Partners	N/A	Appalachian Basin
Royal Resources LP	Blackstone Energy Partners	550	Eagle Ford
Vendera Resources LP	Families, institutions	200	Multiple basins

a) Also manages assets of Phillips Energy and Sooner Trend minerals entities.
b) EnCap's total commitment to minerals is $1 billion, via Fortis and Santa Elena.
c) Formerly known as OGX Holdings.
Source: Hart Energy

This partial list shows the breadth and depth of mineral buyers currently active.



"We're focused on buying minerals ahead of the drill-bit," said Doug Swanson, EnCap Investments managing partner.

to pay royalties to anyone, thus the well economics are much better. Diamondback Energy Inc., Parsley Energy Inc., Luxe Energy LLC and Four Point Energy LLC are examples of E&Ps that also buy minerals, or even maintain separate minerals companies.

Last summer, Four Point's minerals cousin, LongPoint Minerals, raised $632 million from institutions, including $450 million from the Canada Pension Plan Investment Board. The Tug Hill (upstream) management team backed by Quantum, very active in the Northeast, also buys minerals via its Stone Hill Minerals LLC platform. Principals Michael and Evan Radler have been buying minerals in the Lower 48 for decades. Stone Hill leverages the Tug Hill team's in-depth understanding of specific basins and has accumulated sizable positions across not only Appalachia, but also the Permian, the Denver-Julesburg and the Bakken.

"Buying minerals is a different set of skills than buying a lease to drill. I think the industry is just starting to understand the difference," noted Evan Radler, COO of both entities. "We don't just pay a multiple—we do basin studies, engineering, petrophysics. We look at the regulatory climate and gas marketing—it's a multidisciplinary approach with a team that's as deep as the E&P team."

"This is a highly fragmented market ripe for consolidation," said Mike Ames, managing director, Raymond James & Associates, which was involved in three mineral IPOs.

Viperization

In June 2014, the first royalty and minerals MLP of the modern shale era went public led by Barclays: Midland-based Viper Energy Partners LP, with an implied enterprise value of $1.8 billion. That caught everyone's attention.

"This is a highly fragmented, large market that is ripe for consolidation," said Mike Ames, managing director of Raymond James & Associates' energy practice in Houston. In February 2017, the company led Kimbell Royalty's IPO and before that, it co-managed the IPOs of Viper Energy Partners in 2014 and Black Stone Minerals in 2015.

"Viper led it off and it went off with a huge bang," he said. "Our phone was ringing off the hook after that because of its yield, its low cost of capital and how much it traded up for several weeks after the IPO." Viper attracted retail investors but more importantly, institutions also bought in.

When Viper held its first stand-alone earnings call this past February, it guided to production of at least 8,000 barrels per day this year with seven rigs running on its mineral acres. A four-person team is out scouting for more (in fourth-quarter 2016 alone, it closed 13 deals for $68 million). About half its minerals are under acreage being drilled by its parent, Diamondback Energy, or by RSP Permian Inc. It owns an average 21% royalty on its Permian Basin acreage.

In May 2015, a second firm IPO'd, Houston's Black Stone Minerals LP. The latter traces its history to predecessor firms active in East Texas timber in 1876 and minerals in 1968, but today it has interests in more than 55,000 wells spread over 40 states. The technical staff works up prospects and makes sure they are developed—over 1,000 different operators are active on its holdings.

The reverberations from Viper's IPO have been called The Viper Effect or "Viperization" of the minerals space. A handful of other minerals companies are said to be working the dual track toward an IPO or sale later this year, indicating broad investor interest.

"The more generalist funds like KKR and Apollo have developed a mineral strategy in the last year or two, and I strongly suspect we'll see more. It does seem like this is gaining momentum," said Frost Cochran, managing director, Post Oak Energy Capital LP.

Post Oak has collected mineral and royalty interests through the operating companies it backs and if one of them sells, some of the mineral assets are retained in its funds, a sort of "shadow minerals strategy," Cochran explained. But now, Post Oak has a more deliberate strategy via the two mineral teams it's backing, Permian-focused Mavros Minerals II, and Saxet II Minerals, which will acquire minerals throughout the U.S. In February, Post Oak led a commitment of $100 million to Saxet.

"Endowments, pension funds, foundations and other institutions very much understand this. They've been real estate investors for years so they understand what a long hold period means, and they appreciate that minerals are cost-free assets," Cochran said.

Minerals on Wall Street

As institutional understanding grows, that opens the IPO window for some. Earlier this year, Fort Worth, Texas-based Kimbell Royalty Partners went public after investing in this asset class since the late 1990s. In 2013, it brought in Yorktown Partners to boost its capital. That and the IPO infusion have augmented Fort

Worth's Kimbell Art Foundation and some 50 other institutions and family offices that invested in the company.

Today Kimbell owns mineral interests in 48,000 wells, including 30,000 in the Permian Basin alone. At press time, it announced a $15.9 million purchase of mostly natural gas producing minerals under 6,700 net royalty acres in the Anadarko Basin, its first deal since going public. Some 2,600 wells in five states are included, acquired out of the bankruptcy of an E&P company.

Kimbell's market cap is less than $350 million, so even a $10 million deal can move the needle, said president and CFO Davis Ravnaas. The MLP only buys long-life assets of

PHOTO BY TOM FOX

President Davis Ravnaas, right, and CEO Bob Ravnaas, left, said Kimbell Royalty Partners LP has invested in minerals since the late 1990s.

"It does seem like this is gaining momentum," noted Frost Cochran, managing director, Post Oak Energy Capital, which backs two minerals teams.

20 to 30 years with shallow declines, in order to provide consistent yields. Some 24 rigs are drilling on its holdings at the moment, up from 15 last year, with the bulk of that increase in the Permian.

"The royalty space has grown dramatically with the increase in U.S. oil and gas production," said Ravnaas. "Many older leases were written to pay a one-eighth or 12.5% royalty, but with the shale boom, companies were offering to pay 20% or 25%, so as the size of the industry more than doubled and the opportunity set had grown much larger, we saw the need for more capital.

"Seeing the success that Viper had gave us more conviction that what we were doing made sense."

There are two main strategies in buying mineral interests. One is to buy "ahead of the drillbit," to buy undeveloped acreage that the buyer thinks will be drilled eventually. The other, which is primarily what Kimbell does, is to buy only where production is ongoing. All of the company's 4.5 million acres are HBP, and it never operates.

According to founder and CEO Bob Ravnaas (Davis' father), more growth is ahead. "We held back more than half our properties from the IPO and can use them as drop downs to the MLP later. Acquisitions will still be important as well; since 1998 we have closed on over 160 transactions."

Even though Kimbell doesn't drill or operate, it has grown organically anyway for the past 15 years, Bob said, because it owns so many minerals in hot areas where drilling has picked up and this offsets natural declines elsewhere. Its first mineral acquisition in 1998 was in the Permian Basin.

There's ample opportunity in minerals, but buyers have to solve for many variables, said Quantum Energy Partners' managing director, Tom Field.

Nosebleed valuations

Minerals have become such a highly prized asset that traditional, smaller buyers and family offices are getting squeezed out. Buyers can make offers on either producing or nonproducing assets with a wide spectrum of value, noted Robert Ransone, partner in SRD Capital Advisors LLC in Dallas. The firm's partners have financed oil and gas for E&Ps for years, but now they are helping institutions looking to invest in the space.

A mineral team with a large technical staff has engaged SRD to raise $500 million, to be spent over the next few years, he said.

If producing, minerals generally go for three to five years' cash flow, but that's a back of the envelope number because so many other things factor into it, said former landman Diana Frazier, principal of Guardian Mineral Management and Consulting in Fort Worth. She helps mineral owners to buy, sell or market unleased mineral acres to E&Ps that might get them drilled.

"My first recommendation to mineral owners is usually to keep what you have. If an oil company wants to buy your minerals, then they must be valuable and that's why you should keep them," she said. "Someone in your family worked hard, or traded, to earn those assets. Once you sell, they're gone forever—but those offers do spark a good conversation."

Nevertheless, more owners are selling as prices rise. "If all these guys wanting to buy minerals get capital, it's going to be a crowded space and minerals will be over-priced in a short period of time," warned one private equity observer.

One mineral buyer who asked to be anonymous complained it's already happening. He manages a small royalty fund for a few high net worth individuals and finds himself increasingly shut out—and he is skeptical about the returns on shale wells.

"Not everything goes the way they say it will. I think reserves as a rule are way overbilled," he said.

He cited the example of an Eagle Ford opportunity for which he performed technical due diligence for a wealthy mineral buyer client. "I looked at the reserves, future drilling plans in the area and so on. I got to an evaluation of about $215 million, so I held my nose and bid $230 million, but on the opening bid round, one of the larger funds offered $300 million."

What's a mineral acre worth? It depends—an undeveloped one in Reeves County, Texas, may be worth more today than a producing one in the Eagle Ford.

People complain about "nosebleed pricing" in hot areas like the Delaware Basin or Scoop/Stack. "We hear that a lot, but we disagree," said Kimbell's Bob Ravnaas.

"We buy on a discounted cash flow basis with no value given to nonproducing acreage. We do very detailed geology and engineering to identify the potential upside on future proved development, and we have a very disciplined, thorough screening process—I would say we might get excited on only 5% of the properties we see."

Oddly, minerals basically trade at the same value as working interests do, pointed out son Davis. "You'd think a working interest would go for a lower price, but in the last few years they seem to trade at almost the same level. We feel there is less competition in the minerals space than in working interests, for deals in the $5 million to $50 million size range."

Post Oak's Cochran said when buying minerals ahead of the drillbit, he essentially takes on the risks of the operating companies involved, their capitalization and plans for drilling. The pace of development is a key risk.

"We try to develop a sense of the timing of development in the area, and because we back operating companies too, we tend to know a lot about the area. We try to stay invested across a number of operators and not in just one section of a county. We have to be right about the geology and the way the play is developing.

"At the end of the day, we do an NPV analysis across a range of outcomes, taking into account the number of productive benches,

risk-adjusted for how far out you are from the last well drilled in that area."

Haymaker Minerals & Royalties CEO Karl Brensike noted at Hart Energy's DUG Permian Basin Conference in Fort Worth that investors used to think the value of royalties hinged mainly on an increase in commodity prices to hit their target returns. Although this is an important consideration, today minerals are valued based on the future production outlook—drill or no drill, and the timing of same.

Discount rates are wide and are a means of measuring risk. "If I'm going to have a rig on this tomorrow, then the discount rate I'd pay is lower. If I think it won't get drilled until later, the rate will be higher," said Quantum's Verma. "A key element here is patience; this is not a buy-and-flip idea."

His colleague, Managing Director Tom Field, agreed, adding that while investing in mineral packages is a lot of work, the opportunity set merits the effort. "There's ample opportunity out there, but you do have to solve for many variables in your analysis. You need to marry the technical aspects and economics of a play with knowledge of the operator, and then form a view on timing, among other things to consider."

A generational shift

Why the sudden flurry of competition, which sources say picked up steam in the past three to five years? Experts cite several trends that have converged to fuel the heightened interest in aggregating mineral rights. First, there are the aforementioned IPOs that drew attention to the concept. Second, investors are leery of soaring lease prices in hot plays—maybe minerals cost less and have more upside.

PANHANDLE'S PERPETUAL OPTION

Panhandle Oil and Gas Inc., based in Oklahoma City, was one of the first public companies to focus on minerals, with assets dating back to 1926 when it was formed as a mineral owners' co-op in Oklahoma's Panhandle region. Last year it celebrated its 90th anniversary.

"You won't find a comparable public company out there," said president and CEO Paul Blanchard.

When Panhandle went public in 1979 and converted to a traditional C-corp, the co-op owners received shares, and the company began to retain cash flow to reinvest in more minerals. It made substantial acquisitions from 1979 to 2001, especially during industry downturns.

Today it holds 255,000 net mineral acres in 10 states with ownership in 6,200 wells, including in resource plays such as the Scoop/Stack, Eagle Ford, southeast Oklahoma Woodford Shale, Fayetteville Shale and Permian Basin. In 2011 and 2014, it acquired some leasehold, as an operating company would, but the vast majority of its holdings are minerals in Oklahoma, Texas, New Mexico and Arkansas. It does not operate.

"If you own the minerals, you theoretically own them to the center of the earth—but we haven't had a proposal to drill that yet," Blanchard said with a laugh.

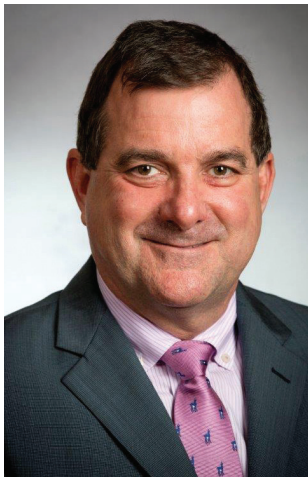
"We generally own 5% of a drilling unit and have the royalty, but where it's economically viable, we also take a working interest in wells drilled on our minerals by investing cash flow from our existing wells," he said.

Ever since leasing in resource plays became so competitive, Panhandle has been packaging up acreage in the expansion areas of hot plays with multiple horizons such as the Permian, Woodford Shale and Scoop/Stack, leasing those to operators who will drill.

"A lot of our leasing is to PE-backed operated and nonoperated companies."

Blanchard said the company historically has not sold any of its minerals. "In essence they are a wonderful perpetual option on the increase of industry knowledge and technology over time. We have acres in the Stack that were first drilled in the 1950s and '60s; then in the '80s they drilled different zones, and now, they are drilling in a completely different zone thanks to horizontal technology and high-volume fracking. In the Stack area there's a possibility of as many as 10 different producing intervals.

"Since we own the rights in perpetuity, we don't need to go drill when it's not economic. We're not compelled to drill in three years to HBP a lease. Even though the downturn was painful, it was not a near-death experience for us like it was for some."



Panhandle Oil and Gas Inc. holds mineral acres in 10 states and 6,200 wells, president and CEO Paul Blanchard said.

Blackstone Energy Partners CEO David Foley views backing mineral teams as taking "a second bite of the apple" that complements backing operating companies.

Third is demographics: A great generational shift is setting up opportunities as families decide to monetize their minerals. Most of these date back to the 1930s, '40s and '50s when present-day producing regions got their start during booms in Appalachia, the Permian Basin and Oklahoma.

Mineral heirs have oft declared, "Daddy said, 'Never sell your minerals.'"

But the children of those first owners are in their 60s now; the grandchildren are in their 30s or 40s. Many have concluded they don't want to manage minerals anymore, even as comforting as it is to get that mailbox money. And for some, the recent industry downturn that caused much smaller monthly checks—or none—soured them on minerals.

"It's a very busted up ownership group of third and fourth generation people who don't want to deal with all those 1099s," said one mineral buyer.

"You couldn't buy minerals at scale like this 20 years ago, but now, it's a desire for liquidity and having the ability to sell the minerals. To diversify is attractive to a lot of heirs. It's a succession and estate planning tool," said Kimbell's Davis Ravnaas.

This highly segmented or fractured state of affairs, replete with chasing down that last cousin, can make aggregating mineral interests into a meaningful size a tedious and time-consuming process indeed.

Another driver of interest in minerals? Institutions and retail investors have a huge appetite for yield and passive income, especially since many of the upstream MLPs fell into distress during the downturn. Investors frequently include oilmen who have made a lot of money in their careers and want to extend their involvement in the industry after retirement or a big payday, but without the hassle and expense of operating.

"These executives still get to use their skills though, in knowing where a particular area or play is going to work," said one observer.

Private equity's take

By some accounts at least 20 minerals teams are backed by private equity, with commitments totaling $4 billion. However, some PE firms have struggled with the idea because owning a mineral interest doesn't allow them any control over the drilling pace. That's one reason why many such firms said they invest in minerals only where they already back an E&P operating team with local expertise. Then too, the average mineral acquisition size is small, under $20 million, so it takes a lot of time and effort to gather a meaningful amount.

Nevertheless, New York's Blackstone Energy Partners is one of the larger players involved. "We view this as a second bite of the apple," said CEO David Foley.

"We take our first bite with the producers we back, but we see no reason not to acquire minerals. Many of the producers in our portfolio have their day job as operators, but we also ask them to acquire minerals too. And, we have hired a couple folks who do nothing but buy minerals."

Foley said, in general, buying minerals on "pre-production" acreage is more interesting than buying under PDP. Blackstone's philosophy: "There's what you think you know, and then what you do know once you've been in a basin for a while."

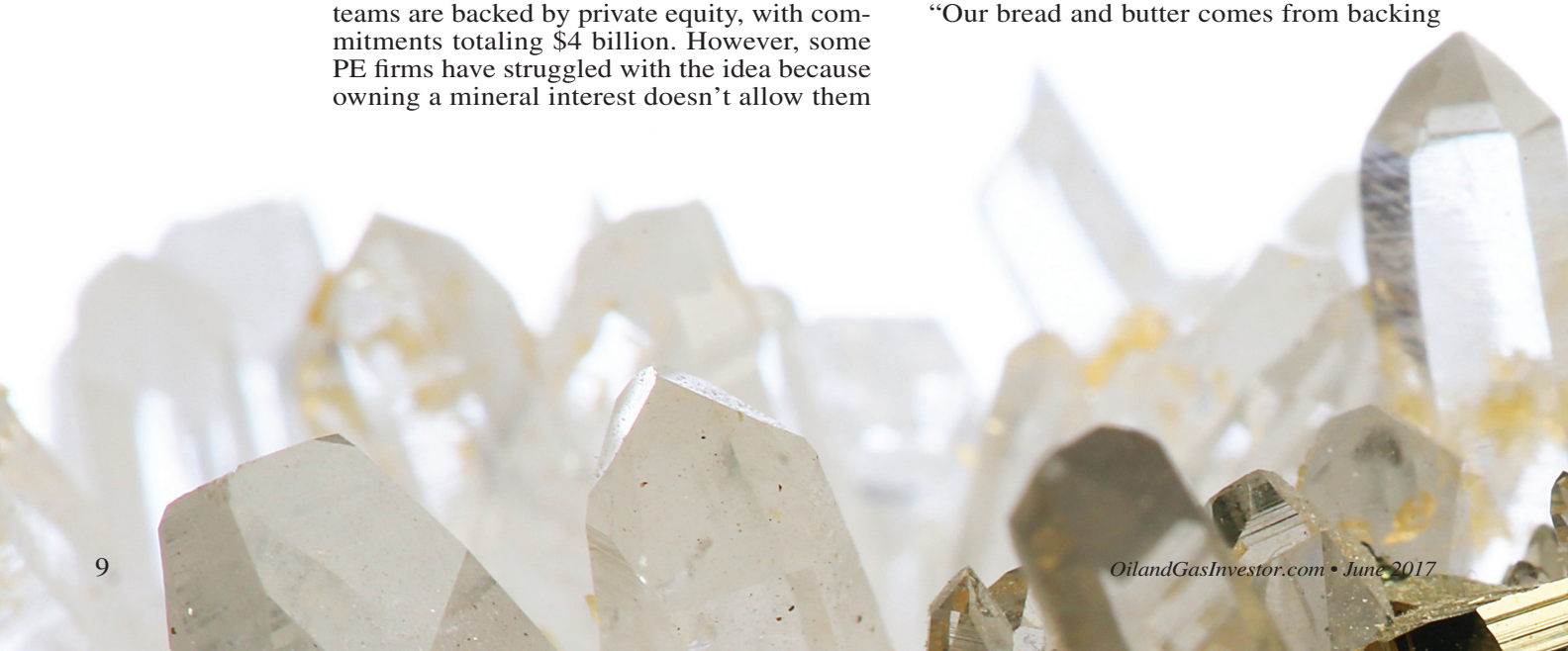
Blackstone has invested several hundred million dollars in royalties over the past five years, Foley said, including more than $500 million in the Eagle Ford, where it was already a significant investor in one of the leading local operators there, GeoSouthern Energy Corp., prior to the latter's sale to Devon Energy.

Subsequent to the acquisition of its Eagle Ford royalty interests, Blackstone engaged Riverbend Energy LLC to manage that portfolio on its behalf. Blackstone also backs mineral teams in the Haynesville and Permian.

One source said that the best entities to back mineral teams are the PE funds based in Texas, precisely because they see a constant stream of measuring points while running due diligence on operating opportunities in every basin for their E&P portfolio companies. Their geological and engineering expertise on specific plays is the key because they often know where the drillbits will be turning next.

Nevertheless, big financial institutions and generalist private equity funds from New York or Boston are in the game, as investors search for yield in new vehicles other than MLPs.

"Our bread and butter comes from backing



operating teams, but we've always looked at minerals and will, whether we have a dedicated strategy to that or not," said Post Oak's Cochran.

"We view mineral opportunities as a steady hand, and these are our longest-held assets. If we can create value for our investors from owning some minerals, we will. But we model a perpetual hold and valuations are not based on an exit value."

The pace of drilling activity and full development affects the NPV. But it's more difficult to model a value when the pace of drilling is slow, where fewer rigs or no rigs are on location. "Hope springs eternal if you own minerals in an area, but where no rigs are running," Cochran said. "You always hope to see a play gradually head your way.

"I bet we have seen 15 or 20 minerals-focused firms that have presented to us, but we're backing two. Some are backed by private equity and some are family offices."

New entrants abound

Today most mineral buyers are more sophisticated than ever before, applying financial and engineering backgrounds to up their game. Many come from the operating or investment banking worlds.

Vendera Resources is a good example. The Dallas firm closed its third fund in October 2015 with multiple endowments, registered foundations and family offices.

"These are good, 'sticky' financial sponsors that we're glad to have with us. Now we're putting that money to work—we're in two PSAs right now," said CEO Wood Brookshire, who co-founded the firm at age 29 after a career in investment banking and family office investing.

He began in 2012 backed by five family offices including his own. A second fund was backed by a dozen family offices and one

Vendera Resources is investing in minerals through its third fund with multiple institutions and family offices, said CEO Wood Brookshire.

PHOTO BY TOM FOX

If consolidation is ahead, EnCap-backed Fortis Minerals is on board. It manages seven mineral entities including its own, said CEO Chris Transier.

PHOTO BY MIEKO MAHI

institution. In a third fund, he went directly to institutions and expanded his family office investor base as well. The goal is to create a low-double-digit annualized return and a consistent quarterly distribution, with low-cost upside, he said. Vendera owns minerals, nonop working interests and some operated working interests, although it does not operate wells; rather, it aligns with operating companies, he said.

"Our goal is to have at least a quarter of our fund in minerals and royalties. We love it—we're in 10 states and have mineral and royalty interests in over 1,000 wells. It's a very safe bet when owning these interests."

A lot of the deals Vendera buys are what Brookshire called "messy or complicated, so we really roll up our sleeves to understand each property." Last December the company bought out a large public E&P in the Anadarko Basin, picking up 197,000 net acres, comprised of three buckets: royalties, working interests and nonops. It now has about $200 million of assets/capital under management.

Brookshire also sees increased competition for minerals, so he remains flexible, thinking some have gotten too expensive. "It's all about relationships, and you've got to have your ear to the ground, whether you're buying from a mom-and-pop, a landman or a mineral broker."

If consolidation of minerals teams is on the horizon, for EnCap-backed Fortis Minerals in Houston, that's happening now. It manages seven mineral entities, including its own. Fortis partnered with Felix Energy about a year ago to manage its minerals when Felix sold to Devon Energy. (Fortis' chairman is Skye Callantine, who founded Felix in 2013.) Fortis also manages minerals acquired under the names of Phillips Energy Partners (another EnCap company), Chisos Minerals and Sooner Trend Minerals.

"If you successfully put together a minerals portfolio, you then have a cost-free exposure that withstands the commodity price cycle—you're not pressured to drill in a low-price cycle," said CEO Chris Transier.

"Probably the biggest challenge in buying minerals compared to being a traditional E&P is that you have to have conviction on when things will be drilled, so we spend a lot of time on that. We're looking at what E&Ps say publicly, interpreting what they've filed of record, looking at well permits and lease obligations. By analyzing these sources and others, you can craft a story—from the start we've taken a big data approach," Transier said.

Live Oak Resource Partners LLC in Houston is another such company. President Andrew Keene, a former investment broker who at the moment has a natural gas focus, started the fund last year with a target of raising $10 million, "to prove our intent and strategy was real." He closed at $11.28 million.

"Our model is a bit different. We won't go up against these big guys; we'll negotiate with landowners and mineral owners directly, aggregate mineral interests, and eventually, we may sell it all to a larger company," Keene said. "In the meantime, we'll distribute the royalties to our LPs."

To be sure, minerals have become a more exciting asset class that will only continue to garner a lot of interest, all of our sources said. □

Web Extra

To hear from four additional minerals buyers recorded live, visit **OilandGasInvestor.com/minerals**

- **Will Cullen**, Vice President, ***LongPoint Minerals LLC***
- **Karl Brensike**, CEO, ***Haymaker Minerals & Royalties LLC***
- **Brendan Fikes**, Vice President, ***Santa Elena Minerals LP***
- **Holbrook F. Dorn**, Senior Vice President, Business Development, ***Black Stone Minerals LP***