

ALTERNATIVE INVESTMENTS QUARTERLY

John Harrison retires
as ADISA Executive
Director after 13 years.

AI

QUARTERLY

SPRING 2025
VOLUME 19
ISSUE 2



Four Cities, Four Opportunity Zones: Lasting Results of the 2017 Tax Cuts and Jobs Act Legislation

| Is Your Marketing Building Credibility and Trust? | 2024 Year
End Oil & Gas Report—A New Beginning | Is Your Marketing
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The Cosmopolitan
of Las Vegas



Designed for all industry professionals
who sponsor, analyze, market, distribute or
recommend alternative investments.

A Good Team Was Had by All

By John Harrison, DBA,
ADISA Executive Director



**GO
TEAM!**

Teams can do amazing things. In organizational theory, there are five types of teams: work teams, management teams, project teams, action teams, and parallel teams. Work teams are long-standing full-time teams that produce goods or services; management teams are also fairly permanent, but are mostly just top management decisions. Project teams are ad hoc assigned to a more singular task; a parallel team runs alongside the other teams to check quality or provide advice; and an action team performs visibly complex or challenging coordinated tasks—surgical teams, flight crews, sports team, etc. All of us have been on these various types of teams at some point.

I've been lucky enough to have been on ADISA's work/action team for over a dozen years. It has been an extraordinary stint, a once-in-a-lifetime group that can organize and systematize anything from an overnight sudden secret organization-wide name change (REISA to ADISA) to a roaring conference event of 1100 complete with a presidential speaker and his Secret Service (George W. Bush).

It has been amazing to watch this staff work/action team (encouraged by its Board of Directors management team), effect the association's growth five-fold over the past 13 years. We started out with about 1,000 members in 2012 and currently clock in at over 5,000. Those ADISA members in 2012 counted from about 350 firms; now there are over 1,000 firms in the membership. Given that many members, it's not surprising that well over 20,000 industry professionals have attended ADISA (or REISA) events in the past dozen years.

After one month shy of 13 years, my participation with this team comes to an end this summer. And I leave not for reasons of triskaidekaphobia (fear of 13), but because it's high time to retire and welcome in the new leadership of John Grady. He is leaving his ADISA President volunteer position to move over and head up the professional staff part of the operation. We are lucky to have him, and he brings a wealth of experience, dynamism, and creativity to move ADISA toward even more growth. In leaving, I shall miss the teams--staff and Board and you the members, but y'all (from Atlanta, after all) are smart and strong and primed for growth. Here's to the next dozen years burning even brighter! ▲

Four Cities, Four Opportunity Zones: Lasting Results of the 2017 Tax Cuts and Jobs Act Legislation

By Louis Rogers, Natalie Mason and Jessica Dodt-Escobar,
Capital Square

Louis Rogers, the founder and co-chief executive officer of Capital Square and its related entities, is a nationally recognized authority in structuring securities offerings for tax-advantaged real estate investments. He is also the author of Section 1031 Exchanges: How to Swap Till Ya' Drop, Building Family Wealth While Minimizing Taxes, a substantial resource for those working in or curious about wealth management, real estate, alternative investments, and tax law.

Natalie Mason, Capital Square's executive vice president and co-head of development, has overseen development projects across numerous markets, including the delivery of Capital Square's 1,225+ units in Richmond, Virginia and a 300-unit high-rise in Raleigh, North Carolina.

Jessica Dodt-Escobar is vice president of investor communications and real estate investment trust operations at Capital Square, where she additionally focuses on corporate responsibility, sustainability and economic impact creation.

This article first appeared in the March 2025 issue of the Novogradac Journal of Tax Credits and is reprinted here with permission. For more information about the Journal of Tax Credits, visit www.novoco.com/products/novogradac-journal-of-tax-credits.

Raleigh, North Carolina, was named the best-performing city for economic growth by the Milken Institute in its 2025 report and North Carolina ranks third on U-Haul's "GrowthStates" index, which analyzes one-way truck rentals, an indicator of U.S. population migratory patterns. Despite this economic growth, not every neighborhood benefits from the investments for development. The opportunity zones (OZ) legislation in the 2017 Tax Cuts and Jobs Act addressed exactly this concern, providing substantial economic opportunities and connecting disjointed cities as well as emboldening neighborhoods primed for revitalization or greater maturation, all while providing investors with tax benefits.

At the southern edge of Raleigh's Warehouse District, defined by its red bricks and industrial roots, an OZ designated by Gov. Roy Cooper is catalyzing new development in the path of growth. Capital Square, a leading sponsor of tax-advantaged real estate investments in the U.S. and an active developer and manager of housing communities and mixed-use properties in the Southeast, is delivering its first development in Raleigh in March. Maeve, a mixed-use high-rise apartment tower, supported 750 jobs annually during construction and will generate an estimated \$1.5 million in state and local property taxes once operational, according to market-leading global consulting firm FTI Consulting. The project is also energizing the core of downtown Raleigh, where a local policy push is focusing on improved connections and anchoring a new arts and entertainment district at the Southern gateway to the city, oriented around an expanded convention center and a relocated outdoor amphitheater. What was once a shuttered building and a surface parking lot has become a 20-story apartment tower with ground-floor retail, extending the downtown core south to the Warehouse District and its neighbors including Boylan Heights and Dorothea Dix Park.

Maeve is only one of many OZ developments that Capital Square has undertaken, seizing upon the legislative intent of the statute and its numerous advantages for cities and investors alike.



Four OZs, Four Unique Transformations

As noted, OZ development in Raleigh is expanding the downtown core of North Carolina's capital city. Downtown Raleigh, like many of its peers, has had to grapple with the challenges that work-from-home transitions and ensuing office space downsizing brought to cities across the nation. More housing has been key to revitalization, creating organic resiliency by leveraging the redevelopment of live-work-play environments rich with culture, entertainment and the walkability many residents crave. OZ developments like Maeve are facilitating urban transformations to create interconnectivity and enhance the resident experience on sites that were previously forgotten.

"Capital Square's development in Raleigh is activating this area of downtown," said Kenya Pleasant, chief real estate development officer at Raleigh Housing Authority. "With the planned redevelopment of Heritage Park into a mixed-income, mixed-use community, we envision a thriving urban neighborhood that meets the demand for housing across the income spectrum."

Moreover, in Knoxville, Tennessee, another OZ development is concentrating on exactly these latter outcomes. At a recent housing crisis summit, Knoxville metropolitan statistical area representatives voiced concerns about city residents' access to safe and affordable housing. Livano Knoxville, a mixed-use development project, features 348 units in two five-story buildings, with 35 workforce housing units designed to be affordable to households earning up to 80% of the area's median income. Efforts in this Knoxville OZ, designated by Tennessee Gov. Bill Haslam, are addressing this need for housing while also answering a desire for walkability. A newly funded pedestrian bridge across the Tennessee River is planned to connect South Knoxville, where Livano is located, to downtown Knoxville and the University of Tennessee.

In Charleston, South Carolina, in an OZ designated by Gov. Henry McMaster, a different prospect existed from the OZ legislation. There, a bespoke apartment hotel concept is nearing completion, which will extend Charleston's thriving hospitality market to upper King Street. Approximately 250 jobs were created during construction, and according to FTI consulting, \$1.2 million has been generated in annual labor income from this project, which has direct, indirect and induced fiscal effects, strengthening the economy of the city and the financial strength of its workforce.

In Richmond, Virginia, six OZ construction efforts will result in 1,220 housing units in the transit-oriented, walkable neighborhood of Scott's Addition on sites that were previously surface parking lots or underused former industrial buildings. In addition to the 3,720 jobs created during the construction of these properties in this OZ, \$2.8 million in state and local tax revenue is projected to be generated annually from construction. Additionally, \$7.5 million is projected annually from ongoing operations. As in all OZ developments, the state and local revenues generated help support critical public investments, such as schools, highways and bridges, and public safety services, including the police and firefighters.

In partnership with FTI Consulting, Capital Square closely tracks the economic outcomes of each of the firm's OZ developments, which have now supported \$81 million in GDP and \$17 million in total tax revenues annually.



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Qualified opportunity funds (QOFs) deliver advantages unique within alternative investments, including not only a deferral of capital gains on original funds invested, but also a complete exclusion of capital gain taxes from the appreciation of the new investment if held for at least 10 years. OZs successfully attracted nearly \$85 billion in private investment by 2022, according to the Joint Committee on Taxation making it among the most consequential economic development initiatives in U.S. history

Where Private Capital Meets Public Policy Objectives

By creating tax benefits for investors, the OZ incentive is enabling individuals to invest in low-income urban and rural areas, creating profound economic benefits for taxpayers and thousands of locales across the country.

“Opportunity zones have transformed how individual investors think about their real estate investing strategy,” said Amanda Steele, managing director at Raleigh-based Crawford 1031 Advisors. “Developments like Capital Square’s Maeve present opportunities for our clients, many of whom are local to Raleigh, to be a part of the growth and evolution of their own community while also benefiting from tax advantages that align with their investment goals.”

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Capital gains are eligible for investment in QOFs. However, if QOFs were available to the wider investment community, not just to those with capital gains, the larger pool of investment dollars could also amplify the considerable results already on record. That could include a reduction of the national housing shortage, better local and state infrastructures, and job creation. This additional investment, and its widespread influence, could reinvigorate even more low-income areas by providing greater job opportunities, more tax dollars back to states and localities and much needed critical new housing.

In Raleigh, Maeve is changing the southern skyline of the city. Yet the results of developments in this Warehouse District OZ are far greater than the physical change. The OZ incentive has emboldened cities, fiscally strengthened neighborhoods, energized communities and created significant investor advantages. Economic growth has its organic forces. Yet the combined efforts of individuals, companies and smart national policies carry substantial weight. Congress should make the OZ legislation permanent and expand it beyond just the investment of capital gains to include all investors with capital to invest. The nation and thousands of local neighborhoods will be the better for it. ▲



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Is Your Marketing Building Credibility and Trust?

By Jill Swartz, CEO and Co-founder,
Spotlight Marketing Communications

Jill Swartz is a marketing and PR professional with 25 years of experience in media relations, marketing and advertising. She is also the partner and co-founder of Spotlight Marketing Communications, a full-service marketing and communications agency specializing in alternative investments.

The most valuable asset a firm can provide is trust. Quickly establish trust with these four strategies.

Alternative investments present a unique marketing challenge. The variety of asset classes, the unique complexities of certain products, and the perceived level of increased risk make building trust and credibility essential, especially as more potential investors show interest in alternative assets. While each offering is distinct, you can improve your chances of standing out through a marketing strategy that highlights your expertise, conveys a unique brand voice, encourages engagement, and emphasizes transparency and responsiveness.

Showcase Your Expertise

In today's business environment, consumers often seek more than a transaction; many desire a relationship with someone they trust. This can be especially important in the world of alternative investments, where investors may be investing for a long period of time and for a variety of personal reasons.

One effective way to start building trust is to highlight the experience, educational background, and track record of your key team members. On your website, be sure to include an "About" page or a "Meet the Team" page that includes a bio and any other relevant experiences, such as professional designations (e.g., CFA, CAIA) or memberships in industry organizations. These designations signal a commitment to ethical standards and professional development. You also may consider video interviews to further humanize your company.

Another way to give your audience an idea of your voice and further build credibility is through thought leadership. Publish articles or white papers on relevant industry topics. This demonstrates your deep understanding of alternative investments and positions your firm as a knowledgeable resource, and it also helps potential partners or investors quickly get a good idea of your views on the market or certain assets. By featuring the people behind the offering or firm, you can establish both trust and credibility.

Create Consistent and Clear Messaging

Advisers and their clients, like everyone else, lead busy lives. Establish trust by making it easy for them to quickly identify who you are. A common marketing guideline is that a potential customer must see your message seven times before they'll take action, and today, with the increased saturation and competition,



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To enhance the clarity of your messaging, consider creating tailored content for specific segments of your audience. For example, an adviser might be interested in performance data and portfolio construction strategies, in which case a flyer with your track record or a PowerPoint presentation that outlines your portfolio strategy could be important. If you're marketing directly to individual investors, you may want to create more educational content, such as a white paper that outlines current market conditions and how you may work to mitigate risk.

In all scenarios, try to keep your marketing materials concise and minimize the use of industry jargon. This type of transparency contributes to an environment that fosters trust and can help you stand out from the competition.

Utilize Social Media

Whether you embrace it or not, social media can be a powerful tool for quickly building trust with your audience. Be strategic with your social media and choose platforms that align with your target audience. LinkedIn, for example, could be ideal for reaching financial professionals, while Twitter/X might be a way to engage with a broader audience and display your expertise to those interested in alternative investments.

Whichever platform you choose, always remember to be authentic. Share insights, news, and commentary related to your areas of expertise. Post updates or pictures of events that involve your office/employees and always interact with followers and respond promptly to comments and questions.

You may also consider adding value by offering exclusive content or early access to thought leadership pieces for your social media followers. This can help incentivize engagement and build a loyal community.

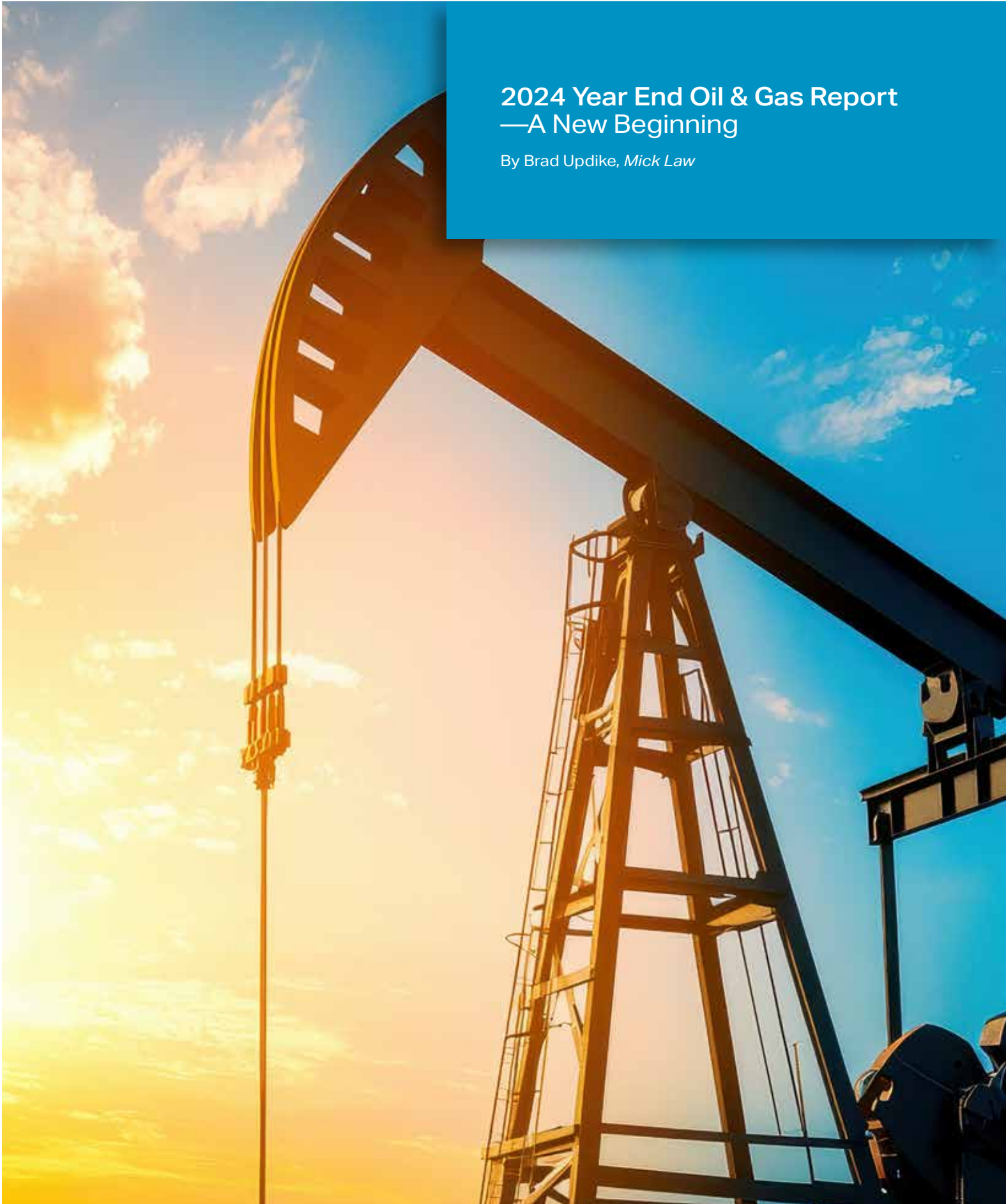
Build on the Cornerstones of Trust

Beyond these tactics, the best way to build trust with your audience is to be honest and transparent. You can do this by providing clear and comprehensive reports on performance, fees, and potential risks. For example, you may provide a monthly or quarterly update that highlights the current status of your offering. Consider hosting a webinar where advisers or investors may ask you questions directly and be readily available to answer any questions or address concerns. Don't conceal information, use misleading language, or evade difficult questions. By confronting challenges head-on, you are more likely to build credibility.

Building trust and credibility requires a multi-faceted approach. By showcasing your expertise, maintaining consistent messaging, leveraging social media, and prioritizing honesty and transparency, you can establish your firm as a reliable partner in the realm of alternative investments. ▲



Whether you embrace it or not, social media can be a powerful tool for quickly building trust with your audience. Be strategic with your social media and choose platforms that align with your target audience.

A low-angle photograph of an oil pumpjack against a bright, hazy sky at sunset or sunrise. The pumpjack's long arm and counterweight are silhouetted against the warm, orange and yellow light. The structure is made of dark metal, and the sky is filled with soft, wispy clouds.

2024 Year End Oil & Gas Report —A New Beginning

By Brad Updike, *Mick Law*

Brad Updike manages Mick Law's energy and tax-oriented practice. Updike joined Mick Law in August 2006, and his areas of practice include securities law, oil and gas, private equity, conservation real estate, DPP due diligence, taxation analysis relating to securitized financing, and securities advertising practices.

After four years of inflation and a confused fossil fuels market that strived to make sense of the Biden administration's "War on Fossil Fuels," the U.S. exploration and production ("**E&P**") industry might now be able to breathe a sigh of relief in terms of government support with Donald Trump's presidential reelection. From the first day of taking office, the new GOP-lead administration took dead-aim at predecessor Biden's climate change and renewable energy policies by declaring a national energy emergency to help speed up fossil fuel development.

On the other side of the congressional aisle, Democrats claim that Trump's declaration was unneeded, given that the U.S. is producing more oil and natural gas than any other country and because Biden's Inflation Reduction Act boosted renewable energy at a critical time, creating jobs and addressing the threat of climate change threat (despite the fact that 2024 was the Earth's hottest year on record). Notwithstanding the banter back and forth from our esteemed congressional representatives, what is evident from these past 45-days is that the Trump administration is poised to make the U.S. a friendlier environment for oil and natural gas development through the following initiatives:

- **The liquid natural gas export pause is gone.** Last year the Biden administration paused approvals of new liquefied natural gas ("LNG") export terminals, which pleased environmentalists that were concerned that growth in such exports would contribute to planet-warming. The pause didn't stop projects already under construction, but it delayed consideration of new projects. In late January 2025, Trump reversed that pause, and in doing so, the U.S. is now expected to play a major role in meeting natural gas demand on a global scale, with its export capacity expected to double before 2030, according to the U.S. Energy Information Administration ("EIA").
- **Drilling permits on public lands.** Trump has opened more land for oil and gas lease sales, shifting away from the Biden administration's efforts to protect environmentally sensitive areas. This development is expected to

facilitate drilling in certain areas of the Mid-Continent (i.e., Permian and Anadarko Basins), as well as other lands controlled by the Bureau of Land Management.

- **Executive orders take aim at renewables.** Trump also targeted wind energy with an executive order to temporarily halt offshore wind lease sales in federal waters and pause federal approvals, permits, and loans for projects both onshore and offshore. Trump has also vowed to end tax credits for renewables as well.

In addition to the above-mentioned policies, and from our viewpoint, Trump’s reelection should help to support a continuing presence of favorable income tax rules that were placed on the chopping block by the Biden administration from 2020-2024 in respect to intangible drilling cost (“IDC”) expensing and oil/gas depletion allowances (which are major selling points for retail-oriented drilling programs). Barring an unusual future change in Trump’s energy priorities, these tax provisions should remain unchanged over the next four years.

Does government support always = E&P economic prosperity? Not so fast...

While the U.S. oil and gas sectors are positioned for better days from a governmental regulatory and enforcement perspective, **not all** energy thought leaders are on board with the notion that the Trump administration’s promise to “Drill Baby Drill” will culminate in better economics within the oil patch. Tom Hillie, an Energy Analyst and market information source to our firm, cautioned in a recent email communication to our firm on February 25, 2025, that oil/gas markets are positioned for a bumpy ride due to all the new governmental and political developments:

... 2025 has started with the **jawboning volatility** that has roiled, confused, confounded and befuddled the Oil and Gas industry so much so that we end the first month right back where we started (just another example of the paper vs physical market dynamics at work). One month down, eleven more to go.

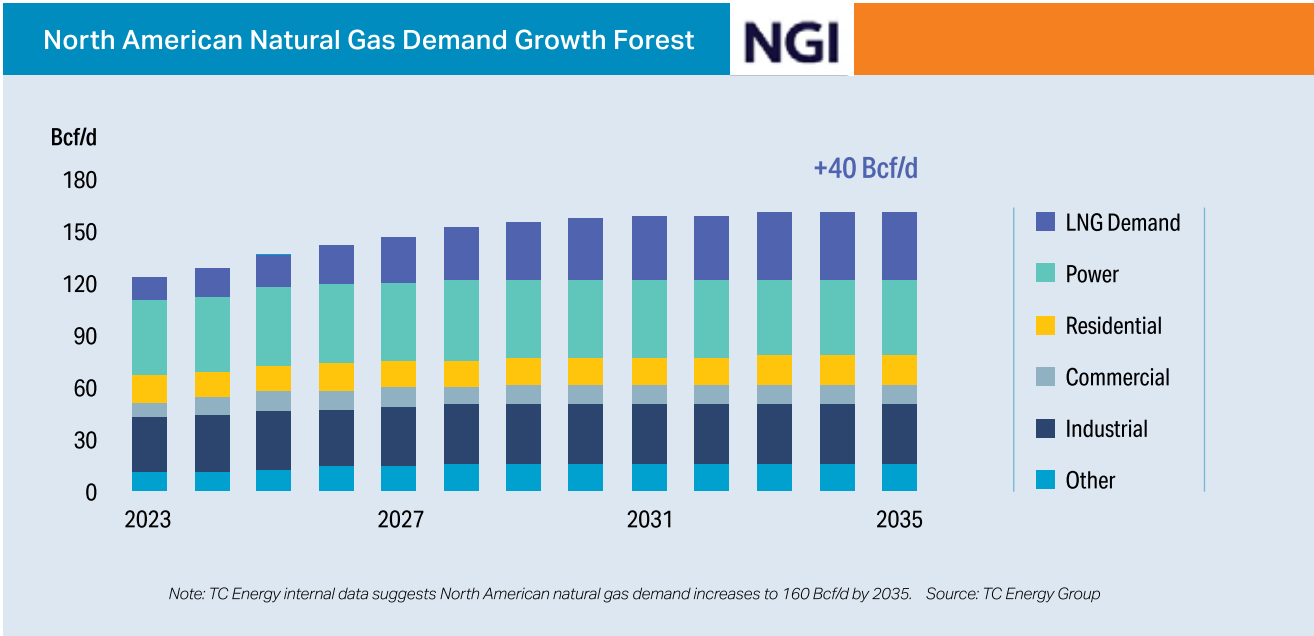
Massive ‘climate caused’ wildfires in California, Ceasefire in Gaza with exchange of prisoners/hostages, the Inauguration of the new administration followed immediately by a blizzard of far-ranging Executive Orders (including a declaration of a National Energy Emergency), followed even closer by DeepSeek. **While all of this happened, there are numerous other “in the works” tariffs, sanctions, negotiations, confirmations that will have impacts on the markets.**

Meanwhile, back in the patch, we have a few things to discuss. Oil with downside risk and Gas with upside risk, that we discussed last month, were both on full display this first month with both trading in their risk directions by more than 1 standard deviation. The 4th quarter Dallas Fed Survey drilled down on the widening chasm between the top tier operators and those of lower tier status by focusing on input costs, efficiencies, production and netbacks. As you can surmise, it does not bode well for the lower tiers (who are finally realizing that activity does not equal profitability). This same reality is coming for the oilfield service sector as evidenced by the fastest pace of Bankruptcy filings in recent memory. The bifurcated oil market of WTI Cushing vs Magellan East Houst (i.e., Brent) is playing out, as discussed last year, with price differentials blowing out to MEH and Cushing tanks recording the lowest levels of storage since 2008. **The Gas market is being pulled in all directions at once with cold weather, egress issues, LNG export increases, and pipeline disruptions all competing for attention.**

Natural Gas Demand Picture

While there are many political-related developments for which the ultimate market outcome is not certain, we believe that a good argument exists that natural gas prices are positioned to move to a higher stabilized level over the next few years. This development is mentioned, to a small extent in the EIA’s natural gas demand estimates for 2025 and 2026, which estimates gas demand to grow from 102 billion cubic feet (“bcf”) per day in 2024 to 105 bcf per day in 2025 and 106 bcf in 2026.

Acknowledging the EIA’s sentiment for slight consumption growth, there is an emerging sentiment that longer-term consumption need for natural gas will actually fall somewhere between 120 bcf to possibly 130 bcf per day on an annualized basis over the next few years from LNG exporting, auto electrification, and from the construction of data centers (with some sources predicting the growth to eclipse possibly 150 bcf per day by 2035).¹ This sentiment was shared by multiple oil/gas industry leaders at the NAPE Expo LP Conference held in Houston, Texas earlier this year.



We would be remiss not to acknowledge the recent developments surrounding DeepSeek Artificial Intelligence (“AI”), the technology of which is expected to significantly increase the efficiency of AI, while also reducing the need for natural gas usage, particularly in the power generation sector, as DeepSeek’s capabilities can *reportedly* optimize energy consumption and *potentially* lessen the demand for new natural gas power plants due to its efficient processing of power. On this point, DeepSeek has reported in certain publications that its model uses roughly 10 to 40 times less energy than similar U.S. AI technology, a reduction that, if true, would seemingly cut the substantial need for energy-consuming data centers. **As such, and while our firm continues to feel positive about the direction of natural gas, the overall power demand effect of the recent data center construction explosion remains to be fully understood (i.e., which presents an element of risk as to how much natural gas will be required to support data center needs in the next few years).**

Oil & Natural Gas Markets

Over the past several years, Dan Steffans, President and Founder of the Energy Prospectus Group, has provided presentations at our energy conferences regarding oil/gas market developments. During his podcast during the 2024 holidays, Mr. Steffans shared his sentiments as to how Trump’s reelection could affect oil/gas prices in 2025 and beyond. Due to the increasing demand for electricity in the U.S., Canada, and worldwide, Mr. Steffans views Trump’s reelection as *bullish long-term for natural gas*, which is supported, in Mr. Steffans’ view, by the new LNG capacity that is expected to come on-line over the next couple years as the result of Trump’s favorable position on LNG exporting. In further support, Mr. Steffans stated that he foresees natural gas demand pressures coming from future bidding wars in which LNG exporters and utilities are forced to compete for natural gas in future years when winter weather patterns are near normal. Also, and as natural gas continues to displace coal as a power plant feedstock in the U.S. and Europe, Mr. Steffans views the long-term supply and demand prospects as being favorable for natural gas development. For underwriting purposes, Mr. Steffans suggested \$3.50-\$3.75 per thousand cubic feet (“mcf”) as a reasonable pricing assumption for economic modeling purposes.

While Mr. Steffans acknowledged a *moderate* degree of bullish sentiment for oil in early 2025 due to recent worldwide refinery capacity limitations, **he did not believe that Trump’s reelection would have a significant effect on oil prices.** Tempering expectations, Mr. Steffans characterized the 2024 oil price range of \$75-\$85 per barrel (“bbl”), in his view, as being an appropriate expectation for oil this year; with \$75 bbl viewed as a reasonable assumption for financial modeling purposes (in January 2025). On a comparative note, Mr. Steffans’ pricing assumption for oil (\$75 bbl for Q1 2025) reconciles with recent survey data collected by the Federal Reserve Bank of Dallas relating to the oil/gas prices most companies are using to underwrite E&P capital spending projects (i.e., with \$70-\$75 bbl for oil being the most common price used by the surveyed E&P managers in the survey published January 2, 2025). On this point, the markets have recently priced oil within a range of \$65-70 bbl on the assumption that U.S. crude production will eventually hit 14 million bbls per day before drawing back some in late 2026 and 2027. A summary of selected oil/gas pricing information is provided below:

Oil	
MWTI/Mar. 6, 2025	\$66.41 bbl
WTI/EIA 2025 Estimate	\$70.00 bbl (Brent -\$4)
WTI/EIA 2026 Estimate	62.00 bbl (Brent -\$4)
NYMEX Futures Q2 2025	\$67.50 bbl (3-Mo. Avg.)
NYMEX Futures Q2 2026	\$64.50 bbl (3-Mo. Avg.)

Natural Gas	
NYMEX/Mar. 6, 2025	\$4.30 mcf
EIA 2025 Estimate	\$3.80 mcf
EIA 2026 Estimate	\$4.20 mcf
NYMEX Futures Q2 2025	\$4.50 mcf (3-Mo. Avg.)
NYMEX Futures Q2 2026	\$3.80 mcf (3-Mo. Avg.)

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E&P Cost Trends

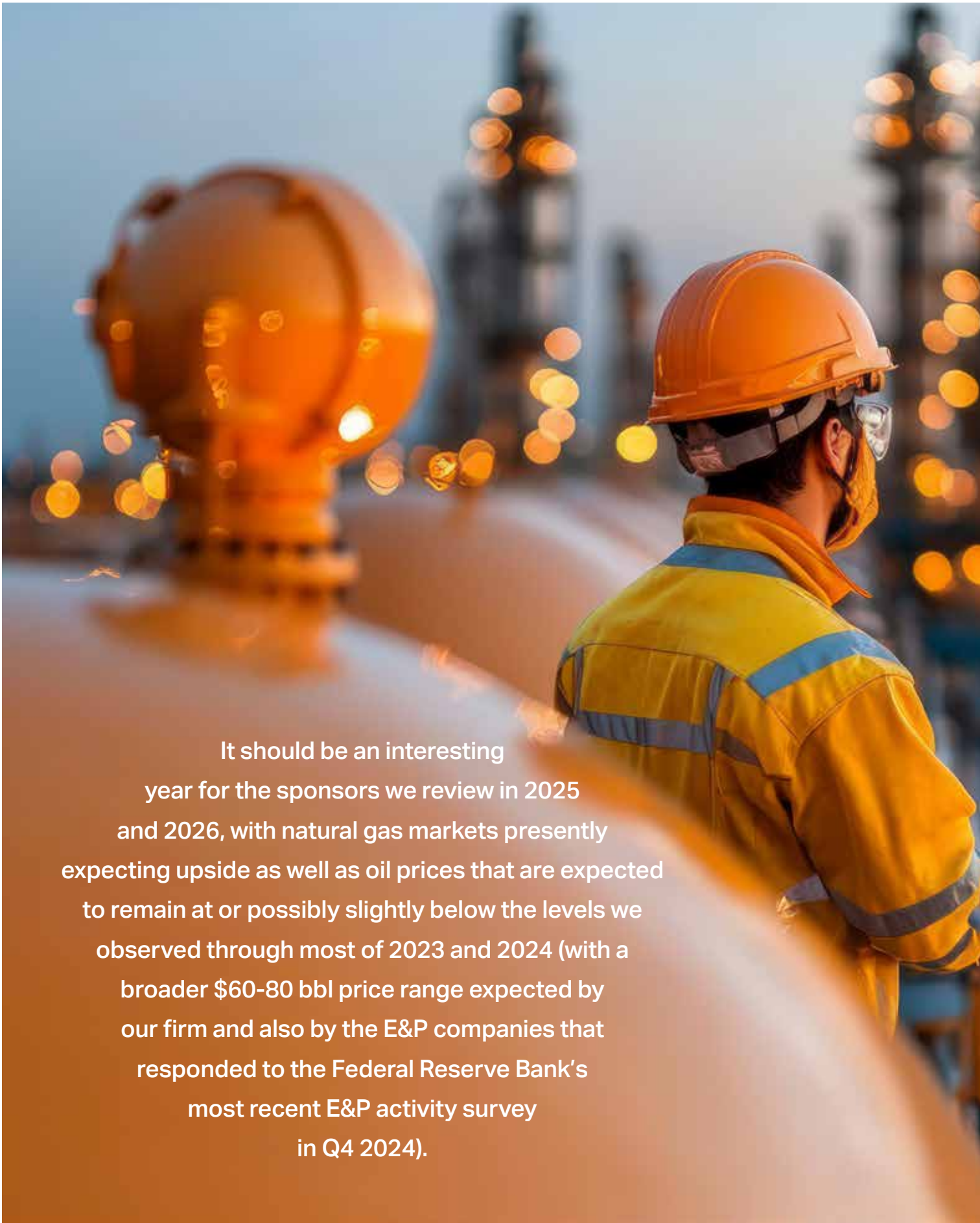
From a cost perspective, we can report that well project budgets (referred to in our opinions as “AFEs”) have stabilized in multiple resource plays, including the Bakken/Williston Basin, parts of central Oklahoma, Eagle Ford Shale, and Marcellus Shale Play. This should help to facilitate economic returns within these plays. **We note that drilling costs within the Permian Basin continue to remain at or above \$60 bbl on a break-even basis, which could test the economics within the core and non-core (step-out) areas in the Midland and Delaware Basins.** Despite the higher finding costs, operating costs in the Permian Basin remain at manageable levels (e.g., \$31 bbl Delaware, \$38 bbl Midland), which may serve to help support returns in the core areas where drilling projects are being funded. A summary of drilling and operating cost trends is provided below (Source: Federal Reserve Bank Dallas, Jan. 2025):

Drilling Costs Break-Even		Operating Costs Break Even	
Permian Delaware	\$64 bbl	Permian Delaware	\$31 bbl
Permian Midland	\$62 bbl	Permian Midland	\$38 bbl
STACK/SCOOP (Okl.)	\$65 bbl	STACK/SCOOP (Okl.)	\$35 bbl
Other U.S. Shale	\$59 bbl	Other U.S. Shale	\$34 bbl
Other U.S. Non-Shale	\$66 bbl	Other U.S. Non-Shale	\$45 bbl

Retail Capital Trends

In 2024, we covered 14 sponsor companies which operate within the upstream oil/gas sector and raised money from retail investors. This group collectively funded 24 private oil/gas programs that raised \$1.441 billion to support drilling and E&P infrastructure, mineral interest acquisitions, and related projects. This represented a 17.50% year-over-year increase in capital funding from what was reported by these sponsors in 2023 (i.e., \$1.226 billion). This also resulted in the highest capital raise year from the E&P sponsor group that we cover (i.e., since 2005). Leading the way in terms of fundraising was U.S. Energy Development Corp. at \$678 million, which was followed by MDS Energy at \$197 million, and Mewbourne Development Corporation at \$180.0 million. Collectively, and as was the case in 2023, these three sponsors accounted for approximately 73% of the capital raised by the E&P sponsor group we cover. In terms of funding growth, about 50% of the sponsors from the E&P group reported either year-over-year gains in fundraising or stayed at about the same capital raising level as compared to 2023, which helped to continue the capital raising momentum that was established in 2021-2022 after the headwinds of COVID began to loosen its grip (i.e., with \$273 million being the capital raise from the E&P group in 2020 during the pandemic year). A chart of the fundraising totals of the E&P sponsors we covered is provided on the opposite page:

Capital Raised					
Company	Strategy	2024 Raise	2023 Raise	2022 Raise	2021 Raise
Mewbourne	Drilling-horizontal wells in the Permian Basin, and Anadarko Basin	\$180.00 MM	\$180.00 MM	\$55.31 MM	\$119.80 MM
MDS	Drilling-horizontal wells in the Marcellus Shale Play	\$297.00 MM	\$196.00 MM	\$225.00 MM	\$146.92 MM
S.T.L.	Drilling- Marcellus Shale Play of east Pennsylvania	\$25.00 MM	\$31.00 MM	\$42.50 MM	\$29.50 MM
U.S. Energy	Drilling-Permian Basin, Powder River Basin, and Haynesville Shale Play; the QOF is an Opportunity Fund Seeking to Acquire Working Interests and Other Upstream Assets	\$510.67 MM drilling; \$102.00 MM QOF; \$12.51 MM 1031 program; \$53.08 MM private credit	\$388.00 MM drilling; \$80.00 MM QOF \$15.00 MM 1031 program	\$64.0 MM drilling; and \$20.0 MM QOF program	\$145.00 MM drilling; \$45.00 MM QOF program
Waveland	Opportunity Fund Targeting Minerals and Non-Operated Working Interests in the Bakken Shale	\$67.49 MM	\$94.48 MM	\$42.64 MM	\$13.26 MM
Resource Royalty	1031 Program Acquiring Minerals and Royalties in STACK Play of Oklahoma	\$17.15 MM	\$29.59 MM	\$32.90 MM	\$11.07 MM
Montego Minerals	1031 Programs Acquiring Minerals and Royalties in the Permian Basin and East Texas	\$67.49 MM	\$77.00 MM	\$62.20 MM	\$19.73 MM
White Hawk Energy	Royalty Fund Acquiring Mineral Rights, Royalties, and Overriding Royalties	\$20.40 MM	\$21.20 MM	\$65.70 MM	NA
King Operating	Sponsors Drilling and Leasehold Acquisition Programs	\$81.63 MM	NA	NA	NA
Texakoma Resources LLC	Drilling-Granite Wash Play in Tex. Panhandle; Horizontal Drilling for Oil/Nat. Gas	\$26.30 MM	\$32.00 MM	\$30.00 MM	\$20.00 MM
Texas Standard Energy	Drilling-Barnett Shale Combo Play in N. Tex.; Horizontal Drilling for Oil/Nat. Gas	\$38.00 MM	\$40.00 MM	\$4.00 MM	NA
RG Partners Fund	Value-added Workover and Recompletion of Leaseholds and Oil Production in North and East Texas	\$42.0 MM	\$2.0 MM	NA	NA
Unspecified	Two Additional Reg. D Sponsors also Collectively Raised Equity for Mid Con. Based E&P Projects	\$1 MM	\$40.28MM	NA	NA
Totals		\$1.442 bil.	\$1.226 bil.	\$1.088 bil.	\$550.27 mil.



It should be an interesting year for the sponsors we review in 2025 and 2026, with natural gas markets presently expecting upside as well as oil prices that are expected to remain at or possibly slightly below the levels we observed through most of 2023 and 2024 (with a broader \$60-80 bbl price range expected by our firm and also by the E&P companies that responded to the Federal Reserve Bank’s most recent E&P activity survey in Q4 2024).

Eleven Internal Revenue Code (“IRC”) Section 1031 (“§1031”) eligible programs were wholly or partially funded in 2024 by Resource Royalty, Montego Minerals, and U.S. Energy. These sponsor’s combined to raise close to \$100.0 million. In addition, White Hawk Minerals LLC continued the syndications of its common and preferred share offerings, raising close to \$20 million. Based upon relatively stable oil pricing (2023-2024), as well as longer-term natural gas market developments, we think the royalty sponsor segment will hold serve in 2025.

In addition to the capital raised, as reported above, we reviewed several oil/gas sponsors that are expected to come out with retail products in 2025. These sponsors include Mountain V Oil & Gas (formerly in the retail market from 2004-2009 and now sponsoring an east Kentucky-focused oil recompletions program), Trellis Energy (non-operated drilling program), Rising Phoenix (royalty acquisition program for RIAs), Purified Resources (non-operated drilling program in Bakken Shale Play), and Matrix Petroleum, LLC (operated Eagle Ford Shale drilling program). In addition to these new sponsors, we have entered into agreements in Q1-2 2025 to review Eagle Eye Funds, as well as an RIA-focused leasehold acquisition and drilling program to be sponsored by King Operating. As such, and while we cannot promise you that our sector will hit or eclipse the \$1.5 billion capital-raising mark in 2025, the presence of these new sponsors should help to keep capital raising levels at a level consistent with what we have observed over the past three years (i.e., \$1 billion plus/minus).

Conclusion

It should be an interesting year for the sponsors we review in 2025 and 2026, with natural gas markets presently expecting upside as well as oil prices that are expected to remain at or possibly slightly below the levels we observed through most of 2023 and 2024 (with a broader \$60-80 bbl price range expected by our firm and also by the E&P companies that responded to the Federal Reserve Bank’s most recent E&P activity survey in Q4 2024). As we stated in our last few year-end reports, and regardless of product structure/strategy, cautious underwriting of a program’s costs, risks, and reward will be more important than ever going into 2025-2026 based upon the volatility we are likely to see over the next few years. In view of Regulation BI’s mandate for broker dealers and advisors to conduct careful due diligence concerning a product’s costs, risks, and rewards, we continue to believe that careful day-to-day market analysis, as well as independent underwriting of targeted oil/gas projects will be key to any future success stories for financial service firms looking to sell non-traded oil/gas securities products this year and beyond. ▲

2024 E&P Capital by Strategy	
Total Capital	\$1.442 bil.
Contributing Sponsors	14
Drilling	\$995 mil. (69%)
Opportunity Funds	\$329 mil. (23%) (includes a QOZ fund)
Minerals/Royalties	\$118 mil. (8%) (most structured as direct interests)

1—Derived from Will Van Lowe’s keynote discussion held during the Business Track Luncheon of the NAPE Conference in Houston, Texas on Feb. 6, 2025. Mr. Von Lowe is a Managing Director at Quantum Capital Group.

Q1 Was Volatile—How Did Semiliquid Alternatives Perform?

By Matthew Malone, CFA, Head of Investment Management, *Opto Investments*

Matt has over 15 years of experience across all aspects of alternative investments, including investment management, manager research, and product development. He serves as President of Opto's registered investment adviser and chair of its investment committee. He is also a past president of ADISA.

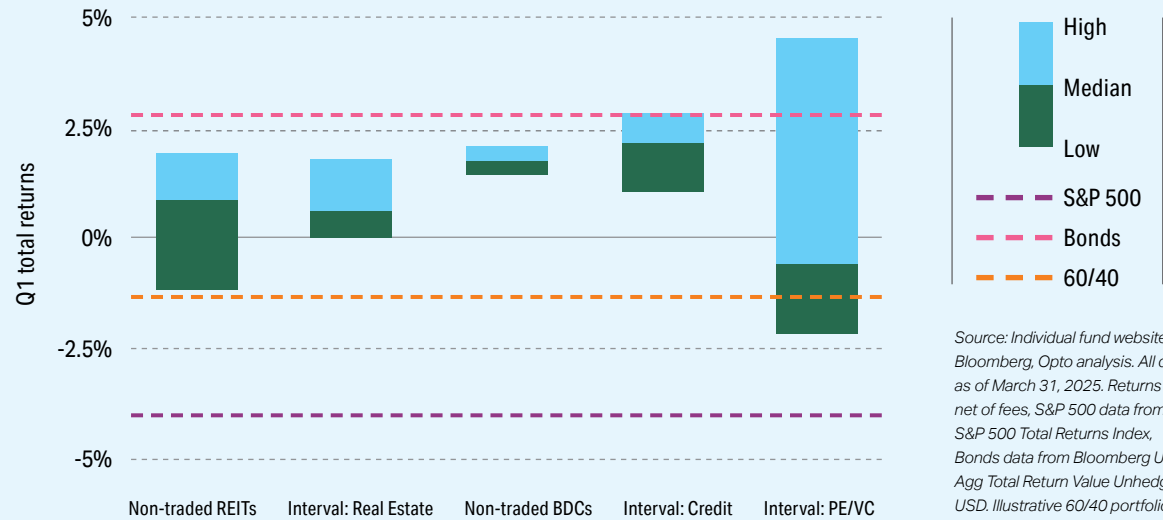
The first quarter introduced a level of volatility into markets that rattled investors. Although the S&P has now largely pared its initial losses, many were questioning their asset allocation after seeing what the “tariff tantrum” did to markets. This is the type of market where investors may look to private assets to provide stability to their overall portfolio.

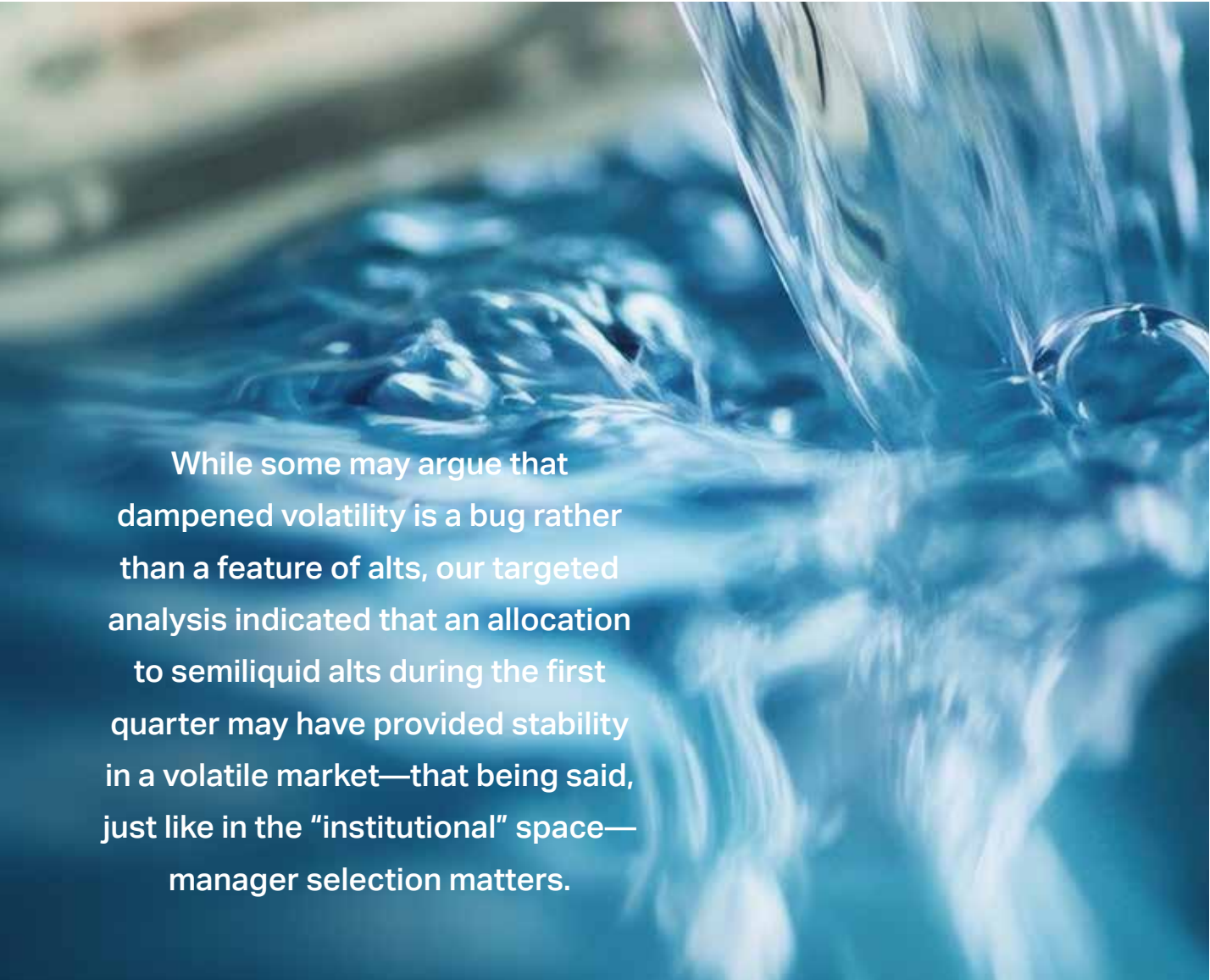
Given this backdrop, it is a good time to look across private asset classes to see how various sectors performed—including real estate (including non-traded REITs and interval funds), private credit (non-traded BDCs), hybrid credit (credit interval funds), and private equity (interval funds). We looked at the top five funds in each category (based on assets under management as of Q4 2024):

Private markets provide calm during Q1's market



Q1 2025 returns from five largest funds in different categories of evergreen private funds





While some may argue that dampened volatility is a bug rather than a feature of alts, our targeted analysis indicated that an allocation to semiliquid alts during the first quarter may have provided stability in a volatile market—that being said, just like in the “institutional” space—manager selection matters.

Overall takeaways:

- The median performer in each category outperformed both the S&P and a 60/40 portfolio on a total return basis
- Very few (three out of 25) outperformed bonds
- Dispersion of returns varied fairly widely between asset classes—other than non-traded BDCs (more on that later)

Based on this analysis, it appears that these alts more or less did what they were supposed to—provide stability in a volatile market. Let’s look a little deeper to see what else we can learn from the data:

Real estate

Looking at the two access points for semi-liquid real estate—non-traded REITs and real estate interval funds—there are some interesting comparison points among the funds reviewed:

- Non-traded REITs had a wider dispersion of returns compared to real estate interval funds.

Broadly speaking, I would attribute this to the nature of the underlying holdings—non-traded REITs generally hold real estate directly, while most of the largest real estate interval funds are, effectively, fund of funds. This matters because such non-traded REITs are directly valuing their real estate holdings on a monthly basis, while fund of funds often rely on marks from underlying managers, which may lag.

- The top returners in each category were similar (1.8% vs. 1.9%) while non-traded REITs had the lowest performer—again I would chalk this up to holdings—non-traded REITs are effectively less diversified because they hold direct real estate, while the interval funds with a fund-of-funds model likely to have lower dispersion of returns.

Credit

The dispersion of returns in credit vehicles was the inverse of real estate—the non-traded BDCs analyzed had a much tighter band of returns than credit interval funds. Why?

- The largest BDCs are almost entirely allocated to private credit—and also may have significant overlap in holdings (more on that here). As a result, their portfolios are generally marked less frequently than credit interval funds.
- Credit interval funds as a category encompass a much broader range of strategies than most of the other categories in this analysis—holding anything from high-yield bonds to more exotic structured products—individual funds may behave very differently in the short term. As a result of their structure and tendency to hold more liquid assets, interval funds generally value more frequently as well.

Private equity/venture capital

This sector of semi-liquid products deserves a deeper dive in future editions as it has grown quite substantially in recent years—until then, a couple of high-level observations on the funds analyzed:

- The lowest performer had high exposure to direct investments and the software industry—suggesting that private markets are not immune to public swings in value.
- The top performer had significant exposure to secondaries, which likely provided some stability in this environment.

Final thoughts

While some may argue that dampened volatility is a bug rather than a feature of alts, our targeted analysis indicated that an allocation to semiliquid alts during the first quarter may have provided stability in a volatile market—that being said, just like in the “institutional” space—manager selection matters. More to come on that in later editions...

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