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Exclusive

Quantum Capital Amasses \$10 Billion for Energy Bets

The fossil-fuel investor's latest haul includes \$5.25 billion for its eighth fund to back oil as well as renewables businesses

By Laura Kreutzer

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Quantum Capital Group has rounded up a total of more than \$10 billion for funds and co-investments in the energy sector across multiple investment strategies.

The firm attracted billions in commitments to its energy-focused strategies despite an overall investor pullback in recent years from funds focused on investing in oil and gas.

The Funds

The firm's latest haul includes \$5.25 billion for Quantum Energy Partners VIII and a related co-investment fund, both of which the firm has been marketing for at least two years.

Houston-based Quantum also raised \$2.8 billion for Quantum Capital Solutions II and a parallel co-investment fund to invest alongside publicly traded energy companies in deals involving oil and gas, typically through joint ventures.

The firm gathered roughly \$2 billion of remaining commitments for energy funds that it is still marketing to investors as well as for co-investment vehicles alongside those capital pools. Although it didn't name those funds, the firm is pitching investment strategies that include a private-credit fund targeting oil and gas and a fund focused on investments in early- and growth-stage technology-based energy companies.

The Strategy

Quantum targets investments from its main energy fund across deals involving traditional oil-and-gas operations, including upstream, midstream and oil-field services. But the firm can also invest the fund in companies that foster the transition to renewable energy, including wind and solar power, battery storage or even energy-related startups.

So far, the firm has invested or committed nearly half of the main fund's capital, including in this year's roughly \$1.8 billion acquisition of energy company Caerus Oil and Gas and its agreement in August to purchase Carlyle Group-backed power producer Cogentrix Energy for about \$3 billion, according to Quantum Chief Executive Wil VanLoh, who founded the firm in 1998.

Quantum also has invested around a third of Quantum Capital Solutions II. That fund surpassed the more than \$1.6 billion that Quantum raised for a predecessor vehicle in 2021.

The firm has seen more opportunities to invest alongside listed oil-and-gas companies as they have come under even greater pressure to return cash back to shareholders, leaving less available for investment, VanLoh said.

“When we formed the [strategy], public companies were able to reinvest 80% of cash flows,” he said. “Today, the average public company is spending just inside of 50% of their cash flows. If they're going to invest, they need alternative sources of capital.”

The Context

Quantum amassed its latest fundraising haul at a time when many North American and European investors have shunned traditional energy investing and sought to divest from fossil-fuel investments partly over concerns about climate change.

Investors have been pulling back from private-market funds focused on fossil fuels for years. By mid-November of last year, private-equity firms globally had raised 37% fewer oil-and-gas funds last year than were collected in all of 2022, according to data from industry researcher Preqin.

However, VanLoh said that casting off fossil-fuel investments in the U.S. and Canada would actually be worse for the environment, since producers in both countries generate less pollution than their counterparts overseas, including members of the Organization of the Petroleum Exporting Countries and Russia. Quantum has spent the past two years advising prospective investors on the potential environmental risks of divesting from U.S. and Canadian producers.

“By divesting from hydrocarbons, we're doing nothing to reduce demand,” VanLoh said. “So the question is, where will we source hydrocarbons from?”

Part of Quantum's fundraising success stems from returning a steady flow of capital to its fund investors in a market where cash-generating portfolio company exits have been muted. The firm has returned some \$14 billion in capital to its fund limited partners since early 2021, according to VanLoh.

“It's easier to raise capital when you're returning more money than you're raising,” he said.

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