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ANDREW WILLIS

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Scotiabank energy banker launches oil and gas PE fund

Over the past few years, energy company executives have been telling Adam Waterous that despite the negative headlines, there has never been a better time to be exploring for oil and gas.

The global head of investment banking at Bank of Nova Scotia heard this advice so many times that he decided to act on it: Mr. Waterous plans to leave the bank next month to launch a Calgary-based \$400-million private equity fund that will invest in up-and-coming North American oil and gas plays.

“There are enormous opportunities in unconventional oil and gas,” Mr. Waterous said. “Look past the headlines on carbon tax and low commodity prices, and you find new technology has transformed the energy industry and rates of return on drilling are now at 100-year highs.”

The new venture, which is called the Waterous Energy Fund, will focus on majority investments in private junior oil and gas companies and startups that use state-of-the-art extraction technology, such as combining horizontal drilling and what’s known as multi-stage fracturing.

Backers of the Waterous fund include Gord Flatt, a Winnipeg-born fund manager who is based in Bermuda and the U.K. Early in their careers, Mr. Waterous and Mr. Flatt co-owned a natural gas processing business that they built over five years and sold for a significant gain. Mr. Flatt’s brother is Brookfield Asset Management Inc. CEO Bruce Flatt, who is not an investor in the Waterous fund.

Rival investment banks are picking up on the same oil patch trends that inspired Mr. Waterous to venture into private equity. In a report this week, RBC Dominion Securities energy analysts said: “In our view, the application of unconventional technology in conventional reservoirs is the next theme to watch as Canadian oil producers shift to growth in 2017.”

This is Mr. Waterous’s second go-round as an entrepreneur. He launched a boutique investment bank in 1991 that was acquired by Scotiabank in 2005. Mr. Waterous subsequently ran Scotiabank’s energy team as the focus shifted from domestic clients to a global oil and gas platform; Two-thirds of Scotiabank’s energy business came from outside Canada last year.

“This is a great opportunity for Adam, and a unique fit for his passion and expertise,” said an internal note from Mr. Waterous’s boss Dieter Jentsch, Group Head of Global Banking and Markets. There are no plans to replace Mr. Waterous, with Scotiabank planning to have the departments he runs now reporting directly to Mr. Jentsch.

The downturn in commodity prices has a number of private equity fund managers targeting the sector, investing in both oil and gas plays and energy infrastructure. One of the largest energy-focused private equity funds, ARC Financial Corp., raised \$1.5-billion with its latest fund, which closed last June, and has invested more than \$5-billion in the oil patch.

Globally, there were 264 natural resource-focused private equity funds being marketed at the end of 2016, seeking a total of \$121-billion (U.S.) in capital from investors, according to a survey done by Preqin Ltd., a publishing house focused on alternative assets.