BRAD NORDHOLM

CEO of STARWOOD ENERGY GROUP

"Our approach to the market has been yielding excellent results, so we intend to continue what we are doing and focus on value-add opportunities in power generation and transmission, ultimately creating well-structured investments with contracted cash flow and predictable yield." Starwood Energy Group's CEO, Brad Nordholm, discusses the company's plans following the success of their second energy infrastructure fund.

As CEO of Starwood Energy Group Global, LLC., Brad Nordholm oversees all aspects of the company's investment, asset management, capital raising and organizational development activities.

Prior to joining Starwood Energy in 2006 as its first CEO, Mr. Nordholm was a co-founder of Tyr Energy Inc., where he helped grow the company into one of the leading power plant asset management firms in North America. During that time, Mr. Nordholm also served as Chairman of Tyr Capital, LLC., a fund that invested in power plants managed by Tyr Energy Inc. Prior to founding Tyr Energy Inc., Mr. Nordholm was a senior executive at Aquila, Inc. where he was responsible for the development, acquisition, management and daily optimization of more than 30 power plants, natural gas storage facilities and natural gas pipeline assets in North America and Europe.

What more can you tell us about Starwood Energy?

Starwood Energy is a private equity investment firm based in Greenwich, Connecticut that specializes in energy infrastructure investments, predominately in North America. We are an affiliate of Starwood Capital Group, a leading real estate private investment firm founded in 1991 by Chairman and CEO, Barry Sternlicht. Since its inception the firm has raised nearly $24 billion of equity capital and acquired $47 billion in assets. Starwood Capital Group currently has $33 billion of assets under management. Mr. Sternlicht is also Starwood Energy's Founder and Chairman.

Starwood Energy invests through its existing general opportunity funds, which include the Starwood Energy Infrastructure Fund, L.P. (SEIF), Starwood Energy Infrastructure Fund II (SEIF II) and other affiliated investment vehicles. Starwood Energy manages equity commitments of approximately $2 billion from pension plans, sovereign wealth funds, insurance companies and other institutional investors.

Our main objective is to invest the funds in natural gas-fired power plants, renewable energy and transmission systems. Starwood Energy and its affiliates have committed to energy infrastructure transactions totaling approximately $3.8 billion in enterprise value to date. Select transactions which illustrate the breadth of the asset class include investments in a 272 MW combined cycle power plant in Colorado, 69 MW solar power projects in Ontario, Canada and interests in two biomass projects recently constructed in the eastern United States comprising 175 MW of generation capacity. Our most recent transaction is an investment in Stephens Ranch, a 377 MW wind farm under construction in Texas. Approximately 75% of Starwood Energy's investments are in late stage development or at the initiation of project construction.

Can you tell us more about your current role within the group?

Since founding Starwood Energy, we have built a team of highly seasoned professionals, and raised two funds. In addition, I have overseen the completion of approximately two dozen highly-structured, value-add investments in power generation and transmission projects in North America. These investments have included solar, wind, natural gas and biomass power generation projects, as well as high-voltage transmission projects. We have worked hard to build a team with extensive experience in engineering, development and construction. The team's skill set has played and will continue to play an important role in being an active investor in the significant repowering currently underway in North America. The repowering opportunity is driven by several factors, including a shift from coal to natural gas power plants, a drop in the cost to build and operate solar and wind power projects, and the prospect of more distributed power generation, as well as state-level regulatory drivers. I strive to provide overall leadership to the team as we work through the opportunities, and serve as a Director of Starwood Energy's portfolio companies.

How has the investment landscape for energy infrastructure developed in recent years?

The energy markets are in a period of transition as regulations change, such as the renewable portfolio standards and environmental standards, and new technologies emerge. I previously mentioned the shift from coal to natural gas, which is primarily the result of market forces including the exploitation of shale gas, but also the implementation of new environmental regulation. Likewise, the growth in renewable energy power projects has been driven by a combination of the drop in the cost of renewable energy, technological improvements resulting in higher capacity factors and the implementation of renewable energy portfolio standards and federal tax law. We apply deep industry experience to capitalize on market disruption and opportunities generated by these changes. Starwood Energy's approach to underwriting an investment includes a consideration of the project risk profile and conformity to our investment philosophy.

The market environment changes frequently, so we must stay current and flexible regarding the changing investment opportunities. For example, in 2009-2010 we found utility-scale solar to be very interesting, but now competition for these opportunities has resulted in greater market efficiency and lower returns. More recently, we have found wind power projects to be an attractive investment because a large number of projects were developed upon the change of tax law in mid-2012, and European investors are rebalancing their portfolios. We typically collaborate with highly experienced developers on greenfield projects, despite having those capabilities in-house. This frees up our team's resources to better focus on our overall portfolio.

You recently closed your second energy infrastructure fund; what more can you tell us about this?

SEIF II closed in December 2013 with total capital commitments of $983 million, above its target of $750 million and at our hard cap. Many of our first fund investors recommitted to the second fund based on our track record. We broadened our investor base with commitments from pension plans and sovereign wealth funds in Asia, the Middle East and Australia. We also found robust interest from European and American insurance companies, including those experts in energy infrastructure investing.

What are your plans for this fund?

Our approach to the market has been yielding excellent results, so we intend to continue what we are doing and focus on value-add opportunities in power generation and transmission, with the ultimate goal of creating well-structured investments with contracted cash flow and predictable yield. While we do not have allocation targets, approximately 40% of our first fund was invested in renewable energy generation, 35% in natural gas fired generation and the remaining 25% in power transmission projects. Based on our current pipeline, we do not predict a significant change with the new fund, but market opportunity will ultimately determine where we end up.

What is in store for Starwood Energy in the near future?

Both the short-term and long-term fundamentals of the North American energy markets offer compelling opportunities for investment. The continued growth in electricity demand, coupled with increasingly stringent environmental regulations, the retirement of conventional coal-fired generation capacity, and demand for additional power generation facilities and high-voltage transmission capacity provide significant investment opportunities in the sector. We expect to keep a close watch over the technological feasibility of shifting power delivery from the centralized model we have built over the last century to a more distributed model. But, in the end, we will be focusing on opportunities to secure long-term revenue contracts that support well-structured investments with recurring dividends. One way of describing what we do is we create energy infrastructure projects well-suited to the investment objectives of 'core' investors including pension plans, insurance companies, and public yield-oriented investment vehicles.

Is there anything else you would like to add?

Starwood Energy works with investment-grade engineering, procurement and construction contractors that provide liquidated damages for delays or performance shortfalls. This provides a safeguard for investors on the off-chance things do not go according to plan during construction. Starwood Energy has never, to date, had any adverse effect on its economics from construction. The projects have been on time and either on budget or under budget.

We have a highly experienced team with the unique expertise required to successfully navigate the regulatory, technological and economic complexities of the power generation and transmission market. This allows us to fulfill our goal of being flexible in moving back and forth between opportunities, depending on which are offering the most interesting risk-adjusted premiums. Through discipline and care, we have proven the availability to capture very attractive risk-adjusted returns for our investors.

Having invested across a variety of energy subsectors since launching almost a decade ago, Starwood Energy has shown a remarkable ability to adapt its strategy to benefit from a growing and changing market.

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