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energy capital partners

Leadership in the Boardroom:

Perspectives from an Energy-Focused Private Equity Investor

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ARC Financial Corp. ("ARC") is a Calgary-based, employee-owned, private equity management firm founded in 1989, with an exclusive focus on the Canadian energy industry. Since 1997, we have raised eight private equity funds which collectively represent \$5.3 billion of committed capital, the most recent of which, ARC Energy Fund 8, closed at \$1.55 billion in June of 2015. Our Fund investors are primarily institutional, comprised of endowments, family offices, pension funds and foundations from Canada, the United States and Europe.

The mandate for the ARC Energy Funds is to provide growth equity capital for Canadian oil and gas companies. To date, we have invested in approximately 180 companies, and are currently seeking opportunities that range in size from \$50 million to \$200 million, or larger if we choose to access capital from our Fund investors or other institutions with whom we have developed long-term relationships. We proactively originate these opportunities as the lead investor, seeking to partner with management teams of accomplished professionals that have strong leadership skills, a high level of ethics and integrity, deep technical, financial and commercial expertise, and business plans that have the potential to create substantial value. In-depth due diligence on the people, the plan and the assets is a critical element of our investment process. Maintaining this high-level of rigor and care throughout the process is an important strategic value which is why, in most instances, we are investing in private companies where our ownership provides us with a control position.

Once invested, the board of directors becomes the key platform from which we lead, influence, monitor and govern the evolution of a portfolio company's strategy, execution and performance. We have seen first-hand through our experiences that the board has a significant role to play in a company's success. As such, we dedicate considerable time and resources to understanding the fundamentals of high performing boards. One of our founders, Mac Van Wielingen, has recently authored an insightful paper on this topic entitled "The Evolving Role of the Corporate Board: Governance, Strategy and the Imperative of Performance", which outlines a reconceptualization of governance and a refocusing of the role of the corporate board. The piece is very much influenced by Mac's experience at ARC building companies and high performing boards over the last 26 years. A summary of the attributes we believe lead to high performing boards and directors is presented on the following page. The relative weighting and emphasis we place on these attributes depends greatly on the specific company, management team, its business plan, state of maturity, and exit strategy among others.

Industry Domain Knowledge

Deep understanding of industry dynamics, key value drivers, corporate performance, and financial, regulatory, commercial, and stakeholder issues.

Strong Leadership Skills

Experience and a proven track record leading an organization, functional area, or major business line of an organization. Consistently responsible and accountable with a strong sense for building high-performing teams.

Corporate Governance Knowledge & Appreciation

Deep understanding of corporate governance gained through experience as a senior officer or board member of public and private organizations.

Relationship-Oriented

Compelling interpersonal skills and strong relationship-orientation with investors, the management team, the financial community, and the broader community the company operates in. This provides a foundation of trust and respect when difficult issues arise.

Financial Expertise

Demonstrated ability to critically analyze financial statements and projections, and experience in reporting, accounting, and corporate finance.

Technical Expertise

Efficient, resourceful learner, with the ability to critically analyze the technical aspects of specific projects and opportunities, and proven experience in operations and technical evaluations.

Strategic Thinking & Planning Capabilities

A strategic thinker with experience and competencies related to planning and execution.

Enterprise Risk Evaluation

Strong capability to identify, assess and mitigate risk, and experience evaluating and managing the spectrum of risks faced by organizations.

Business Development & Value Creation

Experience, aptitude, and a track record relating to business development, mergers and acquisitions, opportunity generation, and value creation.

Human Resources

Proven experience and knowledge as it relates to talent management, succession planning, advanced compensation practices, and creating a performance-based culture.

Health, Safety & Environmental (HS&E) Focus

Experience related to industry regulation, workplace health and safety, the environment, stakeholder communication, and social responsibility.

Sound Decision Making Capabilities

A consistent track record of creating value through effective decision making, and experience leading an organization's key decision making processes.

Strong Interpersonal & Communication Skills

Compelling interpersonal skills with an orientation to build trust and strong relationships; to listen effectively; to question; and to express opinions/perspectives in an influential and respectful manner.

Aligned Cultural Values

Exceptional professional integrity and values alignment in areas such as trust, respect, and environmental and social responsibility.

These required attributes are broad and diverse, yet together, they produce a comprehensive, advanced board. Clearly one person cannot offer all of these attributes, but in aggregate, the board of directors must deliver on all of these fundamentals. These attributes need to be thought of as an interrelated collection – they provide the greatest value when executed in a connected, cohesive manner. Most importantly there must be an overriding orientation towards performance. The board of directors must see its role as a key player in the value creation process while embracing risk management, sustainability and social-value relating to those whom we impact.

Board governance must be thought of not as compliance but as "leadership governance". Our extensive experience has shown that corporate directors can add meaningful value while still respecting the important separation of board and management responsibilities.