LIME ROCK PARTNERS LIME ROCK NEW ENERGY

ONE LAST TIME FROM "GUEST AUTHOR" GARY SERNOVITZ

From Lime Rock Management's First Quarter 2025 Quarterly Reports

Over the last 20 years, Lime Rock quarterly reports have eschewed broad, box-checking, and box-filling "market updates" for focus sessions, essayistic deep dives reminiscent of a lesser Howard Marks, a minor league Warren Buffett, and generally of times gone by. The focus sections have studiously avoided using the first person. This was a rule set up, perhaps fussily, for intellectual clarity: the Lime Rock Partners "team" invests in companies, but a "fund" has exposure to an investment; "we" could refer to Lime Rock or an individual strategy. That rule was also established for intellectual discipline in that the primary author, with no particular experience investing himself, wanted to speak in a collective, impersonal voice.

The irony is that almost everyone knew that the primary author was me. Maybe we's and us's will dot these sections for years to come, with the grammar police eating donuts in the stationhouse. For I am moving back to full-time writing in a few months, after 21 years at Lime Rock. And given the approximately 330,000 words in these focus sections—almost exactly seven *The Great Gatsby*'s—I wanted to end this encyclopedia of observations with some more personal thoughts.

These observations will not be on energy or private equity. I have them, of course, and they will be infusing, I hope, lots of essays, journalism, and maybe even books again over the coming years. (In the collapsed market for the written word, a writer has to make sure he has something left to sell.) So I am going to claim this space to reflect on Lime Rock, a subject of less public interest, with the hope that reflecting on Lime Rock—what I found here, what I loved, what in some ways I helped to build—will spur reflections, by capital allocators, on what they care about in how they select and interact with GPs.

As many readers know, John Reynolds and Jonathan Farber, my colleagues in the equity research department of Goldman Sachs in my first job out of college, asked me to join Lime Rock in 1998 at its founding. I was 25 and didn't know what private equity was. (Someone could have quizzed them, too. They were 28 and 30 and had between them about nine months of collective private equity experience and exactly zero investment history.) I said no, to write more, but joined them eventually in 2004, first on a freelance writing project, then for a few months part-time, then full-time as we slowly expanded strategies—and as the energy industry reinvented itself time and again. But in 2004, there was one strategy and twelve other people.

Like anyone, I reflect on occasion with pride on our collective work and the reasons I stayed. There are always opportunities in capital raising to find a bigger platform: Blackstone infrastructure, Asia distribution, 130 days on the road, "Good to see you again, Mr. Sernovitz!" at the Four Seasons Tokyo. (I've never been to Tokyo.)

But I never pursued an interview with another GP once in 21 years. These are many reasons for that. I'll consolidate them into 13 in honor of my badge number.

1. We never lost a partnership culture that liked many voices—and the voices of the young. We've never had a CEO over all of Lime Rock, or the "owner operator" culture of certain PE firms with a high profile founder. John and Jonathan had no model for what a private equity firm culture should be, but it evolved with them, two peers, two friends, with two different personalities, to never have a command and control culture. (This has been replicated at Lime Rock New Energy.) Discussing, disagreeing, cracking wise, poking fun was part of a culture that makes us look forward to getting together every Monday and at offsites. This meant my voice was always welcome and impactful in IC discussions, open to all, even if I was never on the IC. The same could be said for a 28-year old vice president. No one is told to mind their place, and indeed, there is more often the reverse encouragement to the 28-year old vice president: "When I was your age, I founded this firm."

2. We own failures and successes collectively. I tentatively share one fun fact with some colleagues as I near my end: I've never had a formal review. (Maybe it's waiting for me on exit: 21 years of data points that I've consistently been getting 3 out of 5 stars on "aggressively selling funds".) While my colleagues are surely getting reviews, my status is reflective of a broader culture that knows that success in private equity is sometimes not immediately apparent, that you have very few shots on goal, that markets magnify (or mask!) human fallibility, that direct effects aren't always easy to cite, and that the only way for an organization to survive decadal journeys is for a team to own successes and failures collectively. This is the case of investments individually and for a fund. This is a case of a fundraise—and we've had a few—that didn't meet its target.

3. We don't take ourselves too seriously. People at Lime Rock work hard, etc., but to a person, they all carry themselves with a certain jolly lightness. This self-perpetuating culture, for me, has been the foundation for being eager to get to my emails in the morning or on a call with colleagues. Clear-eyed investing to us is inseparable from the delightful analysis and appreciation of the essential comedy that is being alive.

4. We take our investors seriously. When I talk to other people in my role, a common refrain is that investing professionals see their LPs as some combination of space aliens, customers at the corner store, and marks to be exploited. That has never been the culture at Lime Rock, where I find an unusual respect *by* my investing colleagues *for* the fundamental challenge of capital allocation and fund investing. They also have an extraordinary ability to put themselves in our investors' shoes. This is both reflective of some basic human capability for empathy but also a gratitude for capital. For about 4 years in our 27-year history, capital flowed like Niagara Falls and we chose who got in. For the remaining 23 years, we have had to make our case for each commitment given sector and fund dynamics. We try hard to learn how our investors think. We never presume their capital is ours. We are aware that people's pensions, universities' budgets (especially now), and investing professionals' careers depend in part on us. We try to communicate unusually openly and candidly, even when we don't have the answers. (These focus sections have had lots of non-answers.) And we believe we have an unblemished track record of treating our investors fairly and transparently. We have never fooled ourselves with the twin delusions of other GPs: "we do all the work and deserve this" or "what they don't know won't hurt them."

5. We never got petty about alignment or rejections. An investor recently gave me a double-edged compliment: "Lime Rock takes rejection better than any other GP I know." We also have gotten feedback that we are less fraught and adversarial in limited partnership agreement negotiations. (Which doesn't mean we'll accept all pushback!) Both of these sentiments reflect a similar dynamic: we know that our fundamental ability to stay in business, mutually thrive with our LPs, and make the case for our existence doesn't depend on one LP's capital commitment or a few basis points on a first close discount. It depends on our ability to generate returns and be ethical, straightforward partners. With some pique, we have observed that while aggressive, borderline GP behavior almost always catches up with GPs who are prone to it, it tends to take much longer, after much capital has been raised, than karmic justice would seemingly demand. Or maybe karma always takes time.

6. We are passionate and partisan about our sector. One of the banes of my professional existence, and a great waste of my charms, is that a large part of my life has involved LPs telling me they don't invest in specific parts of the energy sector—or any of it. But I've never had any interest in a counterlife, the intellectually polygamous life of a generalist investor. What do you care about? What do you believe? How do you believe? (I'm sure the generalists are all fine. They are probably richer.) Our fundamental ability to bond with entrepreneurs or deploy capital comes from there being no way out of here, for us. These sectors matter to us. Their thriving matters, in different ways (and maybe irreconcilable ways) to life on earth. And so there is an insatiable appetite to know more, contribute more, learn more, and navigate better the industries—*industries*, not markets—we care about.

7. We saw through the noise. Recent daily incoming questions on the impact of the new Administration on a Lime Rock strategy has reminded me of a clear pattern of the past 21 years: our investors are usually more alarmed than we are about how this or that Washington policy move could affect a Lime Rock fund. This is just one example. Interim valuation marks are another, for which there is much less drama and self-worth invested in every quarter's numbers at Lime Rock than at most firms. (A French secondary investor once pointed out to me, "That in ze secondary mahkets, valuations don't normalleee go down-uh." "Welcome to the energy business, mon ami.") Lime Rock truly has a metabolism for long-distance running.

The numbers have confirmed the benefits of this approach. Over 27 years, the Lime Rock Partners team has generated an 18% *net* IRR and 2.2x *net* ROI across all investments, with $16.5 billion already returned and $3.5 billion unrealized on $6.3 billion invested. And the New Energy funds have stormed out of the gate with a 1.5x DPI and 37% net IRR on the first six deals in Fund I.

8. We are open to contradictions and negative capability. I couldn't end my two decades of focus sections without at least one pretentious reference to a literary figure. Or to two. The poet John Keats famously praised Shakespeare as "capable of being in uncertainties, mysteries, doubts, without any irritable reaching after fact and reason." Keats called this trait "negative capability," and I'm proud that Lime Rock possesses this as well. The most important one is related to energy. There is no attempt here to persuade, dissuade, or distract each Lime Rock strategy from their fundamental mission. (I often joke that the Norwegians, universally considered morally impeccable, are doing the exact same thing.) That negative capability extends to other parts of a Lime Rock culture of investing through a lens of probabilistic thinking and, as discussed below, the patience to accept that private equity deals are multi-season long-form television, not a two-hour film. You need to sometimes be able to watch and not always *do*.

9. We know you get very few ideas in life. David Swensen and others have made it very clear that one of the great challenges in investing is the agency problem: in which investment returns are distorted by the self-interest (and career ambitions) of individual investors—also inconveniently people. No one is immune from the agency problem; people at Lime Rock have career ambitions, too. But the history of Lime Rock reflects a culture that seeks to neutralize the agency problem through patience: the acceptance that an investor may go years between good ideas; it's okay, if the markets are not conducive, to report to an annual meeting with no deals done by anyone at all.

10. We know that investing involves loss and have never let it freeze us. If I had a magic wand and could change anything about 21 years here, it would be to alter the dozen or so haunting decisions that have led to money losing deals—a few times complete wipe-outs—and to three of 18 funds that have lost money on a net basis. In part this is due to the opportunity cost of the money we lost for our investors—and ourselves. It is also because limited partners, we've observed, cast irreversibly negative judgments on PE firms from capital losses way out of proportion to what those losses had on them as investors. Nonetheless, I'm proud that Lime Rock has raised our fists to the sky, cursed the conventional wisdom, and has not changed our fundamental investing culture: which is to invest to win, not to *not* lose. Of course, every investor should constantly find ways to increase their batting average and minimize the impact of portfolio mistakes. But if you're trying to deliver 2.5x to 3.0x gross portfolio company returns, which is a rare outcome in any circumstance in any assets, you have to be honest that losses will inevitably happen.

11. We've never been interested in asset aggregation. The most consequential decision Lime Rock ever took was probably in 2008, when we raised our largest—and existentially speaking, most disappointing—fund: Lime Rock Partners V at $1.4 billion. Investors were pleading for allocations. One very large public pension existing investor mentioned casually that they'd invest a half billion with us if they could. (That same investor had offered to seed a CleanTech 1.0 fund a year earlier with hundreds of millions.) While $1.4 billion was hardly a petite fund, we without much discussion turned away lots of capital and reaffirmed our complete disinterest in the asset aggregation business. This is with a full understanding that this might be a *better* business for GPs. The experience of investing Fund V in an overly diversified portfolio only reaffirmed a desire to stay away from raising capital in which capital deployment needs run over conviction in underwriting. Independent of the negative investment outcomes that often come from such malforming investment logic, to us asset aggregation is neither interesting nor fun.

12. We're not afraid to change and admit mistakes. For the first decade of my career, I was very proud that we were a globally diversified fund with front-line investing leaders with corporate executive experience. I told LPs that these were keys to Lime Rock's success. And they were. Until they became vulnerabilities, either from the market changing—most importantly, due to the U.S. shale revolution—or us having a closer look at team dynamics and investment results. If you want a crash course in the agency problem, let a former big company senior executive be the lead investor in a portfolio company. I'm proud that Lime Rock has changed in some key ways, for a more concentrated team by location, with a more investor-driven team (with many current leaders having spent almost their entire career investing at Lime Rock), and towards more concentrated portfolios. I'm equally proud that we made these changes with full candor to our investors. We've never tried to gaslight LPs that everything we've done has always been right.

13. We try every day to deliver returns and let God—through LPs, his humble servants—judge us when it's all done. People have often asked me *when* I'm going to write a book about Lime Rock. I laugh. I have a high capacity for writing stories with little action: *The Counting House* is a book about a CIO meeting with people and fretting about performance. But a book about Lime Rock would test even my capacity for actionless adventures. For the inner life of Lime Rock has been about patiently, a few times per year, finding an investment we have conviction in and then patiently working with companies to generate returns. Drama and disappointments and complexities come when the markets hit you. And I've been through three collapses in energy equities in my time, the present maybe-one not included. And time and chance can wallop any investment thesis or entrepreneur we back. Exuberance, of course, comes too, when a thesis is proven correct in profit dollars, when the market shines on you, or when both happen. But the essential culture here has been uncomplicated: waking up every day and wondering how we're going to deliver the goods to investors who have chosen us, trusted us, and will judge us again very soon.

And so looking back, I am less focused on the just under $10 billion raised with me calling on many of you. (I'd then have to count the billions *not* raised when you said no.) I'm also less focused on Lime Rock's returns, as proud of them as I am and as necessary as they are for my plans in the next phase of my life. What I'll remember instead are the ideas and the culture of this firm. What I'll treasure is the relationships made with many Lime Rock portfolio companies (who came to appreciate the humor if not always the politics of this bald New Yorker), with so many true lifelong friends in the LP community (whether investors or not), and with my colleagues at Lime Rock.

Yes, the life of Asian distribution for Blackstone infrastructure funds would have been lush. But I didn't work at Lime Rock for 21 years because I had to. I worked at Lime Rock because I got lucky.

Thank you to everyone.

Gary