



ARDINALL INVESTMENT MANAGEMENT: OUTSIZED RETURNS IN THE RACE TO NET ZERO

The Largest Network of Diverse- Owned
Private Equity Firms and Hedge Funds

When Susan Potto joined Ardinall Investment Management as Partner and Co-Portfolio Manager at the start of 2022, it was a homecoming of sorts.

Potto and Maria Jelescu, Partner & Co-Founder of Ardinall, met roughly 15 years ago. Though they never worked at the same firm (Jelescu managed a portfolio for Goldman Sachs Investment Partners while Potto was a Managing Director and research analyst for Iridian Asset Management's Mid-Cap Value Equity portfolios), the duo struck up a friendship. "We would bump into each other at conferences because there would be 200 guys and a few women. So, the few of us started a group of women investors, and we started talking to companies and management teams," Jelescu recalls.

The addition of Potto will complement Jelescu's portfolio management acumen. "I come more from an old economy cyclical perspective, and she is more growth and maybe more quality," Jelescu explains. "I've always had a bias towards investing in value companies, and she's had a bias towards investing in quality or growth companies. I feel like the combination of the two is very complementary."

Founded in 2017, Ardinall is a 100% women and minority-owned hedge fund firm with a catalyst-safe ESG investment framework. The firm invests in companies with actionable catalysts and significant value unlocked through ESG transformation. Essentially, the team sees the changes occurring around climate change and sustainability and invests in the companies on the right side of that change, shorting those believed to be the losers in the transformation.

The Ardinall team leverages its collective decades of investment experience in the energy and infrastructure industries to identify traditional companies that they believe can greenify and clean operations, infrastructures and business models to become compatible with a net-zero world. But Ardinall's strategy goes beyond conducting due diligence, building spreadsheets and models. "We work with the management teams in terms of helping them shape their sustainable strategy going forward – their path to becoming a net-zero company. We're trying to help them solve the problems that they're trying to solve themselves internally," Jelescu explains.

Bloomberg Intelligence reports that ESG assets are on track to exceed \$50 trillion by 2025, representing more than one-third of the projected \$140.5 trillion in total global assets under management. This massive pool of capital, public demand and other factors contribute to an abundance of entrepreneurial activity in the ESG space and public corporations strategizing on how best to become ESG-friendly.

But what excites the Ardinall team the most are the opportunities within the existing global manufacturing base – sifting through the current landscape and identifying those that can pivot and become green and clean. "Everybody wants to build a new wind farm. Everybody wants to build a new solar farm. That's great, and we need that," says Jelescu. "But I think the biggest opportunity is looking through the existing incumbents and identifying the winners and the losers as they go through the energy transition."

FROM OIL TO ESG

Before co-founding Ardinall, Jelescu spent 16 years managing portfolios that focused primarily in and around the energy space – mainly old-school oil and gas investments. While exploring potential cleantech and renewable energy investments, she gained a deep understanding of climate change, which dramatically shifted her perspective. "Frankly, I realized I was on the wrong side of the tracks. So, I pivoted and started focusing more on what we call the energy transition and on investing in companies that will be able to help us lower emissions and provide the world with cheap and reliable energy, but without emissions," Jelescu recalls.

One opportunity she worked on was related to energy access and infrastructure in Latin America. However, they couldn't execute the strategy in-house, so Jelescu requested to spin out with her team and that particular strategy into an independent firm, and she and Goldman Sachs colleague Alberto Alonso did just that to form Ardinall.

But even with Alonso and Jelescu's combined expertise, starting from scratch presented its share of challenges. "When you're at Goldman, you're just trying to do one thing, and you hopefully do it well. When I went on my own, I realized that there were so many more vectors that I needed to think about," Jelescu says. "On the business side, on building back office, building infrastructure, building a Rolodex of LPs, I had zero experience in all of those. It was not easy, but frankly, that's when I joined the NAIC – to set up the initial infrastructure and kind of get started on our own, away from the mothership."

Jelescu describes climate change as the biggest challenge humanity has faced. "We created this fund because we have been talking to companies over the years, and they were very unclear as to where the world was going. Are we going to a net-zero world? Are we going into a world where we won't be emitting one molecule of greenhouse gas into the atmosphere?" she says. "And the technologies were emerging, so because our background is in energy and infrastructure and kind of the industrial economy, we started seeing management teams reach out to us for advice."

PUTTING THE WORK IN

Ardinall has a few successful transactions under its belt. Among them is W. R. Grace and Co., a manufacturer of chemical catalysts that are a key input for the refining, renewable fuels and plastics industries. W. R. Grace sold primarily to refineries, but over time, diversified into other markets, which led to roughly 50% of the company's sales being characterized as sustainable. "We felt the market completely missed or ignored this mix shift," says Jelescu.

Ardinall presented W. R. Grace at an investment conference in October 2020, highlighting the unappreciated ESG angle and the potential strategic outcomes that could arise from a then-recent activist involvement in the stock. Shortly after, W. R. Grace received a buyout offer from Standard Industries Holdings Inc., a privately held global industrial conglomerate. The purchase price, valued at \$7 billion at the time of the initial announcement, represented an approximate 60% premium to the unaffected share price.

Another, CMC Materials Inc., is a provider of specialty materials to various end markets – the largest being semiconductors. Formerly known as Cabot Microelectronics, Ardinall has been constructive on the semiconductor industry and liked the company's competitive positioning. However, the team was concerned about two smaller segments that they believed were challenged: a specialty coatings business for use in telephone poles that was deemed an environmental hazard and an ill-timed acquisition of a company that sells drag-reducing agents to the pipeline industry, which subsequently suffered a downturn. Drag-reducing agents are additives in pipelines that reduce turbulence and increase capacity in a pipe, often used in petroleum pipelines.

In 2021, CMC decided to exit the legacy telephone pole business, which Ardinall saw as a significant step in improving its ESG profile. Additionally, in late 2021, CMC acknowledged for the first time that the company would be willing to consider a strategic review of the drag-reducing agent business. With these positive changes, the company received a buyout offer from Entegris, Inc., one of its larger competitors, in December 2021 in a cash and stock transaction with an enterprise value of roughly \$6.5 billion – an approximate 40% premium.

A NET-ZERO WORLD

With Susan Potto's skills added to the team, Ardinall is executing on its goal to broaden its ownership base and build a best-in-class investment team while remaining 100% women and minority-owned. But ultimately, the endgame for Ardinall is becoming an investment firm known for generating outsized returns while undoing the damage industrialization has done to the environment.

Jelescu believes this goal is attainable not just by building out wind and solar infrastructure but also by cleaning up the existing industry. "We would like to look back 10 years from now at sustainability-focused champions that we invested in and that emerged in each of our target industries and attribute a portion of their success to Ardinall's active engagement to help them become compatible with a sustainable, net-zero world."