PRIVATE CAPITAL: STILL ON COURSE FOR A RECORD YEAR?

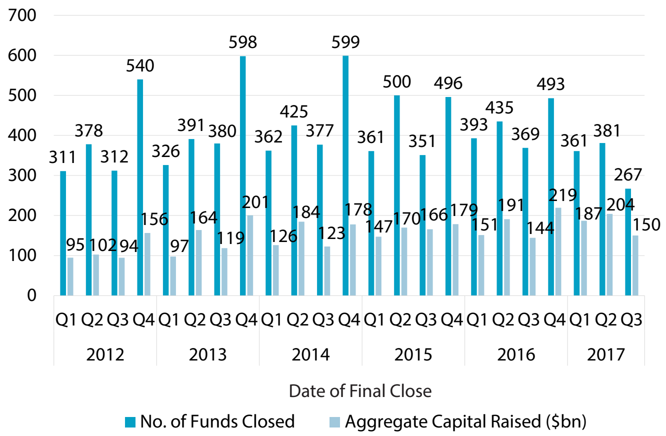
One question being asked of the private capital fundraising market in 2017 is 'will this be a record-breaking year?' The signs are promising: the first half of the year saw 742 private capital funds secure a total of $391bn from investors, surpassing the previous record of $384bn raised by funds closed in H1 2008. And given that fundraising fell in the second half of that year as the Global Financial Crisis came to the fore, if 2017 maintains this momentum it seems likely that the year will set new fundraising records.

However, Q3 may represent a slight stumble in that progression, as fundraising levels have fallen compared to recent quarters. Globally, 267 private capital funds have secured a combined $150bn – a substantial total, but nonetheless some way off the $204bn raised by funds closed in Q2. Preqin does expect fundraising totals for Q3 to rise by up to 10% as more information becomes available, but it seems likely that this quarter will come to represent a drawback from the recent frenetic pace of activity.

Looking ahead, however, it may be that this represents a pause rather than a change in fundraising momentum. The third quarter of a year frequently sees less fundraising activity, and the number of funds in market seeking capital has grown further over the past quarter: there are now 3,211 vehicles targeting a total of $1.2tn in investor capital. These include 32 funds that are targeting $5bn or more, up one from the start of Q3, and three which are targeting more than $24.7bn, the size of the largest ever private capital fund (Apollo Investment Fund IX, which closed this quarter).

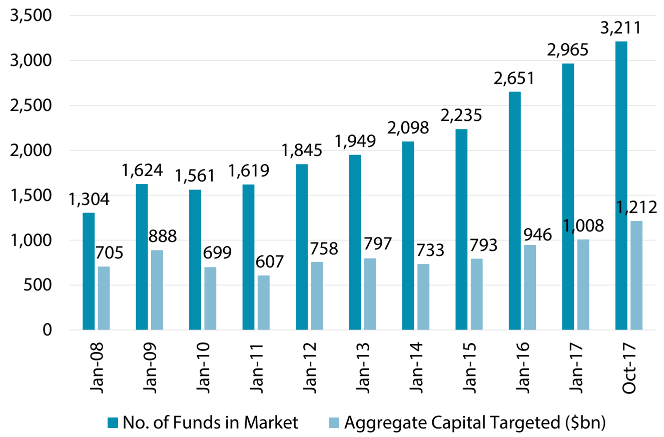
The last quarter of the year is traditionally the most active for fundraising, as managers look to sew up their vehicles ready to move forward in the new year. In that context, we might expect big things from Q4 2017: it will need to register $166bn in order to surpass 2008's annual record of $708bn, an eminently possible prospect. The top 10 funds in market alone have already secured $151bn of their targeted $269bn through interim closes – if they hold final closes before the end of the year it will go a long way towards setting new fundraising records.

Fig. 1: Global Quarterly Private Capital Fundraising, Q1 2012 - Q3 2017



Source: Preqin

Fig. 2: Private Capital Funds in Market over Time, 2008 - 2017 (As at 2 October 2017)



Source: Preqin

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Please note, all data is correct as at 2 October 2017; figures are subject to upward revisions as further information becomes available.

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PRIVATE EQUITY: FUNDRAISING SLOWS IN Q3 2017

The private equity industry saw 181 funds close in Q3 2017, raising an aggregate $95bn in investor commitments. Preqin expects this to rise by around 10% as further information becomes available, but nonetheless fundraising this quarter has slowed from Q2. This quarter also saw the largest private equity fund ever close, the Apollo Investment Fund IX. Having raised $24.7bn, this fund alone represented around a quarter of total fundraising for private equity.

With a record fundraising quarter seen in Q2 2017, it was unsurprising that momentum did not continue into Q3: fundraising activity is historically lower in the third quarter of the year, with many managers choosing to close their vehicles in the final quarter. Despite this slowdown, 2017 is still on track to see fundraising levels surpass 2016 to set a new post-Global Financial Crisis record. Aggregate capital raised has increased from $286bn in Q1-Q3 2016 to $338bn in Q1-Q3 2017. If fundraising momentum continues, 2017 could not only surpass 2016, but may be within reach of the all-time annual private equity fundraising record of $415bn set in 2007.

Key Findings:

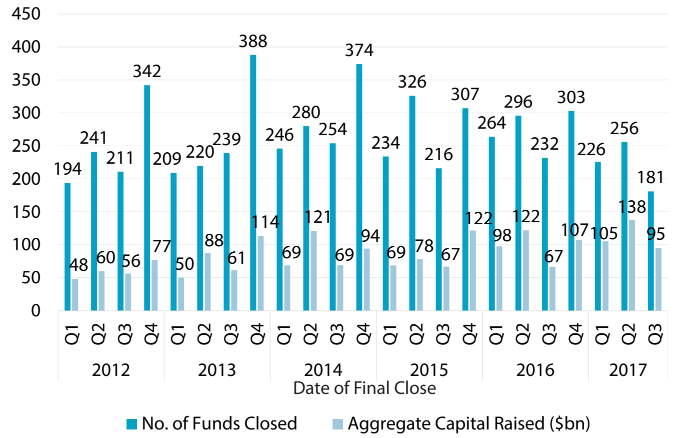
- Private equity saw **181 funds close, securing $95bn in Q3 2017**.
- **Eighty percent of private equity funds achieved or exceeded their target size.**
- **Ninety North America-focused funds raised $64bn**, while 44 Europe-focused funds secured $20bn.
- **Buyout fundraising fell to $66bn** from a record $95bn seen in Q2 2017. Venture capital fundraising also declined from $18bn in Q2 to $11bn in Q3.
- The largest fund closed this quarter was the **Apollo Investment Fund IX, which at $24.7bn is the largest private equity fund ever.**
- **There are three funds in market on course to surpass this record:** Softbank Vision Fund with a target of $100bn, China Structural Reform Fund targeting CNY 350bn and China State-Owned Capital Venture Investment Fund targeting CNY 200bn.
- Private equity **dry powder has reached a record $942bn** as at September 2017.
- At the start of July, **there are 2,022 private equity funds in market, seeking a combined $706bn** from investors.

Although private equity has seen a dip in fundraising levels this quarter, overall the asset class is still seeing strong levels of investor commitment. In fact, private equity is setting a lot of records: dry powder has hit successive highs, record numbers of funds have come to market, and Q2 was the highest quarterly fundraising total ever seen for the asset class. Furthermore, we are seeing record breaking fund sizes and an influx of mega funds – funds larger than $4.5bn – into the market.

The largest portion of fundraising in Q3 came from the closing of Apollo Investment Fund IX, which alone made up around a quarter of the total capital raised. With three funds currently in market seeking to surpass this record, the prospects of the industry to see new records broken looks promising. However, with an increase in the number of mega funds coming to market and raising capital from investors, emerging fund managers will have to work even harder to appeal to institutions and attract capital.

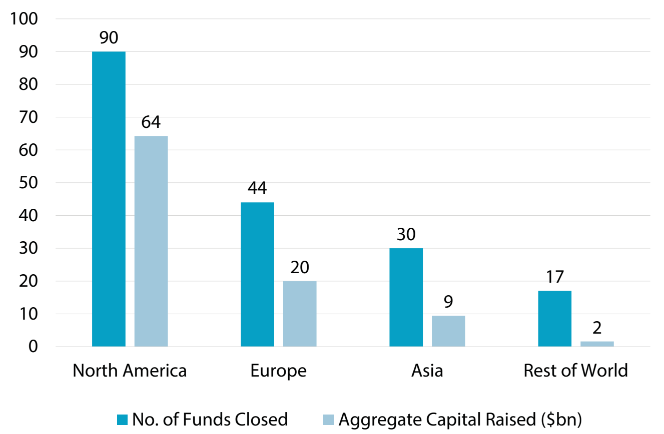
Christopher Elvin
Head of Private Equity Products

Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2012 - Q3 2017



Source: Preqin Private Equity Online

Fig. 2: Private Equity Fundraising in Q3 2017 by Primary Geographic Focus



Source: Preqin Private Equity Online

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PRIVATE DEBT: ASIA-FOCUSED FUNDRAISING PICKS UP

The private debt fundraising market saw 25 funds reach a final close in the third quarter of 2017, securing a total of $20bn in investor commitments. Preqin expects these figures to rise by around 10% as further information becomes available, but the quarter has already narrowly surpassed fundraising activity seen in the second quarter of the year. Since the record capital totals registered in Q4 2016, quarterly fundraising has largely returned to typical levels.

However, this quarter has seen increased fundraising for Asia-focused vehicles, and in fact marks a record quarterly high for the region. Four Asia-focused funds closed this quarter, raising an aggregate $5bn. This is a distinct increase from last quarter, which only saw two funds close and did not see any significant amount of aggregate capital raised, as well as an increase from Q1 2017 which saw less than half a billion dollars in capital raised. In fact, due to the record amount of capital raised by Asia-focused funds in Q3, 2017 is on course to see near-record levels of capital raised for the region by the end of the year.

Key Findings:

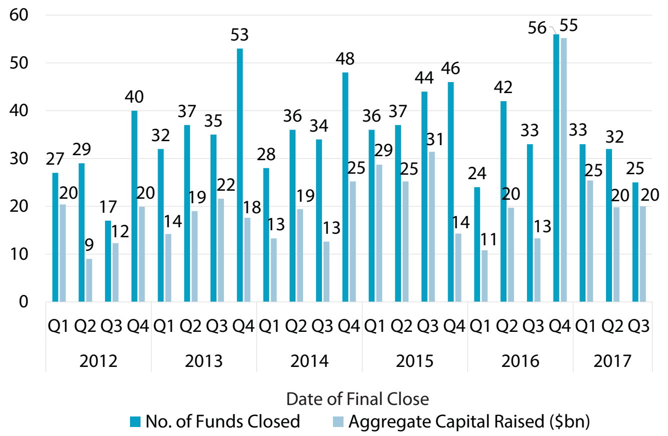
- The private debt industry saw **25 funds raise a total of $20bn in Q3 2017.**
- This is ahead of the previous quarter, although it does not approach the record quarterly fundraising seen in Q4 2016.
- **Four Asia-focused funds closed this quarter, raising $5bn,** marking a record quarterly high in the aggregate capital raised for the region.
- **Thirteen North America-focused funds raised $11bn** in Q3 2017, while seven Europe-focused funds secured $4bn.
- Direct lending funds were most numerous, with 10 closing in Q3 on a combined $6.7bn, while five special situation funds raised $4.8bn.
- The largest fund closed in Q3 was the **$2.4bn Castlelake V** distressed debt vehicle.
- At the start of October **there are 334 private debt funds in market, seeking a total of $148bn** from investors.
- **The largest fund in market is the 3G Special Situations Fund V.** With a target size of $10bn**,** it is seeking to become the largest private debt fund ever.

Private debt fundraising has maintained consistent if not exceptional momentum in 2017, with quarterly capital totals of around $20bn. However, the number of vehicles that are managing to reach a final close is falling progressively, a sign of capital concentration towards the largest firms active in the asset class. This is most notably marked by the 3G Special Situations Fund V which, if it achieves its target of $10bn, is set to become the largest private debt fund ever.

By contrast, however, we have seen Asia-focused fundraising pick up this quarter. Although the industry has yet to see sustained fundraising activity in Asia, this quarter marks a distinct improvement in fundraising for the region. Record aggregate capital raised for Asia is a positive sign for the market, and we've seen a drastic increase in the number of funds closed in Q3 compared to last quarter. With continued success in emerging markets like Asia, overall private debt fundraising could see a significant boost in coming years.

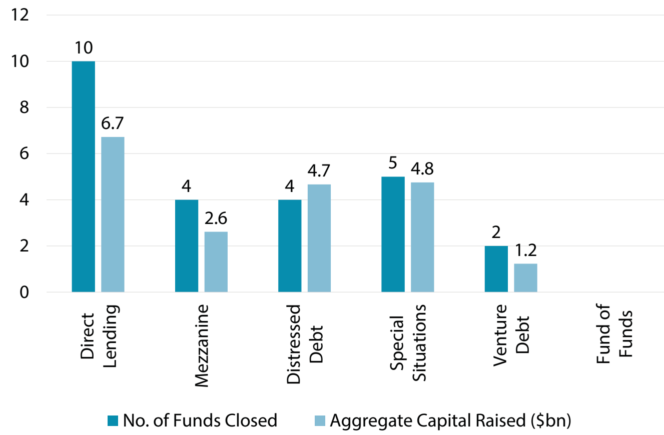
Ryan Flanders
Head of Private Debt Products

Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2012 - Q3 2017



Source: Preqin Private Debt Online

Fig. 2: Private Debt Fundraising in Q3 2017 by Fund Type



Source: Preqin Private Debt Online

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REAL ESTATE: FUNDRAISING FALLS FURTHER IN Q3

The closed-end private real estate industry saw 38 vehicles close in Q3 2017, raising an aggregate $20bn in investor commitments. Preqin expects these figures to rise by around 10% as more information becomes available, but the quarter still represents a record low for the number of funds closed over the past five years. However, as the number of funds closed and the amount of aggregate capital raised has dropped, the average size of private real estate vehicles continues to increase.

Notably, Europe-focused real estate fundraising has decreased sharply this quarter compared to Q2 2017. Nineteen Europe-focused funds closed in Q2 2017, raising an aggregate $16bn. In Q3 2017, activity fell to just 10 private real estate funds which raised $5bn. Although this was a significant reduction compared to last quarter, it is ahead of Q3 2016 when nine Europe-focused funds closed, raising an aggregate $3bn in capital. As such, we might expect fundraising to rebound in the final quarter of the year – Q4 2016 saw 24 Europe-focused funds raise a combined $8.4bn.

Key Findings:

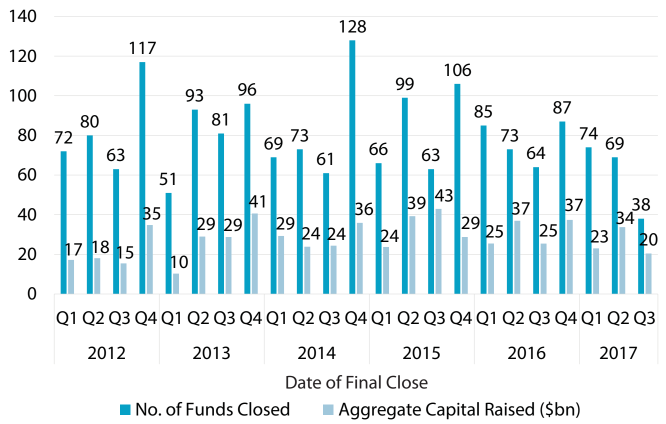
- **Thirty-eight private real estate funds closed globally in Q3 2017, raising a combined $20bn.**
- **Twenty North America-focused funds raised an aggregate $13bn,** down from 39 funds which raised $17bn to invest in the region last quarter.
- **Just 10 Europe-focused funds reached a final close, and raised an aggregate $4.6bn** - this compares to 17 funds which raised $7bn in Q2.
- Value added vehicles saw the greatest number of funds closed (13), **while opportunistic funds raised the most capital, securing $6.6bn.**
- Carlyle Realty Partners VIII was **the largest fund to close in Q3 2017, and closed at $4.0bn,** just over half of the largest fund raised in Q2, Blackstone Real Estate Partners Europe V, which closed at $7.8bn.
- As at September 2017, **dry powder available to real estate managers stands at $243bn, on par with last quarter.**
- Looking ahead, there are **569 private real estate funds in market at the start of Q4, seeking a total of $185bn** from investors.

"Over the past few quarters, real estate fundraising has struggled to remain consistent, and 2017 seems to be on course to see some of the lowest capital totals in the past five years. Compared to Q2, the number of funds closed in Q3 was a little more than half, and aggregate capital raised in the quarter is following a similar trend of decline. Europe-focused fundraising has especially suffered this quarter, seeing plummeting levels in the number of funds closed in Q3 2017 as well as declining amounts of aggregate capital raised.

Although we are seeing fewer funds close than in previous years, we are seeing larger average fund sizes. In fact, Q3 2017 has the second highest average fund size ever recorded at $618mn. However, overall aggregate capital is falling, and although investors report a high level of satisfaction for the asset class, fund managers will need to demonstrate how they can source attractive investment opportunities in order to see increased fundraising success.

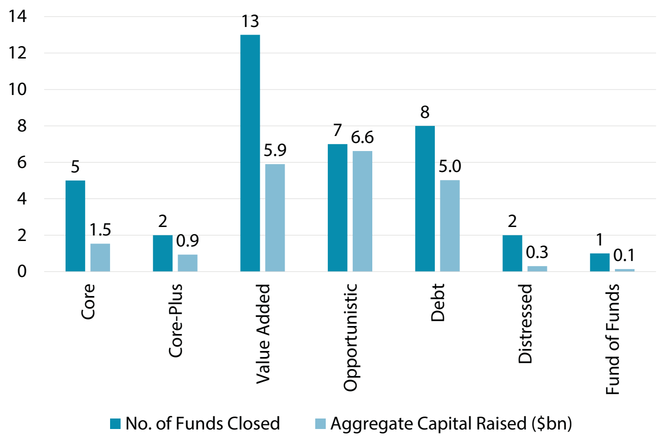
Oliver Senchal
Head of Real Estate Products

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2012 - Q3 2017



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising in Q3 2017 by Primary Strategy



Source: Preqin Real Estate Online

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INFRASTRUCTURE: SUPER-SIZING

The unlisted infrastructure fundraising market saw 17 vehicles reach a final close in Q3 2017, raising a total of $12bn. This is on par with the number of funds closed the previous quarter (14), and represents an increase in the aggregate capital raised (from $7.6bn). Combined with the record $32bn raised in the opening quarter, total year-to-date fundraising now stands at $51bn, exceeding the record $49bn raised in the first three quarters of 2016. Given the strong fundraising seen in Q4 2016, however, activity in the last quarter of 2017 would have to reach $12bn in order to match 2016's record annual total of $63bn.

What is striking about fundraising in 2017 so far is the speed of fundraising and the size of funds which have reached a final close. The average size of funds closed in Q1-Q3 is almost $1.1bn, reflecting the proliferation of multi-billion dollar funds. At the same time, these funds are spending an average of just 18 months in market to raise this capital, far less than the 26-month average seen in 2016. This suggests that fundraising is being increasingly influenced by mega funds which are able to quickly secure large amounts of capital.

Key Findings:

- **Seventeen unlisted infrastructure funds raised a combined $12bn in Q3 2017.**
- This is up from $7.6bn raised by 14 funds in Q2, and puts **year-to-date fundraising at $51bn,** surpassing the $49bn raised in Q1-Q3 2016.
- The **average size of funds closed in Q1-Q3 2017 is $1,039mn,** up from $942mn for funds closed in 2016.
- Funds closed so far this year spent an **average of 18 months in market**, substantially down from 26 months last year.
- **Six out of 10 funds closed in Q1-Q3 2017 have exceeded their target size,** the highest proportion ever recorded by Preqin.
- The largest fund closed in the quarter was the **$2.5bn AMP Capital Infrastructure Debt Fund III.**
- As of the end of September, unlisted **infrastructure fund managers hold $150bn in dry powder** ready to deploy. This is level with the previous quarter.
- At the start of Q4 2017, **there are 170 funds in market, seeking a combined $118bn.**

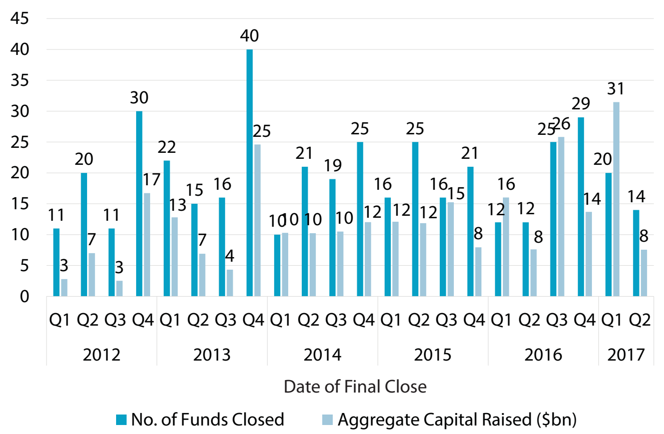
Following a record-breaking capital total in the opening quarter of the year, unlisted infrastructure fundraising has remained steady over the past six months, with around $8bn raised in each of Q2 and Q3. This is a positive sign for the industry; in times past such a large fundraising total would have prompted a period of little to no activity until investors returned with fresh allocations. The continued activity is indicative of an asset class with a range of capital sources and sustained investor appetite.

These capital totals are perhaps not exceptional of themselves. However, the speed and success of the fundraising process for vehicles closed so far this year is unprecedented. It seems to defy recent narratives about the emergence of a two-tiered fundraising market separating the largest, most established managers from other firms. While we would expect the largest funds to be habitually oversubscribed, and therefore able to secure capital quickly and successfully, in 2017 we are seeing industry-wide averages improve sharply. This will be very encouraging to those fund managers currently marketing vehicles to investors.

Tom Carr
Head of Real Assets Products

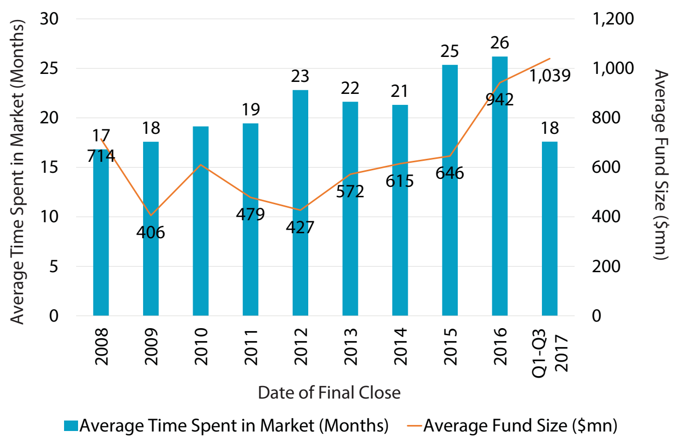
Blackstone Infrastructure I has been confirmed as being an open-ended permanent capital vehicle, and is thus not included in these figures.

Fig. 1: Quarterly Global Unlisted Infrastructure Fundraising, Q1 2012 - Q3 2017



Source: Preqin Infrastructure Online

Fig. 2: Time Spent in Market and Average Fund Size for Unlisted Infrastructure Funds Closed, 2008 - 2017 YTD



Source: Preqin Infrastructure Online

NATURAL RESOURCES: EUROPE TO THE FORE

The unlisted natural resources fundraising market saw 18 vehicles reach a final close in Q3 2017, raising a combined $11bn. This capital total is higher than the $9bn raised by funds closed in Q2, although the number of funds is broadly on par. Having seen strong quarterly fundraising of $27bn in the opening quarter of the year, unlisted natural resources funds have now secured $48bn in investor capital as of the end of Q3. However, this does not match the $53bn raised in the same period of 2016, and could put 2017 on course to be the lowest fundraising year since 2012, which saw full-year capital totals reach $57bn.

Despite lacklustre fundraising, the third quarter has shown some positive signs for the European market. Four funds closed focusing on the region, collectively securing $1.7bn in investor capital. This is the greatest number of Europe-focused natural resources funds in any quarter over the past five years, and may represent some diversification in the market beyond energy assets in North America. However, the low level of capital raised by these funds would suggest that any broadening appeal of unlisted natural resources is in a fledgling state.

Key Findings:

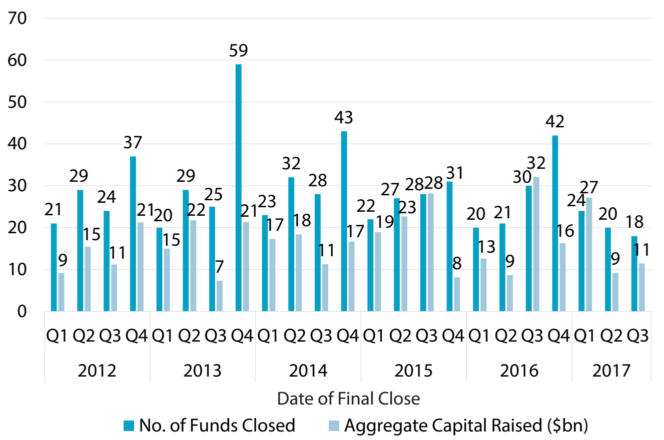
- **Q3 saw 18 unlisted natural resources funds secure a total of $11bn in investor capital.** This is higher than the $9bn raised in Q2, but remains some way off the $27bn recorded in the opening quarter of the year.
- Overall, **in Q1-Q3 2017 58 natural resources funds have raised a combined $48bn.** This falls short of the $53bn raised in Q1-Q3 2016, and puts 2017 on course to become the lowest fundraising year since 2012.
- **Four Europe-focused funds secured $1.7bn, while North America saw 13 funds raise a combined $10bn.**
- **Energy-focused funds accounted for 13 of the 18 vehicles closed in the quarter,** and almost all of the capital raised. Three agriculture-focused funds, one timberland fund and one diversified fund also closed.
- At the start of Q4, there are **239 natural resources funds in market, seeking a combined $114bn** in investor capital.

The fundraising market for unlisted natural resources funds has continued to be challenging in 2017: although funds have continued to raise capital from investors and reach a final close, the number of them able to do so has seen a long-term decline, and quarterly capital totals have not matched activity seen in 2014 or 2015. Despite this, investors do retain appetite for natural resources investments, and managers continue to raise funds and seek capital to service this appetite.

What is encouraging in Q3 2017 is the increased number of funds closed that will focus on investments in Europe. In recent quarters we have seen energy investments in North America account for the vast majority of activity, so this diversification is welcome. Although almost all activity has remained focused on energy assets, it is also a positive sign that three funds focusing on other strategies were also able to hold final closes. They join just eight other funds not focused on energy which have closed so far in 2017.

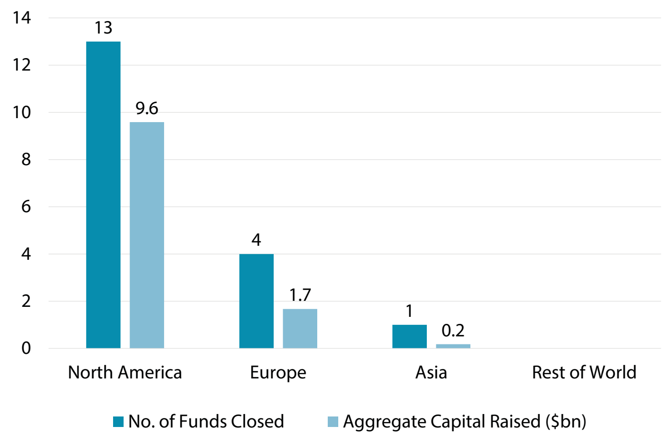
Tom Carr
Head of Real Assets Products

Fig. 1: Quarterly Global Unlisted Natural Resources Fundraising, Q1 2012 - Q3 2017



Source: Preqin Natural Resources Online

Fig. 2: Natural Resources Fundraising in Q3 2017 by Primary Geographic Focus



Source: Preqin Natural Resources Online

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