

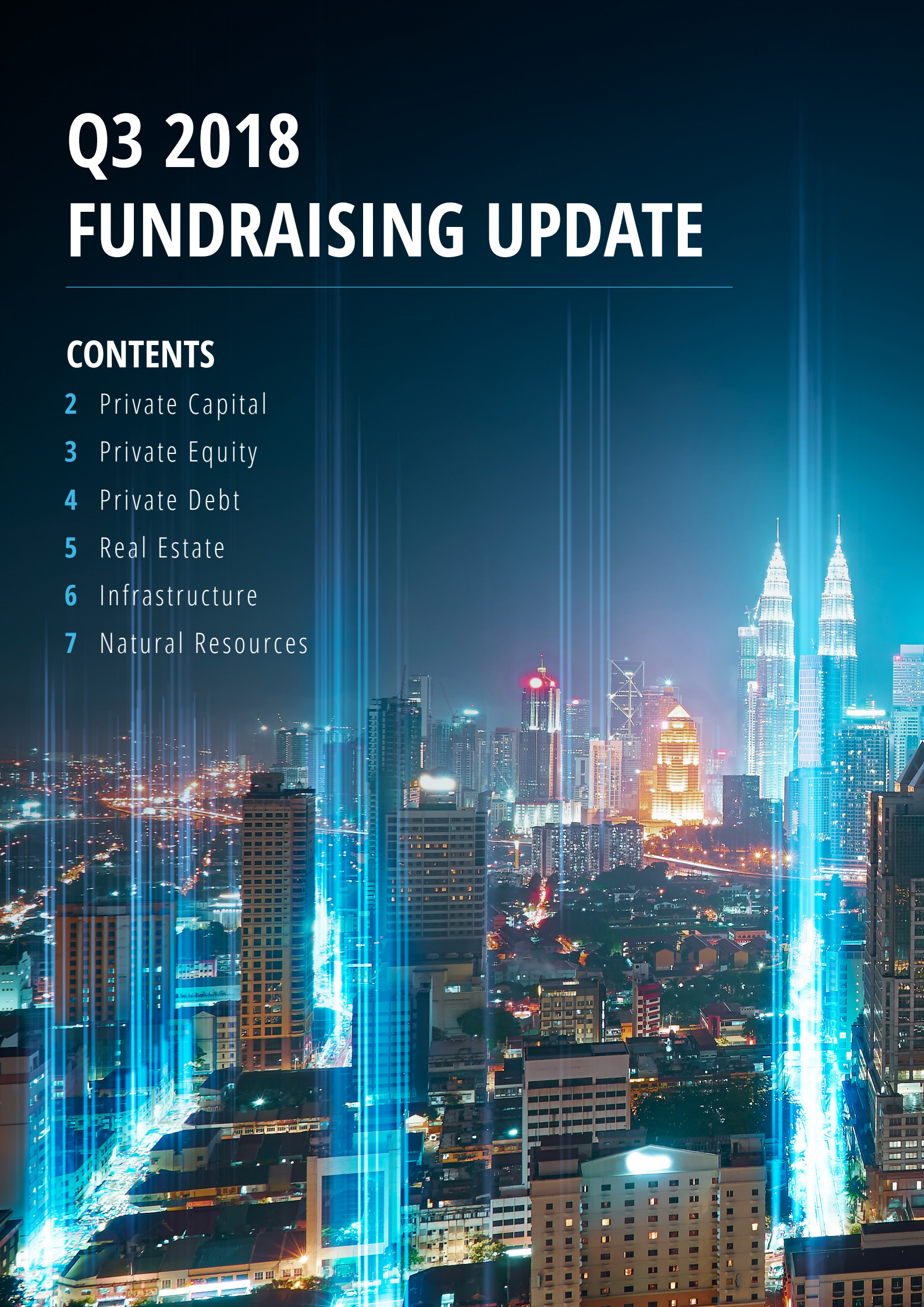
# Q3 2018

# FUNDRAISING UPDATE

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# PRIVATE CAPITAL: CARRYING ON AT PACE

**T**he key theme for fundraising in 2018 has been one of slowdown. However, this obscures that the industry is still moving at breakneck speed. The first three quarters of 2018 saw funds raise an average of \$192bn each quarter, more than in any previous year except 2017. While 2018 seems unlikely to break last year's fundraising records, we have still seen 11 of the top 100 largest ever private capital funds close – on par with all of 2008 and fewer than only 2016 and 2017 (each with 13).

At the same time, capital concentration is higher than ever before – funds of \$1bn or more have secured 63% of capital raised in Q1-Q3 2018, up from 59% in the same period last year. The final quarter of the year may see this proportion rise further, as there are a number of unprecedentedly large funds currently seeking capital. These include the SoftBank Vision Fund, as well as Global Infrastructure Partners IV, seeking to become the largest ever infrastructure fund at \$20bn.

This is set against a backdrop of uncertainty, with investors and fund managers alike predicting that markets may be headed for a downturn. The consensus seems to be that the long-term investment horizon and strong performance record of private capital is inducing investors to commit more capital to the industry. But at the same time, the impact of this wall of capital, and the upward pressure it puts on deal pricing, are straining the expected performance of many funds in the years to come.

This quarter also sees the launch of a new initiative from Preqin examining the Future of Alternatives. The industry is undergoing profound changes: the shifting balance of institutions investing in the market, emerging technologies and industries, and the sheer scale of expansion. We have therefore launched this project to examine key influences impacting the industry in the next decade, and to explore what it might look like in 2028. Get in touch with us at [press@preqin.com](mailto:press@preqin.com) to find out more.



## 327

private capital funds closed in Q3 2018.



## \$214bn

was raised by private capital funds in Q3 2018

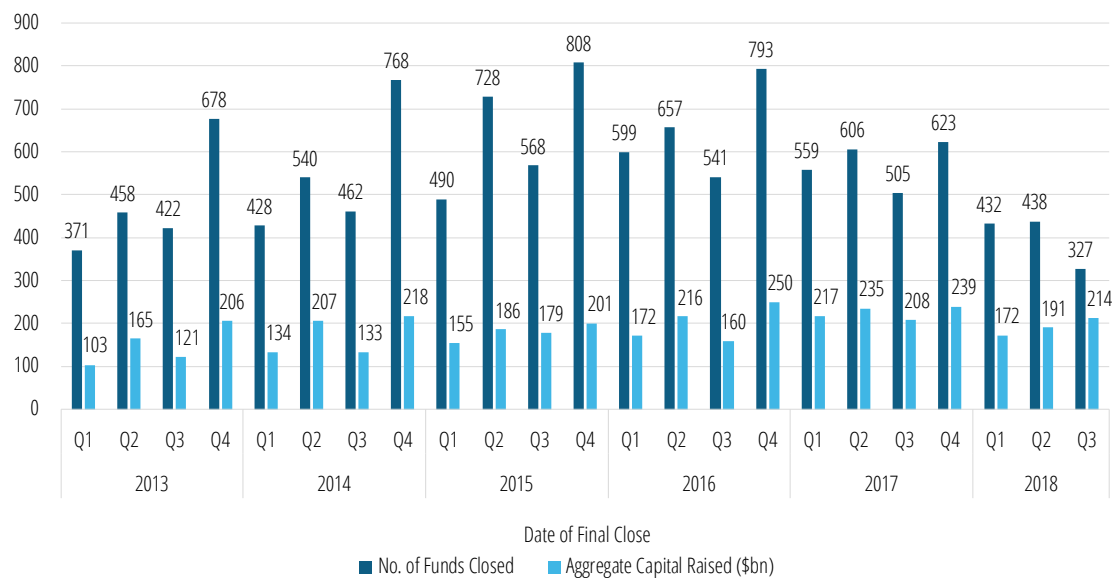


## 63%

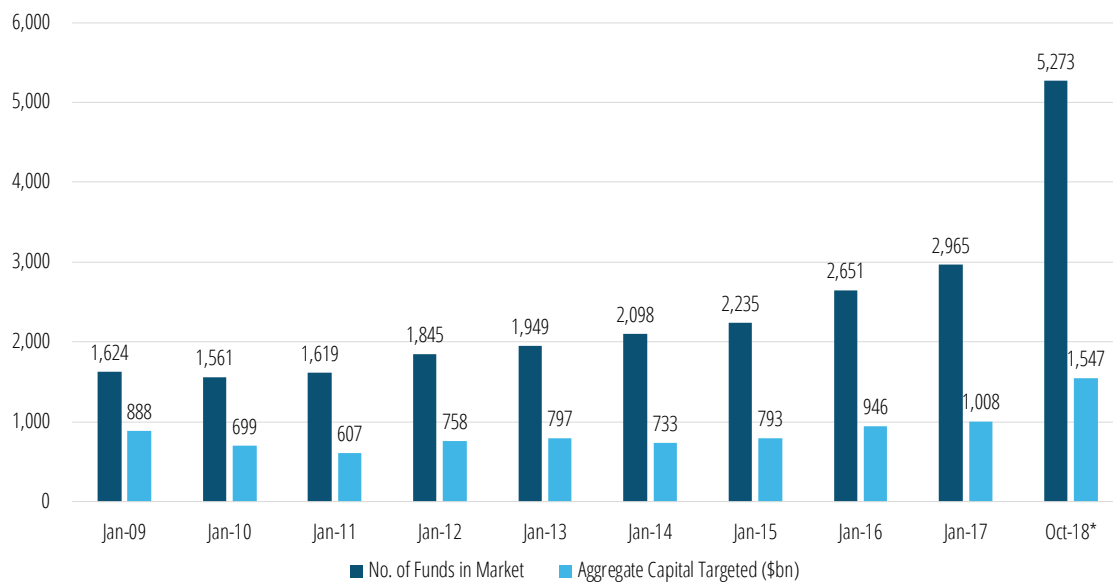
of capital secured in 2018 YTD come from funds of \$1bn or more.



**Fig. 1: Global Quarterly Private Capital Fundraising, Q1 2013 - Q3 2018**



**Fig. 2: Private Capital Funds in Market over Time, 2009 - 2018 (As at 2 October 2018)**



\*No. of funds in market has spiked due to increase coverage of Asia-focused funds

# PRIVATE EQUITY: FEWER FUNDS, BIGGER FUNDS

**F**ollowing two quarters of lower private equity fundraising, Q3 activity has picked up, with 214 funds raising a total of \$121bn. Preqin expects these figures to rise by up to 10% as more information becomes available, but the quarter has already crossed the \$100bn mark for the first time since Q4 2017. However, there was a significant decrease in the number of funds closed in Q3, down from 304 funds that closed in the previous quarter. The disparity is because a small number of large funds have accounted for most of the capital raised: the ten largest funds closed in Q3 have secured a combined \$66bn, 55% of the total.

## KEY POINTS:

- Q3 2018 saw 214 private equity funds reach a final close, raising a total of \$121bn. Although this is an increase in capital raised from Q2, the number of funds closed has decreased.
- North America-focused funds dominated fundraising, with 126 funds securing \$82bn. This is a significant increase in capital raised from Q2 when 144 North America-focused funds raised

\$42bn.

- Over half (55%) of capital raised in Q3 was secured by the 10 largest vehicles that closed this quarter. The largest fund closed this quarter was Carlyle Partners VII which secured \$18.5bn.
- As at October 2018, there are 3,922 private equity funds in market seeking a total of \$956bn. The number of funds has increased significantly, largely due to Preqin's increased coverage of domestic Asia-focused funds.
- Of the ten largest private equity funds in market, six are Asia-focused, while four are North America-focused.
- The largest fund in market is the China Structural Reform Fund, which is seeking to become the largest growth vehicle of all time at \$53bn.
- Private equity dry powder has continued to climb, reaching \$1.14tn as at September 2018.

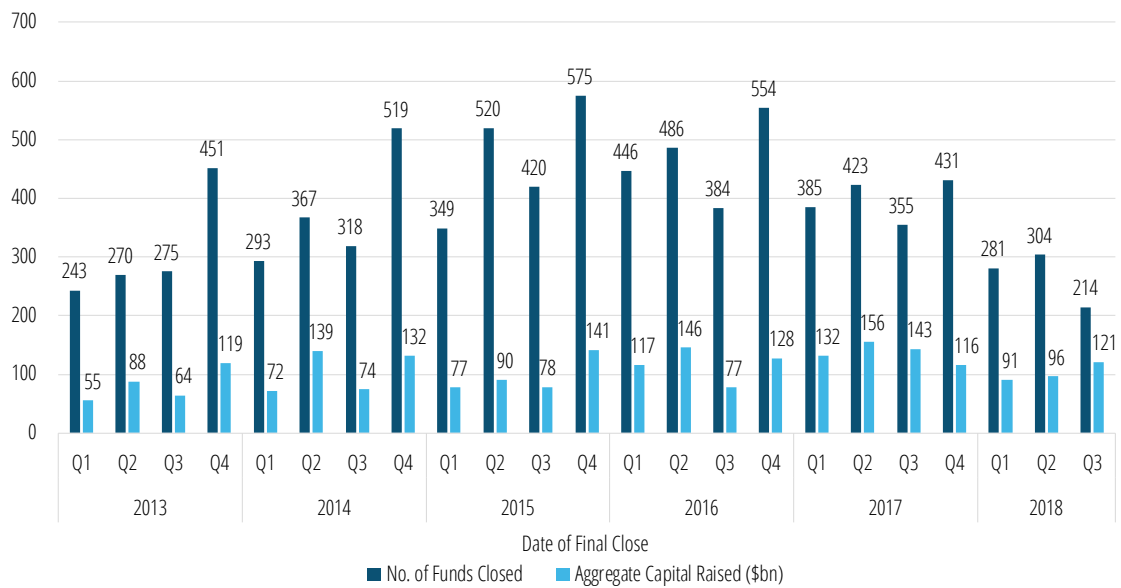


**While the key theme of the first half of 2018 was the slowdown from 2017's frenetic fundraising levels, Q3 seems to be picking up the pace again. While the full-year fundraising total is unlikely to match 2017, the pace is still on par with activity seen in 2015 and 2016. Moreover, it is increasingly being concentrated among a small number of large fund managers. This is a trend we have noted before, but it is accelerating, possibly in response to investor uncertainty. With half of investors expecting public markets to see a downturn within the next 36 months, they may be seeking the security of fund managers with whom they have an existing relationship, and who have a proven track record.**

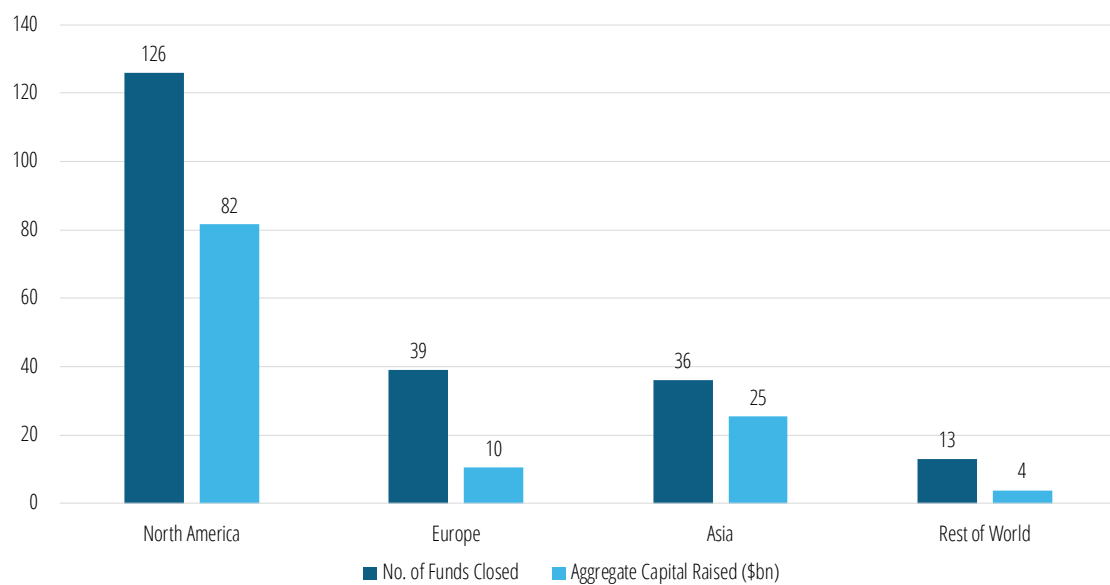
**CHRISTOPHER ELVIN**

Head of Private Equity

**Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2013 - Q3 2018**



**Fig. 2: Private Equity Fundraising in Q3 2018 by Primary Geographic Focus**



# PRIVATE DEBT: RECENT SURGE SLACKENS

**Q**2 2018 was the third-largest fundraising quarter ever seen for private debt, as 36 funds secured a combined \$42bn. This pace of fundraising has not been maintained in Q3, however, with 31 funds closed in the quarter raising a total of \$24bn. Preqin expects these figures to rise by up to 10% as more information becomes available, but it nonetheless seems unlikely that the quarter will match Q2. North America-focused funds are principally accountable for the slowdown: whereas 19 funds focused on the region raised over \$30bn in Q2, by contrast 16 North America-focused funds raised just \$13bn in Q3.

## KEY POINTS:

- Thirty-one private debt funds closed globally in Q3 2018, securing a total of \$24bn in capital. This is decrease from Q2 which saw 36 funds raise \$42bn.
- Sixteen North America-focused private debt funds raised \$13bn. A further eight Europe-focused funds raised \$10bn, while seven funds focused outside of these regions secured \$1.2bn.
- Direct lending led fundraising activity this quarter, with 15 direct lending funds raising \$19bn. Eight mezzanine funds secured \$1.5bn, while four distressed debt funds raised \$2.4bn.
- In fact, eight of the ten largest funds closed in Q3 were direct lending vehicles. This included the largest fund of the quarter – the €6.5bn Ares Capital Europe IV.
- The average time spent in market has dropped from 16 months for funds closed in 2017 to 15 months for funds closed in Q1-Q3 2018.
- Seventy-one percent of funds met or exceeded their target size in Q1-Q3 2018, with almost a third (30%) of funds exceeding their initial target size by 125% or more.
- Private debt dry powder stands at a record \$281bn as at the end of September 2018.
- Looking ahead, at the start of Q3 there are 396 private debt funds in market, seeking a total of \$175bn in investor commitments.

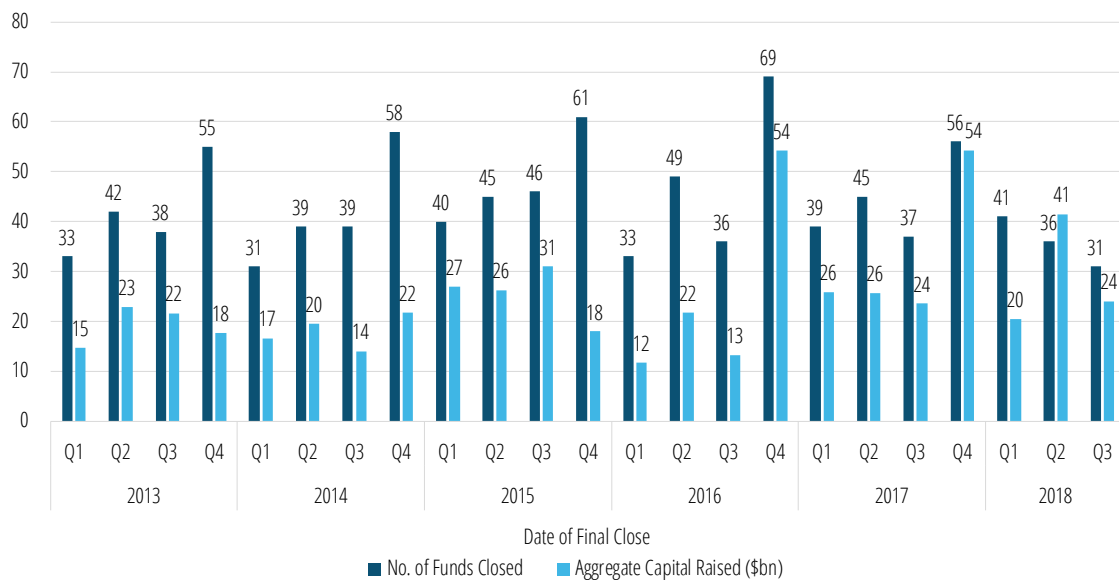


**Q2 saw the closure of several exceptionally large funds – the five largest alone raised almost \$28bn, more than all fundraising seen this quarter. As such, it is not surprising that capital totals have subsided in Q3. The quarter has remained on par with levels seen in Q1-Q3 2017, and indicates that robust activity is still ongoing. In fact, with \$86bn already secured in the first three quarters of 2018, the year could still potentially set a new full-year fundraising record.**

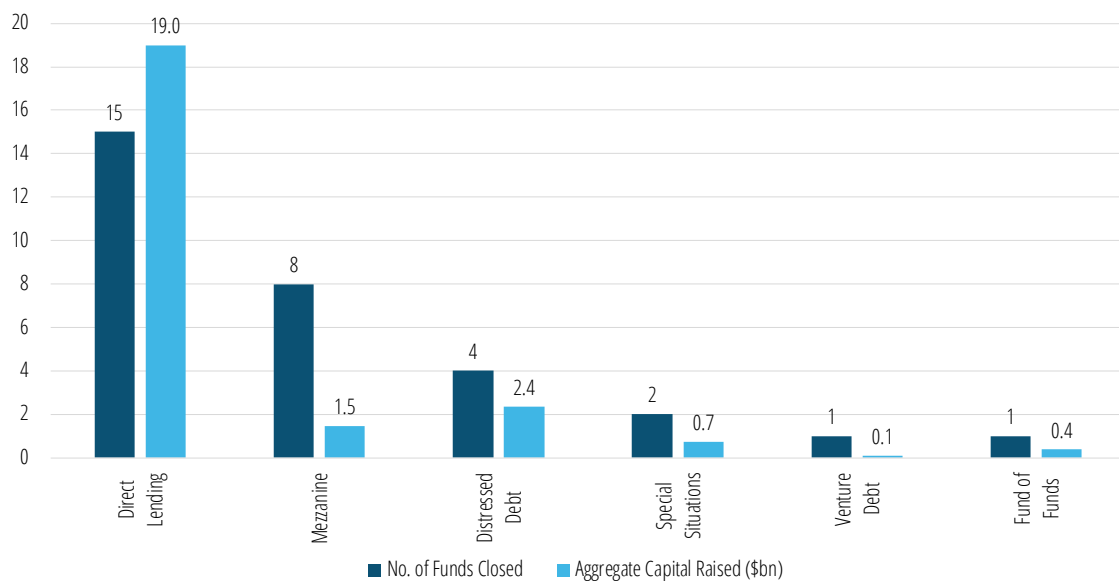
**TOM CARR**

Head of Private Debt

**Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2013 - Q3 2018**



**Fig. 2: Private Debt Fundraising in Q3 2018 by Fund Type**



# REAL ESTATE: FUNDS HURDLE PAST TARGETS

**C**losed-end private real estate fundraising slowed for a second successive quarter in Q3, as 53 funds held a final close, securing a total of \$24bn. Although Preqin expects these figures to rise by up to 10%, this still marks a slowdown from Q2 when 74 funds secured \$32bn. However, the proportion of funds which met or exceeded their initial target size has spiked, indicating that those funds which do close are holding successful fundraising processes. Seventy percent of funds closed year-to-date have met or exceeded their target size, including 24% which achieved 125% or more. By contrast, in 2017 43% of funds failed to reach their target.

## KEY POINTS:

- Fifty-three private real estate funds closed globally in Q3 2018, securing a combined \$24bn. This marks a decline from Q2 which saw 74 funds raised \$32bn.
- Thirty-five North America-focused funds held a final close and raised \$15bn. Twelve Europe-focused funds raised \$7.0bn and two Asia-

focused funds secured \$1.3bn.

- Twenty value added funds secured \$8.9bn, while 13 opportunistic vehicles raised a total of \$9.0bn.
- Seventy percent of funds closed in Q1-Q3 2018 met or exceeded their target. This includes almost a quarter (24%) which achieved 125% or more of their initial target size.
- The largest fund closed in Q3 was Carlyle Realty Partners VIII, which secured \$5.5bn.
- Dry powder has risen to a new record of \$294bn as of the end of September. This is an increase from \$282bn at the end of 2017.
- As at the start of October, there are 634 funds seeking a total of \$219bn. This is an increase from 624 funds that were seeking \$203bn at the start of July this year.



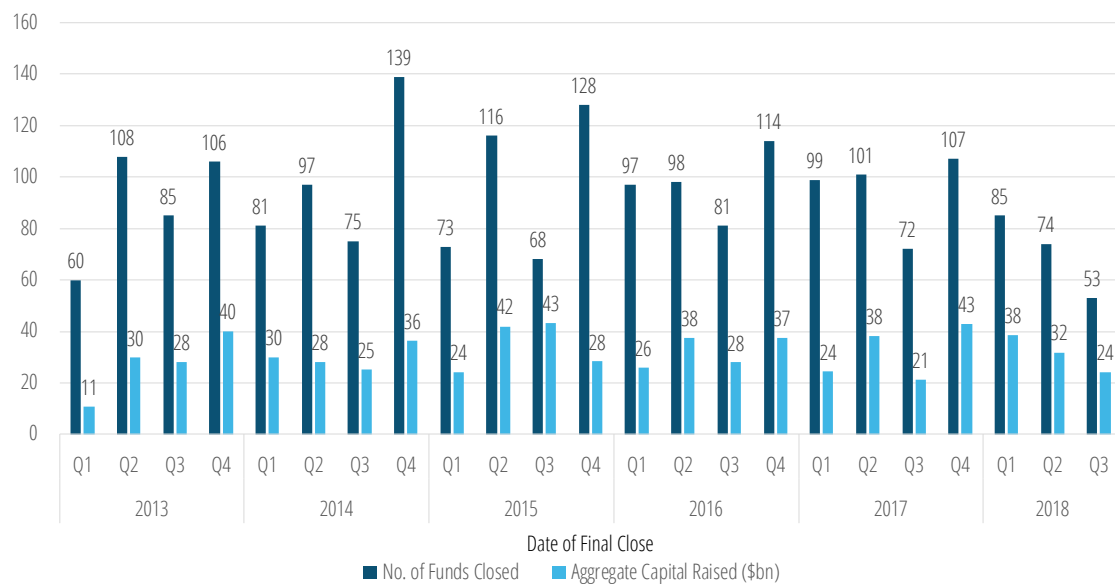
**Although private real estate fundraising has slowed for a second consecutive quarter, overall capital totals have been in line with historic averages. As in Q2, opportunistic vehicles helped drive fundraising levels this quarter. However, investors surveyed in Preqin's H2 2018 Investor Update are drawing back from these riskier fund types. Only a fifth feel that these funds present the best opportunities over the coming 12 months – a year ago, almost half of investors surveyed were targeting opportunistic funds. If investors continue to move down the risk/return spectrum, core and core-plus fundraising might see more interest in upcoming quarters.**

**TOM CARR**

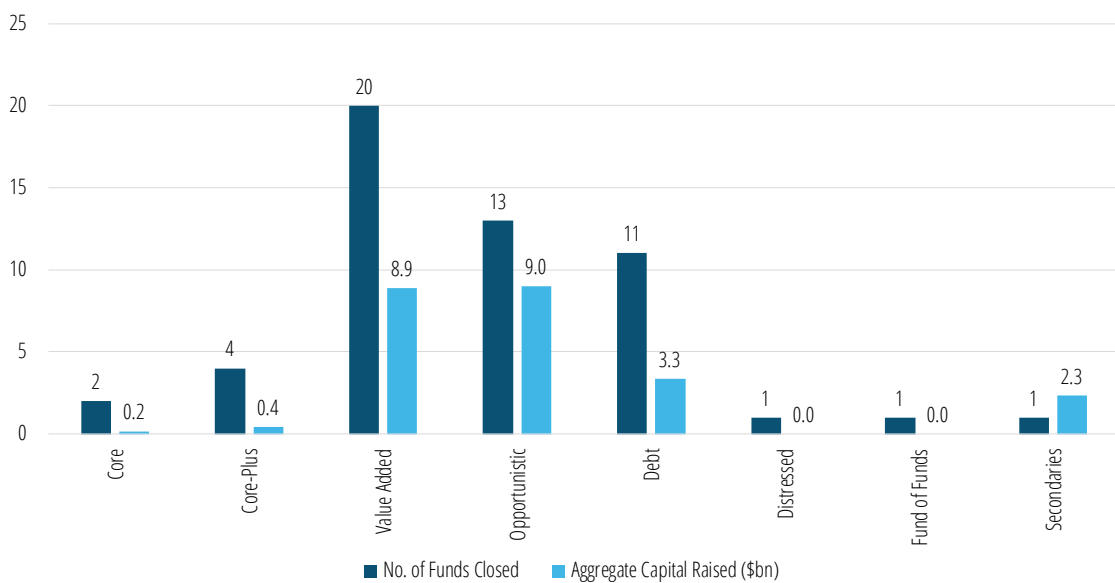
Head of Real Estate



**Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2013 - Q3 2018**



**Fig. 2: Closed-End Private Real Estate Fundraising in Q3 2018 by Primary Strategy**



# INFRASTRUCTURE: RECORD HIGHS

**A**fter a slow Q1, infrastructure fundraising has accelerated, and Q3 saw 20 funds secure \$37bn. Although Preqin expects these figures to rise by up to 10%, the quarter has already surpassed the previous quarterly record of \$32bn raised in Q1 2017. However, the number of funds closed was level with the previous quarter, indicating that capital is increasingly concentrated among just a few, large funds. With Global Infrastructure Partners IV coming to market in recent weeks, seeking to become the largest closed-end infrastructure fund ever at \$20bn, it looks like this trend is set to continue.

## KEY POINTS

- Twenty unlisted infrastructure funds secured \$37bn in Q3. This is the most capital raised in any quarter, surpassing the previous record set in Q1 2017 when 22 funds raised \$32bn.
- Eight North America-focused funds secured \$27bn, while eight Europe-focused funds raised \$9.0bn and one Asia-focused fund raised \$0.4bn.
- The average size of funds closed in 2018 YTD jumped to \$1.5bn. This is a significant increase from \$895mn in 2017.
- The largest proportion (41%) of funds closed in 2018 reached 125% or more of their initial target, while just 15% failed to meet their target.
- Dry powder increased significantly in Q3 and stands at \$173bn as at the end of September, up from \$159bn at the end of 2017.
- As at the beginning of October, there are 176 funds in market seeking \$142bn in capital.
- The largest fund in market is Global Infrastructure Partners IV, and if it achieves its \$20bn target it will become the largest closed-end infrastructure fund ever.

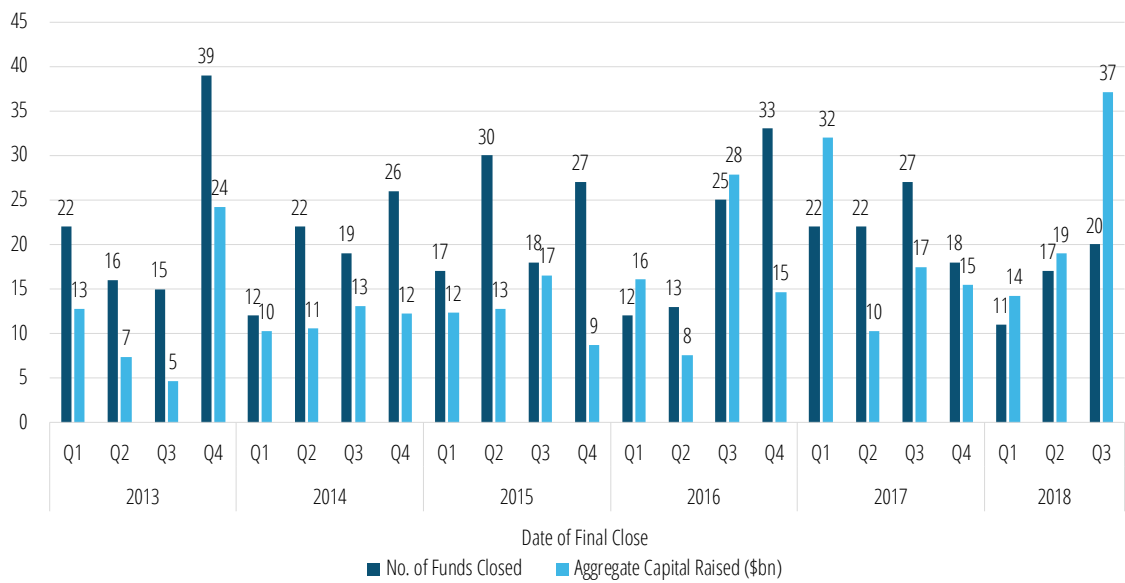


**Unlisted infrastructure is having a strong year. Following two successive years of record-breaking capital raised for the asset class in 2016 and 2017, 2018 looks set to be another record-breaking year. Year-to-date fundraising stands at \$70bn after three quarters, just shy of 2017's full-year record of \$75bn. While this is certainly good news, the acceleration of capital concentration at the top end of the industry is stark. It doesn't look like this trend shows any signs of abating, and as capital becomes increasingly squeezed to the top end of the fundraising market, competition can only increase for smaller fund managers.**

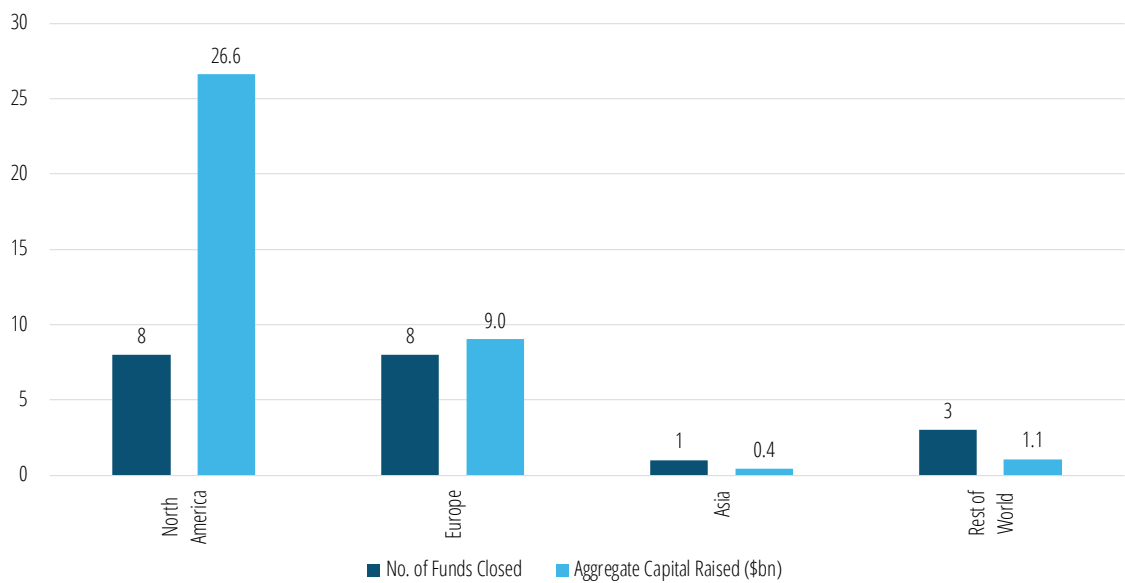
**PATRICK ADEFUYE**

Head of Real Assets

**Fig. 1: Quarterly Global Unlisted Infrastructure Fundraising, Q1 2013 - Q3 2018**



**Fig. 2: Unlisted Infrastructure Fundraising in Q3 2018 by Primary Geographic Focus**



# NATURAL RESOURCES: FUNDRAISING BOOMS IN Q3

**T**he unlisted natural resources fundraising market had a banner quarter, as Q3 saw 23 funds raise \$38bn. Prequin expects these figures to rise by up to 10% as more information becomes available, putting the quarter on par with Q3 2016, when 37 funds raised a record \$40bn. North America-focused funds drove activity, with 14 vehicles closed in the quarter securing \$31bn. This is the highest quarterly total for funds focused on the region, surpassing the previous record set in Q3 2016 which saw 14 North America-focused funds raise a total of \$28bn.

## KEY POINTS:

- Twenty-three unlisted natural resources funds reached a final close in Q3, raising a combined \$38bn. This puts the quarter on par with Q3 2016 when 37 funds raised a record \$40bn.
- North America-focused funds dominated fundraising: 14 North America-focused funds raised \$31bn. An additional five Europe-focused funds raised \$4.4bn.
- Just one metals & mining fund closed this

quarter, securing \$558mn, while 22 energy funds raised \$37bn.

- Seventeen of the funds closed this quarter secured \$500mn or more, including seven vehicles which secured over \$1bn.
- Funds closed in Q1-Q3 2018 have taken an average of 18 months to reach a final close. This is up from 17 months for funds that closed in 2017.
- Looking ahead, there are 316 unlisted natural resources funds in market seeking an aggregate \$182bn in capital.
- As at the end of 2017, natural resources dry powder stands at \$210bn. This represents a small decrease from December 2016 when dry powder stood at a record \$215bn.

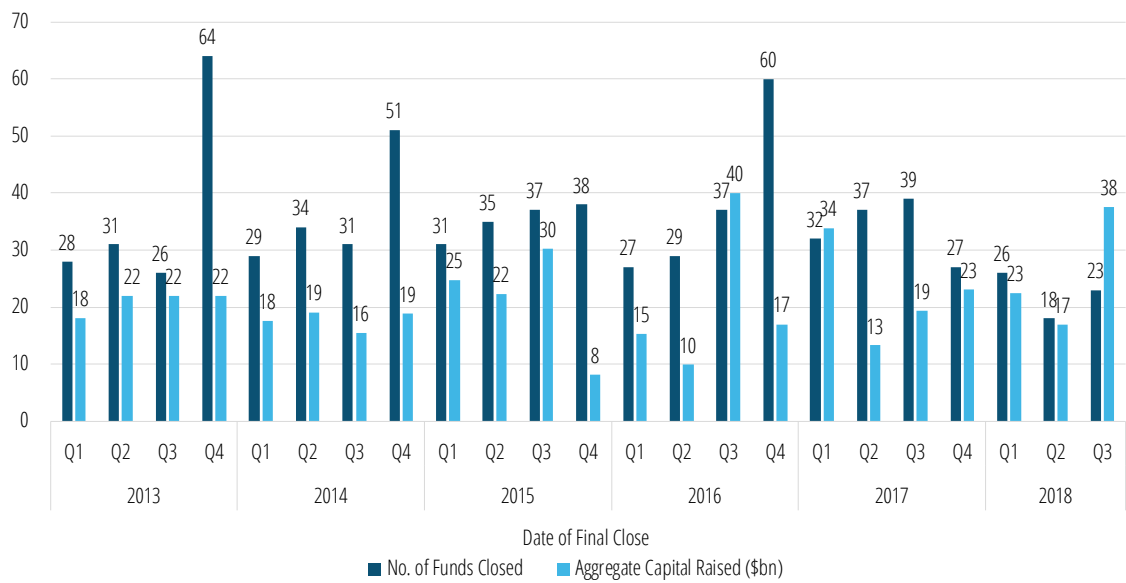


**Q3 2018 is a strong signal that the unlisted natural resources market is seeing a real revitalisation. With fundraising approaching the all-time quarterly record in Q3, capital totals are well ahead of Q1-Q3 last year, and we are on track to see a potential record fundraising year in 2018. It's not surprising that we saw North America dominate the fundraising market this quarter – Prequin's June survey found that almost half of investors feel that the region presents the best opportunities over the next year. While the shale gas industry remains so strong, we are likely to see this trend continue.**

**PATRICK ADEFUYE**

Head of Real Assets

**Fig. 1: Quarterly Global Unlisted Natural Resources Fundraising, Q1 2013 - Q3 2018**



**Fig. 2: Unlisted Natural Resources Fundraising in Q3 2018 by Primary Geographic Focus**

