

2020 PREQIN GLOBAL PRIVATE EQUITY & VENTURE CAPITAL REPORT

SAMPLE PAGES



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Executive Summary

Private equity AUM hits a record \$4.11tn, but market conditions are challenging

Capital flows into global private equity¹ were robust in 2019. As the world economy faltered – GDP growth slid to 2.3%, the lowest since the Global Financial Crisis (GFC)² – and interest rates remained low, investors on the hunt for yield continued to flock to private equity funds, committing more than \$0.5tn and boosting fund managers' stockpile of dry powder. This growth in available capital, along with an 11% increase in unrealized value, boosted assets under management (AUM) to a record \$4.11tn as of June 2019.

However, market conditions are becoming more difficult. For a start, the influx of investable capital and intensifying competition have helped to drive up asset prices. Just over half (51%) of fund managers and over two-thirds of investors (69%) feel that private equity portfolio company prices are higher compared with 12 months ago. And 44% of fund managers experienced more competition for private equity transactions. All this has had a dampening effect on deal flow. Between 2018 and 2019, the value of all private equity-backed buyout deals fell 21% to \$389bn, while venture capital deal value declined by 18%, from \$271bn to \$223bn.

A tougher environment for the industry does not appear to be deterring investors, however. Indeed, 86% of LPs told us that they intend to allocate as much or more capital to the asset class in 2020 as they did in 2019. Why is that? One reason is that most investors are satisfied with how their private equity portfolios are performing. In fact, 87% of LPs surveyed by Preqin said that returns in 2019 had either met or exceeded their expectations. And LPs with access to the best private equity funds are benefiting from higher and higher returns. For example, top performing funds of vintages 2015 and 2016 are delivering net IRRs of 23.0% and 25.9% respectively.

The outperformance of top-quartile funds has helped to attract more investors into the industry. Over 8,400 institutions across the globe now invest in private equity, up from 6,170 in 2015, ranging from small private wealth managers to massive sovereign wealth funds. As the investor universe has expanded, so has the number of fund managers: there are more than 18,000 currently offering a private equity product, up from 16,400 in 2018.

The number of private equity vehicles is also increasing. As of January 2020, there are 3,524 funds in market, a new record. For GPs raising their first fund, the market is especially challenging. Established players with a strong track record and global scale are securing the lion's share. In 2019, the 20 largest funds captured almost half (45%) of all committed capital. That is quite a change from five years ago, when 29% of committed capital went to the 20 largest funds.

We conclude this year's report with five predictions. They reflect not just the exciting opportunities ahead, but also the challenges for the industry. Fund managers have record amounts of capital to put to work – 58% expect to invest more in 2020 than they did in 2019. But investing is especially challenging when prices are high and competition stiff. Market conditions could get tougher still: 62% of fund managers (as well as 61% of investors) believe that we are currently at the peak of the cycle. If the cycle turns and managers are faced with a recession, the task of maintaining the kinds of returns that investors have come to expect from the asset class becomes even more difficult. This will test the mettle of the best performers. Investors will be watching closely to determine which firms are able to flourish in bad times as well as good.

¹ Unless otherwise stated, in this report 'Private Equity' includes Venture Capital.

² <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2020/>

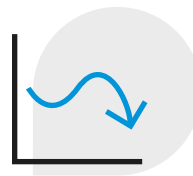
Private Equity Megatrends

Key themes shaping the private equity industry



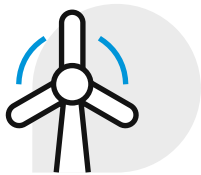
Capital Consolidation

The largest funds closed in 2019 swept up vast amounts of capital: 39% of all capital raised went to the 20 largest funds.



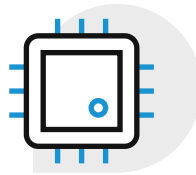
Expected Correction

Forty-five percent of fund managers expect a correction in 2020, and three-quarters believe a shift in investor focus from public markets to private investment will impact private equity.



ESG Investing

Nearly two-thirds of investors report that ESG will become more integral to alternative assets as LPs continue to prioritize ESG investing. In response, more fund managers now hold ESG policies.



Digital Innovation

Disruptive technologies, such as artificial intelligence, are helping fund managers to improve operational efficiencies while creating new opportunities for investment.



Rising Valuations

A growing amount of available capital and intensifying competition are driving private equity valuations ever higher. Fund managers expect valuations to present a key challenge to return generation in 2020.

Data Pack

The data behind all of the charts and tables featured in this report is available in Excel format at no extra cost. This data may be used in marketing materials, presentations, or company reports with appropriate accreditation to Preqin.

Three Mega Trends Driving China's New Economy

Changes in consumption, technological innovation, and advanced manufacturing are creating exciting opportunities for private equity

How has the slowdown in technology investment and softer GDP growth affected China's 'New Economy' of fast-growing technology industries?

China's economy has entered a 'new normal.' As of June 2019, the number of mobile internet users in China hit 847 million, an increase of only 0.5% compared to the end of 2018. But private equity investors continue to invest in innovation-driven enterprises, with a focus on productivity improvement and synergy. Despite the slowdown of overall GDP in China, the revenue of internet giants such as Tencent and Alibaba continues to grow at a rate of more than 20%. The New Economy now accounts for about 16% of China's GDP, with 2018 output growth of 12.2% year on year, outpacing GDP growth in current prices by 2.5 percentage points.

What key trends do you see driving attractive risk/return opportunities?

The first trend is the change in consumption patterns, which can be summarized as the **Five New**.

- 1. New Consumers:** Generation Z cares about attitude, not just basic functionality; they are looking for high-quality, stylish goods at fair prices. Meanwhile, the 'silver economy' is creating investment opportunities in health, leisure, and tourism that caters to older generations.
- 2. New Media:** China has 430 million daily active viewers of short videos. Each viewer spends 60-70 minutes per day on platforms such as Douyin, known outside China as TikTok. Integrating Douyin with online shopping site Taobao creates a powerful e-commerce ecosystem that's reinforced via influencers, whose video posts generate buzz and drive even more traffic.



Bao Fan

Founder, Chairman, and CEO, China Renaissance Group

- 3. New Channels:** The cost of user acquisition through online channels has increased significantly in the past two years. But new channels, such as offline shopping malls in lower-tier markets, offer a more competitive user acquisition cost.
- 4. New Brands:** China has many export-oriented original equipment manufacturer (OEM) companies. As a result of the US-China trade war, many OEMs are actively looking to establish their own brands. And on the demand side, as Chinese GDP per capita approaches \$10,000, consumption upgrades are more accessible to the general population. An example of a New Brand is NOME, whose products span lifestyle goods, products for the home, and food.
- 5. New Infrastructure:** The on-demand food delivery industry has created a very well-developed delivery network across Chinese cities – even better than that of traditional courier services. Same-city delivery now only takes 30 minutes. This is creating opportunities for other types of delivery

businesses – not just food, but medicine, for example. As long as these networks are located in the same city as the inventory, any type of good can be delivered locally, and fast.

The second trend to mention is the **industrial internet**. As labor becomes more expensive, non-digital companies are beginning to conduct more business online and are embarking on digital transformation journeys. And new technologies – like artificial intelligence (AI), big data, and cloud services – are helping businesses to improve efficiencies in the flow of information, production, and transaction, thereby lowering their costs. This process is still at an early stage, but it has lots of potential as consumer internet companies, such as Tencent, invest heavily in the sector.

The third trend is **technological innovation & advanced manufacturing**. The ongoing trade war is forcing Chinese companies to develop in-house technology, which creates investment opportunities in high-end manufacturing, 5G, AI, and chips. 5G, for instance, enables capabilities like wireless control and communication for equipment, advanced logistics tracking, low latency industrial AI, and sensitive augmented reality (AR) and mixed reality (MR) cloud applications.

The number of players in China’s private equity industry is growing. What advice do you have for LPs looking to select the best GPs?

We believe that to be successful in this industry, you need three key strengths:

1. Visibility and insight into the most promising deals

This requires a strong pipeline of advisory services, an extensive network within the entrepreneur and investor community, dedicated and full coverage of new economy sectors, first-hand market intelligence, and an in-depth understanding of the latest industry trends.

2. Ability to invest in exclusive opportunities

Entrepreneurs and start-ups must see you as a valuable investor and strategic advisor, capable of bringing long-term value and advice. That’s how you generate transactions that are exclusive or offered to only a very limited number of private equity firms.

3. Ability to provide comprehensive solutions

Having a platform of financial services is attractive to both limited partners and portfolio companies. Whether their business needs involve financings, industry consolidation, strategic investment, divestitures, or going public, they want seamless support.

Huaxing Growth Capital started in 2013 as the investment management arm of an established financial institution, China Renaissance. How did Huaxing come about?

Huaxing primarily focuses on the formation, management, and investment of private equity funds, and is a natural extension of our advisory services. It allows us to participate in our clients’ value creation, by leveraging our platform and network strengths to bring significant value to both portfolio companies and limited partners.

About China Renaissance Group

China Renaissance Group (CR Group) is a leading financial institution that combines private placement advisory, M&A advisory, direct investment, equity underwriting, sales, trading and brokerage, research, structured products, asset management, wealth management, and other financial services. Providing one-stop financial services across mainland China, Hong Kong, and the US, CR Group operates a competitive and unique international network that connects China’s capital markets with the rest of the world, serving new economy entrepreneurs and investors globally.

Bao Fan is the Founder, Chairman, and CEO of China Renaissance Group, China’s leading financial institution serving the New Economy, which he founded in 2005. Bao was Chief Strategy Officer of AsiaInfo after spending seven years in investment banking, at Morgan Stanley and Credit Suisse. Bao is a guest lecturer at PBC School of Finance at Tsinghua University, and a postdoctoral supervisor at the Shenzhen Stock Exchange.

In Focus: Fintech's Unicorns Are Becoming Decacorns

Amid rising valuations for fintech companies, venture capital-backed deals surpassed \$3bn in 2019

Powered by digital innovations like mobile internet, blockchain, and big data, financial technology (fintech) is transforming financial services. Digital technologies are helping financial service providers to introduce more efficient, personalized services, while enabling technology companies to offer financial services such as mobile payments. This is generating new investment opportunities for both venture capital and private equity players.

From Unicorns to Decacorns

Across the globe, venture capital-backed fintech firms are reaching – and surpassing – unicorn status (a company valued at \$1bn or more). US fintech has nurtured unicorns such as Menlo Park-based Robinhood Markets, Inc., a digital platform that enables users to invest in stocks, exchange-traded

funds (ETFs), cryptocurrencies, and options without paying commission fees. Founded in 2013, Robinhood is now worth about \$7.6bn, according to CNBC¹. The US already boasts a fintech decacorn (a company valued at \$10bn or more): San Francisco-based Stripe, a software provider that companies use to accept payments and manage their businesses online. Stripe launched in 2011 and is now valued at \$35bn².

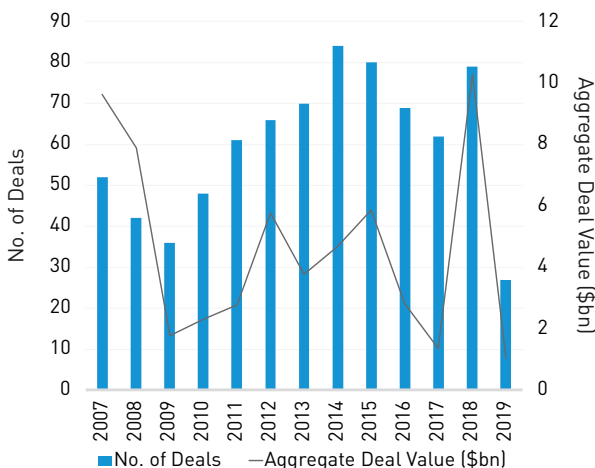
European fintech has fostered high-profile unicorns such as London-based Revolut Limited, the developer of a mobile app that allows users to exchange currencies at interbank rates. Founded in 2015, Revolut is targeting a valuation of between \$5bn and \$10bn, a figure that would make the company Europe's most highly valued fintech firm, Sky News reports³.

¹ CNBC, <https://www.cnbc.com/2019/07/22/robinhood-lands-a-7point6-billion-valuation-after-recent-funding-round.html>

² Forbes, <https://www.forbes.com/sites/donnafusco/2019/09/19/stripe-now-has-a-pre-money-valuation-of-35-billion/#1cf6a4a362e6>

³ Sky News, <https://news.sky.com/story/revolut-targets-1-5bn-to-join-fintech-elite-11833527>

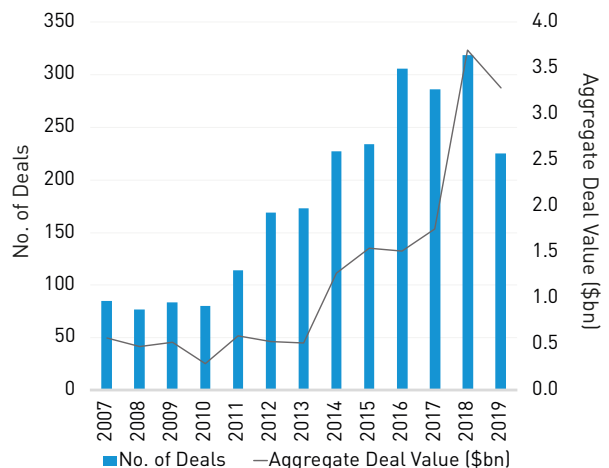
Fig. 6.27: Global Private Equity-Backed Buyout Fintech Deals, 2007 - 2019



Source: Preqin Pro

*Venture capital figures exclude add-ons, grants, mergers, secondary stock purchases, and venture debt.

Fig. 6.28: Global Venture Capital Fintech Deals*, 2007 - 2019



Source: Preqin Pro

An Evolving Investor Universe

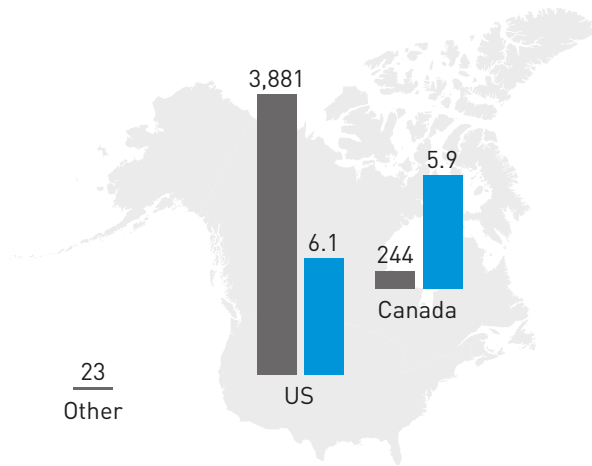
More investors look to private equity as returns keep coming

Fig. 5.1: Investors in Private Equity by Location: Number and Median Current Allocation (As a % of Total AUM)

North America

4,148
No. of investors

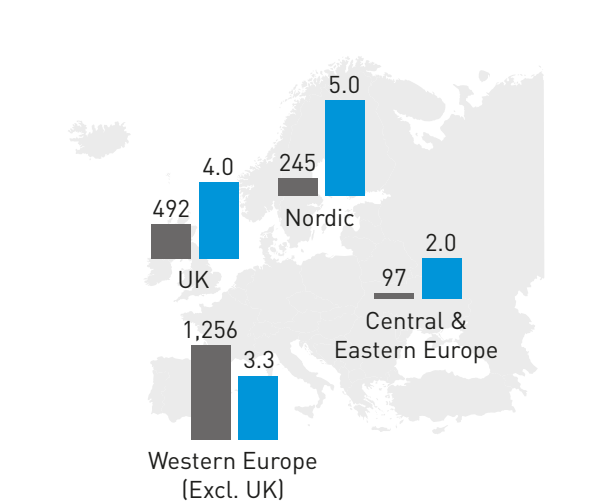
6.0%
Median current allocation



Europe

2,067
No. of investors

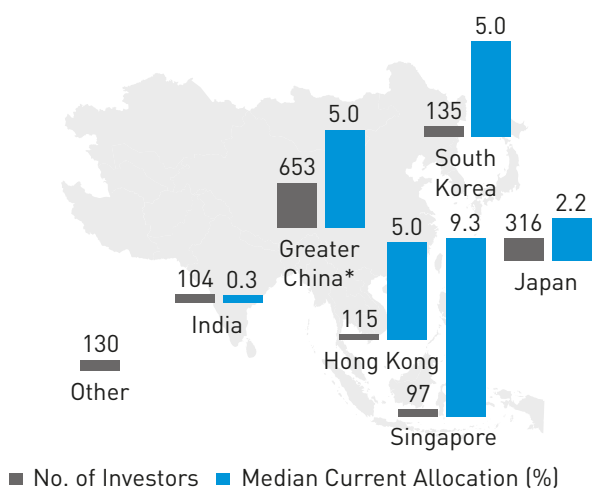
3.9%
Median current allocation



Asia

1,507
No. of investors

3.6%
Median current allocation



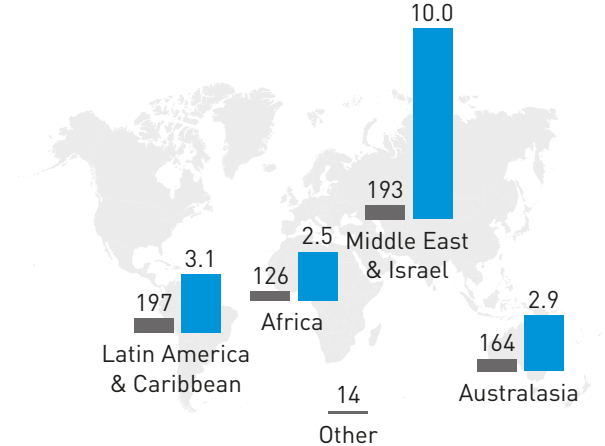
■ No. of Investors ■ Median Current Allocation (%)

*Excluding Hong Kong

Rest of World

694
No. of investors

3.4%
Median current allocation



Source: Preqin Pro

2020 Preqin Global Alternatives Reports

The 2020 Preqin Global Alternatives Reports are the most detailed and comprehensive reviews of the alternative assets industry available, offering exclusive insight into the latest developments in the private equity, hedge fund, real estate, infrastructure, private debt and natural resources asset classes.



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