

PRIVATE EQUITY & VENTURE CAPITAL: 2017 IN REVIEW

As we approach the end of 2017, we take a look at some of the research that Preqin has published over the past year and the key trends that have affected the industry.

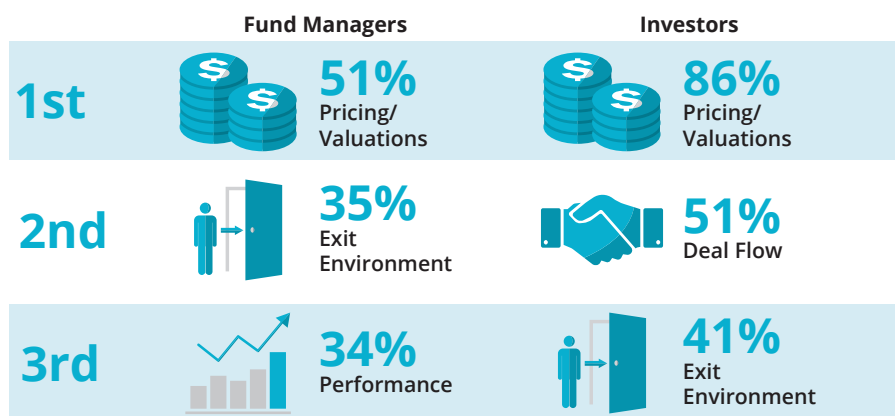
UNPRECEDENTED PERIOD FOR PRIVATE EQUITY FUNDRAISING

Strong investor appetite for private equity funds has led to continued fundraising success for the industry in 2017. As at November, private equity vehicles closed in 2017 to date have raised \$406bn, already surpassing the \$403bn raised by funds closed in the whole of 2016. Fund managers are also raising larger vehicles, with the average size of vehicles closed this year at \$542mn, significantly higher than the previous peak of \$434mn for funds closed in 2007 (Fig. 1).

The totals have been boosted by a series of mega funds closed during the year.

[Apollo Global Management](#) closed the largest ever private equity fund, [Apollo Investment Fund IX](#), on \$24.7bn in July, while [CVC Capital Partners Fund VII](#) (€16bn), [Silver Lake Partners V](#) (\$15bn), [KKR Americas Fund XII](#) (\$13.9bn) and [Vista Equity Partners Fund VI](#) (\$11bn) all raised substantial sums of capital this year. Exceeding all of these funds by a considerable margin, SoftBank held a first close for [SoftBank Vision Fund](#) on \$93bn in May; the fund is targeting a total of \$100bn.

Fund Manager and Investor Views on the Key Issues Facing the Private Equity Industry in the Next 12 Months



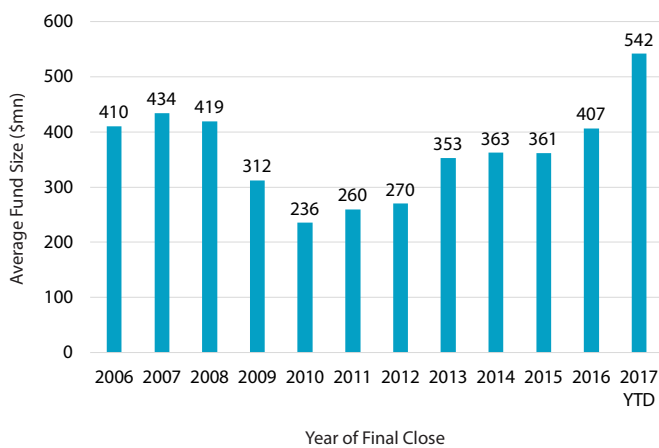
Source: Private Equity Online

VALUATIONS REMAIN A MAJOR CONCERN

With large sums of capital being allocated to the asset class and a growing level of competition for assets, portfolio company valuations have continued to rise in 2017. Among fund managers surveyed for the **Preqin Special Report: Private Equity Fund Manager Outlook, H2 2017**, 49% reported that pricing was higher than one year ago, compared with just 7% that believed it was lower.

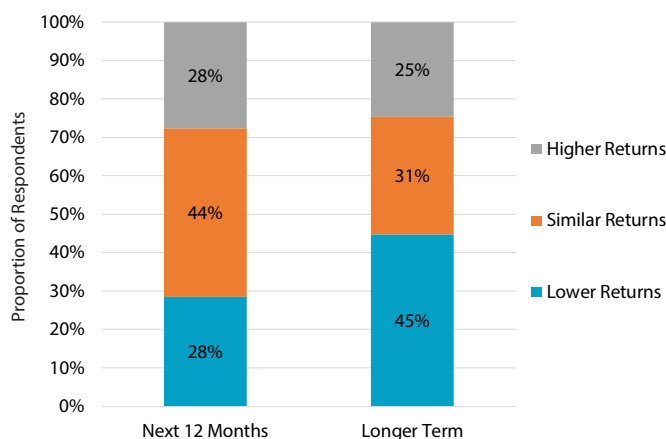
Both fund managers and investors surveyed by Preqin in June 2017 identified valuations as the key issue facing the industry at present. As pricing continues to increase these groups are concerned that it is becoming increasingly difficult to acquire assets at reasonable valuations, and that this could affect future fund performance. As discussed in the **Preqin Investor Outlook: Alternative Assets, H2 2017**, 45% of investors believe that high valuations will lead to lower portfolio returns over the longer term, compared to

Fig. 1: Average Size of Private Equity Funds Closed, 2006 - 2017 YTD (As at November 2017)



Source: Preqin Private Equity Online

Fig. 2: Investor Views on the Impact of Portfolio Company Valuations on Private Equity Portfolio Returns



Source: Preqin Investor Interviews, June 2017

only one-quarter that believe it will lead to higher returns (Fig. 2).

WOMEN IN PRIVATE EQUITY & VENTURE CAPITAL

In a year which has been marked by notable allegations of discrimination within the private equity & venture capital industry, women remain significantly underrepresented in the workforce. As highlighted in the **Preqin Special Report: Women in Alternative Assets**, just 17.9% of employees at private equity firms and 20.5% at venture capital firms are female.

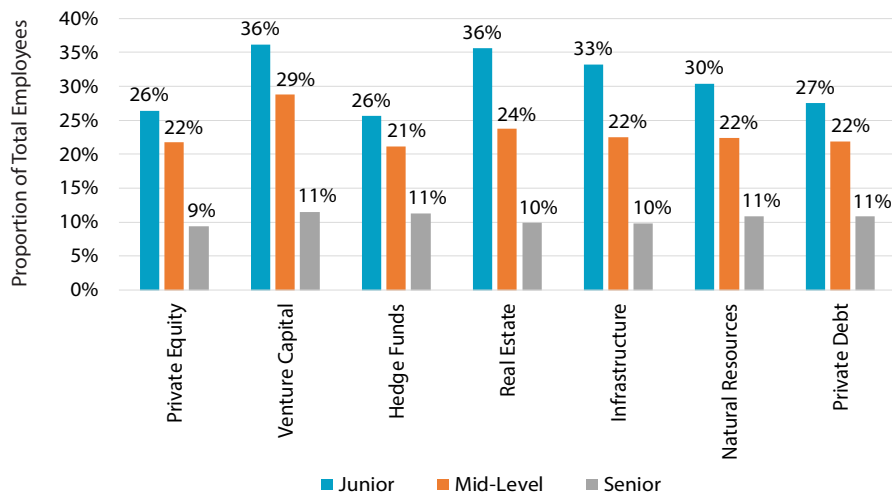
The representation of women varies considerably by seniority, with the highest levels of representation seen among junior employees: 36% of junior employees at venture capital firms are female, with 26% at private equity firms (Fig. 3). However, in more senior positions the proportion of women falls substantially: just 11% of senior employees at venture capital firms are women and 9% at private equity firms. Women are also more likely to be employed in back-office roles than in front-office positions, filling just 18% of investment team roles at venture capital firms and 14% at private equity firms.

With the underrepresentation of women remaining a key issue for the industry to address, some initiatives have been proposed to address the gender imbalance and eliminate sexual harassment in the workplace. November's **Private Equity Spotlight** profiled some of the initiatives taking place in the venture capital industry, including the 'Decency Pledge' and prominent investors in women-owned venture capital firms.

RECORD YEAR FOR SECONDARIES FUNDRAISING

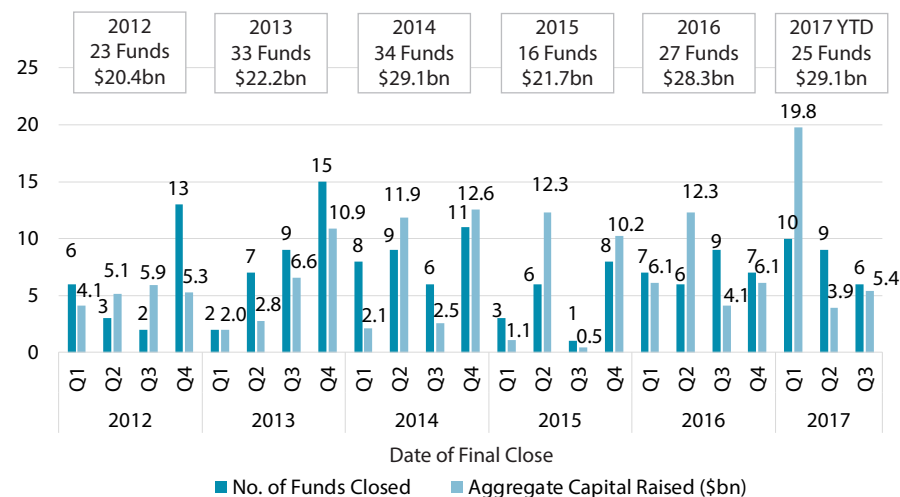
As shown in the **Preqin Secondary Market Update, Q3 2017**, secondaries fundraising reached \$29bn in the first three quarters of 2017, already matching the previous record for the whole of 2014. Fundraising was particularly strong in Q1, when 10 funds closed raising a combined total of \$20bn (Fig. 4). Fundraising has been boosted by the closing of several large funds this year: **Strategic Partners VII** reached a final close on \$7.5bn in January, **Goldman Sachs AIMS Private Equity** raised \$7.2bn for **Vintage Fund VII** in July and

Fig. 3: Female Employees in Alternatives as a Proportion of Total Employees by Seniority and Asset Class



Source: Preqin

Fig. 4: Global Quarterly Secondaries Fundraising, Q1 2012 - Q3 2017



Source: Preqin Secondary Market Monitor

Alpinvest Partners raised \$6.5bn across **Alpinvest Secondaries Fund VI** and related separate accounts.

High levels of fundraising have led to record levels of dry powder for secondaries firms: \$94bn as at September 2017, including \$86bn for private equity secondaries. This has contributed to a very competitive deal environment. Among secondary fund managers surveyed by Preqin in July 2017, 40% reported having noticed an increase in competition in the first half of the year.

EMERGING MARKETS ASSETS UNDER MANAGEMENT SURPASS \$550bn

Private equity firms located in emerging markets have faced some challenges

in recent years. As shown in the **Preqin Special Report: Private Equity in Emerging Markets**, fundraising for emerging markets-focused vehicles has fallen as a proportion of total private equity fundraising in recent years, from 51% of the number of funds and 40% of aggregate capital raised in 2011 to 20% and 12% respectively in 2016.

Despite this, emerging markets-focused assets under management continued to grow and stood at \$564bn as of Q3 2016, nearly 9x the \$63bn that these vehicles accounted for at the end of 2005. As the industry reaches maturity, these vehicles have now joined North America- and Europe-focused funds in distributing significant sums of capital to investors.

Distributions by emerging markets-focused vehicles exceeded capital calls for the first time in 2015 and net distributions were \$13bn for the first three quarters of 2016.

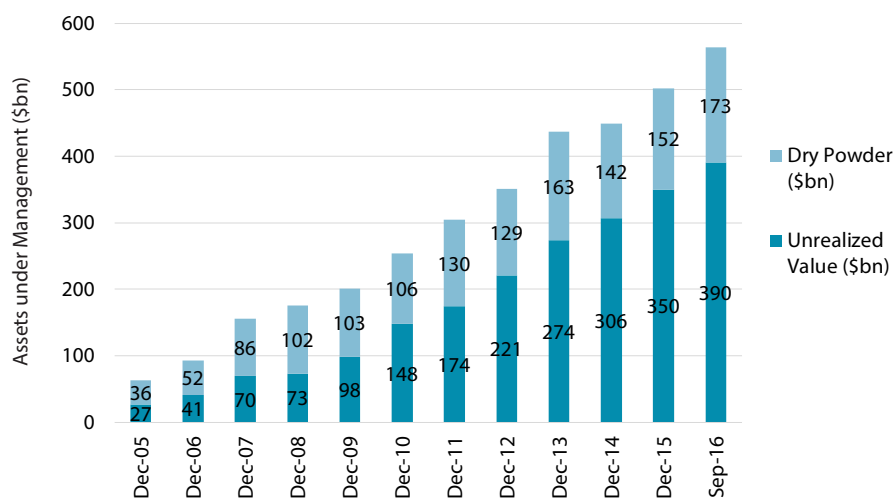
FUND OF FUNDS INDUSTRY SEES CONTINUED CONSOLIDATION

The private equity fund of funds industry has faced considerable challenges in recent years; with an increasingly sophisticated body of institutional investors allocating to private equity as well as heightened scrutiny of fund costs, fundraising by fund of funds vehicles as a proportion of total private equity fundraising has fallen noticeably since 2008/2009 (Fig. 6).

As shown in the **Preqin Special Report: Private Equity Funds of Funds**, these managers are responding to the challenges in a variety of ways: by adapting their business models to concentrate on specific business niches, and by making increased use of alternative investment methods such as separate accounts and co-investments, and through consolidating and merging their businesses.

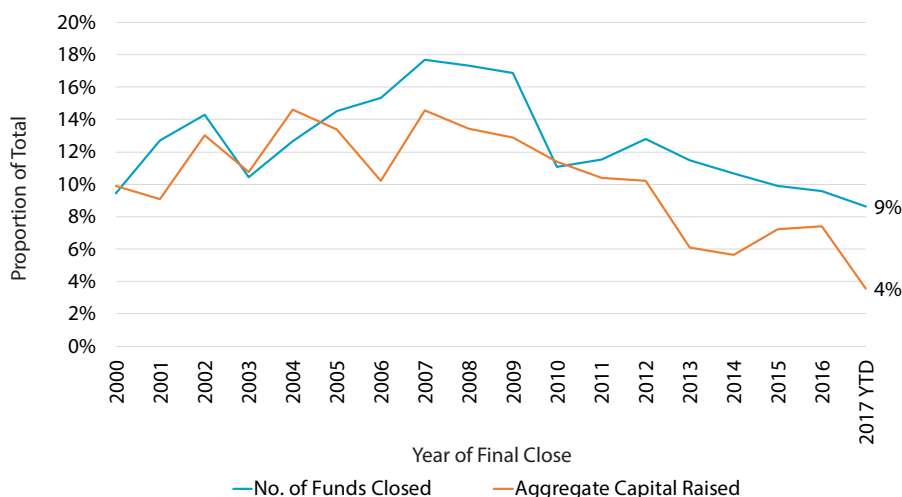
Consolidation is also increasingly marking the industry, as fund of funds managers and other asset managers seek to gain scale or access new investment strategies; acquisitions in 2017 include **Unigestion's** acquisition of Akina in February and **Schroders' acquisition of Adveq** in July.

Fig. 5: Emerging Markets-Focused Private Equity Assets under Management, 2005 - 2016



Source: Preqin Private Equity Online

Fig. 6: Private Equity Fund of Funds Fundraising as a Proportion of Total Private Equity Fundraising, 2000 - 2017 YTD (As at September 2017)



Source: Preqin Private Equity Online

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