FIRST-TIME FUND MANAGERS

New fund managers continue to launch private equity vehicles despite the challenges of an increasingly competitive market. In this article, we take a look at first-time fundraising as well as performance and investor interest in these vehicles.

New firms continue to enter the private equity asset class. While the industry is continuing to grow and the majority of investors remain satisfied and committed to the asset class, first-time fund managers' jobs have not become any easier. The fundraising landscape is growing increasingly competitive: there are more vehicles on the road (2,296) than ever before, seeking a record amount of capital ($744bn); and while LPs remain flush with capital from recent record net distributions, many are re-investing much of this capital with existing managers. Despite these challenges, first-time fund managers secured $26bn in capital commitments across 226 funds in 2017 (Fig. 1).

FUNDRAISING

The number of first-time funds reaching a final close in 2017 has significantly decreased from levels in prior years, dropping by 20% from 2016. This is reflective of the broader trend in private equity fundraising whereby investor capital is concentrated in fewer funds. Although first-time funds accounted for a quarter of all private equity funds closed in 2017, eclipsing the proportion the previous year, there was a three-percentage-point decrease in the proportion of aggregate capital raised in 2017 by first-time funds in comparison to 2016 (Fig. 2).

Much of this positive momentum can be attributed to a strong fundraising year for first-time venture capital fund managers. The $11bn raised by first-time venture capital fund managers in 2017 accounted for 42% of all capital raised by first-time private equity funds. That is a stark difference from the fundraising environment for established managers in 2017, when just 10% was raised by experienced venture capital funds.

In line with the wave of distributions LPs have received in recent years, the average fund size has increased over time for both emerging and established managers. The average size of non-first-time funds closed in 2017 stands at $660mn, 2.3x larger than in 2010, while the average first-time fund secured $131mn in 2017, 36% greater than the average size in 2010.

The average time spent on the road by first-time funds has dropped slightly in recent years, from 20 months in 2010

AVERAGE FUND SIZE ($mn)

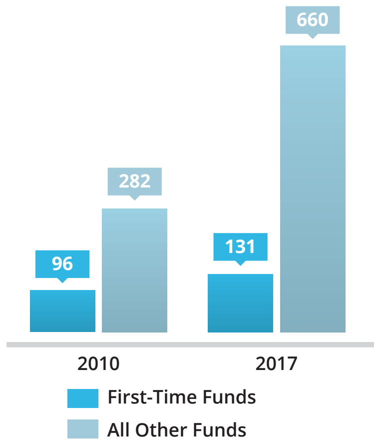
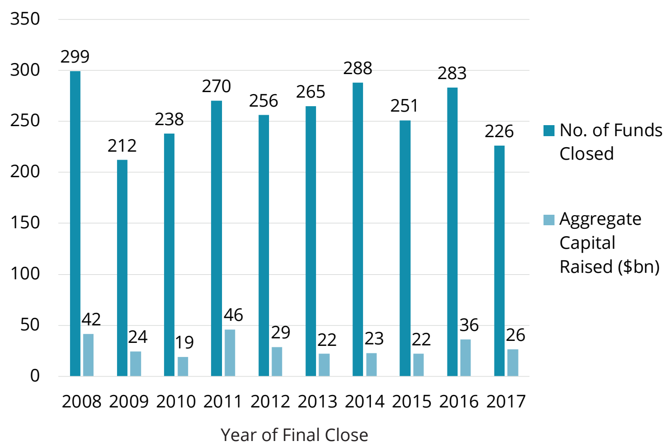
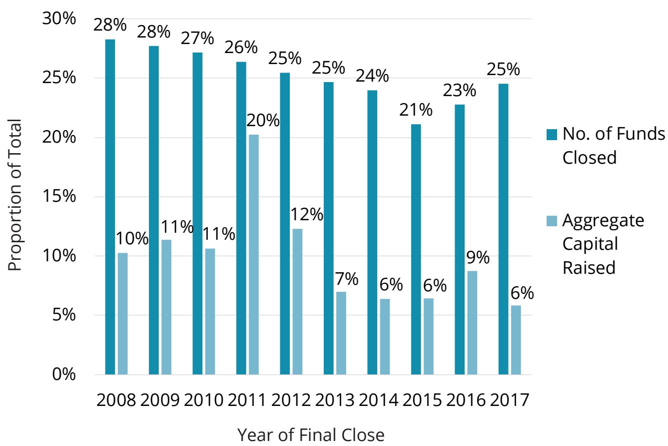


Fig. 1: Annual First-Time Private Equity Fundraising, 2008 - 2017



Source: Preqin Private Equity Online

Fig. 2: First-Time Fundraising as a Proportion of Total Private Equity Fundraising, 2008 - 2017



Source: Preqin Private Equity Online

Fig. 3: Largest First-Time Private Equity Funds Closed in 2017

Fund	Firm	Fund Size (mn)	Fund Type	Geographic Focus	Final Close Date
Core Equity Holdings I	Core Equity Holdings	1,000 EUR	Buyout	Europe	Sep-17
Baidu Fund Partnership	Baidu Capital	7,000 CNY	Venture Capital	Asia	Sep-17
Cove Hill Partners Fund I	Cove Hill Partners	1,005 USD	Buyout	US	Sep-17
Rocket Internet Capital Partners Fund	Rocket Internet Capital Partners	1,000 USD	Venture Capital	Europe	Jan-17
EMK Capital Fund I	EMK Capital	575 GBP	Buyout	Europe	May-17

Source: Preqin Private Equity Online

to 17 months in 2017. By contrast, the average time spent in market by funds from established managers has decreased from 19 months to 13 months in the same period. This suggests that investors are deploying capital faster, but are increasingly comfortable investing with managers that have a proven track record.

PERFORMANCE

Although attracting investor capital is generally more challenging for first-time fund managers, Preqin data shows emerging funds typically deliver better returns to investors. First-time funds have higher median net IRRs than non-first-time funds across 10 of the 15 vintage years since 2000, surpassing the net IRRs of all other funds by at least four percentage points for 2010-2012 and 2014 vintage funds (Fig. 4). This outperformance can particularly be seen in quartile rankings: when compared to similar funds, 34% of first-time funds achieved top-quartile performance (all vintages combined).

Fund selection for first-time fund managers remains crucial as the difference in the performance of top- and bottom-quartile first-time funds is sizeable, as seen in Fig. 5. Between 2000 and 2014 vintages, the difference in median net IRRs between top- and bottom-quartile managers was at least 10 percentage points every year except for 2009 vintage.

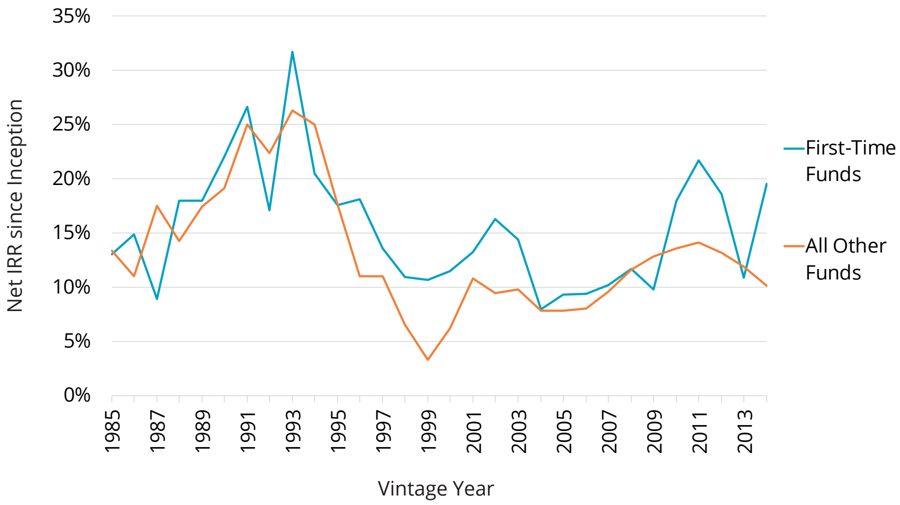
INVESTOR INTEREST

Despite reservation from investors, there is still a sizeable group of institutions interested in first-time funds: a third of investors tracked by Preqin have expressed a preference for first-time funds (Fig. 6). However, in line with LPs' recent views on the importance of track records when sourcing funds, 41% of investors will not invest in first-time funds.

OUTLOOK

Despite the continued challenges faced by emerging managers, new firms and funds are coming to market. There is still a clear appetite from investors to capitalize on the strong returns of first-time funds, and as such there remain opportunities for first-time fund managers. However, with LP capital being spread across increasingly fewer funds, even within the first-time fund market, emerging managers will need to work even harder to differentiate themselves and demonstrate their potential in order to attract investor capital.

Fig. 4: Private Equity Median Net IRRs by Vintage Year: First-Time vs. All Other Funds



Source: Preqin Private Equity Online

AVERAGE TIME SPENT ON THE ROAD (MONTHS)

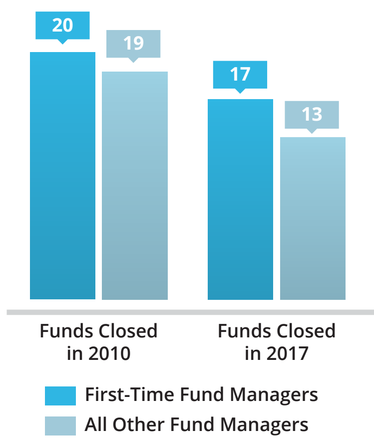
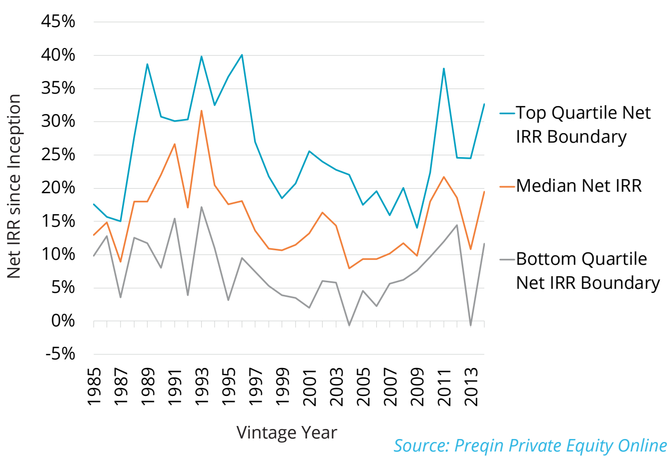
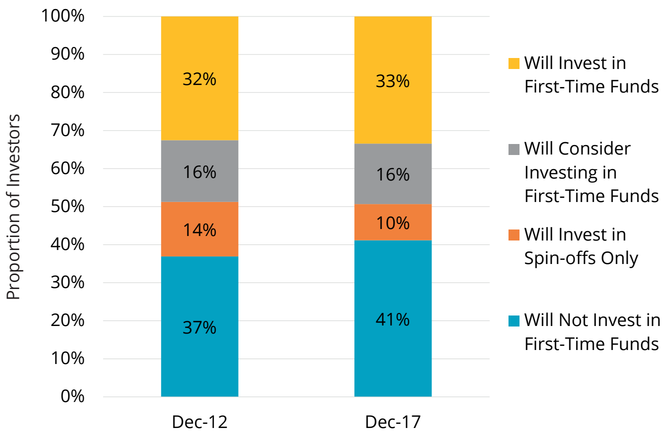


Fig. 5: First-Time Private Equity Funds: Median Net IRRs and Quartile Boundaries by Vintage Year



Source: Preqin Private Equity Online

Fig. 6: Investor Appetite for First-Time Private Equity Funds, 2012 vs. 2017



Source: Preqin Private Equity Online

FAMILY OFFICE WINTER FORUM

March 1, 2018 | New York Marriott Marquis, New York, NY

The Big Apple is host to Opal Group's Family Office Winter Forum. Held in one of the world's largest financial capitals, this one-day event perfectly aligns with the culture of the city that never sleeps. Families and financial managers will enjoy a fast pace day of interactive panel discussions and networking breaks. While in the session room, trending investment topics will be addressed by some of Wall Street's most sought after managers and advisors. Themes of family governance, alternatives, and impact investing, will have even the most cynical of New Yorkers believing in their financial future.

Sponsorship and Exhibiting Opportunities are Available
If you are interested in attending, sponsoring, speaking or exhibiting at this event, please call 212-532-9898 or email info@opalgroup.net

Register
To register, visit us online at www.opalgroup.net or email us at marketing@opalgroup.net

Ref code: FOWFC1803

Opal Group

IBERIAN
PRIVATE EQUITY CONFERENCE '18

19TH APRIL 2018 | MADRID
THE WESTIN PALACE HOTEL

PRIVATE EQUITY INSIGHTS

80+ **LPs** | 90+ **GPs** | 60+ **CxOS**

250+ **Attendees** | 50+ **Speakers**

Contact us at
marketing@pe-conference.org
+351 211 335 966

or visit us at
www.pe-conference.org/iberian