2018 FUNDRAISING UPDATE

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PRIVATE CAPITAL: NO RETREAT

Early predictions for 2018 suggested that the rapid pace of fundraising which characterized 2017 would not be sustainable. However, the first three quarters of 2018 saw more money raised than in any year other than 2017. And although significantly fewer funds closed in 2018 compared to the previous year, $757bn in total capital was secured – on par with 2016. Preqin expects this to rise by up to 10% as more information becomes available, meaning that 2018 could yet mark the second highest fundraising year of all time.

What is more striking is the influence that the largest firms and funds are having on the market. Funds seeking to become the largest ever private equity, venture capital, real estate, infrastructure and secondaries vehicles are all currently in market – in all, 17 funds are each currently seeking $10bn or more from investors. This seems likely to increase the divide between the top and bottom ends of the market; at a time when investors are concerned about the prospect of a market correction, many will be seeking to invest with firms they have invested with before.

It seems that managers have reason to anticipate such strong appetite from investors: despite concerns about a potential market correction, large proportions of investors in every private capital asset class said they would commit more capital in 2019 than they did in 2018. Interim fundraising bears this out – of the 5,000 funds in market, around 3,000 have already held an interim close and have secured more than half a trillion dollars. It seems that investors are still committing significant sums to private capital and so we can expect the robust pace of fundraising to continue well into 2019.

If you have any questions about this report, or would like further data or comments, please get in touch with us at press@preqin.com

CLOSED

1,733
Number of private capital funds closed in 2018, 28% down from 2017.

$757bn
Aggregate capital raised by private capital funds in 2018, down from the record $925bn raised the previous year.

$241bn
Total capital targeted by the 10 largest private capital funds in market – 30% of all targeted capital.

Fig. 1: Annual Global Private Capital Fundraising, 2012 - 2018

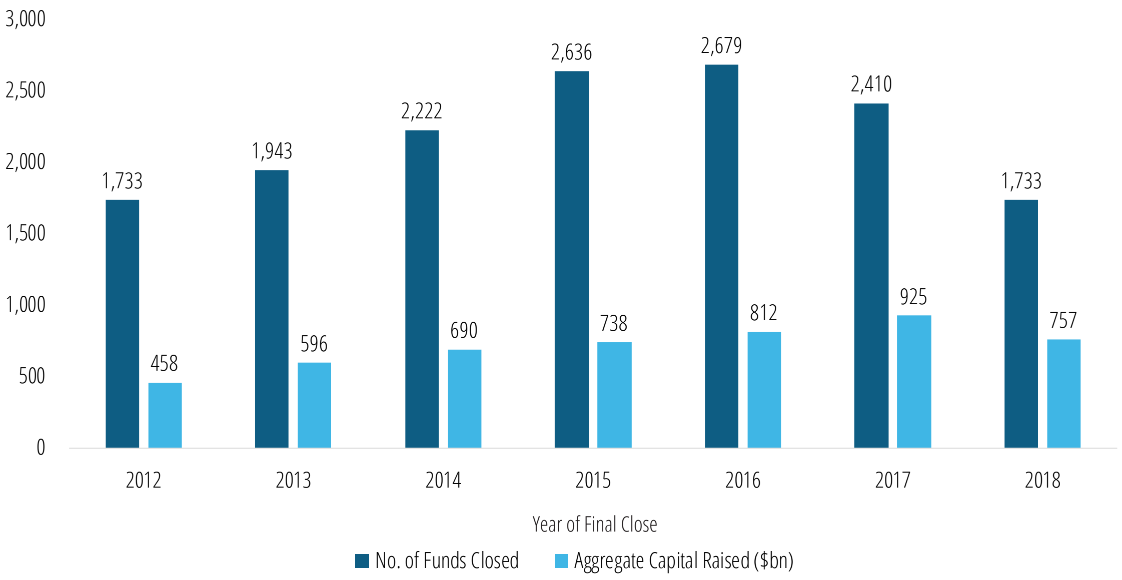
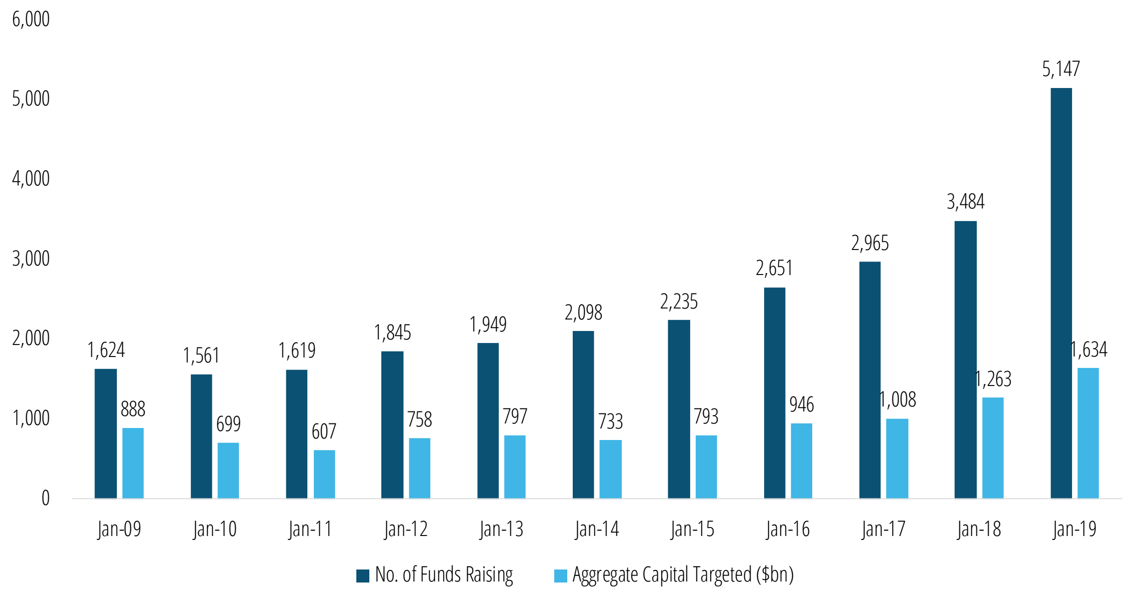


Fig. 2: Private Capital Funds in Market over Time, 2009 - 2019 (As at January 2019)



**Number of funds in market has spiked due to increased coverage of Asia-focused funds.*

PRIVATE EQUITY: CAPITAL CONCENTRATES

In 2018, the private equity fundraising market climbed down from the heights seen in 2017, but capital concentration at the top end of the market intensified. A total of 1,175 funds closed through the year, down from 1,670 that closed in 2017, and vehicles in 2018 raised $426bn compared to $566bn the previous year. Preqin expects these figures to rise by up to 10% as more information becomes available, but fundraising seems unlikely to approach 2017's totals. However, capital totals remain substantial, particularly among the largest funds. Funds of one billion dollars or more in size secured $264bn, 62% of total fundraising – the 10 largest funds alone accounted for almost a quarter of capital raised.

KEY POINTS:

- 2018 saw **1,175 private equity funds raise a total of $426bn**. This is down from 1,639 funds that raised $552bn in 2017.
- Funds focused on North America raised $240bn, while Europe- and Asia-focused funds secured $90bn and $80bn respectively. **Asia saw more funds closed than Europe for the first time:** 250 compared to 196.
- The **average fund size reached $363mn,** surpassing 2017 ($339mn), and is the highest level since 2007 ($422mn).
- **The largest fund closed in the year was the $18.5bn Carlyle Partners VII**. The 10 largest funds raised $125bn between them.
- Dry powder continued to climb through 2018, **reaching $1.20tn as at December 2018** – a new record.
- At the start of 2019, there are 3,750 private equity funds in market, seeking a total of $977bn. **The five largest funds in market are seeking a combined $219bn.**

“Private equity fundraising is increasingly a two-tier market. Billion-dollar funds accounted for two-thirds of all capital in 2018, and most of the largest fund managers say that they are routinely oversubscribed. Although investor appetite for smaller funds exists, with concerns regarding a market correction, the bifurcation between smaller managers and larger managers is likely to become more pronounced in the months to come.

CHRISTOPHER ELVIN
Head of Private Equity

Fig. 1: Annual Global Private Equity Fundraising, 2012 - 2018

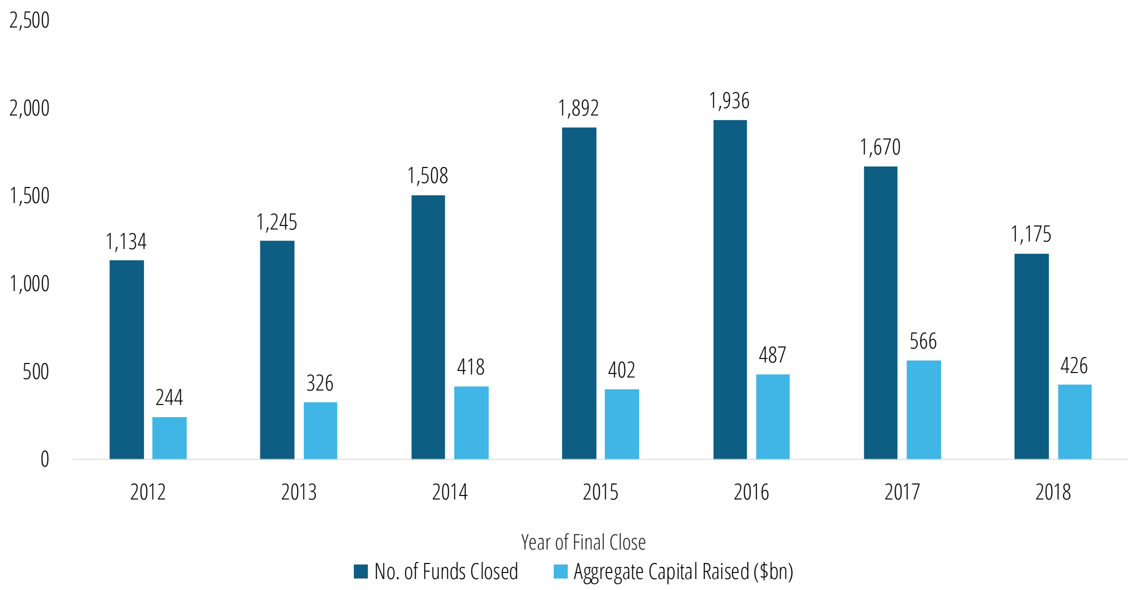
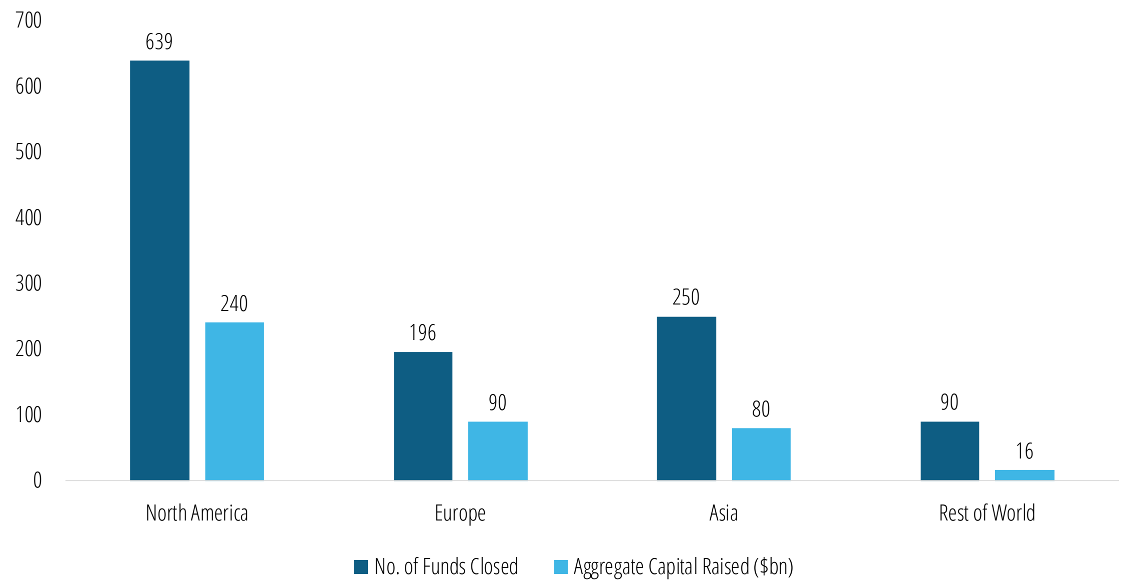


Fig. 2: Private Equity Fundraising in 2018 by Primary Geographic Focus



PRIVATE DEBT: STRATEGY SHIFT

Private debt fundraising remained strong in 2018, marking the fourth consecutive year in which funds raised more than $100bn from investors. A total of 163 funds secured $110bn, and Preqin expects these figures to rise by up to 10% as more information becomes available.

Despite the headline figures, direct lending and distressed debt fundraising – traditionally the largest portions of the market – both saw declines in aggregate capital raised. Direct lending fundraising was significantly down from $68bn in 2017 to $45bn in 2018, while distressed debt fundraising fell from $33bn to $21bn over the same period. Mezzanine fundraising, meanwhile, surged from $12bn to $31bn, due in part to the closure of the $13bn GS Mezzanine Partners VII, the largest fund of the year.

KEY POINTS:

- 2018 saw **163 private debt funds raise a combined $110bn**, down from 189 funds which raised $129bn in 2017.
- **Direct lending fundraising was down** from $68bn the previous year to $45bn in 2018, while distressed debt fundraising was down from $33bn to $21bn.
- **Mezzanine fundraising surged from $12bn in 2017 to $31bn**, partly due to several large fund closures.
- North America saw 91 funds secure $68bn, while 42 Europe-focused funds raised $36bn.
- **Over half (51%) of funds exceeded their targets in 2018,** and the average time spent in market was 14 months – the lowest on record.
- The largest fund closed in the year was **GS Mezzanine Partners VII**, which at $13bn became the largest private debt fund ever closed.
- Dry powder kept rising through 2018 and stands at **$280bn as at the end of December 2018**.
- Looking ahead, there are **395 private debt funds in market at the start of 2019**, seeking a total of $168bn.

The healthy underlying conditions that helped drive private debt fundraising activity in recent years have continued in 2018. This is the fourth year in which funds raised more than $100bn, and while 2018 may not have reached 2017's heights, it is still a remarkable achievement for a relatively small asset class. The closure of the largest private debt fund ever (matched only by its predecessor 10 years ago) a particular sign of strength for the sector.

However, it is curious to see direct lending fundraising fall so steeply. It may indicate that investors' concerns about the potential for an equity market downturn are making them less inclined to provide the funding components of deals that may be exposed in the event of a correction.

TOM CARR
Head of Private Debt

Fig. 1: Annual Global Private Debt Fundraising, 2012 - 2018

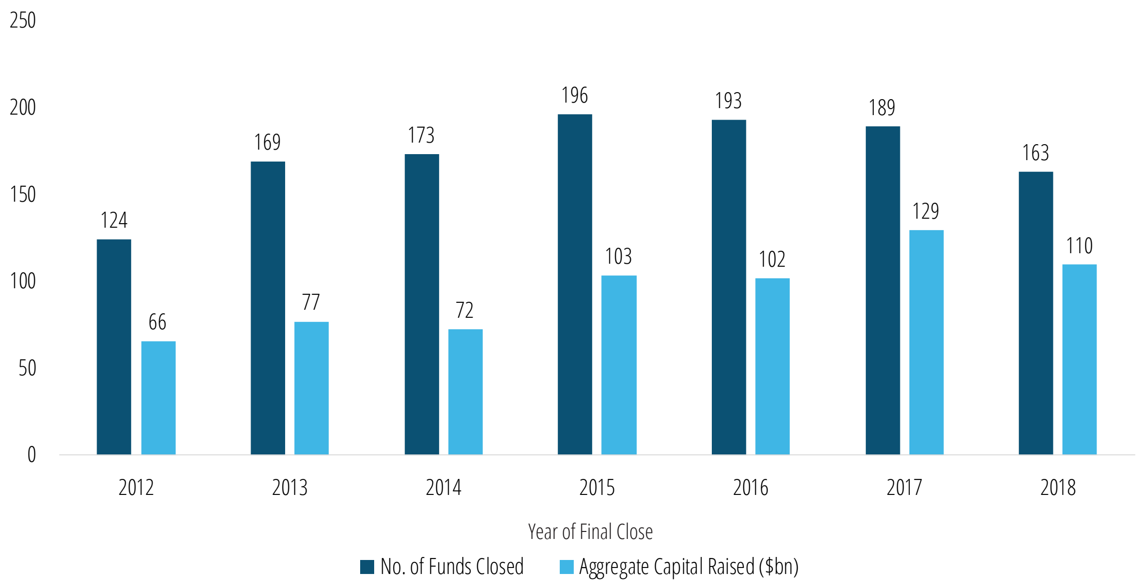
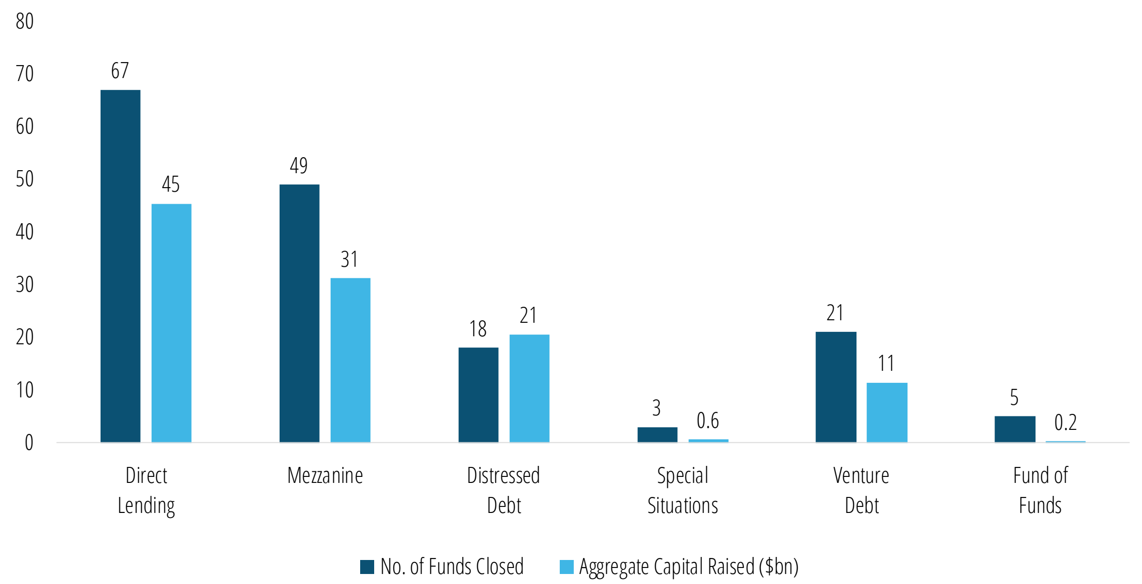


Fig. 2: Private Debt Fundraising in 2018 by Fund Type



REAL ESTATE: A SLOWING MARKET?

The closed-end private real estate market shows some signs of having slowed in 2018. Overall fundraising activity remains substantial, with 298 funds closing globally in 2018, raising a total of $118bn. Preqin expects these figures to rise by up to 10% as more information becomes available, but nonetheless the year seems unlikely to match the 406 funds that raised $132bn in 2017.

Despite half of investors in our most recent survey saying that the market is due for a correction within the next three years, fundraising through the year was focused on higher-risk value-added and opportunistic funds, which raised $36bn and $43bn respectively. By contrast, core and core-plus was significantly down from $15bn in 2017 to $6.1bn in 2018. This would suggest that there has not yet been a significant movement by investors down the risk/return curve.

KEY POINTS:

- A total of **298 real estate funds closed in 2018, raising a combined $118bn**. This represents a small decline from the $132bn raised in 2017, and a larger fall from the 406 funds closed in that year.
- Funds that closed in 2018 spent an average of 18 months in market – a 10-year high. However, **45% closed above target**, the largest proportion recorded by Preqin in the past five years.
- Value added funds were the most numerous, with 115 funds closing, while opportunistic funds secured the most capital ($43bn). Debt funds continued their strong fundraising from 2017, but **core and core-plus fundraising fell sharply from 2017**.
- Dry powder kept rising in 2018, but at a slower pace. At the end of the year **fund managers held $295bn in available capital.**
- At the start of 2019, there are **674 real estate funds in market, seeking a total of $250bn.** This is up significantly from a year ago, when 573 funds were targeting a combined $191bn.

The fundraising market in 2018 showed some signs of hesitancy. Activity was undoubtedly still substantial, with funds raising more than $100bn for the sixth consecutive year, but the pace of fund closures has notably slowed. However, despite concerns about potential market corrections, it does not seem that investor appetite is slowing.

It also appears that investors are not moving down the risk/return curve. Debt funds had another strong year, but core and core-plus fundraising was less than half of 2017's levels. This is despite many investors we interviewed saying that they were seeking to position themselves in anticipation of a correction and would be targeting these lower-risk strategies in the coming months.

TOM CARR
Head of Real Estate

Fig. 1: Annual Global Closed-End Private Real Estate Fundraising, 2012 - 2018

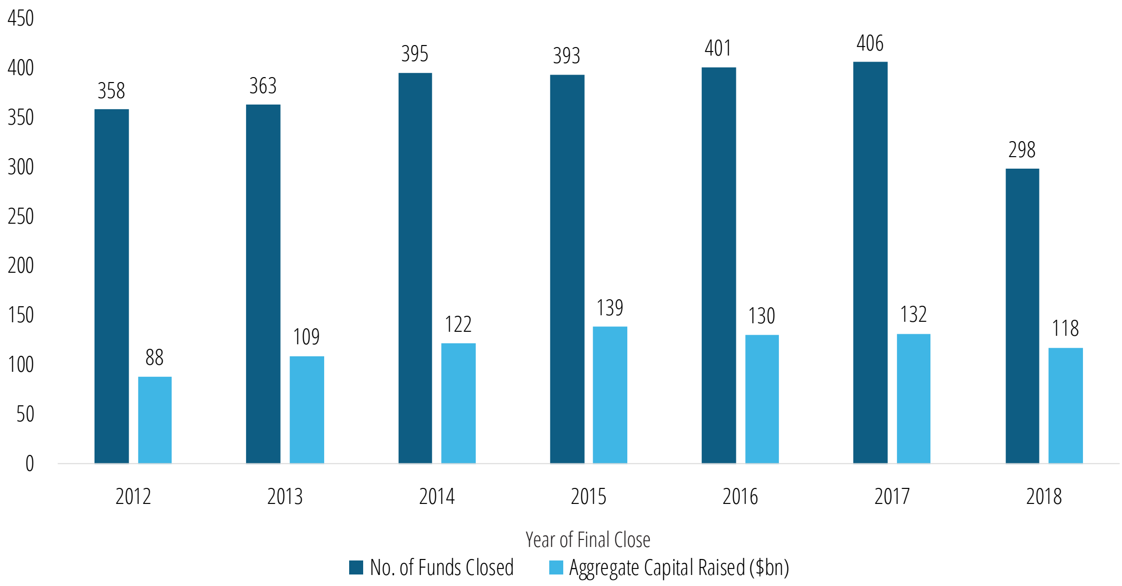
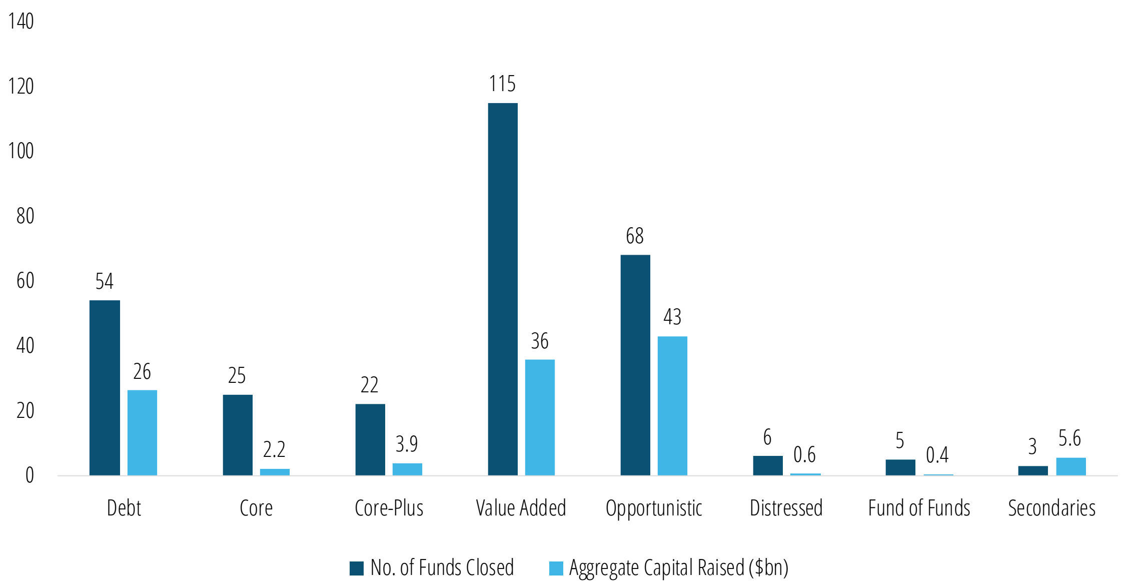


Fig. 2: Closed-End Private Real Estate Fundraising in 2018 by Primary Strategy



INFRASTRUCTURE: RECORD-BREAKERS

Unlisted infrastructure fundraising marked an all-time high in 2018 – its second consecutive annual record – and seems likely to do so again in 2019. Sixty-seven funds closed in the year, down from 94 in 2017, but capital totals reached $85bn. This is significantly up from the $75bn raised in 2017, and Preqin expects these figures to rise by up to 10% as more information becomes available.

2019 could yet surpass even this level – there are 208 funds in market at the start of the year, seeking a combined $193bn, both record highs. Among them are Brookfield Infrastructure Fund IV and Global Infrastructure Partners IV: each is targeting $20bn, which would make them among the largest private capital funds of any type ever raised. If they both fulfil their targets, they would account for half of 2018's fundraising total alone.

KEY POINTS:

- **Sixty-seven unlisted infrastructure funds closed in 2018, raising a combined $85bn**. This is a record capital total for the asset class.
- Twenty-two North America-focused funds raised $44bn, while 33 Europe-focused funds secured $35bn.
- The year was dominated by mega funds, and **the average fund size rose from $864mn in 2017 to $1.3bn**.
- Fundraising was broadly successful – **71% of funds closed in the year exceeded their targets**, the largest proportion for any year recorded.
- Aided by record fundraising, **dry powder has climbed to a new record of $172bn as at December 2018.**
- Four funds raised $5bn or more, the largest being the $7.4bn KKR Global Infrastructure Investors III.
- Looking ahead, **208 funds are in market targeting an aggregate $193bn** in January – a record high.
- The largest of these are Brookfield Infrastructure Fund IV and Global Infrastructure Partners IV. Each is targeting $20bn, which could make them **the largest infrastructure funds ever** and among only six funds to ever reach $20bn.

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It is hard to overstate the prodigious growth of the infrastructure fundraising market in recent years. 2018 saw the asset class secure almost twice as much capital as it did as recently as 2014, having set three consecutive annual fundraising records. It is testament to the appetite that investors have for infrastructure – its diversification, inflation-hedging and income stream potential are all key advantages, especially given the concerns many investors have about a prospective market downturn. However, it does seem that investors are becoming more selective, and are opting to commit to established rather than emerging managers. While the largest firms are able to set successive fundraising records, the number of funds closing overall is falling, putting more pressure on smaller firms with vehicles in market.

PATRICK ADEFUYE
Head of Real Assets

Fig. 1: Annual Global Unlisted Infrastructure Fundraising, 2012 - 2018

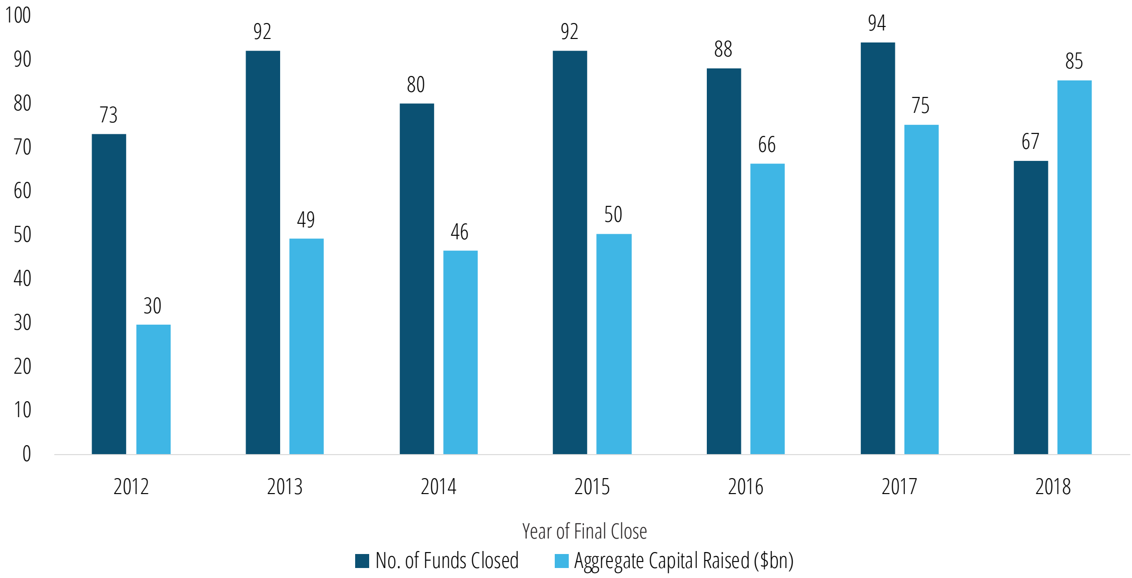
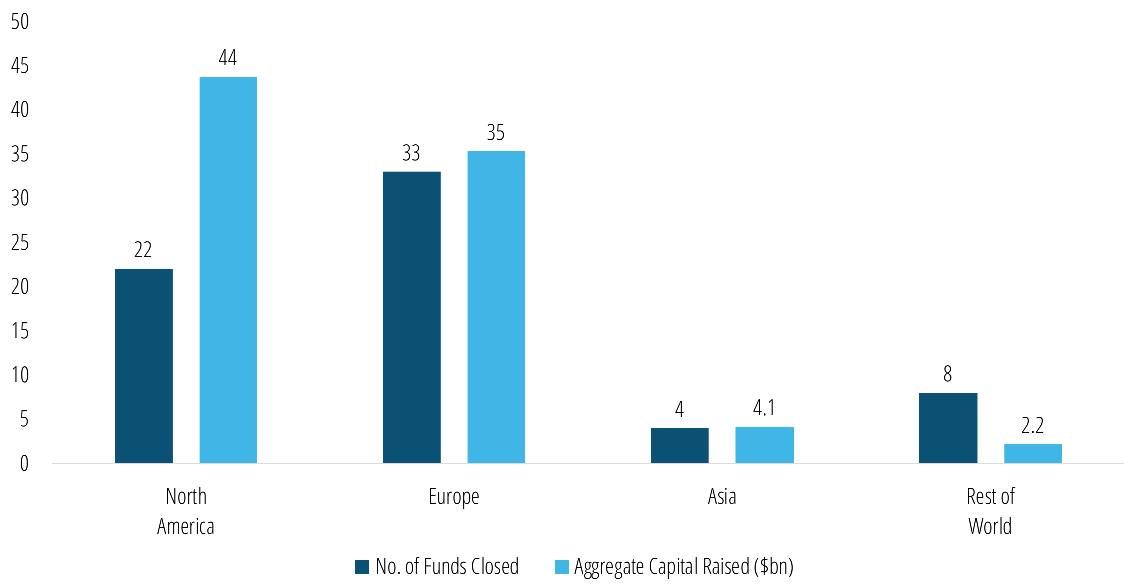


Fig. 2: Unlisted Infrastructure Fundraising in 2018 by Primary Geographic Focus



NATURAL RESOURCES: CONSECUTIVE RECORDS

Unlisted natural resources funds raised a record $93bn in 2018, surpassing 2017's record of $91bn. This is despite the number of funds closed falling from 145 the previous year to 91 in 2018. Preqin expects this year's figures to rise by up to 10% as more information becomes available. Energy-focused funds accounted for almost all of the year's activity as 77 funds raised $89bn. By comparison, just four metals & mining funds closed and raised $2.5bn. Furthermore, over half (57%) of natural resources funds exceeded their targets in 2018, indicating that investor appetite outstripped fundraising capacity.

KEY POINTS:

- In 2018, **91 unlisted natural resources funds closed, raising an aggregate $93bn**. This marks a five-year low in the number of funds closed, but represents a record high in capital raised.
- **Energy-focused funds accounted for the bulk of fundraising activity**, as 77 funds raised $89bn.
- A further seven agriculture/farmland funds raised $0.7bn, four metals & mining funds secured $2.5bn and three timberland funds raised $0.9bn.
- In fact, **all 10 of the largest funds closed in 2018 were energy focused**, including the largest, the $7.4bn KKR Global Infrastructure Investors III.
- North America-focused funds made up the largest proportion of activity, with 51 funds focused on the region raising a combined $58bn. A further 25 Europe-focused funds raised $28bn.
- **This marks the first year in which over half (57%) of funds exceeded their initial target size**, while a further 18% hit their target.
- As at June 2018, **unlisted natural resources dry powder stands at a record high of $238bn**.
- Looking forwards, **there are a record 305 funds in market targeting an aggregate $188bn**. Of these, 213 are energy-focused funds seeking to raise a total of $162bn.

“2018 marked a record year for natural resources, with funds raising close to $100bn – a new high for the industry. Energy funds in particular had a banner year, accounting for the vast majority of total natural resources fundraising activity. The energy market has typically dominated natural resources, which may be an impediment to the asset class's long-term success: although other sectors are less crowded with competing fund managers, they also see less attention from investors and so struggle to grow.

PATRICK ADEFUYE
Head of Real Assets

Fig. 1: Annual Global Unlisted Natural Resources Fundraising, 2012 - 2018

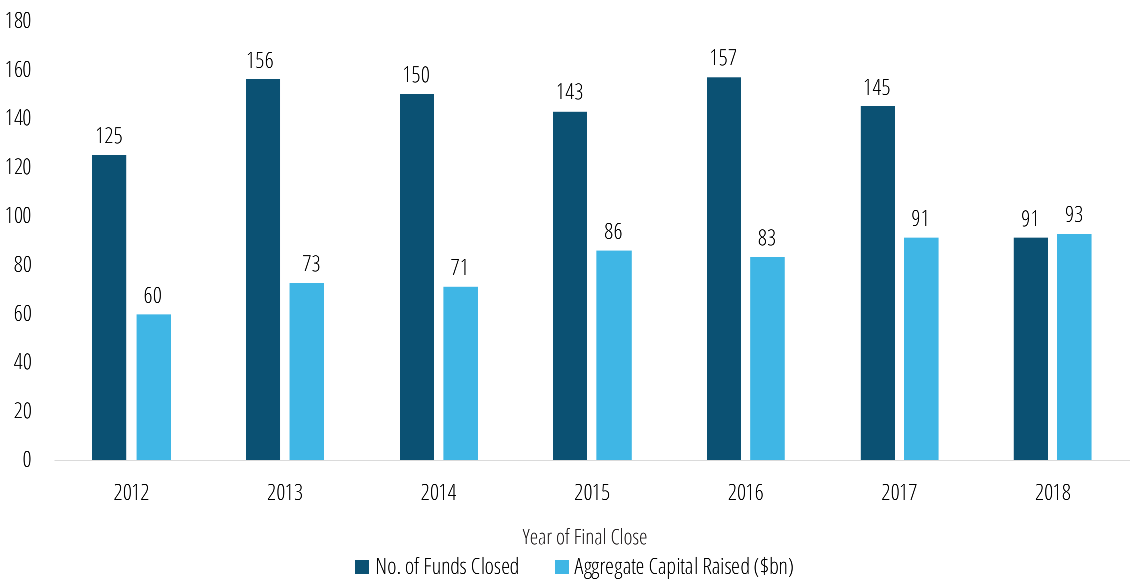


Fig. 2: Unlisted Natural Resources Fundraising in 2018 by Primary Geographic Focus