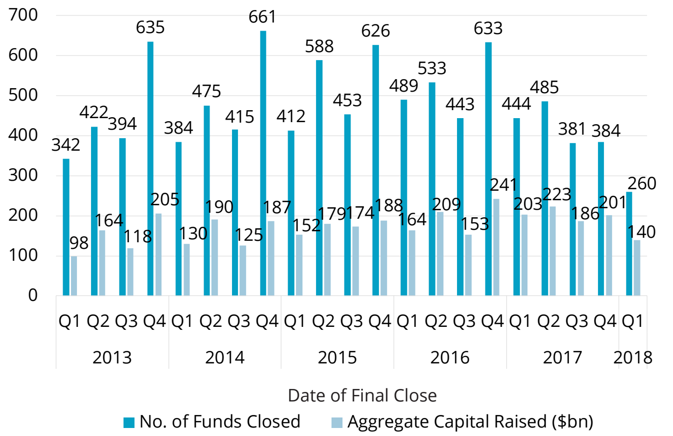
PRIVATE CAPITAL: BREATHING ROOM?

The private capital industry marked a banner year in 2017: total fundraising reached a new record of $814bn, and several asset classes set individual fundraising records. However, it seems that momentum was focused on the first half of the year. Q1 and Q2 marked the highest capital totals – $203bn and $223bn respectively. Similarly, the first two quarters each saw more than 400 funds close, a measure not replicated in the second half of the year. It looks as though Q1 2018 is continuing this slightly slower pace in fundraising: 260 private capital funds have reached a final close, securing a combined $140bn (Preqin expects these figures to rise by up to 10% as more information becomes available). Although this is the lowest Q1 total since 2014, it is broadly on par with other years – Q1 2016 saw $164bn raised by 489 funds, while Q1 2015 saw 412 funds secure $152bn. But in the context of recent quarters, it indicates that fund managers may be slowing their pace for the moment following the huge influx of capital seen across the past year.

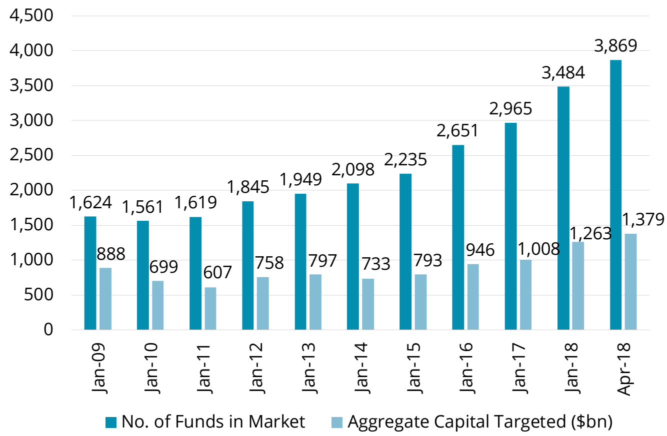
However, 2018 is still subject to many of the forces that propelled 2017 to such heights. Capital distributions to investors continue to outstrip capital calls, while fund managers in every asset class reported that investor appetite increased further over 2017. And despite their misgivings over asset pricing and the potential impact on performance, investors in most asset classes indicated that they intend to commit as much or more capital to the industry in 2018 as they did in 2017. They are well-served with potential investment opportunities, as there are now 3,869 funds seeking to secure a total of $1.38tn – a record high for both the number of funds and their total targets. The 20 largest funds alone are targeting $367bn, and have already raised $189bn of that through interim closes. While this is encouraging in some respects, it also adds to the challenges investors face as they proceed through the year: the number of funds in market makes it even more difficult to find funds that suit investors' priorities and goals.

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



Source: Preqin

Fig. 2: Private Capital Funds in Market over Time, 2009 - 2018 (As at 3 April 2018)



Source: Preqin

CONTENTS

Please note, all data is correct as at 3 April 2018; figures are subject to upward revisions as further information becomes available.

PRIVATE EQUITY: EUROPE LEADS IN Q1 2018

The private equity industry has seen global quarterly fundraising totals exceed $100bn for each of the past five quarters. But Q1 2018 seems unlikely to match that level, as 180 funds closed globally, securing a total of $80bn in investor commitments. Preqin expects these figures to rise by up to 10% as more information becomes available, but nonetheless the number of closures remains some way off the 295 funds that raised $120bn in Q1 2017.

This slowdown seems to be largely due to a decrease in North America-focused fundraising: 97 funds focused on the region secured $32bn, down from 141 funds that raised $68bn in the opening quarter of last year. Europe-focused fundraising, by contrast, has surged in Q1 2018. Thirty-eight funds have raised a combined $43bn, their highest ever Q1 fundraising total, and four of the five largest funds closed in the quarter had a focus on the region. Most notably, Europe-focused buyout funds have raised $35bn – more than double the $16bn secured by their North America-focused counterparts.

Key Findings:

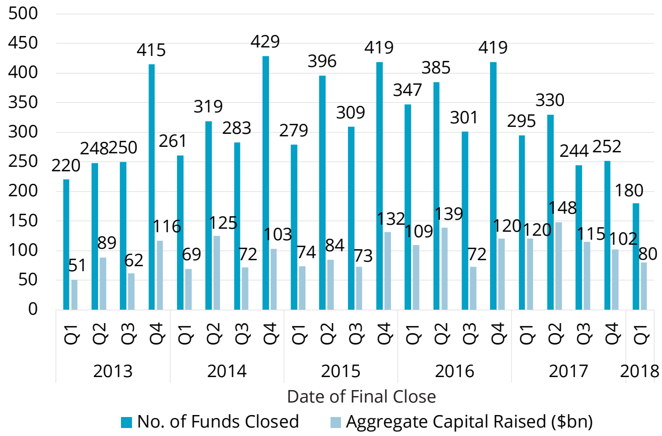
- **Q1 2018 saw 180 private equity close globally, raising a total of $80bn.** This is down from 295 funds which secured $120bn in Q1 2017, and is the first quarter since Q3 2016 not to surpass $100bn.
- Ninety-seven North America-focused funds raised $32bn, while **38 Europe-focused vehicles secured $43bn.** This marks a sharp decline for North America, and a record Q1 total for Europe.
- **The largest fund closed in the quarter was the €10.8bn Europe-focused EQT VIII.** Four of the five largest funds closed focus on Europe.
- Having reached $1.00tn as of the end of 2017, dry powder has kept climbing, **reaching $1.01tn as of the end of Q1.**
- At the start of April, **there are 2,575 private equity funds in market targeting a total of $844bn** in investor capital. Of these, 1,230 funds have already held an interim close, securing a combined $283bn in commitments.

“After such a breakneck pace in fundraising through 2017, a slowdown in the first quarter of 2018 makes it the quietest fundraising quarter since Q3 2016. However, the opening quarter of a year does typically see lower fundraising totals after a flurry of closures at the end of the year before, and the conditions which prompted such high fundraising in 2017 have not abated in the new year. Investors still indicate that they are looking to commit as much or more capital in 2018 as they did the year before, and the number of funds seeking to secure that capital has never been higher.

This slowdown does seem to be largely due to North America-focused funds. Although the number of fund closures is the highest of any region, the aggregate capital raised for North America is much lower than we have seen in recent quarters. Europe, by contrast, has seen several large funds close, and has recorded its highest opening quarter ever, and one of its largest quarterly fundraising totals overall.

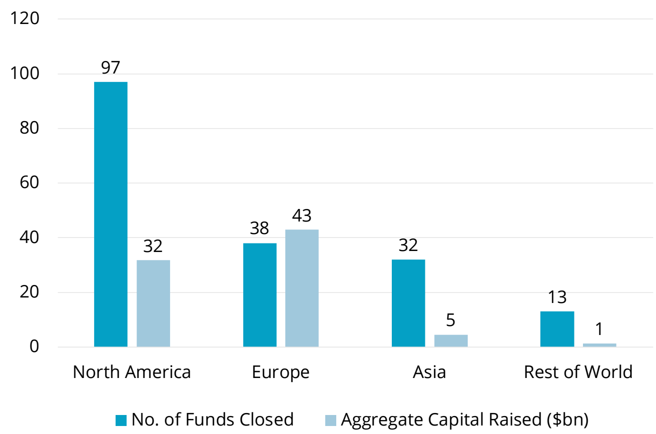
Christopher Elvin
Head of Private Equity Products

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



Source: Preqin

Fig. 2: Private Equity Fundraising in Q1 2018 by Primary Geographic Focus



Source: Preqin

DOWNLOAD THE DATA PACK FOR EVEN MORE Q1 2018 DATA

PRIVATE DEBT: SLOWDOWN IN Q1 2018

The private debt industry marked a record year in 2017, with every quarter seeing capital totals exceed $20bn. The first quarter of 2018 has not seen that momentum continue, however, as 19 funds secured a combined $14bn. This represents a slowdown compared to Q1 2017, which saw 36 funds secure $25bn, and is the lowest capital total seen since Q3 2016. Europe-focused funds were primarily responsible for the slowdown, as just five vehicles secured $3.5bn for the quarter. This is compared to 16 funds that raised $8.6bn in Q1 2017.

Direct lending funds in particular saw a decrease in fundraising from their record Q4 levels – just seven vehicles reached a final close in Q1, raising a total of $5.1bn. This compares to 18 direct lending funds which secured $12bn in Q1 of the previous year. Mezzanine vehicles also registered seven fund closures, and capital totals remained on par with previous quarters at $3.6bn. Distressed debt funds, meanwhile, saw just one fund raise $1.2bn.

Key Findings:

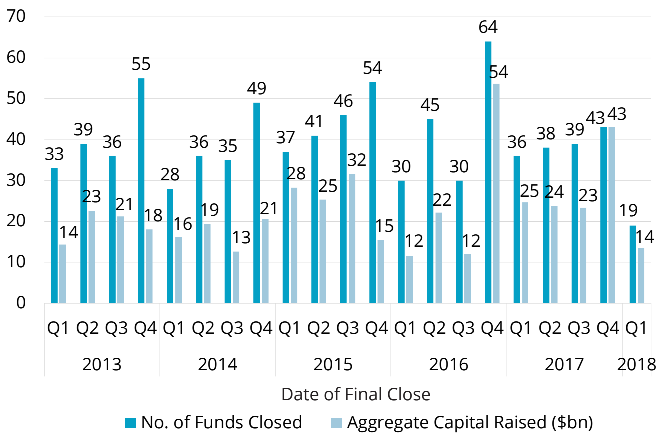
- **Nineteen private debt funds reached a final close in Q1 2018, raising a combined $14bn.** This is down from 36 funds which secured a combined $25bn in the first quarter of 2017.
- **Direct lending funds saw their lowest quarterly fundraising total since Q3 2016,** as seven funds raised $5.1bn. Seven mezzanine vehicles secured $3.6bn, while one distressed debt fund raised $1.2bn.
- Thirteen North America-focused funds raised a total of $10bn, while five Europe-focused funds raised $3.5bn.
- Having reached $234bn at the end of 2017, **dry powder stayed level in Q1 and stands at $235bn** as of the end of March.
- At the start of April, **there are 348 private debt funds in market, seeking $168bn** from investors. Direct lending funds account for almost half of that, with 170 funds targeting $74bn.
- Of the funds currently in market, **158 have already held an interim close, securing a total of $27bn.**

After a landmark fundraising year in 2017, the opening quarter of 2018 represents a slowdown from the previously frenetic pace of fundraising. Fund closures only reached around half the level seen in Q1 of last year, and capital raised sunk to its lowest quarterly total since Q3 2016. This is driven in large part by a shift in the pace of direct lending fundraising – having seen 22 funds secure $26bn the previous quarter, Q1 2018 does not begin to approach this level.

This may simply be that the industry is pausing for breath before beginning another fundraising cycle. Dry powder available to fund managers remains high, and it may be that investors are waiting for firms to begin putting capital to work before making further commitments. But the outlook for the rest of 2018 remains positive: the conditions which prompted such strong fundraising in 2017 are still in place, and funds in market have already raised significant sums through interim closes. If they hold a final close this year, we could see fundraising totals rise rapidly.

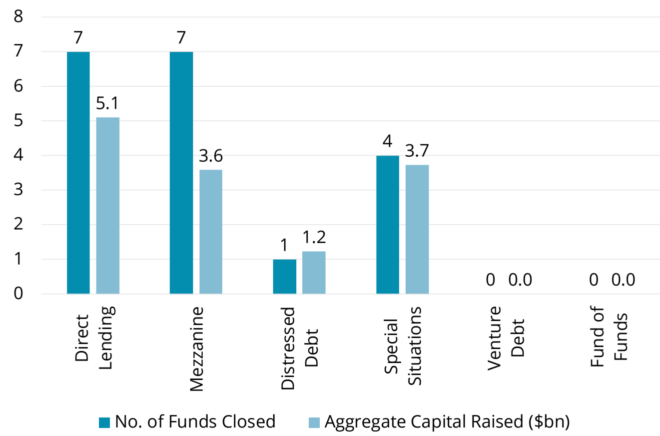
Tom Carr
Head of Private Debt Products

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



Source: Preqin

Fig. 2: Private Debt Fundraising in Q1 2018 by Fund Type



Source: Preqin

DOWNLOAD THE DATA PACK FOR EVEN MORE Q1 2018 DATA

REAL ESTATE: RECORD FIRST QUARTER IN 2018?

Forty-seven private closed-end real estate funds held a final close in Q1 2018, raising an aggregate $33bn in investor commitments. Preqin expects these figures to rise up to 10% as more information becomes available, which could see the quarter surpass the previous record set in Q1 2008 when 79 funds secured $35bn. Looking ahead, competition for capital shows no signs of abating with a record 642 funds in market, targeting $206bn. Additionally, dry powder has continued to climb from $249bn at the end of 2017 to $266bn at the end of March.

In addition to strong fundraising levels, record proportions of private real estate funds exceeded their target size in Q1 2018. While just 23% of funds closed below their target size, 58% of funds exceeded their initial target size, including 32% which closed on 125% or more of their target. By contrast, across 2017, 47% of funds failed to reach their target, and just 16% achieved 125% or more of their target. This would indicate that although the number of funds closed in Q1 2018 is lower, those funds that do close are generally oversubscribed.

Key Findings:

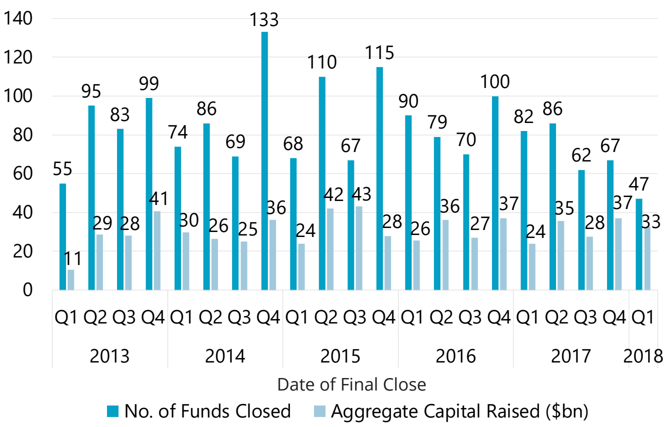
- In Q1 2018, **47 private real estate funds secured an aggregate $33bn in capital** – the highest Q1 total in 10 years. By contrast, Q1 2017 saw 82 funds raise $24bn.
- By strategy, 17 value added funds raised $4.2bn while **16 opportunistic funds raised $21bn**. Seven debt funds raised $6.4bn and two distressed real estate funds secured $0.5bn.
- **The quarter saw record high proportions of funds exceeding their target:** 77% of funds closed in Q1 met or exceeded their target size, including 32% which raised 125% or more of their target.
- **Dry powder continues to climb, standing at a high of $266bn** as of the end of March, up from $249bn at the end of 2017.
- Looking ahead, **there are a record 642 private real estate funds in market targeting a total $206bn**. Of these, 369 funds have already secured $68bn in interim closes.

In contrast to most other private capital asset classes, the private real estate industry did not mark any new fundraising records in 2017. However, 2018 is off to a very strong start, posting the highest fundraising totals of any opening quarter for the past decade. This adds to the already sizeable dry powder total, which will only increase competition for transactions. What Q1 results do illustrate is the demand that investors still have for the asset class – many remain under-allocated amid high distributions from investments.

What is also striking about activity in Q1 is the proportions of funds which have been able to raise more capital than their initial target, in some cases by a significant margin. This is testament to the appeal that the most sought-after vehicles have for institutions. However, with the sheer number of funds seeking capital there will be many that will fail to close in the year ahead, particularly when commitments are being directed to a smaller proportion of managers with the longest and strongest track records.

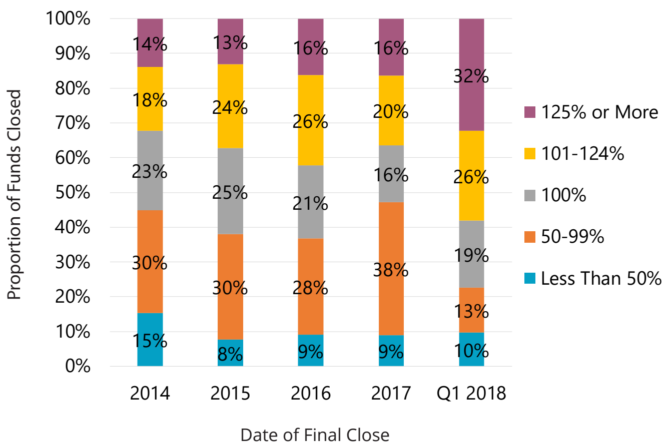
Oliver Senchal
Head of Real Estate Products

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



Source: Preqin

Fig. 2: Proportion of Target Size Achieved by Closed-End Private Real Estate Funds, 2014 - Q1 2018



Source: Preqin

DOWNLOAD THE DATA PACK FOR EVEN MORE Q1 2018 DATA

preqin

INFRASTRUCTURE: SLOW START TO 2018

Just five unlisted infrastructure funds reached a final close in Q1 2018, securing a combined $5.7bn in investor commitments. Preqin expects these figures to rise by up to 10% as more information becomes available, but this still represents the lowest quarterly fundraising total seen by the industry since Q3 2013. By comparison, 2017 was a landmark year for the industry, and Q1 of that year alone saw 21 funds close globally raising a record $32bn.

However, there are indications that fundraising may accelerate in coming quarters, and 2018 may yet approach the robust levels of fundraising seen last year. At the start of April there are 178 funds in market, up from 166 at the start of the year. The capital those funds are targeting has also risen from $122bn in January to $133bn at the start of Q2, a record high. Of these, 96 have already held an interim close, securing a total of $49bn in investor commitments. This includes some of the largest vehicles in market: of the 10 largest funds seeking investment, eight have already held an interim close, raising a combined $23bn.

Key Findings:

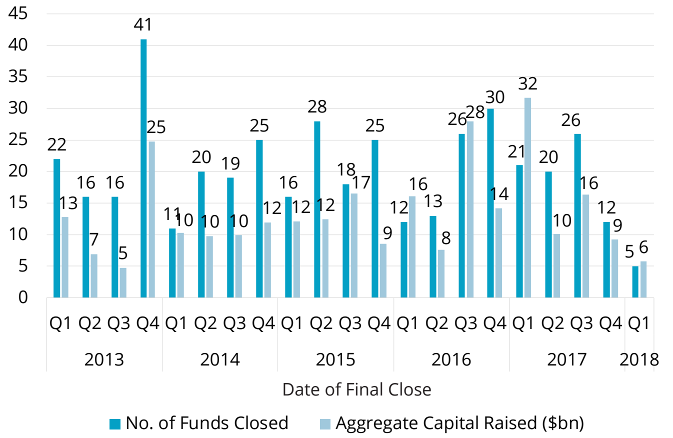
- **Five unlisted infrastructure funds closed in Q1 2018, securing a total of $5.7bn.** This is the lowest quarterly fundraising total seen since Q3 2013, and is down significantly from 21 funds that secured $32bn in Q1 2017.
- Two North America-focused funds secured $1.7bn, while **three Europe-focused vehicles raised $4.0bn**. No funds closed that focused on other regions.
- The average size of infrastructure funds closed in Q1 was a record $1.1bn, but the average time they spent in market rose to a 10-year high of 25 months.
- **Dry powder available to infrastructure managers stayed level,** going from $159bn as at December to $158bn as at March.
- At the start of April, there are **178 infrastructure funds in market, targeting a total of $133bn** from investors. Of these, 96 funds have raised $49bn through interim closes.
- Eight of the 10 largest funds seeking investment have already held at least one interim close, raising a total of $23bn.

"The slow start to 2018 stands in stark contrast to the record-breaking pace set in 2017. Just five unlisted funds reached a final close, raising less than $6bn – a far cry from the $32bn that 21 funds raised in the opening quarter of last year. But this pause is perhaps to be expected: after such frenetic activity in 2017, many investors may be waiting for managers to put capital to work before making further capital commitments, even if their overall appetite for infrastructure remains unchanged.

The fundraising prospects for the rest of the year look good, though. More funds have come to market and are seeking more capital than at the start of the year, and over half of them have already been able to hold an interim close. In particular, there are several multi-billion-dollar vehicles on the road which have already raised significant sums from investors. Q1 fundraising may have been slow, but we can expect activity to accelerate as the year progresses.

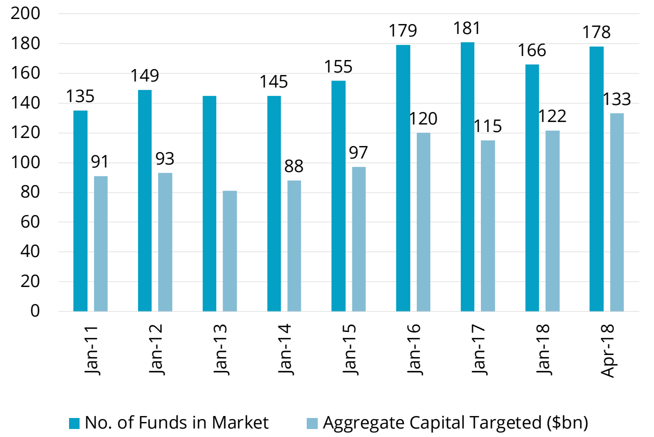
Patrick Adefuye
Head of Real Assets Products

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



Source: Preqin

Fig. 2: Unlisted Infrastructure Funds in Market over Time, 2011 - 2018 (As at 3 April 2018)



Source: Preqin

DOWNLOAD THE DATA PACK FOR EVEN MORE Q1 2018 DATA

NATURAL RESOURCES: METALS & MINING SEE A STRONG START

In the first quarter of 2018, the unlisted natural resources industry saw 14 funds raise a combined $13bn. Although this is a sharp decrease from Q1 2017, when 32 funds raised a record $33bn, Q1 2018 levels were largely on par with Q1 totals seen in previous years. Natural resources fundraising levels in Q1 2018 also remained consistent with Q3 and Q4 2017, which both saw funds raise $15bn.

Energy funds once again dominated the fundraising landscape: nine of the 14 funds closed in the quarter focused primarily on energy, accounting for $10bn. However, one timber fund held a final close, as did three metals & mining vehicles. This includes the largest dedicated metals & mining fund in the last five years. Orion Mine Finance Fund II raised $1.8bn, signifying the shift in sentiment from investors back towards the mining industry. Although the majority of diversified natural resources funds closed in 2017 included metals & mining in their strategy preferences, only one dedicated metals & mining-focused fund held a final close, raising $24mn.

Key Findings:

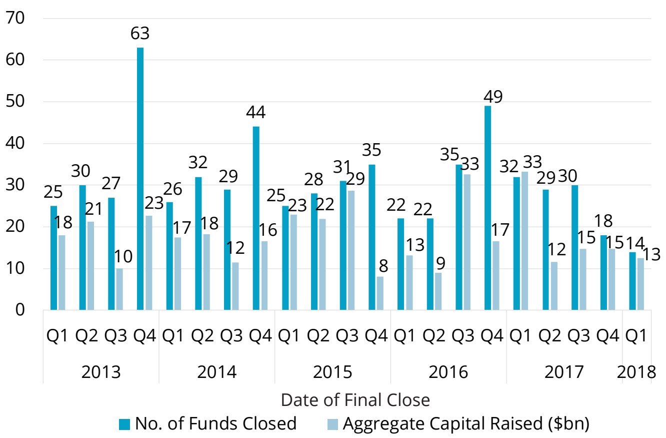
- **Fourteen unlisted natural resources funds closed in Q1 2018, raising a combined $13bn.**
- This represents a steep decline from the record seen in Q1 2017, but is **on par with the $13bn secured by 22 funds in Q1 2016.**
- **Nine North America-focused funds secured an aggregate $8.3bn,** while five Europe-focused funds raised $4.3bn.
- Nine energy-focused funds raised $10bn, while one timber fund secured $37mn.
- **Three metals & mining funds closed**, inncluding the $1.8bn Orion Mine Finance Fund II.
- The largest fund to close in Q1 2018 was **EnCap Flatrock Midstream Fund IV**, which closed on $3.3bn.
- At the start of April there **are 258 unlisted natural resources funds in market, with an aggregate target of $131bn**. Of these, 178 are energy-focused vehicles targeting a total of $111bn.

The natural resources industry continues to see stable quarter-on-quarter fundraising levels, with 14 funds securing almost $13bn in the first quarter of 2018. Although this does not approach the record levels seen in Q1 2017, fundraising activity is of a similar level to the first quarter of 2016, and is on par with the last two quarters of 2017.

Even though energy continues to dominate the natural resources industry, we saw the closing of a significant metals & mining fund in the quarter. Having secured a little under $1.8bn, Orion Mine Finance Fund II became the largest metals & mining fund to close in the last five years, and the second largest metals & mining fund ever. Currently there are 13 further funds in market targeting the industry, seeking a combined $4.9bn. With significant proportions of fund managers reporting decreasing competition for metals & mining assets and saying they are finding it easier to source attractive investment opportunities in the sector, 2018 could be on course to see a strong year for mining.

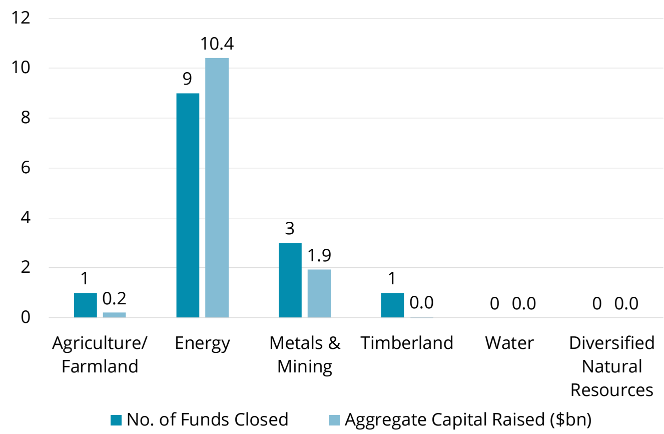
Patrick Adefuye
Head of Real Assets Products

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



Source: Preqin

Fig. 2: Unlisted Natural Resources Fundraising in Q1 2018 by Primary Strategy



Source: Preqin

DOWNLOAD THE DATA PACK FOR EVEN MORE Q1 2018 DATA