

Private Capital Fundraising Falters in Q1

Mark O'Hare – Chief Executive, Preqin

The private capital fundraising market in the first quarter of 2016 provides something of a contrast to the activity seen in 2015. Every quarter of that year saw private capital funds raise in excess of \$130bn globally, with several asset classes posting record or near-record aggregate capital figures for the year. However, in Q1 2016 private capital funds have raised \$111bn overall; although Preqin expects these figures to rise by 10-20% as more information becomes available, this looks set to be lowest quarterly fundraising total since Q3 2013 (see page 2). Only infrastructure and natural resources fundraising exceeded the totals seen in Q4, as several mega funds closed focused on these industries (see pages 5 and 7). Private equity and private debt in particular have seen activity in Q1 fall significantly from the previous quarter, with both the number of funds reaching a final close and the total capital raised falling (see pages 3 and 6).

However, there is clearly still a lot of capital available in these markets, and there are indications that activity through the rest of the year could grow. With the exception of private debt (see page 6), dry powder has risen within each asset class, and in many cases now stands at a record high. Additionally, investor sentiment remains generally positive, with private capital investors in many sectors stating that they plan to maintain or increase their allocations in 2016. Seeking commitments from these investors there are a record 2,722 funds targeting almost a trillion dollars (see page 2). If investors keep to their allocation intentions, 2016 could be another landmark year for the industry.

Closed-End Private Capital				
Private Equity	Private Debt	Real Estate	Infrastructure	Natural Resources
Buyout	Direct Lending	Private Equity Real Estate	Infrastructure	Energy
Venture Capital	Distressed Debt			Agriculture/Farmland
Growth		Mezzanine	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds
Turnaround	Special Situations	Timberland		
Other Private Equity	Venture Debt	Private Equity Real Estate Fund of Funds	Infrastructure Fund of Funds	Water
Private Equity Secondaries	Private Debt Fund of Funds			Private Equity Real Estate Secondaries

Source: Preqin Products

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Private Capital: Global Fundraising Slows in 2016

The closed-end private capital industry witnessed a slowdown in fundraising activity in Q1 2016, with both the number of funds reaching a final close and the aggregate capital raised failing to match the levels seen through 2015. Globally, 219 private capital funds closed raising a combined \$111bn¹, down from the 299 funds which raised \$140bn over the same period last year. This represents the lowest quarterly fundraising total since Q1 2013, when funds raised \$95bn, and is 34% lower than the most recent fundraising peak of \$167bn in Q3 2015.

This slowdown in fundraising activity was widespread; all alternative asset classes except infrastructure and private equity showed a decline in the aggregate capital raised compared to Q1 2015. Asia-focused fundraising in particular showed a sharp decline, as 23 funds focused on the region raised \$8.5bn, down from 42 funds which raised \$14bn in Q1 2015. This represents the lowest fundraising total for the region since Q3 2013, when private capital funds raised \$6bn.

- **Fundraising by Region:** Europe-focused funds raised \$40bn, up from \$30bn the previous quarter, while North America-focused fundraising fell from \$89bn to \$60bn. Rest of World-focused vehicles saw \$3bn in investor commitments in both quarters.
- **Funds in Market:** Despite the slowdown in the number of funds reaching a final close, the number of private capital funds on the road continued to grow in Q1. At the start of Q2, there are a record 2,722 private capital funds in market targeting an aggregate \$949bn in investor commitments.
- **Biggest Funds:** The largest private capital fund to close in the first quarter was Advent Global Private Equity VIII, which closed in March on \$13bn. Twenty funds across all asset classes closed on \$1bn or more in Q1, down from 26 the previous quarter.

“2015 was another robust year for the private capital industry. Total fundraising for the year again exceeded half a trillion dollars, and many asset classes saw their total assets under management reach record highs. In particular, the second half of the year saw many mega-funds closed, and significant increases in dry powder.

In the wake of this activity, it is unsurprising that the fundraising market entered a period of relative quiet in Q1, as fund managers turned to invest some of the capital they have accrued. However, with investor sentiment across most asset classes remaining high, fundraising through the rest of 2016 could return to the levels seen in 2015.”

Mark O’Hare, Chief Executive

Fig. 1: Private Capital Fundraising by Fund Type and Geographic Focus, Q1 2016

Fund Type	North America		Europe		Asia		Rest of World		Global	
	No. of Funds Closed	Aggregate Capital Raised (\$bn)	No. of Funds Closed	Aggregate Capital Raised (\$bn)	No. of Funds Closed	Aggregate Capital Raised (\$bn)	No. of Funds Closed	Aggregate Capital Raised (\$bn)	No. of Funds Closed	Aggregate Capital Raised (\$bn)
Buyout	26	23.6	13	19.6	0	0.0	3	1.3	42	44.5
Real Estate	21	11.7	14	7.3	7	1.9	2	0.3	44	21.2
Infrastructure	3	7.5	4	3.8	2	3.2	1	0.1	10	14.6
Venture Capital	32	6.0	11	1.6	9	2.7	2	0.2	54	10.5
Growth	14	3.2	3	1.8	3	0.5	4	0.8	24	6.3
Other	9	3.5	3	0.7	2	0.2	1	0.0	15	4.4
Private Debt	7	2.9	2	0.8	0	0.0	1	0.0	10	3.7
Fund of Funds	7	1.2	5	1.6	0	0.0	2	0.0	14	2.8
PE Secondaries	0	0.0	2	2.6	0	0.0	0	0.0	2	2.6
Natural Resources	4	0.8	0	0.0	0	0.0	0	0.0	4	0.8

Source: Preqin Products Online

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¹All data correct as at 1st April; figures subject to upwards revision as further information becomes available. For the latest figures, please contact press@preqin.com

Private Equity: Number of Final Closes Remains Steady, but Aggregate Capital Falls

The first quarter of 2016 saw 151 private equity funds raise an aggregate \$71bn¹. Given that Preqin expects these figures to rise by up to 20% as more information becomes available, the number of funds closed looks set to approach the 156 and 179 funds closed in Q3 and Q4 2015 respectively. While funds reaching a final close are still behind the same period last year (2015), the aggregate capital has surpassed the \$67bn seen in Q1 2015.

North America-focused funds saw a slowdown in fundraising through the quarter. Eighty-eight private equity funds focused on the region raised \$38bn, which fails to match the rate of fundraising seen in 2015, when North America-focused funds raised \$183bn. Despite the weakening Euro-Dollar exchange rate in recent months, the pace of Europe-focused fundraising in 2016 looks set to exceed the \$71bn raised in 2015, as 37 funds reached a final close in Q1, raising a combined \$28bn.

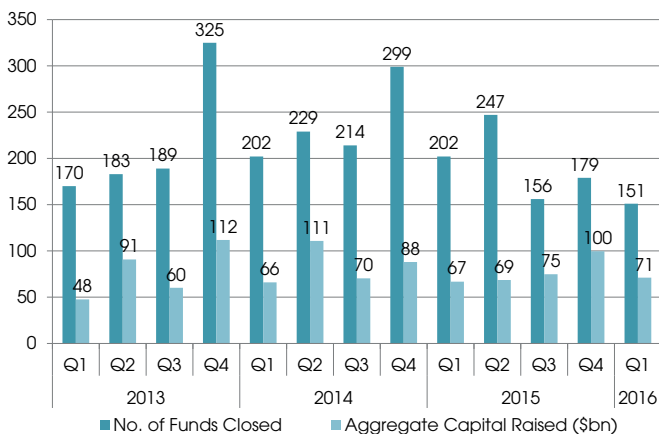
- **Fundraising by Type:** Buyout funds that reached a final close in Q1 raised a combined \$44bn, despite no Asia-focused buyout funds closing. Venture capital funds raised \$11bn globally, while growth funds raised a total of \$6bn in the quarter.
- **Funds in Market:** Having set records at the end of 2015, the number of private equity funds in market continued to grow in Q1 2016 and there are currently 1,685 funds on the road. The amount these funds are targeting an aggregate \$476bn.
- **Dry Powder:** Having risen by 8% across 2015, private equity dry powder stood at \$829bn at the end of the year. Since then the level of dry powder has increased by a further 6% in Q1 to stand at \$881bn at the end of the quarter.

“The private equity fundraising market in 2015 was characterised by an increasing amount of capital being raised by fewer fund managers. This has reversed in the first period of 2016, as the number of funds reaching a final close has stayed steady, but the aggregate capital raised globally has fallen.”

The first quarter of the year typically sees a slowdown in fundraising levels after a crescendo of activity at the end of the year. Several mega funds saw final closes in Q4 2015, while global market volatility has increased in Q1 2016. However, investor sentiment remains high, and the number of funds being marketed to investors has continued to grow.”

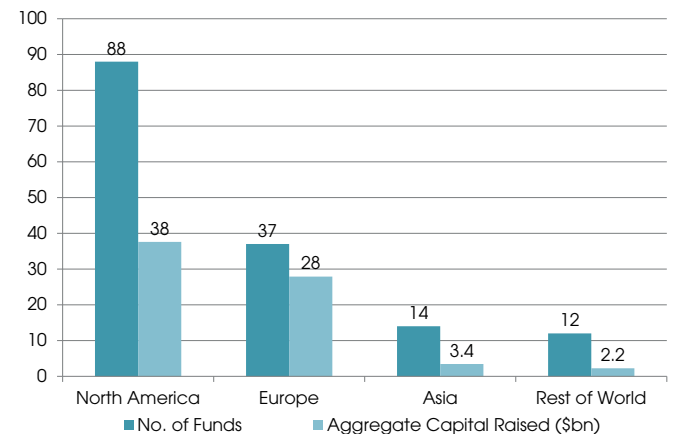
Christopher Elvin, Head of Private Equity Products

Fig. 1: Quarterly Private Equity Fundraising, Q1 2013 - Q1 2016



Source: Preqin Private Equity Online

Fig. 2: Breakdown of Private Equity Fundraising by Primary Geographic Focus, Q1 2016



Source: Preqin Private Equity Online

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Real Estate: Value Added Strategies Prop up Fundraising in Q1 2016

Private real estate fundraising stayed steady in Q1 2016, with the aggregate capital raised matching the previous quarter, despite fewer funds reaching a final close. In the opening quarter of the year, 44 closed-end private real estate funds closed raising \$21bn¹, the same as the amount raised by 54 funds in Q4 2015. This marks a continued slowdown from the recently buoyant fundraising landscape, which saw real estate funds closed in Q2 and Q3 2015 raise \$33bn and \$41bn respectively. Value added strategies attracted 41% of investor capital raising \$8.7bn, up from \$3.7bn in Q1 2015, while most other strategies saw decreases. After a record fundraising year in 2015 (\$28bn), opportunistic funds continued their momentum, raising \$8.6bn in the quarter.

Dry powder increased by a further 11% over the first quarter of 2016 to reach \$233bn, up from \$210bn in December 2015, following three consecutive years of growth. Fund managers pursuing opportunistic strategies hold \$101bn in dry powder, the largest proportion of any strategy, and an all-time high. Capital available for value added investments hit \$55bn in Q1 2016, up from \$48bn in December 2015. The only strategy to see its dry powder levels fall was the distressed sector, where capital available for investment fell from \$12bn at the end of 2015 to \$11bn at the end of Q1.

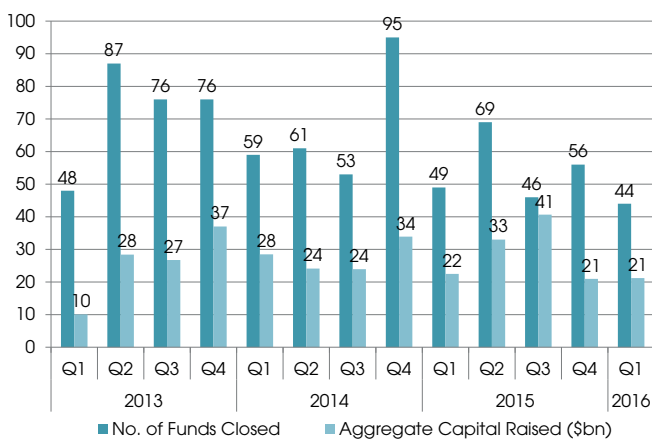
- **Funds in Market:** The number of private real estate funds in market has remained level cross the first part of 2016. At the start of Q2, there are 489 funds seeking a combined \$176bn, compared to 493 funds that were targeting \$174bn at the end of 2015.
- **Fundraising Success:** Funds reaching a final close in Q1 2016 have been very successful in their fundraising. A majority (54%) exceeded their target size, compared to 33% that did so in 2015. No funds achieved less than half their target, compared to 6% the previous year.
- **Largest Funds:** The largest fund to close in Q1 2016 was Rockpoint Real Estate Fund V, which closed in March on \$3.3bn. Three real estate funds closed in Q1 raised more than \$1bn, and they account for 36% of total fundraising in the quarter.

“Private real estate fundraising in the first quarter of 2016 has continued the healthy momentum seen in 2015. While there are increasing concerns among some in the institutional community about the outlook for the real estate market, investors have seen strong returns from their real estate portfolios in recent years, and many are maintaining or increasing their commitments a result.

The number of funds in market has remained high, and the aggregate capital they are targeting has continued to rise. In such a competitive market, investors are tending to trust their capital to established firms. Emerging fund managers are likely to find raising capital tough, and should prepare for a long fundraising process.”

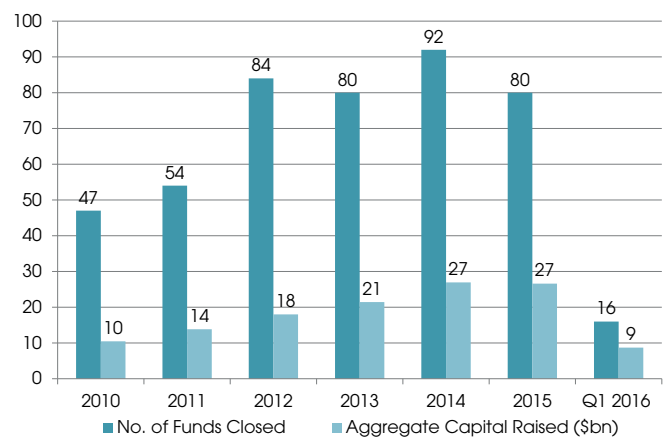
Andrew Moylan, Head of Real Estate Products

Fig. 1: Quarterly Private Real Estate Fundraising, Q1 2013 - Q1 2016



Source: Preqin Real Estate Online

Fig. 2: Annual Private Real Estate Value Added Fundraising, 2010 - Q1 2016



Source: Preqin Real Estate Online

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Infrastructure: Mega Funds Push Fundraising up Despite Fewer Closures

Preqin's latest data shows that despite just 10 unlisted infrastructure funds closing in the opening quarter of 2016, those funds raised an aggregate \$15bn¹. This represents the fourth highest quarterly fundraising total since 2010, despite being the lowest quarterly number of fund closures since Q1 2014. Four funds closed above \$2bn as investor commitments nearly tripled from Q4 2015, when thirteen funds raised \$5bn. However, fundraising failed to surpass the \$16bn seen in Q3 2015, with small and mid-cap activity failing to support the mega fund closures.

Given the limited number of fund closures, it is unsurprising that the average fund size in Q1 reached \$1.5bn, a 91% increase on the \$765mn average size seen in 2015. However, unlisted infrastructure funds in market saw the opposite trend over the quarter, as the aggregate target capital reduced to \$118bn from \$120bn at the end of 2015, but the number of funds on the road increased from 179 to 189. With more funds targeting less capital, the average target size of funds being marketed to investors has declined from \$670mn at the start of Q1 to \$624mn at the start of Q2.

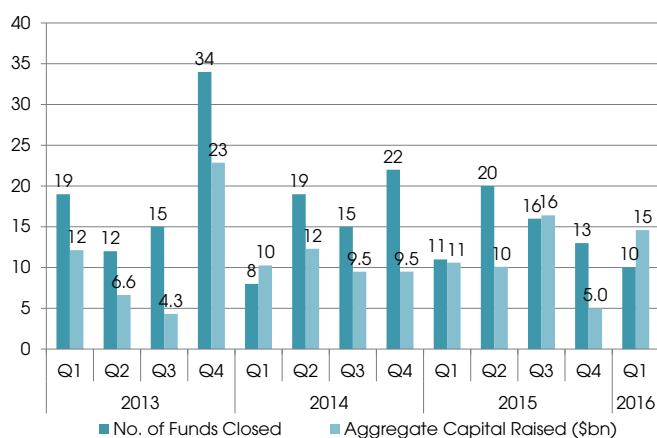
- **Record Dry Powder:** With significant amounts of capital flooding into the industry, dry powder jumped to a record \$125bn at the end of the first quarter, up on the \$109bn held by infrastructure fund managers at the end of 2015.
- **Region Focus:** Three unlisted infrastructure funds focused on North America raised a combined \$7.5bn. Four Europe-focused funds raised \$3.8bn, and two Asia-focused vehicles raised \$3.2bn, while one fund raised \$120mn focused on Australian assets
- **Fundraising Success:** Sixty percent of the infrastructure funds to reach a final close in Q1 2016 exceeded their target size, compared to 41% across 2015. However, 40% of funds closed below their target size in the quarter, up from 32% that failed to reach their target in 2015.

“Fundraising in the opening quarter of the year was notable in that such a high proportion of the funds to reach a final close were multi-billion dollar vehicles. While it is unusual for these fund closures not to have been augmented by smaller or more niche funds, it follows the wider trend in the private capital industry of investor commitments becoming increasingly concentrated among a smaller pool of infrastructure firms.

While the aggregate capital targeted by funds currently in market has seen a slight dip over the quarter, there are two mega funds still out raising. Were they to close this year, their targets of \$12.5bn would make them the largest unlisted infrastructure funds ever, and could push the asset class towards a record fundraising year in 2016.”

Tom Carr, Head of Real Assets Products

Fig. 1: Quarterly Unlisted Infrastructure Fundraising, Q1 2013 - Q1 2016



Source: Preqin Infrastructure Online

Fig. 2: Unlisted Infrastructure Mega Funds to Hold a Final Close in Q1 2016

Fund	Fund Manager	Final Close Size (mn)	Geographic Focus
North Haven Infrastructure Partners II	Morgan Stanley Infrastructure	3,600 USD	US
Stonepeak Infrastructure Partners II	Stonepeak Infrastructure Partners	3,500 USD	US
Macquarie Asia Infrastructure Fund	Macquarie Infrastructure and Real Assets (MIRA)	3,100 USD	Asia
Ardian Infrastructure Fund IV	Ardian	2,650 EUR	Europe

Source: Preqin Infrastructure Online

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Private Debt: Fundraising Falters as Fewer Funds Reach a Final Close

Private debt fundraising saw a second successive quarterly slow-down in Q1 2016, as just 10 funds closed raising \$3.9bn¹. This represents the lowest quarterly fundraising total since Q3 2009 (\$3.5bn), although Preqin expects these figures to rise by 10-20% as new data becomes available. This decline in investor commitments follows on from another drop in Q4, as the \$11bn raised in that quarter was well short of the \$29bn secured in Q3 2015. However, the private debt market has seen rapid expansion recently, with the \$91bn raised over 2015 marking the highest annual fundraising total since 2008, when private debt funds globally raised \$99bn.

Several large private debt funds closed in the second half of 2015, and as a result dry powder in the industry reached a record high of \$191bn at the end of the year. Thus far in 2016, the level of dry powder has remained static at \$191bn as fund managers begin to invest the capital available to them. With 231 funds currently in market targeting an aggregate \$135bn, the private debt fundraising market remains congested, and fund managers marketing vehicles in the year ahead must expect to have a long and competitive fundraising process.

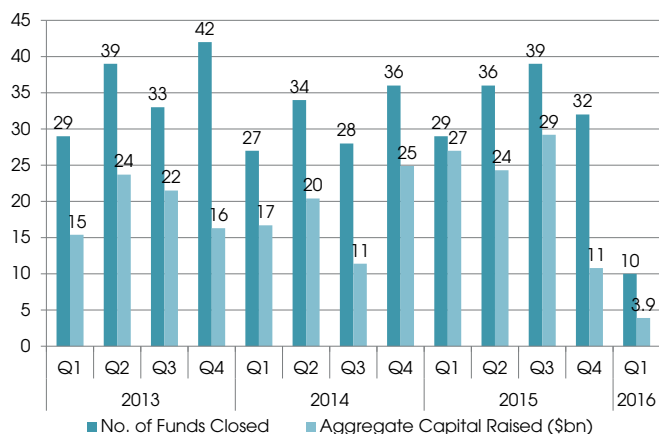
- **Time on the Road:** Private debt funds that held a final close in Q1 2016 spent an average of 20 months in market, up from the 16-month average for funds closed the year before. This is perhaps indicative of the lack of large flagship funds, which typically have the fastest fundraising process.
- **Direct Lending:** While all debt types have seen declines in fundraising, direct lending again attracted the majority of investor capital flowing into the asset class. Six direct lending funds closed raising \$2.0bn, 51% of the total capital raised globally.
- **Geographic Focus:** North America-focused private debt funds dominated fundraising in Q1, raising \$2.9bn in investor commitments, while Europe-focused funds secured \$0.8bn. No Asia-focused funds closed in the quarter.

“Private debt fundraising in the opening quarter of 2016 has failed to match the rate seen in recent years. As many large flagship funds closed in the second half of 2015, fund managers had record levels of dry powder at their disposal; as such, their focus shifted from securing investor capital to finding attractive investment opportunities and achieving solid returns.

However, investor appetite remains strong and the fundraising market is competitive. With several large funds on the road, this dip in fundraising could be seen as a pause while managers look to put their capital to work. As the bigger funds begin to reach final closes through 2016 there is no reason why fundraising should decline significantly from the levels seen in 2015.”

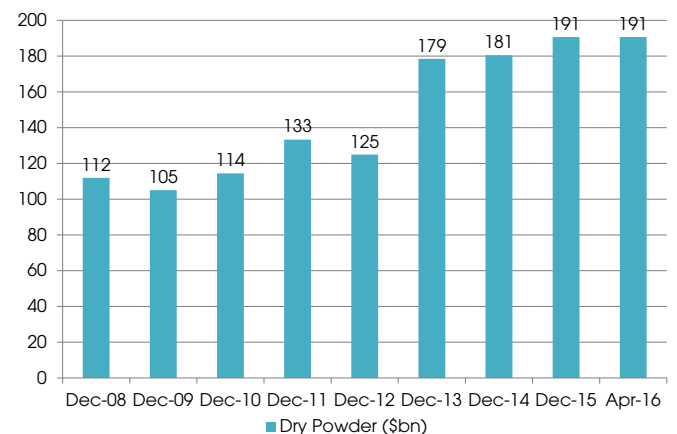
Ryan Flanders, Head of Private Debt Products

Fig. 1: Quarterly Private Debt Fundraising, Q1 2013 - Q1 2016



Source: Preqin Private Debt Online

Fig. 2: Private Debt Dry Powder over Time, December 2008 - April 2016



Source: Preqin Private Debt Online

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Natural Resources: Fundraising Improves from Previous Quarter but Remains Low in Q1

Fundraising in the private closed-end natural resources industry struggled in Q1 2016, as 12 funds closed raising \$12bn¹. This represents an increase in the aggregate capital raised, but a decrease in funds closed from Q4 2015, when 22 funds raised \$7.3bn. Overall, the previous two quarters have seen fundraising significantly down from the record capital secured earlier in 2015. In the opening quarter last year, 16 funds secured \$17bn of investor capital, while Q2 and Q3 each saw over \$20bn worth of commitments, demonstrating the recent slowdown in fundraising activity.

Energy funds raised the vast majority of capital (93%) in the quarter securing \$11bn of investor commitments, despite recent market turbulence. Other strategies struggled in their fundraising through the quarter: no funds focused on water, metals & mining or diversified natural resources reached a final close. Agriculture funds raised \$3.9bn through 2015 with nine fund closures, and saw two funds close in Q1 2016 securing just \$0.2bn of investor capital, the same amount raised by the one timberland fund that also closed in the opening quarter of the year.

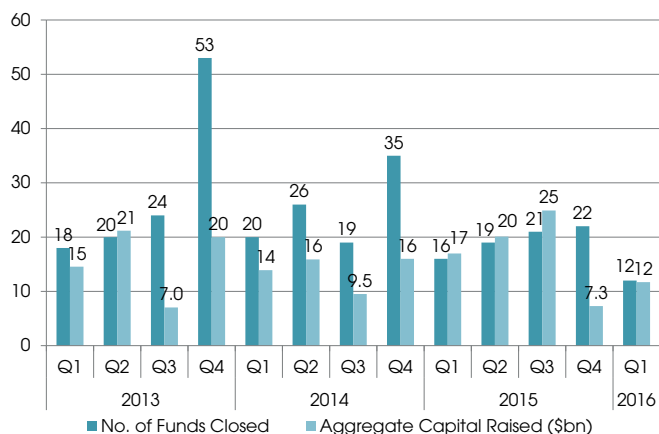
- **Funds in Market:** There are currently 252 natural resources funds being marketed to investors, targeting a combined \$142bn. This compares with 249 funds that were on the road at the end of 2015, targeting a combined \$149bn.
- **Fundraising Targets:** The proportion of natural resources funds closing above target dropped to 33% in Q1, down from 47% through 2015. The proportion not reaching their target size at final close increased to 50%, up from 45% the previous year.
- **Geographic Focus:** Despite raising \$10bn through 2015, only one fund focused outside Europe and North America managed to reach a final close in Q1. However, there are 89 funds currently on the road focused on Asia & Rest of World, targeting a total of \$30bn.

“Natural resources fundraising in the opening quarter of 2016 saw the aggregate capital raised increase from the previous quarter, although the number of funds closed fell. However, both in terms of the number of funds closed and the capital raised, the asset class is still down on the record levels seen in 2015 as whole, as turbulent markets continue to shake investor confidence.

As long as commodity prices remain low, sourcing and executing deals that present risk-adjusted returns will prove difficult for fund managers. As such, investors are increasingly entrusting their capital to experienced managers with proven track records, so the fundraising process, especially for emerging managers, is still challenging in 2016.”

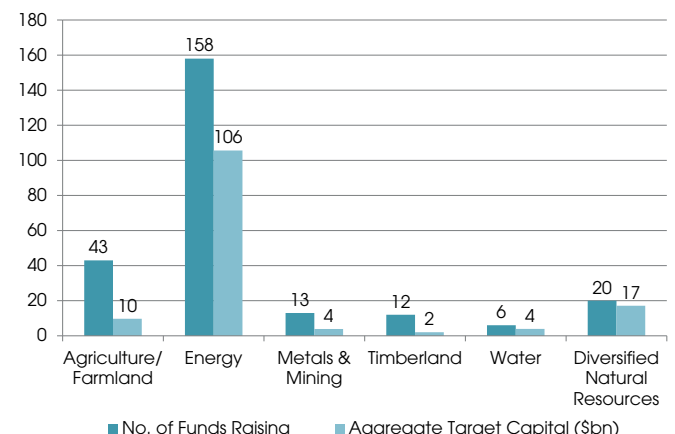
Tom Carr, Head of Real Assets Products

Fig. 1: Quarterly Private Closed-End Natural Resources Fundraising, Q1 2013 - Q1 2016



Source: Preqin Natural Resources Online

Fig. 2: Private Closed-End Natural Resources Funds in Market by Primary Strategy



Source: Preqin Natural Resources Online

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