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PRIVATE CAPITAL: NO SIGNS OF STOPPING

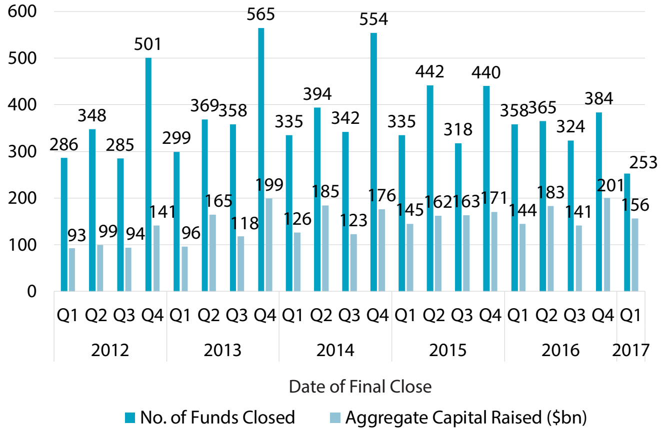
The private capital industry has seen a sustained period of strong fundraising in recent years, with funds closed in 2016 alone securing $669bn in investor commitments. This momentum has continued in Q1 2017, as 253 private capital funds closed, raising $156bn. Preqin expects these figures to rise by around 10% as more information becomes available.

Typically, the first quarter of the year tends to see less activity, as many funds will look to close at the end of the preceding year. However, this does not seem to be the case in 2017: activity in the quarter is comfortably above the corresponding quarter of last year, and the total capital raised approaches the $170bn raised in the first quarter of 2008, the highest ever Q1 fundraising total. However, continued momentum in the fundraising market is becoming a source of increasing concern for fund managers and investors alike. Such strong activity has resulted in record levels of dry powder becoming available to managers, as investors seek to gain greater exposure to the industry. Having so much capital ready to deploy means that competition among fund managers for the best deal opportunities is fierce, and consequent upwards pressure on asset pricing is calling into question the ability of firms to sustain their recent high level of returns going forward.

Nonetheless, private capital remains an important element of institutional investment portfolios, and investors are continuing to commit ever-larger amounts of capital to fund managers. The number of funds seeking to secure this capital continues to grow, surpassing 3,000 at the start of Q2.

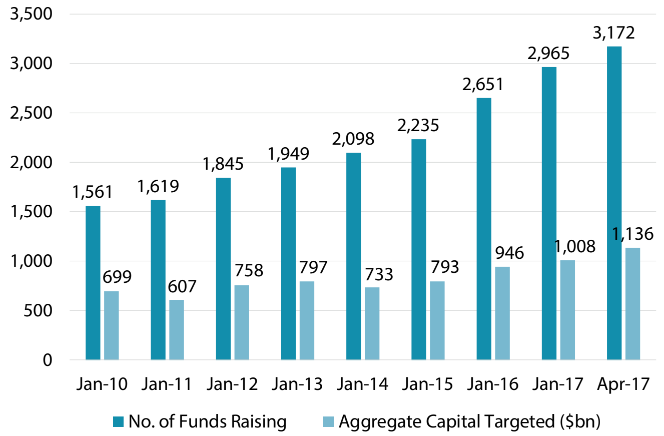
The key concern for the industry is to avoid the emergence of a two-tier fundraising market. Currently, the largest private capital firms are able to quickly raise mega funds that are hugely oversubscribed, while emerging managers face a long and difficult fundraising process. As investors are tending towards consolidation in their private equity programs, this trend will be monitored closely by sponsors and investors alike.

Fig. 1: Global Quarterly Private Capital Fundraising, Q1 2012 - Q1 2017



Source: Preqin

Fig. 2: Private Capital Funds in Market over Time, 2010 - 2017 (As at 3 April 2017)



Source: Preqin

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Please note, all data is correct as at 3 April 2017; figures are subject to upward revisions as further information becomes available.

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PRIVATE EQUITY: RECORD START TO YEAR

The strong private equity fundraising activity that characterized much of last year has continued into 2017, as the industry is likely to record its highest Q1 capital total since the Global Financial Crisis (GFC). Globally, 175 private equity funds reached a final close in Q1 2017, raising a combined $89bn in investor commitments. Preqin expects these figures to rise by a further 10% as more information becomes available, thus surpassing the $90bn that was raised by funds closed in Q1 2016 and approaching the all-time high of $105bn seen in Q1 2008.

This level of activity was driven by an all-time Q1 fundraising record for North America-focused funds. Vehicles focused on the region secured $62bn, comfortably ahead of the previous record of $48bn in Q1 2016. By contrast, 31 Europe-focused funds secured just $12bn, compared to the $33bn they raised in the same quarter last year, while Asia-focused funds raised over $13bn in Q1 2017. As such, North America accounts for more than two-thirds of all capital raised in the quarter.

Key Findings:

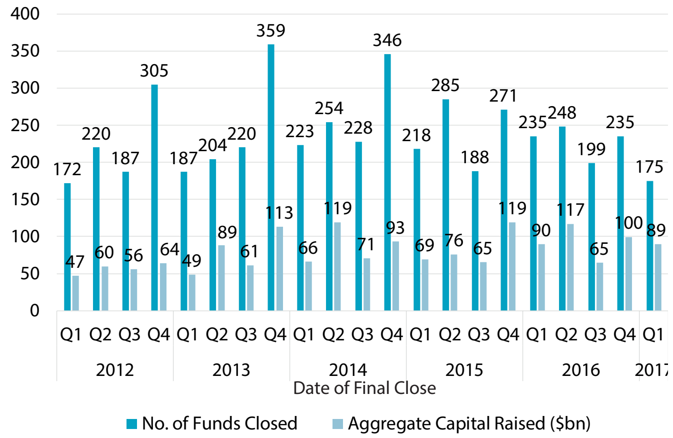
- Q1 2017 saw 175 private equity funds reach a final close, raising a combined $89bn. This is likely to approach the all-time Q1 fundraising record of $105bn seen in 2008.
- North America-focused funds raised a total of $62bn, the highest ever Q1 fundraising total for the region. Europe-focused funds raised $12bn, down from $33bn in Q1 2016.
- Buyout funds account for $54bn raised through the quarter, while private equity secondaries funds secured $13bn, the second-highest capital total.
- The largest fund closed in the quarter was KKR Americas Fund XII, which raised $13.9bn for buyout investments in North America.
- Private equity dry powder continued to climb in Q1, rising from $821bn at the end of 2016 to reach $842bn as at the end of March.
- At the start of April, there are 1,908 private equity funds in market, seeking a record $635bn from investors. This is driven in part by the $100bn Softbank Vision Fund.

“The first quarter of the year is often a quieter period for fundraising activity, after a flurry of fund closures at the end of Q4, but in 2017 the private equity industry is likely to record its strongest start to a year since 2008. This is driven by record levels of capital being raised by North America-focused funds, particularly since vehicles focused on Europe failed to approach the level of activity they recorded in the corresponding quarter last year. This may be an indication that, although fundraising remains robust, it is increasingly being centred on a small coterie of large firms raising mega funds, many of which focus on the US.

Looking ahead, there is cause to believe that 2017 may ultimately come to be a record fundraising year for the industry. The three largest funds currently in market comprise, by their target sizes, the largest buyout fund raised since the GFC, the largest ever venture capital fund and the widely covered Vision Fund, which already dwarfs every other private capital vehicle ever raised after holding a first close at $80bn.

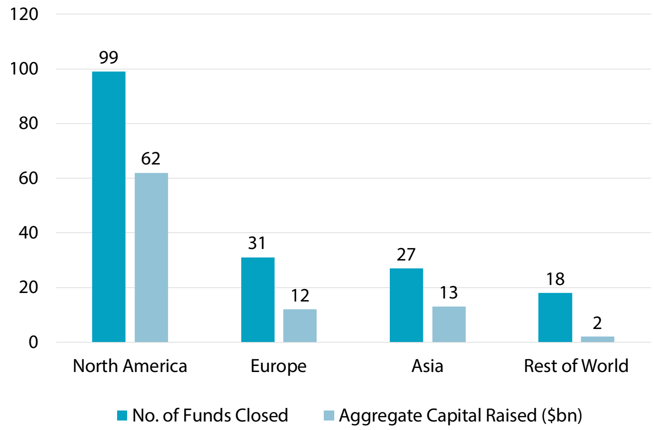
Christopher Elvin
Head of Private Equity Products

Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2012 - Q1 2017



Source: Preqin Private Equity Online

Fig. 2: Private Equity Fundraising in Q1 2017 by Primary Geographic Focus



Source: Preqin Private Equity Online

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PRIVATE DEBT: DIRECT LENDING SPARKS STRONG Q1

The private debt industry recorded a strong start to 2017, as 21 vehicles reached a final close attracting $21bn in investor capital. Preqin expects these figures to rise by around 10% as more information becomes available. Although fundraising will still fall well short of the record $50bn secured in Q4 2016, the level of capital secured already surpasses the levels seen in three of the last five quarters, and is comfortably higher than in Q1 2016 ($11bn), marking a positive start to 2017.

Direct lending funds in particular drove fundraising, securing their highest quarterly total of all time. Twelve funds raised a combined $13bn in investor capital, exceeding the previous high of $12bn in Q3 2015. The two largest vehicles to close both operate direct lending strategies, and raised an aggregate $6.8bn between them. All other strategies recorded lacklustre fundraising, with no private debt funds of funds or venture debt vehicles reaching a final close. Four mezzanine funds secured a combined $1.2bn in investor capital, while one distressed debt vehicle, Carlyle Strategic Partners IV, closed on $2.5bn.

Key Findings:

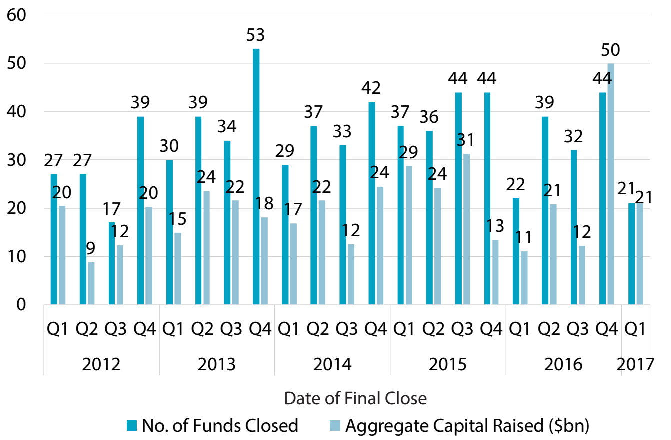
- Twenty-one private debt funds closed in Q1, securing $21bn in investor capital, a substantial downtick on the record $50bn raised in the previous quarter.
- Direct lending funds accounted for the majority of quarterly fundraising with 12 funds securing $13bn, 57% and 62% of the aggregate totals respectively.
- Nearly two-thirds (63%) of private debt funds closed in Q1 exceeded their target size, the largest proportion in the past five years.
- Dry powder reached $200bn by the end of Q1, an increase of $4bn from the end of 2016 so far but still down on the $215bn recorded at the end of 2015.
- Fundraising prospects are bright, with 283 private debt vehicles on the road targeting a combined $112bn in investor capital.
- Direct lending strategies look set to continue raising the bulk of investor capital, with 126 funds targeting a combined $43bn.

After a sluggish start in 2016, private debt fundraising saw a huge acceleration in the pace of fundraising over the year, and secured a record $50bn of investor capital in Q4. While the opening quarter of 2017 has not matched this level of investor commitments, momentum has nonetheless continued into the year, particularly for direct lending strategies. Fund managers have been able to reach a final close quickly and successfully, often closing far in excess of their stated target size.

Looking ahead to the rest of the year, the fundraising pipeline looks strong both in terms of the number of vehicles marketing themselves to investors, and their hopes of raising significant sums of capital. Direct lending funds look likely to continue to secure the bulk of investor commitments, while the four largest vehicles on the road are all looking to make investments in distressed assets. Investor appetite remains robust, and fund managers are hoping to build on recent positive performance to deploy even more capital over 2017, putting investor commitments to work.

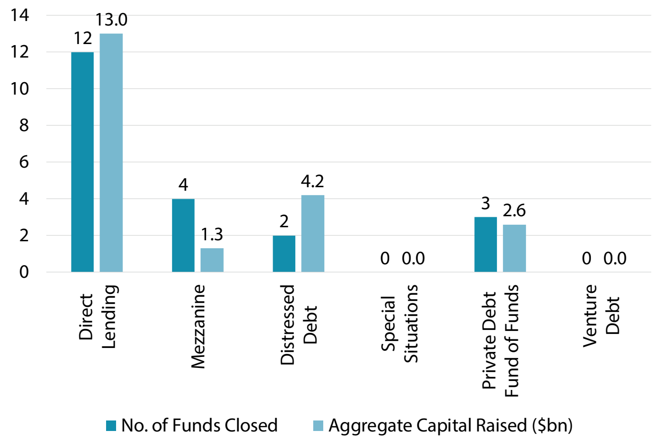
Ryan Flanders
Head of Private Debt Products

Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2012 - Q1 2017



Source: Preqin Private Debt Online

Fig. 2: Private Debt Fundraising in Q1 2017 by Fund Type



Source: Preqin Private Debt Online

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REAL ESTATE: MOMENTUM SLOWS IN Q1

The closed-end private real estate market saw strong fundraising activity in 2016, but this momentum seems to be waning in early 2017. Thirty-eight real estate funds globally reached a final close through the quarter, raising a combined $15bn from investors, and Preqin expects this number to rise by around 10% as more information becomes available. This is a decline from fundraising totals seen in the first quarter of last year ($26bn), and does not approach the $32bn raised by real estate funds closed in Q4 2016. At the same time, the number of funds reaching a final close declined sharply, falling from 72 in the last quarter of 2016 to just 38 in Q1.

Looking ahead, the fundraising market looks set to remain very competitive in the remainder of 2017. New funds continued to come to market in Q1, and overall the number of vehicles seeking capital from investors rose from 533 at the start of 2017 to 554 as at the start of Q2. However, the capital sought by those funds stayed level at $182bn. Of these funds, 334 have already held an interim close, securing $70bn of their aggregate targets.

Key Findings:

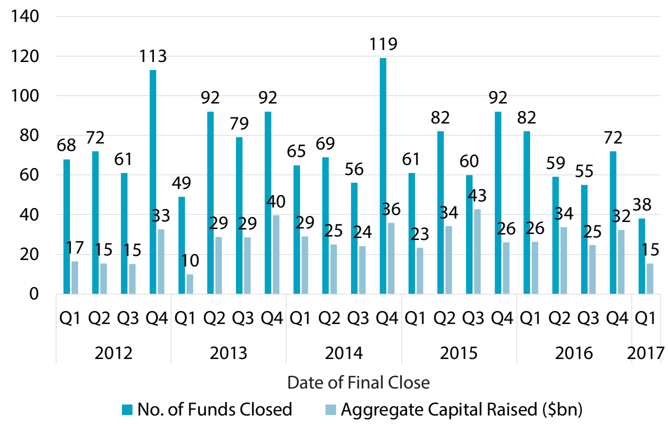
- Thirty-eight private real estate funds closed globally in Q1 2017, raising a combined $15bn. This is down from 72 funds that raised a total of $32bn in Q4 2016.
- Twenty-seven North America-focused funds raised a combined $12bn, while six funds closed focusing on Europe, raising $2.1bn.
- Value added funds account for the majority of both funds closed and capital raised, as 17 such funds secured $6.9bn. Ten opportunistic funds secured $4bn, the next largest proportion.
- The largest fund to reach a final close in Q1 2017 was Cerberus Institutional Real Estate Partners IV, a distressed fund which closed on $1.8bn.
- Dry powder available to private real estate fund managers rose slightly across the quarter, from $237bn at the end of 2016 to a new record of $245bn at the end of Q1.
- At the start of Q2 2017, there are 554 real estate funds seeking investor capital, targeting a combined $189bn.

"The private closed-end real estate industry has been in a prolonged period of strong fundraising activity in recent years: funds closed since the start of 2013 have raised more capital than even those closed in the 2006-2008 period. It would seem initially that this momentum might be slowing in the first quarter of 2017, though, as both the number of funds reaching a final close and the aggregate capital secured failed to match the levels seen the previous quarter.

However, the overall fundraising environment remains encouraging despite the level of competition. Of particular note are the multibillion-dollar funds currently in market. Several have already held interim closes, and may well be on course to reach a final close before the end of the year. If this does happen, we could see 2017 rise to match 2016 as another landmark year for the industry.

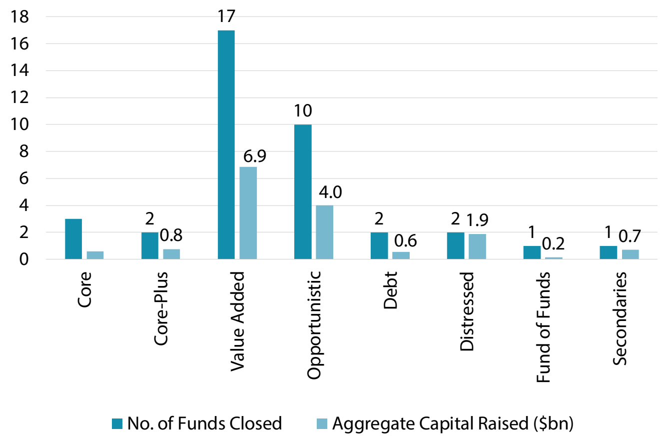
Andrew Moylan
Head of Real Estate Products

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2012 - Q1 2017



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising in Q1 2017 by Primary Strategy



Source: Preqin Real Estate Online

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INFRASTRUCTURE: GIP III SETS RECORDS TUMBLING

Q1 2017 marked a record quarterly fundraising total for unlisted infrastructure fund managers, as 16 vehicles raised a combined $30bn. Preqin expects these figures to rise by around 10%, but capital commitments are already more than double those seen in Q4 2016 ($13bn), and exceed the previous record total of $26bn seen in Q3 2016. The $15.8bn final close of the largest ever vehicle, Global Infrastructure Partners III, was the main driver behind this record, as it surpassed the $14bn secured by Brookfield Infrastructure Fund III in Q3 2016, while four more multibillion-dollar vehicles also reached final closes in Q1.

The established markets of Europe and North America offer investors a landscape of relative economic and political stability, and so it is of little surprise that these regions continue to attract the vast majority of capital. Through Q1, North America-focused fundraising totalled $18bn, while investors committed $6.7bn to Europe-focused vehicles, accounting for 60% and 23% of the aggregate total respectively as both regions neared record levels. Only one Asia-focused fund reached a close, but four vehicles focused on opportunities outside these markets secured $4.8bn.

Key Findings:

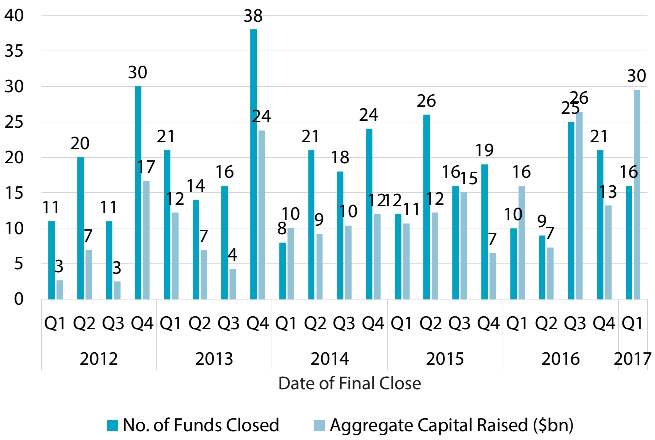
- Sixteen unlisted infrastructure funds closed in Q1 2017, raising $30bn – an all-time high for the industry – up on the previous record of $26bn secured in Q3 2016.
- Global Infrastructure Partners III closed on $15.8bn, making it the largest infrastructure vehicle of all time, surpassing Brookfield Infrastructure Fund III ($14bn).
- Half of funds closed in Q1 raised 125% or more of their target size, while funds spent an average of 16 months on the road.
- Dry powder available to infrastructure firms rose to a record $147bn, an increase of $10bn from the end of 2016 and up on the $109bn recorded at the end of 2015.
- The fundraising pipeline is strong, with 175 funds currently in market seeking $100bn in investor capital, $20bn less than at the start of the year.
- The largest vehicles in market at the start of Q2 are Alinda Infrastructure Fund III and MCPP Infrastructure, which are both seeking $5bn in capital commitments.

"Global Infrastructure Partners III dominated the headlines in Q1, when it became the largest ever infrastructure vehicle raised, surpassing the previous record set just two quarters earlier by Brookfield Infrastructure Fund III. With several other multibillion-dollar funds closing through Q1, fund managers will be heartened that investors' stated appetite for infrastructure is manifesting itself in two record fundraising quarters out of three.

Investors continue to see strong risk-adjusted returns from their infrastructure portfolios, and thus remain committed to the asset class. However, fund managers will be aware that a competitive deals environment is pushing up valuations, and blue-chip assets are increasingly difficult to acquire. This pricing pressure could potentially eat into eventual returns, but with the majority of investors under-allocated to the industry, firms will still be confident of attracting capital. Moreover, the fundraising pipeline remains robust, and with countries looking to add and improve their national infrastructure as well as addressing challenges such as meeting Paris Agreement obligations, the future has seldom looked brighter for the asset class.

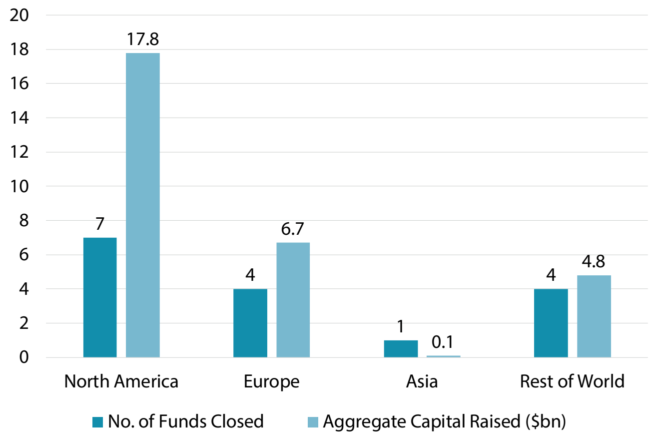
Tom Carr
Head of Real Assets Products

Fig. 1: Quarterly Global Unlisted Infrastructure Fundraising, Q1 2012 - Q1 2017



Source: Preqin Infrastructure Online

Fig. 2: Unlisted Infrastructure Fundraising in Q1 2017 by Primary Geographic Focus



Source: Preqin Infrastructure Online

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NATURAL RESOURCES: ENERGY VEHICLES PROPEL FUNDRAISING

The unlisted natural resources industry saw 17 funds reach a final close in Q1 2017, raising a combined $25bn; Preqin expects this total to rise by a further 10% as more information becomes available. This represents a significant increase from the $14bn raised by 28 funds in the previous quarter, and is twice the level of capital raised in the same quarter of 2016. Fundraising was largely driven by the closure of Global Infrastructure Partners III, which is expected to deploy a significant proportion of its capital in energy-related investments.

Looking ahead, there are some encouraging signs for the industry as a whole regarding the prospects of future fundraising activity. Although the market continues to be dominated by vehicles focusing on energy assets, Q1 2017 did see the closure of the largest ever water-focused fund, as well as sizeable vehicles focused on timber and agriculture. Energy-focused funds account for two-thirds of capital targeted by funds currently in market, but growth in the agriculture and mining sectors sees these funds now target $12bn and $9bn respectively.

Key Findings:

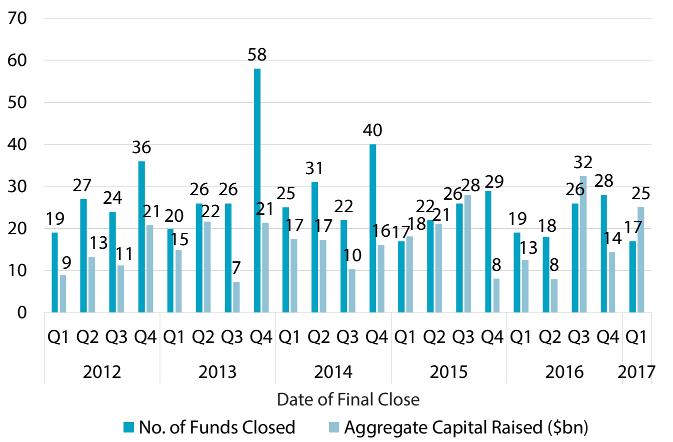
- Seventeen unlisted natural resources funds reached a final close in Q1 2017, raising a combined $25bn.
- The closure of Global Infrastructure Partners III, which secured $15.8bn in investor commitments, accounted for the majority of total capital raised.
- Ten funds worth a combined $18bn are focused on North America, while three funds raised $2.1bn to invest in Europe, and two funds raised $4.5bn to deploy in multiple regions.
- Twelve of the funds closed in the quarter will focus on energy-related assets, and raised a total of $24bn. Agriculture, timber, and water each saw one fund close.
- Dry powder waiting to be deployed by natural resources fund managers has declined in the past 15 months, and now stands at $73bn.
- At the start of Q2 2017, there are currently 250 unlisted natural resources funds in market globally, seeking a combined $110bn in investor commitments.

The overriding narrative of unlisted natural resources fundraising in the first quarter of 2017 is that of Global Infrastructure Partners III, which became the largest closed-end real assets fund ever upon final close. Apart from this, fundraising through the quarter was roughly on par with previous quarterly totals seen in Q4 2015 and Q2 2016. However, the ability of firms to raise such a large vehicle, which will be focusing in part on energy-related projects, shows that there is clearly an appetite among investors for natural resources and real assets funds.

While much of this appetite is currently focused on and serviced by funds making energy investments, there is distinct growth in other areas of the market, particularly agriculture. Additionally, more mining-focused funds continue to come to market, as some managers sense that the long drawdown in this sector may now have overcorrected. If this is the case, we may see a sharp uptick in activity in this sector through the remainder of 2017.

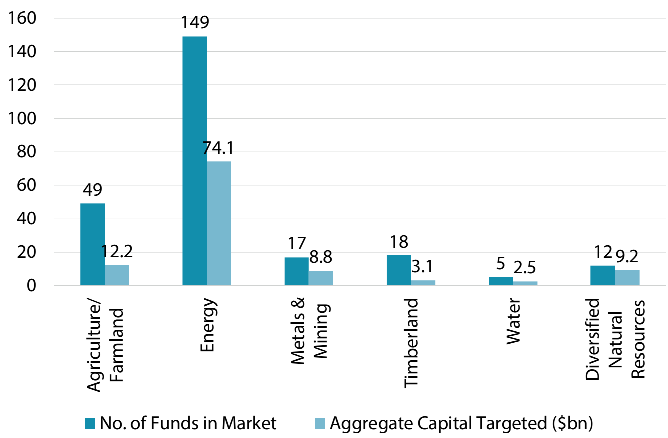
Tom Carr
Head of Real Assets Products

Fig. 1: Quarterly Global Unlisted Natural Resources Fundraising, Q1 2012 - Q1 2017



Source: Preqin Natural Resources Online

Fig. 2: Unlisted Natural Resources Funds Currently in Market by Primary Strategy (as at 3 April 2017)



Source: Preqin Natural Resources Online

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