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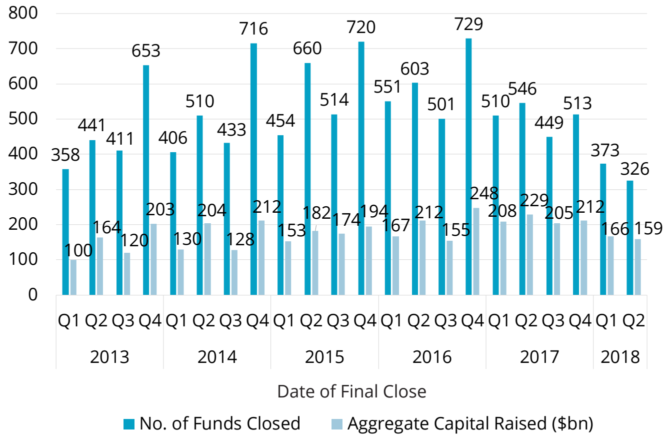
PRIVATE CAPITAL: EASING OFF

At the end of the first quarter, we noted that the frenzied period of fundraising in the private capital industry seemed to be tapering off. This trend has continued in Q2, as 326 funds closed in the quarter, raising $159bn. This is certainly a substantial sum, but given that every quarter of 2017 saw firms raise in excess of $200bn it seems that 2018 is operating in a different gear. Preqin does expect these totals to rise by up to 10% as more information becomes available, but it would appear that activity has returned to be on par with levels seen in most of 2015-2016. What is different from those years is how much capital is going to the largest fund managers – in Q2 2015, when the industry raised a comparable amount of capital, it was shared among around twice as many funds as closed in Q2 2018. The increasing domination of larger funds within their respective asset classes has never been more marked.

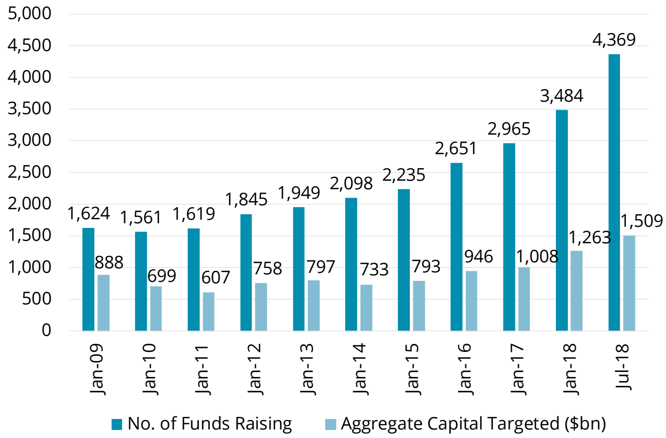
The industry is possibly a victim of its own fundraising success: huge inflows have seen total private capital dry powder approach $1.80tn as of the end of June, with over $1.00tn alone available to private equity fund managers. Investors remain committed to most private capital asset classes, but it is possible that some may be waiting to see fund managers deploy some of that capital before making further investments. When investors do make commitments, though, there are a myriad of funds seeking their capital. With so many options to choose from, the balance of power is swinging ever more in investors' favour, enabling them to negotiate more favourable terms and fees. However, this does not extend to the largest and highest-profile funds, which remain routinely oversubscribed. These competing and contradictory elements of the industry may yet diverge further – there is no indication that the pressures of investors' return goals, record dry powder, high valuations and a crowded marketplace are going to subside in the months to come.

Fig. 1: Global Quarterly Private Capital Fundraising, Q1 2013 - Q2 2018



Source: Preqin

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



Source: Preqin

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

PRIVATE EQUITY: BUYOUT SLOWDOWN

Following a slowdown in Q1 2018, the private equity fundraising market saw a continued slump in Q2. Q1 saw 246 funds close, raising a total of $88bn – the first time in six quarters in which fundraising totals did not exceed $100bn. Similarly, the second quarter recorded 234 fund closures worth a combined $86bn. Preqin expects these figures to rise by up to 10% as more information becomes available, but nonetheless it looks as though 2018 is some way off 2017's fundraising levels.

This fundraising slowdown seems largely driven by lower activity among buyout funds. Thirty-nine buyout vehicles raised $42bn in Q2, the lowest quarterly total since Q3 2015 ($36bn) and the first time in six quarters that fundraising has not reached $50bn. Venture capital funds, however, recorded their highest fundraising in two years, as 138 vehicles secured $22bn. The slowdown in buyout fundraising may continue in H2: the largest funds in market are predominantly growth vehicles, and buyout funds account for just a third of targeted capital.

Key Findings:

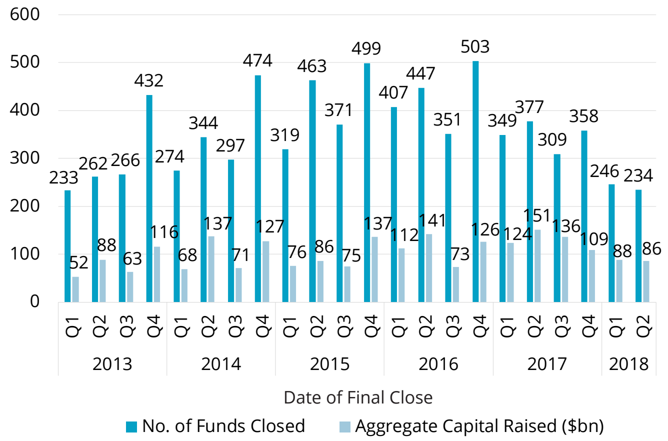
- **Q1 2018 saw 234 private equity funds close globally, raising a total of $86bn.** This is on par with 246 funds which secured $88bn in Q1 2018.
- **North America saw 126 funds raise $38bn,** while 42 Europe-focused funds secured $21bn. Forty-six Asia-focused funds raised $22bn.
- **Buyout fundraising fell to its lowest level in two years,** as 39 funds secured a total of $42bn. It is the first time in six quarters that fundraising has not reached $50bn.
- Venture capital funds, meanwhile, saw strong activity as **138 funds raised a combined $22bn.**
- The largest fund closed in the quarter was the **$6.6bn Carlyle Asia Partners V.**
- Having hit $1.00tn as of the end of 2017, dry powder has kept climbing, **reaching $1.09tn as of the end of Q2.**
- At the start of July, **there are 3,050 private equity funds in market seeking a record total of $948bn.** Of these, 352 are buyout funds seeking $314bn in capital.

"The private equity market has seen a continued slowdown in fundraising activity, with Q2 levels on par with those seen in Q1. This is not necessarily a cause for alarm: overall activity has still been healthy by historical standards, and the prolific activity seen in recent years was not seen as sustainable in the longer term. There are also indications it may pick up again in the second half of the year, as several sizeable funds in market have already raised $287bn from interim closes.

Historically, buyout funds have been the main driver of private equity fundraising. But they have been slow in H1 2018, securing $96bn compared to the $154bn they raised in H1 2017. Venture capital fundraising, however, has remained strong and is becoming an ever-larger element of the overall fundraising landscape. Looking ahead, the very largest funds in market by target size are venture capital and growth vehicles, with buyout funds making up just a third of capital targeted. It is possible that we are seeing the balance between these sectors take a more long-term shift.

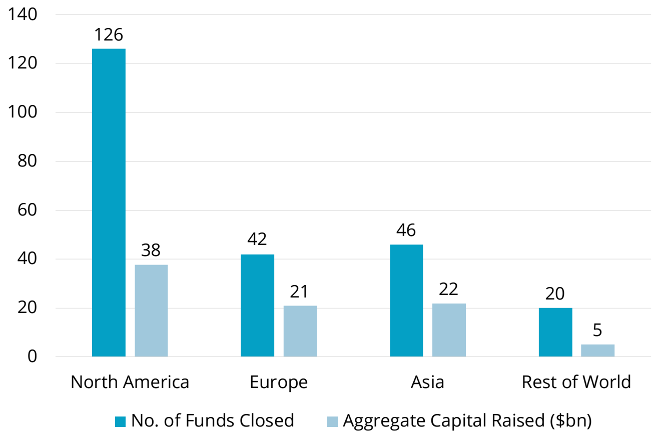
Christopher Elvin
Head of Private Equity Products

Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2013 - Q2 2018



Source: Preqin

Fig. 2: Private Equity Fundraising in Q2 2018 by Primary Geographic Focus



Source: Preqin

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PRIVATE DEBT: DISTRESSED DEBT DOMINATES Q2

In Q2 2018, 22 private debt funds held a final close, securing a total of $25bn in capital. Although this marks a significant decrease in fund closures from the 33 funds that closed in Q1, Q2 saw an increase of over $5.0bn in capital raised. Although Preqin expects Q2 totals to rise up to 10% as more information becomes available, 22 funds is the lowest amount of fund closures the asset class has seen in any quarter over the past five years.

Private debt fundraising centred around distressed debt this quarter, with five funds focusing on the strategy securing just over $14bn. This is a significant increase from two distressed debt funds which raised $2.1bn in Q1. In fact, the capital raised in Q2 2018 was the second largest sum of any quarter since the Global Financial Crisis, following Q4 2016 when eight funds secured $17bn. In Q2, a further 10 direct lending funds secured $7.8bn, two special situations funds closed on $2.2bn, two mezzanine funds raised $0.3bn and one venture debt fund secured $0.1bn in capital.

Key Findings:

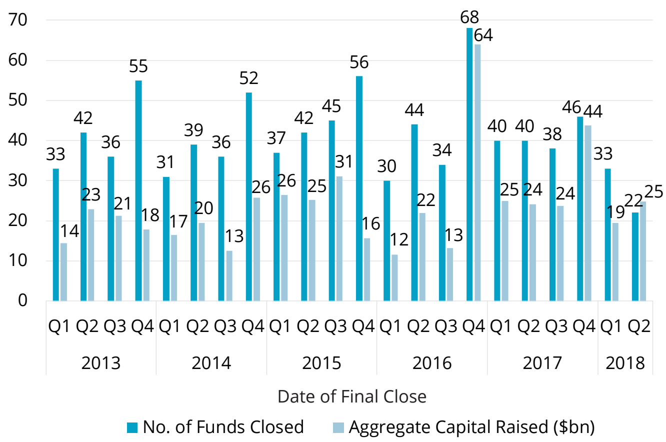
- **Twenty-two private debt funds closed globally in Q2 2018, securing a combined $25bn.** By contrast, 33 funds raised $20bn in Q1.
- **Fundraising concentrated on distressed debt, as five funds raised $14bn.** The greatest number of private debt funds closed (10) were direct lending vehicles, which secured $7.8bn.
- **Eleven North America-focused funds raised $16bn,** while seven Europe-focused vehicles secured $7.2bn and three Asia-focused funds raised $2.0bn.
- **The three largest funds closed in the quarter were distressed debt vehicles.** The largest, GSO Capital Solutions Fund III, secured $7.4bn, making it the fourth-largest distressed debt fund ever raised.
- **Dry powder, having stood at $235bn at the end of 2017, has risen to $255bn as of the end of June.**
- At the start of July, **there are 389 private debt funds in market,** targeting an aggregate $180bn.

“*After a record 2017, including a bumper Q4 2017, it was perhaps expected that fundraising in Q1 2018 would be slower. However, Q2 seems to have rebounded, and capital totals in the quarter were on par with recent years. North America continued to account for the majority of activity, but instead of direct lending taking main stage, it was distressed debt that dominated the fundraising landscape.*

Given that so much focus has been on direct lending activity in recent years, it is interesting to note how little activity the strategy saw in Q2 compared to distressed debt funds. This may be a reflection of investor sentiment – our year-end survey of investors found that 45% believe a market correction is due in the next 12-24 months. In response, we may be seeing investors position themselves in anticipation of counter-cyclical opportunities that may come to the fore in the coming months. Over the longer term, though, we would expect direct lending to keep growing in significance.

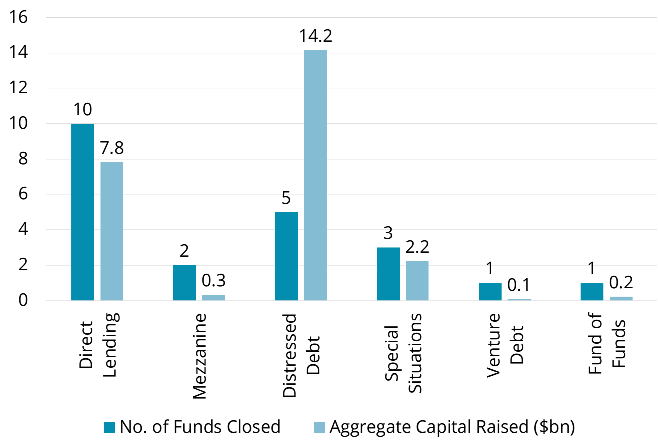
Tom Carr
Head of Private Debt Products

Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2013 - Q2 2018



Source: Preqin

Fig. 2: Private Debt Fundraising in Q2 2018 by Fund Type



Source: Preqin

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REAL ESTATE: SLOWER PACE IN Q2

Closed-end private real estate fundraising has slowed in Q2 after two successive quarters of strong capital inflows. Forty-eight funds secured a combined $23bn, down from 75 vehicles which raised $38bn in Q1. Preqin expects Q2 totals to rise by up to 10% as more information becomes available, but nonetheless it marks a return to more typical quarterly fundraising levels. The capital raised is on par with totals seen in Q1 and Q3 2017 ($24bn and $25bn respectively), but does not match the $37bn raised in the second quarter of that year.

Fundraising was concentrated on value added and opportunistic funds. Twenty-three value added vehicles secured $11bn, the greatest number of fund closures and the largest capital total of any strategy, while 10 opportunistic funds raised $3.7bn. Only six core and core-plus vehicles closed, securing just $1.4bn, while Landmark Real Estate Fund VIII raised $3.3bn for secondary opportunities – the largest fund closed in the quarter and the largest real estate secondaries vehicle ever closed.

Key Findings:

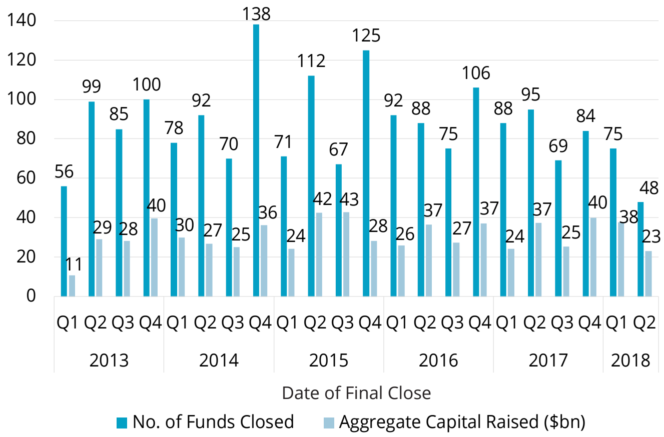
- **Forty-eight private real estate funds closed globally in Q2 2018, securing a combined $23bn.** This is down from $38bn raised by 75 funds in Q1, but is on par with previous quarters.
- **Thirty-three North America-focused vehicles raised a combined $15bn.** Eleven Europe-focused funds raised $6.0bn while three Asia-focused funds raised $1.7bn.
- **Value added funds were the most numerous (23) and raised the most capital ($11bn),** while 10 opportunistic funds secured $3.7bn.
- **The $3.3bn secondary vehicle Landmark Real Estate Fund VIII was the largest fund closed in the quarter,** and is the largest real estate secondary vehicle ever closed.
- **Dry powder, having stood at $249bn at the end of 2017, has risen to $290bn as of the end of June.**
- At the start of July, **there are 624 real estate funds in market, targeting an aggregate $206bn.** This is up from 573 funds that were seeking $191bn at the start of the year.

"Q4 2017 and Q1 2018 marked a three-year high for quarterly fundraising, with the highest totals seen since Q2-Q3 2015. With such a flurry of fundraising in the previous six months, it is perhaps not surprising that Q2 saw lower fundraising totals. However, it was by no means a bad quarter so much as it was a return to more typical levels. We should see fundraising pick up the pace as we move into H2 – there are already 12 vehicles in market that have either met or surpassed their initial targets, collectively securing around $8bn.

What is striking, however, is the distribution of fundraising across strategies. Core and core-plus funds in particular have had a very slow start to the year – Q1 recorded the lowest fundraising total since Q2 2016, and the second quarter seems unlikely to match even that. This could be a result of ongoing pricing concerns, and we may be seeing investors move to other sectors of the market in response – certainly, value added and debt strategies have thrived even as core funds have struggled."

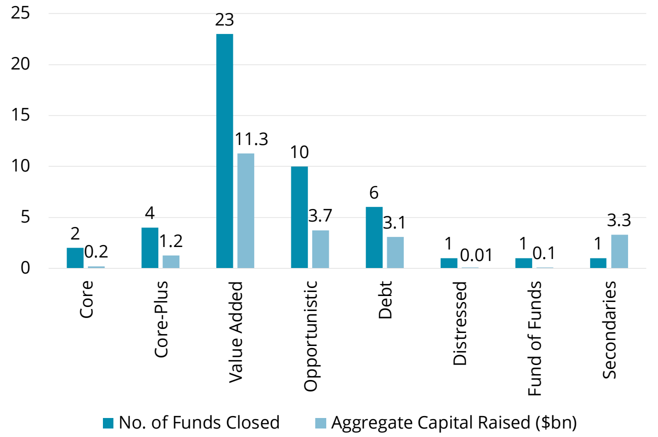
Oliver Senchal
Head of Real Estate Products

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2013 - Q2 2018



Source: Preqin

Fig. 2: Closed-End Private Real Estate Fundraising in Q2 2018 by Primary Strategy



Source: Preqin

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INFRASTRUCTURE: FUNDRAISING PICKS UP THE PACE

Following a slow start to 2018, unlisted infrastructure fundraising activity has picked up in Q2. The quarter saw 17 unlisted infrastructure funds hold a final close, securing $25bn. This is a significant increase from the nine funds that raised $13bn in Q1, and represents the third consecutive quarter in which capital totals have increased. Looking ahead, the sector could see fundraising levels continue to rise, with a record 180 funds in market targeting a combined $127bn as at July. Of these, 81 have already raised an aggregate $49bn through interim closes.

In addition, those funds that closed in Q2 saw high levels of success. The average size of funds closed in H1 2018 was $1.4bn, 68% larger than the average fund size seen in 2017. Furthermore, just 8% of funds in H1 2018 closed below target, while 88% exceeded their targets. By contrast, in 2017, just over half (53%) of funds surpassed their target size. On the other hand, funds closed in 2018 have taken longer to fundraise: 20 months on average compared to 16 months in 2017.

Key Findings:

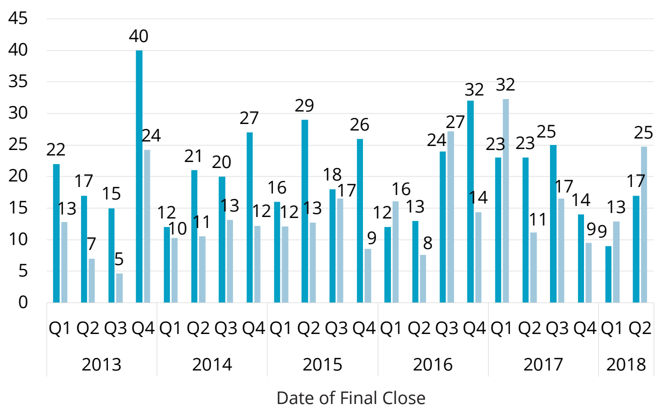
- **Seventeen unlisted infrastructure funds held a final close in Q2 2018, securing $25bn.** This is a significant increase from nine funds that raised $13bn in Q1.
- **Seven North America-focused funds secured $12bn,** while eight Europe-focused funds raised $9.0bn and two Asia-focused funds raised $3.6bn.
- **The average size of infrastructure funds closed in H1 2018 rose to a record $1.4bn,** 68% larger than the average size of $858mn seen in 2017.
- **Eighty-eight percent of funds closed in H1 exceeded their initial target size,** while just 8% of funds failed to meet their targets.
- The average time spent in market, however, increased from 16 months for funds closed in 2017 to 20 months in H1 2018.
- **Dry powder continues to rise,** up from $159bn in December 2017 to $161bn at the end of June.
- As at July 2018, there are **180 funds in market seeking an aggregate $127bn in capital.** Of these, 81 have raised $49bn through interim closes.

After a slowdown in Q4 2017, unlisted infrastructure fundraising has picked up in Q2, with levels more closely matching those seen in 2017. Fundraising success in Q2 has pushed average fund sizes to just under $1.5bn in H1 2018, and a significant majority of funds exceeded their initial target size. Looking ahead, there are a record number of funds seeking a record sum of capital, and significant sums have already been raised through interim closes. Thirty-three funds are targeting $1bn or more, so if they reach final closes in the second half of the year we could see the average fund size inflate further.

It does indicate, though, that fund managers are facing rising competition for fundraising. With capital concentrating among the largest fund managers, it is increasingly a challenge for smaller managers to differentiate themselves and attract investor capital. They may adopt diversified geographic foci or strategies, or specialize in specific countries and sectors in order to stand out in an increasingly competitive and crowded fundraising landscape.

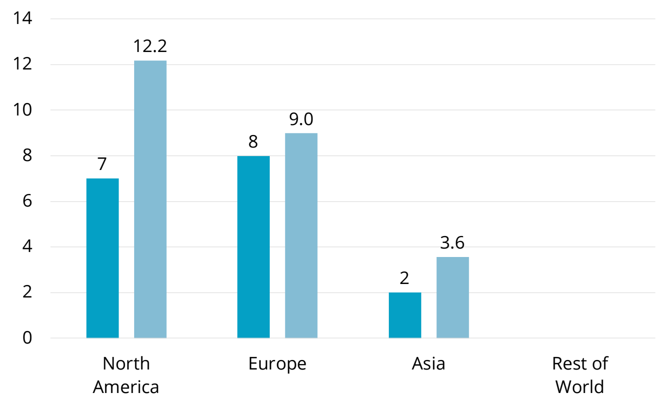
Patrick Adefuye
Head of Real Assets Products

Fig. 1: Global Quarterly Unlisted Infrastructure Fundraising, Q1 2013 - Q2 2018



Source: Preqin

Fig. 2: Unlisted Infrastructure Fundraising in Q2 2018 by Primary Geographic Focus



Source: Preqin

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NATURAL RESOURCES: LARGE FUNDS PREVAIL IN Q2

The unlisted natural resources fundraising market kept its momentum in Q2 2018, as 19 vehicles raised a total of $23bn. This surpasses the previous quarter, and is the highest quarterly fundraising total seen since Q1 2017. Preqin expects these totals to rise by up to 10% as more information becomes available. It is a positive sign for the industry: H1 2018 has now seen funds secure an aggregate $44bn, and if this pace continues it could be a significant year for fundraising.

Large funds were particularly prominent in the quarter. The largest fund closed, ISQ Global Infrastructure Fund II, secured $6.5bn, and overall six funds raised over $1bn each. A further five secured more than $500mn, demonstrating that in natural resources as in other private capital asset classes, capital is increasingly being concentrated among the largest fund managers. It is also visible among the funds currently seeking capital: of the 293 vehicles in market, 31 are targeting more than $1bn in investor commitments, and are collectively seeking $79bn.

Key Findings:

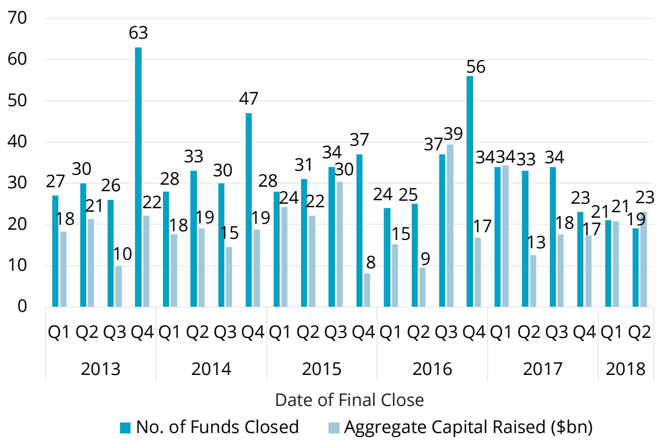
- **Nineteen unlisted natural resources funds reached a final close in Q2, raising $23bn.**
- This surpasses Q1 ($21bn), and is the highest capital total seen since Q1 2017 ($34bn).
- **Nine North America-focused funds raised $11bn,** while seven Europe-focused vehicles secured $8.4bn and one Asia-focused fund raised $3.3bn.
- **Sixteen energy funds raised the bulk of capital ($22bn),** while two agriculture funds and a timberland vehicle raised $0.5bn and $0.6bn respectively.
- **Large funds dominated,** with six vehicles securing over $1bn and a further five raising more than $500mn.
- They did so successfully, **with 71% of funds exceeding their target sizes in Q2.**
- Looking ahead, **there are 288 funds in market, seeking a total of $145bn from investors.**
- Of these, **31 are targeting more than $1bn,** and they are seeking an aggregate $79bn – 54% of the total capital being sought.

The first half of 2018 has been encouraging for natural resources funds. Having seen underwhelming and variable fundraising totals through much of 2016 and 2017, this year has started with sizeable and consistent levels of capital being secured. It is not surprising that this recovery coincides with the general uptick in energy markets, given how much energy funds dominate the asset class.

However, we can also see that the trends towards capital concentration at the top end of the market are becoming more prevalent. Funds of more than $1bn accounted for three-quarters of capital raised in Q2, and this seems likely to continue. Among those funds currently seeking investment, 31 multi-billion-dollar vehicles are targeting 54% of all the capital being sought. The immediate prospects for fundraising in the second half of the year are good, but in the longer term the industry may become dominated by a small group of the largest fund managers.

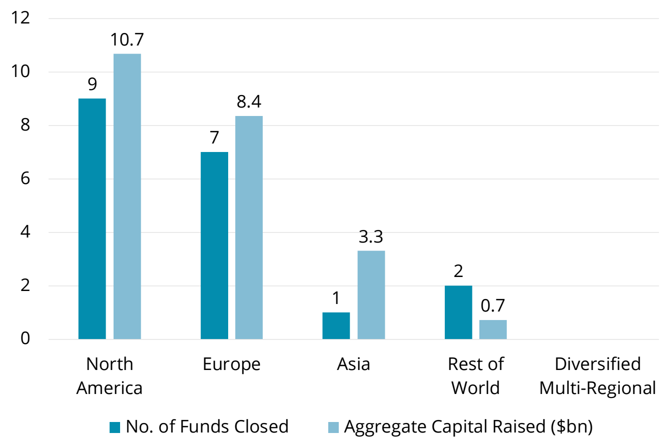
Patrick Adefuye
Head of Real Assets Products

Fig. 1: Global Quarterly Unlisted Natural Resources Fundraising, Q1 2013 - Q2 2018



Source: Preqin

Fig. 2: Unlisted Natural Resources Fundraising in Q2 2018 by Primary Geographic Focus



Source: Preqin

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