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PRIVATE CAPITAL: RETURN OF THE MEGA FUND

Two hundred and ninety-five private capital funds closed during the second quarter of 2017, securing $175bn and sending total fundraising in the first half of the year to $356bn. Preqin expects this total to rise by up to 10% as more information becomes available, meaning H1 2017 approaches the fundraising record of $384bn recorded in H1 2008. Given the sharp decline seen in the second half of that year with the Global Financial Crisis, if this pace of fundraising continues, it would make 2017 the largest ever fundraising year for private capital.

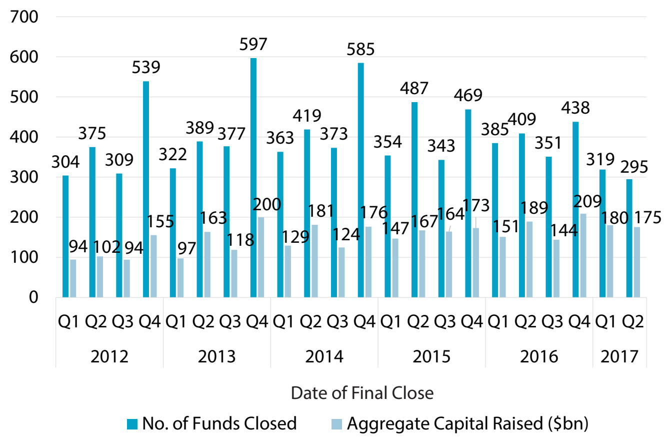
Given sustained high levels of capital being distributed to investors from private capital funds in recent quarters, many institutions are looking to commit or re-invest large amounts of capital to take advantage of favourable returns, as well as to maintain allocation targets. These investors face a wealth of funds seeking to secure their commitments, including a number of potentially record-breaking vehicles.

Several high-profile funds are currently in market targeting tens of billions of dollars, and may be looking to close before the end of the year. These include: the $100bn Softbank Vision Fund, by far the largest private capital fund ever raised, which has already secured $93bn as of its latest interim close; the $40bn Blackstone Infrastructure I, seeking to be the largest unlisted infrastructure fund ever raised; the $29bn China State-Owned Capital Venture Investment Fund, the largest venture capital fund ever, which has already secured $19bn through interim closes; and Apollo Investment Fund IX, which, with a target of $24bn, is seeking to become the largest buyout fund ever closed.

The re-emergence of mega funds coming to market and successfully securing capital from investors did not begin in 2017, but its similar occurrence across disparate asset classes is relatively new. In total, over 3,000 private capital funds are now seeking almost $1.2tn from investors, almost twice as much as at the start of 2008. Among them are 31 funds targeting $5bn or more, which are targeting a combined $390bn. Fund managers gauge that investor appetite for private capital will match their fundraising targets – if so, the months to come may see even more fundraising records broken.

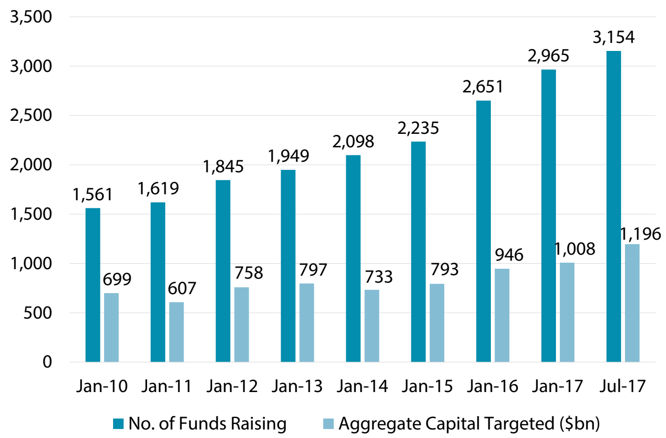
Please note that at the time of publication, Apollo Investment Fund IX has not been confirmed as having held a final close.

Fig. 1: Global Quarterly Private Capital Fundraising, Q1 2012 - Q2 2017



Source: Preqin

Fig. 2: Private Capital Funds in Market over Time, 2010 - 2017 (As at 4 July 2017)



Source: Preqin

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Please note, all data is correct as at 4 July 2017; figures are subject to upward revisions as further information becomes available.

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PRIVATE EQUITY: OVERACHIEVING?

The private equity industry saw 206 funds reach a final close in Q2 2017, raising a combined $121bn in investor commitments. Preqin expects this to rise by around 10% as further information becomes available, but fundraising has already surpassed the $119bn raised in the same quarter last year. In fact, capital commitments secured by funds have now exceeded $100bn in four of the past five quarters, an indication of the sustained pace of private equity fundraising. The number of funds closed, however, has not risen accordingly: at 206, the quarter does not approach the 279 funds closed in Q2 2016, which itself was down from 319 funds closed in Q2 2015.

Not only is the average size of private equity funds increasing ($625mn for funds closed in 2017 YTD), but also the success of managers' fundraising processes. Fifty-five percent of private equity funds closed in H1 2017 have exceeded their target size, the highest proportion ever recorded by Preqin, while the proportion of funds failing to hit their targets at final close fell to a record low of 18%.

Key Findings:

- Q2 2017 saw **206 funds close, securing $121bn**, surpassing the $100bn raised by 206 funds closed in Q1.
- Fundraising has now exceeded $100bn for three consecutive quarters.
- **Over half (55%) of funds closed in Q2 exceeded their target size**, while just 18% did not reach it.
- North America-focused funds closed during Q2 raised $68bn, while Europe-focused funds secured $33bn and Asia-focused funds raised $18bn.
- Fundraising was driven by **a record $88bn in buyout fundraising**, surpassing the previous record of $84bn in Q4 2007.
- The largest fund closed during the quarter was the €16bn CVC Capital Partners Fund VII.
- Private equity **dry powder has reached a record $918bn** as of June 2017.
- At the start of July, there are **1,998 private equity funds in market, seeking a combined $676bn** from investors.

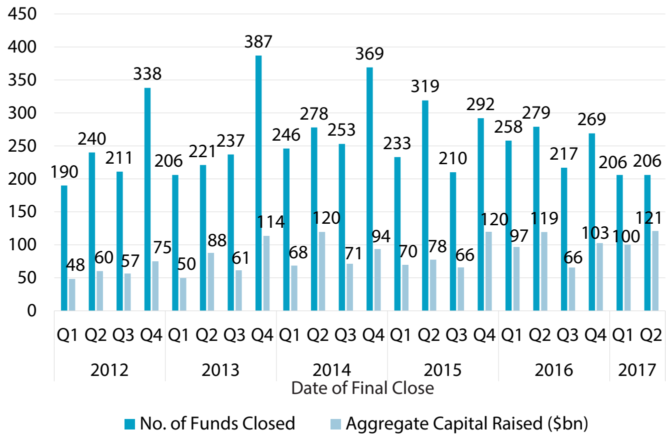
Fundraising momentum for the private equity market has remained very strong in the second quarter of 2017. Q1 was a record opening quarter, and Q2 is on par with fundraising levels seen at the height of the 2007-8 boom. Capital commitments have now exceeded $100bn in five of the past seven quarters, an almost unprecedented sustained period of high fundraising. In particular, fundraising this quarter was driven by a record level of capital secured by buyout funds, as well as significant amounts raised for venture capital.

Looking ahead, there is every indication that this momentum will continue through the rest of the year: the largest ever private equity, buyout and venture capital funds are currently in market seeking investor commitments. However, high valuations continue to make it difficult for funds to put capital to work as quickly as they can secure it, and another landmark may be breached: the accumulation of dry powder has accelerated in the first half of the year, and may reach $1tn by year-end.

Christopher Elvin
Head of Private Equity Products

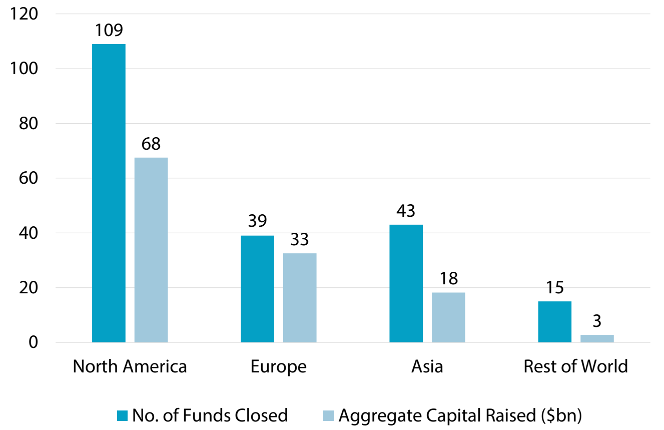
Please note that at the time of publication, Apollo Investment Fund IX has not been confirmed as having held a final close.

Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2012 - Q2 2017



Source: Preqin Private Equity Online

Fig. 2: Private Equity Fundraising in Q2 2017 by Primary Geographic Focus



Source: Preqin Private Equity Online

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PRIVATE DEBT: MOMENTUM CONTINUES IN Q2

The private debt fundraising market saw 26 funds reach a final close in the second quarter of 2017, securing a total of $16bn in investor commitments. Preqin expects these figures to rise by around 10% as further information becomes available, putting the quarter behind the strong activity seen in the first quarter of the year. However, private debt funds marked a record fundraising quarter in Q4 2016, and this momentum seems to have been somewhat sustained through the first half of the year. In total, private debt funds have now raised over $100bn in the past four quarters.

Activity in Q2 was primarily driven by North America-focused funds. Sixteen funds closed focused on the region, raising an aggregate $13bn. This is similar to the previous quarter, although it is dwarfed by the $44bn secured for North America-focused funds in Q4 2016. By contrast, just five Europe-focused funds closed in Q2, raising a combined $2bn, down from $11bn raised the previous quarter.

Key Findings:

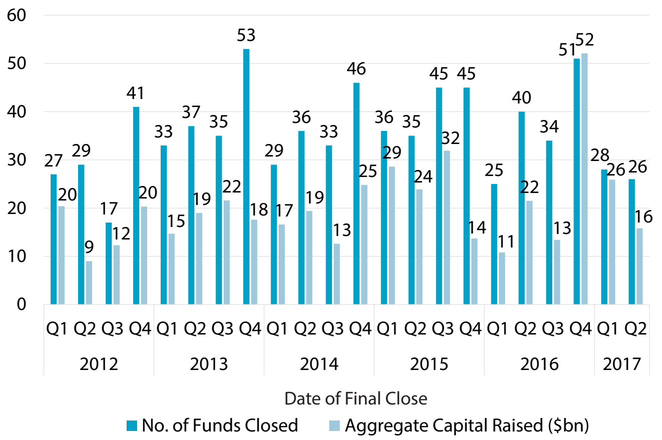
- Private debt saw **26 funds raise a total of $16bn in Q2 2017**.
- This continues momentum seen over the previous two quarters, following record quarterly fundraising in Q4 2016.
- **Sixteen North America-focused funds raised $13bn**, while five Europe-focused funds secured $2bn.
- Direct lending funds closed in Q2 raised $5bn, less than half the $14bn they raised the previous quarter.
- **Three distressed debt funds secured an aggregate $7bn**, while nine mezzanine funds raised just $2bn.
- The largest fund closed in Q2 was the **$4bn Cerberus Institutional Partners VI** distressed vehicle.
- After falling across the course of 2016, dry powder held by private debt funds is rising again, reaching $208bn as of June.
- At the start of July there are **311 private debt funds in market, seeking a total of $145bn from investors**.

It is very encouraging to see private debt fundraising momentum being sustained across the first half of 2017. Following previous gluts of fundraising, as in early 2015, we noticed a distinct pause between fundraising cycles as the industry took a breath. In this cycle, following record levels of capital secured in Q4 2016, we have seen activity stay strong in the first half of 2017. This is indicative of an industry that has now expanded beyond a critical mass, and may mark the next stage of development in the asset class.

On the other hand, the bulk of activity in the quarter was focused on distressed debt funds targeting North America, perhaps one of the most well-established elements of the private debt industry. Growth areas such as Asia-focused vehicles or direct lending funds have yet to show the kind of sustained activity that is beginning to mark the industry as a whole. If private debt is to keep expanding, these growth areas will need to show more consistent fundraising activity.

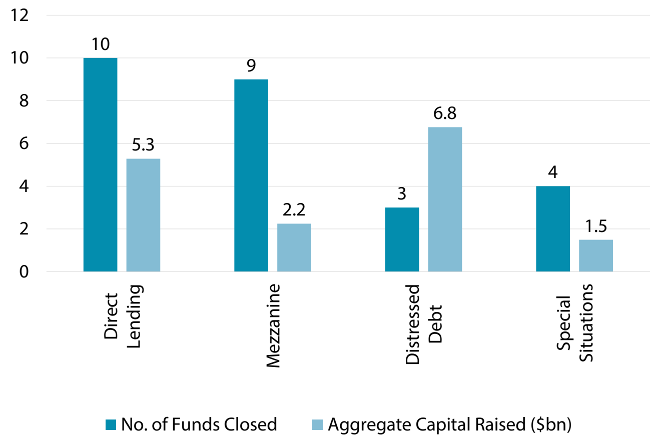
Ryan Flanders
Head of Private Debt Products

Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2012 - Q2 2017



Source: Preqin Private Debt Online

Fig. 2: Private Debt Fundraising in Q2 2017 by Fund Type



Source: Preqin Private Debt Online

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REAL ESTATE: FEWER FUNDS CLOSING IN 2017

The closed-end private real estate industry saw 45 vehicles close in Q2 2017, raising an aggregate $29bn in investor commitments. Preqin expects these figures to rise by around 10% as more information becomes available, meaning the quarter represents an acceleration in fundraising compared to Q1, although it does not look likely to match the $36bn raised by real estate funds closed in Q2 2016.

However, the number of funds closed through the quarter (45) is a distinct reduction compared to previous quarters. Quarterly fund closures reached a peak of 97 in Q4 2015, before seeing three consecutive quarters of decline. Although 81 funds closed in Q4, this was anomalous, and Q1 saw only 64 funds closed. Q2 does not seem likely to approach even that level, indicating that there is further consolidation occurring within the private real estate fundraising market – fundraising totals remain robust, but they are being raised by progressively fewer vehicles.

Key Findings:

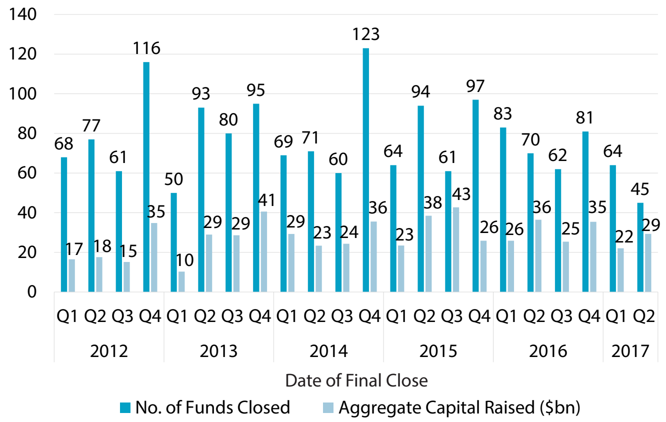
- **Forty-five private real estate funds closed in Q2 2017, securing an aggregate $29bn in investor commitments.**
- This surpasses the $22bn secured by 64 funds in Q1.
- However, **the number of funds closed is the lowest quarterly total seen since Q1 2010.**
- Twenty-three North America-focused funds raised a combined $13bn, while **16 Europe-focused vehicles raised $16bn.**
- Value added strategies saw the most funds closed (18), while opportunistic funds raised the most capital ($12bn).
- **Almost half (48%) of the vehicles closed in H1 2017 failed to hit their targets**, the highest proportion seen in five years.
- The largest fund closed in the quarter was the **€8bn Blackstone Real Estate Partners Europe V**.
- Dry powder held by private real estate fund managers has kept increasing in 2017 so far, hitting **a record $249bn** as of June.
- At the start of July, there are **561 private real estate funds in market, seeking a combined $179bn.**

"The first half of 2017 has seen robust fundraising activity continue in the private real estate market. The levels of capital raised have not matched the peaks seen in mid-2015, but have been consistent overall. This in itself is notable: during a period when other asset classes are seeing fundraising records repeatedly broken, real estate fund managers and investors seem to be taking a less bullish attitude, and fundraising has remained broadly level over the past several quarters.

What is apparent, however, is that the number of vehicles raising capital is continuing to fall. Some investors have indicated that they intend to consolidate their real estate portfolios to commit more capital to fewer managers. Managers themselves, meanwhile, recently predicted to Preqin that the industry would see further consolidation over the next three years. In this context, it is perhaps unsurprising that the number of funds closed has fallen to its lowest level seen since 2010, despite capital totals remaining steady.

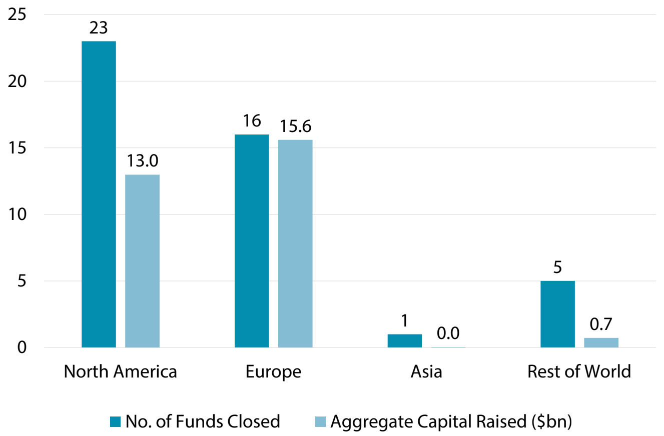
Andrew Moylan
Head of Real Estate Products

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2012 - Q2 2017



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising in Q2 2017 by Geographic Focus



Source: Preqin Real Estate Online

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INFRASTRUCTURE: FUNDRAISING PAUSES

The unlisted infrastructure fundraising market saw 11 vehicles reach a final close in Q2 2017, raising a combined $5bn in investor commitments. Preqin expects these figures to rise by around 10% as more information becomes available. Nonetheless, this marks a distinct slowdown compared to recent quarters: the first quarter of the year saw a record $31bn secured by 18 funds, after 24 infrastructure funds raised $26bn in Q3 2016. In fact, fewer funds closed in Q2 2017 than in any quarter since Q1 2014, while the level of capital secured is the lowest since Q3 2013.

However, overall, the fundraising market remains very strong. Q3 2016 and Q1 2017 successively broke records for quarterly fundraising, and this record looks set to be broken again in the coming months. Blackstone announced in June that it had launched an infrastructure fund targeting $40bn. If this reaches its target at close, it will mark another high for the infrastructure fundraising market.

Key Findings:

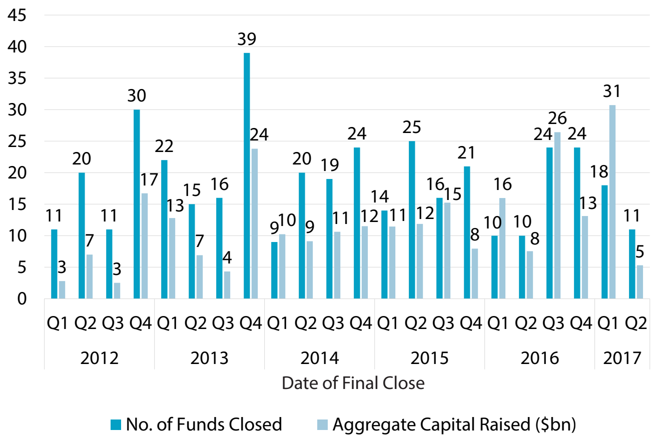
- **Eleven unlisted infrastructure funds closed in Q2 2017, raising a combined $5bn.**
- This is a sharp decrease from the record $31bn secured by funds closed the previous quarter. Q2 marks the fewest funds closed since Q1 2014, and **the lowest capital total since Q3 2013.**
- Five North America-focused funds raised a total of $2.5bn, while an equal number of Europe-focused vehicles secured $2.6bn.
- Funds closed in H1 2017 have spent an average of 20 months in market, down from 23 months for funds closed the previous year.
- However, fundraising prospects are bright: at the start of July, **173 unlisted infrastructure funds are in market, targeting a record $150bn**.
- This includes the **$40bn Blackstone Infrastructure Fund I**, which will be the largest infrastructure fund ever closed if it reaches its target.
- Capital waiting to be deployed by fund managers has continued to rise: **dry powder reached a record $151bn as of June.**

"The unlisted infrastructure market has seen unprecedented levels of fundraising activity in recent quarters: funds closed in the past 12 months have raised a combined $76bn. In this context, the sharp downturn in fundraising levels in Q2 should not be taken as signs of a slowing market overall. Given the record totals secured in Q1, it is not surprising that the industry would see a pause before the next cycle of activity begins – despite its longevity, unlisted infrastructure remains a small enough industry that the largest funds have a great deal of influence on overall activity.

In fact, the next phase of infrastructure fundraising seems to have already begun, with Blackstone announcing in June that it is raising a potentially record-breaking $40bn infrastructure fund. Coming so soon after the successive record-breaking vehicles raised by Brookfield and Global Infrastructure Partners, it is a sign that fund managers and investors alike see infrastructure as an industry that offers the potential to reward greater investment. Given the scope of promised infrastructure development in the US and China, we may see even more capital being raised to take advantage of the opportunities they present.

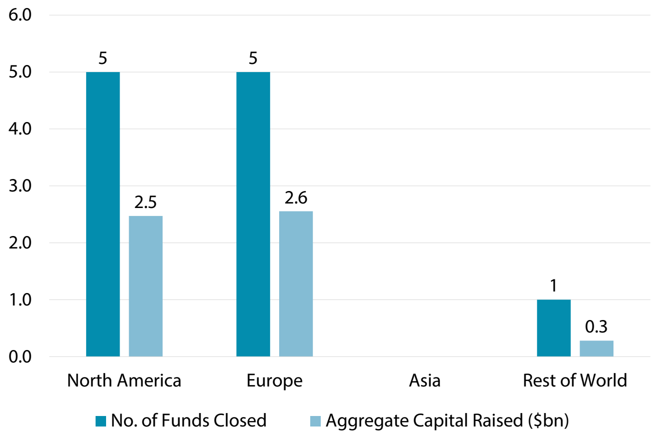
Tom Carr
Head of Real Assets Products

Fig. 1: Quarterly Global Unlisted Infrastructure Fundraising, Q1 2012 - Q2 2017



Source: Preqin Infrastructure Online

Fig. 2: Unlisted Infrastructure Fundraising in Q2 2017 by Primary Geographic Focus



Source: Preqin Infrastructure Online

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NATURAL RESOURCES: ENERGY ONLY

Twelve unlisted natural resources funds closed in the second quarter of 2017, securing a combined $5bn in investor capital. Preqin expects these figures to rise by up to 10% as further information becomes available, but Q2 seems unlikely to match activity seen in recent quarters. Q1 2017 saw 21 funds raise a total of $27bn, and Q2 represents a sharp slowdown from that level of activity. It marks the fewest funds closed and the lowest level of capital raised since Q3 2011.

Three-quarters of the funds that closed are energy-focused vehicles, continuing the dominance of the sector within the overall natural resources market. Similarly, seven of the 12 funds closed are focused on North America, with three Europe-, one South America- and one Africa-focused funds also closing. Energy funds also look set to define activity in coming quarters: energy-focused funds comprise 62% of natural resources vehicles in market, represent 74% of the capital targeted, and account for eight of the 10 largest funds on the road.

Key Findings:

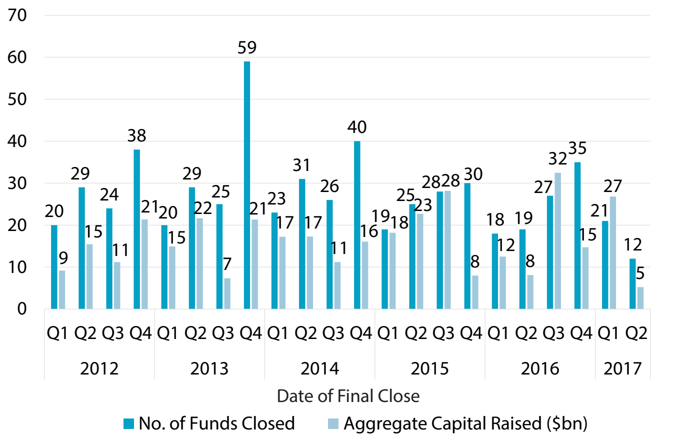
- **Twelve unlisted natural resources funds closed in Q2 2017, securing a total of $5bn in investor commitments.**
- This is the lowest number of funds closed and the lowest level of capital raised since Q3 2011.
- Seven funds closed during the quarter focusing on North America, raising $4.1bn. Three Europe-focused vehicles, meanwhile, secured $0.9bn.
- **Three-quarters of the funds closed in Q2 will pursue energy opportunities**, accounting for $3bn. The others will pursue agriculture and diversified strategies.
- The largest fund closed in the quarter was the **$2bn E&M Group Fund IV**.
- As of September 2016, the latest data available, natural resources fund managers hold **$181bn in dry powder**.
- At the start of July, there are **250 unlisted natural resources funds in market, targeting a combined $114bn**.
- Of these, 155 are energy-focused funds, and they account for $84bn in capital targets.

"The unlisted natural resources market has not seen momentum from recent quarters continue in Q2 2017. Q3 2016 and Q1 2017 both saw substantial levels of capital secured, but Q2 2017 has seen some of the lowest levels of quarterly activity for five years or more. This is perhaps to be expected – the natural resources industry remains relatively small, and with so much capital committed over a short period, investors may be pausing before making further commitments to the asset class.

What is of more concern to the growth of the asset class is the continued lack of funds closing to pursue opportunities in industries other than energy. While there are many funds currently in market that are looking to focus on agriculture, timber or mining, these vehicles do not seem to be able to secure capital and hold a final close. Energy-relates assets have long formed the dominant sector of the industry, but if the asset class as a whole is to continue to grow, fundraising in these sectors must reach a more sustained level of activity.

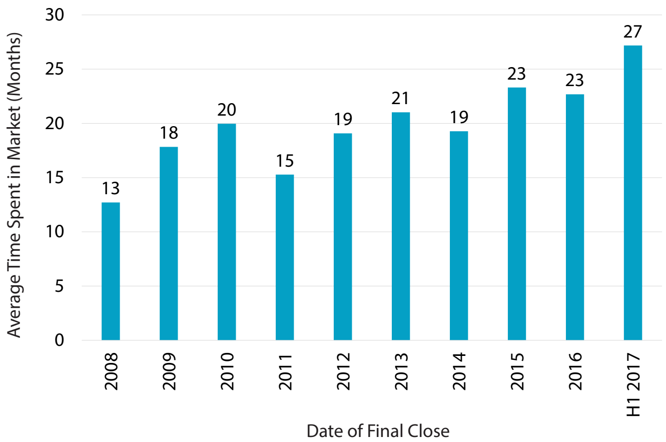
Tom Carr
Head of Real Assets Products

Fig. 1: Quarterly Global Unlisted Natural Resources Fundraising, Q1 2012 - Q2 2017



Source: Preqin Natural Resources Online

Fig. 2: Average Time Spent in Market for Unlisted Natural Resources Funds, 2008 - H1 2017



Source: Preqin Natural Resources Online

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