

# Preqin Introduces 'Private Capital' for 2016

*Mark O'Hare – Chief Executive, Preqin*

The private capital industry has grown and changed immensely since Preqin first began tracking it in 2003. The diversity of fund strategies has grown as managers and LPs target new areas to generate alpha; sectors such as private debt, infrastructure and natural resources, all once considered subsets of private equity, have grown and evolved into discrete asset classes. Meanwhile, industry terminology has struggled to keep pace, and 'private equity' has come to have interpretations as varied as buyout funds specifically, or closed-end private funds generally.

From the beginning of 2016, Preqin will be updating its terminology to better reflect the growing diversity of the industry. Preqin reports and press releases will henceforth use the following terms:

- 'Private Equity' will refer to the core asset class centred on the buyout and venture capital industry, together with other closely related strategies.
- 'Private Capital' will refer to the broader spectrum of private closed-end funds, including private equity, private debt, private real estate, infrastructure and natural resources.

The table below indicates the fund types Preqin considers as constituting each asset class.

We hope this distinction between core private equity and broader private capital will be helpful for our customers and will enable us to continue to deliver the clear and concise data and market insight for which Preqin is known.

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			Private Equity Real Estate Fund of Funds
Growth		Mezzanine	Infrastructure Fund of Funds	
Turnaround	Special Situations	Private Equity Real Estate Fund of Funds		Infrastructure Fund of Funds
Other Private Equity	Venture Debt		Private Equity Real Estate Fund of Funds	
Private Equity Secondaries	Private Debt Fund of Funds	Private Equity Real Estate Secondaries		Infrastructure Secondaries
Private Equity Fund of Funds				

Source: Preqin Products

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For further clarification and general press enquiries, please contact: William Clarke +44 (0)20 3207 0265 or [press@preqin.com](mailto:press@preqin.com)

New York: One Grand Central Place, 60 E 42nd Street, Suite 630, New York NY 10165 Tel: +1 212 350 0100  
 London: 3rd Floor, Vintners' Place, 68 Upper Thames Street, London, EC4V 3BJ Tel: +44 (0)20 3207 0200  
 Singapore: One Finlayson Green, #11-02, Singapore, 049246 Tel: +65 6305 2200  
 San Francisco: One Embarcadero Center, Suite 2850, San Francisco, CA 94111 Tel: +1 415 316 0580  
 Hong Kong: Level 9, Central Building, 1-3 Pedder Street, Central, Hong Kong Tel: +852 3958 2819

# Private Capital: Fundraising Exceeds Half a Trillion Dollars for Third Consecutive Year

2015 marked another strong year for private capital fundraising, as 1,061 funds closed securing a combined \$550bn in investor commitments<sup>1</sup>. Preqin expects these totals to rise by 10-20% as more information becomes available, so aggregate fundraising in 2015 looks set to equal or surpass the \$590bn raised in 2014. This would represent the fifth consecutive year in which aggregate private capital fundraising has increased.

Fundraising looks set to remain competitive in 2016, with an increasing number of funds being marketed to investors. The number of funds in market has risen across 2015, and at the start of 2016 stands at 2,651. These funds are targeting an aggregate \$946bn, surpassing the previous record seen at the start of 2009, when private capital funds in market were seeking a combined \$888bn in investor commitments.

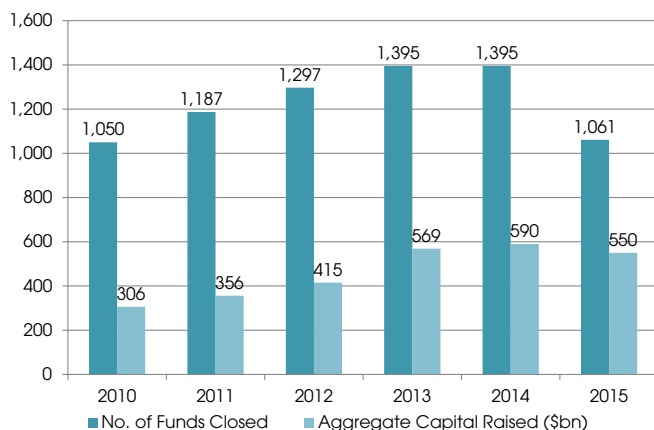
- **Fund Numbers:** Despite strong fundraising, the 1,061 funds closed in 2015 is 24% fewer than the 1,395 funds closed in 2014, and looks unlikely to match that total as new information becomes available.
- **Regional Fundraising:** North America-focused funds increased their prominence in the private capital industry in 2015, accounting for 60% of total capital raised, up from 56% in 2014.
- **Biggest Funds:** Blackstone Capital Partners VII, which closed in Q4 on \$18bn, is the biggest private capital fund closed in 2015 and the fifth largest buyout fund ever.

“The private capital industry has continued its strong fundraising activity in 2015, and looks set to match or exceed the aggregate capital raised in 2014. This would mark the fifth year of growth, as the industry continues the expansion seen in the period following the Global Financial Crisis.

Despite fewer funds closing in 2015 than in previous years, the fundraising market has become more competitive over the course of the year, with a record number of funds seeking capital commitments. The challenge for investors this year will be finding the right investment opportunity in a crowded marketplace.”

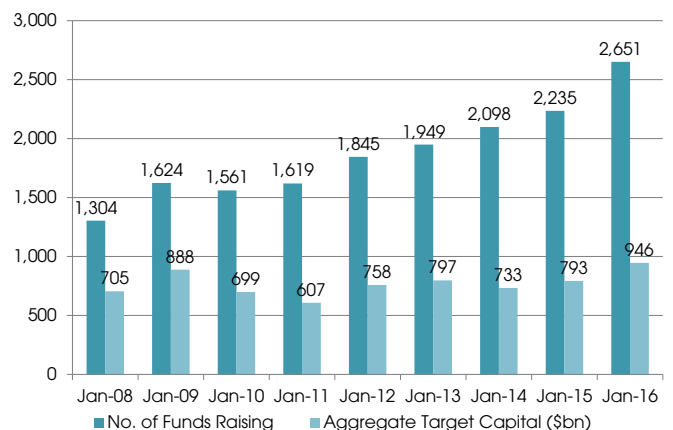
**Mark O’Hare, Chief Executive**

**Fig. 1:** Annual Private Capital Fundraising, 2010 - 2015



Source: Preqin

**Fig. 2:** Private Capital Funds in Market Over Time, 2008 - 2015



Source: Preqin

**FOR FURTHER INFORMATION AND ANALYSIS DOWNLOAD THE DATA PACK HERE**

<sup>1</sup> All data correct as at time of going to press 6th January; figures subject to upwards revision as further information becomes available.

# Private Equity: Fundraising Slows in 2015 as Global Dry Powder Hits Record Levels

Global private equity fundraising slowed in 2015, with the annual total capital raised decreasing for the first time in five years; 687 funds closed raising a combined \$287bn, down from the \$339bn raised in 2014<sup>1</sup>. However, the fundraising environment remains healthy, particularly in developed markets. North America is the driving force behind fundraising, with funds focused on the region accounting for 60% (\$168bn) of total investor commitments in 2015.

The level of unspent capital (dry powder) available to private equity fund managers increased through 2015 to reach \$752bn at the end of the year, up from \$695bn at the end of 2014. This is the third consecutive annual increase in dry powder levels from the \$565bn recorded at the end of 2012, as firms struggle to effectively deploy capital in a competitive and liquid deal market.

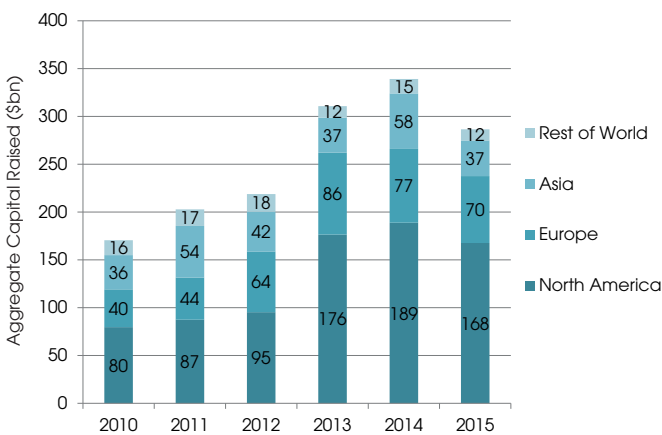
- **Funds in Market:** At the start of 2016, there are a record 1,630 private equity funds on the road, targeting an aggregate \$488bn. This surpasses the previous peak of \$482bn being sought at the start of 2008 by just 974 funds.
- **Average Time on the Road:** Private equity funds closed in 2015 spent an average of 15.7 months being marketed to investors. Although this is the same as in 2014, it is less than the average of 19 months that funds closed in 2013 spent on the road.
- **Venture Capital Growth:** Raising an aggregate \$48bn, venture capital funds neared a record fundraising year in 2015, just down from \$51bn in 2014 and \$53bn in 2008. This has largely been driven by the North American market, raising 70% (\$35bn) of global capital in 2015.

“2015 has presented a slower-paced private equity fundraising market, as firms struggled to maintain the level of new investor commitments from 2014. Moreover, record levels of dry powder suggest that fund managers are finding it increasingly challenging to effectively deploy capital into attractive opportunities.

Fundraising looks set to remain healthy going into 2016, with both the number of funds on the road and their total capital targets approaching record levels. However, fund managers may find investor appetite starting to wane if their capital does not start being put to work in the coming year.”

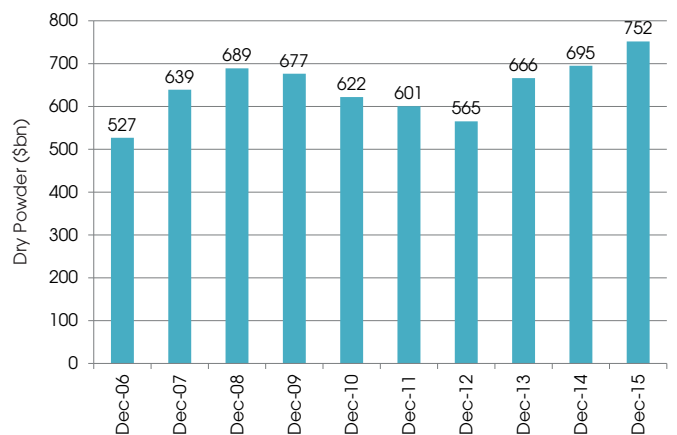
**Christopher Elvin, Head of Private Equity Products**

**Fig. 1: Annual Private Equity Fundraising by Region, 2010 - 2015 (\$bn)**



Source: Preqin Private Equity Online

**Fig. 2: Global Private Equity Dry Powder Over Time, December 2006 - December 2015**



Source: Preqin Private Equity Online

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# Real Estate: Fundraising Set for Fifth Successive Annual Increase

Closed-end private real estate funds raised a combined \$107bn in 2015, just below the \$111bn raised the previous year<sup>1</sup>. Given that Preqin expects these figures to rise 10-20% as new data becomes available, 2015 looks set to be the biggest fundraising year since the Global Financial Crisis. Opportunistic and value added funds drove fundraising, securing \$54bn and \$22bn respectively in investor commitments. However, private real estate debt funds suffered a dip in fundraising levels, securing \$14bn through the year. This represents a decline of 43% from 2014, when real estate debt funds raised a record \$25bn.

2015 also saw dry powder hit record levels to stand at \$252bn at the end of the year, reflecting both the strong fundraising market of recent years and the challenges fund managers face putting capital to work, a result of the levels of competition and high pricing in many real estate markets globally. With 492 funds currently in market seeking a combined \$174bn, the market remains competitive for firms marketing new offerings. Investor demand for real estate exposure remains considerable however, and the strong fundraising seen in 2015 looks set to continue in 2016

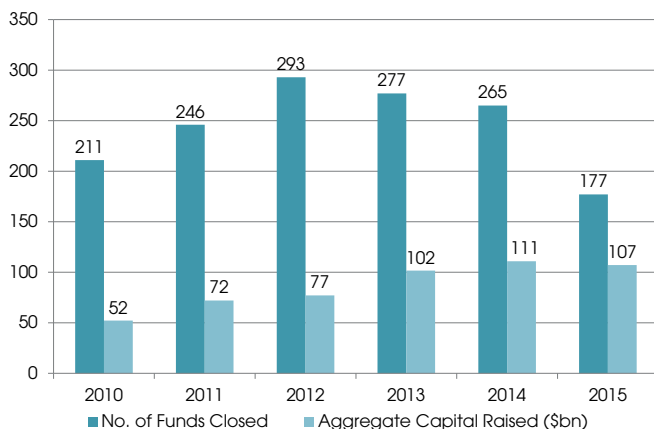
- **Regional Fundraising:** North America dominated the real estate fundraising landscape in 2015, raising \$71bn with 100 funds closed focusing on the region. Europe-focused funds raised \$23bn, and Asia-focused funds raised \$11bn.
- **Proportion of Target Size Reached:** 36% of funds closed in 2015 exceeded their target size, a decrease of eight percentage points from 2014. The proportion of funds which failed to meet their target stayed steady at 42%.
- **Biggest Funds:** Blackstone Real Estate Partners VIII, which closed in September 2015 on \$15.8bn, is the largest closed-end private real estate fund of all time.

“2015 was another strong year for real estate fundraising, likely representing a fifth successive annual increase in investor commitments. However, the number of funds reaching a final close is down from 2014, as more capital was concentrated among fewer fund managers. For many firms marketing funds, raising capital remains a tough prospect.

Finding value is also a challenge for many firms. With real estate dry powder now over a quarter of a trillion dollars, fund managers have lots of capital available to invest, but finding compelling opportunities at attractive prices is a difficult proposition.”

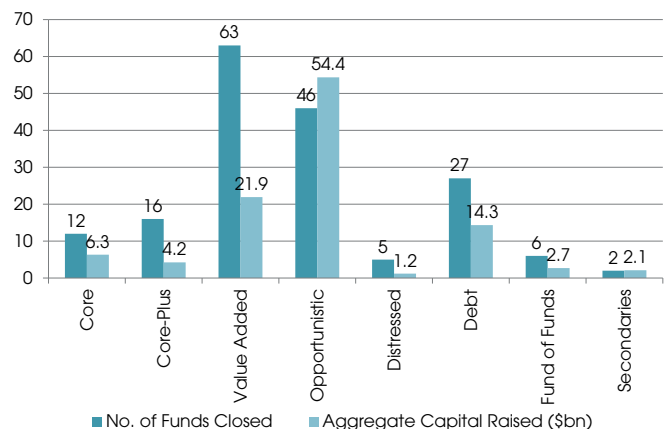
**Andrew Moylan, Head of Real Assets Products**

**Fig. 1: Annual Closed-End Private Real Estate Fundraising, 2010 - 2015**



Source: Preqin Real Estate Online

**Fig. 2: Closed-End Private Real Estate Fundraising in 2015 by Primary Strategy**



Source: Preqin Real Estate Online

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# Infrastructure: Number of Funds in Market Hits Record High at Start of 2016

The number of unlisted infrastructure funds being marketed to investors at the start of 2016 is at a record 181, up 25% from the 145 funds being marketed at the start of 2015. These funds are targeting a combined \$125bn, which represents an increase of 37% on the \$91bn being targeted at the start of last year. Two funds, Brookfield Infrastructure Fund III and Global Infrastructure Partners III, are targeting \$12.5bn each. If they meet those targets at close, they will be the largest unlisted infrastructure funds ever.

Both the number of funds closed in 2015, and the aggregate capital raised by those funds, failed to meet the levels seen in 2014. Forty-six unlisted infrastructure funds secured a combined \$36bn in investor commitments through 2015, down 22% and 12% respectively from the 59 funds which raised a total of \$41bn the previous year<sup>1</sup>.

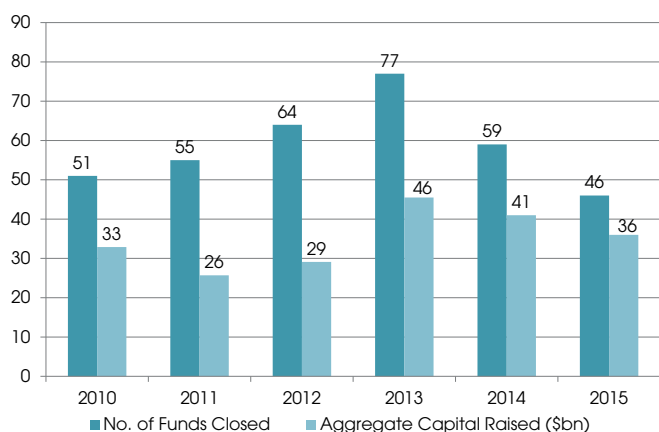
- **Geographic Focus:** Eighteen Europe-focused unlisted infrastructure funds raised an aggregate of \$14.2bn, compared with \$13bn raised by 11 North America-focused funds. Seventeen funds targeting the rest of the world saw \$7.9bn of investor commitments.
- **Fundraising Success:** Forty percent of infrastructure funds closed in 2015 exceeded their fundraising targets, down from 44% in 2014. However, the proportion of funds that failed to reach their targets also fell, from 49% in 2014 to 37% in 2015.
- **Fund Size:** The average size of funds closed in 2015 hit a record high, at \$858mn. This is the fourth consecutive year in which the average fund size has risen, 77% more than the \$484mn average size for funds closed in 2011.

“The unlisted infrastructure market in 2015 did not reach the record rate of fundraising seen in 2013 or match 2014, with annual declines in both the number of funds reaching a final close and the aggregate capital raised. Fundraising totals are now returning to the levels seen in 2010 – 2012.

However, the fundraising market is becoming more competitive, with more funds being marketed, targeting higher levels of capital. Some firms achieved considerable success in the fundraising market in 2015, and there are likely to be further large fundraises in 2016, but for many firms fundraising is likely to remain a long and difficult process.”

**Andrew Moylan, Head of Real Assets Products**

**Fig. 1: Annual Unlisted Infrastructure Fundraising, 2010 - 2015**



Source: Preqin Infrastructure Online

**Fig. 2: Top 5 Unlisted Infrastructure Funds in Market**

Fund	Firm	Target Size (\$bn)	Location Focus
Brookfield Infrastructure Fund III	Brookfield Asset Management	12.5	Global
Global Infrastructure Partners III	Global Infrastructure Partners	12.5	Global
Alinda Infrastructure Fund III	Alinda Capital Partners	5.0	North America, Europe
North Haven Infrastructure Partners II	Morgan Stanley Infrastructure	4.0	Global
West Street Infrastructure Partners III	GS Infrastructure Investment Group	3.0	Global

Source: Preqin Infrastructure Online

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# Private Debt: Fundraising Approaches Pre-Crisis Levels in 2015

Total fundraising for the closed-end private debt market reached the highest level since the Global Financial Crisis (GFC) in 2015: aggregate capital raised by funds closed in the year totalled \$85bn, approaching the record \$98bn raised in 2008<sup>1</sup>. Europe-focused funds raised a record \$30bn, up from \$25bn in 2014. This represents the fifth consecutive year of growth in fundraising focused on the region, and Preqin expects these figures to rise by a further 10-20% as new data becomes available.

Direct lending funds raised \$33bn in 2015, and remain the driving fundraising force in the private debt industry. However, the sector has not continued the rapid growth in fundraising seen in previous years, and 2015's total looks set to increase only slightly on the \$35bn raised in 2014. Direct lending funds nevertheless account for six of the top ten largest private debt funds to close in 2015, showing their importance within the industry.

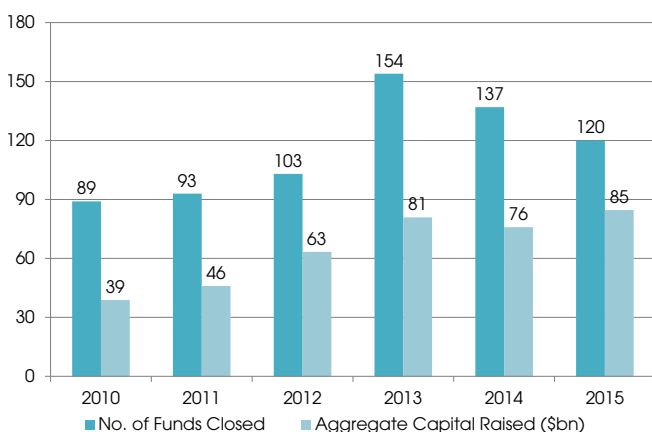
- **Fundraising Success:** Forty-two percent of fund managers that closed a fund in 2015 failed to hit their target size, a record high, and twice the proportion that fell short in 2014 (21%).
- **Debt Types:** Mezzanine debt funds raised \$19bn in 2015, a post-GFC record. Distressed debt fundraising stayed level, securing \$23bn in investor commitments.
- **Biggest Funds:** The largest private debt fund to hold a final close in 2015 was GS Mezzanine Partners VI, which closed on \$8bn. Of the top 10 funds closed in the year, seven were Europe-focused, with only three focusing on the US.

“2015 has seen the pace of fundraising continue to increase in the private debt sector, and aggregate capital raised in the year is approaching pre-crisis levels, despite growth in the number of fund managers failing to hit their fundraising targets.

It is particularly encouraging to see such growth in the Europe-focused private debt market, as more investors and fund managers move into the sector. Additionally, it would seem that direct lending is as significant as ever in the private debt industry, with many investors still attracted to the lower risk/return profile and prospect of regular returns in their portfolio.”

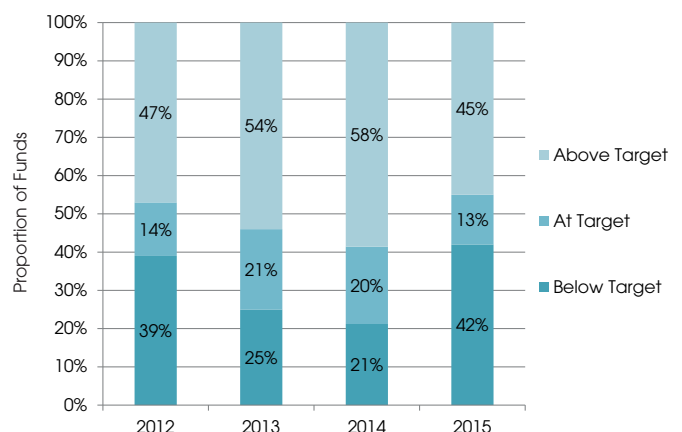
**Ryan Flanders, Head of Private Debt Products**

**Fig. 1: Annual Private Debt Fundraising, 2010 - 2015**



Source: Preqin Private Debt Online

**Fig. 2: Proportion of Private Debt Funds that Closed Below, At or Above Target, 2012 - 2015**



Source: Preqin Private Debt Online

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# Natural Resources: Energy Fundraising Reaches All-Time High

Fundraising in the natural resources sector reached record levels in 2015, with 62 funds raising a total of \$63bn, exceeding the previous record of \$62bn in 2013<sup>1</sup>. Despite only 62 funds closing in the year, compared with 111 funds that closed two years before, total fundraising was boosted as the average fund size increased by 81%. The aggregate capital raised in 2015 also represents an increase of 14% on the level of investor capital secured by natural resources funds in 2014.

Energy-focused funds continue to be the main driver of growth in 2015, accounting for 76% of the funds closed (47) and 91% of the total aggregate capital raised (\$57bn). Furthermore, all five of the largest funds closed in the year have an energy focus. This trend looks set to continue in the coming year: just under two-thirds of the funds in market (65%) are focused on energy investments, and these funds are targeting 77% of the aggregate capital.

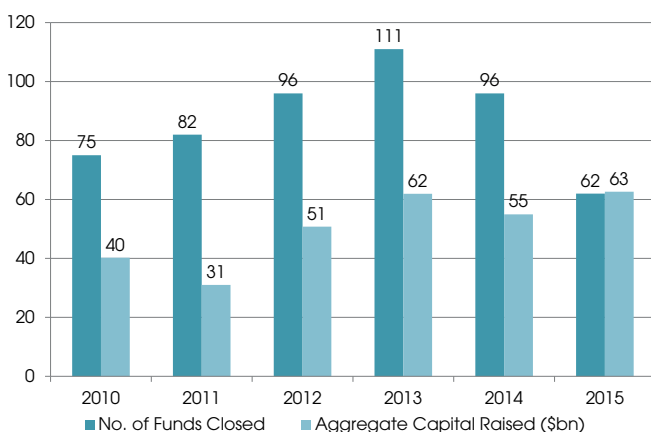
- **Fundraising by Strategy:** Away from energy, nine agriculture funds raised \$3.9bn in 2015, with a further 38 funds currently on the road targeting \$7.7bn. Timberland and mining saw a combined 5 funds close, raising a total of \$1.9bn.
- **Regional Fundraising:** North America-focused funds raised \$45bn in 2015, while Europe-focused funds raised \$9.1bn. Four of the top five funds closed this year were focused on North America.
- **Fundraising Success:** Natural resources funds closed in 2015 raised an average of 113% of their target size. This is the third consecutive year in which funds have raised more than 100% of their target size on average.

“The natural resources fundraising market has grown substantially over the past few years, reaching record levels in 2015. Energy-focused funds remain the driving force behind the increased activity, securing more investor capital than ever before despite falling commodity and oil prices.

Aside from energy, other natural resources strategies are increasingly turning to emerging markets in search of investment opportunities, particularly in the agriculture sector. With more agriculture funds closed in 2015 focusing on emerging markets than on North America, the challenge for fund managers going forward will be deploying this capital into good value opportunities.”

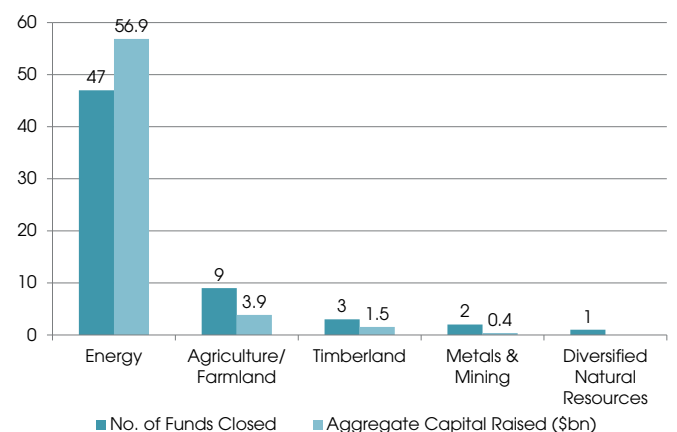
**Tom Carr, Head of Natural Resources Products**

**Fig. 1: Annual Natural Resources Fundraising, 2010 - 2015**



Source: Preqin Natural Resources Online

**Fig. 2: Natural Resources Fundraising in 2015 by Primary Strategy**



Source: Preqin Natural Resources Online

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