

Private Capital Fund Managers Raise Fee Rates in 2017

Recent vintage funds see average management fees climb, reversing recent trends

The 2017 *Preqin Private Capital Fund Terms Advisor* finds that several private capital fund types are raising their average management fees among funds of more recent vintages. Unlisted infrastructure funds have seen mean management fees rise marginally from lows of 1.38% for 2014 vintage funds to 1.48% for 2017 vintage funds and vehicles in market. Similarly, private equity buyout funds have seen their mean fees rise from 1.85% for 2015 vintage funds to 1.94% for 2017 vintage and raising funds. Across the same period, closed-end private real estate funds have seen average fees go from 1.41% to 1.57%, and 2017 vintage real estate funds are charging the highest average fees tracked by Preqin in a decade.

For more analysis, see the sample pages of the 2017 *Preqin Private Capital Fund Terms Advisor* here:
<https://www.preqin.com/docs/reports/The-2017-Preqin-Private-Capital-Fund-Terms-Advisor-Sample-Pages.pdf>

Key Private Capital Fund Terms Facts:

- **Private equity buyout, funds of funds, real estate, infrastructure and distressed debt funds have all seen rising mean management fees in more recent vintage years.**
- Small buyout funds of less than \$500mn have seen their average management fees fall in 2017 vintage vehicles, but **funds larger than \$500mn are charging higher average fees than in previous years.**
- By contrast, mean management fees for growth, venture capital and natural resources funds have continued to fall, following recent trends across the industry.
- **Carried interest rates have remained mostly level** over the past 12 months. 82% of private capital funds charge a 20% performance fee, while 6% charge a higher rate and 12% charge a lower one.
- **Hurdle rates have lowered compared to 12 months ago.** The proportion of funds with a hurdle higher than 8% fell from 22% of recent funds as of June 2016 to 18% a year later. The proportion using a hurdle lower than 8% remained static at 30% of recent funds.
- As of June 2017, the total level of capital being held by fund managers as **dry powder stood at a record \$1.57tn**, an increase of \$156bn from the end of 2016.

Selina Sy, Editor – *The 2017 Preqin Private Capital Fund Terms Advisor*

“The private capital industry is enjoying a period of almost unprecedented fundraising, as record distributions and often ambitious allocation plans spur investors to commit ever-increasing amounts of capital to private capital funds. This is particularly true of larger fund managers with proven track records: some of these firms are able to raise record-breaking funds in the space of a few months, and many managers are reporting that their latest vehicles are extremely oversubscribed.

In this context, some of the largest and most successful private capital fund managers have seen the balance of power in negotiating favourable fund terms change in their favour over recent quarters, and some seem to have raised the management fees on their recent or forthcoming funds as a result. However, it should also be noted that in the current extremely competitive dealmaking environment, managers may face increased costs surrounding deal origination and due diligence. As such, they may feel it necessary to raise the fees charged for managing the funds in order to cover those increased costs.”

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