

Are Hard Caps the New Targets for Private Equity?

More than half of private equity funds in 2015 to 2017 closed on or above their hard caps*

The private equity industry has grown rapidly in recent years, with 2017 setting new records for both fundraising and dry powder. As the market has swelled, fund managers have been matching or even exceeding their target sizes with increasing frequency, with just 20% of funds failing to reach their target in 2017. In fact, growing proportions of private equity funds are reaching or surpassing their stated hard caps, with over half (56%) of funds closed in 2015-17 meeting or exceeding their maximum fund size. This trend is most evident in North America-focused vehicles and buyout funds, which have each seen one in five vehicles closed since 2007 exceed their hard caps. It also seems to be more prevalent in vehicles which targeted \$500mn or more, which have exceeded their maximum sizes at a far greater rate than their smaller peers, despite having a larger average buffer between target and hard cap.

For more information and analysis, see the full private equity hard caps factsheet here:
<http://docs.preqin.com/reports/Preqin-Private-Equity-Hard-Caps-January-2018.pdf>

Key Private Equity Hard Cap Facts:

- In 2017, **921 private equity funds held a final close, raising a record \$453bn in capital**. As at December 2017, there is also a record amount of \$1.00tn in dry powder.
- **Of the funds closed in 2017, just 20% failed to reach their target** – a record low proportion of funds failing to reach their target in the last seven years.
- Less than a third of private equity funds in 2007-2010 reached or exceeded their hard caps, but **in 2015-2017 more than half (56%) of vehicles hit or surpassed their maximum size**.
- **One in five North America-focused funds closed since 2007 raised more than their hard cap**, while 14% of Europe-focused funds did the same. Proportions in Asia and Rest of World were significantly lower.
- By fund type, **one in five buyout funds closed on more than their hard cap in the last ten years**.
- **Venture capital and growth funds, however, saw similar trends**, with 11% of venture capital funds since 2007 closing above their hard cap, and 10% of growth funds doing the same.
- The largest **funds with target sizes of \$500mn or more are the most likely to exceed their hard cap**, with a quarter of vehicles of this size doing so in the period 2007-2017.

Christopher Elvin, Head of Private Equity Products:

“The private equity industry saw a banner year in 2017, as both dry powder and fundraising records were broken. A record proportion of private equity funds are surpassing their fundraising targets, while the proportion of those that fail to reach their targets is falling. As private equity funds are achieving greater fundraising success, fund managers are surpassing their fund targets more and more often, increasingly raising capital up to or past their hard cap levels. The trend of fund managers raising to their hard cap is most evident with the largest funds of half a billion dollars or more, and seems to be focused on the most established sectors of the market: North America-focused vehicles and buyout funds.

Despite smaller funds having slimmer margins between their targets and hard caps, the largest funds are more often exceeding their hard caps, going over the stated maximum size for their vehicles. Given that the current environment sees most successor vehicles target significantly more capital than their predecessors secured, that they still breach their limits is a marker of how much capital is flowing into the industry. Investors may have concerns on this front, though, over the rate of deployment of capital, as well as concerns over the fund drifting away from its original strategy.”

***Hard cap refers to the maximum fund size as stated by the fund manager in a limited partnership agreement.**

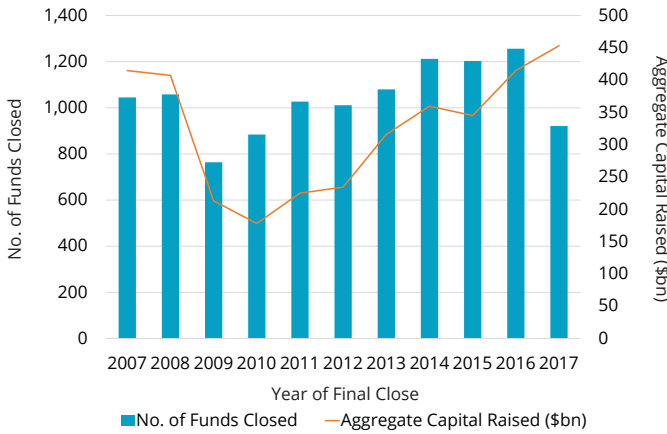
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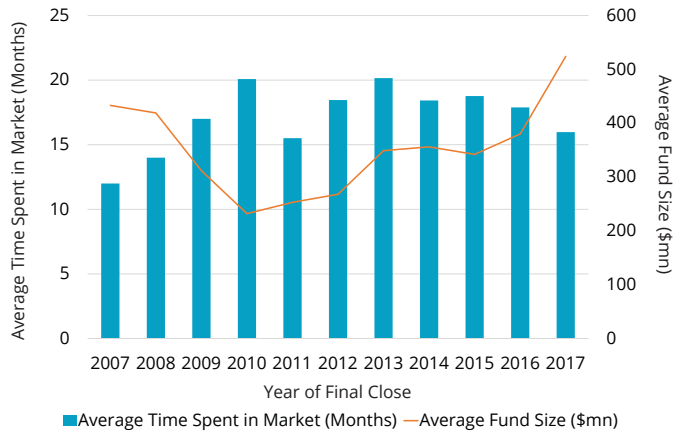
PRIVATE EQUITY FUNDRAISING SUCCESS

Fig. 1: Global Annual Private Equity Fundraising, 2007 - 2017



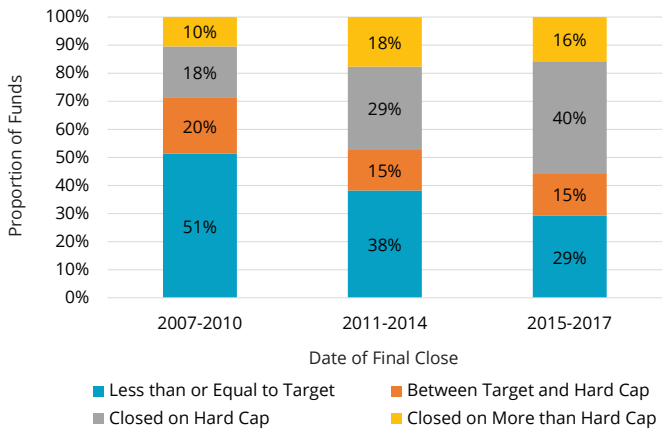
Source: Preqin Private Equity Online

Fig. 2: Average Time Spent in Market and Average Size of Private Equity Funds Closed, 2007 - 2017



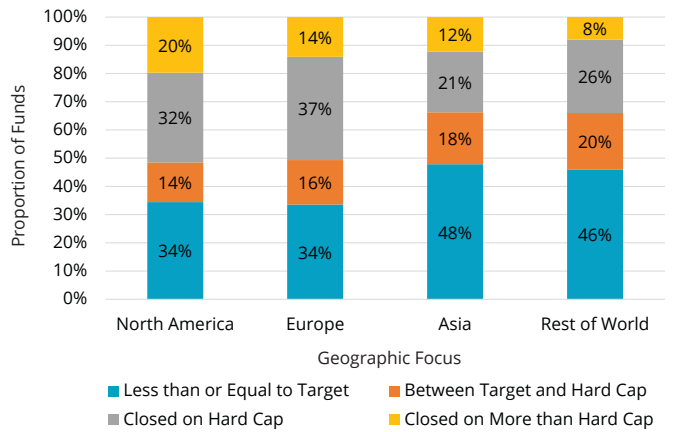
Source: Preqin Private Equity Online

Fig. 3: Private Equity Fundraising Success by Year of Final Close, 2007 - 2017



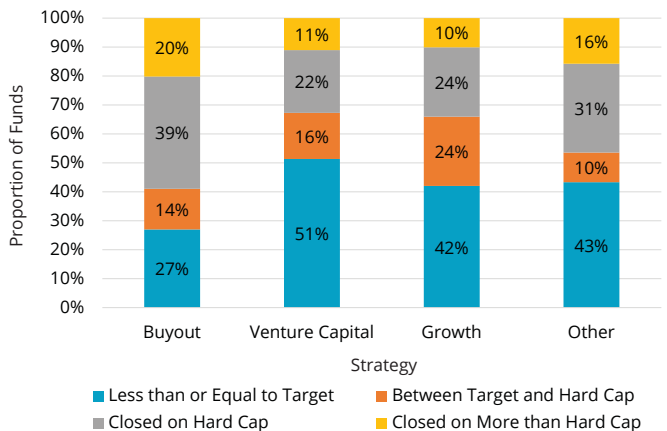
Source: Preqin Private Equity Online

Fig. 4: Private Equity Fundraising Success by Geographic Focus, 2007 - 2017



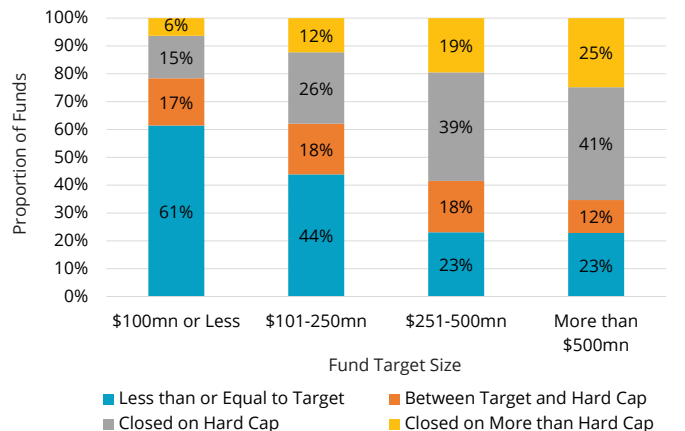
Source: Preqin Private Equity Online

Fig. 5: Private Equity Fundraising Success by Strategy, 2007 - 2017



Source: Preqin Private Equity Online

Fig. 6: Private Equity Fundraising Success by Fund Target Size, 2007 - 2017



Source: Preqin Private Equity Online