

Private Equity Zombie Fund Numbers Grow

The number of private equity zombie funds in investor portfolios rises to 1,180, up from 1,049 as of July 2014

The latest research from Prequin indicates that an estimated 1,180 zombie funds are being held in institutional investors' portfolios. This is an increase from the 1,049 estimated by Prequin as of a year ago, and a further increase from the 999 in existence as of July 2013. The value of unrealized assets being held by zombie funds has also risen, from \$80.9bn in 2013 to \$126.6bn in 2015. Both the increase in number and value of assets can partly be attributed to the inclusion of 2008 vintage funds, which would have invested a lot of their capital just before the financial crisis.

A zombie fund is one that still holds some or all of its assets beyond its intended holding period, usually as it is struggling to sell investments for a profit. The manager of a zombie fund will still receive a management fee on the assets held, creating a misalignment of interests with investors. Prequin uses the following methodology to estimate the number of zombie funds; currently, a zombie fund is defined as any fund with a 2003–2008 vintage, managed by an active firm which has not had any successful fundraising for a follow-up fund since 2008. Funds prior to this are assumed to have been liquidated, although we acknowledge zombie funds may exist with vintages older than 2003.

Other Key Zombie Fund Information:

- **Current Distribution of Assets:** 2008 vintage zombie funds hold the most unrealized investments, with \$42.2bn of assets yet to be exited. Zombie funds with **vintages 2006-2008 have over \$100bn of unrealized assets** between them.
- **Performance:** Zombie funds typically underperform the market as a whole, as they struggle to sell investments for a profit. In particular, 2004 vintage zombie funds have a **median distribution to paid-in value of 37.4%**, compared to 94.4% for private equity funds of that vintage overall. The lowest median distribution is for 2007 vintage zombie funds, with only 21.6% to date.
- **Fund Types:** **Venture capital funds account for over half (54%)** of all zombie funds. This compares to 21% of zombie funds which are buyout vehicles and 10% which are growth funds.
- **Geographic Focus:** Funds focused on **North America account for 45% of zombie funds**, while Europe-focused funds account for 29%.
- **Unrealized Investments:** Zombie funds have an estimated 2,821 portfolio companies that remained unrealized in their portfolios. These are made up of approximately 3,659 investments, and of those, 2,920 are venture capital investments, while 739 of them were buyout investments. **2008 has the most unrealized zombie fund investments**, with a total of 933.

For more information and analysis, please see the full report via the link below:
<https://www.prequin.com/docs/reports/Prequin-Private-Equity-Zombie-Funds-July-15.pdf>

Comment:

“Prequin has witnessed an increase in the number of zombie funds within the private equity industry over recent years. Our latest analysis now includes funds with a 2008 vintage, for which many would have been making investments at the peak before the financial crisis hit. As such, these funds are likely to have found it difficult to realize assets for a profit, resulting in an estimated 250 funds becoming zombies.

Zombie funds are a point of contention within the private equity market. If they are struggling to sell the assets in their portfolio for a profit, firms can sometimes find themselves extending the life-cycle of a fund far beyond what they originally intended. As they continue to take management fees on the assets they hold, managers can come under increased pressure from investors to liquidate the fund.”

Christopher Elvin – Head of Private Equity Products, Prequin

About Preqin:

Preqin is the leading source of information for the alternative assets industry, providing data and analysis via online databases, publications and bespoke data requests.

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q'.

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