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Private Capital Fundraising Sees Fewer Funds Close in Q3 2016

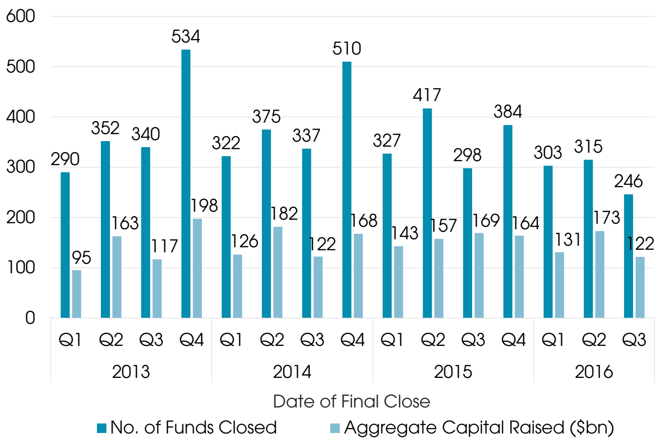
The private capital industry has seen fundraising falter again in the third quarter of the year. After an underwhelming first quarter, the industry seemed to regain some momentum in Q2, with 315 funds closing worldwide, raising an aggregate $173bn in investor commitments. **However, that momentum does not seem to have been maintained in Q3, as 246 private capital funds raised a combined $122bn**. Given that Preqin expects these figures to rise by 10-15% as more information becomes available, this is comparable to the $131bn raised by funds closed in Q1, and represents the lowest number of funds closed in more than four years.

Overall, then, the first three quarters of the year have seen 864 private capital funds raise a combined $425bn in investor commitments. This is the first time since 2013 that fewer than 1,000 funds have closed in the first three quarters of the year, and represents a 9% decline on the aggregate capital raised compared to Q1-Q3 2015.

Q4 Fundraising Market

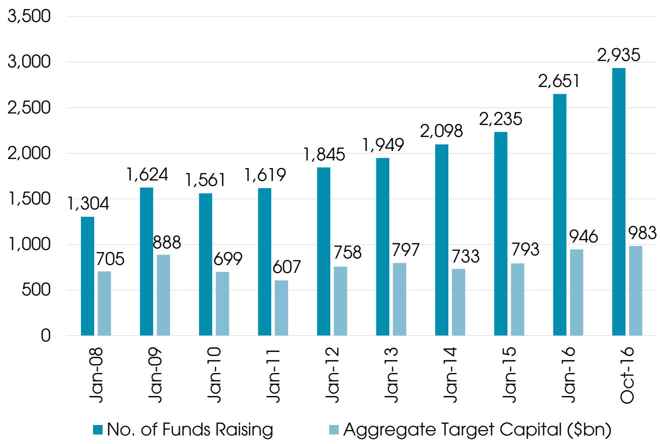
However, new private capital funds have continued to come to market, and **globally, there are now 2,935 funds seeking a total of $983bn from investors**. This is significantly up from July, when Preqin recorded 2,798 funds seeking an aggregate $938bn, and represents continued growth in the size of the private capital fundraising market. Given this, it is perhaps unsurprising that **fund managers across the industry think fundraising is one of the key challenges for the 12 months ahead**, and Preqin's most recent survey of alternative assets investors indicated that they found sourcing attractive investment opportunities increasingly challenging.

Fig. 1: Global Quarterly Private Capital Fundraising, Q1 2013 - Q3 2016



Source: Preqin Online Products

Fig. 2: Private Capital Funds in Market by Fund Type (As at 3 October 2016)



Source: Preqin Online Products

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Please note, all data is correct as at 3 October 2016; figures are subject to upward revisions as further information becomes available.

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Private Equity Fundraising Slows in Q3 2016

After aggregate fundraising reached $111bn in Q2 2016, the total capital raised by private equity funds was significantly lower in the third quarter, with 170 vehicles securing an aggregate $62bn in investor commitments. This is typical of the fundraising cycle over recent years: the second and fourth quarters have seen the highest quarterly fundraising totals in four of the past five years. Preqin expects Q3 totals to rise by 10-15% as more information becomes available, probably surpassing Q3 2015 (180), although it looks unlikely to match the $80bn raised by 201 funds in Q1 2016.

North America-focused fundraising also failed to match Q2 levels, when 104 private equity funds raised $61bn: in Q3, 104 funds secured a combined $36bn in investor commitments. Meanwhile, 30 Europe-focused private equity funds closed in Q3, raising an aggregate $15bn. This is significantly down from the $36bn raised by funds closed in Q2, but on par with previous quarters. Elsewhere, 22 Asia-focused funds raised a total of $8.5bn, while 14 funds focused on the rest of the world secured $2.7bn.

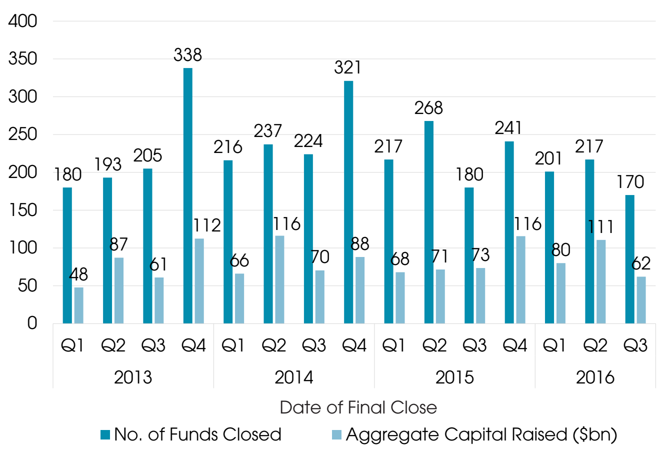
- **Dry Powder:** As of the end of September, private equity fund managers hold a record $857bn in dry powder. This represents an increase of over $100bn from the end of 2015, and a 5% increase from the $818bn recorded at the end of Q2.
- **Venture Capital:** Fifty-six North America-focused venture capital funds raised a combined $9bn in Q3 2016, while six Asia-focused funds raised $2bn. Seven Europe-focused venture capital funds closed in the quarter, raising $0.7bn.
- **Largest Funds:** The largest private equity fund to hold a final close in the third quarter was Thoma Bravo Fund XII, which closed in September on $7.6bn. Only 10 private equity funds closed in Q3 on $1bn or more.

"The private equity fundraising market has been very active over recent quarters. Q1 2016 saw the highest Q1 fundraising total in over five years, bracketed by near-record amounts of capital secured by funds closed in the quarters before and after. Q3 2016 fundraising has fallen from these levels, although in the wider context fundraising remains on par with what we have seen in previous years.

This decrease in fundraising activity seems to be spread across all regions; although the number of North America-focused funds closed is similar to Q2, the total capital raised by those funds is lower, while Europe-focused aggregate capital raised has more than halved. As dry powder in the industry gets ever closer to $1tn, we may see fundraising stay lower as investors wait for fund managers to start putting capital to work."

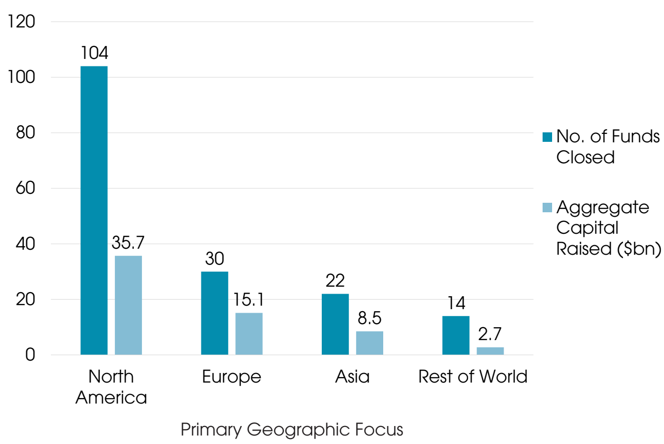
Christopher Elvin, Head of Private Equity Products

Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2013 - Q3 2016



Source: Preqin Private Equity Online

Fig. 2: Private Equity Fundraising in Q3 2016 by Primary Geographic Focus



Source: Preqin Private Equity Online

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Private Debt's 2016 Fundraising Struggles Persist in Q3

Q3 marked a further slowdown in private debt fundraising: 22 funds reached a final close, securing $9.6bn in investor capital, with Preqin expecting these figures to rise by 10-15% as more information becomes available. This is notably lower than the $20bn raised in Q2, and marks the second quarter in 2016 where fundraising has been substantially down on quarterly levels raised since 2013. North America-focused private debt funds accounted for the majority of activity in Q3: 13 funds raised $7.7bn, representing 59% of funds closed and 80% of aggregate capital raised globally through the quarter.

In addition to the slowdown in private debt fundraising, vehicles are taking longer to reach a final close. In 2016 so far, funds have spent an average of 20 months on the road, four months longer than in 2015 and two months longer than the previous high of 18 months seen in 2011 and 2012. Although funds may spend longer marketing themselves, there has been a significant uptick in the proportion that exceeded their target size: nearly two-thirds (64%) of funds have raised more than their stated aim so far in 2016, compared with 45% in 2015.

- **Fundraising by Type:** Direct lending fundraising declined significantly from $9.0bn in Q2 to $1.0bn in Q3; distressed debt and mezzanine funds both had a relatively strong quarter, securing $4.2bn and $3.9bn in capital commitments respectively.

- **Funds in Market:** At the start of Q4, there are 306 private debt funds currently seeking a combined $147bn in investor commitments. The largest fund, Oaktree Capital Management, is targeting $7bn for distressed investments and has held a third close.

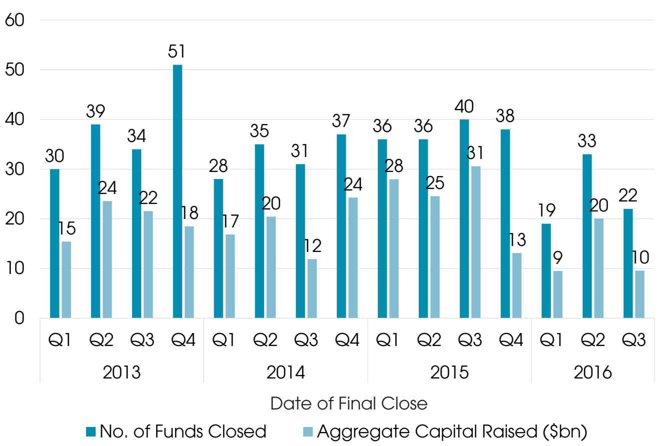
- **Dry Powder:** Private debt dry powder is on the cusp of surpassing the $200bn mark for the first time ever; as at the end of September, fund managers held $199bn of investible capital, an increase of $9bn from the end of 2015.

"The private debt industry entered 2016 riding a swell of investor enthusiasm and expecting further expansion. Following a disappointing opening quarter, Q2 seemed to offer hope that fundraising was recovering; however, Q3 saw sluggish activity return, with lower levels of fund closures and less capital raised. Europe-focused funds, in particular, are failing to capitalize on expected investor enthusiasm as of yet.

Nonetheless, as noted at the end of Q2, the fundraising landscape remains intensely competitive, which may impact the general length of the fundraising process for many managers. Even among the largest funds in market, many of which have already held interim closes, there is no guarantee that they will end their fundraising process this year. Private debt funds as a whole are having to stay in market for longer periods."

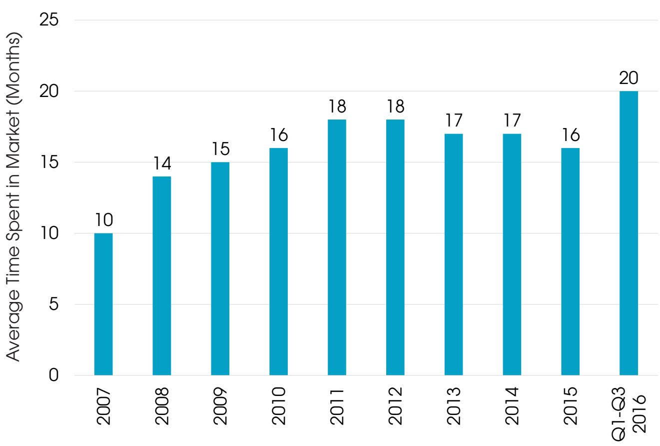
Ryan Flanders, Head of Private Debt Products

Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2013 - Q3 2016



Source: Preqin Private Debt Online

Fig. 2: Average Time Spent in Market for Private Debt Funds, 2007 - Q1-Q3 2016



Source: Preqin Private Debt Online

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Real Estate Fundraising Dips in Q3 but Debt Strategies Prosper

Private real estate fundraising declined slightly in Q3 with 32 vehicles securing $19bn in investor capital, although Preqin expects these figures to rise by 10-15% as more information becomes available. Capital continued to be increasingly concentrated among fewer firms: Q3 followed Q2 in marking the lowest number of funds to reach a final close since 2003. North America-focused funds again dominated the market, raising 81% of funds closed and securing 85% of global investor commitments.

Debt strategies attracted the highest level of capital through Q3 with four funds securing $5.5bn; these include the largest fund closed in the quarter, Blackstone Real Estate Debt Strategies III, which raised $4.5bn. Three core funds raised $3.5bn through Q3, their highest quarterly fundraising total since Q1 2015, while value added strategies secured $3.7bn with 13 funds closing. Opportunistic funds saw their lowest quarterly fundraising total since Q3 2011, securing $3.2bn in investor commitments, although the strategy did raise $18bn in Q2.

- **Europe-Focused Funds:** Following a period of consistently strong Europe-focused real estate fundraising, only four Europe-focused real estate funds reached a final close in Q3, raising $2.4bn, marking a sharp decline from Q2 when nine vehicles secured $9.6bn.

- **Funds in Market:** There are currently 513 private real estate funds in market, targeting $182bn in investor capital, both up from the beginning of the year. The largest fund, Blackstone Real Estate Partners Europe V, is targeting €7bn.

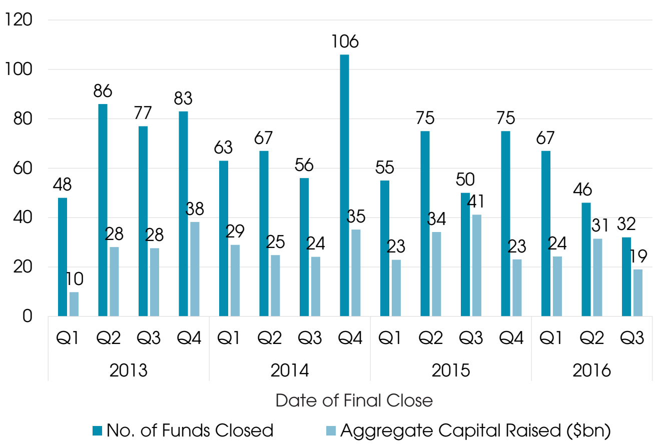
- **Dry Powder:** The level of dry powder held by private equity real estate firms has surged of late. Dry powder stands at $230bn as at October 2016, up from $210bn at the end of 2015 and from $156bn four years ago.

"Q3 was another quarter in which few funds reached a final close, with capital concentrated among a small number of managers. The $19bn raised is not far off recent quarters, and while fundraising this year has not quite reached the levels seen in 2015, there remains a great deal of institutional appetite for real estate. Moreover, the fundraising marketplace remains healthy; half of the 10 largest funds on the road have already held interim closes.

There was a sharp decline in Europe-focused fundraising, although it remains to be seen if this is a blip following recent growth or if the Brexit vote in the UK is deterring investment in Europe. Funds running debt strategies attracted the highest level of investor capital, with investors viewing alternative lending funds as an attractive opportunity in the current market."

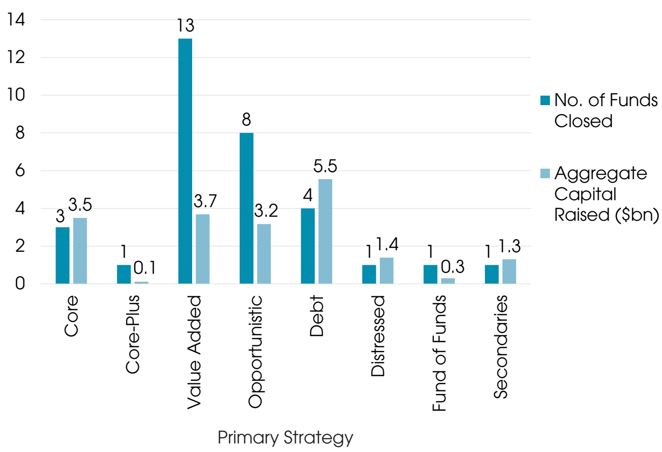
Andrew Moylan, Head of Real Estate Products

Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2013 - Q3 2016



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising in Q3 2016 by Primary Strategy



Source: Preqin Real Estate Online

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Largest Ever Unlisted Infrastructure Fund Closure Drives Record Quarter

Seventeen unlisted infrastructure funds closed in Q3 2016, securing a combined $23bn in investor capital, approaching the highest ever quarterly fundraising total of $24bn seen in Q4 2013. Preqin expects these figures to rise a further 5-10% as new information becomes available. Brookfield Infrastructure Fund III raised $14bn in capital commitments, making it by far the largest ever infrastructure fund to reach a final close, and drove year-to-date fundraising beyond the full-year 2015 total ($45bn).

With robust levels of capital committed to a small number of mega infrastructure funds this year, it is little surprise that the level of capital targeted by funds still in market has decreased from $120bn at the start of the year to $116bn at the start of Q4. The growth in the number of vehicles from 179 to 196 over the same period, however, is indicative of the strong appetite for infrastructure at present. Moreover, Global Infrastructure Partners III, with a target of $12.5bn, has already reached a second close; when it reaches a final close, it will provide a further boost to fundraising figures.

- **Fundraising Success:** The proportion of funds failing to raise their target size has declined in 2016 YTD; just 29% of funds did not reach their objective, compared to 47% in 2015 and 51% in 2014. Moreover, 57% funds have exceeded their target so far in 2016.

- **Dry Powder:** Recent strong fundraising has resulted in a surge in the level of capital available to be deployed by fund managers. Dry powder stood at $106bn at the end of both 2014 and 2015, but has increased by 39% to reach $147bn as at the end of September.

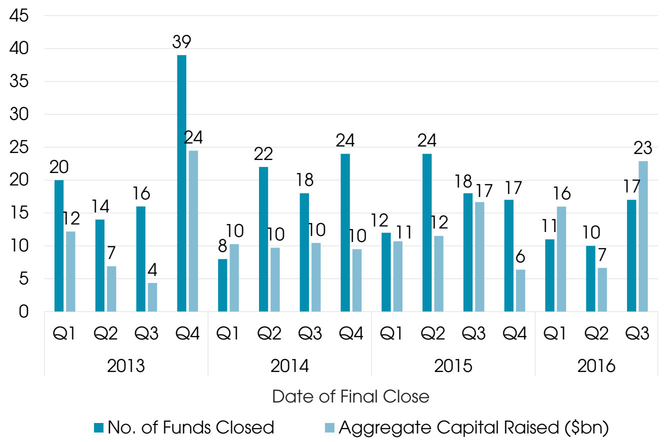
- **Fund Size:** Due to the proliferation of mega funds closing in 2016 YTD, it is little surprise that the average fund size this year ($1,422mn) is more than double that of 2015 ($686mn), and well above the previous high ($1,012mn) recorded in 2007.

"The closure of Brookfield Infrastructure Fund III was undoubtedly the major story of Q3, marking the increasing concentration of investor capital among a smaller number of experienced fund managers. The fund was more than $5bn larger than any other fund closed, although Global Infrastructure Partners III is expected to near this total upon closure.

The fundraising story for 2016 YTD looks healthy; investors are satisfied with the industry as a whole and with the performance of their funds, leading to increased levels of capital being committed. 2016 has already surpassed the aggregate capital secured in 2015 and looks certain to become a record-high year for unlisted infrastructure fundraising, with the industry rapidly expanding following a period of relative stasis between 2011 and 2015."

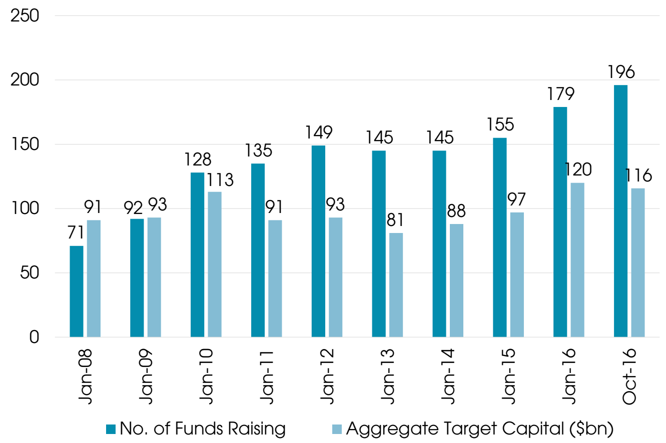
Tom Carr, Head of Real Assets Products

Fig. 1: Global Quarterly Unlisted Infrastructure Fundraising, Q1 2013 - Q3 2016



Source: Preqin Infrastructure Online

Fig. 2: Unlisted Infrastructure Funds in Market over Time, January 2008 - October 2016



Source: Preqin Infrastructure Online

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Unlisted Natural Resources Fundraising Rises in Q3 2016

Fifteen unlisted natural resources funds reached a final close in the third quarter of 2016, securing a combined $25bn in investor commitments. This represents a marked uptick from the $12bn and $6.1bn raised by funds closed in Q1 and Q2 respectively, and approaches the record quarterly fundraising total of $26bn seen in Q3 2015. Fundraising in the quarter was dominated by Brookfield Infrastructure Fund III, which closed on $14bn in July. Although the fund is not focused purely on natural resources, it is expected to commit significant amounts of capital to energy-related investments.

Aside from this fund, however, fundraising in Q3 remained similar to the levels seen the previous quarter. Without it, five North America-focused funds raised an aggregate $7.7bn, while four Europe-focused funds raised just $2.2bn. A single Asia-focused fund raised $0.2bn, while three funds focused on the rest of the world secured $0.8bn. This is some way off the record rate of fundraising seen in 2015; natural resources funds have raised a combined $44bn in 2016 YTD, compared with $64bn in the first three quarters of 2015.

- **Fundraising by Strategy**: Fundraising through the quarter was again dominated by energy-focused funds, with 12 funds raising a combined $24bn. Two agriculture-focused funds secured $0.7bn, while no metals & mining-, timber- or water-focused funds closed.

- **Time on the Road:** Natural resources funds are tending to spend longer fundraising before holding a final close. Funds closed so far in 2016 spent an average of 22 months in market, compared with 16 months for funds closed in 2011.

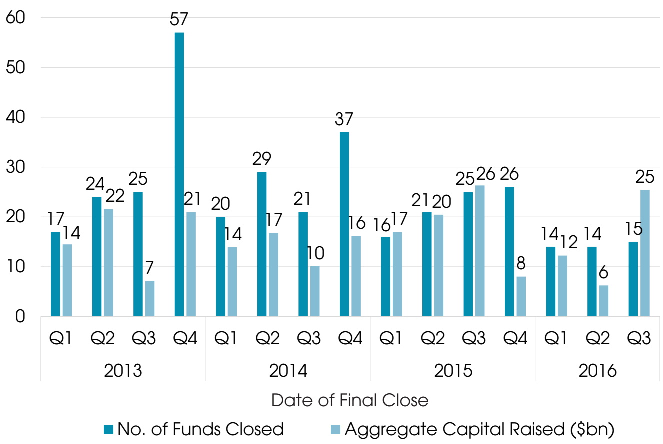
- **Funds in Market:** There are currently 264 natural resources funds seeking a total of $121bn in capital from investors. The largest of these is Global Infrastructure Partners III, which has a target size of $12.5bn, and is expected to allocate some capital to energy assets.

"Natural resources fundraising in 2016 has been a long way from the record activity seen in 2015. Although Q3 marked the highest quarterly fundraising total in the past year, this figure is dominated almost entirely by a single fund which, although it is not a pure natural resources fund, is expected to commit a significant amount of capital to energy projects. It is possible that funds of this size are making it difficult for managers to secure commitments.

Despite energy-focused funds having always been the largest part of the industry, it is still of note that there has been such little activity in other sectors. A protracted period of losses and uncertainty for the mining industry at large has seen interest withdraw, and although agriculture is the second largest sector in the industry, very few funds focused on such investments are currently being raised."

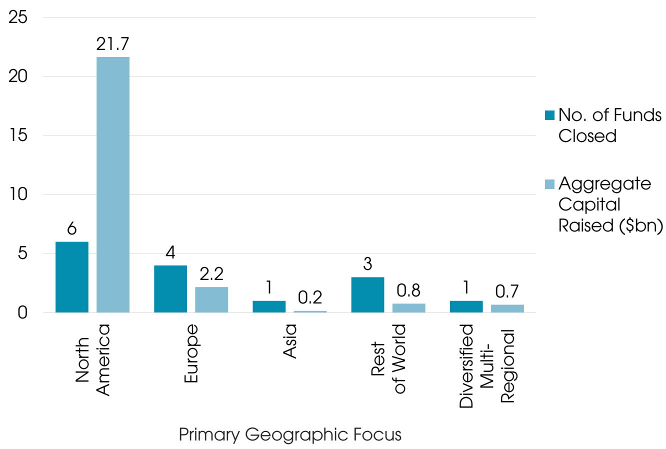
Tom Carr, Head of Real Assets Products

Fig. 1: Global Quarterly Unlisted Natural Resources Fundraising, Q1 2013 - Q3 2016



Source: Preqin Natural Resources Online

Fig. 2: Unlisted Natural Resources Fundraising in Q3 2016 by Primary Geographic Focus



Source: Preqin Natural Resources Online