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**DATA PACK FOR 2019 PREQIN GLOBAL PRIVATE EQUITY & VENTURE CAPITAL REPORT**

The data behind all of the charts and infographics featured in this report, plus additional datasets for each of the chapters in the book, is available to purchase in Excel format. Ready-made charts and graphs are also available, and can be used in marketing materials, presentations or company reports.

To purchase the data pack, please contact your Preqin representative or download an order form here:

[www.preqin.com/gper](http://www.preqin.com/gper)
Throughout 2018, the private equity & venture capital industry saw robust fundraising in aggregate terms, which is positive news for markets supported by investments from private equity. Investor demand remained strong as healthy capital distributions to investors continued to fuel activity. Despite the prevailing market uncertainty and widespread concerns around portfolio company valuations, many industry participants are expecting further growth in assets under management (AUM) in 2019.

**Fundraising Strong But Challenging**

- Total capital secured in 2018 was down 24% from the record $566bn raised in 2017, but in line with levels seen in previous years.
- 75% of surveyed fund managers experienced an increase in investor appetite over 2018.

**Capital Remains Concentrated**

- 24% of total capital raised in 2018 was secured by the 10 largest funds closed, level with 2017.
- 76% of surveyed fund managers experienced more competition for investor capital in 2018 than in 2017.

**Industry Growth Continues**

- Total industry assets as at June 2018 (the latest available data) were $3.41tn.
- 82% of surveyed fund managers predict that AUM will increase further over 2019.

**Cash Flow Falls Despite High Distributions**

- Cash flow to investors turned negative in 2017 as capital calls of $500bn outstripped distributions of $495bn for the first time since 2010.
- $262bn of distributions in H1 suggests 2018 could be on course to surpass the record $517bn distributed in 2016.

**Deal Flow Hits New Highs**

- 5,106 buyout deals – a record number – and 14,889 venture capital deals were completed in 2018.
- $274bn Aggregate venture capital deal value in 2018 – a record high.

**Asset Valuations Are Key Concern**

- 68% and 63% of surveyed investors and fund managers respectively feel asset valuations will be a key challenge for returns in 2019.
- 39% and 44% of surveyed investors and fund managers respectively expect a market correction in the coming year.
What has made investing in private equity so attractive in the past 10-20 years?

First and foremost, the ability of private equity to outperform the public market over the past two decades. In my eyes, no other asset class has been able to outperform the public stock and bond markets so consistently over such a significant period of time.

More specifically, a key driver of investment in the industry over the past 10 years was the performance of the asset class over the course of the Global Financial Crisis (GFC). When the crisis hit, we saw many investors looking to liquidate their public holdings, but because of the structure of the private model, many LPs remained invested in private vehicles. And actually, when you look at private equity funds of vintages 2006-2008, they outperformed the public market and ended up delivering distributions to their investors.

Being able to return capital to investors after such a tough environment demonstrated the value that a private equity allocation can provide, and as such, drove investors to the market.

As the private equity environment improved post-GFC, more capital was distributed back to LPs and, in turn, we saw these distributions fuel growth as institutions sought to re-invest this capital in private equity, the market that had delivered such strong returns for them previously.

This outperformance and return generation led to a consistent flow of new investors entering the asset class as well as investors already active in private equity increasing their allocations.

With so many investors in today’s market holding an allocation to private equity, what makes for a successful private equity portfolio?

There are several key factors to consider when creating or shaping a private equity allocation.

We are seeing more and more investors allocating in each of the three main regions: North America, Europe and Developed Asia-Pacific. Diversifying geographically allows investors to hedge against potentially uncertain economic environments; however, this is not without challenges: entering a new region requires understanding the market as well as operating in close proximity to its GPs.

Another factor to consider is allocating to a blend of strategies. We see a lot of investors active in buyout, venture capital and distressed debt, as well as some infrastructure assets within their private equity allocation. A mixture of risk/return profiles and asset diversification further de-risks portfolios.

Finally, many investors allocate through a range of vehicles such as co-investments and separate accounts. Accessing the industry through these vehicles allows for varying levels of exposure to the industry and more custom solutions to complement the holdings of a portfolio.

Once invested in private equity, how do you successfully monitor and evaluate your portfolio?

How investors monitor their portfolio is perhaps one of the areas of private equity that has changed the most over the past 10 years. The advancement of technology and increasing amount of information available to institutions has led them to create more rigorous processes and evaluation techniques.

Successfully benchmarking and evaluating a portfolio centres around managing the flow of information, and in turn processing that information into analysis.
Institutions receive data from their GPs on fund performance and the performance of underlying assets; they use public market data to evaluate their performance against stock and bond markets; LPs now have access to more data on private markets and can obtain Public Market Equivalent benchmarks for the private equity industry. Efficiently managing the wealth of data now available to investors is crucial to monitoring a portfolio and thereby the success of the investment strategy.

And what metrics or analysis are investors now creating from this data?
Information on cash flows is the first metric on the mind of investors. Monitoring calls and distributions and implementing forecasting models allows for investors to gain a better perspective on the current and potential future performance of their portfolio.

Risk measurement has also been an area of focus for investors for some time now. Implementing tools to derive risk metrics comparable with public assets allows for a greater understanding of the positioning of the portfolio.

Performance benchmarking is of course another key piece of analysis for investors. More LPs are creating historical benchmarks and implementing processes to allow data to transition more quickly from GP submission to evaluation.

How does implementing these processes benefit investment decision-making?
Creating processes and using software that streamlines and automates data analysis allows for several improvements, to name a few:

- Decisions can be made faster and with greater clarity.
- The risk of data error is reduced.
- Employees work from a centralized data source, increasing consistency across analysis and removing the need for creating metrics in Excel.
- The minds and time of investment professionals are freed up.

Alongside the benefits to investment decision-making, these processes also allow for greater transparency across LPs, especially important for investors with complex capital structures; a more in-depth understanding of an investor’s GP relationships and the underlying assets they have exposure to; and clearer audit trails across the institution.

What will make for successful private equity investing in 2019? How do you see the processes we have discussed playing a part?
A lot of people in private equity are talking about cycles and the potential for a change in cycle phase. In times of a changing environment it is more important than ever to stay close and up to date on the market and your portfolio. An investor that focuses resources on technology and systems now will be better placed to react and make decisions for their portfolio in the future.

How do you see the private equity market developing over 2019?
First and foremost, we expect the performance of the private equity industry to remain strong, not only in terms of absolute returns but also as a diversifier to the public market. Private equity has previously shown its ability to outperform the public market in times of downturn, and we are confident that the asset class will remain strong in the event of a cyclical change.

If the market does enter a downturn then the secondary market will likely see more activity as investors look to rebalance their portfolio and potentially discounted shares become available. Being able to rapidly evaluate the changing dynamics within your portfolio will be of critical importance to successfully operating a private equity portfolio in this environment.

ABOUT ASSETMETRIX

AssetMetrix is Europe’s leading next-generation asset servicer. We offer modular outsourcing solutions for private capital investors: front-, middle- and back-office solutions for Limited Partners and General Partners. Our services enable private capital investors to free up their own resources for making investment decisions, benefit from our secure IT system and state-of-the-art analytics, and increase in-house transparency for optimal decision-making.

www.asset-metrix.com
STRONG ACTIVITY IN CHALLENGING CONDITIONS

Robust fundraising in aggregate terms is positive news for some private equity fund managers – especially for the largest and most established – but not all can expect to get a share of the pie in 2019. There are more funds on the road and an unprecedented level of capital concentration among the biggest managers, which is creating a challenging fundraising market for all but the most sought-after managers and brand-name firms. This dynamic is set to continue in 2019 and may well test the sustainability of traditional closed-end private equity fundraising.

As shown on page 31, net cash flow to LPs turned positive in 2011. As cash-rich investors sought re-investment, fundraising activity in the private equity market continually reached record levels. Although aggregate fundraising in 2018 failed to match the record level we saw in 2017, the still sizeable total of $432bn is around average for the trailing five-year period, cementing what has become the new normal of $400bn+ annual global fundraising (Fig. 2.1).

FUND SIZES ON THE UP
Buyout funds continue to dominate the market, with 215 funds raising a total of $235bn in 2018 (Fig. 2.2, down 22% from the $300bn secured in 2017). Venture capital funds had another strong year: 605 vehicles achieved a final close, and 2018's total of $79bn is 13% higher than 2017's, making it the only top-level strategy to record a year-on-year increase in capital raised. In both cases, average fund sizes jumped to post-GFC record levels in 2018 by way of the increasing capital concentration in the market: $1.2bn for buyout funds closed and $151mn for venture capital vehicles.

CAPITAL CONCENTRATION INCREASING
When examining the split of fundraising by size of fund, we can see that the majority (52%) of total capital raised in 2018 was committed to the 50 largest funds closed during the year (Fig. 2.5). This follows the increasing capital concentration we have seen in the market in recent years, driving the increase in average fund sizes in 2018.

While LP appetite for the asset class is showing no signs of diminishing, the growing uncertainty surrounding valuations as well as rising expectations of a correction in the market mean investors are looking to recognized brands and established managers now more than ever.

UNCERTAINTY AND THE CYCLE
Many of the private equity investors and fund managers we surveyed in November 2018 believe that the market is at its peak and due for a correction, as cited by 61% and 62% of investors and fund managers respectively (page 75). While strong returns during prior market cycles will help maintain the appeal of the asset class, the uncertainty surrounding the flow of capital through the fund investment cycle could mean investors exercise caution when looking to deploy capital – especially after so many were left overcommitted following the Global Financial Crisis (GFC).

While 2018 recorded $432bn in capital commitments, in line with the activity seen in recent years, the decline in total dollars raised from the peak of 2017 could indicate that market uncertainty is already starting to impact investor activity.

REGIONAL FUNDRAISING SHIFTS
North America-focused vehicles raised the most private equity capital ($240bn) of any region in 2018, followed by funds targeting Europe ($95bn), Asia ($80bn) and Rest of World ($16bn). In terms of market share and in line with fund managers' plans for 2019 (page 76), this represents a slight shift towards developed markets in comparison to the previous year. Asia-focused funds' share (19%) of total capital raised in 2018 was six percentage points lower than in 2017, marking the region's smallest market share since 2013. Funds focused on North America and Europe, however, saw their share of total capital increase by four and two percentage points respectively.

As at the start of 2019, there are significantly more private equity funds in market than two years ago (Fig. 2.11). This can, in part, be attributed to Preqin’s additional research efforts to strengthen our coverage of the Chinese market. As at January 2019, the number of and aggregate capital targeted by North America-focused funds on the road are

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1 Fundraising and AUM figures for Asia-focused funds have increased significantly since the end of 2016. This can partly be attributed to Preqin’s additional research efforts to strengthen our coverage of the Chinese private equity & venture capital market with the opening of our Guangzhou office in October 2017.
INVESTORS

**Fig. 4.1: Proportion of Aggregate Capital Invested in Private Equity by Investor Location, 2014 vs. 2018**

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<thead>
<tr>
<th>Location</th>
<th>2014</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>59%</td>
<td>55%</td>
</tr>
<tr>
<td>Europe</td>
<td>24%</td>
<td>25%</td>
</tr>
<tr>
<td>Asia</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>Rest of World</td>
<td>9%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Preqin Pro

**Fig. 4.2: Institutional Investors in Private Equity: Number and Median Current and Target Allocations (As a % of Total AUM) to Private Equity**

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of Investors</th>
<th>Median Current Allocation</th>
<th>Median Target Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>North America</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>3,874</td>
<td>6.1%</td>
<td>10.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>203</td>
<td>5.7%</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>472</td>
<td>4.1%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Nordic</td>
<td>239</td>
<td>5.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td><strong>Asia</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>430</td>
<td>4.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>South Korea</td>
<td>132</td>
<td>4.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>102</td>
<td>4.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td><strong>Rest of World</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa</td>
<td>184</td>
<td>4.0%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Australia</td>
<td>113</td>
<td>5.0%</td>
<td>2.5%</td>
</tr>
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<td>****</td>
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*Excluding the UK.

Source: Preqin Pro
Fig. 7.4: Views on Portfolio Company/Asset Pricing: Investors vs. Fund Managers

![Bar chart showing views on portfolio company/asset pricing](chart1.png)

Source: Preqin Fund Manager and Investor Surveys, November 2018

Fig. 7.5: Views on Where We Are in the Current Equity Market Cycle: Investors vs. Fund Managers

![Pie chart showing views on current equity market cycle](chart2.png)

Source: Preqin Fund Manager and Investor Surveys, November 2018

Fig. 7.6: Investors’ Expected Capital Commitments to Private Equity & Venture Capital in the Next 12 Months Compared with the Previous 12 Months

![Bar chart showing expected capital commitments](chart3.png)

Source: Preqin Investor Interviews, November 2018

Fig. 7.7: Investors’ Plans to Alter Their Level of Private Investment in Response to the Cycle: Private Equity vs. Venture Capital

![Bar chart showing plans to alter private investment](chart4.png)

Source: Preqin Investor Interviews, November 2018
2019 Prequin Global Real Estate Report

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DATA PACK FOR 2019 PREQIN GLOBAL REAL ESTATE REPORT
The data behind all of the charts and infographics featured in this report, plus additional datasets for each of the chapters in the book, is available to purchase in Excel format. Ready-made charts and graphs are also available, and can be used in marketing materials, presentations or company reports.

To purchase the data pack, please contact your Preqin representative or download an order form here:

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EVOLUTION IN THE REAL ESTATE MARKET

You have recently rebranded. What prompted the decision to change your name?
By rebranding from TH Real Estate to Nuveen Real Estate, we aim to bring greater clarity and consistency to our brand across the globe. It represents the next step in our corporate evolution, in which we will continue to develop our vision to be a top-tier real estate manager investing in Tomorrow's World for the enduring benefit of our clients and society.

We have benefitted from the support and scale of Nuveen's investment platform and services for the past few years. It made sense to consolidate the offering to our clients and partners worldwide. Nuveen offers a broad array of traditional equity and fixed income assets, and access to a wide range of liquid and illiquid alternative strategies in asset classes such as real assets (farmland, timber, infrastructure), private equity and debt. We can now more easily discuss cross-asset-class solutions with clients, tailored to their specific risk/return appetite.

How has your business grown geographically over the past year?
We continue to expand our local footprint across the key regions of the globe. The past 12 months have seen new office openings across the US and key strategic hires across the US, Europe and Asia-Pacific. Asia is a particular growth focus for the business. We see a lot of emerging opportunities in that region and would like to help our clients take advantage of those. Over the next 10 years Asia is going to account for half of the world's output, 30% of global consumption and about 60% of the increase in the urbanization rate. We are in the process of opening an office in Tokyo and have recently appointed a partner in Korea to enhance our access to investment stock in its key cities such as Seoul.

How does investment philosophy guide your investment decisions?
Our investment philosophy is guided, first and foremost, by our global cities strategy. We believe it is the smart selection of global cities, that are considered secularly resilient and sustainable from an economic and environmental perspective, that may help to underpin a robust real estate investment strategy over the long term. In doing so, we aim to deliver attractive, risk-adjusted portfolio returns to investors.

We use a proprietary research process to identify the top 2% of global cities. This methodical and balanced approach takes into account a wide range of factors: scale, transparency, stability and, most importantly, structural megatrends, helping to future-proof a portfolio for long-term relevance and growth.

Overlaying and complementing our cities strategy is a clear tactical understanding of market fundamentals, which aims to deliver alpha to a portfolio at different points of the cycle. This involves a broader appreciation of sector dynamics across the whole city, as well as a deep dive into sub-market conditions to supplement our house view of the broader economic and capital market environment.

How are you responding to investors' needs for varying outcomes?
We provide clients access to our series of solutions through a range of products and structures, tailored to their requirements. We also co-invest alongside investors on a range of assets and products.

We focus on three investor objectives which we believe best address current concerns:

- Generating income and capital growth, despite the low-rate environment, by focusing on demographic needs to grow assets and match liabilities;
- Managing risk in a world of ongoing uncertainty by focusing on structural trends to insulate against short-lived market cycles;
Managing assets cost-effectively via optimal scale and access by leveraging our global scale to bring like-minded investors together.

We have developed our range of real estate solutions to offer the resilient, enhanced and debt series. Each is tailored to help address additional bespoke investor requirements.

- Our resilient series is designed for investors that are focused on diversification, income and long-term capital growth. Our strategies focus on investing in high-quality assets in leading cities that are well positioned in terms of long-term structural trends, including demographic change, urbanization and technology.

- Our enhanced series applies strategies that work within market cycles, use a more active asset management and repositioning approach and/or invest in emerging sectors and locations. These strategies are designed for investors that are looking for an enhanced level of capital growth.

- Our debt series is designed to provide investors with access to secure, income-focused returns. Our strategies may suit cautious investors seeking attractive levels of income with a measure of downside protection against short-term capital cycles.

What are the main challenges that real estate must overcome in reacting to technology, innovation and disruption?

The industry faces two main challenges: the first is navigating the short-term, technology-driven shift in the purpose of real estate. A major task will be understanding what people want from real estate, particularly in the two largest sectors: retail and office. The digital world allows people to work and shop remotely if they choose to, and real estate must differentiate itself by providing an experience, or at least prioritize efficiency. The second is adapting to a heightened pace of obsolescence. In order to do this, real estate must do more to encourage and reward creativity, forward-thinking and innovation. The industry must also think strategically by applying research around the nature of demand for real estate and the potential impact of key technological trends over the next 10 years.

Do you see ESG investing becoming more important to the real estate market?

Yes, absolutely. This is most notable from the increased focus on sustainability from institutional investors, in particular those across the Netherlands, Scandinavia and Australia. These investors are setting carbon reduction targets and are mandating that the real estate funds that they invest in are taking meaningful steps to reduce carbon and improve the energy efficiency of buildings. It is now very common that investors require funds to participate in the Global Real Estate Sustainability Benchmark (GRESB), and in some cases a minimum performance score is specified. Investors are not only interested in energy efficiency. They are also focusing on climate change resilience, fair wages in the supply chain, tenant activity (e.g. screening out tenants that manufacture weapons) and the impact of buildings on the health, wellbeing and productivity of occupants.

We do also see some evidence of tenants placing more emphasis on the sustainability of buildings.
when selecting real estate and we expect this to increase in the future as more and more corporate occupiers and retailers set their own carbon reduction targets. In the US, 70% of our office tenants reported that an ENERGY STAR Rating was important or very important in their search for office space.

**How do you incorporate ESG factors into your investment strategies?**
Fundamentally, we believe that by incorporating ESG into investment strategies we are future-proofing the value of our real estate assets. Focusing on a wide range of ESG issues means that our property portfolio is better protected from risk and better placed to take advantage of opportunity. We assess the climate change vulnerability, energy efficiency and exposure to environmental risk at the point of acquisition; then our Sustainable Property Management Requirements are in place to ensure that we improve the sustainability performance of the buildings that we own. We have a target to reduce the energy intensity of our real estate equity portfolio by 30% by 2030 (based on a 2015 baseline). The majority of our funds take part in GRESB and outperform their peer group average in almost all instances.

**How does incorporating ESG factors into investment strategies impact returns?**
For core funds, incorporating ESG factors into investment strategy helps to protect return. This is most obviously the case for long-term investment where the low carbon economy transition and the impacts of climate change are most likely to have an impact. For shorter-term and value-add investment, we believe ESG factors can be used to enhance return. For example, value can be added by sustainable refurbishment and by achieving sustainability certification such as LEED, BREEAM or Energy Star. Research that we have recently undertaken on our US office portfolio has shown that sustainability certification is correlated with a significant decrease in vacancy.

**What do you see being the main challenges of investing successfully in the real estate market in 2019?**
One of the biggest challenges in 2019 will be ensuring real estate investors are getting paid for the risk taken on. For example, the US real estate market is entering the ninth year of its recovery and the cycle is, by any measure, considered to be mature. Typically during the mature stages of a cycle, investors need to take on more risk to compensate for lower yields.

Successful investors will have to find assets with long-term growth prospects, which go beyond the current cycle, and with severe shortage of stock in some of the key European growth markets it may mean developing prime stock themselves, as we are doing in a number of key cities.

Another challenge will be managing the transition from real estate less in demand to those emerging sectors such as student housing or logistics. Investors will need to sell assets with weaker prospects, before values decline and get a foot in the door with new sectors without overpaying or choosing the wrong partner.

**What do you see being the major drivers of change in the real estate market over 2019 and beyond?**
One of the biggest drivers of change beyond 2019, from a values and fundamentals perspective, will ultimately be the economic cycle since economic growth typically determines how well real estate performs. But another key driver will be technology and the disrupters this technology begets in the coming decade(s). The management of real estate will also become more crucial for value creation and preservation.
Despite uncertainty surrounding a potential market correction, private real estate experienced another strong year of fundraising in 2018; that being said, capital was more concentrated in the largest funds. The private real estate industry grew further, with total assets under management (AUM) surpassing $900bn for the first time, while investors continued to see high capital distributions.

**STRONG FUNDRAISING CONTINUES**

In 2018, 300 funds raised an aggregate $124bn. This marks the sixth consecutive year in which fundraising has surpassed $100bn.

**CAPITAL BECOMES MORE CONCENTRATED**

The 10 largest funds accounted for 35% of total capital raised in 2018. $496mn was the average size of funds closed in 2018.

**ASSETS REACH ALL-TIME HIGH**

Industry AUM surpassed $900bn for the first time in 2018, reaching $909bn as at the end of H1 2018.

**POSITIVE CASH FLOW FOR INVESTORS**

$212bn was distributed to investors in 2017, slightly below the record $270bn in 2016. $100bn was distributed to investors in H1 2018, surpassing the $80bn in capital calls.

**PERE DEAL ACTIVITY SETS RECORD**

A record 6,418 PERE deals were completed in 2018 for a record-high aggregate value of $325bn.

**CONCERNS OVER INTEREST RATES AND VALUATIONS**

Across our November 2018 surveys, the largest proportions of investor and fund manager respondents see asset valuations and rising interest rates as key challenges for return generation in 2019.
INCREASING COMPETITION IN AN UNCERTAIN MARKET

Real estate investors and fund managers hoping for a reprieve in 2018 from 2017’s challenging market conditions were left disappointed. High valuations and concerns of a potential market correction pressured fundraising in 2018. In addition, the atmosphere of general market uncertainty encouraged capital to flock to options perceived as safer in the form of larger vehicles and established brands.

Such an environment appears likely to persist in 2019 as managers predict increases in interest rates, and valuations will present challenges for return generation. However, while investors acknowledge the challenges of investing in real estate, four in five institutions surveyed by Preqin in November 2018 will maintain or increase their level of investment in 2019. So, with vast levels of capital still being deployed in private real estate, which locations, strategies and structures have LPs been targeting in these uncertain times?

NORTH AMERICA: THE CAPITAL HUB

As in previous years, North America was the dominant geographic focus in terms of both number of funds raised (203, representing 68% of the global total) and aggregate capital secured ($78bn, 63%) in 2018 (Fig. 2.3). There was relatively little change in the proportion of total capital secured by funds focused on each region compared with 2017. Capital focused on Asia represented the greatest increase, accounting for 8% of total capital raised in 2017 and 12% in 2018.

Europe-focused funds were responsible for one-quarter of capital secured in 2018 and raised an average of $59mn more than funds targeting North America. The average fund size increases again for vehicles focused on Asia, with six of the 21 funds closed securing more than $1bn, including Blackstone Real Estate Partners Asia II ($7.1bn). The increasing concentration of capital in larger Asia-focused funds is likely because investors are generally looking to known brands when allocating to unfamiliar markets.

DEBT RISES AMID HIGHER RISK DOMINANCE

A distinctive trend in recent private real estate fundraising has been the rise of real estate debt funds. Investors continued to seek exposure to the lower risk/return strategy over 2018, with 2018’s total of $26bn marking the fifth time in the past six years that capital raised for debt strategies has surpassed $20bn, despite not reaching the record $33bn secured in 2017. However, it is not only the risk/return profile that attracted investors to debt strategies. Investors likely have one eye looking out for a potential change in the cycle, and the downside risk protection that debt investments offer at the top of the capital structure makes them more secure than low-yield equity investments in the event of a price shift. Higher-risk strategies continue to attract the largest amounts of capital; value-added and opportunistic strategies raised 69% of capital secured in 2018.

INVESTORS KNOW WHAT THEY WANT

The average amount of time spent on the road by managers looking to close their funds continues to increase, with just 27% of funds closed in 2018 spending 12 months or less on the road, a decrease from 35% of those closed in 2017. The longer a fund stays in market, the less likely it is to hold a close on or above its target. Among funds closed in 2018 that held a final close within 12 months, 71% reached or exceeded their fundraising target. This figure decreases to 48% for funds on the road for over two years.

It seems that investors are clear in what they are seeking from their real estate holdings, and they are quick to allocate when the correct opportunity hits the market. The challenge for fund managers raising capital is to determine how best to engage potential LPs in an increasingly competitive market.

CAPITAL CONCENTRATION INCREASES

The fundraising environment for emerging managers is ever more challenging. As investors look to established brands amid market uncertainty, capital concentration increases. The proportion of total annual capital secured by the 10 largest vehicles had been decreasing in recent years; however, among
INVESTORS

Fig. 4.1: Institutional Investors in Real Estate by Type, 2014 vs. 2018

<table>
<thead>
<tr>
<th>Type</th>
<th>2014</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>Public Pension Fund</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td>Endowment Plan</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Insurance Company</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Family Office</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Wealth Manager</td>
<td>5%</td>
<td>7%</td>
</tr>
<tr>
<td>Asset Manager</td>
<td>4%</td>
<td>5%</td>
</tr>
<tr>
<td>Bank/Investment Bank</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Preqin Pro

Fig. 4.2: Institutional Investors in Real Estate: Number and Median Current and Target Allocations (As a % of Total AUM) to Real Estate

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of Investors</th>
<th>Median Current Allocation</th>
<th>Median Target Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>NORTH AMERICA</td>
<td>3,491</td>
<td>5.2%</td>
<td>8.0%</td>
</tr>
<tr>
<td>US</td>
<td>3,298</td>
<td>5.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>CANADA</td>
<td>193</td>
<td>10.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>EUROPE</td>
<td>2,057</td>
<td>8.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>UK</td>
<td>564</td>
<td>7.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>NORDIC</td>
<td>226</td>
<td>9.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>CEE &amp; Western Europe</td>
<td>1,219</td>
<td>8.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>REST OF WORLD</td>
<td>704</td>
<td>6.2%</td>
<td>8.0%</td>
</tr>
<tr>
<td>ASIA</td>
<td>723</td>
<td>5.5%</td>
<td>6.8%</td>
</tr>
<tr>
<td>ASIA</td>
<td>723</td>
<td>5.5%</td>
<td>6.8%</td>
</tr>
<tr>
<td>JAPAN</td>
<td>98</td>
<td>6.8%</td>
<td>7.0%</td>
</tr>
<tr>
<td>SOUTH KOREA</td>
<td>138</td>
<td>2.5%</td>
<td>3.0%</td>
</tr>
<tr>
<td>CHINA</td>
<td>130</td>
<td>2.0%</td>
<td>4.0%</td>
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<tr>
<td>INDIA</td>
<td>81</td>
<td>13.0%</td>
<td>11.5%</td>
</tr>
<tr>
<td>SINGAPORE</td>
<td>89</td>
<td>13.0%</td>
<td>11.5%</td>
</tr>
<tr>
<td>AUSTRALASIA</td>
<td>249</td>
<td>8.0%</td>
<td>10.5%</td>
</tr>
</tbody>
</table>

Source: Preqin Pro

* Excluding the UK.
Fig. 7.7: Intentions for Targeted Markets in the Next 12 Months: Investors vs. Fund Managers

Only Developed Markets
- Investors: 63%
- Fund Managers: 65%

Mainly Developed Markets, Some Emerging Markets
- Investors: 21%
- Fund Managers: 15%

Mix of Developed and Emerging Markets
- Investors: 10%
- Fund Managers: 9%

Mainly Emerging Markets, Some Developed Markets
- Investors: 2%
- Fund Managers: 4%

Only Emerging Markets
- Investors: 3%
- Fund Managers: 7%

Source: Preqin Fund Manager and Investor Surveys, November 2018

Fig. 7.8: Developed Markets Viewed as Presenting the Best Opportunities in Real Estate: Investors vs. Fund Managers

US
- Investors: 56%
- Fund Managers: 61%

Western Europe (Excl. UK)
- Investors: 45%
- Fund Managers: 33%

UK
- Investors: 27%
- Fund Managers: 18%

Nordic
- Investors: 15%
- Fund Managers: 13%

Japan
- Investors: 9%
- Fund Managers: 14%

South Korea
- Investors: 3%
- Fund Managers: 7%

Australia & New Zealand
- Investors: 6%
- Fund Managers: 9%

Canada
- Investors: 5%
- Fund Managers: 12%

Singapore
- Investors: 4%
- Fund Managers: 5%

Source: Preqin Fund Manager and Investor Surveys, November 2018
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## DATA PACK FOR 2019 PREQIN GLOBAL PRIVATE DEBT REPORT

The data behind all of the charts and infographics featured in this report, plus additional datasets for each of the chapters in the book, is available to purchase in Excel format. Ready-made charts and graphs are also available, and can be used in marketing materials, presentations or company reports.

To purchase the data pack, please contact your Preqin representative or download an order form here:

www.preqin.com/gpdr
PRIVATE DEBT REMAINS A STEADY ASSET CLASS FOR INVESTORS, OFFERING DOWNSIDE PROTECTION AMID TURBULENT MARKET VOLATILITY. ASSETS UNDER MANAGEMENT (AUM) CONTINUE TO GROW, REACHING RECORD LEVELS ONCE AGAIN AS INVESTORS ARE DRAWN TO THE ASSET CLASS FOR ITS DIVERSIFICATION AND FAVOURABLE RISK-ADJUSTED RETURNS.

$110bn in aggregate capital was raised in 2018, following a record $129bn secured in 2017.

41% of total capital raised in 2018 was secured by direct lending funds.

$134bn was distributed in 2017.

Investors invest in private debt for diversification, high risk-adjusted returns and a reliable income stream.

91% of surveyed investors felt private debt met or exceeded performance expectations in 2018.

$769bn AUM as at June 2018, a record.

$109bn Direct lending dry powder as at June 2018.

92% of surveyed fund managers expect AUM to increase in 2019.

$755mn Average size of private debt funds closed in 2018.

80% of surveyed investors expect to invest more capital in private debt in the next 12 months compared with the previous 12 months.

$307bn Total industry dry powder available as at June 2018, a record level.

53% of surveyed fund managers cite competition as the biggest challenge facing return generation in 2019.

Rising interest rates were identified as a key concern for the year ahead by 50% of surveyed investors.

Just 22% of surveyed fund managers named rising interest rates as a key challenge for 2019, ranking it fifth overall.

91% of surveyed investors felt private debt met or exceeded performance expectations in 2018.

92% of surveyed fund managers expect AUM to increase in 2019.

41% of total capital raised in 2018 was secured by direct lending funds.

80% of surveyed investors expect to invest more capital in private debt in the next 12 months compared with the previous 12 months.

53% of surveyed fund managers cite competition as the biggest challenge facing return generation in 2019.

Just 22% of surveyed fund managers named rising interest rates as a key challenge for 2019, ranking it fifth overall.
The prodigious growth of private debt in recent years has been extensively documented. Growing competitive pressures and macroeconomic changes are now leading to more scrutiny of the risks that may accompany this growth. Rates are rising, volatility is increasing, and the global economy appears unsettled by the sacrifice of free trade on the altar of populist politics. The US Federal Reserve recently flagged the private debt market as a potential threat to financial stability. Another red flag is the growing perception that too much capital is chasing too few deals, a trend that may force some GPs towards lesser-quality deals and lower returns. The sheer rate of growth and the rush of new participants are reminiscent of other investments prior to experiencing corrections.

In a market full of promise yet fraught with risk, what is the best way forward? As concerns mount, SEI collaborated with Preqin to survey and interview more than 200 private debt managers and investors in order to discern how GPs might best weather the impending slowdown. Our findings suggest a number of important considerations for managers wishing to take advantage of the opportunities in private debt. These range from niche lending strategies and customized portfolios to the use of advanced data analytics and a greater emphasis on operational efficiency and resilience.

**FORCES OF CHANGE**

Investors and fund managers do not always share the same perspectives. LPs, for example, are more likely to say that advanced data analytics will have a noticeable effect, with half of them saying that advancements in analytics will spur the development of more customized investment vehicles. Even more think data analytics will soon permit more types of investors to participate in the private debt market. The most likely impact, though, is better integration of alternative data into the evaluation of credit quality.

Almost one out of three investors we surveyed say one notable feature of the fintech landscape, peer-to-peer lending platforms, is a disruptive phenomenon that could displace some traditional funds in the private debt market. Most managers, on the other hand, dismiss such a scenario. Only time will tell which perspective is correct.

Deal flow is expected to shift away from private equity-driven M&A activity towards middle-market borrowers that are not backed by sponsors. Investors think some of this demand may be met by banks as they re-enter the market, invigorated by deregulation and rising rates. Managers are more sanguine, with two out of three opining that banks are unlikely to re-enter the market at a scale sufficient to meaningfully reshape the landscape.

With a growing percentage of assets locked up by a small group of mega-lenders, today’s private debt market gives every indication of being a stable and orderly corner of the asset management world. But potentially disruptive technology is knocking at the door. Traditional lenders in the form of banks remain on the sidelines. Thousands of hedge funds are launching lending products. Will all of these parties be able to co-exist? Will innovation flip the script? Where are the opportunities for managers in a market that is becoming undeniably more competitive?

**OPPORTUNITIES FOR MANAGERS**

Asset managers in the current climate are forced to tackle what might be called “the specialization paradox.” On the one hand, many would rather
not be narrowly labelled, preferring to be seen as vehicle-agnostic asset managers that offer their expertise packaged in a variety of ways. The allure of this approach is enhanced by the fact that it provides some degree of protection against the vagaries of performance and market demand. On the other hand, investors and intermediaries need to categorize managers, which are also faced with growing competitive pressure to stake their claim in a particular area of expertise.

With industry giants dominating the so-called sweet spot of $20-50mn loans, any new player must aim to occupy a specific niche. Specialization can take many forms. It might refer to geographic expertise in a market such as India. Alternatively, it can reflect deep knowledge of the arcane details found in something like the aircraft leasing business. In any case, traditional specialization is increasingly joined by even more niche strategies as managers move away from direct lending and explore deals featuring non-traditional assets such as royalty streams.

Customization is another way to stand out in the crowd. Investors are eager to find the perfect fit for their needs, whether this means dialling in a specific income stream or applying an ESG screen with certain criteria. Managers that can accommodate such requests are better positioned to win their business. Customized portfolios will never completely replace pooled products, but as long as they can be efficiently managed without adversely affecting the investment process, they are likely to become more popular.

As deal flow becomes more challenging, more firms are likely to leverage technology to help find, vet, negotiate and value opportunities. Investors in private markets are already accustomed to finding and scrutinizing unusual and hard-to-find data, but managers that leverage advanced technology may be able to leapfrog the competition. Fewer than one in 10 fund managers, for example, currently uses artificial intelligence (AI) or machine learning processes, but they will be joined by another one in four over the coming five years. It is not hard to imagine this number going up as the cost of machine learning tools continues to drop and benefits become more apparent.

Technology can also be harnessed to optimize operational processes. Given the pervasive sense that the current cycle is due for a correction, any additional resilience afforded by operational efficiency and cost control becomes even more important. Firms are already finding that it is possible to automate processes where automation once seemed impossible. Service providers and other third-party vendors with up-to-date knowledge of operational best practices are available to help, and multi-asset managers in particular can find it beneficial to work with providers that have expertise and experience in all asset classes.

**PREPARING FOR THE UNKNOWN**

Leaving aside the precise timing of the next correction, the maturation of the asset class means private debt managers will need to focus more on expense management and productivity than they have previously. Competitive firms will be those that proactively leverage the transformative potential of technology. Investment ideas, product customization, investor reporting, operational efficiency, portfolio integration and security can all be improved.

Specialist knowledge and operational excellence are paramount. An array of technology vendors and service providers already empower managers and investors throughout the asset management industry in their quest for these two objectives. The successful manager will be the one that collaborates most effectively, combining internal expertise with external resources to create an innovative team capable of adapting to changing circumstances and executing a distinctive and resilient strategy designed to survive and thrive in all market conditions.
THE CHALLENGES OF PRIVATE DEBT FUNDRAISING

In 2018, $110bn was secured in aggregate capital commitments, a positive sign for the industry despite the full-year total not matching 2017’s record. This is good news for businesses and firms seeking to borrow from non-bank lenders, with competition for deals ensuring a healthy environment for negotiating attractive terms. However, while investor sentiment remains positive, the influence of large, brand-name fund managers and the volume of competitive noise in the market will pose a challenge for smaller and emerging managers seeking to attract capital in 2019.

INCREASED CAPITAL SHARE FOR MEZZANINE
Direct lending continues to dominate the fundraising market, capturing 41% of capital secured by funds closed in 2018 (Fig. 2.2). Mezzanine funds, though, have attracted substantial interest, with their share of aggregate capital raised increasing from 10% in 2017 to 28% in 2018, largely attributed to Goldman Sachs closing its GS Mezzanine Partners VII fund on $13bn. Special situations funds accounted for 10% of capital raised in the year. Geographically, funds focused on North America accounted for 62% of vehicles closed in 2018, similar to levels seen in recent years (Fig. 2.3). Europe’s share declined slightly to 33%, while funds focusing on Asia & Rest of World represented only 4% of those closed in the year. More so than in previous years, different fund types were dominant across the different regions: mezzanine and direct lending funds accounted for the largest proportions of North America-focused capital raised in 2018, direct lending funds secured the most capital in Europe and special situations funds took the largest share in Asia.

INVESTORS PRIORITIZE EXPERIENCE
There is evidence that shifting market conditions in 2018 have already influenced the investment activity of institutional investors. Although more capital was committed to the largest fund managers in 2018 than ever before, the proportion of capital secured by first-time fund managers dropped to an all-time low of 6% (Fig. 2.7), suggesting that investors are choosing to back fund managers with a proven track record, perhaps prioritizing those with experience investing through a market downturn.

MORE FUNDS ENTERING THE MARKET
While the overall rate of fundraising has slowed both in terms of capital and, more noticeably, the number of funds, the pace at which new vehicles are entering the market has not. Aggregate capital raised in 2018 was down 15% compared with 2017; in contrast, the aggregate amount targeted by funds in market at the start of 2019 is up by 13% from one year ago, with the number of vehicles on the road also up by a sizeable 18%.

For investors, a large supply of vehicles in market is a positive situation – but with so many funds seeking investment, fund selection and due diligence is set to become significantly more demanding. This is especially true for institutions where the allocation to private debt is shared with other private capital fund types that are all seeing a similar increase on the supply side. In order to select the best funds for their desired strategy, investors need to carefully consider the precise area of the market to which they want to gain exposure and to conduct due diligence using robust market data and the relevant tools.

POSITIVE SIGNS FOR MANAGERS
For fund managers, it is important to consider the current market environment and the drivers behind recent investor activity – specifically, why have investors favoured more experienced managers and larger funds over the course of 2018 more so than in previous years? One factor, especially considering market conditions and the relative youth of the asset class, is that managers with demonstrable experience in restructurings, workouts or weathering past periods of turmoil are pitching a compelling story that resonates with investors in times of uncertainty. Equally important is that experienced managers have an established network of connections which can assist in driving deal flow,
INVESTORS

Fig. 4.1: Institutional Investors in Private Debt by Type

Fig. 4.2: Institutional Investors in Private Debt by Location

The future impressions of borrowers, investors and policymakers towards private credit will likely be influenced by the industry’s performance through what are set to be more challenging economic conditions in the years ahead.

Jiří Król, Alternative Investment Management Association

Fig. 4.3: Investors’ Median Current and Target Allocations (As a % of Total AUM) to Private Debt by Type

Source: Preqin Pro
Fig. 7.4: Fund Types that Investors View as Presenting the Best Opportunities, 2017 vs. 2018

Source: Preqin Investor Interviews, November 2017 - 2018

Fig. 7.5: Investor Views on Portfolio Company/Asset Pricing Compared with 12 Months Ago

Source: Preqin Investor Interviews, November 2018

Fig. 7.6: Amount of Capital Fund Managers Expect to Deploy in the Next 12 Months Compared to the Previous 12 Months

Source: Preqin Fund Manager Survey, November 2018

Fig. 7.7: Investors’ Intentions for Their Private Debt Allocations over the Longer Term, 2017 vs. 2018

Source: Preqin Investor Interviews, November 2017 - 2018

92% of surveyed fund managers expect private debt assets under management to increase over 2019.
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DATA PACK FOR 2019 PREQIN GLOBAL HEDGE FUND REPORT
The data behind all of the charts and infographics featured in this report, plus additional datasets for each of the chapters in the book, is available to purchase in Excel format. Ready-made charts and graphs are also available, and can be used in marketing materials, presentations or company reports.

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www.preqin.com/ghfr
mid uncertainty in equity markets, hedge funds continue to offer investors diversification and uncorrelated returns for their respective portfolios. Despite a turbulent 2018, which culminated in negative returns at the end of the year, assets under management (AUM) in the hedge fund industry are forecast to increase over the coming year and beyond as investors continue to look to the asset class for downside protection.

**AUM HITS RECORD LEVELS**

$3.62tn
The industry reached a record level of AUM in Q3 2018, before falling to $3.53tn as at November 2018

52%
of surveyed fund managers believe AUM will increase further in 2019

**UNFAVOURABLE RETURNS**

15 Months
of consecutive positive performance ended in February 2018, when hedge funds made their first loss (-0.91%)

-3.41%
The Preqin All-Strategies Hedge Fund benchmark return for 2018 (as at December 2018)

**MARKET CORRECTION LOOMING?**

59%
of surveyed investors believe we are at the top of the equity cycle

40%
of surveyed investors intend to position their portfolios defensively amid concerns of a correction

**CREDIT STRATEGIES SEE LARGEST INFLOWS**

Credit strategies recorded
$22bn
in inflows over 2018, a 12% increase in AUM from 2017

+2.09%
Credit strategies outperformed all other hedge fund strategies for 2018 (as at December 2018)

**A CHALLENGING ENVIRONMENT FOR FUNDS OF HEDGE FUNDS**

47%
of surveyed fund of hedge funds managers believe the fundraising environment has become more challenging over the past 12 months

$745bn
Fund of hedge funds AUM (as at November 2018)

**INVESTORS STILL LOOK TO HEDGE FUNDS FOR DOWNSIDE PROTECTION**

79%
of surveyed investors intend to maintain or increase their level of allocation to hedge funds over the next 12 months

29%
of surveyed investors plan to increase their exposure to macro strategies, the largest proportion for any strategy
Despite the ups and down of 2018, I am bullish on the hedge fund industry. And I am not alone: nearly 80% of institutional investors surveyed by Preqin plan to maintain or increase their allocation to hedge funds in 2019. This figure is higher than in each of the previous three years.

Why do institutional investors and others continue to rely on our industry to help meet their fiduciary responsibilities? Because these funds provide value by diversifying portfolios, managing risk and helping deliver reliable returns over time. Since the first hedge fund was created 70 years ago, the industry has played an active and dynamic role in capital markets by partnering with investors to help meet their unique investment goals.

As our diverse membership of large, medium and small funds work to deliver for their investors, MFA is helping them reduce operational expense and manage regulatory and tax risk. With a robust presence and strong record of offering helpful recommendations to policymakers across the globe, MFA is helping to set the stage for the industry’s future growth. Our members have identified targeted legislative and regulatory solutions which, if implemented, would stimulate investment, reduce duplicative regulatory requirements, promote fair and accessible capital markets and enhance the security of the confidential data that registrants are required to provide regulatory agencies.

For example, MFA members and other market participants believe the current regulatory framework does not adequately protect investors from unreasonably discriminatory pricing. In some cases, market data fees may even impose an unnecessary and inappropriate burden on competition. That is why MFA and AIMA submitted letters to the Securities and Exchange Commission (SEC) and the European Securities and Markets Authority (ESMA) requesting that they take action to help ensure investors are protected from unfair market data fees and practices.

Among other steps, we believe regulators and policymakers should request financial information from exchanges on market data operating costs and revenue to ensure that fees are fair and not unreasonably discriminatory. Increasing transparency with respect to market data fees will help protect investors and better ensure fair access for all market participants. The SEC’s recent long-awaited ruling requiring an exchange to justify previous fee increases – along with a public roundtable on market data fees which included an MFA member panelist – shows the Commission is listening to concerns raised by MFA and others on these issues.
MFA also engaged European regulators on market data issues in 2018, helping to ensure exchanges follow the letter and the spirit of the Market in Financial Instruments Regulation’s post-trade transparency requirements.

Over the past decade, MFA has worked closely with policymakers and regulators as they built the post-crisis financial regulatory structure. We believe it is one of the reasons capital markets are as efficient, transparent and fair as they are today.

MFA members have valuable insight into the impacts, unintended and otherwise, that these regulations have on market participants and capital markets. To assist regulators, we have developed thoughtful, obtainable solutions to decrease duplicative and overlapping regulations that impose undue costs on fund managers and their investors – and create more work for already overburdened regulators.

One example involves firms that are registered with the SEC as investment advisers and the Commodities Futures Trading Commission (CFTC) as commodity pool operators. MFA believes that the commissions could greatly enhance regulatory efficiency by taking a more coordinated and harmonized approach to the regulation and examination of such dual registrants.

Through discussions with regulators, MFA developed a “primary regulator safe harbor” framework, where a firm would remain registered with both agencies but establish a primary regulator. A dual registrant who complies with its primary regulator’s requirements would be deemed to have met the requirements of the other. Such a proposal would meet the CFTC, SEC and Treasury Department’s own goals relating to increased coordination and efficiency across regulatory bodies.

It would also assist regulators in prioritizing resources. Something as simple as having SEC and CFTC examiners conduct exams jointly could save countless hours and taxpayers dollars.

MFA’s membership and our mandate are global, which is why MFA has closely engaged regulators on the potential impacts of Brexit on our industry and capital markets in general. As I write this – and very possibly as you read this – much about the process and endgame remains unknown.

In discussing the issue with our members, it is clear that they remain concerned that equivalence arrangements, which take significant time to negotiate, may not be finalized before the withdrawal. Our focus has been on ensuring that our members have continued access to EU markets and that EU investors have access to our members. We have met and spoken with regulators and policymakers on both sides of the Channel and both sides of the Atlantic to articulate these points.

This issue dovetails with our work on the Investment Firms Review, the EU’s ongoing effort to develop tailored prudential requirements for our industry. MFA has advocated consistently that managers do not pose a systemic risk and that any prudential requirements should reflect this fundamental fact.

On these and other policies MFA operates entirely at the direction of our members, who identify our priorities based on the issues most likely to impact the industry and our investors. We have established a track record of thoughtful advocacy of which I am tremendously proud.

Of course, our work is never done. If you are not a part of our dynamic efforts on behalf of the industry, we would welcome your voice and input as we address these issues and others in 2019.

ABOUT MANAGED FUNDS ASSOCIATION

Mr. Baker is president and CEO of Managed Funds Association – the alternative industry’s authoritative voice on policy and premier platform for peer-to-peer networking and operational, legal and compliance training.

www.managedfunds.org
### Fig. 2.4: Distribution of Hedge Fund Managers and Industry Assets under Management by Fund Manager Headquarters

![World map showing distribution of fund managers and assets by headquarters](image)

Source: Preqin Pro. Data as at November 2018

### Fig. 2.5: Hedge Fund Manager Assets under Management by Manager Headquarters

<table>
<thead>
<tr>
<th>Manager Headquarters</th>
<th>Dec-17 AUM ($bn)</th>
<th>Q4 2018 AUM ($bn)</th>
<th>% Change in AUM over 2018</th>
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<td>2,568</td>
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<tr>
<td>UK</td>
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<tr>
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<td>Singapore</td>
<td>20</td>
<td>22</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Preqin Pro. Data as at November 2018
EQUITY STRATEGIES

Fig. 5.1: Equity Strategies Funds by Core Strategy, All Time

Fig. 5.2: Net Returns of Equity Strategies Funds vs. All Hedge Funds

Fig. 5.3: Distribution of Equity Strategies Fund Returns, 2017 vs. 2018

Fig. 5.4: Performance of Equity Strategies Funds by Core Strategy

* Includes Directional and Reversal Bias strategies.

Source: Preqin Pro. Data as at December 2018
FUND OF HEDGE FUNDS OVERVIEW

Fig. 6.1: Fund of Hedge Funds Launches and Liquidations by Year of Inception/Liquidation, Pre-1998 - 2018

- Source: Preqin Pro

Fig. 6.2: Number of Active Fund of Hedge Funds Managers, 2014 - 2018

- Source: Preqin Pro

Fig. 6.3: Services Offered by Fund of Hedge Funds Managers: 2017 vs. 2018

- Source: Preqin Fund of Hedge Funds Manager Survey, November 2018
investors remain positive on the strategy as more are looking to increase exposure than those looking to pull back (Fig. 9.6).

**CONSIDERATIONS FOR INVESTORS**

For investors active in the industry, the challenge of portfolio selection persists. With nearly 15,000 funds open to investment, navigating the saturated landscape and performing due diligence to construct a portfolio is no mean feat. Over the past two years, the number of active hedge funds has declined for the first time since the GFC – a welcome contraction for fund managers, where the competitive landscape has only become more congested over the course of the decade. Preqin’s ‘Future of Alternatives’ report found that consolidation will impact the hedge fund industry through to 2023: 91% of fund managers expect some or significant consolidation to occur over the next five years. What is left behind should be a leaner market place for investors to optimize their portfolios.

How to access hedge funds is another important consideration for investors when assessing portfolio selection. While 70% of investors view pooled structures as the leading route to market, managed accounts are increasingly offered. One in every three fund managers now provides a managed account offering and, over the next five years, 39% of fund managers expect managed account offerings to increase as appetite for the structure shows no sign of abating.

**AROUND THE CORNER**

Opportunities exist for hedge funds to demonstrate their true value in the investment portfolio; investors are backing the asset class over the short and long term as concerns around market and economic conditions intensify. Preqin predicts that hedge fund industry AUM will grow by 31% in the next five years, reaching $4.7tn by 2023, as investors’ requirements for alpha uncorrelated to public markets continue to push them towards hedge funds. However, fund managers will need to survive a timely industry consolidation in order to prosper.

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www.preqin.com/gnrr
Over the past decade, the performance of natural resources funds has been lacklustre, particularly in comparison to other private capital asset classes. For many investors this has translated into disappointment with natural resources over the past year. Nevertheless, fundraising was strong over 2018, with a record amount of capital secured, suggesting that investors remain committed to the asset class and are looking beyond high absolute returns.

**Continued Commitment Despite Disappointing Returns**
- 29% of surveyed investors felt natural resources returns fell short of expectations in 2018
- 29% of surveyed investors plan to increase their natural resources allocation in 2019

**Capital Concentration Among Largest Funds**
- The lowest number of funds since 2010 secured a record amount of capital ($93bn) in 2018
- 81% of surveyed fund managers believe there is more competition for investor capital than 12 months ago

**Energy Dominates Natural Resources**
- $89bn in capital commitments was secured by energy funds over 2018, 96% of the total for the asset class

**Funds Spend More Time on Road**
- Funds closed in 2018 spent an average of 17.3 months on the road (compared with 15.0 months for funds closed in 2016)

**Fund Managers Show Value**
- The Preqin Natural Resources Index reached a record high as of June 2018, while the public market* lagged by 45 points

**Value for the Longer Term**
- $99bn was distributed to investors by funds in 2017, a record high
- Diversification is the primary reason why most surveyed investors invest in natural resources

**29% of surveyed investors felt natural resources returns fell short of expectations in 2018**

---

* S&P Global Natural Resources Index TR.
ANOTHER SUCCESSFUL YEAR FOR FUNDRAISING

The natural resources fundraising market was in a healthy state in 2018; the $93bn raised by unlisted natural resources funds represents the highest amount raised in any year (Fig. 2.1). The number of funds that have successfully closed, however, has declined by 37% compared to 2017’s total of 145 funds. This concentration of capital suggests that investors are much more selective in the fund managers they back – this trend was most recently observed in 2017 (with the number of funds closed down from 157 in 2016) but was more pronounced in 2018, as the average size of funds closed in the year reached a record $1.1bn.

FUNDS SPEND MORE TIME ON ROAD

Despite the record sums raised, fundraising conditions have been tough on some managers; the average time spent on the road by natural resources funds closed in 2018 was 17.3 months, up from just 15.0 months for funds closed in 2016 (Fig. 2.6). Our survey revealed that investors are looking to re-up with the most experienced and trusted fund managers over 2019 to ride out expected choppy waters ahead (page 30). Follow-on funds are more likely to achieve a first close faster than first-time funds: 37% of follow-on funds closed in 2018 were able to achieve a first close in 12 months or less, compared with just 25% of first-time funds.

ENERGY DOMINATES THE ASSET CLASS

Energy is historically the most prominent strategy within natural resources, and there are no signs of this changing (Fig. 2.2). The tale for the non-energy strategies in 2018 is mixed. Metals & mining fundraising was up for the year with $2.5bn raised compared to $782mn in 2017. Fundraising for agriculture/farmland funds on the other hand was significantly lower than in 2017, with just $740mn raised by seven funds, compared to $1.9bn raised in 2017 by 17 funds. This represents the third consecutive annual decline in the amount raised by agriculture/farmland funds. The sector has faced challenges, not least the looming threat of interest rate rises in recent years playing out in 2018, which is negatively impacting farmland pricing.

EUROPE’S MARKET SHARE GROWS

Within Europe, there has been a push towards renewable energy, driven in part by EU legislation, which is opening up new avenues for investing that managers and investors are keen to exploit. Of the total natural resources capital secured in 2018, 30% will be deployed in Europe, up from 26% in 2017 and 18% in 2016.

North America is still the destination of the majority of natural resources capital: the region’s share of total capital was up from 58% in 2017 to 62% in 2018. The gains in North America and Europe were counterbalanced by a steep decline in fundraising elsewhere, from $14bn in 2017 to only $7.6bn in 2018 (Fig. 2.3).

The high number of funds in market is to be expected given the overhang of managers that failed to complete fundraising in 2017 and 2018 in the face of a more selective investor base.

CAPITAL CONCENTRATION CONTINUES

Across the private capital industry, the largest fund managers are securing significant capital – and natural resources is no exception. The proportion of aggregate capital raised by the 10 largest natural resources funds has increased to 53% in 2018 from 44% in 2014, indicating that capital is flowing to the largest fund managers (Fig. 2.4). Indeed, the majority (81%) of fund managers surveyed in November 2018 felt that competition for investor capital had intensified over the past year – perhaps another indication of the difficulty of securing capital without pre-existing relationships with investors. With a greater proportion of surveyed investors more inclined to re-up with GPs (38%) than form new GP relationships (19%) for investments in 2019, there is an evident trend of investors sticking with more established fund managers.
INVESTORS

Fig. 4.1: Investors’ Main Reasons for Investing in Alternative Assets (Proportion of Investors)

Fig. 4.2: Institutional Investors in Natural Resources by Location, 2015 vs. 2018

Fig. 4.3: Institutional Investors in Natural Resources by Assets under Management

Source: Preqin Pro

Source: Preqin Investor Interviews, November 2018
Fig. 6.2: Views on Where We Are in the Current Natural Resources Market Cycle: Investors vs. Fund Managers

Source: Preqin Fund Manager and Investor Surveys, November 2018

Fig. 6.3: Investors’ Expected Capital Commitments to Natural Resources in the Next 12 Months Compared with the Previous 12 Months

Source: Preqin Investor Interviews, November 2018

Fig. 6.4: Investors’ Intentions for Targeted Markets over the Next 12 Months

Source: Preqin Investor Interviews, November 2018
Infrastructure has certainly delivered on its promise to investors: record capital ($77bn) was distributed back to investors in 2017, bolstering the positive sentiment among industry participants. Such activity has prompted most investors to maintain or even increase allocations to the asset class going forwards. Despite the concerns over the challenging pricing environment and significant competition for assets, our end-of-year surveys indicate that fund managers and investors feel positive about infrastructure in the year ahead.
In your opinion, what key trends emerged or persisted in the infrastructure space over 2018?
A persistent theme is the continued capital seeking to find a home in the sector, which appears to be having a two-fold impact. Firstly, we are seeing ever larger funds raised, and secondly, managers continue to stretch the definition of infrastructure in search of value in a more crowded marketplace. However, pleasingly, this year we have also witnessed increased recognition of the critical role that private capital must play in order to meet the infrastructure investment requirements in Europe and further afield, which is generating significant investment opportunity. We have also seen an emerging focus on the need for the private sector to mobilize behind the investment needed in Europe’s infrastructure, offering attractive infrastructure investment opportunities.

In the same year that governments and consumers alike were increasingly focused on climate change and more inclusive societies and economies, the European Commission (EC) launched its Action Plan on financing sustainable growth. The plan seeks to mobilize the private sector, calling for the private sector to “support the €180bn of additional investment a year needed to transition to a low-carbon economy.” This initiative has been a catalyst for sustainable investment across a wide range of different sectors including clean energy, fibre, transport and social infrastructure.

How did Infracapital respond to these trends?
We have looked to capitalize on this sizeable opportunity in Europe, where deal flow remains strong, through both our brownfield and greenfield strategies. On the brownfield side we recently closed our third fund at its £1.85bn hard cap and are pleased to have already completed several investments. We have benefitted from remaining relatively small and focused on the mid-market.

With a dedicated greenfield strategy team with specialist greenfield expertise, we have formed a number of attractive platforms with our developer and industrial partners, offering attractive investments supporting the need for new, essential infrastructure. The speed, quality and diversity of our deployment highlights the strong pipeline of opportunities in this space. I think the main attraction of the strategy for LPs has been how it complements their existing brownfield infrastructure exposure by providing a different return profile, albeit the portfolio once fully operational will be yielding for the majority of the fund life.

What opportunities are you seeing in the greenfield space today?
There is a vast requirement in Europe for new infrastructure across all sectors, with the EC estimating that 75% of infrastructure required by 2050 has not yet been built. This is driven by low levels of infrastructure investment since the Global Financial Crisis, a growing need for energy-efficient infrastructure and the impact of new technologies.

The impact of technology creates opportunities in several sectors, spanning transport, fibre broadband and energy infrastructure. For instance, governments and car manufacturers are increasingly committed

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1 The European Commission Action on Financing Sustainable Growth, March 2018.
to ‘going electric’. This is resulting in a substantial need for mass charging infrastructure (an estimated €40-50bn of investment is needed by 2030), but also generating broader investment opportunities. For example, substantial reinforcement of the national grid, which will be materially impacted by the vehicle-charging behavioural model which is still developing, with potentially more ‘refuelling’ at home and overnight than at stations. We have also focused on fibre broadband where there is a sizeable backlog of demand, especially in the case of Germany and the UK. We have recently made investments in both countries, where fibre connections amount to less than 10% of homes.

The investment in renewable energy assets is well documented, but the rise of decentralized energy systems, and the impact of energy intermittency on the grid, has also created new opportunities. It is estimated that the grid will require €20bn of investment by 2020, including energy storage, to cope with decentralized energy sources and unpredictable energy generation. We see investments such as our asset Bioenergy Infrastructure Group (BIG), a waste-to-energy platform launched in 2015, as a great example of how private capital can solve both a societal problem (waste) and generate energy more sustainably.

As a manager we tend to only speak of the growing opportunities in the sector, but equally there are challenges and headwinds we must respond to. Take the development of autonomous cars: this may well disrupt aspects of our current transport infrastructure as autonomous and connected vehicles change the demands on our roads. However, such change can also deliver attractive investment prospects through digital and power infrastructure required to support such change.

Preqin’s survey found that 70% of investors in infrastructure expect to increase their allocations over the next five years. What part do you feel greenfield will play in this?

Long-term investors are increasingly attracted to infrastructure and we think greenfield investment should be considered a part of any LP’s infrastructure portfolio. By investing earlier in the asset lifecycle, an investor can enjoy a significant return premium without being forced into more ‘private equity-style’ investments. Institutional investors that can accept the lower yield in the early years of a greenfield fund’s life are well compensated through access to long-term yields in this untapped market, well in excess of equivalent brownfield infrastructure.

Of course, investors must be cognisant of construction risk, and should be wary of managers that lack the specialist skillset and track record required to effectively manage a portfolio through construction. However, a seasoned manager can mitigate this through effective and measurable risk management techniques.

We think greenfield investment is a great solution for both investors and consumers alike. Greenfield projects can help solve the allocation challenges facing pension schemes and other institutional investors, while simultaneously solving the funding gap faced by governments, who alone cannot meet the changing needs of modern society.

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Europe’s market share grows

Within Europe, there has been a push towards renewable energy, driven in part by EU legislation, which is opening up new avenues for investing that managers and investors are keen to exploit. Of the total natural resources capital secured in 2018, 30% will be deployed in Europe, up from 26% in 2017 and 18% in 2016.

North America is still the destination of the majority of natural resources capital: the region’s share of total capital was up from 58% in 2017 to 62% in 2018. The gains in North America and Europe were counterbalanced by a steep decline in fundraising elsewhere, from $14bn in 2017 to only $7.6bn in 2018 (Fig. 2.3).

The high number of funds in market is to be expected given the overhang of managers that failed to complete fundraising in 2017 and 2018 in the face of a more selective investor base.

Capital concentration continues

Across the private capital industry, the largest fund managers are securing significant capital – and natural resources is no exception. The proportion of aggregate capital raised by the 10 largest natural resources funds has increased to 53% in 2018 from 44% in 2014, indicating that capital is flowing to the largest fund managers (Fig. 2.4). Indeed, the majority (81%) of fund managers surveyed in November 2018 felt that competition for investor capital had intensified over the past year – perhaps another indication of the difficulty of securing capital without pre-existing relationships with investors. With a greater proportion of surveyed investors more inclined to re-up with GPs (38%) than form new GP relationships (19%) for investments in 2019, there is an evident trend of investors sticking with more established fund managers.
INVESTORS

Fig. 4.1: Institutional Investors in Infrastructure by Type, 2014 vs. 2018

Source: Preqin Pro

Fig. 4.2: Institutional Investors in Infrastructure by Assets under Management

Source: Preqin Pro

Fig. 4.3: Institutional Investors in Infrastructure by Location, 2014 vs. 2018

Source: Preqin Pro

Fig. 4.4: Investors’ Median Current and Target Allocations (As a % of Total AUM) to Infrastructure, 2014 - 2018

Source: Preqin Pro
Regulatory risk will become a greater concern for investors. Regulated assets traditionally have been considered one of the ‘safer’ subsectors of infrastructure. With the regulatory risk coming into sharper focus, industry participants will need to diversify their portfolios and consider valuations in this sector.

Julio Garcia, IMF Investors

Fig. 7.3: Strategies that Investors View as Presenting the Best Opportunities

- Debt: 15%
- Core: 30%
- Core-Plus: 27%
- Value Added: 35%
- Opportunistic: 24%
- Distressed: 4%
- Fund of Funds: 5%
- Secondaries: 9%
- Other: 0%

Source: Preqin Investor Interviews, November 2018

Fig. 7.4: Developed and Emerging Markets that Investors View as Presenting the Best Opportunities

- US: 58%
- Western Europe (Excl. UK): 53%
- UK: 35%
- India: 34%
- China: 27%
- Central & Eastern Europe: 24%
- Other: 24%

Developed Markets

Emerging Markets

Source: Preqin Investor Interviews, November 2018

Fig. 7.5: Infrastructure Investors’ Plans to Alter Their Level of Private Investment in Response to the Cycle

- Will Invest More in Private Capital: 30%
- No Change: 61%
- Will Invest Less in Private Capital: 9%

Source: Preqin Investor Interviews, November 2018

Fig. 7.6: Investors’ Expected Capital Commitments to Infrastructure in the Next 12 Months Compared with the Previous 12 Months

- More Capital: 35%
- Same Amount of Capital: 52%
- Less Capital: 12%

Source: Preqin Investor Interviews, November 2018
The 2019 Preqin Global Alternatives Reports are the most detailed and comprehensive reviews of the alternative assets industry available, offering exclusive insight into the latest developments in the private equity, hedge fund, real estate, infrastructure, private debt and natural resources asset classes.

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<tr>
<td>All Six Titles (25% Saving)</td>
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</table>

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