

# PRIVATE CAPITAL: RECORD-SETTING PACE IN 2017

At the end of September, Preqin asked whether a dip in quarterly fundraising might represent a slowdown in overall activity, or simply a pause in a record-breaking year. Three months later, the private capital industry has recovered its momentum: 261 funds raised a total of \$162bn in Q4, making 2017 a banner year for the industry. Overall, 1,420 private capital funds reached a final close through the year, securing a combined \$754bn in investor commitments. This surpasses the previous record of \$728bn raised by 1,860 funds in 2016, despite notably fewer funds closing.

This is largely due to the closure of several record-breaking funds: 2017 marked the closure of the largest ever buyout fund and the largest ever infrastructure fund, as well as funds

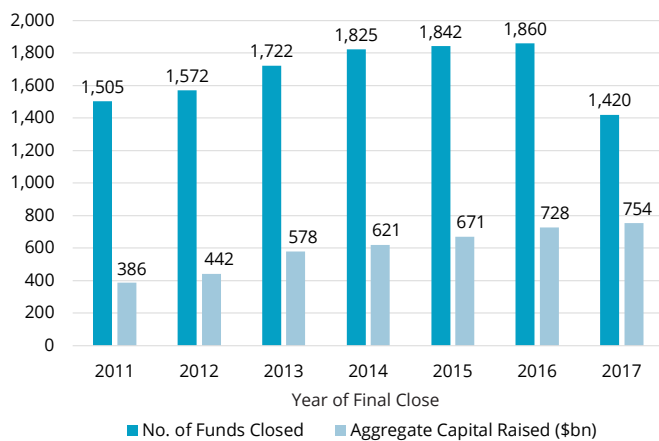
ranked among the five largest ever for venture capital, secondaries, growth and natural resources. Overall, the average size of private capital funds closed in 2017 was \$570mn, significantly above the average of \$445mn seen in 2016 and surpassing the previous record of \$475mn in 2008.

The record amounts of capital being committed to the industry will be an encouraging sign for fund managers, but there may be concerns about the twin pressures of fundraising competition and capital concentration in the months ahead. Although Preqin expects fundraising figures to rise by up to 10% as more information becomes available, the number of funds closed marks a decline from 2016. While huge amounts of capital are being allocated by investors, fewer

funds are reaching a final close than in previous years, with the most experienced and high-profile managers accounting for rising proportions of total fundraising year on year.

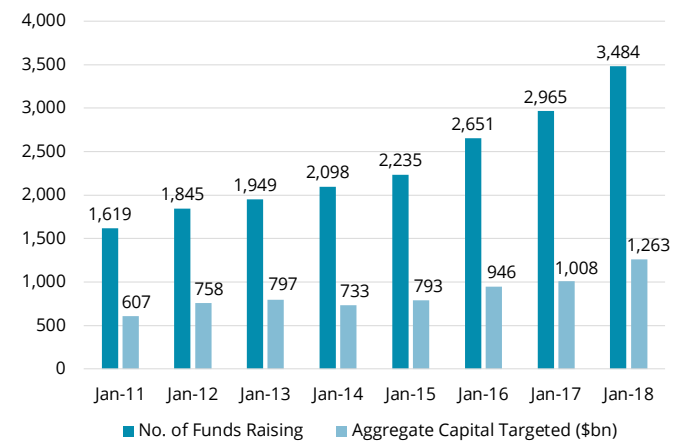
At the same time, the rate of new funds coming to market is accelerating, and has consistently hit new heights throughout 2017. At the start of January 2018, there are 3,484 private capital funds seeking investment, 2.5x the number of funds that closed in the preceding 12 months. This is twice the proportion that it was five years ago, a sign of how the fundraising market has become more competitive in recent years. With investor demand remaining strong, 2018 may see further robust fundraising, but if current trends continue many managers will nevertheless find fundraising a challenging process.

Fig. 1: Global Annual Private Capital Fundraising, 2011 - 2017



Source: Preqin

Fig. 2: Private Capital Funds in Market over Time, 2011 - 2018 (As at 3 January 2018)



Source: Preqin

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Please note, all data is correct as at 3 January 2018; figures are subject to upward revisions as further information becomes available.

# PRIVATE EQUITY: LANDMARK YEAR IN 2017

2017 saw 921 private equity funds reach a final close, securing a total of \$453bn in investor commitments. This is an all-time fundraising record for the private equity industry, surpassing the previous record of \$414bn that was raised by 1,044 funds in 2007. Preqin expects these figures to rise by up to 10% as more information becomes available. This was driven by the closure of mega buyout funds: mega funds of \$4.5bn or more raised \$174bn, far more than the \$119bn raised by the equivalent group in 2007.

With such strong fundraising, it is unsurprising that dry powder levels continued to rise through 2017, and at the end of December exceeded \$1.00tn, up from \$838bn at the end of 2016. However, this landmark is not necessarily positive for the industry: entry prices for assets remain very high, and with so much available capital competing for deals, this will only increase the challenge for fund managers looking to deploy capital in 2018.

**Key Findings:**

- 2017 saw 921 private equity funds raise \$453bn. This exceeds the

previous record of \$414bn set in 2007.

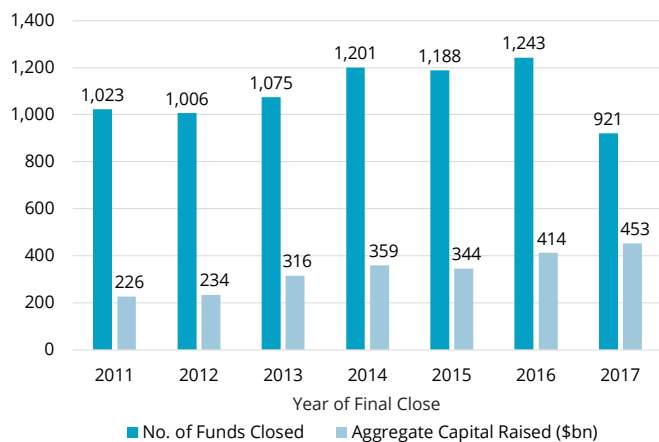
- North America-focused funds secured a record \$272bn, while Europe-focused funds raised \$108bn, equalling previous levels.
- Buyout funds raised \$289bn through the year. Of this, mega funds of \$4.5bn or more account for a record \$174bn, while other sizes saw fundraising totals fall from or stay level with 2016.
- Venture capital funds raised \$55bn, while growth funds secured \$39bn, both lower totals than in 2016. Secondaries funds raised \$37bn, significantly surpassing previous records.
- Robust fundraising has driven dry powder to new heights, and total available capital reached \$1.00tn at the end of December.
- At the start of 2018, there are 2,296 private equity funds in market, seeking a combined \$744bn in investor commitments.
- Of these, 1,050 vehicles have already held an interim close, securing a total of \$268bn from investors.

“2017 has proved a landmark year for the private equity industry, as it has surpassed the fundraising highs seen a decade ago. Apollo Investment Fund IX has become the largest private equity fund ever closed, breaking a record that has stood for a decade. At the same time, buyout and secondaries funds have both marked record fundraising totals, while venture capital and growth funds have continued the strong fundraising patterns seen in recent years.

While this is encouraging for the industry, it is notable that the bulk of capital raised in 2017 has been secured by the largest vehicles, with smaller funds not surpassing previous totals. This trend looks set to continue: there are still funds in market that are aiming to be the largest of their type, including SoftBank Vision Fund. Interim closes held by these vehicles have helped push the capital available to fund managers above \$1tn for the first time, a landmark which both confirms the strength of the fundraising market and puts enormous pressure on fund managers to deploy capital in the coming months.

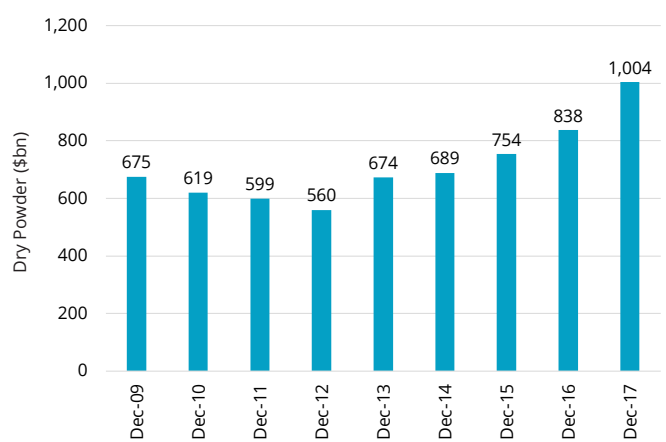
**Christopher Elvin**  
Head of Private Equity Products

Fig. 1: Global Annual Private Equity Fundraising, 2011 - 2017



Source: Preqin Private Equity Online

Fig. 2: Private Equity Dry Powder, 2009 - 2017



Source: Preqin Private Equity Online

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# PRIVATE DEBT: DIRECT LENDING DRIVES RECORD 2017

2017 was a record year for private debt fundraising, as a combined \$107bn was raised by 136 vehicles. Preqin expects these figures to rise by up to 10% as more information becomes available, going beyond the previous record of \$100bn set in 2015. This was primarily driven by direct lending funds: 61 funds employing this strategy secured a total of \$54bn, significantly above the \$38bn raised in 2015, the previous high. By contrast, just 14 distressed debt funds closed through the year, raising an aggregate \$23bn. This is the lowest number of vehicles closed for the debt type since 2014.

Private debt funds that closed in 2017 also tended to see faster fundraising processes, and have experienced greater success in their efforts. The average fund closed in 2016 spent an average of 19 months in market, but this has dropped to 14 months in 2017, an eight-year low. At the same time, 58% of private debt funds closed through the year exceeded their target size, the largest proportion Preqin has recorded. This includes over a quarter (27%) of funds that raised 125% or more of their targeted capital.

### Key Findings:

- Private debt funds marked a record 2017, as 136 vehicles raised a total of \$107bn. This surpasses the previous record of \$100bn raised by 170 funds in 2015.
- Sixty-one direct lending funds secured a record \$54bn, while 14 distressed debt funds raised \$23bn and 19 special situations funds secured \$14bn.
- North America saw the most activity, with 75 funds focused on the region raising a total of \$67bn. Europe-focused funds secured \$33bn, while Asia-focused funds raised \$5.9bn.
- The largest private debt fund closed in the year was **Intermediate Capital Group's Senior Debt Partners III**, which raised €4.2bn for direct lending investments.
- Strong fundraising pushed private debt dry powder to record highs. **Capital available to fund managers reached \$234bn at the end of December.**
- At the start of 2018, there are 336 private debt funds in market, seeking a combined \$159bn.

“2017 has proved to be another strong year for the private debt fundraising market, as fundraising topped \$100bn. Fund managers also seem to be achieving increased fundraising success and a quicker fundraising process: the average fund closed in 2017 raised more than its stated target in less than a year and a half. This is indicative of strong investor appetite, as more institutions become active in the private debt space each year.

So far, growth in private debt fundraising has not relied on a small coterie of mega funds, diverging from fundraising trends apparent in private equity. Instead, we have seen a number of significant but not outsized funds being closed to focus on specific regions or markets, with the largest fund closed this year securing €4.2bn. However, the number of funds closed in 2017 is notably lower than in recent years, and with several mega funds in market, the asset class could be seeing the emergence of a trend towards capital concentration already prevalent in private equity.

**Ryan Flanders**  
Head of Private Debt Products

Fig. 1: Global Annual Private Debt Fundraising, 2011 - 2017

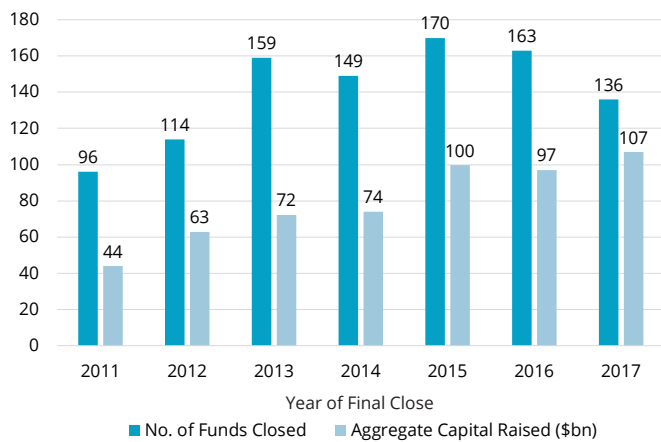
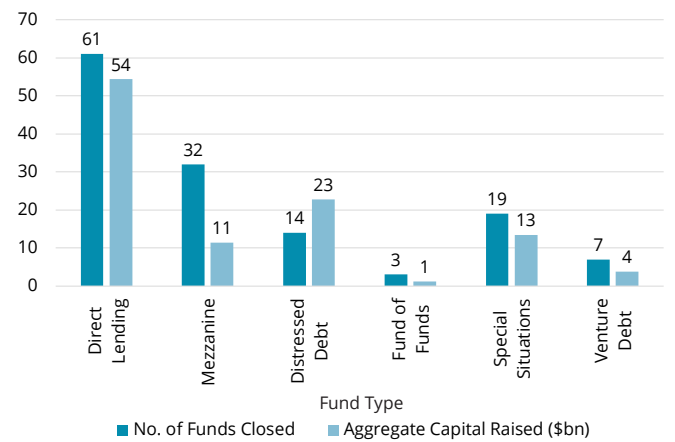


Fig. 2: Private Debt Fundraising in 2017 by Fund Type



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# REAL ESTATE: SIGNS OF A TURNING MARKET?

While 2017 has been a record-breaking year in some other asset classes, closed-end private real estate funds have not matched the fundraising activity seen in recent years. Altogether, 263 real estate funds reached a final close in 2017, raising a combined \$109bn in investor commitments. Preqin expects these totals to rise by up to 10% as more information becomes available, but nonetheless it seems that 2017 will not approach the record \$136bn raised by 351 funds in 2015.

Different real estate strategies have seen markedly different fundraising trends through the year. Opportunistic funds have seen their share of capital raised decline from 2016. By contrast, value added and debt vehicles have become more prominent, with debt funds in particular marking a record annual capital total of \$28bn. This is indicative of investors rebalancing their portfolios to add more downside risk protection, as record asset pricing and increased deal making competition add to concerns that the market may be heading towards a correction.

### Key Findings:

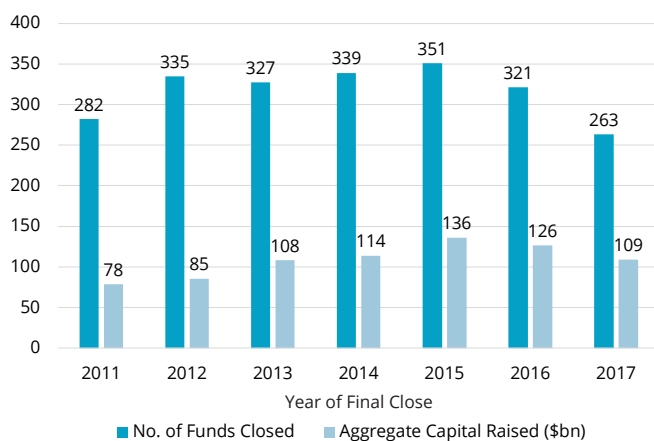
- 2017 has seen 263 closed-end private real estate funds raise a total of \$109bn, down from the \$126bn raised by 321 funds in 2016.
- Real estate debt funds marked a record year, as 47 vehicles secured a combined \$28bn, but opportunistic fundraising fell from \$49bn in 2016 to \$34bn in 2017.
- While 160 North America-focused funds raised an aggregate \$67bn, 57 Europe-focused funds raised \$30bn and 29 Asia-focused funds secured \$10bn.
- The proportion of funds failing to reach their fundraising targets has risen: 47% of funds closed in 2017 did not meet their targets – a five-year high.
- Real estate dry powder stands at \$249bn as at December 2017, up from \$238bn a year prior.
- At the start of 2018, there are 574 private real estate funds in market, seeking a total of \$191bn from investors. This is a record high for the industry.

“The private real estate market is currently running in counterpoint to the wider private capital industry. Whereas private equity and private debt funds have both marked record years in 2017, the real estate asset class has seen activity retreat slightly over the past 12 months. Fundraising levels are still high – this is the fifth consecutive year in which funds have raised more than \$100bn – but we are not seeing a surge of activity.

These could be signs of growing sentiment that the market is at risk of becoming overheated. There certainly does seem to be a rebalancing of activity between various strategies, which perhaps indicates that investors are looking increasingly for downside risk protection. Real estate debt funds have seen record fundraising in 2017, but opportunistic funds have seen a sharp drop in capital totals. If investors are seeking to protect themselves from a turn in the market, we may see this trend continue and strengthen into 2018.

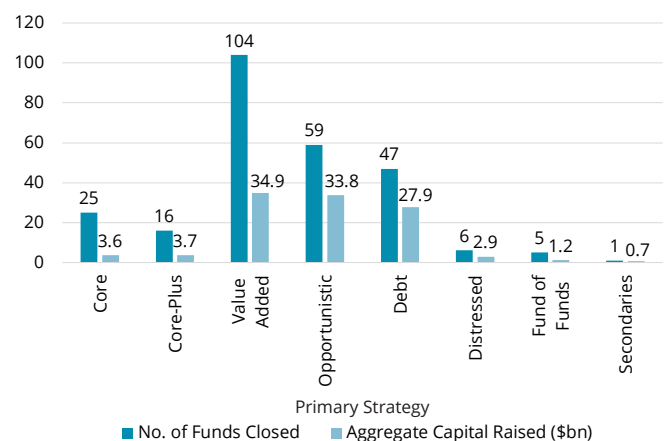
**Oliver Senchal**  
Head of Real Estate Products

Fig. 1: Global Annual Closed-End Private Real Estate Fundraising, 2011 - 2017



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising in 2017 by Primary Strategy



Source: Preqin Real Estate Online

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# INFRASTRUCTURE: BIGGER, FASTER, HIGHER

In 2017, 69 closed-end unlisted infrastructure funds reached a final close, raising \$65bn in aggregate capital. Preqin expects these figures to rise by up to 10% as more information becomes available, and it looks likely that capital totals in 2017 could mark a record high, surpassing the previous record of \$66bn raised in 2016 by 81 funds. North America made up the largest proportion of infrastructure fundraising, with 28 funds securing \$35bn, and global dry powder levels continued to increase to a new high of \$160bn.

Infrastructure fundraising was faster in 2017: the average time taken to reach a final close dropped from 26 months for funds closed in 2016 to 18 months in 2017 – a level not seen since 2009. As well as spending less time in market, more funds closed in 2017 exceeded their target size, up from 39% in 2016 to over half (54%). Average fund size has seen a similar uptick, rising to \$992mn for funds closed in 2017 from \$951mn the year before. In all, fund managers have become increasingly successful in their fundraising endeavours.

### Key Findings:

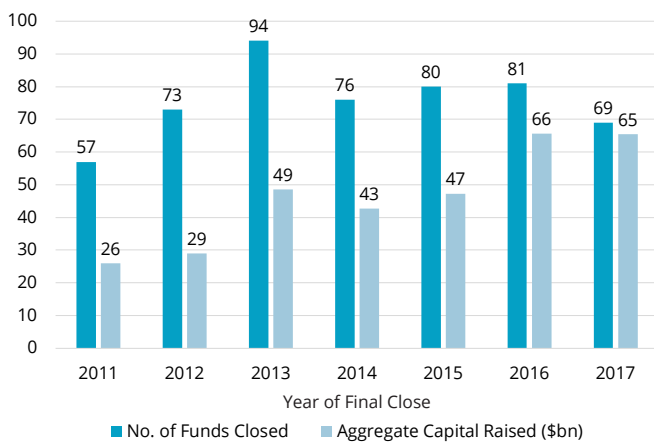
- In 2017, **69 infrastructure funds reached a final close, securing \$65bn in capital.** This is set to exceed the \$66bn raised in 2016.
- **North America-focused vehicles saw 28 funds raise \$35bn,** while 23 Europe-focused funds raised \$22bn.
- **Average fund size is at an all-time high of \$992mn,** up from \$951mn in 2016.
- **The average fund closed in 2017 spent just 18 months in market.**
- Additionally, fundraising has become more successful: **54% of funds exceeded their targets in 2017,** and just 6% achieved less than half of their target size.
- The largest fund closed in 2017 was **Global Infrastructure Partners III, which secured \$15.8bn, making it the largest infrastructure fund ever closed.**
- As at December 2017, **dry powder available to fund managers stands at a record \$160bn.**
- At the start of 2018, **there are 166 funds in market, seeking an aggregate \$122bn from investors.**

“The unlisted infrastructure market has experienced another strong fundraising year, with 2017 on track for record levels of capital raised. This reflects the sustained investor demand for infrastructure, which has allowed fund managers to raise successive record-breaking mega funds. If investor demand persists in 2018, it is possible that this fundraising momentum will continue: there are currently 166 infrastructure funds in market, seeking a record amount of capital, and many of these vehicles have already held an interim close.

Fundraising in 2017 was remarkably fast and successful: the average fund closed spent less time in market than in any year since 2009, and a significant proportion of funds exceeded their target size by a large margin. However, we are also seeing that the largest fund managers are succeeding at the expense of smaller fund managers, as capital becomes more concentrated at the top end of the market. Although the overall fundraising picture for the asset class is buoyant going into 2018, most fund managers will still find fundraising to be a long and difficult process.

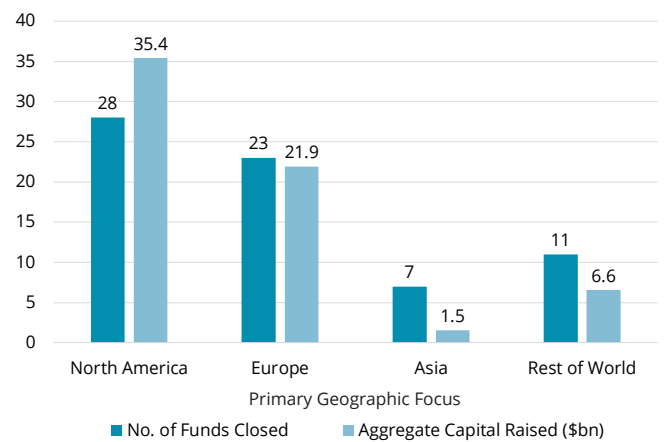
**Tom Carr**  
Head of Real Assets Products

Fig. 1: Global Annual Unlisted Infrastructure Fundraising, 2011 - 2017



Source: Preqin Infrastructure Online

Fig. 2: Unlisted Infrastructure Fundraising in 2017 by Primary Geographic Focus



Source: Preqin Infrastructure Online

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# NATURAL RESOURCES: MOMENTUM CONTINUES

The unlisted natural resources fundraising market in 2017 recorded activity broadly on par with levels seen in previous years. In total, 85 vehicles reached a final close, securing a combined \$70bn from investors. Preqin expects these figures to rise by up to 10% as more information becomes available, putting 2017 ahead of the \$71bn raised by 119 funds in 2016, and potentially approaching the record \$78bn raised in 2015.

North America, the predominant focus of the fundraising market, saw 47 funds raise a combined \$47bn, some way behind the \$57bn raised for the region in 2016. However, Europe-focused funds have registered record fundraising, as 21 vehicles secured an aggregate \$16bn, surpassing 2015's record of \$11bn. Asia- and Rest of World-focused funds experienced lacklustre fundraising, but funds that will invest across multiple regions also marked a record year, raising a total of \$4.8bn.

### Key Findings:

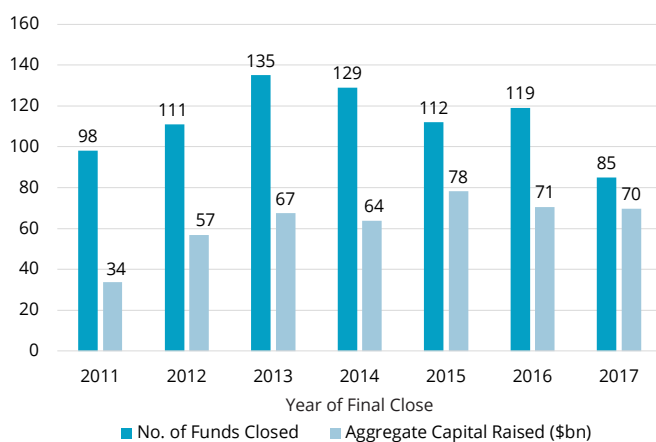
- Eighty-five unlisted natural resources funds closed in 2017, raising a combined \$70bn.
- This looks set to exceed the \$71bn raised by 119 funds in 2016, and could approach the record \$78bn that 112 funds secured in 2015.
- North America saw 47 funds secure an aggregate \$47bn, while Europe-focused funds raised a record \$16bn through 21 vehicles.
- Sixty-two energy-focused funds raised \$61bn. This accounts for 73% of fund closures and 87% of capital raised through the year.
- Dry powder available to fund managers fell to \$181bn as at June 2017 (the latest available data), down from \$196bn at the end of 2016.
- At the start of 2018, there are 241 natural resources funds in market, seeking a combined \$124bn in investor commitments.
- Of these, 156 are energy-focused funds, targeting a total of \$99bn.
- The largest fund in market is Energy Capital Partners IV, which is seeking \$6bn.

“Unlisted natural resources funds continued to see robust fundraising in 2017. Vehicles closed through the year raised a similar level of capital to funds closed in 2016, and 2017 marks the fifth consecutive year in which funds raised more than \$60bn. In particular, it is encouraging to see record activity in Europe, and for diversified multi-regional funds, although this has been offset by less capital being raised for North America and Asia.

Energy-focused funds still dominate the asset class, and it is challenging for fund managers to attract capital for funds focusing on other resource types. In the longer term, this may hinder the growth of the industry: a diverse and active fundraising market enables fund managers to build up specializations and performance track records in other resources, and will prevent the industry seeing capital concentrated among a small group of the largest fund managers.

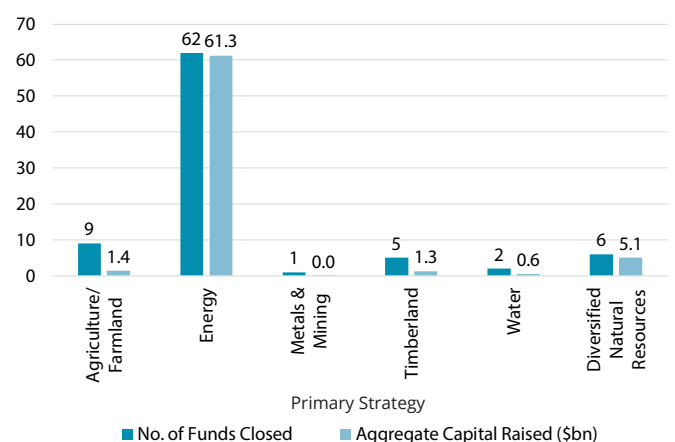
**Tom Carr**  
Head of Real Assets Products

Fig. 1: Global Annual Unlisted Natural Resources Fundraising, 2011 - 2017



Source: Preqin Natural Resources Online

Fig. 2: Unlisted Natural Resources Fundraising in 2017 by Primary Strategy



Source: Preqin Natural Resources Online

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