

Private Equity Firms Compelled to Commit Capital as End of Investment Periods Loom

25% of dry powder available to the private equity industry is held by funds closed in 2008.

GPs that closed their funds in 2008 still have a combined \$204 billion in dry powder to invest from these vehicles, the latest Preqin research reveals. As the average private equity fund investment period is five years (real estate funds are the exception), these GPs will be under a considerable amount of pressure to invest both to avoid exercising clauses to extend the agreed investment period and to provide timely returns on capital.

A record \$679 billion was raised by the 1,308 funds that closed in 2008 but there are examples of funds that closed during the boom year that have avoided investments completely until this year.

Private Equity Dry Powder: Facts as of October 2011

- An estimated \$937 billion in dry powder is available to private equity fund managers worldwide.
- 41% is held by buyout funds – which is not surprising given that they are usually much larger than their counterparts.
- Buyout funds closed in 2008 have around \$91.5 billion in dry powder available for investment, and of this, mega buyouts (funds worth \$4.5 billion or more) account for \$41.9 billion.
- Mega buyouts were hit particularly hard by the crisis as the availability of credit declined significantly; mega buyout deals are heavily financed by debt.
- Capital call-ups for buyout funds fell to a four-year low in 2009, when just \$107 billion was called up.
- A higher proportion of deals completed recently have been add-on deals, suggesting that a number of GPs are looking to consolidate their existing portfolio companies.

The full report is available here:

http://www.preqin.com/docs/newsletters/PE/Preqin_Private_Equity_Spotlight_October_2011.pdf

Comment:

“In comparison to the pre-crisis boom period, recent years have been characterized by private equity fund managers delaying their investments for longer than before. Due to the wider economic conditions and constriction of the deal market, managers are understandably showing more caution in deploying capital.

The fast-approaching end to their fund's investment period is potentially a cause for concern for those GPs that have deferred deal making; however the availability of substantial levels of capital in reserve means that, should market conditions stabilize, the industry could see a repeat of the flurry of deals and exit activity that took place throughout 2010 as managers put this cash to work and realize their investments.”

Alex Jones, Article Author

Note to editors: Preqin is spelled without the letter 'U' after the 'Q'.

About Preqin:

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

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