



Are Buyout Fund Managers Increasing the Size of Their Funds?

Louise Maddy examines the changes in the size of private equity buyout funds in recent years.

Annual buyout fundraising figures increased for the second consecutive year in 2012, to \$91bn compared to \$77bn in 2010, reflecting LPs' continued appetite for the fund type. However, GPs currently looking to raise capital from investors still face a challenging fundraising market. Fig. 1 shows that while many GPs are still able to raise funds larger than their immediate predecessor, the degree of growth has been curtailed in recent years. During 2007, over two-thirds (69%) of buyout fund managers closed a fund that was more than 50% larger than its previous fund. This proportion decreased to just over half the funds closed in 2009, and fell to 35% by 2012.

The proportion of buyout funds that are smaller in size compared to the direct predecessor in the series has increased slightly since 2007, when 13% of fund managers decreased their fund size, compared to 19% for buyout funds closed in 2012. In some cases, fund managers, even more established ones, have brought smaller sized funds to market after their preceding fund of a larger size experienced poor performance.

Mega Buyout Funds

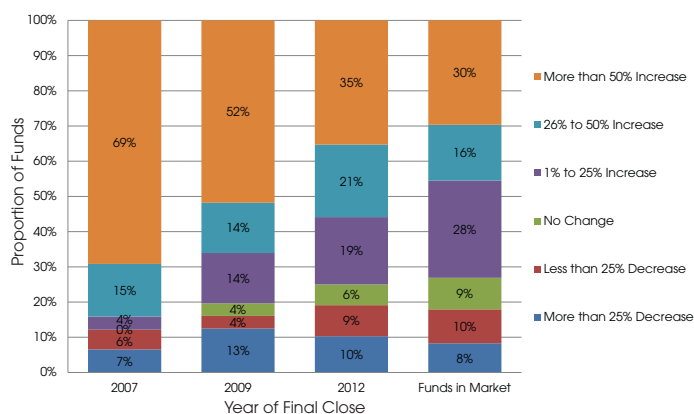
Larger funds still represent a significant proportion of the capital being raised by buyout vehicles. Mega buyout fund managers secured 34% of the buyout capital in 2012 (Fig. 2). Eleven percent of this capital was collected by the €8.5bn Advent Global Private Equity VII, the largest buyout fund to close since the beginning of the economic downturn. The four mega buyout funds to close in 2012 were each at least 10% larger than their immediate predecessor in the series. However, of the seven mega buyout funds currently raising, none are seeking more in aggregate capital than their previous fund, demonstrating that fund managers raising mega buyout funds remain cautious regarding the fundraising opportunities for the year ahead.

Outlook

With 266 buyout funds seeking \$238bn, buyout funds currently in market are looking to raise over 2.6 times the amount of capital raised by funds closed in 2012. There are still managers able to raise larger funds than the previous fund in the series, such as Ares Management, which recently raised the buyout vehicle Ares Corporate Opportunities Fund IV. The fund reached a final close in 2012 having raised an aggregate \$4.7bn, 34% more than the previous fund in the series. Large firms with established brands, strong track records, steady streams of distributions and a pipeline of compelling new deals are often still able to secure greater capital commitments from investors.

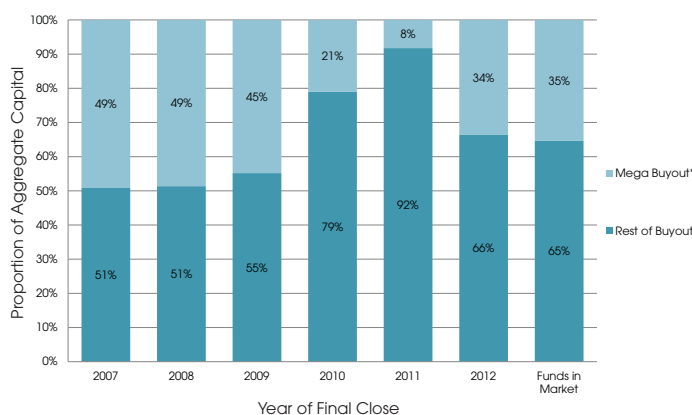
However, 55% of buyout funds currently in market are targeting the same or a smaller amount of capital than the direct predecessor in the series, indicating that many fund managers raising buyout funds still remain cautious. Additionally, until there is a significant increase in exits from portfolio companies, the supply of LP

Fig. 1: Size of Buyout Funds Compared to Predecessor Fund: 2007, 2009, 2012 and Funds in Market (As at 11 March 2013)



Source: Preqin Funds in Market

Fig. 2: Proportion of Aggregate Capital Raised by Mega Buyout Funds: 2007 - 2012 and Funds in Market (As at 11 March 2013)*



Source: Preqin Funds in Market

capital commitments to buyout fund managers is likely to remain constricted. In light of the intense competition in the marketplace, buyout fund managers looking to raise capital from investors are more likely to succeed if they can demonstrate a strong track record and compelling offering in order to secure LP investments.

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*Buyout Fund Size Ranges: Vintage 2005-2012: Small Buyout ≤ \$500mn, Mid Buyout \$501mn-\$1,500mn, Large Buyout \$1,501mn-\$4.5bn, Mega Buyout > \$4.5bn.