

Californian Alternative Assets Industry Reaches Record \$732bn in AUM

Private equity and hedge fund managers challenge venture capital prominence

Preqin's latest research finds that although California is best known for its venture capital industry, the state has seen marked growth and diversification of its alternatives market, as other private capital and hedge fund managers are drawn to the area. The number of active California-based private capital firms has more than trebled since the start of 2000, and there are now a record 949 active fund managers. Additionally, 233 hedge fund managers have been incepted in the state since 2010, leading to the launch of 750 new hedge funds. Unsurprisingly, the growth in the number of California-based managers has led to an increase in assets under management (AUM); the private capital industry (including venture capital) has increased to \$464bn as of the end of 2015, while hedge funds control \$268bn worth of assets.

Despite this growing diversification, venture capital remains an important part of the industry in California, and one that has continued to grow over recent years. In 2016 so far, 75 funds have closed, raising a record \$20bn: this means that 2016 has already surpassed the previous full-year fundraising record of \$19bn, secured by 116 funds in 2014. The assets held in the California-based VC industry have also risen to a peak of \$156bn as of the end of 2015, up from \$145bn at the end of 2014. Despite this, the level of unspent capital held by venture capital fund managers in California has stayed fairly steady, growing from \$38bn to \$40bn over the same period. This indicates that firms are able to deploy capital into investment opportunities at a rate to match their increased level of fundraising.

Other Key Facts on Alternative Assets in California:

- **Venture Capital Deals:** In 2016 YTD, there have been 898 VC deals concluded in California, worth an aggregate \$22bn. **The \$11bn worth of VC deals seen in Q2 2016 equals the previous quarterly record,** which was set in Q2 2015.
- **Buyout Deals:** Buyout deal activity has been sluggish in California so far in 2016; just **148 transactions have been concluded for a combined \$14bn.** This is some way off the \$30bn worth of deals seen in all of 2015, while the aggregate deal value of \$2bn in Q2 was the lowest since Q1 2013.
- **Real Estate Deals:** Of all private equity real estate deals completed in the US in 2016 YTD, **California accounts for nearly a fifth (19%) of both the number and the aggregate deal value.** This marks an increase from 2015, when California represented 17% of deals, and 16% of total deal value.
- **Hedge Fund Strategies:** **California is the third largest state by hedge fund assets, after New York and Connecticut.** The majority of active hedge funds (56%) in California operate an equity strategy, with event driven strategies representing the next highest proportion (11%).
- **Investors:** A total of **459 institutional investors in California invest in at least one alternative asset class.** CalPERS and CalSTRS are the largest investors in private equity and real estate, while the Regents of the University of California currently allocate the most capital to hedge funds.

To access further information and analysis, please see the full report below:

<https://www.preqin.com/docs/reports/Preqin-Special-Report-California-Alternatives-September-2016>

Comment:

"While California is most famed for its venture capital sector, the state is seeing increased growth and diversification across the entire alternatives industry, and is certainly one of the most prominent areas of the US. The private equity industry is seeing strong activity, with fundraising in 2016 set to approach the record levels achieved in 2008, while a record number of hedge funds have already been launched in 2016. Private closed-end real estate is still in its infancy in California, but the past few years have seen strong fundraising and the industry looks set to expand.

Despite this growth in other areas of the alternative assets industry, the venture capital industry remains prominent in the state. The total value of deals in the region has risen enormously since the start of 2014, and 2016 has already broken the previous full-year fundraising record. Although much has been made recently of the venture capital boom in China and India, it is clear that there is a lot of potential for growth left in the industry in California."

Felice Egidio – Head of Venture Capital Products, Preqin

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Note to Editors:

- Preqin is spelled without the letter 'U' after the 'Q', the company name being an amalgamation of the former name, Private Equity Intelligence.

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.

Preqin has built a reputation in the alternative assets industry for providing the most comprehensive and extensive information possible. Leading alternative assets professionals from around the world rely on Preqin's services daily, and its data and statistics are regularly quoted by the financial press. For more information, please visit: www.preqin.com

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