First-Time Private Capital Funds Consistently Outperform More Experienced Counterparts

Investors increasingly willing to look beyond established fund managers in congested fundraising marketplace

Preqin's report on first-time funds in the private capital industry – including the private equity, private debt, real estate, infrastructure and natural resources sectors – finds that first-time funds over recent years have consistently outperformed vehicles run by established managers. Over the vintage years 2000-2012, the median net IRR of first-time private capital funds has been superior to that of all other funds in all but one year (2004), while some years have seen a large disparity in terms of the returns generated by first-time funds. Among 2002 vintage funds, for example, first-time funds saw a median net IRR of 16.90%, compared to 10.80% generated by successor funds.

Investor sentiment is also warming to the prospect of committing to first-time private capital funds, partly as a response to increasing pressure to find attractive investment opportunities; investors across all asset classes surveyed by Preqin in June 2016 stated that it is now harder to source good opportunities. Fifty-one percent of investors also said that they would invest in a first-time fund, up from 39% in 2013, while just 41% of investors stated in June that they would not commit to firms raising their first ever fund, down by 15 percentage points from 2013. The survey indicates a distinct transition from institutional investors as access to the largest and best-regarded firms becomes increasingly limited, and hints that first-time fundraising could be on the cusp of significant growth.

Other Key First-Time Private Capital Funds Facts:

- Best Performing Funds: Of all first-time private capital funds, the best performing vehicle is the AMWIN Innovation Fund; **the AUD 42mn fund focused on Australasia boasts a net IRR of 1,015.7%**. The next two best performing funds are Aravis Energy I and Crescendo I, with IRRs of 448.0% and 447.4% respectively.
- Access to Funds: Across the private capital spectrum, investors stated that it was harder to find attractive investment opportunities compared to 12 months ago. For example, **57% of real estate investors believe that it is now harder to find attractive investment opportunities**, while just 3% think it is easier.
- Funds in Market by Region: **There are currently 863 first-time funds in market targeting a combined $155bn of investor capital**. Of these, the largest proportion are venture capital funds (44%), while real estate (14%) and growth (12%) funds are also well represented.
- Largest Funds in Market: The largest private capital first-time fund in market is **the Georgian Co-Investment Fund, run by GCF Partners, which is targeting $6bn** and is looking to make investments primarily in Georgia. Four of the ten largest funds are seeking to invest in infrastructure, the most of any strategy.

To access further information and analysis, please see the full report below:
https://www.preqin.com/docs/reports/Preqin-Special-Report-Making-the-Case-for-First-Time-Funds-November-2016.pdf

Comment:

"Traditionally, first-time funds have faced difficulties when securing capital commitments from investors, due to the nature of traditional closed-end fund due diligence which often relies on track record, firm and investment history. As closed-end private capital vehicles are long-term and illiquid investments, many investors do not feel comfortable committing such high levels of capital to unproven managers, especially as many of these first-time funds focus on niche strategies and geographies.

However, as the marketplace becomes ever competitive investors are growing more willing to commit to managers setting out on their first fundraising process. Many investors have been rewarded for choosing this strategy; strong (and in some cases, exceptional) fund performance, increased portfolio diversification, and experience with niche strategies are just some of the benefits that they have seen as a result."

Leopold Peavy – Head of Investor Products, Preqin

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.

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For more information, please contact: William Clarke +44 (0)20 3207 0265 or press@preqin.com