

Private Equity Firms Distribute Record \$443bn to Investors in 2015

In third successive year of record distributions, private equity investors receive record net capital flows of \$217bn as call-ups decrease

Preqin's quarterly update on the private equity industry finds that fund managers returned a record \$443bn to their investors through the year. This represents a slight increase from the \$424bn they distributed in 2014, and is the third consecutive year in which the level of returned capital has hit a record high. This is compounded by the falling level of investor capital that fund managers called upon through the year, which fell from \$265bn in 2014 to \$226bn in 2015. This means the total net cash flow for private equity investors in 2015 was a record \$217bn, accounting for the majority of the combined \$335bn in net capital flowing to investors across the private capital industry.

However, the lower levels of capital called up from investors has spurred the total level of capital waiting to be deployed by fund managers to new record highs. As of the end of 2015, the private equity industry held a total of \$2.41tn in assets, of which \$1.66tn was the unrealized value of investments still held by fund managers, and \$757bn was dry powder. As of the end of Q3 2016 however, the total dry powder in the industry has risen sharply to \$839bn, far above any level previously seen. With so much capital available to fund managers, valuations are becoming an increasing concern for the industry, and some high-profile investors have downgraded the projected performance of their private equity commitments.

Other Key Private Equity Performance Facts:

- **Private Equity Performance:** In the year to the end of December 2015, buyout funds recorded an average IRR of 17.1%, well above any other private equity fund type. In the three years to the end of 2015, both buyout and venture capital funds recorded average IRRs above 18%, while over longer periods mezzanine funds offered the greatest rate of return.
- **Median and Quartile IRRs:** The gap between top and bottom quartile private equity funds has been widening among recent vintage funds. Median net IRRs have been rising, and 2012 vintage funds have the highest of any vintage (+15.1%). However, **since vintage year 2009, top quartile funds have all recorded IRRs of more than 20%**, while bottom quartile funds have not exceeded 10%.
- **Buyout Deal Values:** Given the continued increase in dry powder available to fund managers, and the effect of rising asset pricing, it is perhaps unsurprising that **the average size of private equity buyout-backed deals has increased in recent quarters**, rising from \$372mn in Q2 2016 to \$405mn in Q3. Despite this, the overall level of capital deployed by buyout funds is comparable between the two quarters.

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

<https://www.preqin.com/docs/quarterly/pe/Preqin-Quarterly-Private-Equity-Update-Q3-2016.pdf>

Comment:

"2015 witnessed record levels of private equity capital distributions and also marked the fifth consecutive year in which distributions outstripped capital calls. With the industry returning so much capital to its investors, it is unsurprising that investor satisfaction and confidence in the asset class remains high, with many investors stating in June that they planned to make further commitments before the end of 2016, and target allocations trending upwards across the industry.

However, this level of distributions means that in order to fulfil these stated allocation aims, many investors have directed more and more capital to the asset class. This level of fundraising has contributed to a massive build-up of capital waiting to be deployed by fund managers, and the total dry powder available to the industry climbs ever higher. The consequences of this 'wall of capital', coupled with high asset pricing, are being seen in the difficulty many managers are reporting in finding attractive investment opportunities. Ultimately, it may be that these factors result in the net capital flow to investors in the coming year being lower than has been seen in recent years."

Christopher Elvin – Head of Private Equity 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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