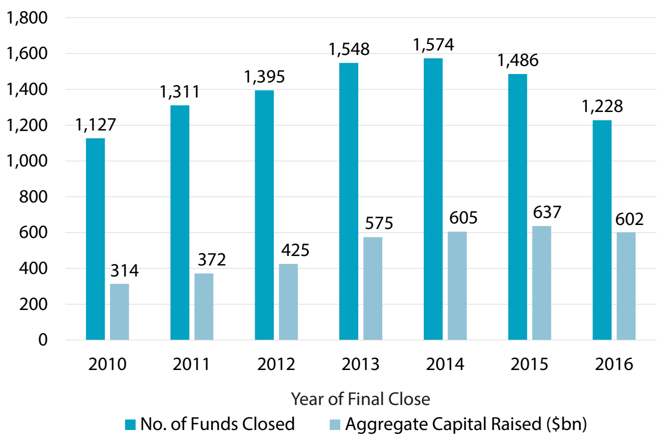
PRIVATE CAPITAL IN 2016: CONTINUING 2015'S MOMENTUM

The private capital industry has been enjoying a sustained period of strong fundraising, accumulating over $2.8tn over the past five years. Fund managers have benefitted from growth in investor demand: institutional investor appetite for private capital has increased over recent years and 79% currently invest in the industry. A similar proportion of investors have a positive or neutral perception of private capital, according to Preqin's latest survey in December 2016.

2016 has followed this pattern, with over a thousand funds reaching a final close, securing $602bn in commitments (data as of 3 January 2017). As more information becomes available, Preqin expects this figure to rise by up to 10%, which would see 2016 fundraising approach the pre-GFC record levels seen in 2008. However, it has not been a uniformly successful year. While the infrastructure market is celebrating a banner fundraising year, natural resources and private debt funds are both struggling to replicate the successes they experienced in 2015. At the same time, more capital across the industry is flowing to the largest funds, leaving smaller fund managers having to work harder to secure commitments from investors.

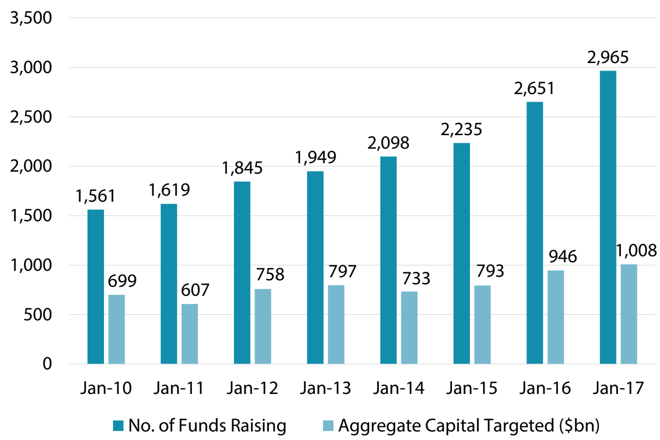
Looking to 2017, this growth period does not show many signs of ending in the coming months. Nearly 3,000 funds are currently in market at the start of the year, seeking in excess of a trillion dollars from investors. At the same time, dry powder in almost all asset classes has risen over the past 12 months, and now stands at $1.47tn across the industry. This level of activity brings its own set of challenges, as fund managers and investors must both work hard to find the opportunities that best appeal to them. However, the industry as a whole remains very much on the rise, and the year ahead could see private capital propelled even more into the financial mainstream.

Fig. 1: Global Annual Private Capital Fundraising, 2010 - 2016



Source: Preqin

Fig. 2: Private Capital Funds in Market over Time, 2010 - 2017 (As at 3 January 2017)



Source: Preqin

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Please note, all data is correct as at 3 January 2017; figures are subject to upward revisions as further information becomes available.

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PRIVATE EQUITY: ANOTHER SUCCESSFUL YEAR

2016 was another robust year for the private equity fundraising market; 807 funds closed globally, raising a combined $345bn (data as of 3 January 2017). Preqin expects these figures to rise by up to a further 10% as more information becomes available, which will put 2016 beyond the post-Crisis record of $348bn seen in 2014. This also marks the fourth consecutive year in which annual fundraising totals have exceeded $300bn, although it remains some way off the nearly $400bn raised by funds closed in 2007 and 2008.

Although the aggregate capital raised through the year was greater than in 2015, the number of funds closed was lower, down from 944 to 807 in 2016 Consequently, the average fund size in 2016 reached a record $476mn, surpassing the previous record of $446mn for funds closed in 2007.

FUNDRAISING SUCCESS

Private equity funds have been growing more successful in their fundraising efforts over recent years. 2016 has seen the fourth consecutive annual decline in the proportion of funds failing to reach their target size at final close, down from 41% of funds closed in 2012 to a new low of 25% of funds closed in 2016. At the same time, the proportion of funds that have exceeded their target size has risen, from 33% for funds closed in 2012 to half of funds closed in 2016. However, the proportion of funds that closed on 125% or more of their target size fell across the year, down from 24% of 2015 funds to 19% of 2016 funds.

FUNDS IN MARKET

Perhaps in part due to the recent strength of the fundraising market, the number of new vehicles being marketed to investors has been climbing over the past few years. At the start of 2016, 1,630 private equity funds were on the road; a year later, this figure has climbed to a new record of 1,835 vehicles seeking investment.

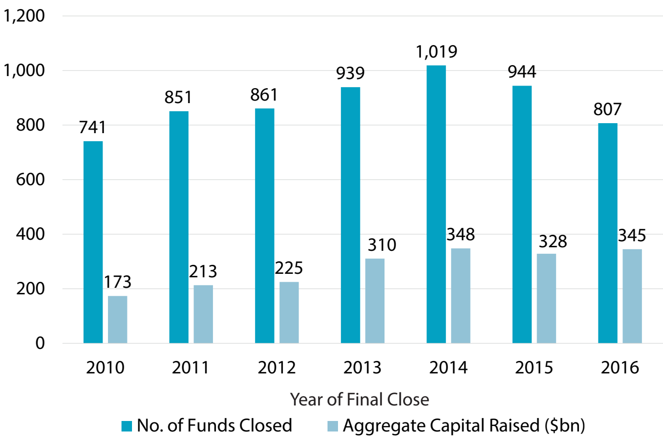
At the same time, the total capital being targeted by private equity funds in market has surpassed half a trillion dollars. Funds being marketed to investors at the start of 2016 were seeking a combined $488bn in capital commitments, but at the start of 2017 private equity funds on the road are seeking an aggregate $526bn.

“2016 has been another banner year for the private equity industry, and fundraising has continued the period of robust capital levels recorded in recent years. The record levels of capital distributed to private equity investors in recent years has prompted growing demand for access to vehicles in market. This has allowed fund managers to raise ever larger sums, often exceeding the levels of capital they were initially seeking, and the average size of private equity funds closed in 2016 has exceeded even that seen during the boom days of 2007-2008.

At the same time, an increasing number of new funds are coming to market, and this level of activity has reached successively record-breaking levels. Managers marketing new funds judge that investor demand is high and that they will be able to attract capital to their vehicles. However, the congested nature of the marketplace can make the fundraising process difficult, especially for smaller or less experienced managers, who will need to find effective ways of differentiating themselves and their funds.

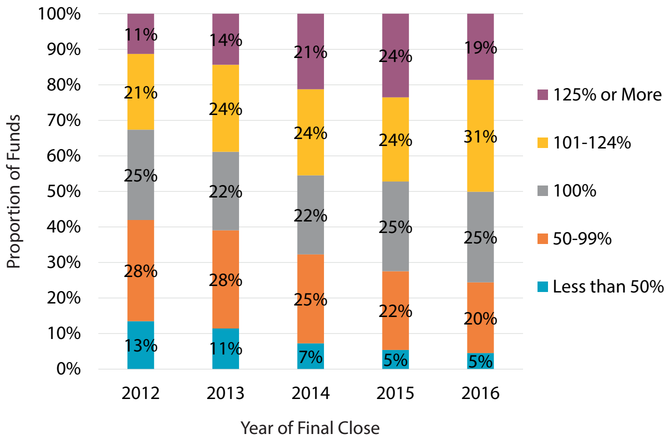
Christopher Elvin
Head of Private Equity Products

Fig. 1: Global Annual Private Equity Fundraising, 2010 - 2016



Source: Preqin Private Equity Online

Fig. 2: Proportion of Target Size Achieved by Private Equity Funds, 2012 - 2016



Source: Preqin Private Equity Online

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PRIVATE DEBT: LOWER AND SLOWER IN 2016

2016 saw 119 private debt funds close globally, raising a combined $74bn (data as of 3 January 2017), with Preqin expecting these figures to rise by up to a further 10% as more information becomes available. Although fundraising does not seem likely to approach the $96bn raised by private debt funds closed in 2015, it is on par with the $78bn and $75bn raised in 2013 and 2014 respectively.

However, this level of capital has been accrued by a lower number of funds than has been seen in recent years. 2016 seems set to see the lowest number of fund closures since 2012 (110), as the pace of fundraising slows: funds closed in 2016 spent an average of 20 months being marketed to investors, a sharp increase on the 16-month average for funds closed the year before.

FUNDRAISING BY TYPE

Direct lending funds account for the highest number of vehicles closed through the year, with 43 such funds raising a combined $21bn. This level of capital was equalled by distressed debt funds, despite just 15 funds of this type closing in 2016, while 33 mezzanine funds raised an aggregate $26bn, the lowest number of closures since 2012 (30). Conversely, direct lending dominates those funds currently seeking investment. Of the 293 funds in market, 131 are direct lending vehicles, and these funds are seeking $56bn of the $132bn targeted in total. Just 42 distressed debt funds are targeting $40bn, while 59 mezzanine vehicles are seeking a combined $15bn in capital commitments.

CAPITAL CONCENTRATION

Part of the reason for the pace of fundraising slowing in 2016 may be that capital is increasingly being concentrated among a small coterie of experienced fund managers. The top 10 largest private debt funds closed in the year are all multibillion-dollar vehicles, and collectively they account for $35bn, 47% of the total capital raised for the asset class.

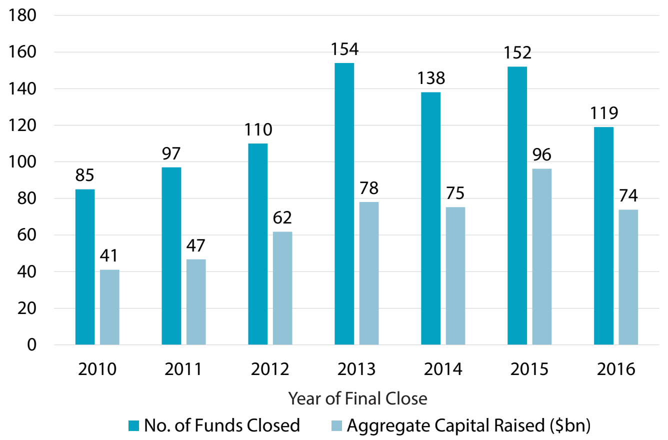
Of these funds, five are focused on distressed debt, while two take a direct lending approach and the three largest are mezzanine funds. All are based in the US and concentrate on the more mature private debt markets of Europe and the US.

“After seeing fundraising almost break $100bn in 2015, many thought that 2016 could be an historic year for the private debt market, perhaps approaching the record levels of activity seen in 2008. In fact, the market has cooled through the year, with fewer funds reaching a final close, raising less capital and at a slower pace. While this is by no means a cause for concern, it will be interesting to see if this slowdown reverses in 2017, or if it is a more long-term trend.

With that said, investor interest in the private debt market remains strong, and there are plenty of vehicles currently out seeking investment. The difficulty for smaller managers will be in capturing investor attention away from the largest fund managers: these firms continue to dominate the fundraising market, and are able to raise ever-larger funds that account for a growing proportion of the industry.

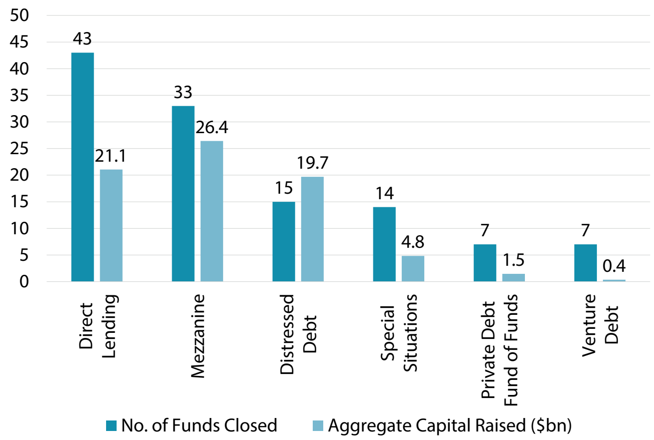
Ryan Flanders
Head of Private Debt Products

Fig. 1: Global Annual Private Debt Fundraising, 2010 - 2016



Source: Preqin Private Debt Online

Fig. 2: Private Debt Fundraising in 2016 by Fund Type



Source: Preqin Private Debt Online

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REAL ESTATE: STRONG ACTIVITY IN 2016

The closed-end real estate fundraising market has recorded another strong year in 2016, as 214 funds closed globally raising an aggregate $104bn (data as of 3 January 2017). This marks the fourth consecutive year in which fundraising for the asset class has exceeded $100bn, and given that Preqin expects these figures to rise further by up to 10% as more information becomes available, 2016 could approach the post-Global Financial Crisis record of $123bn raised by funds closed in 2015.

However, this capital is increasingly being concentrated among fewer fund managers: 2016 is set to record the lowest number of funds closed since 2009 (211), and represents the fourth annual decline in fund closures, down from a post-GFC peak of 311 funds that closed in 2012.

FUNDRAISING BY STRATEGY

Opportunistic funds raised the most capital, securing a combined $39bn from investors, more than any other strategy, but falling well below the $60bn raised in 2015. Value added funds were most numerous, with 78 offerings raising $24bn.

Core and core-plus vehicles also saw fundraising fall in 2016, securing a combined $11bn, down from $14bn the year before. By contrast, debt funds raised an aggregate $20bn through the year, up from $16bn in 2015, and 2016 fundraising may approach the record $26bn raised for the strategy in 2014.

DRY POWDER

The total level of capital available to fund managers has been climbing over recent years, from a low of $136bn at the end of 2012 to $229bn as of the end of 2015. The growth in dry powder levels has accelerated in 2016, and at the end of the year the total figure for the industry stands at $237bn, a record high.

FUNDS IN MARKET

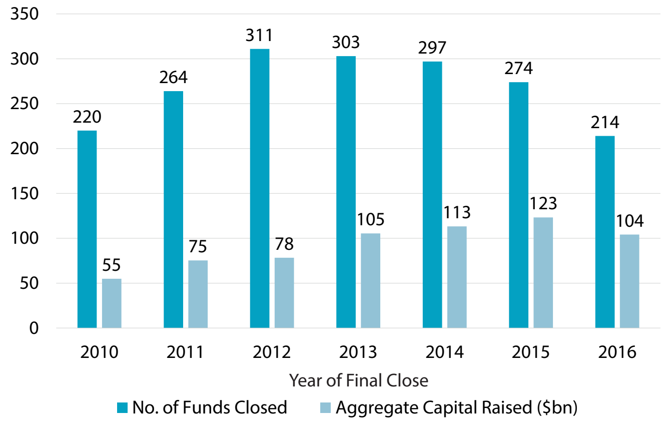
At the start of 2017 there are a record 533 closed-end private real estate funds in market, seeking a combined $189bn from investors. This is an increase in both the number of funds and the aggregate capital targeted compared to a year ago, when 489 vehicles were seeking a total of $174bn.

"2016 has been another robust year of fundraising for private real estate funds, continuing a pattern of strong investor demand seen over the past few years. While individual annual fundraising totals do not match those seen in 2007-2008, the industry has raised more than $446bn in the past four years, level with the cumulative total for the period between 2005 and 2008, which reflects the sustained institutional appetite for real estate.

Pricing for prime assets appears to be impacting investor demand for core and core-plus strategies, with fundraising falling in 2016. In contrast, debt fundraising has increased, perhaps reflecting investor appetite for reliable income and a substitute for fixed income investments. Value added and opportunistic funds remain the largest part of the real estate sector, with a significant amount of investor capital seeming to move up the risk/return curve, seeking the potentially greater returns offered by higher-risk vehicles.

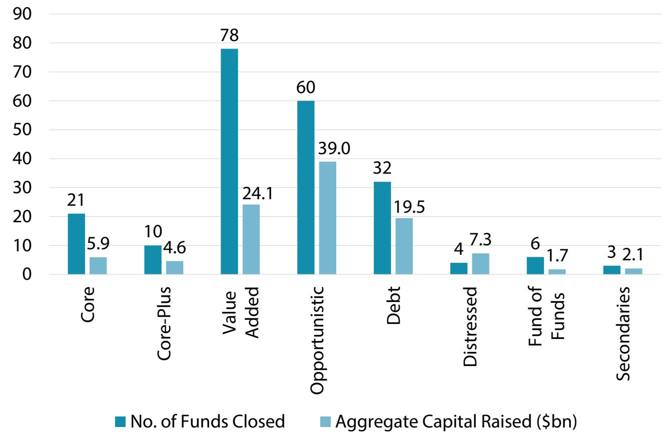
Andrew Moylan
Head of Real Estate Products

Fig. 1: Global Annual Closed-End Private Real Estate Fundraising, 2010 - 2016



Source: Preqin Real Estate Online

Fig. 2: Closed-End Private Real Estate Fundraising in 2016 by Primary Strategy



Source: Preqin Real Estate Online

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INFRASTRUCTURE: INDUSTRY SEES RECORD YEAR

Fifty-one unlisted infrastructure funds closed globally in 2016, raising a combined $58bn in investor capital, a notable increase on the $44bn secured the previous year (data as of 3 January 2017). This marks the highest annual fundraising total the industry has ever seen, and Preqin expects these figures to rise further by up to 10% as more information becomes available.

Although 2016 marked a record fundraising year, it is also set to see the lowest annual number of funds closed since 2011 (57), as capital becomes increasingly concentrated among a smaller pool of experienced firms. This is reflected in the closure of the largest ever unlisted infrastructure fund in 2016: Brookfield Infrastructure Fund III reached a final close in July on $14bn.

SPEED AND SUCCESS

Infrastructure funds closed in 2016 tended to raise capital quicker and more successfully than those closed in previous years. On average, funds closed through the year spent 18 months being marketed to investors, significantly fewer than the 27 months recorded by vehicles closed in 2015; this marks the fastest average fundraising speed seen since 2009.

At the same time, the proportion of funds meeting or exceeding their fundraising targets at close has risen sharply. In 2015, half of all unlisted infrastructure funds closed below their target size, but in 2016 this proportion fell to a third. Moreover, the proportion of vehicles surpassing their target rose from 37% in 2015 to 55% in 2016, the highest success rate ever recorded by Preqin.

FUNDS IN MARKET

Perhaps as a result of the fundraising success seen in 2016, more unlisted infrastructure vehicles have continued to come to market over the past year. As of the start of 2017, a record 193 funds are being marketed to investors, the third consecutive annual increase since a low of 145 funds on the road at the start of 2014.

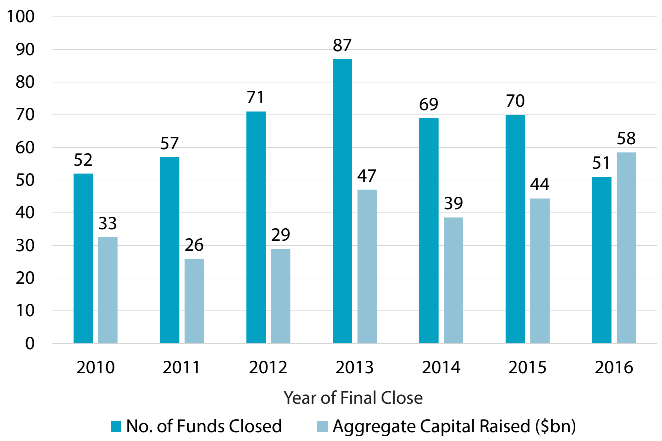
However, the total capital targeted by these funds has fallen slightly, and now stands at $118bn. Of this total, the top 10 largest funds on the road are seeking a combined $42bn in capital commitments – 36% of the aggregate capital sought by vehicles – which includes Global Infrastructure Partners III, targeting $12.5bn with a hard cap of $15bn.

"2016 has been something of a flagship year for unlisted infrastructure fundraising, with a record level of capital commitments secured and the closure of the largest ever infrastructure fund. Investor enthusiasm has been stoked by the potential for long-term, stable returns that the asset class offers, while recent performance has also been robust. As a result, the largest and most experienced fund managers have had little problem in quickly raising significant levels of capital.

However, the environment remains trickier for smaller managers without the proven track record or human capital to secure such large levels of investor commitments. As competition for blue-chip assets increases, these firms may begin to look towards alternative geographies and investment strategies to ensure that their vehicles can stand out in a crowded fundraising marketplace. Performance over the next few years will also be key, so that managers can begin to establish a solid track record and reputation, crucial factors when marketing future vehicles to investors.

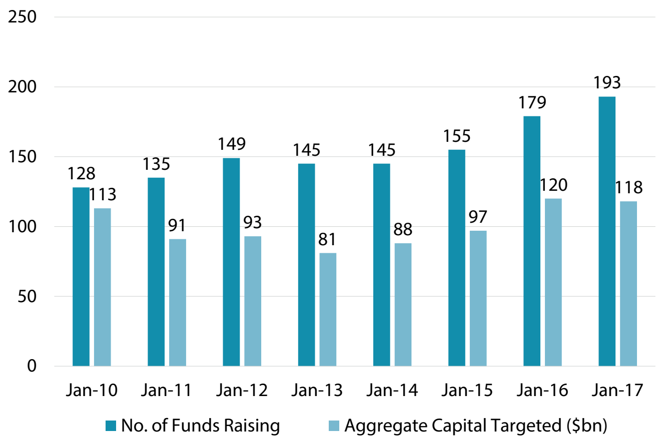
Tom Carr
Head of Real Assets Products

Fig. 1: Global Annual Unlisted Infrastructure Fundraising, 2010 - 2016



Source: Preqin Infrastructure Online

Fig. 2: Unlisted Infrastructure Funds in Market over Time, 2010 - 2017 (As at 3 January 2017)



Source: Preqin Infrastructure Online

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NATURAL RESOURCES: US ENERGY DOMINATES 2016

The natural resources fundraising market declined in 2016, as 70 funds closed globally, raising a combined $58bn (data as of 3 January 2017). Although Preqin expects these figures to rise by up to a further 10% as more information becomes available, it represents a decrease in both the number of funds closed and the aggregate capital raised compared to 2015, when 91 funds raised a record $74bn in investor commitments.

In fact, this level of fundraising represents the third consecutive annual fall in the number of natural resources funds reaching a final close, down from a peak of 126 funds that closed in 2013. However, the total capital raised through the year does seem on par with fundraising levels seen in 2013-2014, suggesting that 2015 was potentially an anomalous year, and 2016 is more indicative of long-term activity levels.

NORTH AMERICAN ENERGY

Fundraising through the year was dominated by North America- and energy-focused vehicles. Thirty-eight North America-focused funds raised a combined $45bn, accounting for 54% of the total funds closed and 78% of aggregate capital. By contrast, 10 Europe-focused funds raised $7bn, and four Asia-focused funds raised just $0.4bn.

Similarly, 46 energy-focused funds closed in 2016 raising an aggregate $51bn, representing 66% of the number of funds closed and 88% of the aggregate capital raised by the industry. This compares with 13 agriculture funds that raised $2.8bn through the year, and five metals & mining funds which raised just $2.1bn.

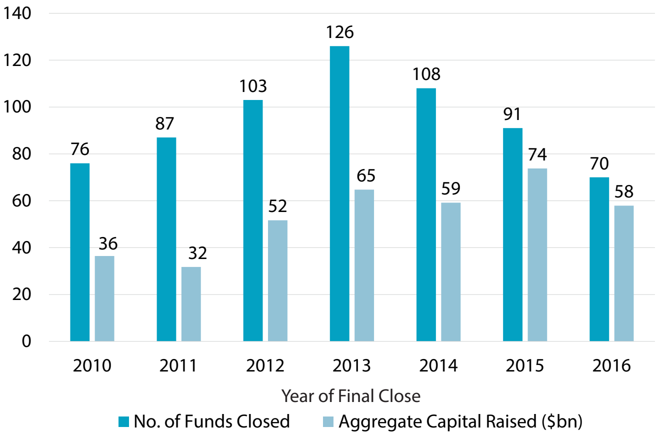
LARGEST FUNDS

Of the top 10 largest natural resources funds that reached a final close in 2016, all 10 are focused on energy-related assets, and all but one focus on projects in the US. Together, these 10 funds alone raised $38bn, two-thirds of all natural resources capital raised through the year.

However, there is more variety shown among those unlisted funds which are currently seeking funds from investors. North America and energy remain the most common foci for these vehicles, but even among the largest funds in market there are funds that focus on metals & mining or agriculture assets, as well as Europe-, Asia- and Australasia-focused offerings.

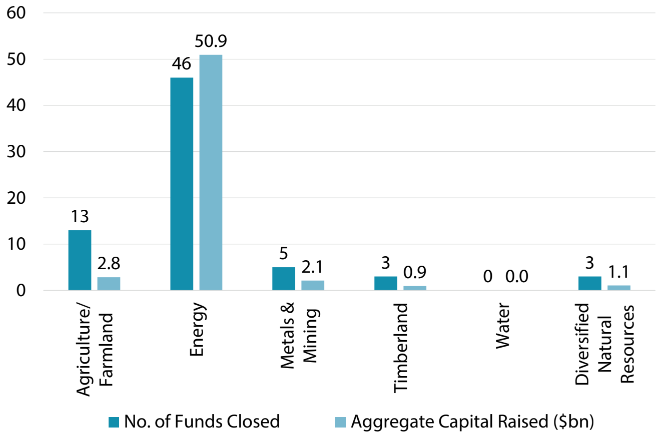
> *"The unlisted natural resources fund management industry has suffered in recent years from broader adverse conditions present in the energy and mining industries. As a result, 2016 has not replicated the successes seen the year before, and fundraising levels have fallen. Furthermore, what fundraising activity there has been has been heavily weighted towards energy assets in the US, as fund managers avoid speculative projects in favour of more mature and stable markets.*
>
> *However, there is more diversity present among those funds that are currently in market, and we may see more balanced fundraising figures going into 2017. In particular, large vehicles focused on mining and agriculture may see these sectors account for a greater proportion of activity than in 2016. At the same time, the maturity and growing public and legislative acceptance of renewable energy assets, particularly in Europe, may see more funds begin to focus on the region rather than oilfields in North America.*
>
> **Tom Carr**
> **Head of Real Assets Products**

Fig. 1: Global Annual Unlisted Natural Resources Fundraising, 2010 - 2016



Source: Preqin Natural Resources Online

Fig. 2: Unlisted Natural Resources Fundraising in 2016 by Primary Strategy



Source: Preqin Natural Resources Online

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