

# Private Capital Fundraising Stays Slow in Q2

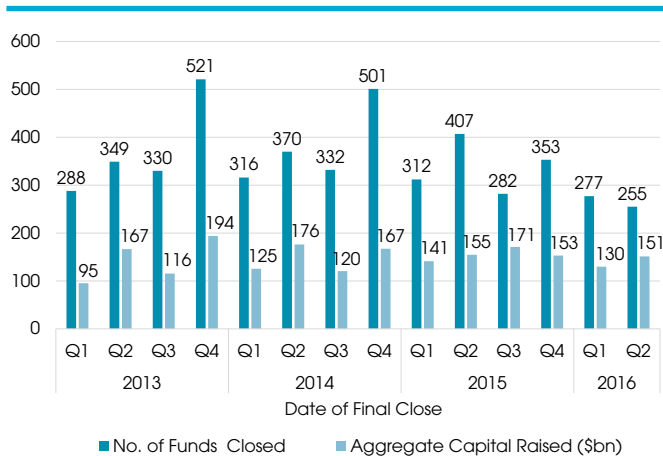
Mark O'Hare - Chief Executive, Preqin

2016 has thus far proved to be a cautious year for fundraising in the private capital industry. Macro factors in emerging regions and commodities markets continued into the first part of the year, and ongoing political controversy in the US and Europe have seen markets remain volatile.

It is perhaps unsurprising, then, that private capital has seen its lowest level of fundraising in H1 in three years; funds closed so far in 2016 have raised a combined \$281bn, down from almost \$300bn raised in the first half of last year. Although Preqin expects these numbers to rise by 10-15% as more information becomes available, Q2 2016 fundraising represents a retreat from near-record levels seen in recent quarters.

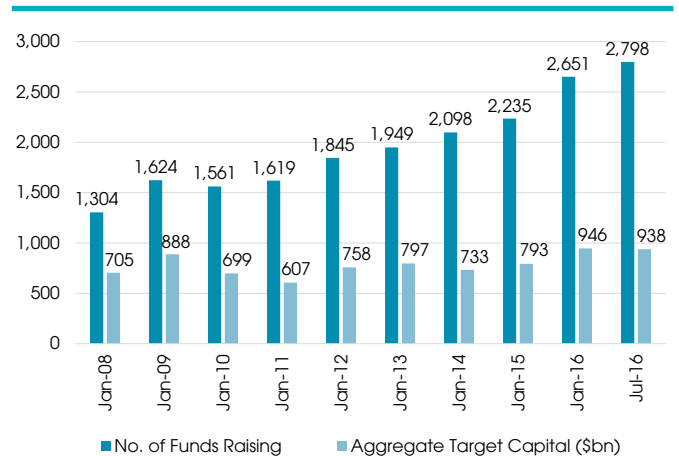
Despite this, more fund managers have continued to come to market with new vehicles in the first part of the year. The total number of private capital funds on the road now stands at 2,798, which are seeking a combined \$938bn. This is an increase in the number of funds in market, but a decrease in the aggregate capital targeted compared to the start of the year. This is the first such reduction since 2014, and is perhaps a sign of smaller funds accounting for a large proportion of new market entrants.

**Fig. 1:** Global Quarterly Private Capital Fundraising, Q1 2013 - Q2 2016



Source: Preqin Online Products

**Fig. 2:** Private Capital Funds in Market by Fund Type (As at 1 July 2016)



Source: Preqin Online Products

## Contents

Private Equity	2
Private Debt	3
Real Estate	4
Infrastructure	5
Natural Resources	6

Please note, all data is correct as at 1 July 2016; figures are subject to upward revisions as further information becomes available.

# North America Drives Private Equity Fundraising in Q2 2016

The private equity fundraising market accelerated in Q2, as 180 funds closed securing a combined \$101bn. Given that these numbers are expected to rise 10-15% as more information becomes available, the aggregate capital secured by funds closed in the quarter looks set to approach the record \$112bn seen in Q4 2013. However, while the number of funds closed almost matches the 186 funds closed in the previous quarter, it falls some way short of the 261 funds that closed in the same period last year.

North America-focused funds were the key driver of growth in the quarter; 96 funds focused on the region raised \$60bn, accounting for 59% of the aggregate capital raised globally. By contrast, Europe saw 44 private equity funds raise just \$33bn, of which the Ardian Secondary Fund VII accounts for \$10.8bn. Only 11 buyout funds focused on the region closed, securing an aggregate \$13bn. Elsewhere, 33 Asia-focused funds raised \$6bn through the quarter, while seven funds focused on Rest of World raised \$1.3bn.

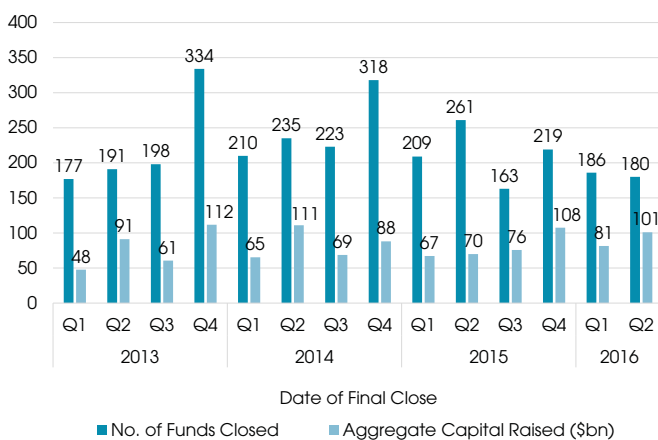
- **Fundraising Success:** The majority (54%) of private equity funds closed in H1 2016 have closed above their target size, a record high. Just 21% of funds have closed below their target size, down from 28% of funds that did so in 2015.
- **Dry Powder:** The level of uncalled capital available to fund managers of core private equity strategies hit new record highs, rising from \$745bn at the end of 2015 to \$818bn as of the end of June 2016.
- **Funds in Market:** As of the start of July, there are 1,720 private equity funds in market worldwide, targeting an aggregate \$447bn, compared to 1,630 funds that were seeking \$488bn at the start of the year. This is the first reduction in aggregate target capital since the start of 2014.

“The second quarter of the year has seen robust fundraising activity, with over \$100bn raised globally, despite the relatively low number of funds closed. This highlights the continuing trend seen of increased amounts of capital being allocated to a smaller number of experienced fund managers.

Global uncertainties surrounding the US presidential election and the British EU referendum have continued to cast a shadow over the industry, and while North America-focused fundraising has been robust, Europe seems to be experiencing a more cautious environment. With volatility persisting in the wake of Britain’s EU referendum result, we can expect further uncertainty to affect the European fundraising market.”

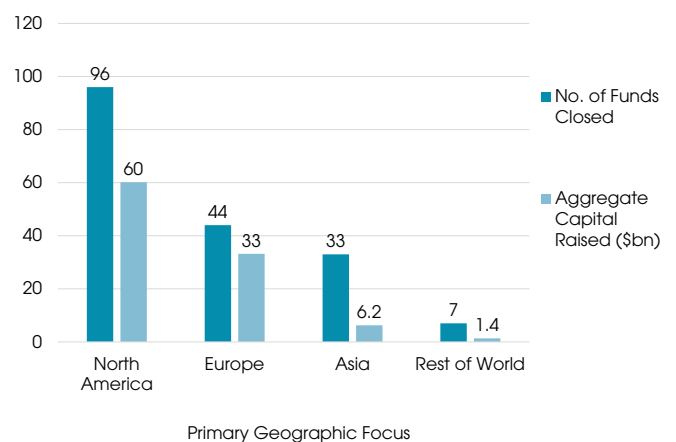
**Christopher Elvin, Head of Private Equity Products**

**Fig. 1: Global Quarterly Private Equity Fundraising, Q1 2013 - Q2 2016**



Source: Preqin Private Equity Online

**Fig. 2: Private Equity Fundraising in Q2 2016 by Primary Geographic Focus**



Source: Preqin Private Equity Online

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# Private Debt Fundraising Shows Shoots of Recovery in Q2 2016

The second quarter of 2016 saw 28 private debt funds close, raising a combined \$16bn. This is more than double the \$7.8bn seen in the opening quarter, and an increase from the \$12bn raised in Q4 2015. Increased fundraising was driven by three large direct lending funds, all closing on more than \$1bn, and accounting for 42% of total private debt capital secured in the quarter. Nonetheless, fundraising remains down on the levels seen in recent years, with the first three quarters of 2015 each seeing in excess of \$24bn raised, including an all-time peak of \$30bn in Q3.

The competitive fundraising market indicates that private debt managers remain confident of securing investor commitments, with 276 vehicles currently on the road, targeting an aggregate \$140bn. There are 114 direct lending funds on the road, the most of any strategy, seeking a combined \$45bn in investor commitments, while 69 mezzanine funds are targeting \$31bn. Despite there being only 38 distressed debt funds in the market, the strategy is targeting \$46bn of investor capital, the highest of any strategy.

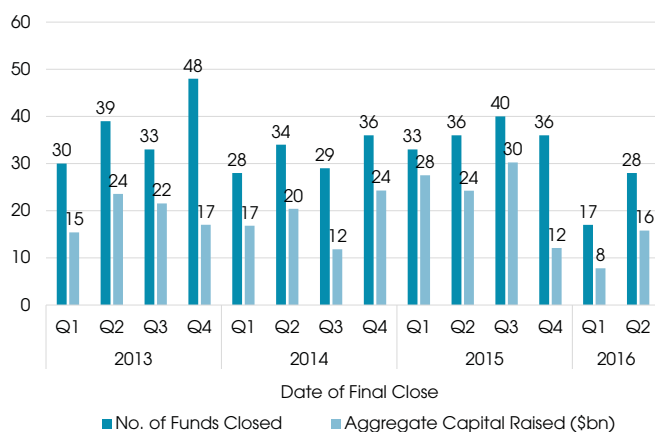
- Fund Types:** Direct lending dominated fundraising in Q2 2016, with 11 funds raising \$9bn, the highest of any strategy. Mezzanine funds attracted the next highest level of investor capital (\$2.5bn), while four private debt funds of funds raised \$1.1bn.
- Fundraising Success:** In H1 2016, 67% of funds that reached a final close exceeded their target size, compared to 45% in 2015. However, the time taken to complete the fundraising process has also increased, from 16 months in 2015 to 17 months in H1 2016.
- Geographic Focus:** Europe-focused private debt funds raised \$8.5bn of investor capital over the quarter, up on the \$7.5bn secured by vehicles focused on North America. Just one Asia-focused fund reached a final close with a size of \$90mn.

“Although private debt fundraising is yet to reach the peaks seen since 2013, Q2 reversed two consecutive quarters of decline. Direct lending was again the driving force behind fundraising, as distressed and mezzanine funds continued the lower levels of fundraising seen in recent quarters.

Given the high number of funds in market and the level of capital targeted, there is hope that fundraising will continue to climb in the second half of 2016. It seems unlikely that Asia-focused vehicles can sustain the strong fundraising achieved in 2015, as just one fund focused on the region has reached a final close so far in 2016.”

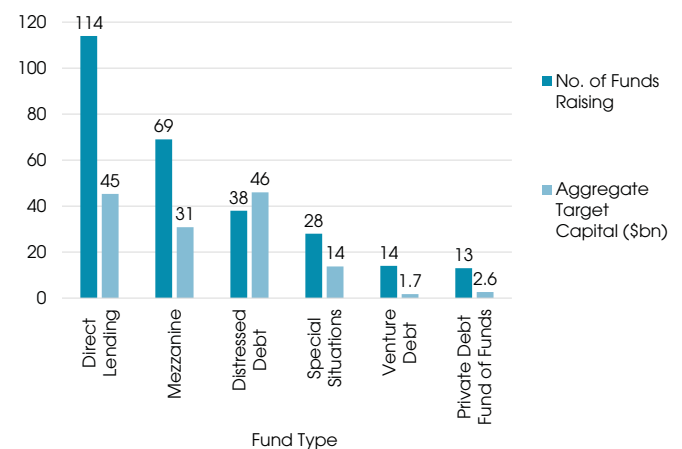
**Ryan Flanders, Head of Private Debt Products**

**Fig. 1: Global Quarterly Private Debt Fundraising, Q1 2013 - Q2 2016**



Source: Preqin Private Debt Online

**Fig. 2: Private Debt Funds in Market by Fund Type (As at 1 July 2016)**



Source: Preqin Private Debt Online

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# Mega-Funds Buoy Private Real Estate Fundraising in Q2

Private real estate fundraising in Q2 was dominated by two opportunistic funds, which accounted for 56% of all capital secured during the quarter. Overall, 32 funds reached a final close securing \$27bn in investor capital, up slightly from the \$24bn raised in Q1. However, Q2 marks the lowest number of funds closed in a single quarter since Q3 2003. Capital was concentrated among a smaller number of real estate fund managers, with the average fund size more than doubling from \$404mn in the opening quarter of 2016 to \$919mn in Q2.

As the two flagship funds closed by Lone Star Funds and Brookfield Asset Management were both primarily opportunistic, it is unsurprising that the strategy raised the majority of real estate capital, securing \$17bn in investor commitments. Value added strategies saw a significant drop in fundraising, attracting \$3bn of investor capital, the lowest quarterly total since Q1 2013 and down on the \$9bn raised in the first quarter of 2016. In contrast, seven real estate debt funds reached a final close raising \$4bn, surpassing fundraising in the previous two quarters.

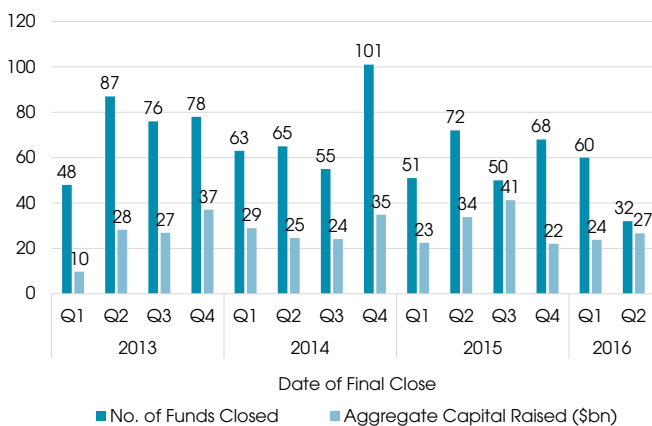
- **Dry Powder:** Following robust fundraising in Q2, dry powder has increased from \$210bn at the end of 2015 to \$239bn in June 2016. Dry powder is on track for a fourth successive year of growth, increasing by 53% from 2012.
- **Funds in Market:** Although the number of private real estate funds in market has risen from 393 in January 2010 to 505 in July 2016, the total target capital has remained steady, decreasing slightly from \$176bn to \$175bn over the same period.
- **Fundraising Success:** Fifty-two percent of real estate funds closed in H1 2016 have exceeded their target, compared to 33% of funds that closed in 2015. Thirty-five percent of funds closed in 2016 failed to hit their target, the lowest proportion in the last five years.

“Investors are continuing to allocate capital to the private real estate industry; however, the fundraising market is becoming increasingly dominated by established fund managers. As such, capital is becoming concentrated among this small pool of major players, while emerging managers struggle to attract the attention of investors.

Nonetheless, more funds are coming to market despite the aggregate target capital remaining steady, indicating that an increasing number of smaller funds are entering the fundraising process. Managers running these vehicles will be hoping to attract investors by utilizing a strategy that operates close to the ground and can find attractive opportunities that offer value for money.”

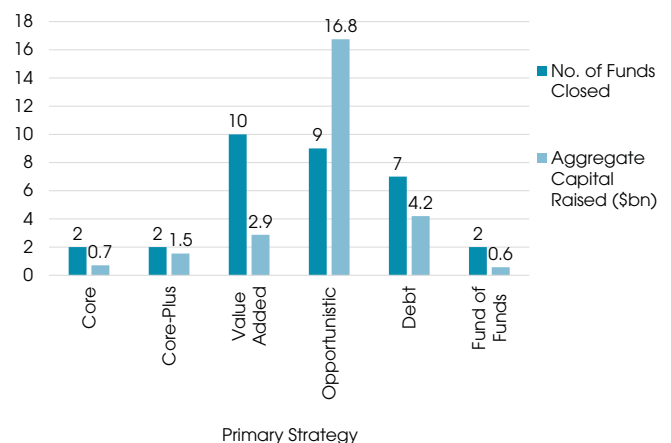
**Andrew Moylan, Head of Real Estate Products**

**Fig. 1: Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2013 - Q2 2016**



Source: Preqin Real Estate Online

**Fig. 2: Closed-End Private Real Estate Fundraising in Q2 2016 by Primary Strategy**



Source: Preqin Real Estate Online

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# Unlisted Infrastructure Fundraising Falls in Q2 2016

Eight unlisted infrastructure funds reached a final close in Q2 2016, securing \$4.2bn of investor capital. These numbers are expected to rise 10-15% as more information becomes available, so while the number of funds closed may match Q1, the aggregate capital raised by those funds will be lower. In the opening quarter of the year, 10 unlisted infrastructure funds secured a total of \$15.9bn, as three funds each raised more than \$3bn.

Despite lower fundraising in the second quarter, unlisted infrastructure dry powder has increased by 30% over H1 2016 to reach a record \$142bn. Capital available to invest in infrastructure assets is on track for a fourth consecutive annual increase since falling to \$79bn in 2012. Fund managers will be looking to set this capital to work, despite rising valuations and competition for assets putting pressure on them to find attractive investment opportunities.

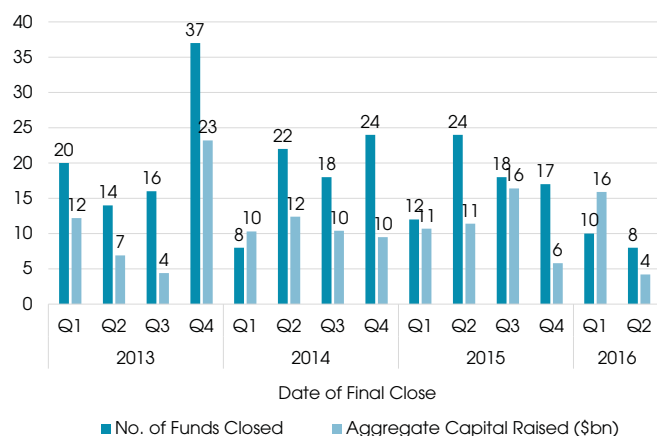
- Fund Size:** Due to a number of mega infrastructure funds closing so far this year, the average fund size has grown to \$845mn for funds closed in H1 2016. This represents a significant increase from \$671mn for funds closed in 2015.
- Funds in Market:** The number of infrastructure funds in market reached record levels in July 2016, with 194 vehicles seeking \$127bn of investor capital, up from the 179 funds that were targeting \$127bn at the start of 2016.
- Mega Funds:** Brookfield Infrastructure Fund III and Global Infrastructure Partners III are both targeting \$12.5bn for investment in the US. If they reach their target they will become the largest infrastructure funds ever to reach a final close.

“The unlisted infrastructure fundraising market saw lacklustre activity in Q2, with the total capital raised substantially lower than in Q1. Increasingly, large quarterly fundraising totals are reliant on the closures of mega sized funds, and fewer smaller funds are achieving a final close. In the absence of mega funds holding final closes, fundraising totals will remain low.

The previous two quarters have seen fundraising on course to match the levels reached in 2015, despite the large fluctuations the market has experienced. With two of the largest ever infrastructure funds currently in market, fund managers may be struggling to attract sufficient attention to their vehicles despite high overall investor appetite.”

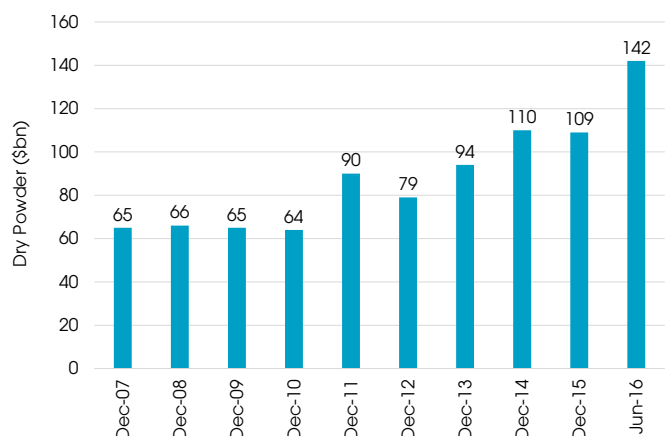
**Tom Carr, Head of Real Assets Products**

**Fig. 1: Global Quarterly Unlisted Infrastructure Fundraising, Q1 2013 - Q2 2016**



Source: Preqin Infrastructure Online

**Fig. 2: Unlisted Infrastructure Dry Powder, December 2007 - June 2016**



Source: Preqin Infrastructure Online

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# Natural Resources Funds Fail to Hit Targets in Q2

Unlisted natural resources fundraising declined in Q2, as just 10 funds reached a final close, securing \$5.6bn in investor capital. This represents a slowdown from Q1, when 13 funds secured \$12bn, which was in itself a marked decline on the record fundraising levels seen in 2015. The number of funds closed was the lowest quarterly total recorded by Preqin, while the aggregate capital raised represents the lowest quarterly total since Q3 2011. Seven of the 10 funds utilized an energy strategy, accounting for 80% of all natural resources capital, while metals & mining funds raised \$0.7bn and diversified natural resources funds raised \$0.3bn.

The decline in fundraising in 2016 is reflected in the proportion of natural resources funds failing to hit their original target size. The majority of funds (54%) did not reach their target in H1 2016, compared to 46% in 2015 and just over a third (35%) in 2014. At the other end of the scale, just 23% of funds in H1 2016 surpassed their target, down from 42% of funds that did so in 2015. However, natural resources funds closed in 2016 have experienced a quicker fundraising process, spending just 12 months on the road, on average, compared to 23 months for funds closed in 2015.

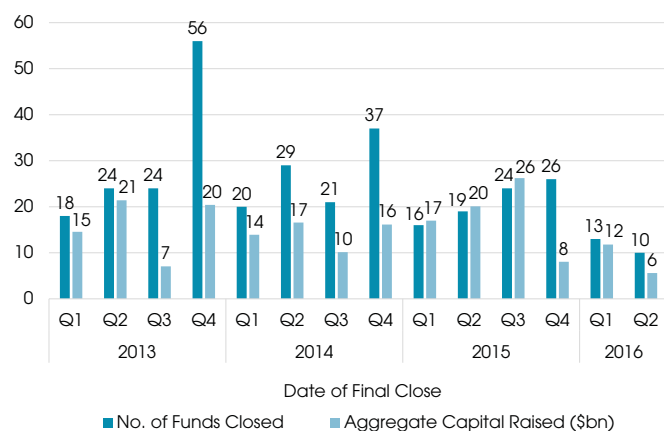
- **Dry Powder:** Natural resources dry powder increased through the first half of 2016, and now stands at an all-time record \$74bn. This follows a decrease in dry powder levels from \$68bn to \$67bn between December 2014 and December 2015.
- **Funds in Market:** There are currently 255 natural resources funds on the market targeting an aggregate \$142bn in investor capital. Energy-focused funds are seeking \$105bn, while 49 agriculture funds in market are seeking \$13bn.
- **Regional Fundraising:** North America-focused funds accounted for eight of the 10 funds closed, securing 80% (\$4.5bn) of all capital raised. One Europe-focused fund closed, as did a diversified multi-regional vehicle.

“Fundraising has proved difficult for natural resources fund managers through the second quarter of 2016, with few funds managing to reach a final close. After a record level of capital was secured through 2015, a slight dip in fundraising was perhaps to be expected, with many flagship funds reaching a final close within the past 12 months.

However, the high proportion of funds that have failed to reach their target size so far in 2016 will be a legitimate concern for natural resources fund managers. Although the funds that have closed so far this year did so quickly, they did not manage to secure as much investor capital as they had originally sought.”

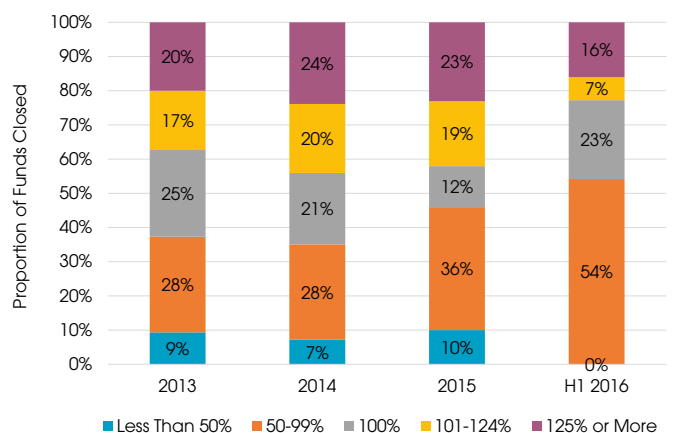
**Tom Carr, Head of Real Assets Products**

**Fig. 1: Global Quarterly Unlisted Natural Resources Fundraising, Q1 2013 - Q2 2016**



Source: Preqin Natural Resources Online

**Fig. 2: Proportion of Target Size Achieved by Unlisted Natural Resources Funds, 2013 - H1 2016**



Source: Preqin Natural Resources Online

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