PitchBook

PE & VC Fundraising Report

2017 Annual

PitchBook

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Click here for PitchBook's report methodologies. Cover image: signing of a limited partner agreement (LPA).

Key takeaways from the analysts

- North American and European PE firms raised more capital in 2017 than in any year since 2007, with $325.9 billion closed across 372 funds. 76% of follow-on funds were larger than the previous fund, the median time between funds dropped to 3.2 years, and the median time taken to close dropped to just 11.2 months.
- Apollo Global Management garnered significant attention by closing the largest PE fund ever with $24.7 billion in capital commitments. CVC Capital Partners, Silver Lake Management, KKR, Vista Equity Partners and Clayton Dubilier & Rice all raised funds of $10 billion or more.
- Venture funds secured $42 billion in commitments in 2017, a 19% decline from the previous year, but still the fourth consecutive year to see more than $40 billion in capital raised by North American and European funds. Fund count saw a more significant decrease, sliding to 294—the lowest total since 2011.
- Using the rolling three-year average of fund contribution data, current dry powder could sustain 4.2 and 3.8 years of investment for PE and VC, respectively.

$325.9B

closed across 372 PE funds

74%

of follow-on VC funds were larger than the previous fund

$42B

total capital raised by VC funds

PE Fundraising Overview

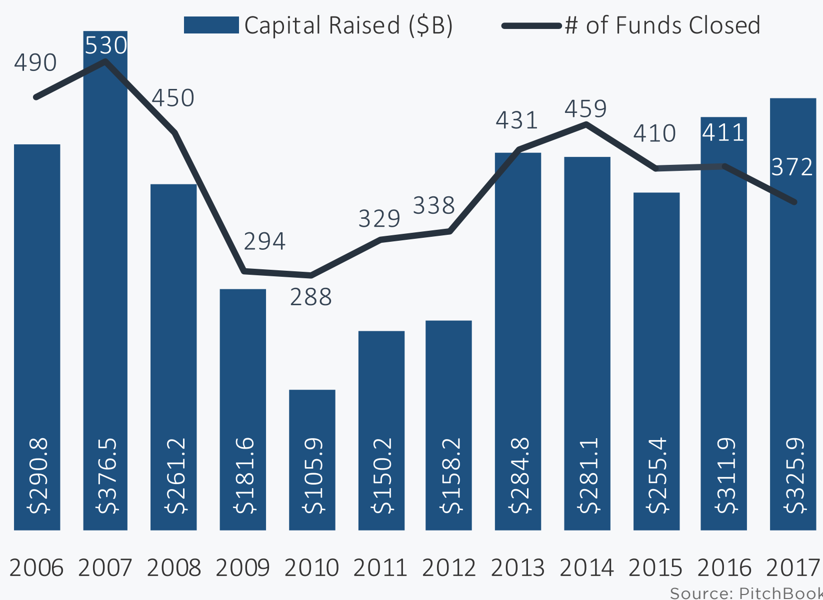
Good times keep rolling for fundraisers

North American and European PE firms raised more capital in 2017 than in any year since 2007, with $325.9 billion closed across 372 funds. While 2007 still holds the record for capital commitments, 2017 marks the fifth consecutive year that capital raised exceeded $250 billion and the second straight year in which allocators committed over $300 billion to PE. Needless to say, it is a good time to be a GP, as the fundraising market remains very active with no clear end in sight: 76% of follow-on funds were larger than the previous fund, the median time between funds dropped to 3.2 years, and the median time to close dropped to just 11.2 months. Another 53 PE funds launched in 2017 remain open and on the fundraising trail as of February 12, 2017.

Buyout funds remain the vehicle of choice amongst PE strategies, accounting for 69% of all funds closed—the highest annual proportion in the PitchBook dataset. Despite anecdotal commentary surrounding the growing prominence of growth strategies, the number of growth funds to close has been relatively flat since 2013, with just 51 growth funds closed in 2017; however, the amount of capital raised by growth funds has been trending upward, with 2017 setting a new all-time high of $26.5 billion.

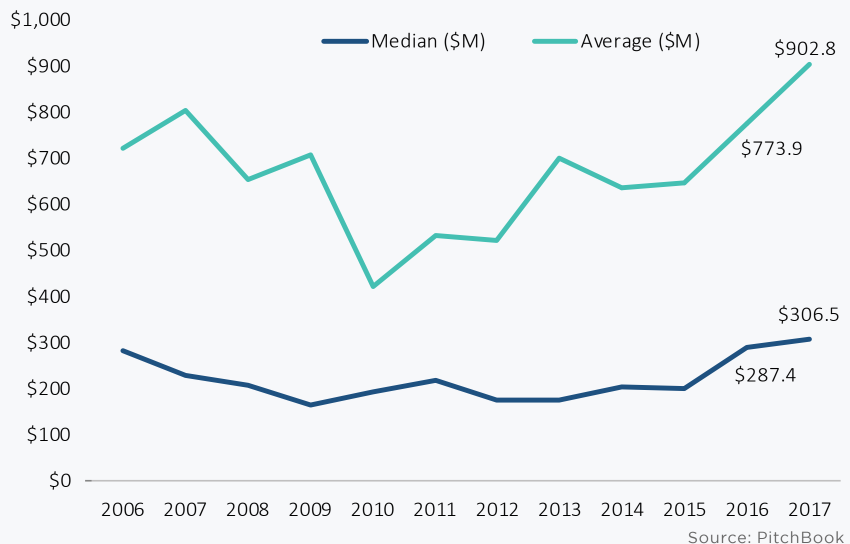
2017 sees most raised since 2007

PE fundraising activity



Source: PitchBook

Average & median PE fund size ($M)



Source: PitchBook

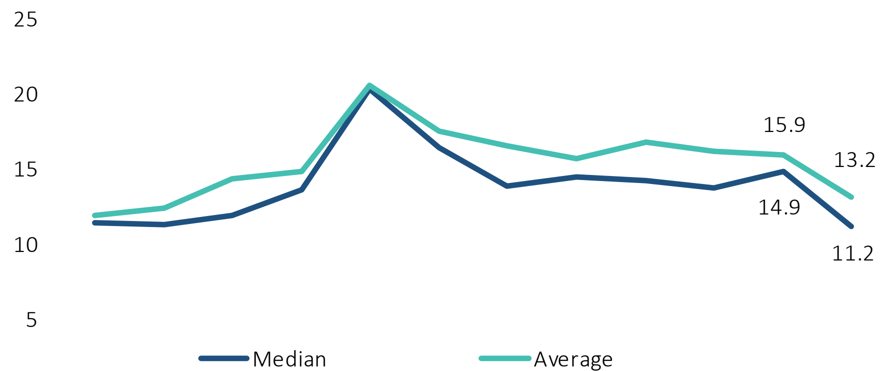
Mega-funds dominate capital game

Mega-funds (greater than $5 billion in committed capital) accounted for 45% of all capital raised in 2017, which is the highest percentage since 2007. Furthermore, the top 10 largest funds raised 38% of all capital, the highest in the dataset, while the top five raised 25% of all capital. This equates to just 3% of fund managers accounting for over one-third of all PE capital raised last year. As a result, the average fund size surpassed $900 million for the first time, while the median fund size crested $300 million.

Apollo Global Management garnered significant attention by closing the largest fund ever with $24.7 billion in capital commitments, but CVC Capital Partners, Silver Lake Management, KKR, Vista Equity Partners, and Clayton Dubilier & Rice all raised funds of $10 billion or more.

2017 fundraising times trended swifter

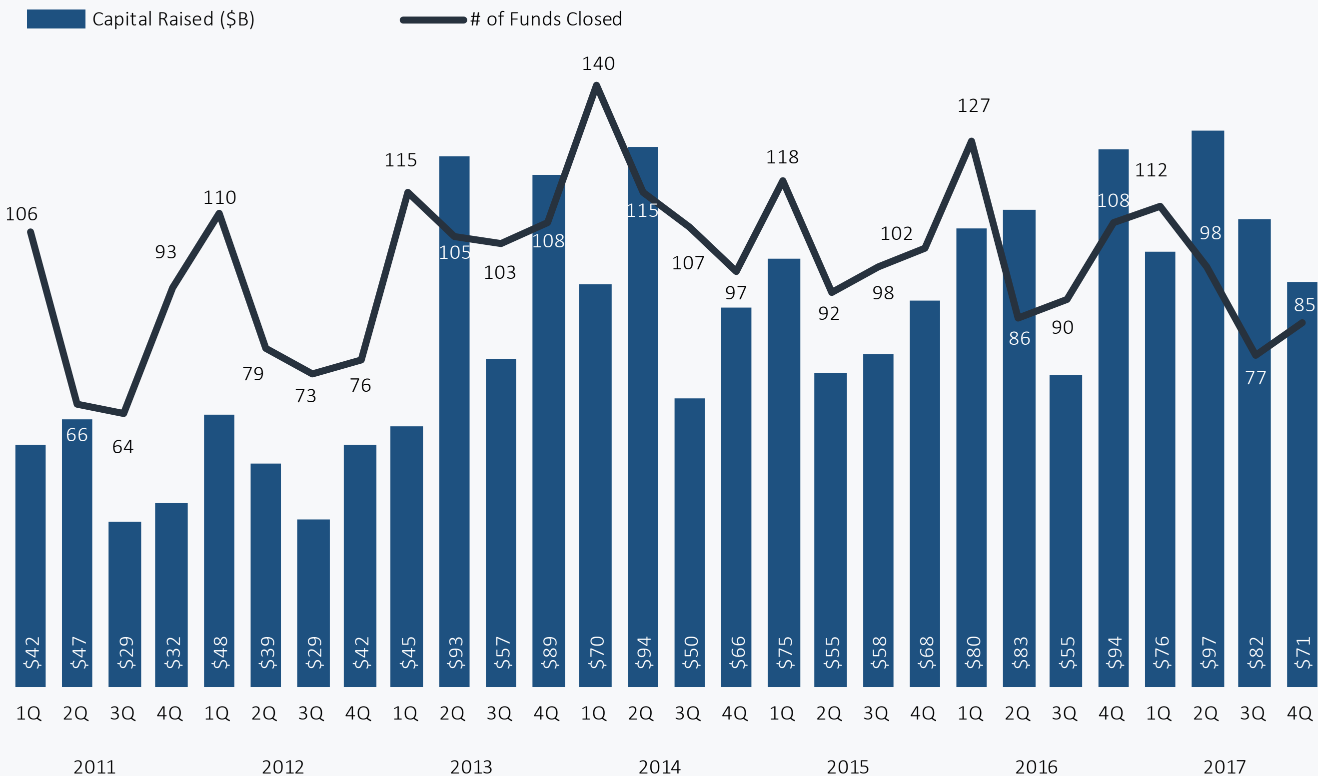
PE fund closing times (months)



Source: PitchBook

Recent volume hints at slowing momentum

PE fundraising activity



Source: PitchBook

Spotlight: Funds-of-Funds

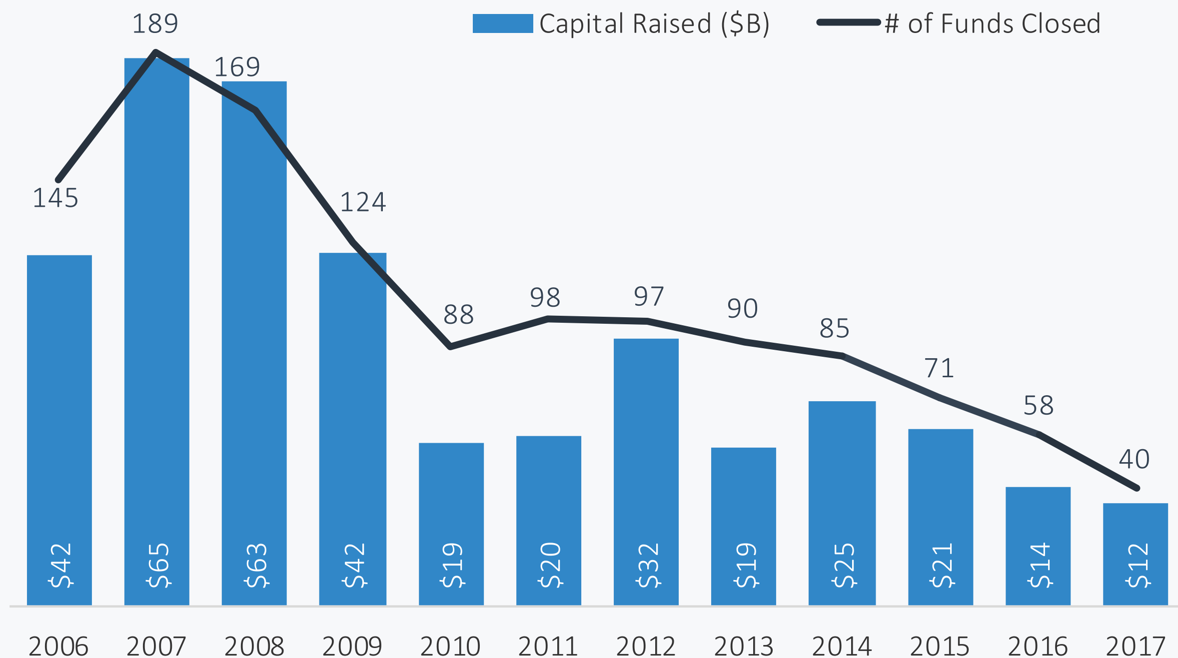
The slow death of FoFs

Despite soaring commitments to private capital funds, commitments to funds-of-funds (FoFs) have fallen to the lowest point since 2003, with these vehicles raising just $12.1 billion in 2017. FoFs represent an investment model that is all but dead, with recent activity concentrated in a few of the largest operators and a growing but still small number of niche strategies targeting areas such as emerging markets. A recent analyst note explored this trend more in depth, but, in short, the trend away from FoFs is largely driven by the growing experience of limited partners operating in the private markets. LPs increasingly can place commitments to the private markets on their own, which removes the double layer of fees and allows greater customization of their private markets' portfolios.

Instead, LPs investing in PE funds are looking for a quicker cash conversion cycle than that offered by FoFs. This is one area in which secondary funds are particularly adept, as the strategy involves acquiring existing stakes in PE funds. To that end, investor appetite has been on the rise, with 2017 concluding as a record year for secondary funds at $39 billion in capital commitments. This trend is likely to continue as LPs look for ways to develop greater optionality and control over their private asset portfolios.

FoFs falling from favor

Funds-of-funds fundraising activity



Source: PitchBook

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PE Capital Overhang

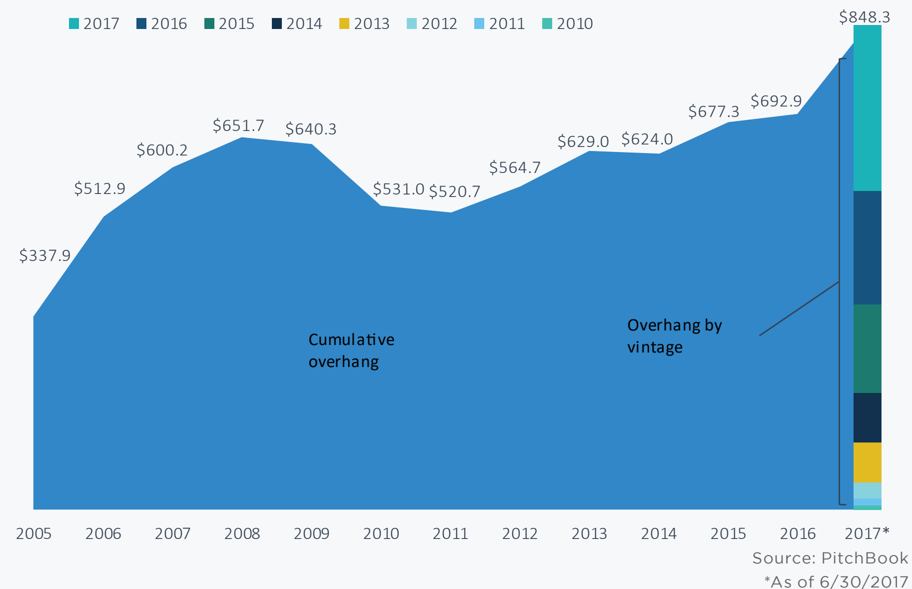
Dry powder continues mounting

Record amounts of uncalled capital continue to accumulate in North American and European PE funds, with managers sitting on $848.3 billion through 2Q 2017. The significant run-up in dry powder can be attributed to the strong showing from mega-funds in 2017, which account for more than half the overhang from the 2017 vintage. The sustained fundraising from recent years continues to play a role too, with more than $150 billion remaining in both the 2015 and 2016 vintages. Dry powder figures don't even account for capital earmarked by LPs for direct deals and co-investments, which represent a growing share of PE activity.

One of the most persistent concerns about dry powder is that it's indicative of the rising level of competition, but the deployment of capital by PE funds has accelerated in tandem with the buildup in dry powder. Using the trailing three-year average of total fund contributions as a proxy for investment activity, we see that PE firms now have more than four years of dry powder on hand; in other words, if PE firms were to cease fundraising immediately, it would take about four years to invest all available capital.

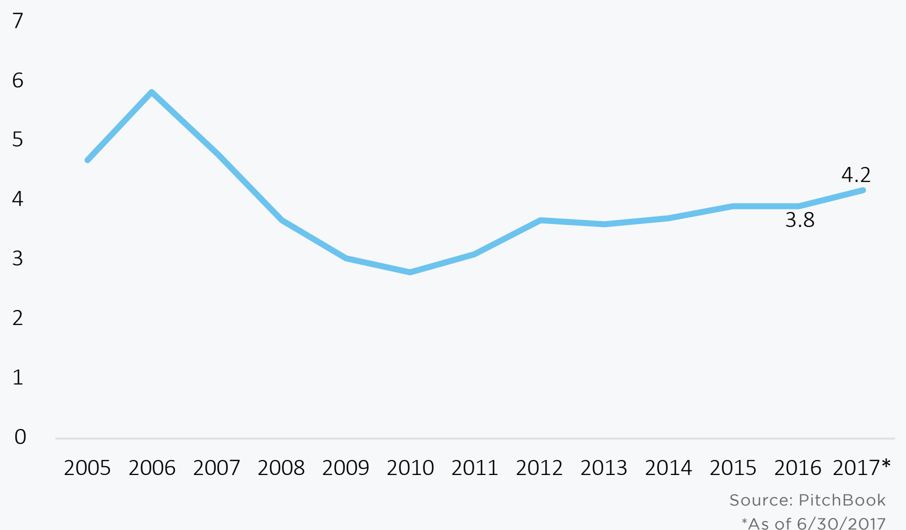
This is certainly a significant increase from the depths of the financial crisis, when cumulative dry powder dropped below three years. But the current situation is still a far cry from the pre-crisis scenario, when GPs accumulated six years' worth of dry powder. So, while the surfeit of available capital is certainly an important factor in the current environment, it is perhaps not as dire as some may perceive it.

PE capital overhang ($B) by year



Source: PitchBook
*As of 6/30/2017

Years of PE dry powder on hand



Source: PitchBook
*As of 6/30/2017

VC Fundraising Overview

Aggregate capital raised remains high despite sliding fund count

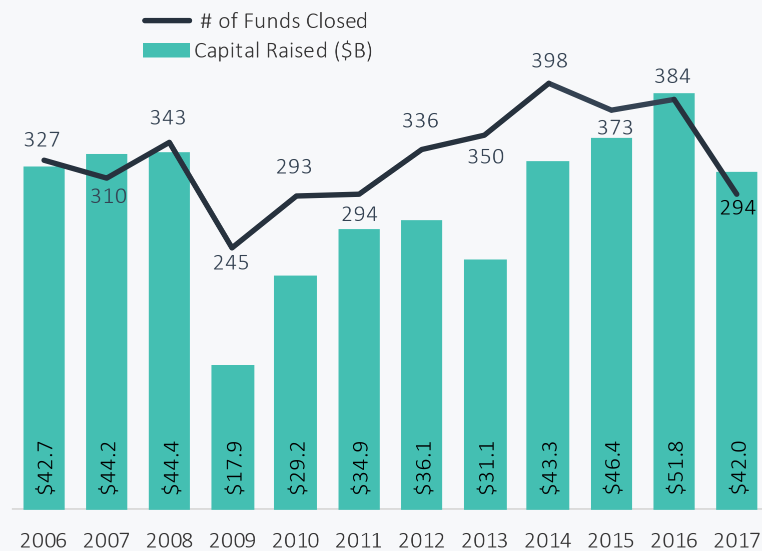
Coming off 2016's record for VC fundraising, 2017 saw a decline in closed funds, while capital raised remained strong on a historical basis. Venture funds secured $42 billion in commitments in 2017, a 19% decline from the previous year but still the fourth consecutive year to see more than $40 billion in capital raised by North American and European funds. Fund count saw a more significant decrease, sliding to 294—the lowest total since 2011.

This data echoes the pervasive "fewer but larger" phenomenon we've seen across the venture ecosystem. With fewer funds closed, the year's five largest funds secured almost 21% of all capital raised, up from 17% in 2016. Median fund size also reached a record high of $76 million, up from $58 million in 2016 and $28 million in 2012. Shifting venture market dynamics toward larger rounds across stages have incentivized GPs to raise larger funds, while larger but more selective LP allocations have facilitated this shift.

In recent years we've seen that startups receiving funding at each stage are older and more developed than they were previously. While funding more mature startups generally translates to less risk, it

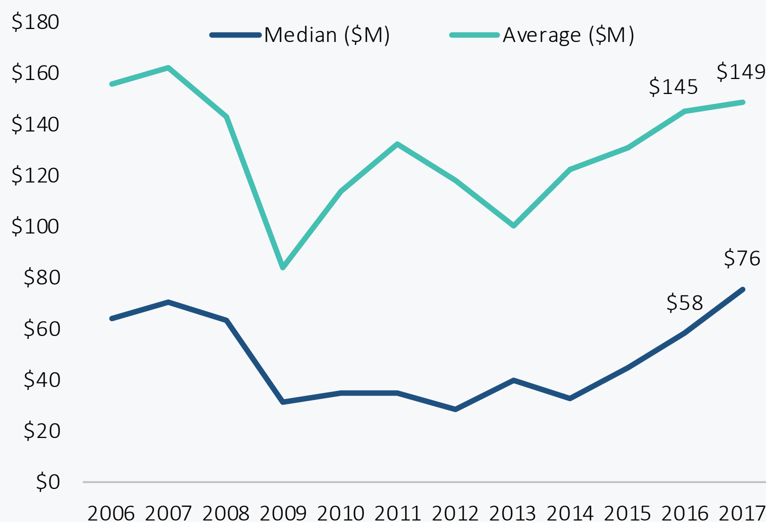
Four consecutive years of over $40 billion raised

VC fundraising activity



Source: PitchBook

Average & median VC fund size ($M)



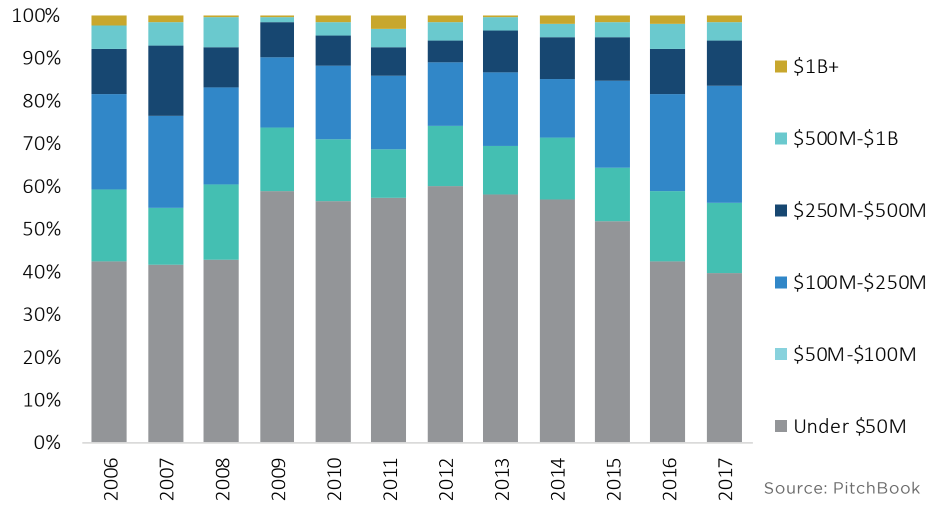
Source: PitchBook

also exerts upward pressure on deal prices, reducing purchasing power for smaller funds. GPs have adapted to this changing landscape. As the median early stage round size increased 118% from 2012 to 2017, the number of funds sized between $100 million and $250 million increased 63% and the number of micro-funds dropped 37% in the same period.

The shift toward larger funds is happening rapidly, with 74% of 2017's follow-on funds being larger than their predecessor, and a median size increase of 47%. Not only do larger vehicles provide sufficient capital for growing initial rounds, they also help VCs meet the swelling requirements of follow-on funding to limit dilution in subsequent financings. This is particularly pertinent as VCs seek to maintain competitiveness with mega-funds (greater than $500 million), which have enjoyed continually strong fundraising for the last four years.

Representation of micro-funds is diminishing

VC fundraising by size (#)

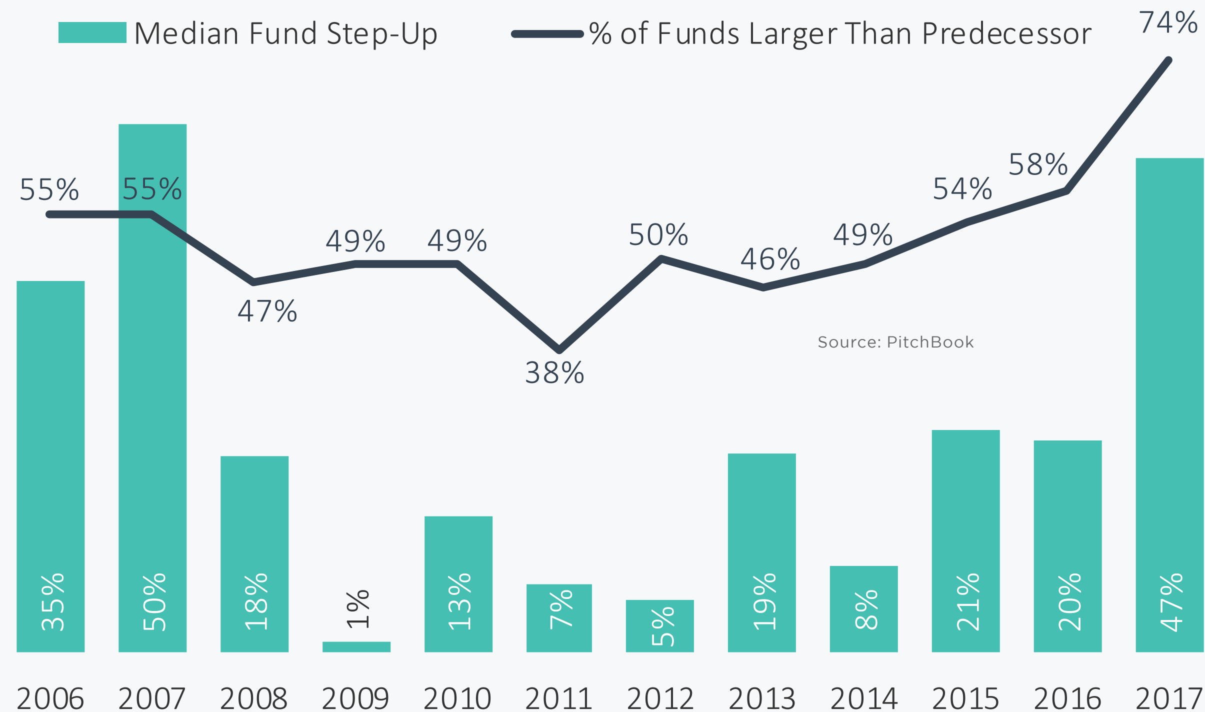


Source: PitchBook

Though SoftBank's $99-billion Vision Fund is an outlier (and not included in the fundraising figures in this report), it represents a convenient route for deep-pocketed LPs like sovereign wealth funds to access venture markets, where the check sizes are typically too small to be meaningful. The pipeline for continued mega-fundraising looks strong for 2018, as a $1.5 billion fund has already been closed by Norwest Venture Partners, Coatue Management expects to close a $1.3 billion vehicle in October, and upcoming fundraises with targets in excess of $1 billion have been announced by Sequoia, Chinese insurer Ping An and the Renault-Nissan-Mitsubishi Alliance.

Sizable increase in follow-on fund sizes

VC fund step-ups



Source: PitchBook

Spotlight: Impact Investing

Impact investing enters the mainstream

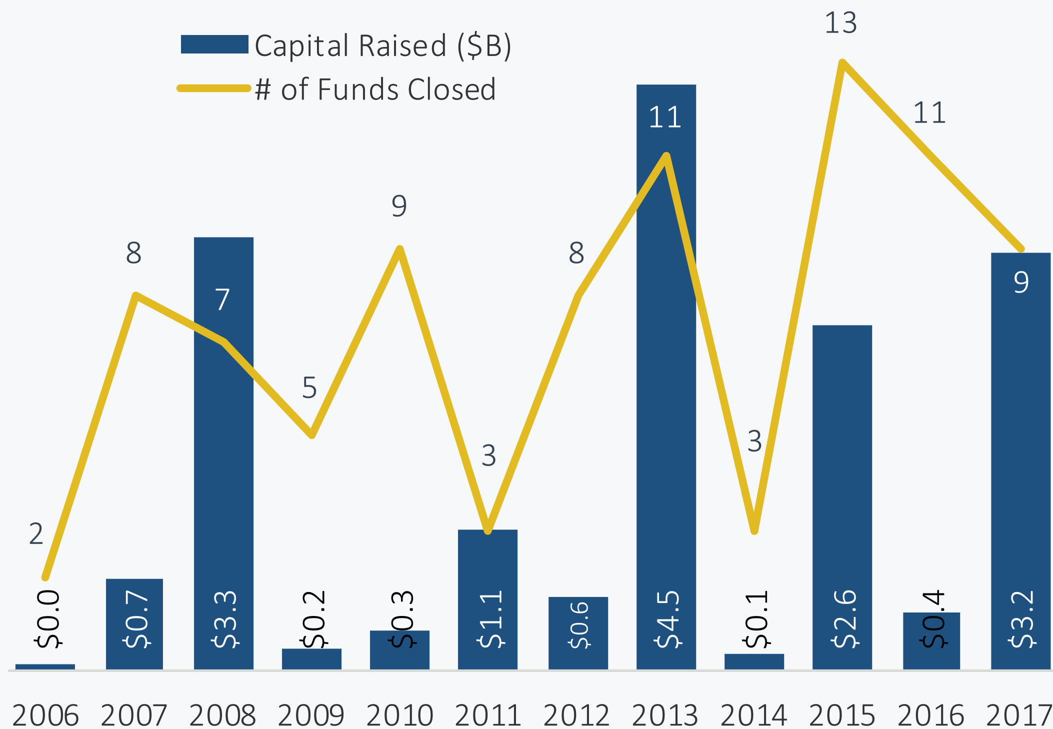
Impact investing is a strategy of making for-profit investments that achieve both financial returns and measurable social or environmental impact. Impact investments are most commonly made through the familiar investment structure of closed-end private investment funds. The strategy has been utilized by government entities, foundations and endowments for years, but has recently gained traction in the private markets amidst growing demand from investors.

While 2017 was a healthy year for impact funds, with an aggregate $3.2 billion raised by North American and European managers, it also marked an important milestone for the impact investing ecosystem: the entrance of mainstream investment managers.

TPG Growth's $2 billion Rise Fund, managed in partnership with Elevar Equity (an established impact fund manager) and The Bridgespan Group, is the largest—and possibly most high-profile—impact venture/growth fund raised to date. With commitments from notable LPs and philanthropists including former eBay president turned philanthropist Jeff Skoll and Bono, the fund also positions itself as one

Impact funds raised an aggregate $3.2B in 2017

Impact VC fundraising by year



Source: PitchBook

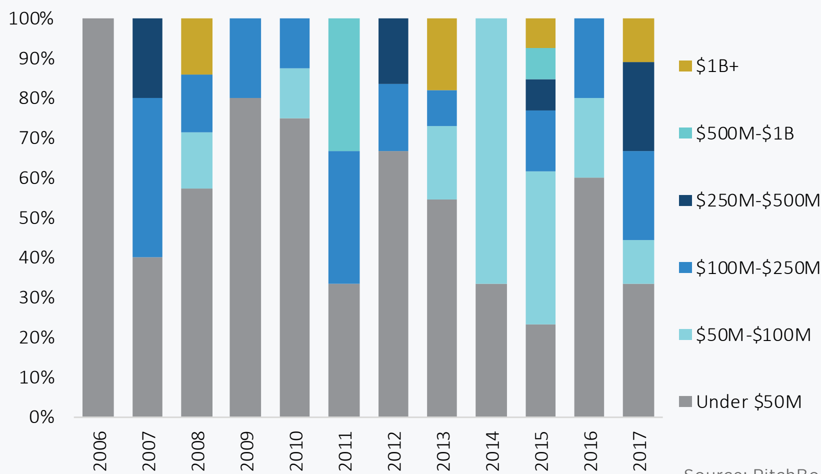
of the largest VC/growth equity fundraises of 2017. Bain Capital also joined the ranks of impact investors with its $390 million Double Impact fund.

Amidst growing demand for sustainably managed investments, asset managers have increasingly adopted impact investment platforms to meet client requests and innovate their product offerings. A 2017 survey conducted by Morgan Stanley reports that millennials are twice as likely to invest in environmentally friendly or socially conscious assets, while 84% of women surveyed indicated an interest in sustainable investments. Impact investors assert that there are several business advantages to investing in sustainable portfolio companies, including gains in efficiency, access to emerging sectors, enhanced reputation and product perception (for both the GP and portfolio companies), and greater ability to attract and retain talent.

Although 59% of PE impact funds and 86% of VC impact funds tracked by PitchBook total less than $100 million, the entrance of large players has the potential to encourage more sizable fundraises and provide liquidity to early-stage investors via buyouts or secondary sales. Looking to 2018, we expect to see larger impact funds and further participation from mainstream firms. KKR has already announced the launch of its own impact fund in 2018, and the pipeline of open impact funds contains 20 funds targeting sizes $100 million or greater.

Impact funds tend to be smaller vehicles

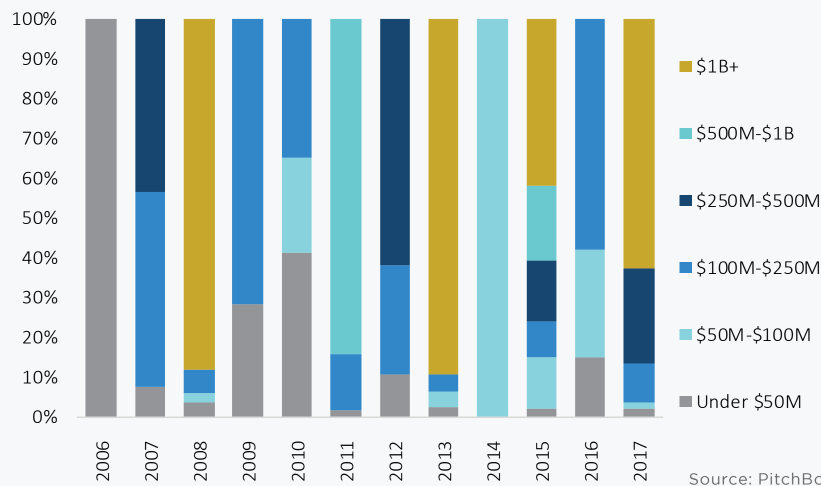
VC fundraising (#) by fund size



Source: PitchBook

TPG Growth's Rise Fund boosted 2017 impact fundraising

VC fundraising ($) by fund size



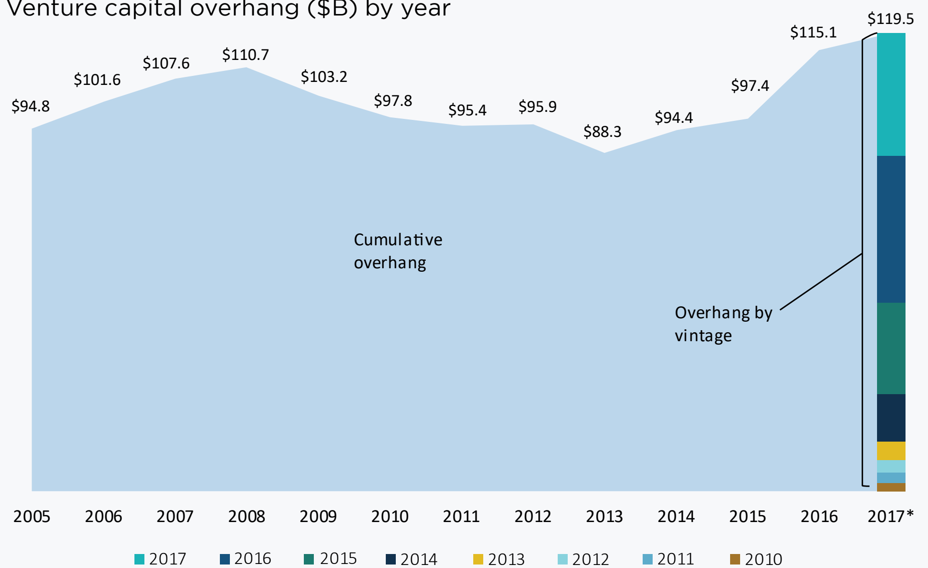
Source: PitchBook

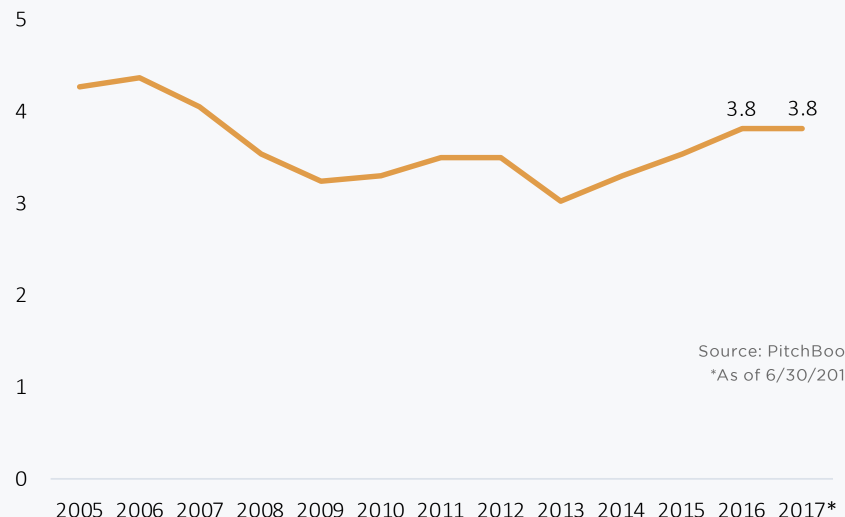
VC Overhang

VC dry powder portends normalcy

VC dry powder continues to surge higher as sustained robustness in fundraising adds to managers' coffers. Currently sitting at a cumulative $119.5 billion, dry powder as of 2Q 2017 is at the highest level we've seen this decade, despite dealmaking heating up in the last couple of years. While representing only 11% of total dry powder, $12.9 billion of excess capital is still in 2010-2013 vintage funds that are in, or past, their last year of the traditional "investment period." Therefore much of this sum should be called in the next year or shortly thereafter; otherwise, it may go uncalled. The extension of fund timelines has become an increasingly relevant issue for managers and LPs alike, a residual effect of the increased capital availability and dry powder in VC that has allowed VC-backed companies to delay exits.

With the build-up in dry powder over the last four years, we also investigated how long the available capital could stretch based on historical deployment rates to VC. Using the rolling three-year average of VC fund contribution data, the current level of dry powder could sustain nearly four years of drawdowns at the recent investment pace of $31.4 billion per year. Not only is this the highest the ratio it has been since 2005, it has actually increased at a faster pace than the overall dry powder growth from 2013 to 2017, as contributions have flattened out despite the growing market size. At current levels, the VC environment is in a stable position to sustain recent levels of activity should it experience a period of lackluster fundraising.



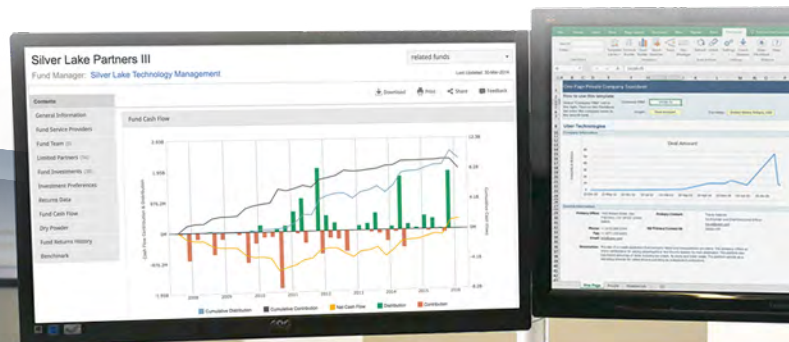


We do

custom fund benchmarks,
cash flows,
dry powder,
valuations,
GP co-investments.

You drive

stronger portfolio returns.



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