PitchBook

Co-sponsored by

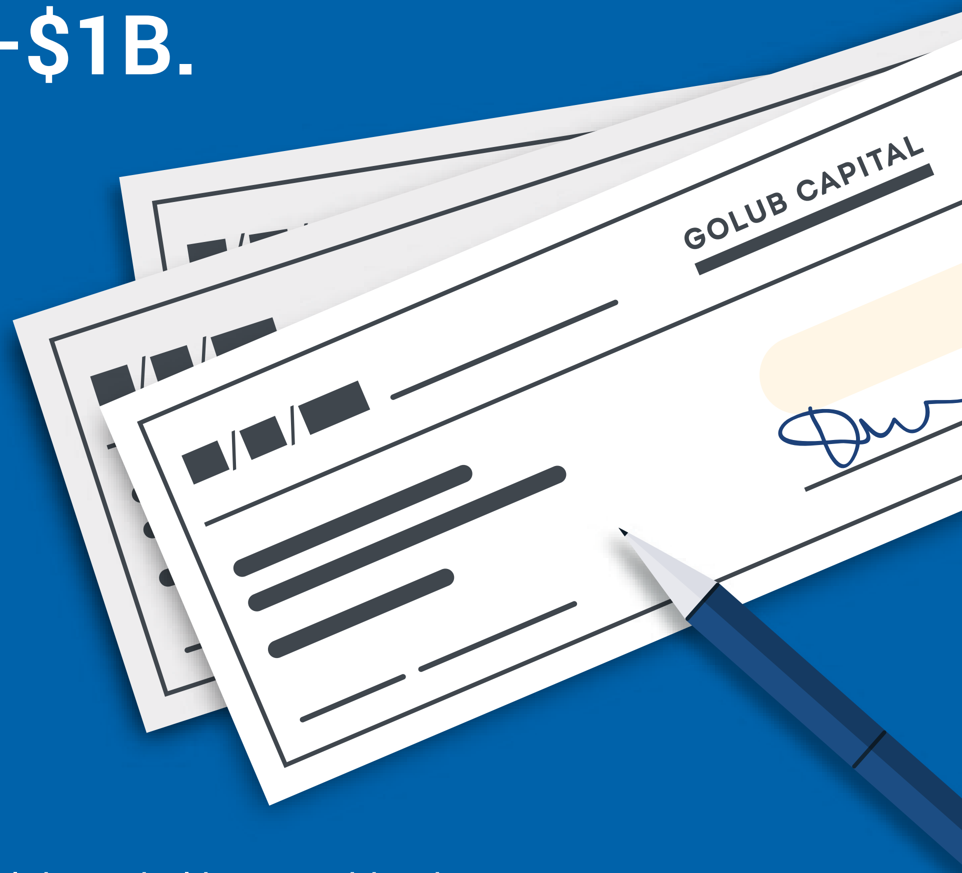
GOLUB CAPITAL

# PE & VC Fundraising Mid-Year Update

2018

# We can write the whole check all by ourselves.

## Ask how our unitranche can help you scale, from $20M–$1B.




For more than 20 years, Golub Capital has combined best in class reliability with experienced deal makers who are focused on establishing long-term partnerships.

GOLUB CAPITAL

PitchBook

Co-sponsored by

GOLUB CAPITAL

# Contents


| | |
|---|---|
| Key takeaways | 3 |
| PE fundraising | 4-5 |
| PE overhang | 6 |
| Spotlight: Private capital | 7 |
| VC fundraising | 8-9 |
| VC overhang | 10 |
| Spotlight: Real assets | 11-12 |


## Credits & Contact


**PitchBook Data, Inc.**

**John Gabbert** Founder, CEO
**Adley Bowden** Vice President, Market Development & Analysis

**Content**

**Alex Frederick** Analyst, VC
**Wylie Fernyhough** Analyst, PE
**Darren Klees** Data Analyst

**Contact PitchBook**

**Research**
reports@pitchbook.com

**Editorial**
editorial@pitchbook.com

**Sales**
sales@pitchbook.com

Cover design by Caroline Suttie


*Click here for PitchBook's report methodologies.*

## Key takeaways from the analysts

**Private capital fundraising value across North America rose 15.9% in aggregate between 2014 and 2017.** The biggest increases occurred in private equity, private debt and secondaries fund types. PE has seen the largest increase in capital raised, increasing 38.8% over the past three years. Debt funds have seen the largest increase in median fund size, with an increase of 142.5% over the past three years.

**The median VC fund size in North American and Europe continues to climb higher, reaching $83.7 million in 2018.** During 2014-2017, the proportion of funds sized $100 million to $500 million has increased from 29.0% to 41.0%. The growth in fund size is a response to increased competition in VC, which has driven up deal sizes and valuations.

**PE assets under management (AUM) in North America and Europe hit a record in 2017, approaching the $2 trillion mark.** AUM rose 6.3% over the prior year, though dry powder diminished as general partners (GPs) are quickly putting capital to work. While fewer funds are raising capital than in recent years, these funds are raising greater sums of money than ever before, leading to record-setting average and median fund sizes in 2017.

**15.9%**
total fundraising growth across private capital asset classes between 2014-2017

**$83.7M**
median VC fund size in 2018

**6.3%**
rise in total PE AUM in 2017

Co-sponsored by
GOLUB CAPITAL

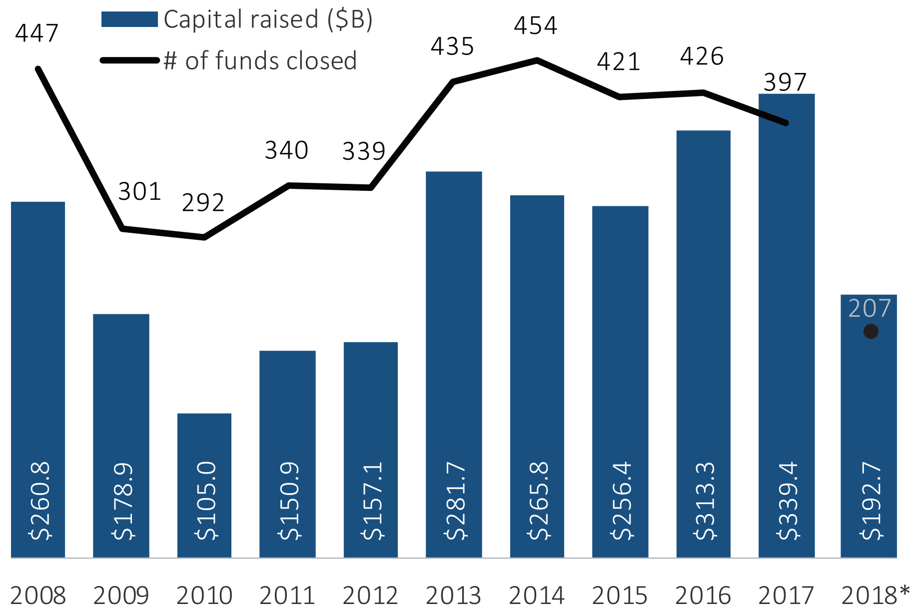
PitchBook

# PE fundraising

PE firms in North America and Europe have been raising fewer funds and less capital overall, with 207 funds raising $192.7 billion through the first eight months of 2018. The softer fundraising trend began in 2017—which represented a post-recession high—even though many data points show today's fundraising environment is quite GP-friendly. Funds are closing more quickly than ever before, and fund size is on the rise. To that end, the 2018 median PE fund closing time of 11.5 months matches the lowest figures on record—observed in 2006 and 2007—as LPs quickly allocate capital to the ever-growing asset class.

## 2018 sees fewer funds raising capital

North American and European PE fundraising activity

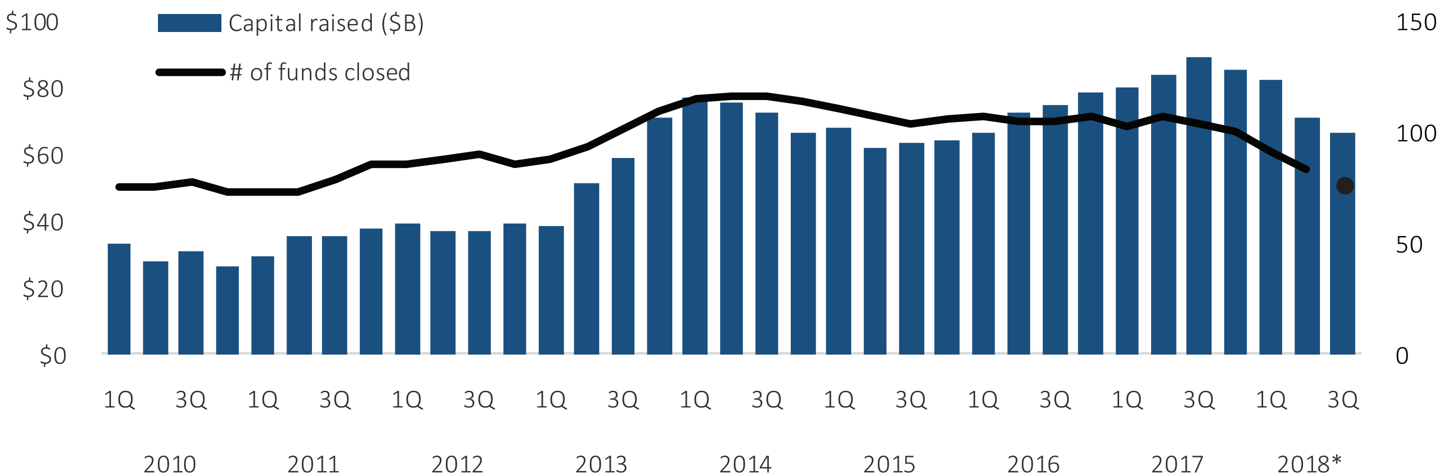



Source: PitchBook
*As of August 31, 2018

Fundraising data tends to be lumpy; a couple of $15 billion+ funds closing in one quarter can lead to record-setting numbers. While the four-quarter rolling average smooths out those one-off quarters—making the trend easier to spot—we are hesitant to call a longer-term peak in PE fundraising. This appears to be more cyclical than structural, reminiscent of the 2013 bump which saw fundraising accelerate upward after a few quarters of consolidation. Evidence—namely LPs increasing target allocations to PE—points to a rising demand for PE investments. However, as detailed in our recent PitchBook Benchmarks, fewer PE funds are outperforming public equivalants; for the most recent vintages, the median PE fund underperformed the S&P 500, with a public market equivalent below 1.00. Though this underperformance is due in part to the extended bull market in public equities, it may cause LPs to pause and rethink PE allocations, dampening fundraising.

## Current fundraising lags prior periods

North American and European PE fundraising four-quarter rolling average



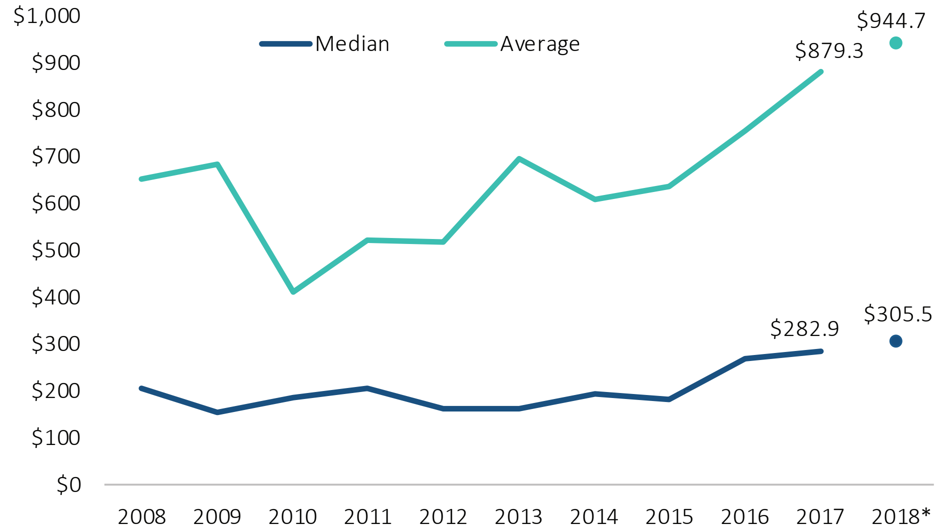

Source: PitchBook
*As of August 31, 2018

2018 marks a new high-water mark for average and median fund size, making this the second consecutive year average and median fund size crested their previous highs, though 2018 represents partial-year figures. Fewer managers are raising funds while a period of industrywide consolidation is underway. LPs want to mitigate costs associated with manager diligence and minimize the number of GP relationships. In response, GPs continue to expand their offerings, attempting to become one-stop shops. For example, Thoma Bravo—a long-time buyout shop—is raising its debut private credit fund. The funds that are raised, however, are ballooning in size. The Carlyle Group recently closed on Carlyle Partners VII, a $18.5 billion flagship buyout fund, which is a full 42% larger than their 2014 vintage $13.0 billion Carlyle Partners VI. Furthermore, Blackstone has officially begun fundraising for its next flagship fund, a $20.0 billion behemoth.

In this GP-friendly fundraising environment, most newly raised funds are larger than their predecessors. In 2017, 69.2% of funds were larger than their predecessor funds—a drop from the 2016 high of 75.9%, but still the second-highest figure on record. If Blackstone's new flagship fund hits its $20.0 billion target, it would represent a 6% increase over its $18.9 billion 2016 vintage flagship fund. Carlyle's step-up of 42.0% exactly matches the median step-up size of 1.42x across PE fundraising, which represents a post-recession high. This is even more significant given average and median fund sizes are at all-time highs.

## Average and median fund size hits all-time high

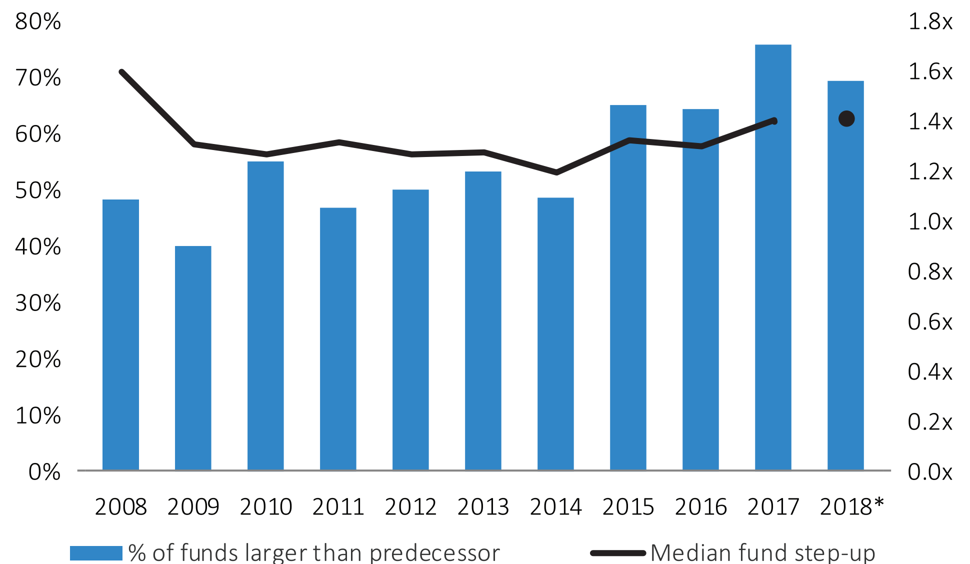
North American and European average and median PE fund size ($M)




Source: PitchBook
*As of August 31, 2018

## PE fund step-ups reach highest level since financial crisis

North American and European PE fund step-ups




Source: PitchBook
*As of August 31, 2018

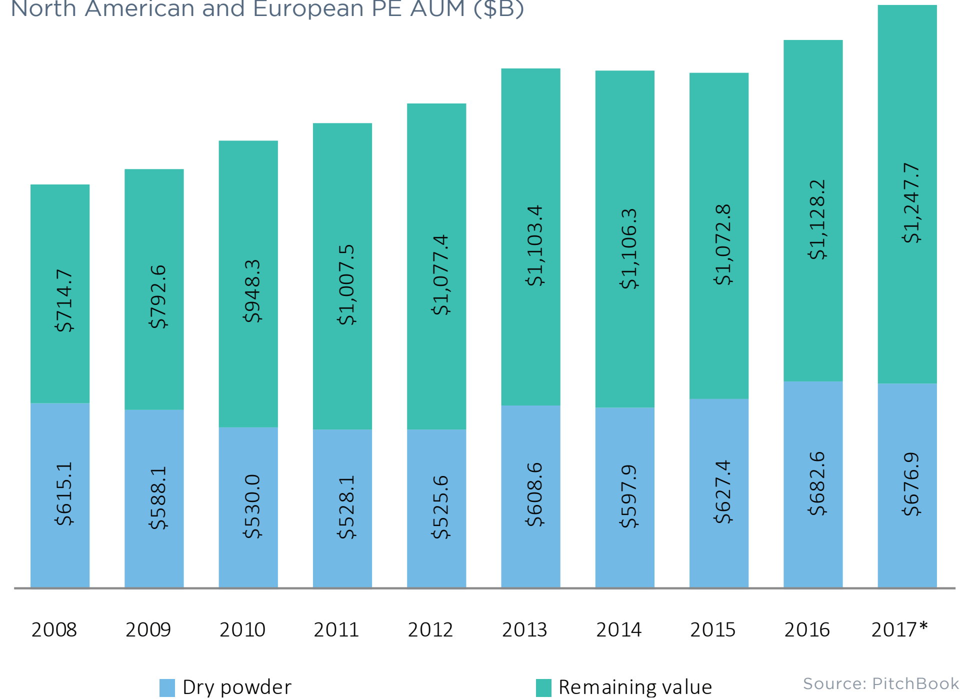
# PE overhang

PE AUM hit another record in 2017, following 2016's record-setting total. AUM for the industry came in just under the $2.0 trillion mark. PE continues to mature, expand and sop up capital, with industrywide AUM rising 6.3%, or $113.9 billion. As AUM hit record highs, the percentage of dry powder to AUM total has plateaued around 35%. Though this may seem lofty, the figure is well below the nearly 46% averaged in the 2006-2009 period.

AUM has been rapidly accelerating over the past few years, and LP contributions to GPs hit an all-time high in 2017; however, even as PE has grown assets, the years of dry powder on hand and total dry powder figure have remained steady. Much of the talk around dry powder has been about PE raising more capital than it can reasonably invest, though the data shows that GPs are quite capable of investing capital as fast as they are raising it. In fact, capital overhang dipped in 2017 for just the second time since 2012 as robust dealmaking effectively put capital to work. To note, dry powder sat at $676.9 billion through 2017, a 10.0% increase compared with $615.1 billion in 2008—the pre-recession peak in dry powder. Nevertheless, in that timeframe, total AUM grew 44.7% to $1.9 trillion from $1.3 trillion. A deeper look reveals 2017 vintage funds represent 39.8% of capital overhang. Vintages more than three years back made up just 19.3% of capital.

## 2017 marks an all-time high in PE AUM

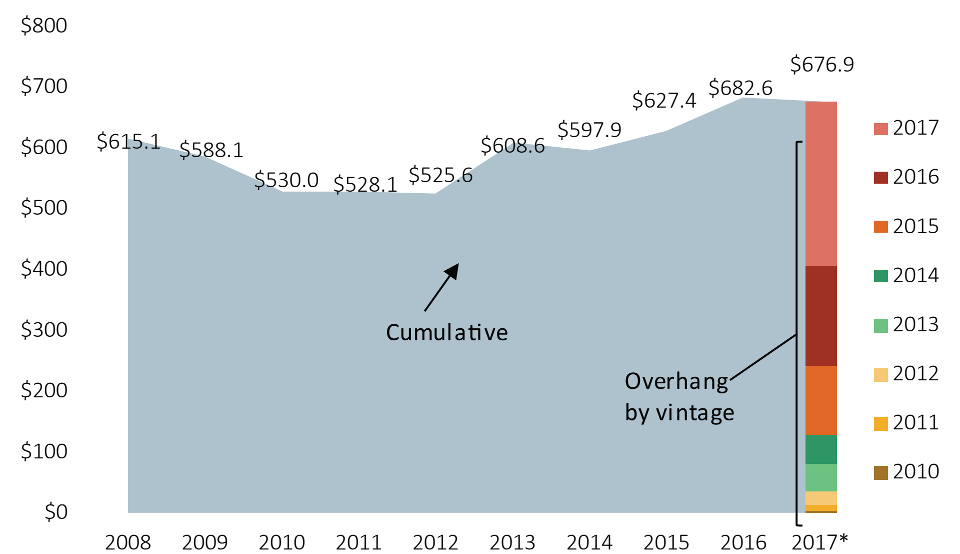
North American and European PE AUM ($B)




Source: PitchBook
*As of December 31, 2017

## Dry powder sees slight decrease during active fundraising period

North American and European PE cumulative dry powder ($B)




Source: PitchBook
*As of December 31, 2017

# Spotlight: Private capital

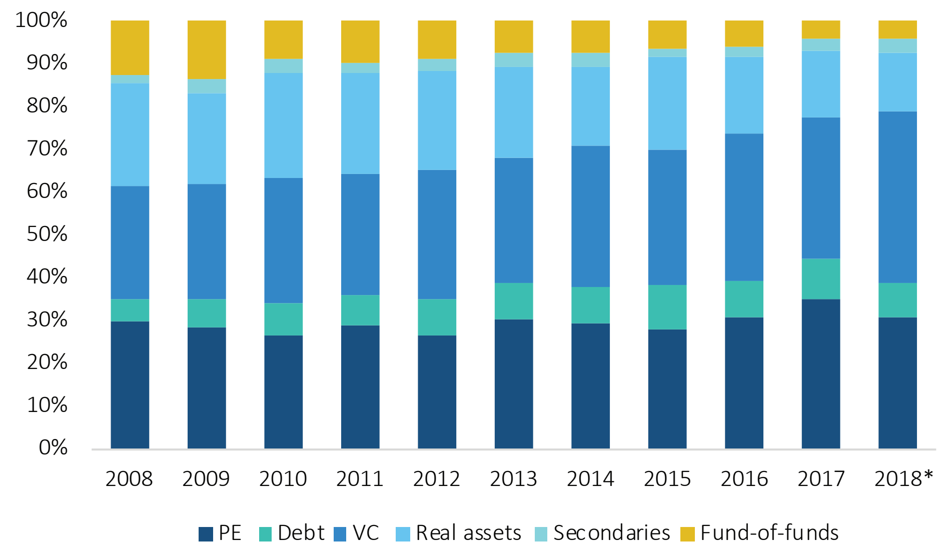
The trend toward fewer yet larger fund sizes extends beyond PE and VC. Fundraising value across all private capital asset classes increased 15.9% in aggregate between 2014 and 2017, with the biggest increases occurring in PE, private debt and secondaries fund types. Over the same period, the number of new vehicles fell by 19.6% in aggregate. The largest slide in capital raised came from the fund-of-funds (FoFs), with a 45.8% decline in capital closed over the past three years ($25.0 billion to $13.5 billion). Negative aspects of FoFs include slow cash conversion cycles and double fees assessed to LPs. This fund strategy is slowly being replaced by models that allow faster conversion cycles and lower fee structures, such as secondaries funds. Over the same time period, secondaries fundraising has increased 33.7%. Secondaries funds are gaining in popularity due to the J-curve mitigation and vintage diversification provided to LPs.

Although all private capital asset classes have seen a decline in count of new funds closed, PE and VC fundraising has been less affected. This means that together, PE and VC now make up 71% of total new private capital funds closed. PE has also seen the largest growth in capital raised, increasing 38.8% over the past three years.

Debt funds have experienced impressive gains in median fund size, with an increase of 142.5% over the past three years. This is despite a 12.5% decline in new funds closed over the past four years. Quantitative easing and post-financial-crisis regulations are the primary contributing factors spurring a rise in private debt. An increasingly crowded PE market also played a small role in making private debt a more attractive strategy.

## VC funds play a larger role in declining private capital fund count

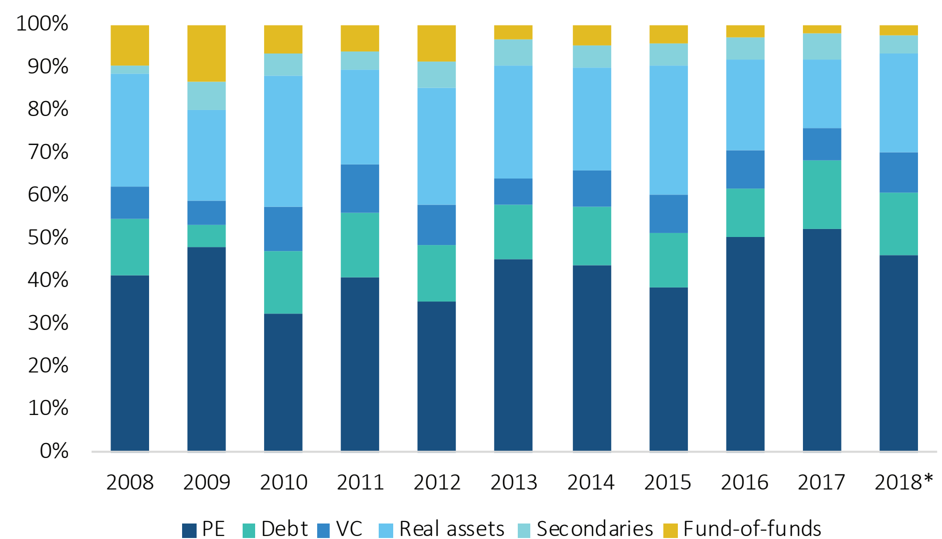
North American and European fundraising (#) by fund classification




Source: PitchBook
*As of August 31, 2018
Note: For this comparison, the real assets classification includes energy funds, which are generally included in our PE fundraising data.

## PE capital raised continues to hover near 50% of all private capital

North American and European fundraising ($B) by fund classification



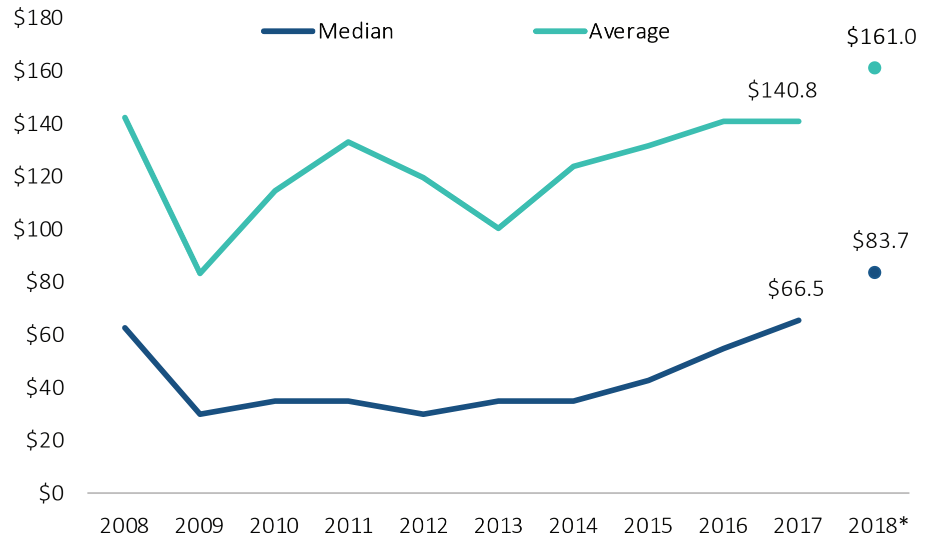

Source: PitchBook
*As of August 31, 2018
Note: For this comparison, the real assets classification includes energy funds, which are generally included in our PE fundraising data.

# VC fundraising

After 2016 saw a record high in aggregate VC raised, 2017 experienced a reversal of that trend. Aggregate capital raised from funds based in North America and Europe currently totals $34.1 billion, 20.8% below 2017 fundraising at year end. If we extrapolate trends through the end of 2018, we would expect fundraising to top 2017 figures. However, fewer large fund closes on the horizon hint at a slowdown in VC fundraising. Coatue Kona III is the largest fund expected to close in coming weeks, with a targeted fund size of $1.3 billion. That said, 2018 figures are sure to be strong when viewed against long-term averages.

## Average fund size climbs sharply after a plateau in 2017

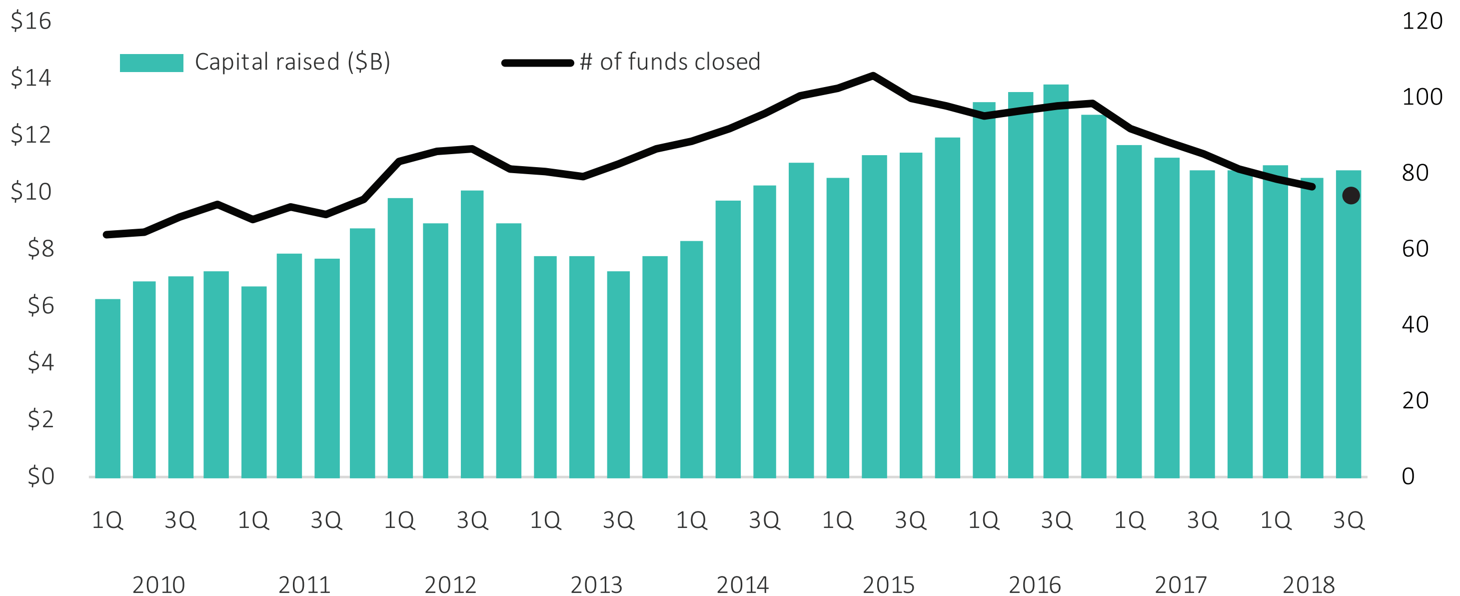
Average and median North American and European VC fund size ($M)




Source: PitchBook
*As of August 31, 2018

## Venture funding is on track to total over $40 billion cumulative funds raised for the fifth consecutive year

North American and European VC fundraising four-quarter rolling average




Source: PitchBook
*As of August 31, 2018

VC FUNDRAISING

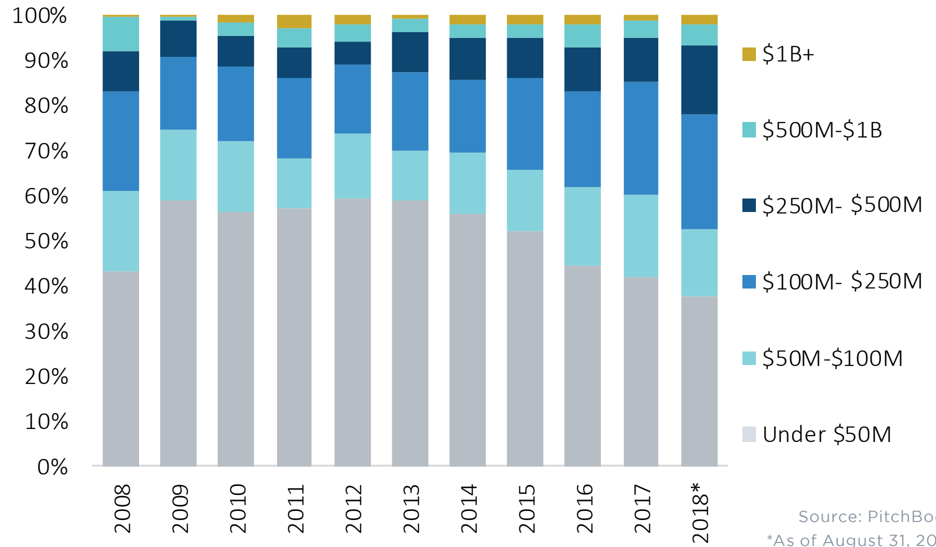
Total count of funds closed has continued to slide from a high of 401 funds closed in 2014 to 225 funds YTD. New fund closes have decreased steadily from a record high in 2015. Despite the slide in new funds, average size of new funds continues to climb.

In 2014, the median size of new funds was $34.7 million. That number has continued growing to a record high of $83.7 million in 2018. From 2015 to 2018, the average growth rate was 24.6% annually. During the same time, the proportion of deals sized $100 million to $500 million has increased from 25.3% to 41.0%. We expect average size of new funds to continue to grow as average VC deal size increases, and as venture firms raise increasingly larger funds to compete to invest in the most coveted deals.

These trends fit squarely into a reoccurring theme in VC of "fewer but larger." Over the past several years, we have observed the occurrence of fewer VC deals, but an increase in the average deal size. Likewise, we have seen fewer new funds closed, but fund sizes are increasing. In 2012, the year's five largest funds secured 28.5% of total VC raised. This year, the five largest funds have attained 16.8% of total VC. We attribute the decline in percentage of total capital to two factors. First, the top five firms secured a total of $10.2 billion in 2012 versus $5.7 billion in 2018.) Second, there is upward pressure on VC firms to raise larger funds in an attempt to compete with mega-funds, such as Sequoia Capital's upcoming $6.0 billion Global Growth Fund III, and to raise sufficient funds to invest in startups with rising valuations.

## Investment is up in funds sized $250M-500M despite a steady decline across all other fund sizes

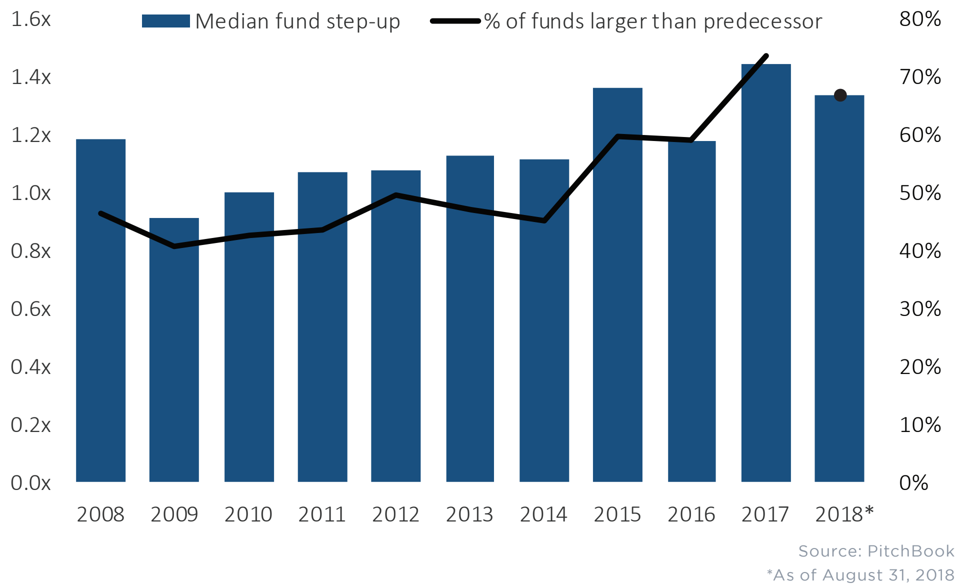
North American and European VC fundraising (#) by size




Source: PitchBook
*As of August 31, 2018

## Follow-on fund sizes steadily increase

North American and European VC fund step-ups




Source: PitchBook
*As of August 31, 2018

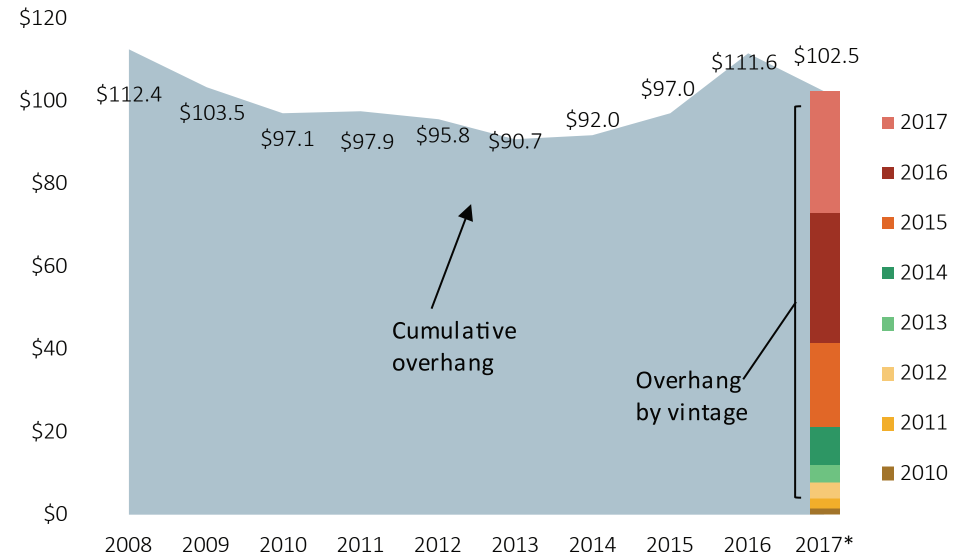
# VC overhang

VC dry powder ticked down in 2017 for the first time in four years, currently sitting at a cumulative $102.5 billion. Of this amount, 11.9%, or $12.2 billion, of excess capital is from aging 2010–2013 vintage funds that are nearing the end of the traditional investment period. If these funds are not called within the next year, they may go uncalled, spurring concerns that LPs won't be able to fully participate in the return stream. Meanwhile, LPs are paying management fees on this $12.2 billion while the capital sits untapped. This capital may be sitting idle due to the frothy valuations in the VC market, which is forcing investors to revisit their investment strategies or wait for air to let out. A controversial topic, extending fund timelines may provide funds additional time to deploy dry powder from aging funds.

Although dry powder dipped in 2017, it has remained relatively consistent over the past decade, never dipping below $90.0 million or rising above $112.0 million. At the same time, AUM—driven by growth in remaining value—has steadily increased by a compound annual growth rate of 5%. That means dry powder as a percentage of AUM has declined steadily from 39.6% in 2006 to 22.9% in 2017. One reason for this may be increased holding times, which have been rising consistently from an average of 4.9 years in 2009 to 6.3 years in 2017. VC-backed companies are, on average, raising more VC rounds and delaying exits as increased capital availability allows firms to stay private longer. Based on current trends, and barring significant unicorn exits, we expect continued growth of AUM and deployed capital, without significant growth in dry powder.

## 11.9% of dry powder is from aging 2010–2013 vintage funds

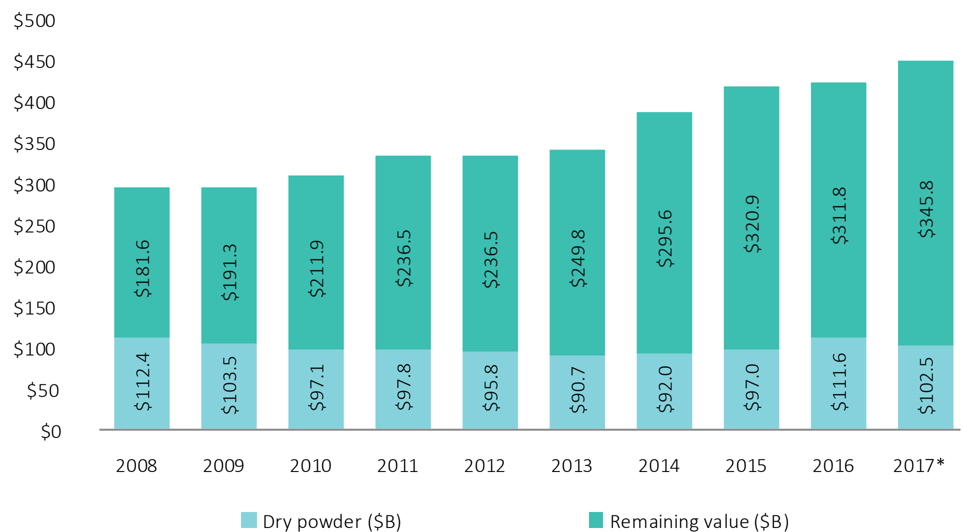
North American and European VC overhang ($B)




Source: PitchBook
*As of December 31, 2017

## Remaining value climbs as dry powder continues relatively unchanged

North American and European VC AUM ($B)




Source: PitchBook
*As of December 31, 2017

# Spotlight: Real assets

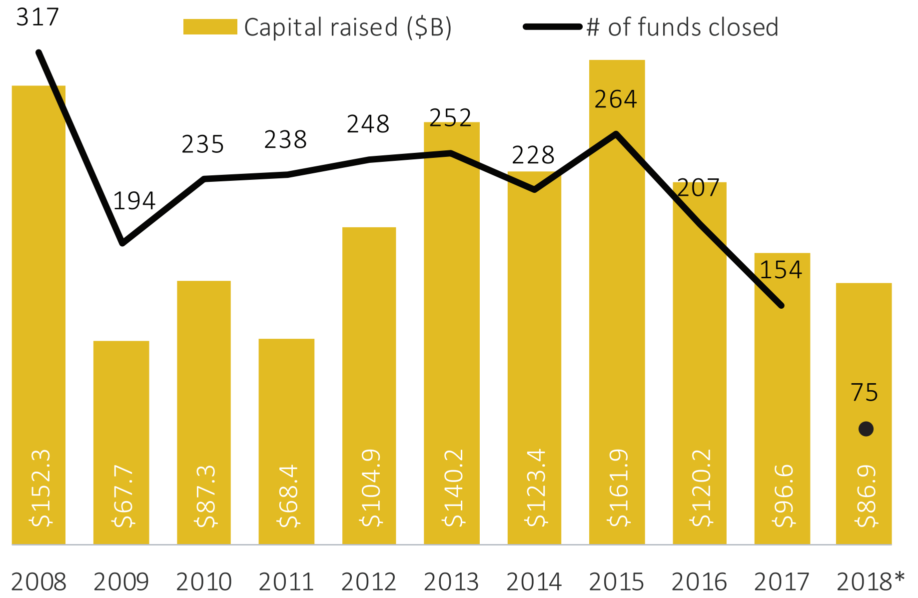
Fundraising for real assets funds—namely real estate, infrastructure and energy—has trended downward for several years. However, with several immense vehicles fundraising and governments around the world tapped out on spending, infrastructure fundraising has some room to run. The need for infrastructure is clear; McKinsey & Co. researchers estimate $150.0 billion a year is required to fix US infrastructure between now and 2030—approximately $1.8 trillion. In fact, the American Society of Civil Engineers' 2017 infrastructure report card graded the US a D+.

The splashiest name in the arena is the $40.0 billion Blackstone Infrastructure Partners fund, which secured a $20.0 billion commitment from Saudi Arabia's sovereign wealth fund. Much of the press around this fund has described a difficult process, with the fund running behind schedule for the initial close and Blackstone offering discounts to prospective LPs. In today's fundraising environment, it is rare to see funds struggling to meet their fundraising targets, especially for industry stalwarts. However, even though Blackstone is one of the preeminent names in PE, three other GPs are more well-known within the global infrastructure market—Brookfield, IFM Investors and Global Infrastructure Partners. Interestingly, this is not Blackstone's first foray into the infrastructure market. Their in-house group was spun-out in 2011 to form Stonepeak Infrastructure Partners. Overall, real asset AUM is plateauing, though 2018's concerted fundraising effort may be enough to put the asset class over the $1 trillion mark.

The other two major subsectors within real assets—energy and real estate—have experienced differing results

## 2018 fundraising on pace for the first annual gain since 2015

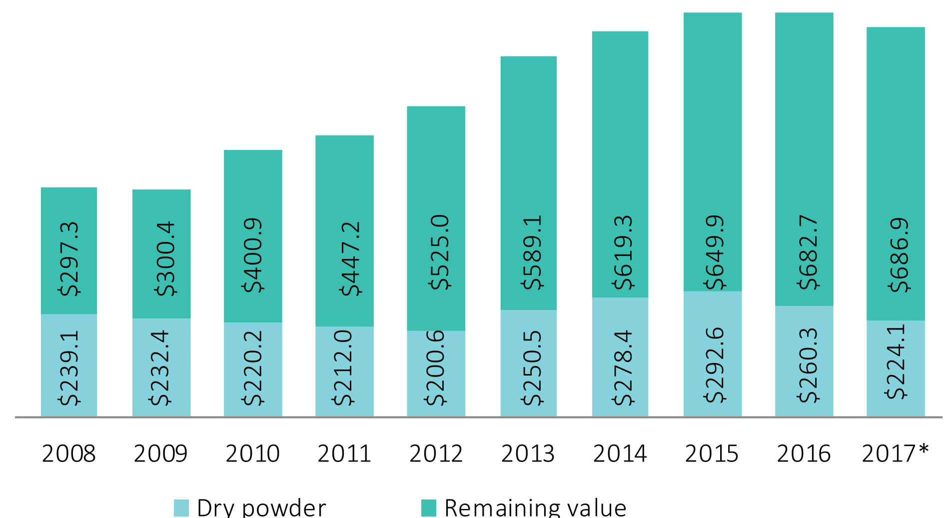
North American and European real assets fundraising activity




Source: PitchBook
*As of August 31, 2018
Note: For this comparison, the real assets classification includes energy funds, which are generally included in our PE fundraising data.

## AUM plateaus near $1 trillion

North American and European real assets AUM ($B)



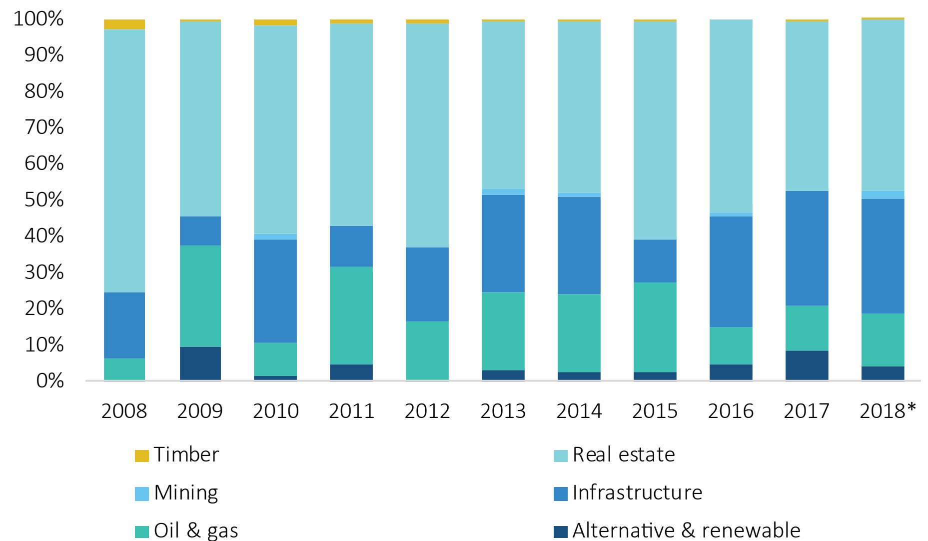

Source: PitchBook
*As of December 31, 2017
Note: For this comparison, the real assets classification includes energy funds, which are generally included in our PE fundraising data.

lately, with energy accounting for a lower proportion of capital raised as infrastructure takes share. However, as the price of oil stabilizes at an elevated level compared to just a few years ago, investment sentiment in the sector is perking up. To note, the $155.0 billion Teacher Retirement System of Texas recently announced that it will restore its target allocation to energy. Real estate continues to represent the largest subset of real assets, accounting for nearly half (47.0%) of all capital raised in 2018, though this is a marked decrease from the 2006-2008 timeframe when real estate accounted for over two-thirds of all capital raised each year. Fund sizes are rising across real assets—mirroring what is happening in PE and VC. To that end, 2018 has seen average and median fund sizes expand to all-time highs thanks to recent closes, such as KKR's $7.4 billion infrastructure fund.

Real assets offer a unique investment opportunity, sitting somewhere between traditional debt and equity investments from a risk/reward perspective. JPMorgan recently published a report proclaiming that real assets are the new bonds. Pulkit Sharma, head of investment strategy and solutions at J.P. Morgan Alternatives Solutions Group, said, "Well-constructed core real assets portfolios can capture the best characteristics of both equities and bonds." As LPs look to increase income without taking additional equity-like risk, real assets may offer an attractive opportunity, propelling robust fundraising numbers going forward.

## Infrastructure gains share at the expense of real estate

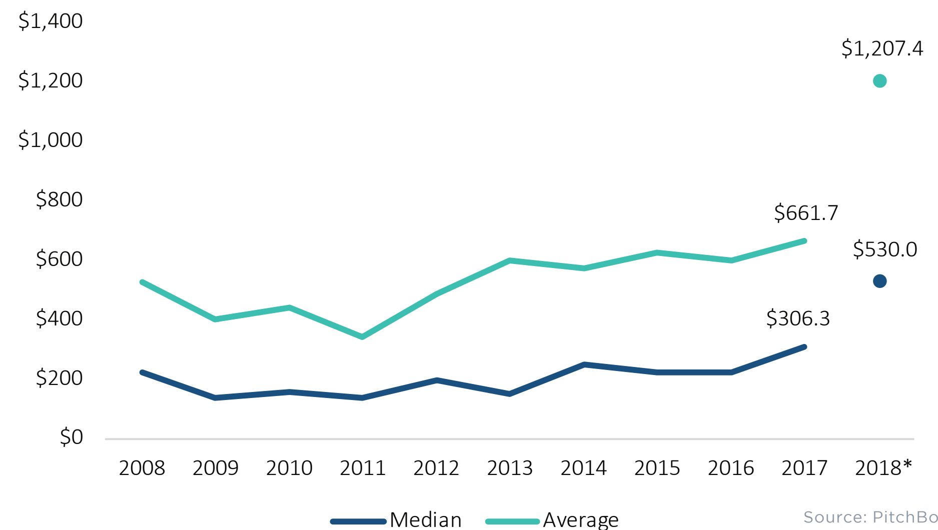
North American and European real assets fundraising activity ($) by sector




Source: PitchBook
*As of August 31, 2018
Note: For this comparison, the real assets classification includes energy funds, which are generally included in our PE fundraising data.

## Average and median fund sizes hit new record

North American and European real assets average and median fund size ($M)




Source: PitchBook
*As of August 31, 2018
Note: For this comparison, the real assets classification includes energy funds, which are generally included in our PE fundraising data.

## About us

GOLUB CAPITAL

Golub Capital is a nationally recognized credit asset manager with over $25 billion of capital under management. For over 20 years, Golub Capital has provided credit to help medium-sized U.S. businesses grow. The firm's award-winning Middle Market Lending business provides financing for middle market companies and their private equity sponsors. Golub Capital's credit expertise also forms the foundation of its Late Stage Lending and Broadly Syndicated Loan businesses. Golub Capital has worked hard to build a reputation as a fast, reliable provider of compelling financing solutions, and we believe this has inspired repeat clients and investors. Today, the firm has over 350 employees with lending offices in Chicago, New York and San Francisco. For more information, please visit golubcapital.com.

COPYRIGHT © 2018 by PitchBook Data, Inc. All rights reserved. No part of this publication may be reproduced in any form or by any means—graphic, electronic, or mechanical, including photocopying, recording, taping, and information storage and retrieval systems—without the express written permission of PitchBook Data, Inc. Contents are based on information from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Nothing herein should be construed as any past, current or future recommendation to buy or sell any security or an offer to sell, or a solicitation of an offer to buy any security. This material does not purport to contain all of the information that a prospective investor may wish to consider and is not to be relied upon as such or used in substitution for the exercise of independent judgment.