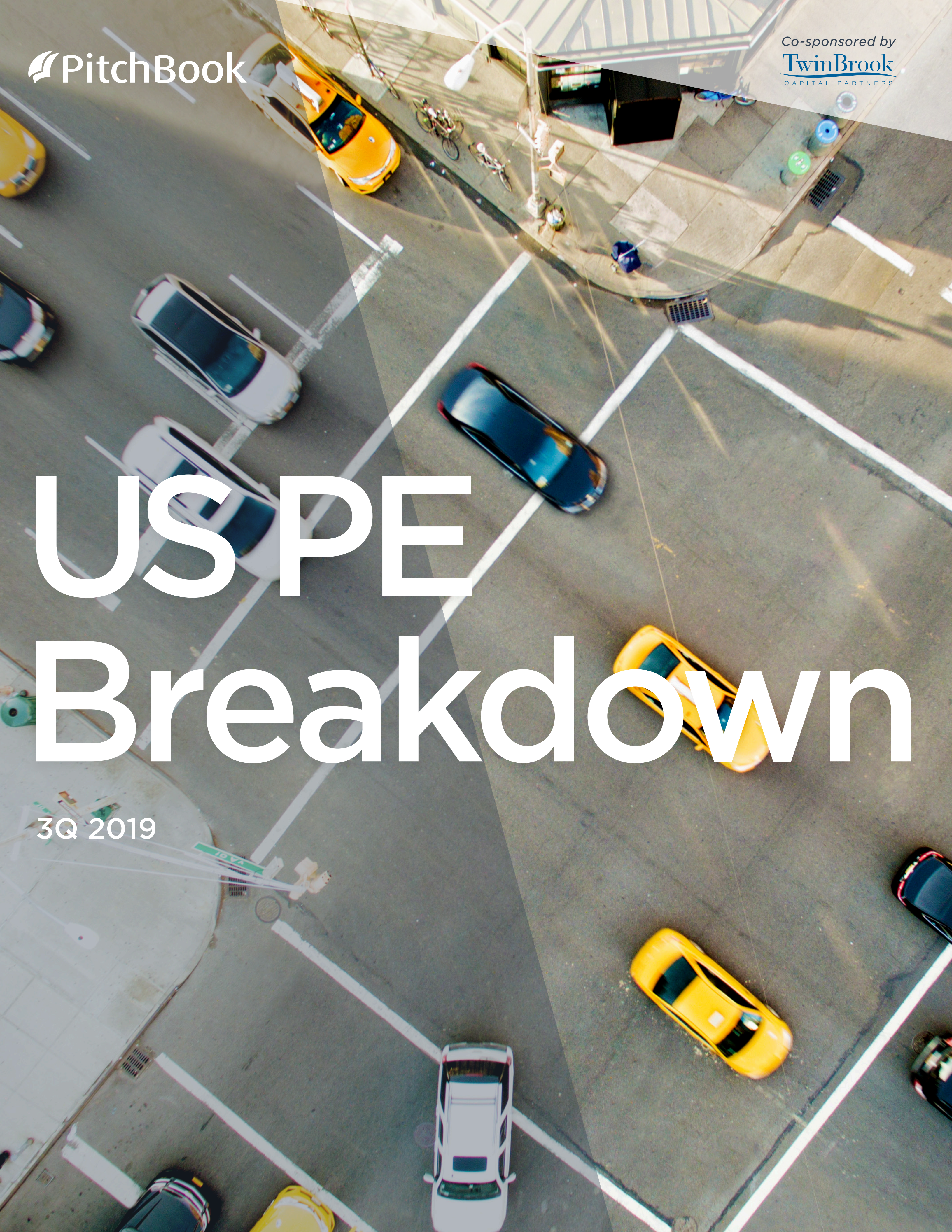

PitchBook

Co-sponsored by TwinBrook Capital Partners

US PE Breakdown

3Q 2019

PitchBook

Co-sponsored by TwinBrook Capital Partners

Contents

A note on methodology: In previous reports, our data has only included estimates from the current quarter. Beginning in this edition, we will include estimates for value and count going back four quarters to include a full year's worth of estimates.

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Introduction

US PE dealmaking activity remained fervent, with 2019's figures approximately matching 2018's pace. Although GPs are closing on deals at a near record rate, the US economic backdrop is somewhat perilous with the Federal Reserve cutting short-term rates again and inversions occurring at key spots in the yield curve during 3Q. However, several factors should still propel dealmaking through the next few quarters. GPs are on a fundraising tear and will be zealous to invest their newly secured capital. Additionally, sovereign wealth funds and other institutional investors are upping their participation in deals by co-investing as well as directly sourcing deals. With all this cash keeping deal flow elevated, multiples, too, have remained aloft, prompting GPs to refocus on downside protection when sourcing deals.

Exits have fared worse than deals, with count and value down markedly compared to this point last year. The PE-backed IPO market once again looks untenable with many high-profile companies either falling after listing or pulling their offering altogether. Corporates, too, seem less willing to pay elevated prices in today's uncertain environment and continue to represent a diminishing portion of PE exits. With continually rising dry powder levels, GPs may have the opportunity to step in and take additional share of the exit market; otherwise, they may choose to extend holding periods until more certain days.

Cumulative fundraising value has almost eclipsed 2018's full-year figures with nearly $200 billion raised through 3Q 2019. The largest-ever buyout fund and tech-focused buyout fund closed in the quarter, racking up more than $40 billion between them. A general shift toward such colossal funds has allowed some of the largest LPs to cull the number of GP relationships and write nine-figure checks to a select few managers. LPs are also indicating higher demand for alternative fund structures and the demand for long-dated and permanent capital vehicles is swelling.

Wylie Fernyhough
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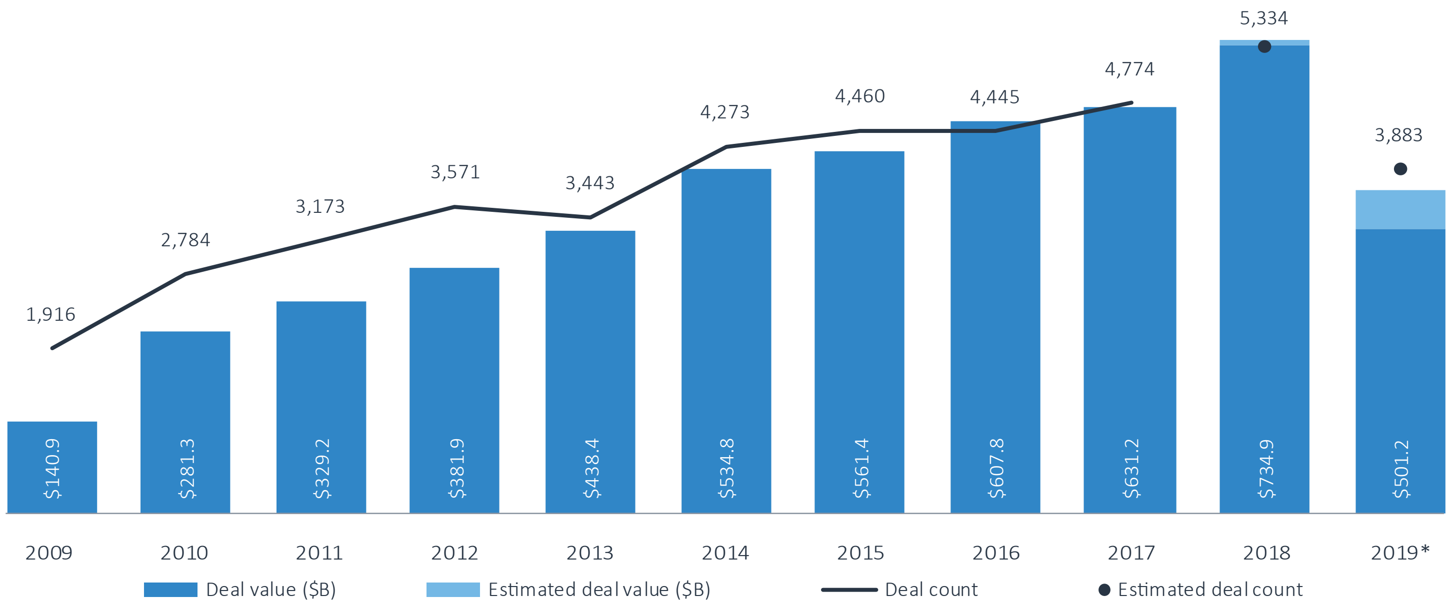
Overview

PE deal activity



Source: PitchBook | **Geography**: US
*As of September 30, 2019

Through 3Q 2019, US PE firms have completed 3,883 deals totaling $501.2 billion, putting deal value at approximately the same level we saw through 3Q 2018. Dealmakers continue to ink investments at a rapid clip as ever-larger funds are raised, adding to already lofty dry powder figures. With larger funds and record levels of dry powder, GPs may increasingly target public companies to source larger deals. While take-privates have remained low by historical standards, several of these buyouts were either announced or rumored during 3Q, including Advent and Permira's potential $16.0 billion takeover of Symantec (NASDAQ: SYMC) and Permira's announced $2.4 billion acquisition of Cambrex (NYSE: CMB). The deal for Cambrex, a pharmaceutical ingredient manufacturer, showcases how GPs may be able to find opportunity in undervalued small caps.

More broadly, the US economy continues to post mixed results. While a recession would hurt the value of current portfolio companies, it would also create buying opportunities for funds with sufficient cash reserves. Although the two-year and 10-year rates inverted, other economic indicators suggest the expansion has continued legs, and we saw the S&P 500 post a nearly 20% gain through 3Q. Against this backdrop, the Federal Reserve decided to lower short-term interest rates for the second time this year, a move it has not done since the depths of the financial crisis. Although lower rates will keep borrowing costs at bay and buoy the leveraged buyout (LBO) market, GPs are starting to act more carefully, and we are seeing a growing portion of GPs put greater emphasis on downside risk.

There are still thousands of deals getting done, however, including the premier investment out of BlackRock's Long-Term Private Capital fund (LTPC). The fund and co-investors bought a 30% stake in Authentic Brands Group in August, the owner of Sports Illustrated, among other brands, for $875.0 million. The LTPC fund has generated substantial buzz since BlackRock began fundraising; not only has the fund publicly struggled to raise money, but the $10 billion to $12 billion target is lofty for a first-of-its-kind vehicle from a firm better known for public equity index funds. Though some LPs have displayed interest, the fund seems to be suffering from a chicken-and-the-egg problem common to new strategies. Many potential investors are waiting on the fund to show a few successful investments and for more capital to be raised before committing.

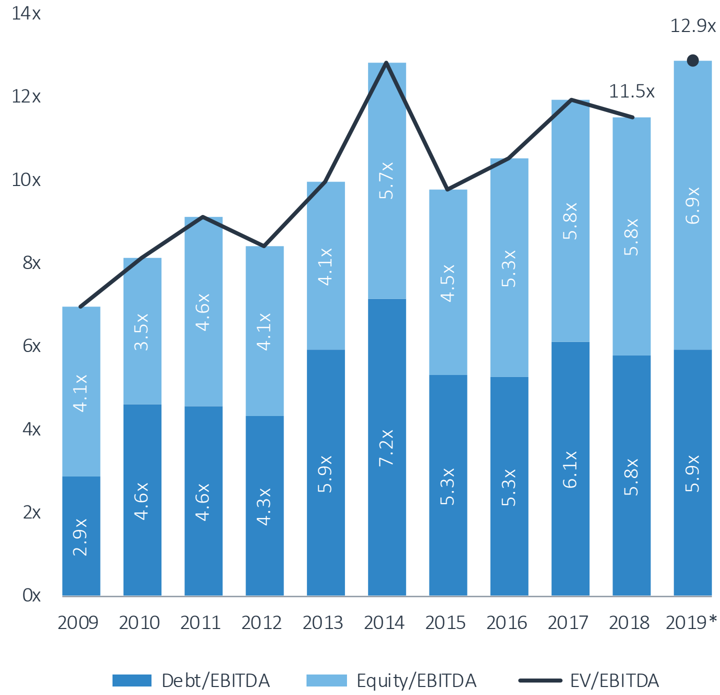
Several LPs believe the real appeal of this fund goes beyond the potential for higher risk-adjusted rates of return. Longer time horizons and lower fee structures open PE investment to entirely new business models and companies. Whereas many companies cannot survive under the current four-to-six-year timeline and higher leverage used in traditional buyout funds, these companies may make financial sense in long-dated and permanent capital funds. We believe there is a growing interest in long-dated and permanent capital funds which could dramatically alter the PE landscape with lower-leverage buyouts and longer holding periods. Industry titans such as Vanguard agree and are seeking ways to disrupt the current PE fund and fee structure.

Despite the interest in alternative deal structures, more traditional, highly-levered buyouts still dominate the market. The largest LBO of the quarter was the $4.0 billion acquisition of Press Ganey Associates, a healthcare advisory firm. A consortium including Ares, Leonard Green & Partners and Singapore's GIC sovereign wealth fund (SWF) participated. GIC, one of the most active SWFs when it comes to direct investing, also co-invested with BlackRock in its Authentic Brands deal. We have seen SWFs grow in sophistication over the past decade and slowly transition from merely investing in PE funds to co-investing with GPs and closing direct deals of their own, and we expect this to continue.

More parties—including SWFs, family offices and pensions—competing for deals could further prop up multiples, which are already well above historical averages. In 2019 to date, the median US PE deal multiple sat at 12.9x. At such heights, it is hard to imagine GPs realizing much value creation from multiple expansion in platform companies. Indeed, add-ons—which are typically lower-multiple acquisitions—continue to account for a rising portion of US PE buyouts, now constituting two-thirds of deal flow. Additionally, many GPs are assuming current deals will exit at lower multiples in their base-case scenario, rather than just assuming it in the bear-case scenario. As technology and healthcare deals—which tend to trade at higher multiples than average—become even more frequent, deal multiples should be supported at current levels, barring an external economic shock.

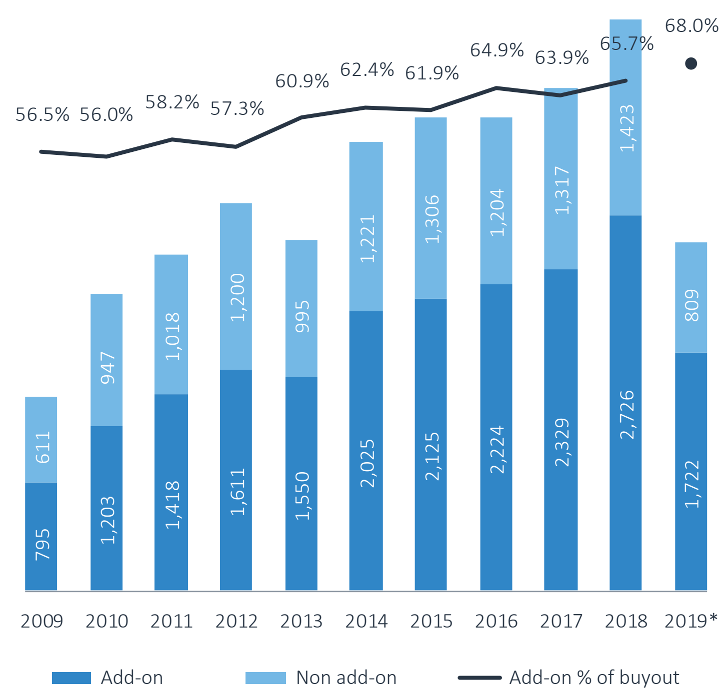
Deal flow will likely continue to put up healthy figures as several massive buyouts have been announced and are expected to close before 2020. One deal expected to close in 4Q—the $8.4 billion take-private of Genesee & Wyoming (NYSE: GWR)—is another example of GIC's SWF investing alongside a PE firm in a massive deal. Overall, despite soaring multiples and growing signs of a global slowdown, GPs will continue to find attractive ways to invest their cash by providing capital to companies in quickly growing industries, focusing on operational improvements rather than financial engineering and capturing multiple arbitrage through sale-leasebacks and add-on acquisitions.

Median PE buyout EV/EBITDA multiples



Source: PitchBook | **Geography**: US
*As of September 30, 2019
Note: The sample size for 2019 is 27. Totals may not add up due to rounding.

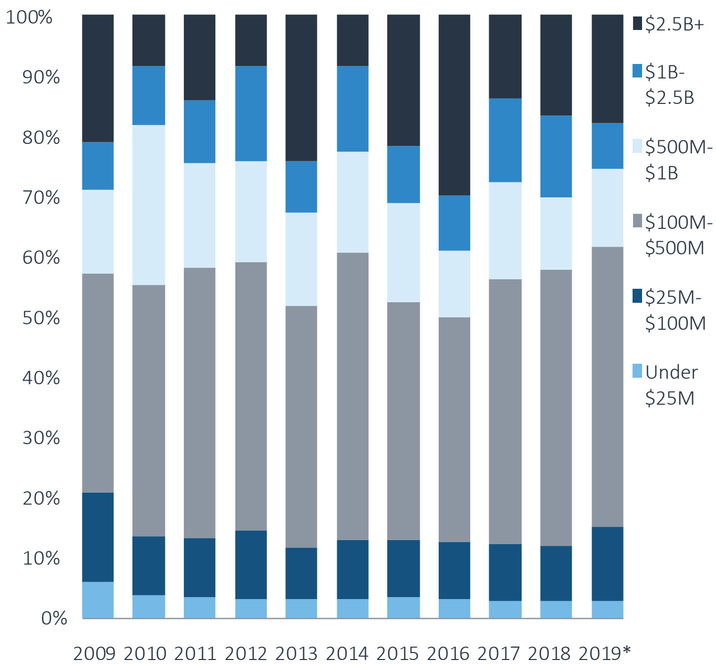
PE add-ons as proportion of buyout activity



Source: PitchBook | **Geography**: US
*As of September 30, 2019

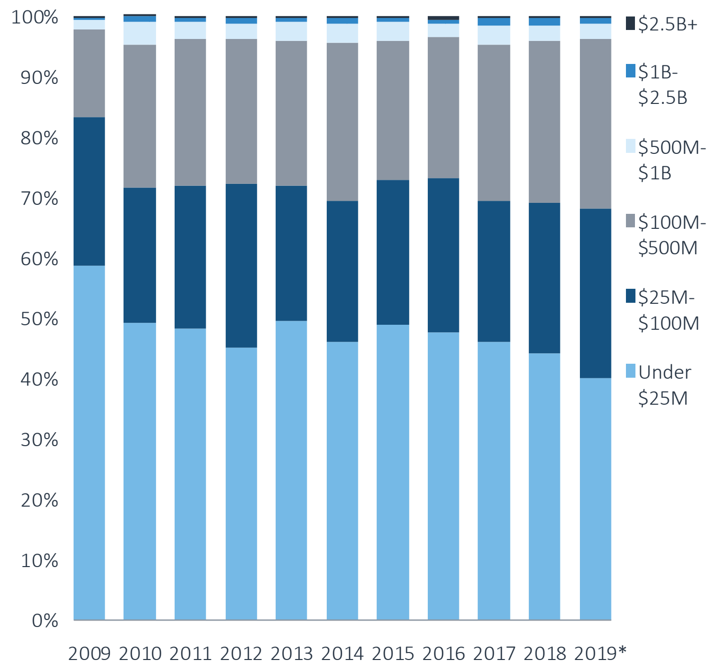
Deals by size and sector

PE deals ($) by size



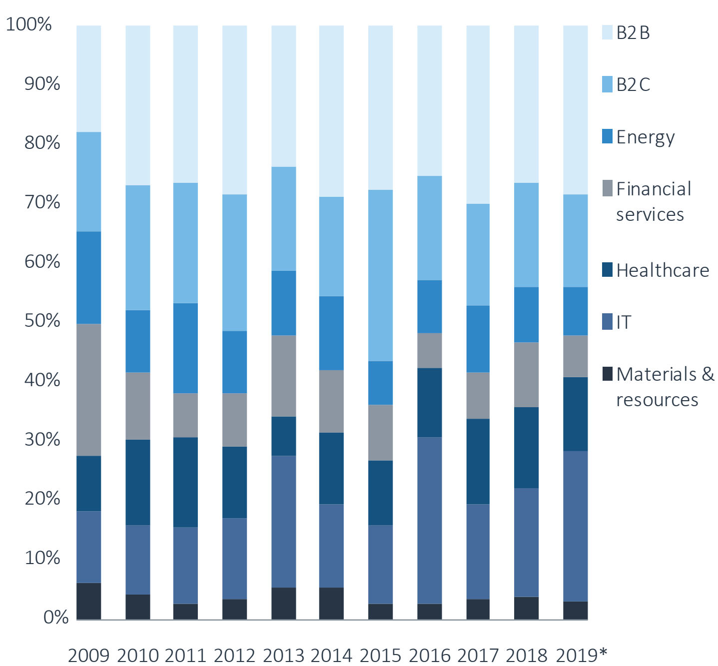
Source: PitchBook | **Geography**: US
*As of September 30, 2019

PE deals (#) by size



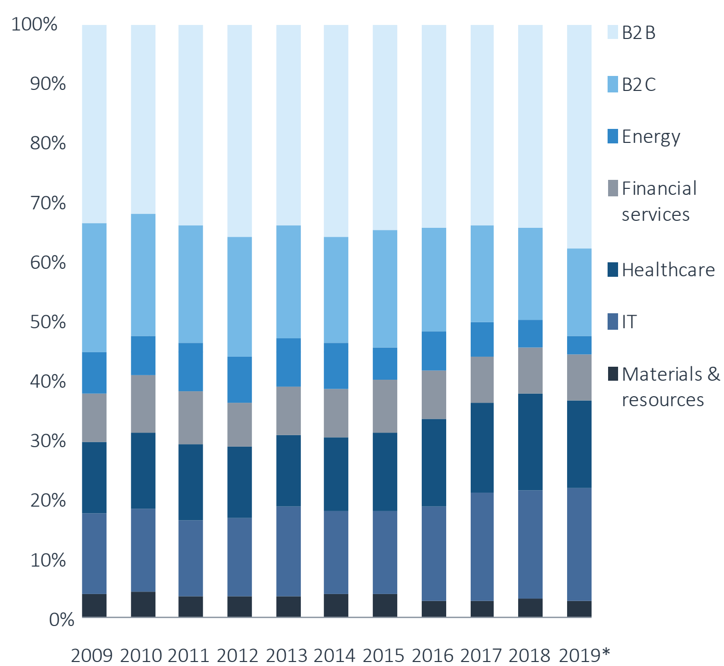
Source: PitchBook | **Geography**: US
*As of September 30, 2019

PE deals ($) by sector



Source: PitchBook | **Geography**: US
*As of September 30, 2019

PE deals (#) by sector



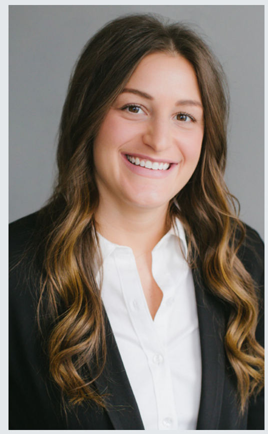
Source: PitchBook | **Geography**: US
*As of September 30, 2019

PitchBook

Co-sponsored by TwinBrook Capital Partners

Twin Brook Capital Partners Q&A: Financial services—A hot sector in an active market

With large amounts of dry powder ready to be put to work, PE sponsors continue to hunt for attractive deals, including opportunities in the financial services sector. Twin Brook Capital Partners' Betsy Booth discusses why this industry has garnered so much attention, its recent trends and her experience working with sponsors in the space.



Betsy Booth

Director

Twin Brook Capital Partners

Betsy focuses on the origination, evaluation and structuring of new loan opportunities with PE sponsors. Prior to joining Twin Brook, Betsy was at Ares Management, LLC where she underwrote senior debt and unitranche credit facilities supporting PE-backed transactions in the middle market across several industries.

The financial services industry isn't a new area of interest for PE. We've seen healthy deal activity in the space for many years. What makes this sector so attractive?

Financial services companies generally have a number of characteristics that make them appealing from both a debt and equity perspective, including recurring revenue and high free cash flow. Their business models often include monthly admin fees or fees as a percentage of AUM, providing a steady, reliable stream of revenue. With significant customer diversification and high retention rates, these companies tend to have a stable and consistent client base. Combined with limited working capital and capex requirements, these factors typically contribute to businesses generating greater than 25% margins.

In addition, expanded regulatory requirements have led to an increased focus on compliance, which is an area where PE firms can bring significant value. Over the past decade, it has become increasingly important for businesses to ensure that they have, build or outsource the technology required to adhere to evolving industry regulations. Sponsors can provide the funding and substantial strategic guidance needed to identify, establish and implement the proper compliance resources and infrastructure.

Twin Brook typically focuses on middle-market—specifically lower middle-market—companies. Given the propensity for roll-up strategies, why haven't we seen a drop off in financial services deals in that segment of the market, with many platforms and potential add-on targets growing beyond the sub-$25 million of EBITDA category?

I think one of the most fascinating aspects of the financial services industry is, in some respects, the relatively limited level of change when it comes to fragmentation and transaction volume. We've historically seen, and continue to see, a lot of activity in the wealth management and registered investment advisor (RIA) spaces. In the early 2000s, PE firms were delving into highly fragmented industries with no shortage of small, founder-owned businesses, which sponsors viewed as compelling opportunities to establish platforms and execute on roll-up strategies. By now, you would think the space had been picked over, with all the smaller players rolled up and the platforms outgrowing the middle market. In our experience, however, that has not been the case.

We've continued to see fragmentation in several sectors, as well as healthy sponsor interest and activity. We believe this continued focus on the space has been driven by the importance of technology, regulatory focus on compliance and succession planning. The activity of the past decade has led to other niches becoming clear targets for roll-up strategies. Wealth management and property and casualty insurers are some of the oldest platforms that were built via roll-ups, and that success has spurred many sponsors to employ the same strategy with other middle-market financial services businesses with similar dynamics.

It sounds like you continue to see a lot of sponsor activity in the space. In terms of recent dealmaking, have you seen any interesting trends or changes?

I believe the most notable trend this year is the number of add-on acquisitions that are occurring across all industries. Sponsors are being forced through competitive auctions to acquire platform businesses at competitive multiples. By subsequently acquiring a number of smaller tuck-in acquisitions at lower multiples, buyers can lower their entry multiple into a sector and benefit from the overall arbitrage of this strategy when they exit the business several years later. Add-on activity has contributed to a significant level of assets deployed in private credit this year versus other years.

Are there any specific parts of the financial services industry that have garnered increased interest as of late?

One space where we've seen increased deal activity is third party administrators (TPAs) and managed general agencies (MGAs). We believe this is also a continuation of the trend around outsourced service providers, as these agencies function as extensions of insurance carriers, thereby offering a strong value proposition and appealing profit center for said carriers to capitalize on.

The intersection of healthcare and financial services is another area where there has been substantial activity. We've witnessed the rise of voluntary employee benefits or supplemental employee benefits for employer groups' commercial policies. We attribute the increased focus on these benefits to the continued shift to high-deductible health insurance plans and the frothy job market, which has motivated employers to search for economical ways to attract and retain employees.

Are you seeing more sponsors establish sector-specific teams? Or are new firms emerging that focus exclusively on financial services?

There is a relatively stable, consistent group of financial services-focused PE firms that have been in the market for the past 10 to 20 years, and there have not been many new entrants. However, we have seen a rise in generalist firms gaining comfort with the financial services space—from a knowledge and background perspective—who will pursue a transaction when they identify an attractive opportunity. These generalist sponsors may have an in-house team or individual that leads their financial services efforts, but they typically aren't creating new, industry-specific verticals or redefining their overall strategies.

How has this increased focus on financial services impacted your relationships with sponsors? What they are looking for in a direct lender?

Overall, the increased focus on financial services has strengthened our relationships with sponsors. These sponsors value our industry expertise and are confident that we have the market knowledge needed to understand the opportunities they're pursuing without them needing to explain all the nuances, trends and details of the broader space. From a deal perspective, our breadth of experience with similar companies and the overall sector allows us to streamline the diligence process. We can cut out much of the industry research and concentrate on the specific transaction at hand. Given sponsors' ever-increasing focus on time, this is extremely important. If a sponsor is looking to compress, accelerate or preempt a process, they know we have the resources and expertise needed to do that.

As we look to the future, do you think the financial services industry will continue to grow and be an area of interest for PE sponsors?

Despite the proliferation of activity and sponsor interest in the space over the past 10-plus years, I don't anticipate a near-term reversal of the trend. Although the number of established platforms has increased over the past decade, we've seen deal volume remain at healthy levels, as sponsors continue to see substantial fragmentation and plenty of opportunity for roll-up strategies. Moving forward, I believe one of the primary factors to drive continued industry growth will be the regulatory environment. Small businesses often struggle to navigate increasingly complex regulations, creating a need for strategic guidance and potential investment in infrastructure and technology. As a result, we will continue to see more outsourced providers emerge. We believe these providers have become, and will continue to be, a key tool for smaller businesses and an area of focus for many PE sponsors.

Spotlight: Mega-fund performance

This section appeared originally in an analyst note, written by Senior PE Analyst Wylie Fernyhough, on September 27, 2019.

Introduction

In the first installment of our series of analyst notes covering PE mega-funds, we provided an introduction and overview to the space, looking at the key players and the strategy's evolution. In the second installment, we dove into cash flows and fund timing. This last note in the series will focus on performance for mega-funds spanning North America and Europe. We will slice the data by vintage and size bucket, comparing mega-funds to other PE funds between $1 billion and $5 billion and those under $1 billion. The analysis will look at traditional metrics including IRR and cash multiples, as well as the relative performance figures PME and Direct Alpha. Each time frame has performance data for at least 100 funds in the smaller size buckets and between eight and 47 mega-funds.[1]

IRR

Comparing pooled IRRs across vintages and size buckets reveals that PE mega-funds consistently perform at or near the top compared with smaller funds in both North America and Europe. The 2009-2013 vintage bucket shows mega-funds significantly outperforming smaller funds. Much of this is likely attributable to the decade-long run-up in equity markets. Mega-funds can more aggressively mark portfolio companies to market since they are typically larger and more comparable to publicly listed companies, though this can have negative consequences in down markets. Whereas smaller companies have historically been assumed to outperform due to the size premium in public markets, it appears the same does not hold true for PE-backed businesses.

Although PE mega-funds have recently exhibited superior performance, in terms of IRR, they have a tighter performance distribution band. Larger funds are less likely to produce "home runs" for LPs in terms of performance, but instead exhibit lower return distribution volatility.

IRRs by size bucket and vintage*

Vintage	Size	Top quartile	Median	Bottom quartile	Standard deviation
2000-2003	$0-$1B	24.3%	13.6%	6.4%	20.1%
2000-2003	$1B-$5B	29.0%	19.5%	10.8%	14.8%
2000-2003	$5B+	24.7%	20.2%	15.5%	7.9%
2004-2008	$0-$1B	16.1%	8.9%	3.0%	15.8%
2004-2008	$1B-$5B	13.8%	9.4%	5.9%	9.9%
2004-2008	$5B+	13.0%	9.0%	5.9%	6.5%
2009-2013	$0-$1B	21.4%	12.6%	7.7%	14.3%
2009-2013	$1B-$5B	18.2%	12.5%	8.1%	10.6%
2009-2013	$5B+	19.0%	14.6%	13.4%	4.9%

Source: PitchBook | Geography: Global
*As of December 31, 2018

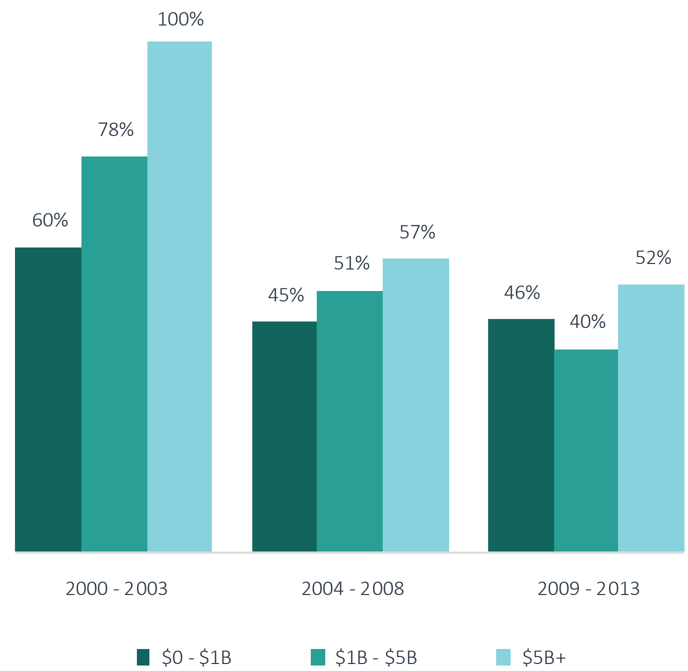
1: Pooled statistics are calculated using an equal-weighted approach rather than a capital-weighted approach to ensure smaller funds in each size bucket are not dwarfed by a few massive vehicles. We also used a capital-weighted approach to double-check our results, and they are nearly identical. Barring a few basis points changes, there is no significant difference between the calculation methodologies, strengthening our confidence in the results.

Cash multiples

As is the case with IRRs, cash multiples illustrate that mega-funds have higher floors and lower ceilings. While mega-funds have the highest chance of achieving a TVPI of at least 1.5x in each time frame, they are almost always the least likely to exceed the 2.0x mark. For those LPs willing to gamble and shoot for star managers, the smallest size bucket offers the best opportunity, while mega-funds are the superior choice for LPs aiming for consistent returns.

Median TVPIs tell a similar story to IRRs. The median cash multiple by fund size shows some variation, though mega-funds still tend to outperform. The consistent ranking between cash multiples and IRRs occurs because fund lives and cash return profiles tend to be approximately even. Mega-funds also routinely post the highest bottom-quartile performance and the lowest standard deviation, though they never post the highest top-quartile performance, mirroring the results seen in the accompanying chart.

Proportion of funds that have TVPI exceeding 1.5 by size and vintage*



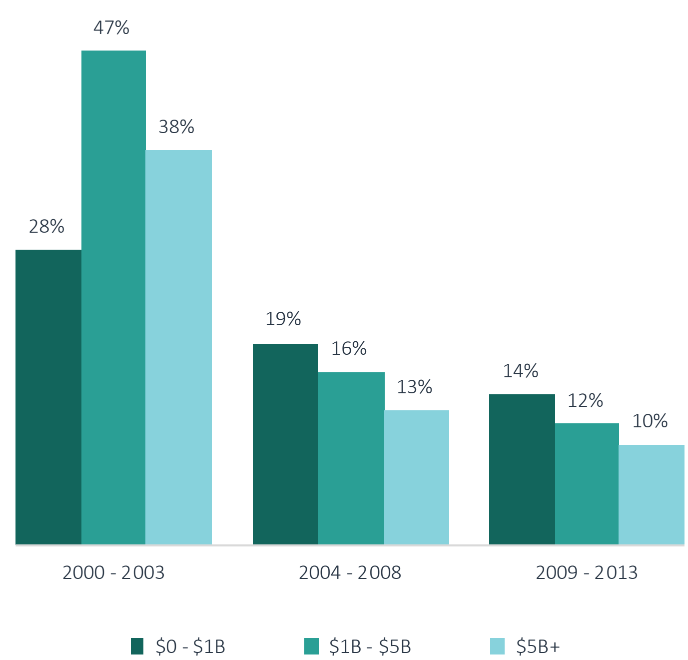
Source: PitchBook | **Geography**: US
*As of December 31, 2018

TVPI by size bucket and vintage*

Vintage	Size	Top quartile	Median	Bottom quartile	Standard deviation
2000-2003	$0-$1B	2.09x	1.57x	1.31x	0.75
2000-2003	$1B-$5B	2.38x	1.91x	1.58x	0.60
2000-2003	$5B+	2.21x	1.89x	1.65x	0.36
2004-2008	$0-$1B	1.83x	1.44x	1.11x	0.67
2004-2008	$1B-$5B	1.83x	1.51x	1.27x	0.47
2004-2008	$5B+	1.82x	1.55x	1.32x	0.41
2009-2013	$0-$1B	1.76x	1.44x	1.21x	0.50
2009-2013	$1B-$5B	1.72x	1.43x	1.20x	0.49
2009-2013	$5B+	1.70x	1.55x	1.41x	0.34

Source: PitchBook | **Geography**: US
*As of December 31, 2018

Proportion of funds that have TVPI exceeding 2.0 by size and vintage*

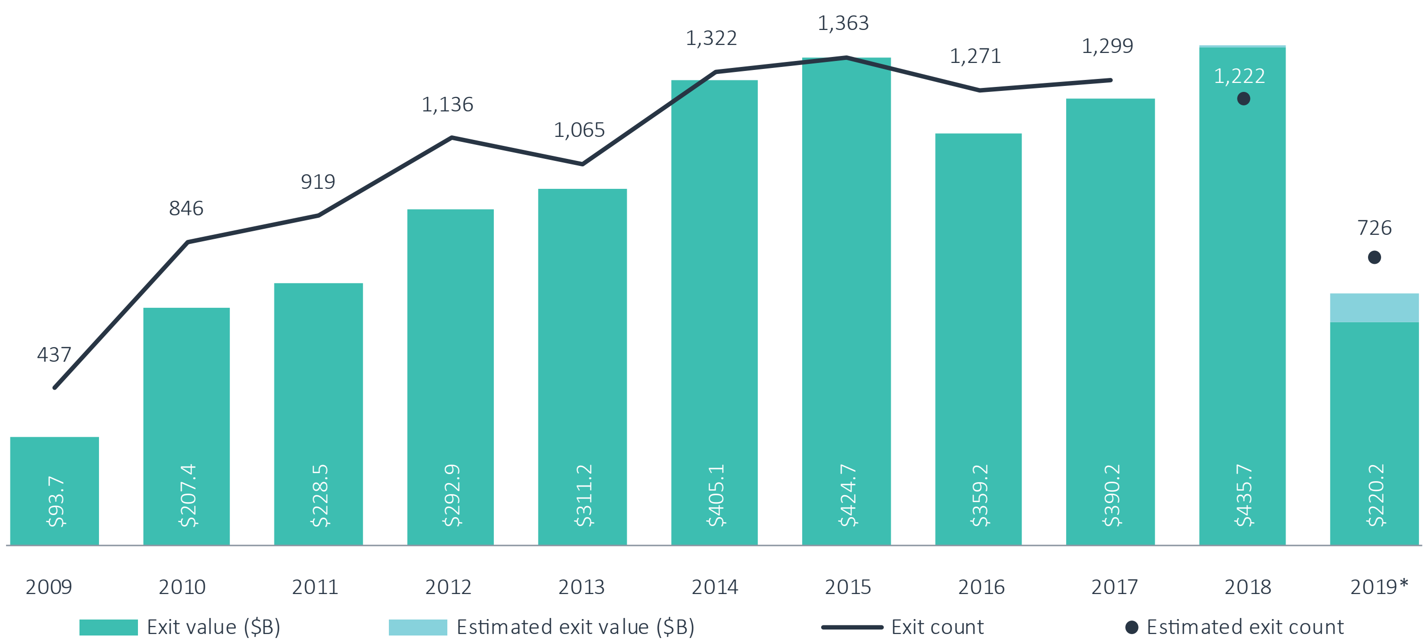


Source: PitchBook | **Geography**: US
*As of December 31, 2018

For additional data and analysis for IRRs and cash multiples, as well as PME and Direct Alpha, please read our analyst note.

Exits

PE exit activity



Source: PitchBook | **Geography**: US
*As of September 30, 2019

Through 3Q 2019, GPs have exited 726 companies for a total of $220.2 billion. With YoY declines of 19.5% and 29.6% between the first three quarters of 2018 and the same timeframe in 2019, respectively. Full-year 2019 figures appear poised to fall short of 2018 totals. In 3Q 2019, exit activity continued to trend downward with $67.2 billion in value over 248 transactions. This decrease, however, is somewhat tempered by an increase in median exit size—more specifically an increase for IPOs and secondary buyouts (SBOs)—which kept the exits from a more drastic decline. In the quarter, the value of corporate acquisitions has declined by 74.0% YoY. The value of SBOs has also declined, though not nearly as precipitously (32.4%) and PE-backed IPO value posted gains of 34.8% over the same period. Trade war tensions, as well as domestic and international economic disputes, may explain the overall slump in exit activity that we've seen through 3Q. In addition, corporate acquirers are not willing to pay the high prices that GPs are looking for, which could leave GPs on the sidelines until more amenable market conditions prevail or force them to seek alternative liquidity options.

Although exits are down across the board, the continued bull market has allowed PE firms to capitalize on the accommodating public markets with several prominent software IPOs. Ping Identity (NYSE: PING), which was initially bought by Vista Equity Partners in 2016 after having raised $141.4 million from VCs, provides a high-profile example of strategics refusing to pay lofty prices. Ping Identity was shopped around to corporate acquirers, but none were willing to pay the $2 billon-plus price tag Vista expected. Rather, Vista completed its first IPO to date by taking Ping public at a pre-money valuation of $977.1 million, well below the price it was shopped for. This exit is similar to many recent VC-to-PE buyouts, as the company was still unprofitable when it was exited, a departure from PE convention. In the past, PE firms would make improvements to the underlying portfolio company which generally included attaining or increasing profitability. Now, the improvements are more focused on topline growth, while profitability metrics are less important. This mirrors a preference towards growth over profitability that we have seen across capital markets. Given the high-growth nature of many VC-backed tech companies, exiting unprofitable companies is becoming increasingly commonplace in private markets.[2]

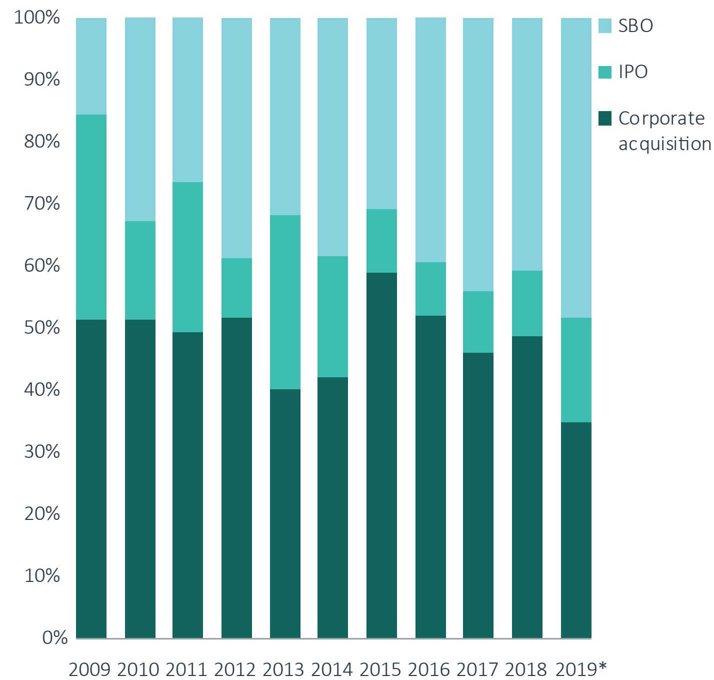
2: "Loss-Making Tech Companies are Floating like it's 1999," Matthew Vincent, Financial Times, June 15, 2019

Dynatrace is another notable example of a PE-backed IPO of a formerly VC-backed company, exemplifying PE's shift toward technology and minority, growth-stage investments. Thoma Bravo exited application performance management company Dynatrace (NYSE: DT) in a $3.9 billion public listing. Thoma Bravo took Dynatrace's parent company, Compuware, private for $2.5 billion in 2014, and decided to split the application performance management business and the mainframe business. The latter retained the Compuware name and Thoma Bravo spun out Dynatrace as its own application performance management company that same year.

Another sizeable liquidity event to take place in 3Q involved First Data. While it does not qualify as a PE exit according to our methodologies, the sale of First Data is symbolic to PE when viewed through a historic lens.[3] The company was initially taken private by KKR in September of 2007 for $29.0 billion, immediately before the global financial crisis. The company's first major liquidity event came via an IPO in 2015 with a post-money valuation of $14.1 billion, though KKR still owned as much as 39% of the company until this year. By July 2019, First Data had been sold to competitor Fiserv for $22.0 billion. This exit is notable as the firm is one of the last vestiges of high valuations from the pre-recession era, many of which exited at a loss, resulting in write-downs for the PE owners. Despite the markdowns between the 2007 purchase and the IPO in 2015, the continual growth of First Data highlights the resiliency of payments companies, even in adverse market environments. This exit, and the valuation reduction between the 2007 purchase and IPO in 2015, can also be a lesson to GPs about buying assets during periods of unreasonably high valuations—proceed with caution.

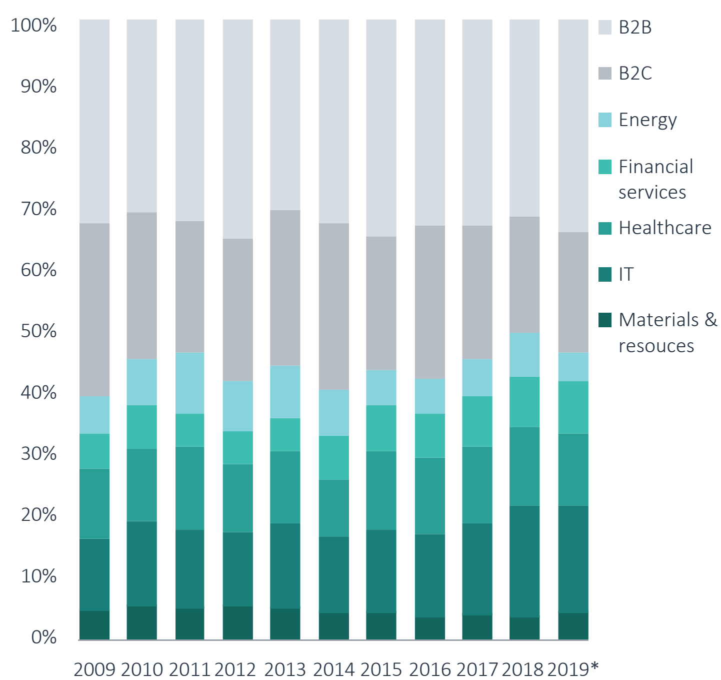
On a more positive note, PE firms have been broadly successful in terms of incorporating growth strategies to help boost enterprise value at the portfolio company level. Median deal sizes are about a third of the size of their corresponding exits, which have reached $332.5 million. This discrepancy is due in part to PE firms making changes to their portfolios; specifically, utilizing add-ons to increase the size of the platform company, which can result in multiple arbitrage captured upon exiting the company and larger exits in general. An uptick in exit sizes can be seen in performance metrics as well, with PE funds posting healthy results in recent years after delivering sizeable gains. Looking forward, we expect to see PE firms continue to create value through innovative deal structuring and massive exits, which should translate to enduring positive PE fund performance.

PE exits ($) by type



Source: PitchBook | **Geography**: US
*As of September 30, 2019

PE exits (#) by sector

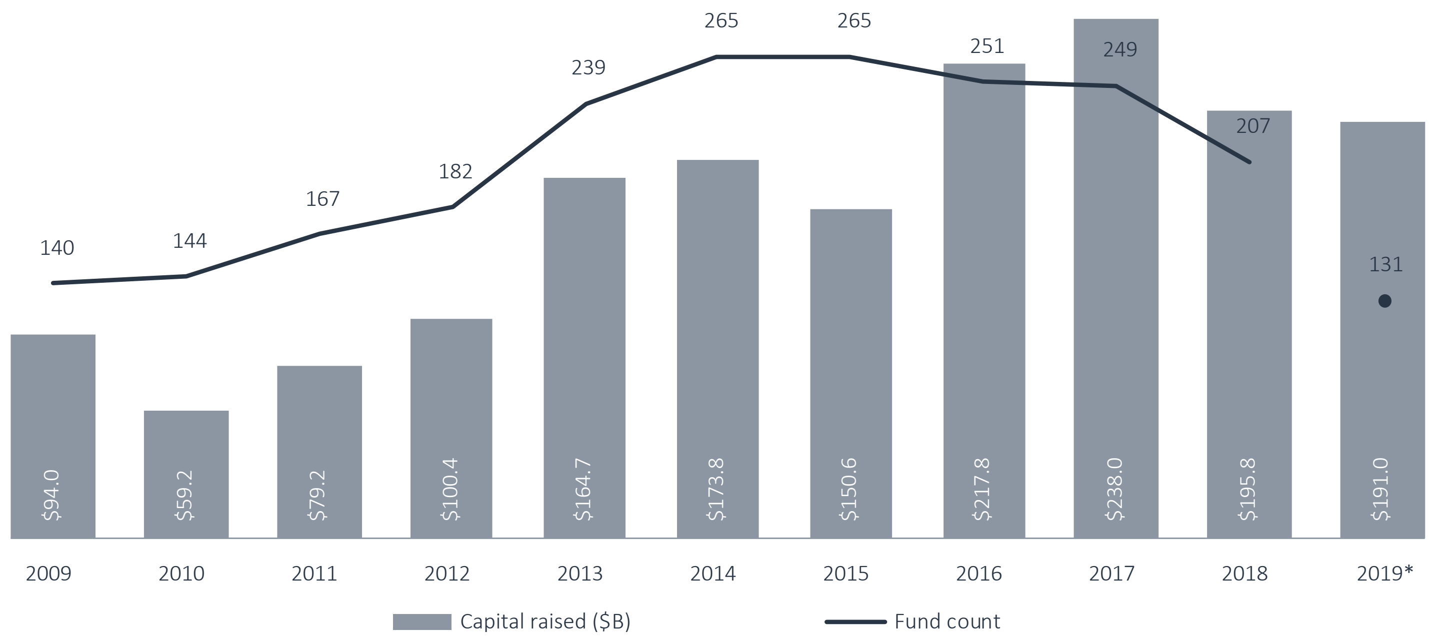


Source: PitchBook | **Geography**: US
*As of September 30, 2019

3: PitchBook considers PE exits when a GP or group of GPs holds 40% or more of a company. When First Data was sold, KKR owned 39% of the firm.

Fundraising

PE fundraising activity



Source: PitchBook | **Geography**: US
*As of September 30, 2019

We observed an impressive amount of fundraising activity through 3Q 2019, with $191.0 billion raised over 131 funds, a gain of 38.4% and a loss of 18.4%, respectively, when compared to the same period in 2018. The amount of capital raised in 2019 to date has nearly matched full-year 2018 figures. This heightened fundraising activity is driven by LPs itching to allocate to GPs who employ strategies that have historically outperformed public markets and by GPs' sense of urgency to raise funds before a potential economic downturn. We have seen more LPs raising allocations to PE firms or investing in the asset class outright, as private market allocation is now seen as necessary part of most institutional portfolios. We expect 4Q 2019 will also post large fundraising figures, especially with open mega-funds from TPG Capital, Dyal Capital Partners and Platinum Equity, among others, which could close in the coming months.

The increase in fundraising value can primarily be attributed to a few massive funds that closed in 3Q. Blackstone, the largest alternative investment firm in the world, closed on Blackstone Capital Partners (BCP) VIII, a $26.0 billion buyout vehicle. The fund overtook Apollo Global Management's $24.7 billion fund, raised in 2017, snatching the title for the largest PE fund ever raised. BCP VIII held its first close at $22.0 billion in June, although it had no set fundraising target.[4] CalPERS and the Washington State Investment Board committed $750 million each—step-ups of 25.9% and 33.3%, respectively, from the amounts the two LPs allocated to Blackstone's 2016 vintage buyout fund—exemplifying the rising allocations to alternatives from some of the country's largest pension funds.

Another record-breaking fund raised in the quarter was Vista Equity Partners VII, a $16.0 billion vehicle and the largest-ever tech-focused buyout fund. The final figure will be even higher, with Vista expected to contribute another 4% to 6% on top of the $16.0 billion, well above the average GP commitment.[5] The vehicle eclipsed Silver Lake and Thoma Bravo's tech-focused flagship funds, which raised $15.0 billion and $12.6 billion, respectively, in their latest fundraises. Vista gained fame due to its large bets on enterprise software investments and from huge payoffs to LPs from their funds, which are routinely in the top quartile in terms of performance. This outperformance aids future fundraises, as LPs who have received hefty distributions must reallocate larger sums to keep even stagnant private market allocations intact.

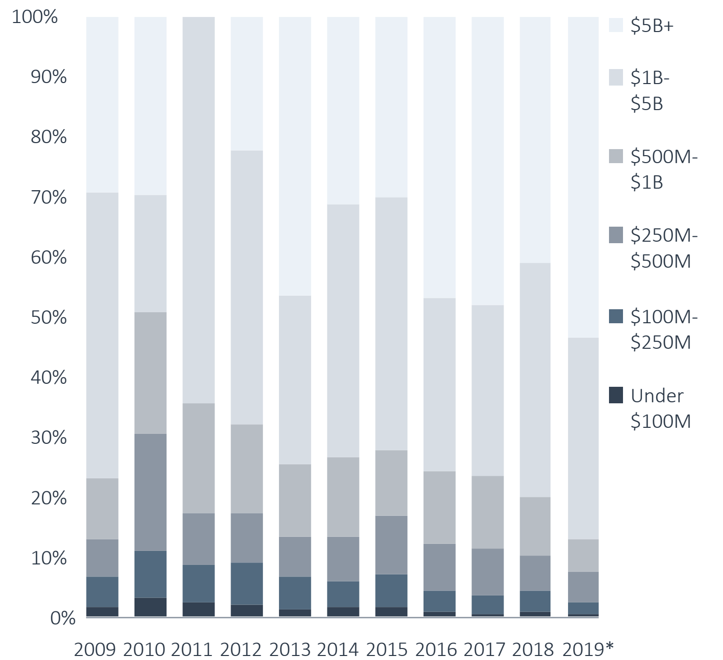
4: "Blackstone Buyout Fund Raises $22 Billion, to Set Record: Source," Joshua Franklin and Bharath Manjeshr, Reuters, April 3, 2019
5: "Vista Equity Raises $16 Billion for Latest Tech Buyout Fund," Laura Cooper, The Wall Street Journal, September 5, 2019

Although they were not record breaking, Providence Equity Partners, based in Rhode Island, also raised two large funds in the quarter: a $6.0 billion buyout fund—Providence Equity Partners VIII—and a $2.0 billion growth-equity fund—Providence Strategy Growth IV. The fact that Providence was able to raise two large funds in 3Q showcases the trend of GPs becoming 'one stop shops.' Not only does this ease the administrative burden for LPs that wish to consolidate their list of manager relationships, it simultaneously creates more fee-paying AUM and diversifies the revenue stream for some of the more successful GPs. However, not all institutions are reducing the number of manager relationships. In fact, 43.0% of LPs expect to have more GP relationships in the next five years, according to our most recent institutional investor survey. Though larger managers will benefit from this consolidating of relationships, the wave of capital flowing into private markets will surely keep smaller ships afloat, too.

Changes in LP-GP relationships warrant structural shifts within alternative assets, leading LPs to move toward other points of access. LPs have increasingly become used to lower IRR expectations. Our annual 2018 survey highlighted how LPs had diminished expectations for PE returns performance going into the next year. PE fund IRRs have been trending downwards since the 1990s, however, the "two and 20" fee structure has largely remained intact, incentivizing LPs to directly invest in private assets. While there is considerable upside to direct investment strategies, we believe that most LPs do not have the skillset or resources necessary to successfully execute this strategy and would be better served to proceed with caution, if they partake at all.

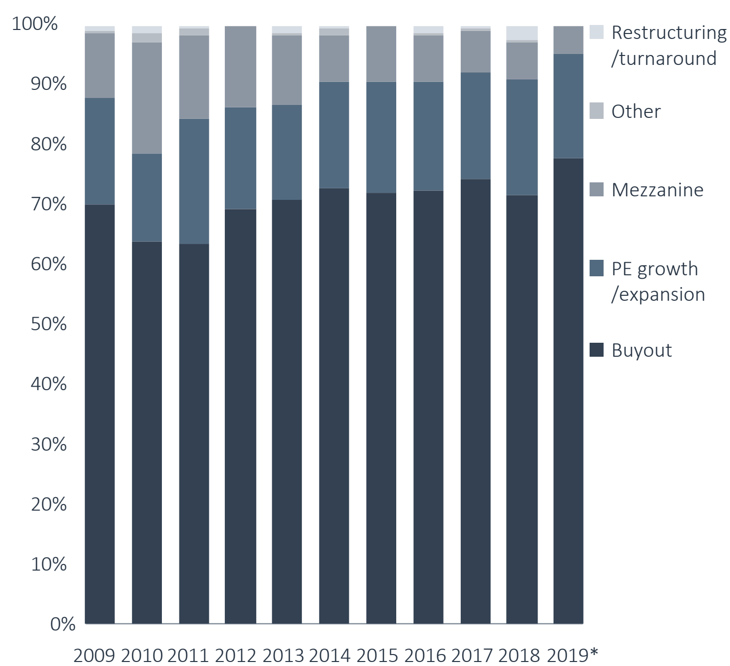
One of the ways in which GPs are transforming to assuage LP concerns and entice allocations is by offering up long-dated funds. For LPs, these funds generally have lower management fees, less reinvestment risk and fewer taxable events. For GPs, they offer greater flexibility when timing the entrance and exit of investments, as well as a steadier stream of management fees in the long term without having to raise another vehicle. GPs such as Blackstone, CVC and Carlyle have all launched long-term funds which can hold companies for 15 years or longer. These structural shifts in the LP-GP relationship are indicative of the consistently fluctuating symbiotic nature between LPs and GPs, where each are reliant upon the other to accomplish their respective goals.

PE fundraising ($) by size



Source: PitchBook | **Geography**: US
*As of September 30, 2019

PE fundraising (#) by type



Source: PitchBook | **Geography**: US
*As of September 30, 2019