



Private Fund Strategies Report

2019 Annual

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Note: We have expanded the geographical coverage of this version of the private fund strategies report and plan on covering global fundraising going forward.

Download the [accompanying Excel pack](#) for all underlying data and additional charts not included in this report.

YoY fundraising changes by strategy

Strategy	Capital raised (\$B)	YoY change	Fund count	YoY change
Private capital	\$888.0	1.0% ▲	1,064	-12.9% ▼
Private equity	\$474.1	1.1% ▲	353	6.3% ▲
Venture capital	\$75.5	-6.2% ▼	436	-14.5% ▼
Real assets	\$170.2	-47.0% ▼	114	-9.3% ▼
Debt	\$131.1	-7.7% ▼	96	20.7% ▲
Fund-of-funds	\$15.6	-18.2% ▼	45	-22.5% ▼
Secondaries	\$21.6	-41.2% ▼	20	-23.3% ▼



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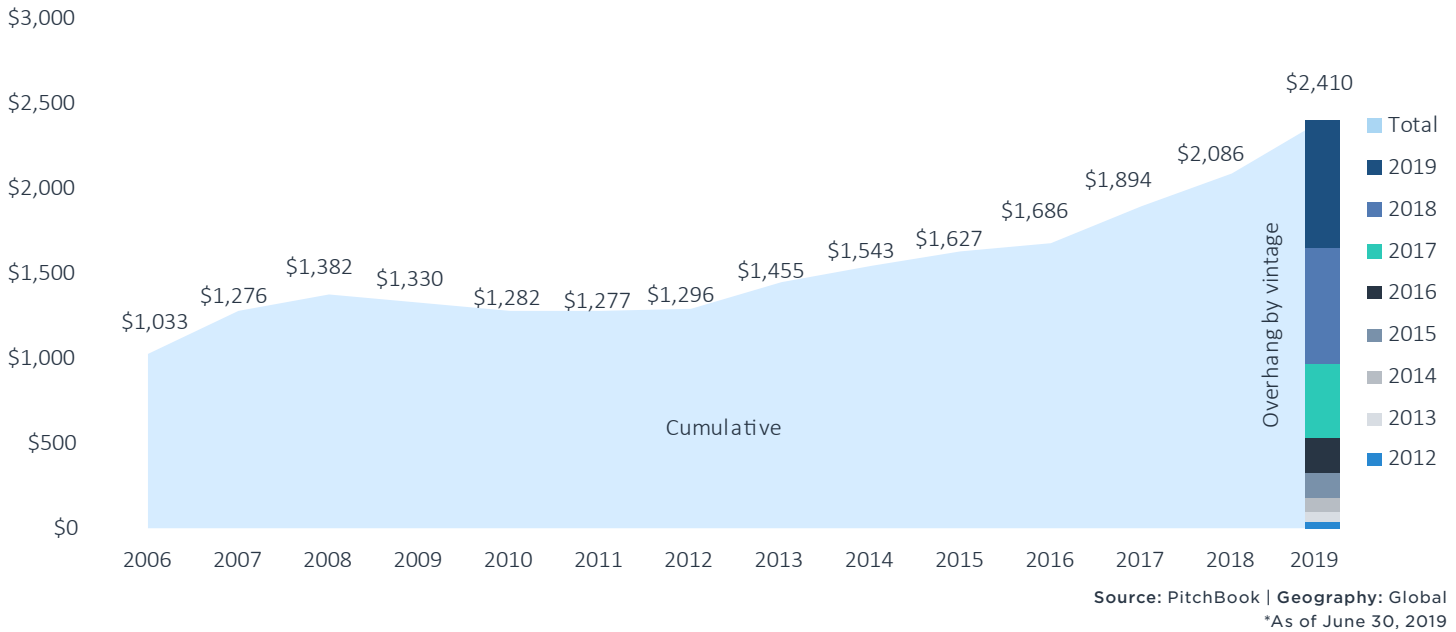
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[Click here](#) for PitchBook's report methodologies.

Overview

Private capital overhang (\$B)



Private capital fundraising posted a banner year in 2019, with \$888.0 billion raised across 1,064 funds, the most private capital ever raised on an annual basis. 2019 also marked another year of evolution within private markets and of the role private funds play in institutional portfolios. On average, institutional investors increased their allocations to private markets yet again, generally by lowering their allocation to hedge funds and/or public equities.^{1,2}

Private equity

Globally, PE firms raised more money than they have in any prior year, closing on nearly half a trillion dollars with LPs plowing both freshly allocated capital and reinvested distributions into the strategy. Many GPs sought to capitalize on the favorable environment by raising substantially larger amounts than they had for their previously marketed funds. Blackstone’s \$26.0 billion flagship vehicle that closed in 2019 marked the largest buyout fund ever raised.

Venture capital

VC also saw heavy inflows in 2019, though fundraising figures fell slightly from 2018’s showing. As we saw in PE and other strategies, the totals were highly skewed

because of a handful of outsized funds. Despite a minor overall decline in both capital raised and total funds closed annually, the median step-up for venture vehicles came in just below 60% in 2019, and nearly 90% of these funds were larger than their predecessors, both the highest marks we have seen in over a decade for these metrics. Heading into 2020, the fundraising outlook for VC remains bright. US-based funds in 2019 had a gargantuan year for investment realizations and saw exit value more than double YoY, which will eventually turn into distributions to LPs. As LPs receive their cash, we expect them to recycle it into new venture funds.

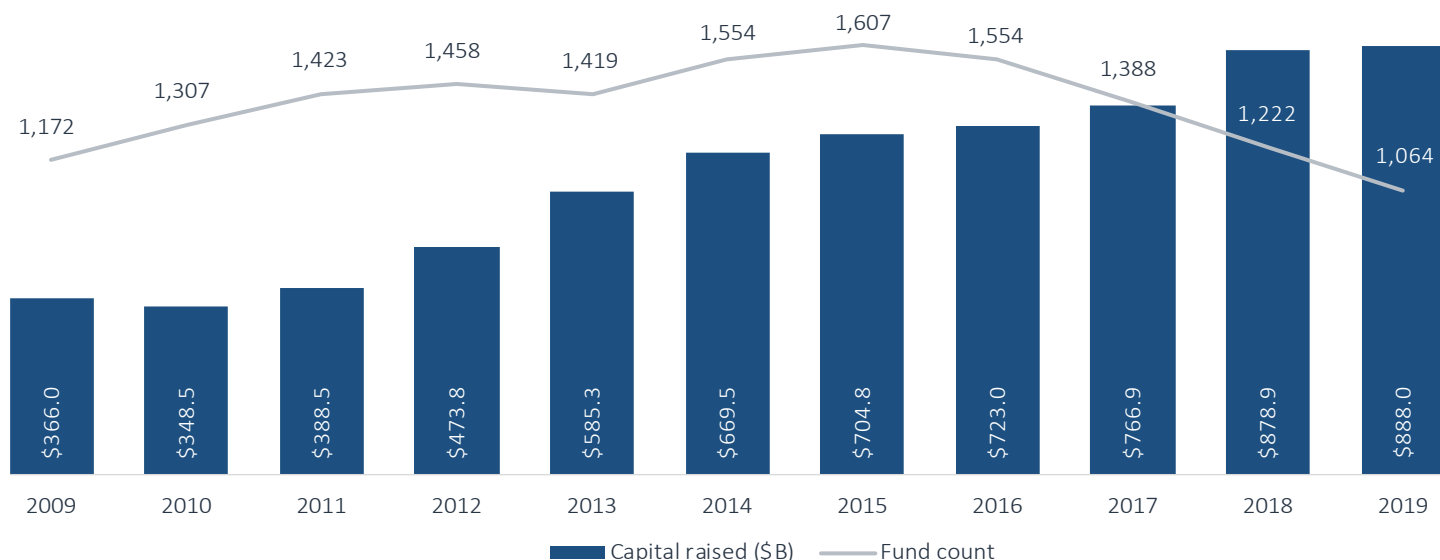
Real assets

Real assets fundraising figures came in approximately level with those of the year prior. Dominated by infrastructure and real estate, real assets annual fundraising activity historically has been less volatile than other strategies. As in other corners of the market, there are fewer but larger real assets funds closing; the number of funds sank for the fourth year straight, yet total capital raised was little changed YoY. Blackstone made waves in this strategy as well by raking in \$20.5 billion for the largest-ever real estate fund and another \$14.0 billion for a new infrastructure effort.

1:2020 Global Private Equity Survey, Ernst & Young

2:“Investors Are Taking Money Out of Hedge Funds and Putting It in Private Equity,” Institutional Investor, Julie Segal, November 13, 2019

Private capital fundraising activity



Source: PitchBook | Geography: Global

Private debt

Private debt fundraising rebounded in 2019, notching the second-highest amount of capital raised annually in the strategy’s history. As in other private market strategies, the number of funds closed fell YoY despite more capital being raised overall. Direct lending funds, propelled by the threat of further regulation that would curtail lending from traditional banks, continue to fill the void and lend heavily to middle-market companies. Additionally, private debt keeps attracting investors thirsty for yield in a low-growth regime. As capital has flooded in and AUM has skyrocketed more than 350% in the past decade, many industry observers fear investors have taken on more risk than they realize.

Funds of funds

For the second consecutive year, funds of funds (FoF) raised less capital, unlike every other private market strategy. Since 2009, six of the last 10 years have seen the FoF industry raise less cash than in the year prior. LPs’ growing sophistication and sensitivity to fees caused many to invest directly into funds rather than through an intermediary, resulting in a prolonged shakeout. Beneath the surface, however, a quick evolution of strategy has brought a once dying industry new life. The few FoF firms remaining have found some success leveraging their expertise into tangential offerings such as separate accounts and niche products investing in areas where LPs struggle to gain access to top-tier talent.

Secondaries

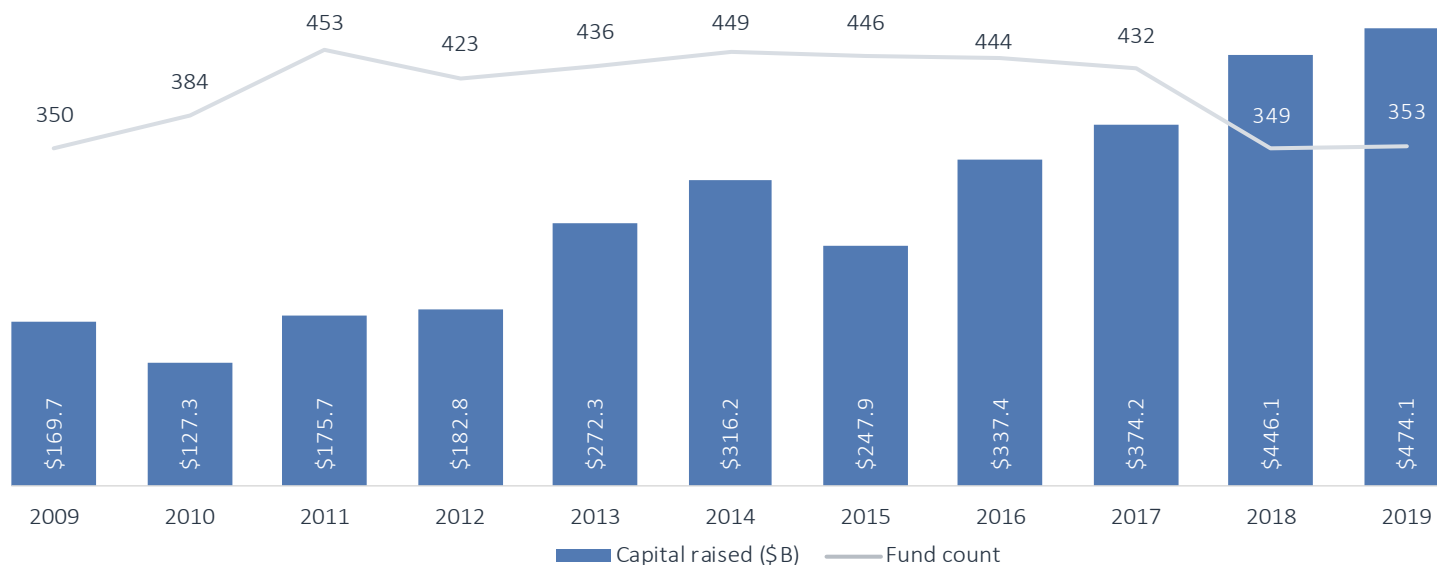
The secondaries market has been an outsized beneficiary of private market maturation. Straightforward secondaries transactions are no longer taboo. The strategy has become more commonplace as LPs utilize it for portfolio management and as more GPs take a proactive restructuring approach. As the stigma has faded, secondaries transactions have become increasingly complex as both LPs and GPs strive to find new ways to unlock liquidity for private capital funds. Even with its recent growth, the secondaries market remains dominated by a few key players, making fundraising data lumpier year to year than it is for other strategies. Despite a down year in secondaries fundraising in 2019, the environment remains healthy, and a massive \$14.0 billion fund from Lexington Partners has already closed in 2020. Fundraising, though, has not kept pace with dealmaking, which hit another record high in 2019, as GPs in the space up their leverage usage.

Looking forward

Many of the secular tailwinds remain intact, meaning fundraising should remain robust heading into 2020. However, the oft-discussed threat of an impending recession could finally put a meaningful dent in the fundraising totals, and LPs’ desire to co-invest and execute deals directly may reduce the need for these investors to make fund commitments.

Private equity

PE fundraising activity



Source: PitchBook | Geography: Global

Global PE fundraising hit a record high in 2019 with 353 funds raising a combined \$474.1 billion. 2019's YoY rise in capital raised is all the more impressive because SoftBank's \$100.0 billion Vision Fund (categorized as a PE growth fund) had dramatically boosted 2018's total. US-based PE firms were the engine that drove the growth in private capital raised globally. Mammoth vehicles from Blackstone, Vista Equity Partners and Advent International—each of which eclipsed \$15.0 billion—are just a few high-profile funds that pushed capital raised higher in the year. European PE firms look to continue the momentum heading into 2020 with BC Partners, EQT and CVC Capital Partners all seeking to raise flagship mega-funds (\$5 billion+ for PE), underscoring that the PE mega-fund trend has become a global phenomenon.

Ever-larger PE funds have been the common thread through the past decade of fundraising. The total number of PE vehicles closed was approximately the same in 2019 as it was in 2009, yet nearly three times more capital was raised because fund sizes have grown materially. Mega-funds accounted for more than half of all capital raised in each of the past two years—the only two times on record. More broadly, the shift to larger funds meant that \$1 billion+ vehicles accounted for more than a quarter of all PE funds and nearly 85% of the capital raised in 2019.

PE's sustained outperformance of public equities lends credence to LPs continuing to pile into the strategy.³ Recent research illustrates how investing in PE raises portfolio returns and Sharpe ratios. The results from one study spanned a 30-year time horizon and selected PE funds randomly, meaning top-quartile managers were not cherry-picked. Not only has PE outperformed, but the illiquid nature of closed-end funds may also help investors stick with the strategy when times become turbulent, despite the maturity of the secondaries market. CalPERS's CIO, Ben Meng, believes illiquidity may be a feature of PE rather than a drawback. Obliging investors to hold assets forces them to think long-term and can prevent selling at inopportune times.⁴ AQR's Cliff Asness now believes investors are willing to bear a "return discount" for holding these illiquid assets.⁵ While PE still allows investors some return advantages over public equities, the traditionally assumed illiquidity premium may no longer be one of them.

Not everything is trending positively for PE funds. With so much capital pouring into the space, multiples have remained elevated and made consistent outperformance more difficult. Over time, performance has dipped to the point that the median PE fund delivers approximately public equity market performance, underscoring the

3: "Why Defined Contribution Plans Need Private Investments," Defined Contribution Alternatives Association & Institute for Private Capital, Gregory Brown, Wendy Hu, Bert-Klemens Kuhn, October 2019

4: "CalPERS and the 'Illiquidity Premium,'" Financial Times, Jamie Powell, January 20, 2020

5: "The Illiquidity Discount?" AQR, Cliff Asness, December 19, 2019

10 largest PE funds to close in 2019

Fund name	Fund size (\$B)	Fund type	Fund step-up	Fund city	Fund country
China Integrated Circuit Industry Investment Fund II	\$29.1	PE growth/expansion	1.3x	-	China
Blackstone Capital Partners VIII	\$26.0	Buyout	1.4x	New York City	US
Advent Global Private Equity IX	\$17.5	Buyout	1.3x	Boston	US
Vista Equity Partners Fund VII	\$16.0	Buyout	1.5x	San Francisco	US
Thoma Bravo Fund XIII	\$12.6	Buyout	1.7x	Chicago	US
Permira VII	\$12.1	Buyout	1.5x	Frankfurt	Germany
Green Equity Investors VIII	\$12.0	Buyout	1.3x	Los Angeles	US
Seventh Cinven Fund	\$11.2	Buyout	1.4x	London	UK
TPG Partners VIII	\$11.2	Buyout	1.1x	Fort Worth	US
Brookfield Capital Partners V	\$9.0	Buyout	2.3x	New York City	US
Dyal Capital Partners IV	\$9.0	PE growth/expansion	1.7x	New York City	US

Source: PitchBook | Geography: Global

importance of manager selection. Furthermore, the CEO of CPPIB has also rung the alarm bell on the illiquidity in the space.⁶ Many investors are lifting their PE allocations without fully understanding what impact it will have on the broader portfolio. The secondaries market has assisted in bringing liquidity to an otherwise illiquid space, but secondaries activity is still just a fraction of PE's size. In a severe downturn, LPs would likely find liquidity only at deep discounts if forced to sell.

Despite this, from insurance companies to endowments, investors that can successfully integrate PE into their broader portfolios continue upping their allocations. Harvard's endowment laid out plans to boost their allocation to PE, though it is expected to be a multi-year

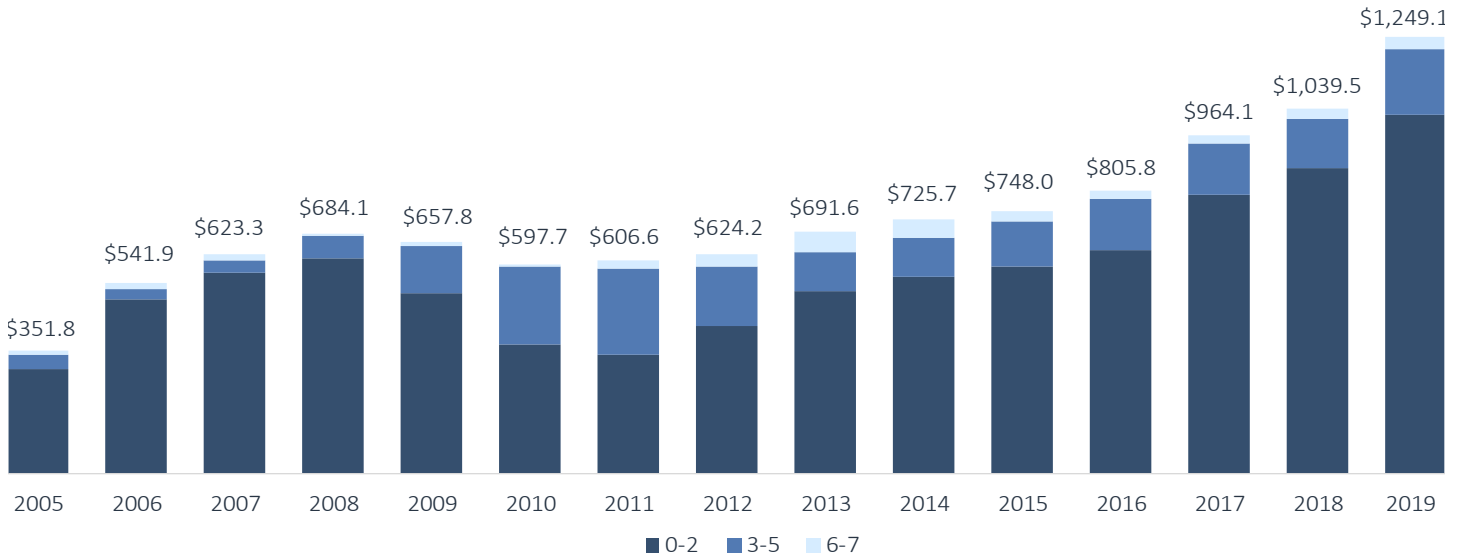
process,⁷ which [our research](#) on the subject confirms. Maintaining, let alone building up, a significant allocation to PE is challenging for investors with tens of billions of dollars, particularly when considering the need for excellent manager selection in order to outperform. With healthy distributions, investors must reallocate hefty sums to new vehicles. This daunting task—and the associated time and effort required—can prevent some investors from finding enough funds for commitments, causing allocations to slip over time. Indeed, CalPERS, the nearly \$400 billion public pension system, saw its PE allocation shrink for this exact reason. PE's \$7.4 billion in distributions for the latest fiscal year far outpaced the \$4.6 billion in commitments.⁸ Without the ability to suitably look at every memorandum that comes their way,

6: "Head of Canada's Largest Pension Warns Against Illiquid Assets," Chief Investment Officer, Steffan Navedo-Perez, January 27, 2020

7: "Financial Report: Fiscal Year 2019," Harvard University, October 24, 2019

8: "CalPERS Falling Short of Private Equity Goals," Chief Investment Officer, Steffan Navedo-Perez & Randy Diamond, November 18, 2019

PE capital overhang (\$B) by age bucket (years)

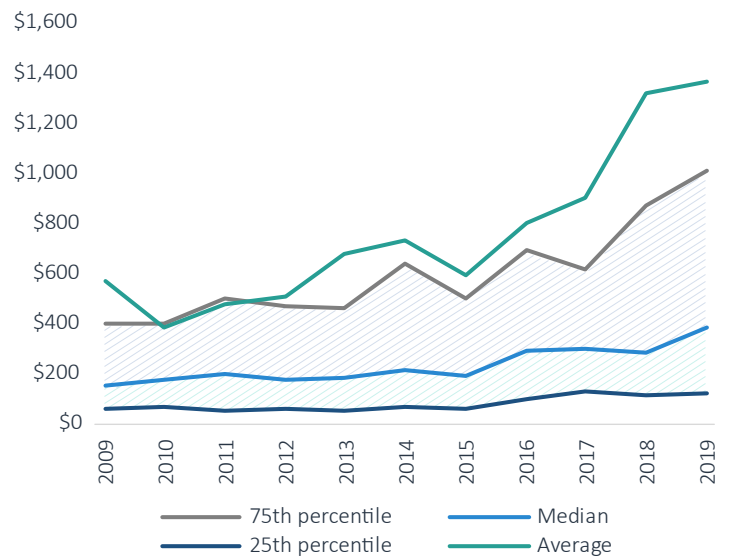


Source: PitchBook | Geography: Global
*As of June 30, 2019

these massive investors tend to simply re-up with the GPs they already know, increasing their commitments, if possible, in order to keep allocations steady. For example, CalPERS allocated \$750.0 million to Blackstone’s flagship 2019 vintage, \$26.0 billion Capital Partners VIII—a 50.0% jump from its \$500.0 million allocation to BCP VII.

Demonstrating how heavily a few gigantic funds such as Blackstone’s have been driving results, the average PE fund was larger than the 75th percentile. To help alleviate some of the pain points for these massive investors—and subsequently grow AUM for themselves—many GPs are choosing to offer additional strategies and larger funds. GPs adopting a one-stop shop approach allow LPs to invest across multiple private market strategies while maintaining just one relationship. We have seen this take many forms as GPs expand beyond their flagship buyout funds. In the vein of hedge funds entering the PE space, some PE firms are starting to look more like activist hedge funds, seeking to raise public equity vehicles, which will give us insight on how the PE playbook transitions to public markets and if PE firms or activist hedge funds are more effective at value creation. Bain and TPG are both reportedly raising such funds. As more massive investors seek PE exposure, we expect the demand for large PE funds and one-stop shops to continue to mount despite the organizational concentration risks.

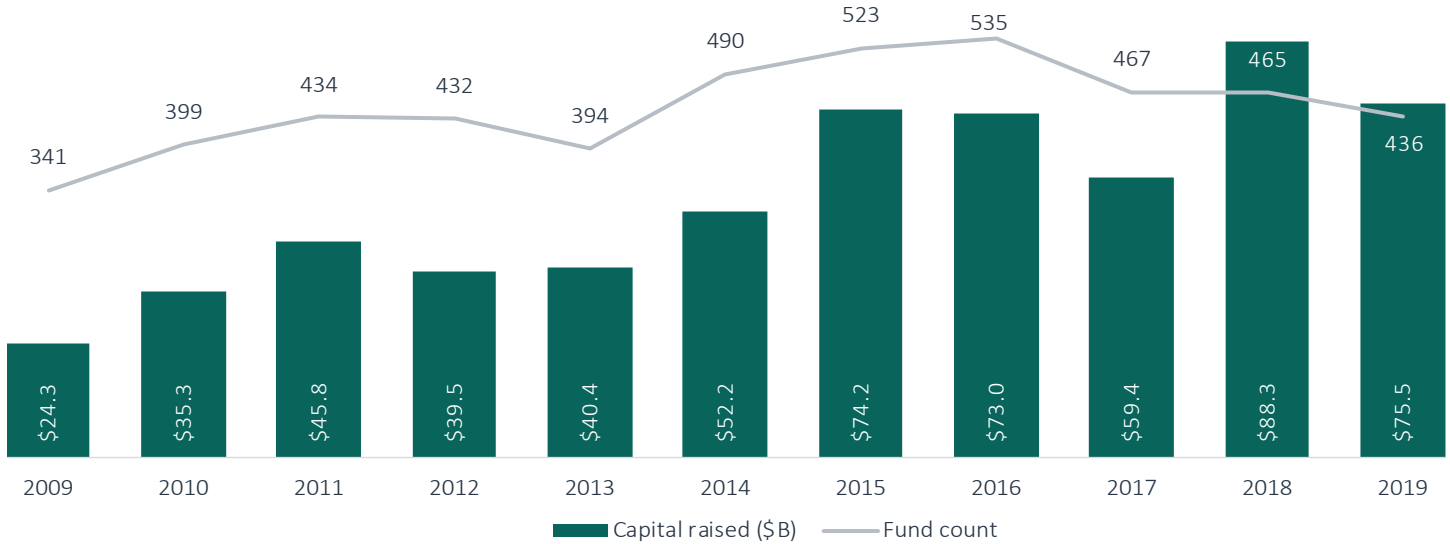
Quartile distribution of PE fund sizes (\$M)



Source: PitchBook | Geography: Global

Venture capital

VC fundraising activity



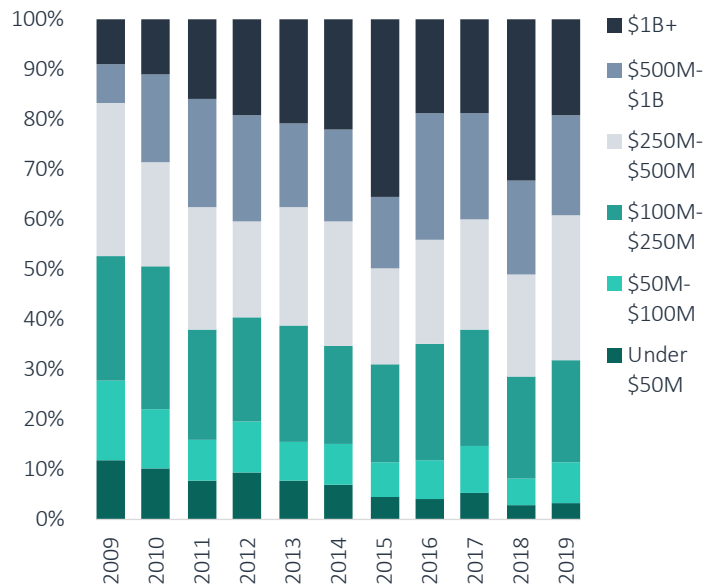
Source: PitchBook | Geography: Global

In 2019, capital raised for global venture funds dipped 14.5% below 2018’s record total but remained in line with the average of the last four years. The massive funds closed in 2018 significantly boosted capital raised that year, especially Sequoia’s \$8.0 billion vehicle, so a reversion to a more normalized level was expected. The 6.2% decline in total venture fund count, on the other hand, is noteworthy given this marks the fourth consecutive year in which this figure has dropped. With 436 closed, 2019 represents the lowest fund count total since 2013, suggesting a sustained downtrend.

We can logically assume then that VC funds have grown larger in the past few years. The median annual fund size was \$90.0 million in 2019 as LPs crowded capital into successful venture firms, and GPs continued to bring ever-larger funds to market. We logged 31 mega-funds (\$500 million+ for VC) raised in 2019, which falls slightly short of 2018’s total but represents strong activity nonetheless. The largest fund of the year was TCV’s 10th Fund, a \$3.2 billion vehicle that aims to invest in IT infrastructure and consumer internet companies. The decline in outlier funds drove the proportion of annual fundraising value concentrated in the top 10 funds down to 22.0%, the second-lowest that statistic has been all decade, topping only 2016.

At the other end of the spectrum, micro-funds (funds under \$50 million for VC) as a proportion of total venture fund

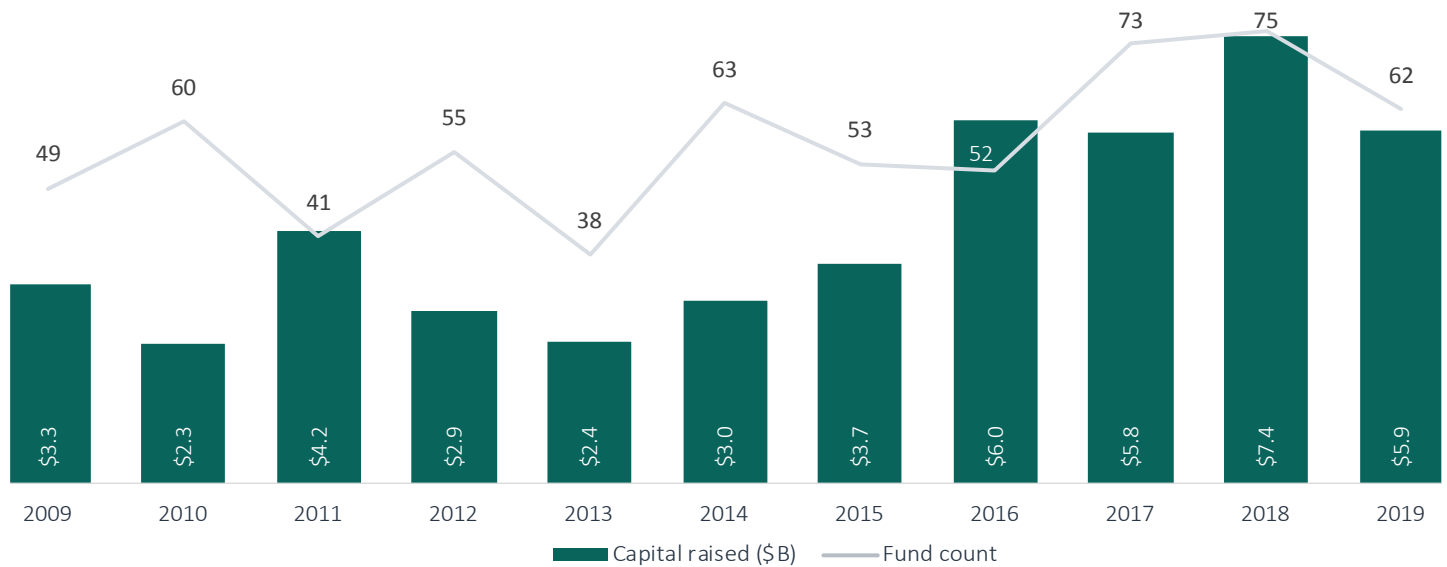
VC funds (\$) by size



Source: PitchBook | Geography: Global

volume declined to their lowest annual level in the decade spanning 2010-2019 at 32.1%. In the current VC investment environment, the micro-fund strategy has become a more difficult proposition given the struggle to compete for or maintain equity stakes in follow-on rounds.

VC first-time fundraising activity

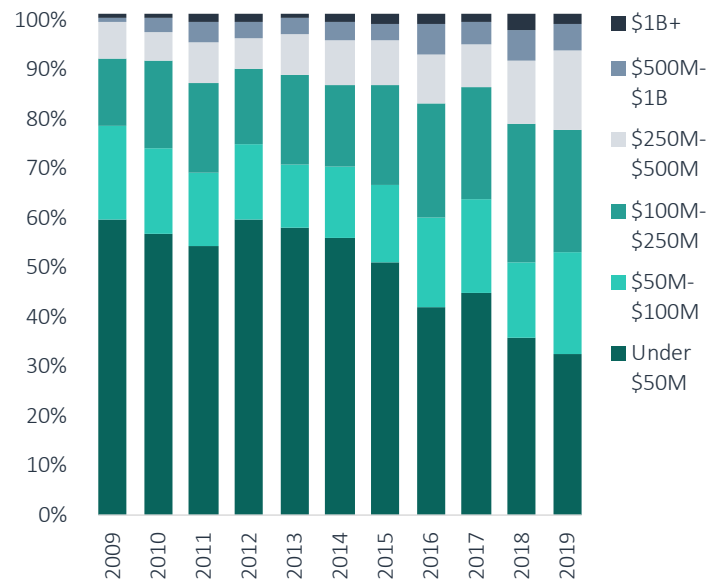


Source: PitchBook | Geography: Global

Capital raised for first-time funds cooled off from the year prior, coming down toward the four-year average with \$5.9 billion raised across 62 funds in 2019. This was the first YoY decrease in the total volume of first-time funds since 2017, which will be important to track going forward to gauge the broader receptiveness of LPs to the VC strategy. Larger funds allow GPs to write bigger checks, which has become essential to maintaining relevant positions as companies raise more capital at each stage and display greater maturity. This follow-on ability is critical in allowing GPs to achieve historically expected VC returns, which is a major factor behind many firms choosing to raise dedicated follow-on or growth funds focused solely on supporting current portfolio companies as they scale.

LP appetite for the VC strategy is crucial to the growth of fund sizes, and recent returns have been attractive enough to encourage additional capital commitments. Robust distributions back to LPs and relatively low contributions in the first quarter of 2019 resulted in elevated positive net cash flows. If all goes well, 2019 would mark the eighth consecutive year of positive net cash flows. Given the success of VC over the last few years and recent public market gains, we expect that positive net cash flows will compel reallocation to VC in 2020 as LPs try and grow or maintain a percentage allocation. That said, LPs are increasingly pursuing direct and co-investment opportunities to reach their desired level of exposure to VC, which may temper the effect on future fundraising.

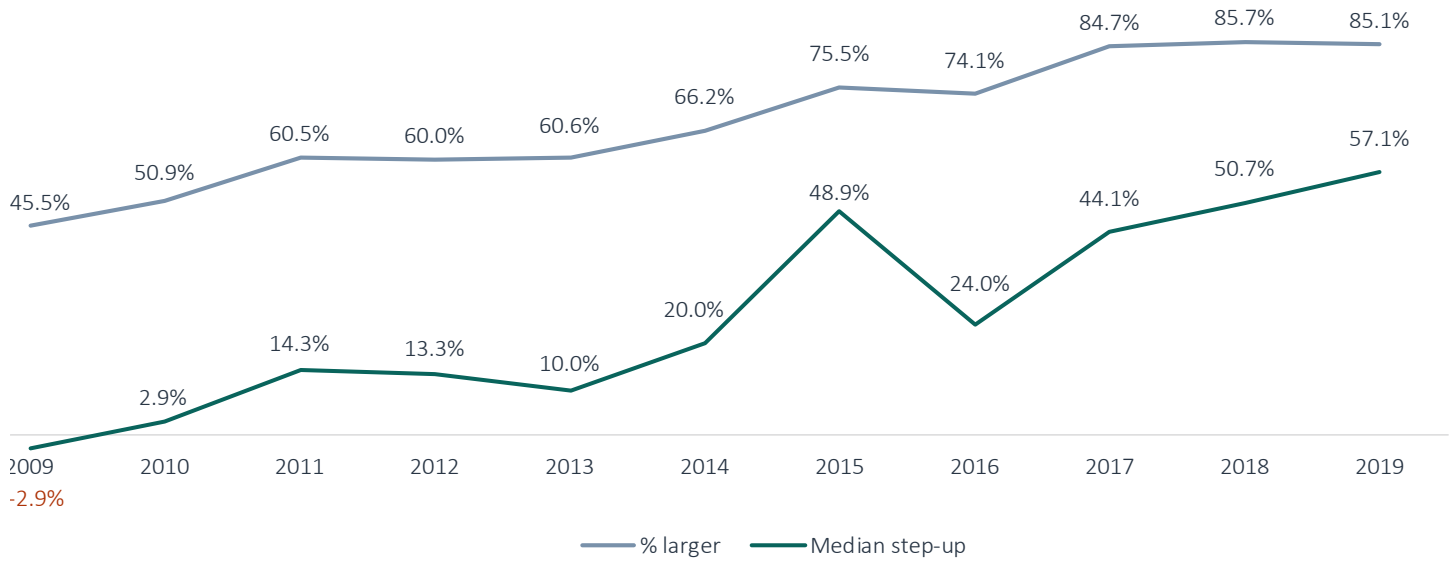
VC funds (#) by size



Source: PitchBook | Geography: Global

A plethora of other metrics illustrate that VC is still riding a wave of popularity following several years of positive results. In 2019, for instance, 85.1% of follow-on funds raised more capital than their respective predecessors, nearly matching the record 85.7% set in 2018. More impressively, these funds were raised at a median step-up of 57.1%, which was another decade record. Furthermore, VCs are closing these materially

Proportional size increase and median step-up of VC funds compared to respective predecessor funds

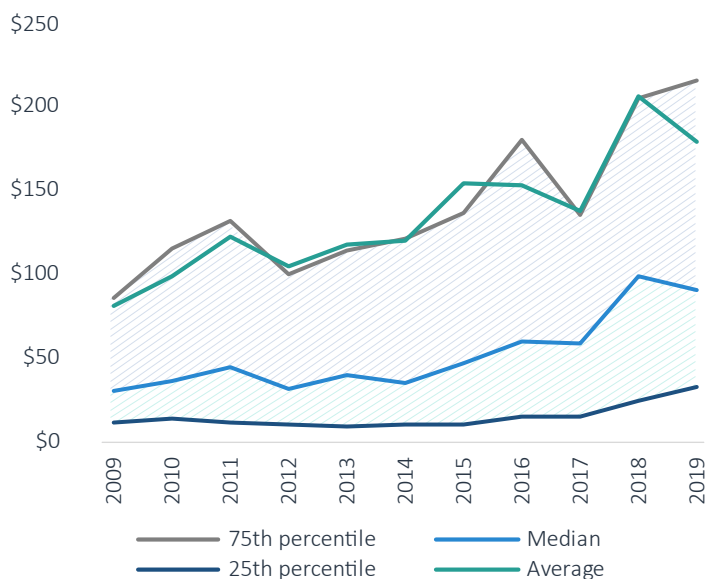


Source: PitchBook | Geography: Global

larger vehicles at an increasingly rapid pace, notching a median of 12 months to close a fund in 2019, the lowest figure since 2011. Meanwhile, they've held steady from 2018 at a median of three years between funds. The stability of these timing metrics when the fund sizes continue to climb

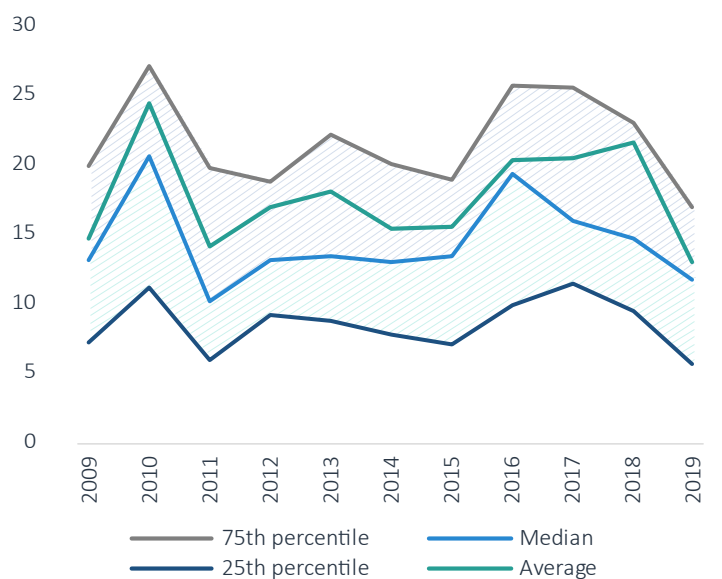
exemplifies capital allocators' substantial growth in interest in the strategy. Moving through 2020, we expect advantageous fundraising conditions to remain for VC GPs riding the success of the past few years.

Quartile distribution of VC fund size (\$M)



Source: PitchBook | Geography: Global

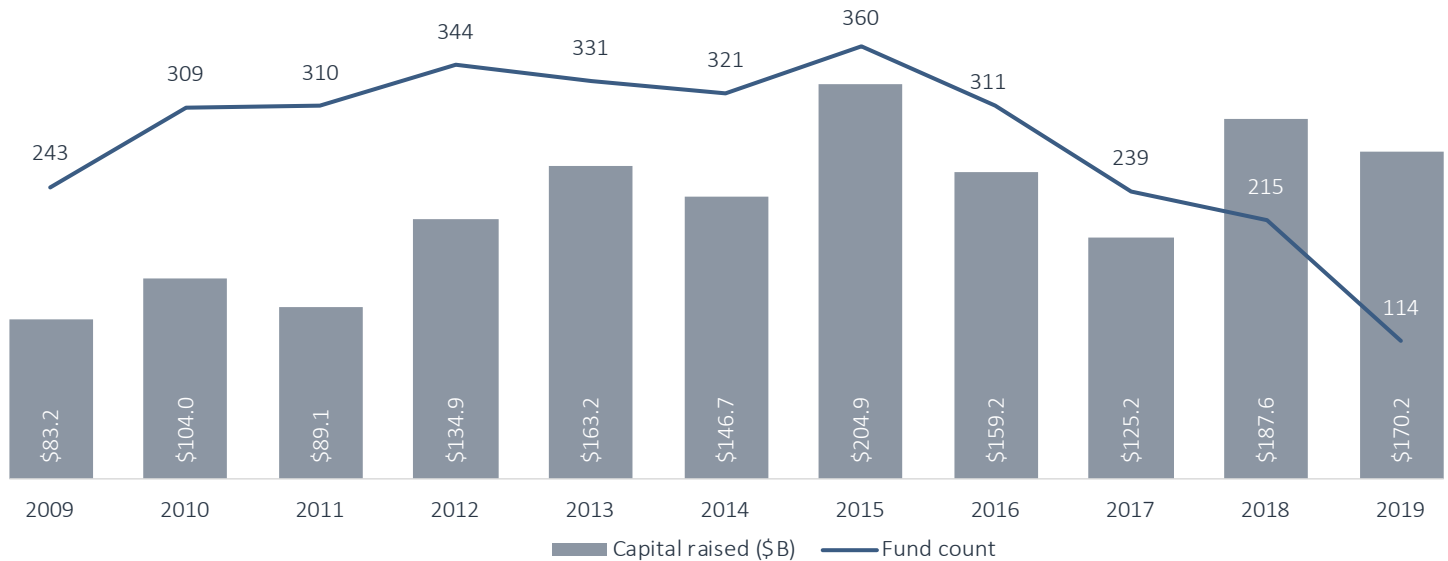
Quartile distribution of time (months) for VC funds to close



Source: PitchBook | Geography: Global

Real assets

Real assets fundraising activity

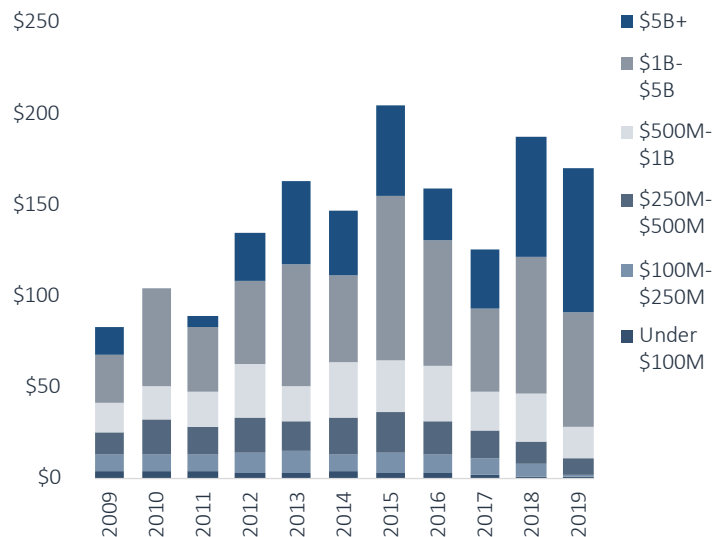


Source: PitchBook | Geography: Global

Not unlike the asset class itself, and the investors it often attracts, fundraising in real assets has been fairly steady over time. Combined, capital raised for the real estate, infrastructure and natural resources categories has bounced between roughly \$80 billion and \$200 billion over the past 15 years, though fundraising has seen big moves among those component parts. In 2019, \$170.2 billion was raised across 114 real assets funds. This was a \$17.4 billion drop from 2018. Blackstone raised two of the three largest funds in the space in 2019, including \$20.5 billion for Blackstone Real Estate Partners IX and \$14.0 billion for Blackstone Infrastructure Partners (now known in the industry as BIP). Amazingly, the BIP vehicle was the first infrastructure fund for this group. BIP launched in 2017 with a \$20.0 billion long-term, open-ended matching anchor commitment from the Public Investment Fund of Saudi Arabia.⁹

Interestingly, the number of funds with final closings dropped precipitously from 2018 to 2019, continuing a trend that started in 2016. As with most other private market strategies, massive funds have been garnering much of the attention from LPs in the real assets categories, with 46.4% of 2019's commitments going into seven funds over \$5 billion and another 37.1% going into 29 funds between \$1 billion and \$5 billion. Of the five largest funds closed in 2019, two were real estate funds and three were infrastructure. The top natural

Real assets funds (\$B) by size



Source: PitchBook | Geography: Global

resources fund, NGP Natural Resources XII, raised merely \$4.3 billion. On the smaller end of the spectrum were very specific mandates such as the WC Texas Storage Portfolio III (\$2.70 million) and Montecito Medical Physicians (\$55.61 million).

⁹:"Blackstone Open-Ended Infrastructure Fund Raises \$14BN at Inaugural Stage," IPE Real Assets, July 18, 2019

Real assets

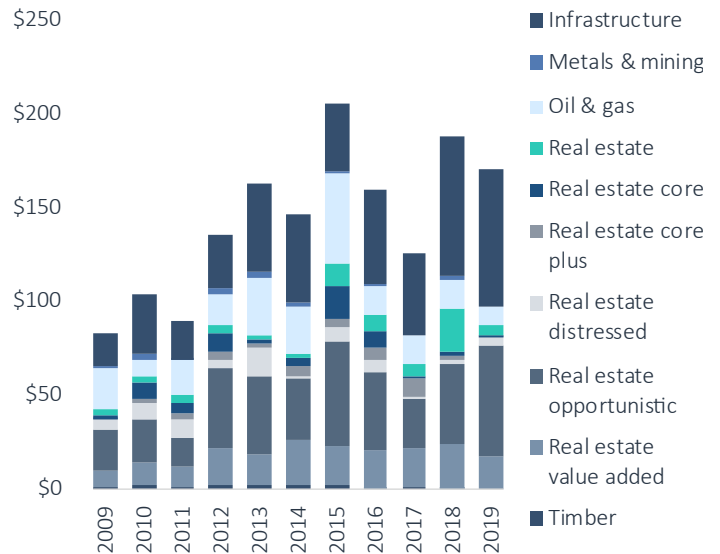
It is interesting to see the relative shift over time of the different sectors within real assets. In addition to the size of the pie expanding and contracting, the relative proportions have changed considerably. 2007, the first big peak year in real assets, saw 22.8% raised for infrastructure, 68.1% for real estate and 9.2% for natural resources. In contrast, in 2019, 42.8% of the funds raised were in infrastructure while real estate fell to 51.5% and natural resources was only 5.7%.

In the last 15 years, the natural resources segments (metals & mining, oil & gas, timber) have had highly volatile fundraising totals from year to year. In 2005, \$4.7 billion was raised in the space, but in the following year, the figure rose 420% to \$24.3 billion. The peak in recent years was \$52.1 billion in 2015, but that dropped off to approximately \$17 billion raised in each of the following three years. 2019 saw a sharp drop of 45.0% to \$9.7 billion, the lowest figure since 2005. 2015 was anomalous in natural resources in that 10 oil & gas funds were raised for more than \$1 billion each. The average closing price of oil in 2014 was \$93.17, providing some context for the peak in fundraising. In 2015, the average price was \$48.72.¹⁰ In the four years since 2015, 11 total \$1 billion+ funds were raised in oil & gas.

Focusing on infrastructure, this has been a space that has seen significant changes in the past 10 years and beyond. Going into the financial crisis, infrastructure in North America was still emerging as a sector. Just from 2005 to 2008, capital raised for North American infrastructure funds grew from \$2.6 billion to \$18.4 billion. This did fall off during the financial crisis, but \$42.6 billion and \$32.8 billion were raised in this area in 2018 and 2019, respectively. Europe has also seen phenomenal growth in the space as firms such as EQT, Macquarie, and Partners Group have all raised multibillion-dollar funds focused on the continent in recent years. Global infrastructure fundraising increased in some part because of the expectation that public-private partnerships (PPP) would make infrastructure spending more appealing to for-profit investors. While there have been successful PPP ventures in various world geographies, in the US, optimism following the election of the current president has dissipated after three years of little progress.

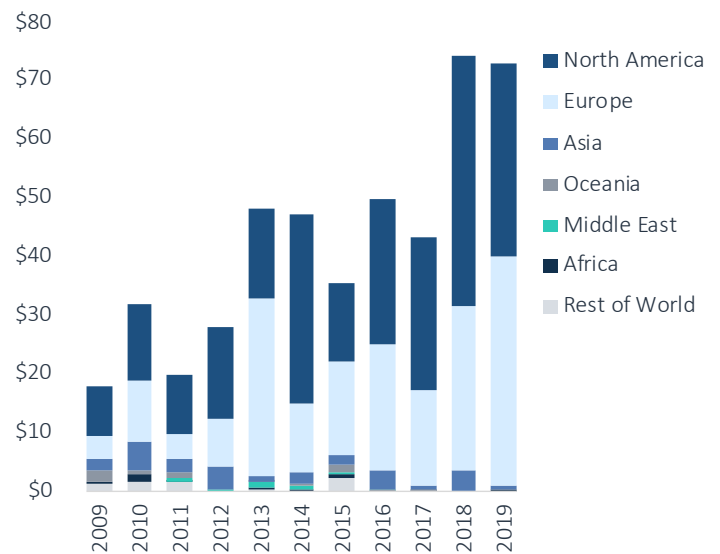
Funds based in North America continue to dominate combined real assets fundraising, garnering 67.6% of capital raised in real assets worldwide in 2019. At \$115.0 billion, this was the largest amount raised annually in the region since 2015 and was well ahead of the other

Real assets funds (\$B) by type



Source: PitchBook | Geography: Global

Infrastructure funds (\$B) by region



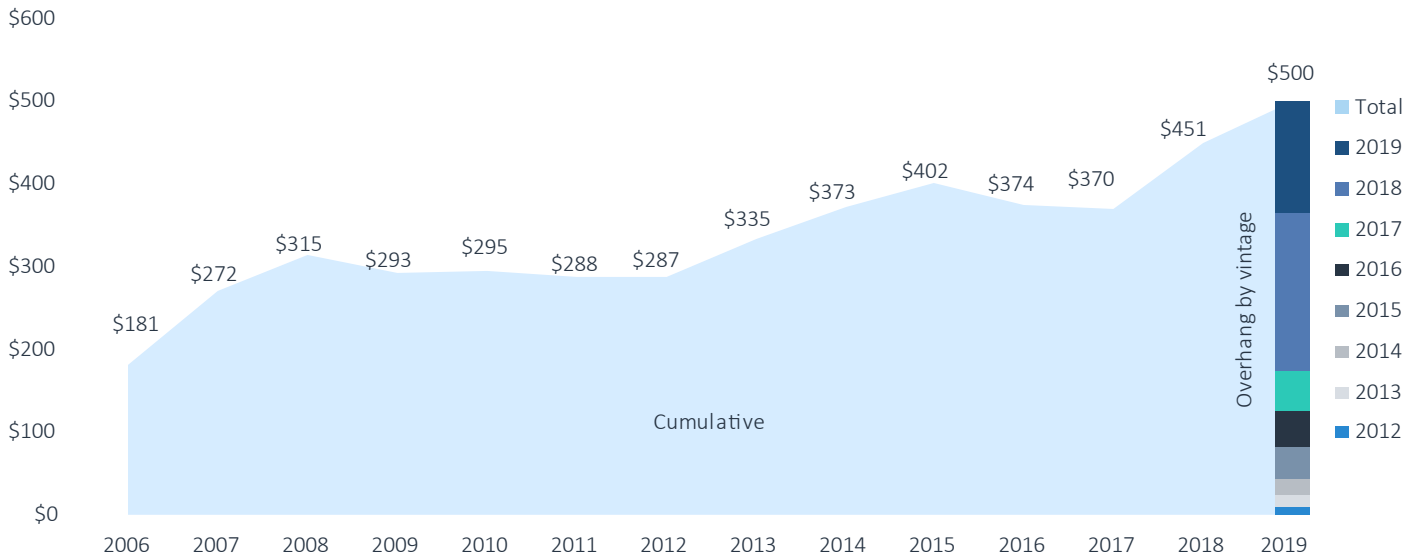
Source: PitchBook | Geography: Global

regions around the world. Europe has been a firm number two for quite some time, though capital raised did drop \$19.2 billion to \$46.6 billion from 2018 to 2019. Asia saw an even steeper decline, falling from \$19.5 billion raised in 2018 to \$7.8 billion in 2019. This could easily be a function of few active funds causing the data to be lumpy from year to year.

10: "WTI Crude Oil Prices - 10 Year Daily Chart," Macrotrend

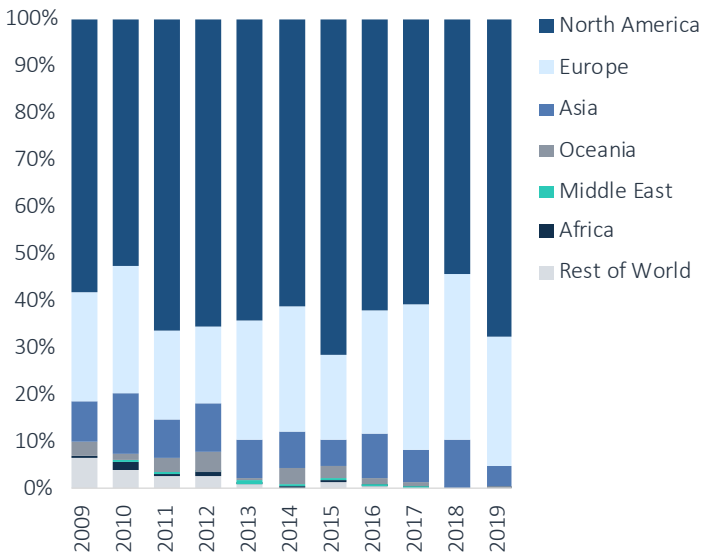
Real assets

Real assets capital overhang (\$B)



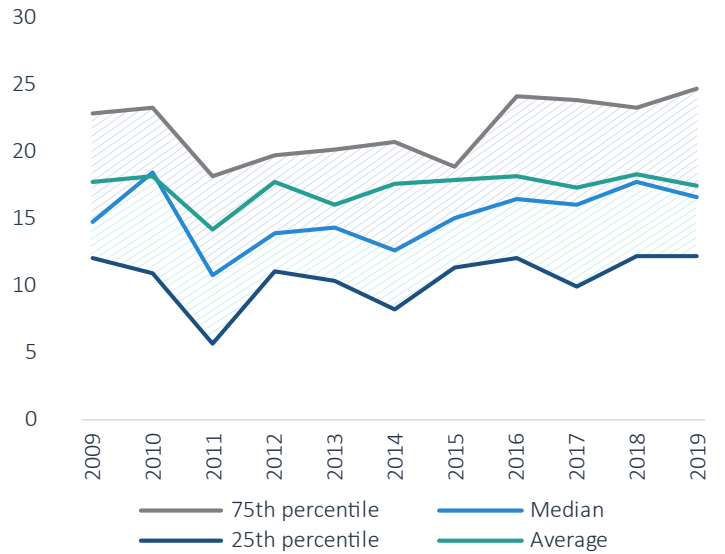
Source: PitchBook | Geography: Global
*As of June 30, 2019

Real assets funds (\$) by region



Source: PitchBook | Geography: Global

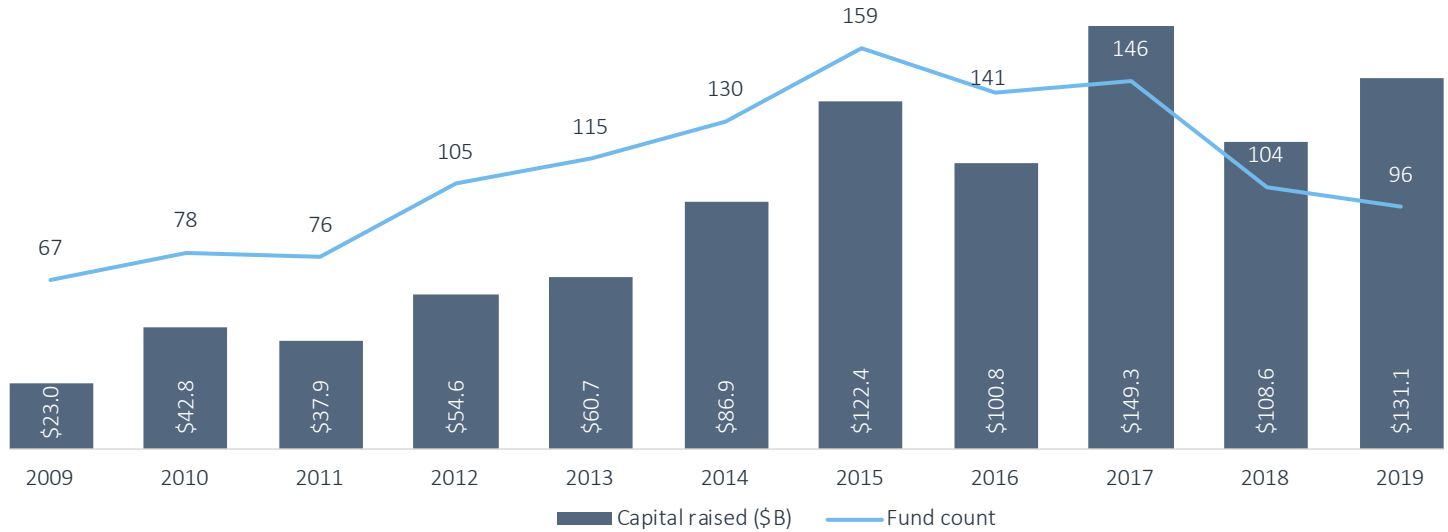
Quartile distribution of time (months) for real assets funds to close



Source: PitchBook | Geography: Global

Private debt

Private debt fundraising activity

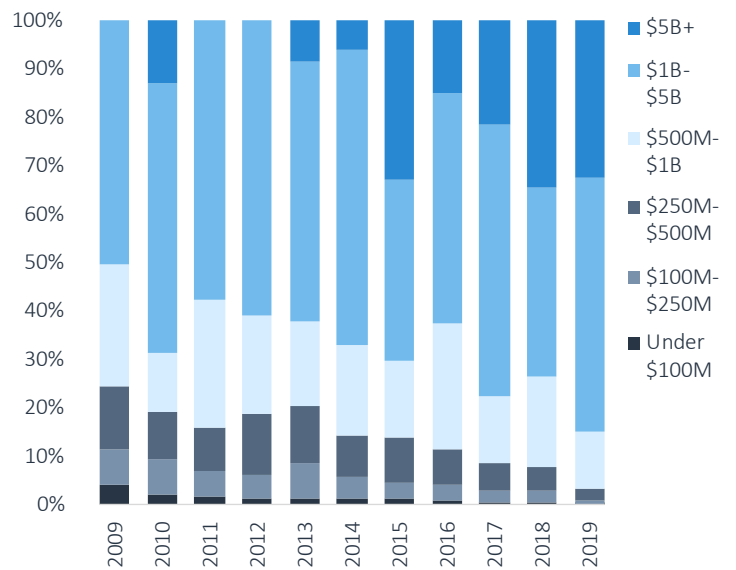


Source: PitchBook | Geography: Global

Private debt fundraising had a stellar year in 2019, driven by commitments from institutional investors who are reaching for higher yields in an extended period of low interest rates. Managers raised \$131.1 billion across 96 vehicles globally, a YoY increase of 20.7% and decrease of 7.7%, respectively. The environment was marked by larger fundraises and expansion into new geographies, both of which signal that private debt is maturing into a standalone strategy. That said, sustained high levels of fundraising do trigger concerns about excesses in the market.

The lofty dollar-value of private debt fundraising in 2019 was driven by larger funds. Indeed, nearly half (46.3%) of vehicles that held a final close in 2019 were above \$1 billion, the highest annual proportion on record. Consistent with this trend, the median fund size of all private debt funds reached \$825.0 million in 2019. However, it wasn't just a handful of mega-fund managers that found success in the year. Even if we exclude the 10 largest funds from the dataset, managers raised \$71.8 billion globally, higher than any year except 2017. That managers across the board have been having success is no surprise. Institutional allocators, led by a handful of early-adopting public pensions, have been increasing their allocations to private debt in recent years. Even CalPERS, which has been whittling down its manager roster, recently announced they had earmarked at least \$5 billion for allocations to private credit.¹¹

Private debt funds (\$) by size



Source: PitchBook | Geography: Global

11: "WTI Crude Oil Prices - 10 Year Daily Chart," Macrotrend

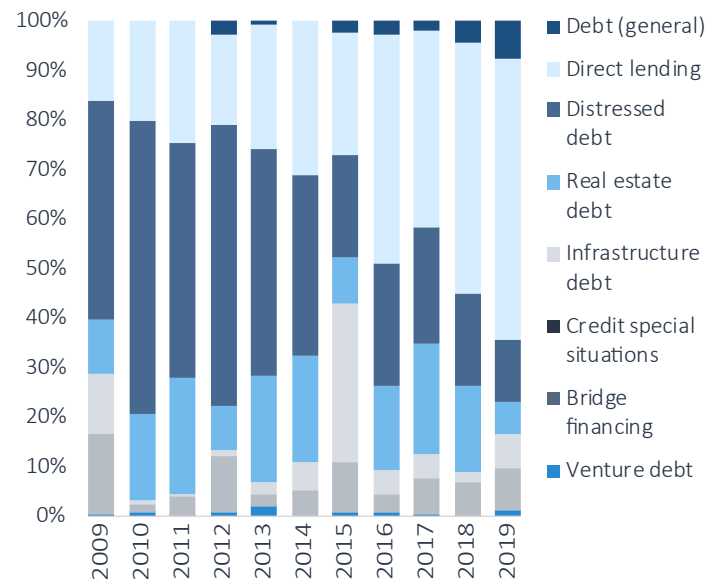
Private debt

The standout strategy within private debt over the last few years has been direct lending. Funds in this category—which typically make loans directly to middle-market businesses—raised \$74.5 billion in 2019, or 56.9% of the dollar-value committed to private debt funds. Direct lending has grown in tandem with PE over the last decade, given that much of the former’s deal flow depends on financing buyouts. This has led to concerns that direct lenders won’t be able to forgo bad deals if they want to maintain a pipeline of future ones. Along these lines, covenants have weakened, and deal terms generally favor issuers and equity owners, reflecting borrowers’ power due to the strong demand for private debt facilities. Also concerning is the price volatility seen in the leveraged loan market in 2019,¹¹ a reflection of investor skittishness.

Due to the growing interest in private debt and concomitant fundraising, dry powder has grown too. Capital overhang reached \$276.5 billion by Q2 2019, compared to less than \$100 billion as recently as 2012. However, the years of dry powder on hand—measured as dry powder divided by trailing three-year annual average contributions—has remained relatively constant since 2013, inching up from 2.5 years to 2.8 years over that time. In other words, capital calls in the asset class have more or less kept pace with the growth in commitments to the asset class over the last five years. This can be interpreted in at least two different ways: On the one hand, managers don’t seem to have trouble deploying the capital they’ve raised. On the other, they are calling nearly 2.5x the amount of capital as they did a decade ago, a potential symptom of excesses in the market.

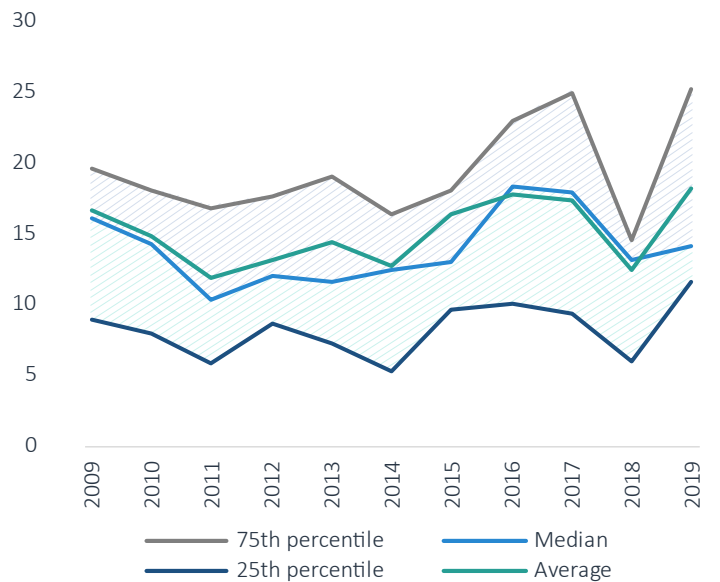
Though the US and Europe are the traditional hotbeds of private debt activity, managers in other regions are gaining share. In 2019, funds based outside of North America and Europe accounted for 10.7% of the capital allocated to private debt funds, up from just 2.9% in 2018. The largest of these vehicles was AMP Capital Infrastructure Debt Fund IV, which closed on \$6.2 billion in October. Based in Australia, borrowers’ power due to AMP saw a significant step-up from Fund III, which raised \$4.1 billion in 2017. Another notable fundraising was SSG Capital Partners V, which closed on \$1.9 billion and will target distressed and special situation opportunities in Asia-Pacific. The fund argues there is opportunity for such a strategy due to the increase in leverage levels across the region, a tightening credit environment and

Private debt funds (\$) by type



Source: PitchBook | Geography: Global

Quartile distribution of time (months) for private debt funds to close



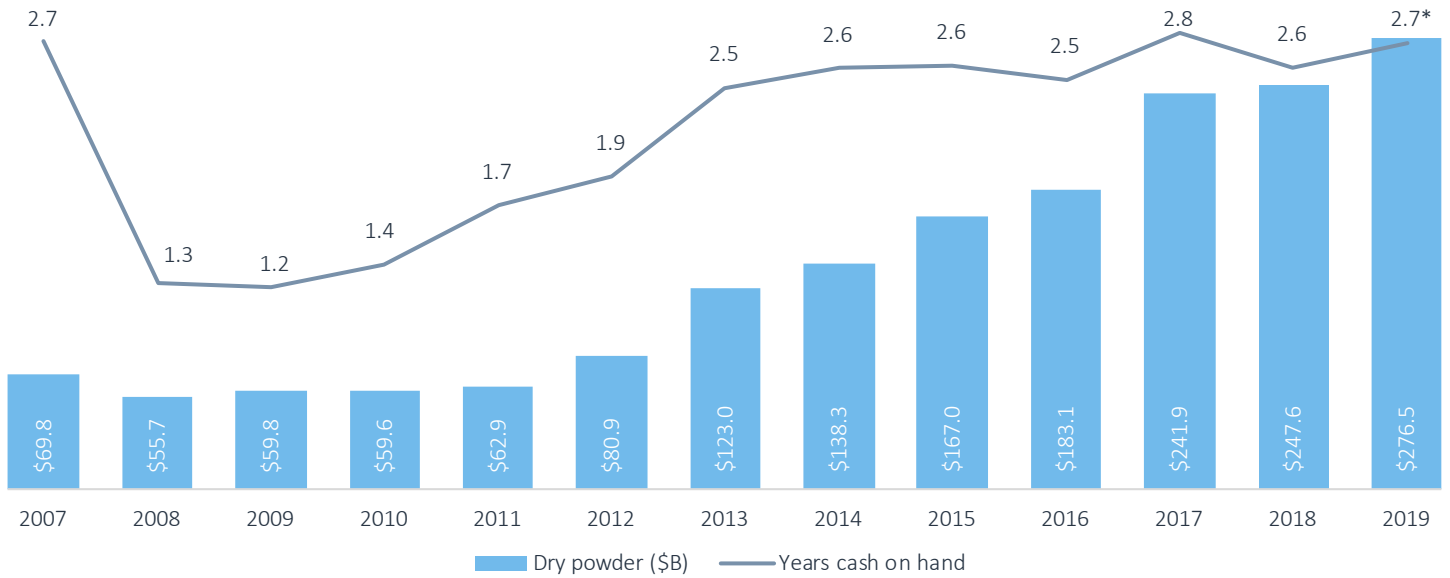
Source: PitchBook | Geography: Global

an increase in shadow banking activity.¹² We expect to see continually strong fundraising activity across all regions in the coming years, particularly as private debt managers return capital to LPs, which must then be recycled back into credit to maintain target allocations.

¹²: Though it tends to contain much larger facilities, the broadly syndicated leveraged loan market is often used as a proxy for activity in direct lending.

Private debt

Private debt dry powder (\$B) and years of cash on hand

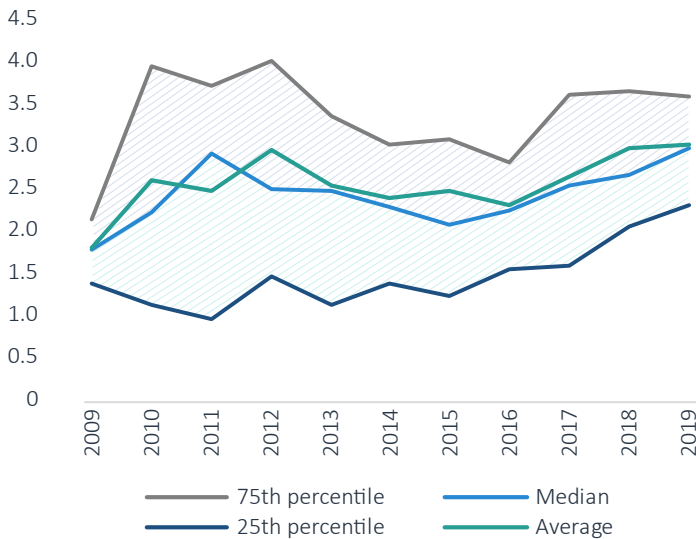


Source: PitchBook | Geography: Global

*As of June 30, 2019

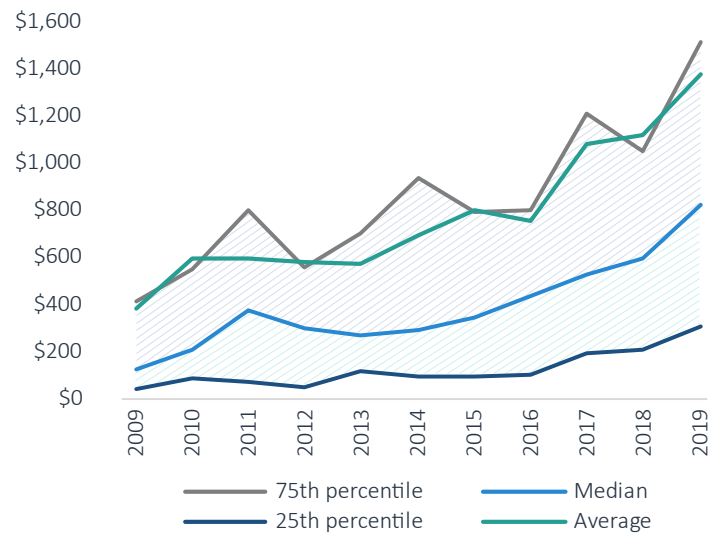
Note: 2019's contributions are annualized for the cash on hand calculation. Cash on hand is the end of year dry powder divided by the contributions during the year.

Quartile distribution of time (years) between private debt funds



Source: PitchBook | Geography: Global

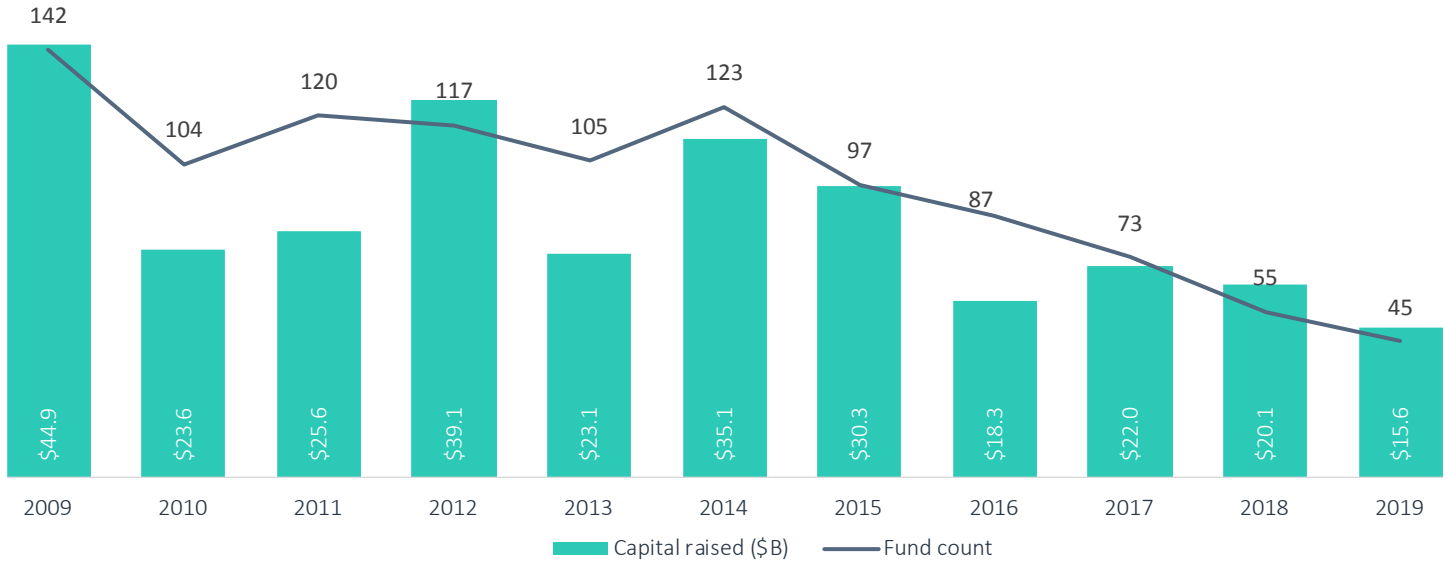
Quartile distribution of private debt fund sizes (\$M)



Source: PitchBook | Geography: Global

Fund-of-funds

FoF fundraising activity

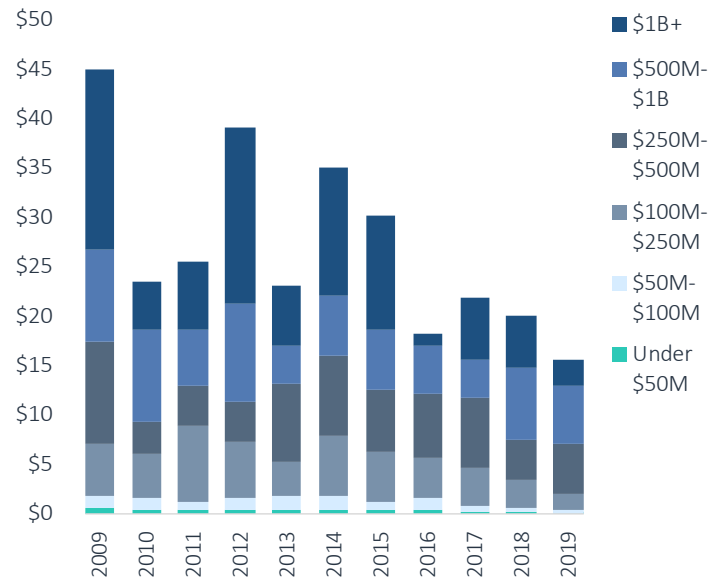


Source: PitchBook | Geography: Global

For the second straight year, the number of FoF closed and total capital raised for the strategy declined significantly. 2019 saw \$15.6 billion raised across 45 funds, a steep decline from the peak in 2007, when \$69.2 billion was raised across 206 funds. The added layer of fees endemic in the FoF structure has been a significant contributor to the decline in FoF assets; investors, who have been more cost-conscious since the financial crisis, have been seeking alternative ways to access the private markets. While LPs still seek the expertise of firms that have the resources to see the entire marketplace, this expertise is being utilized in different ways that may not show up in FoF statistics, a theme discussed throughout this section.

FoF have generally been an exception to the trend of private capital flowing into larger and larger funds. Only two FoF closed in 2019 that were larger than \$1 billion; combined, they made up 17.0% of the total capital raised for the strategy. The larger share went to funds between \$500 million and \$1 billion, which totaled \$5.8 billion, or 37.6% of the year's total capital raised. Interestingly, one of the funds that exceeded \$1 billion was an incredibly focused strategy called "Jada," set up to provide funding to small- to medium-sized Saudi Arabia-based enterprises through PE and VC fund commitments. The largest broad FoF that closed in 2019 was from Siguler Guff at \$1.6 billion.

FoF (\$B) by size



Source: PitchBook | Geography: Global

Fund-of-funds

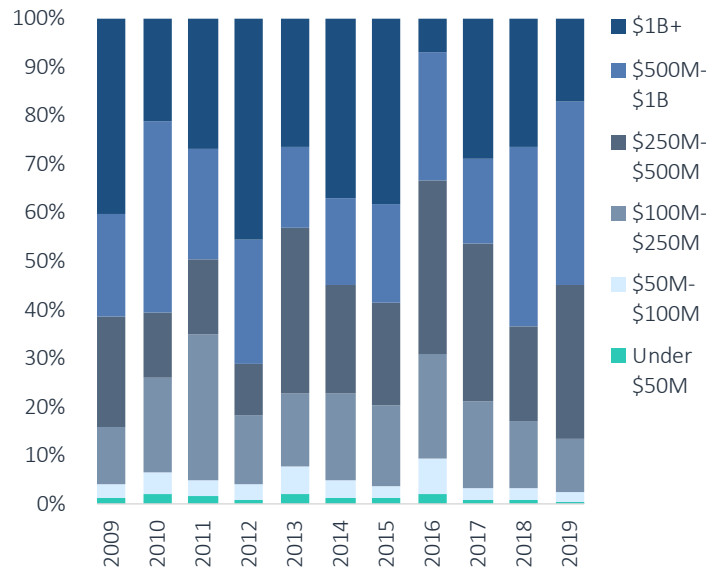
Part of the explanation for the decline in FoF fundraising is that general go-anywhere FoF seem to have fallen from grace, but it is also because these GPs have adapted to demand by offering vehicles that provide more specific appeal to LPs. There are interesting forces at work in both the lower and upper ends of the investor spectrum that show that the expertise of FoF providers is still sought after in the evolving landscape.

Smaller institutional investors often do not have the bandwidth in house to perform diligence on dozens of private market strategies and commit to a diversifying number of them each year. In addition, while they may clear the hurdle of being accredited investors, their desired allocation to PE is low enough that properly diversifying through direct fund commitments would slice the portfolio so finely that the legal costs to close on the funds would be prohibitive. FoF are still a viable solution for these clients, which is why the programs will likely not go extinct.

One approach aimed at smaller investors has been the move by some FoF managers to create annual programs. These yearly fundraising cycles provide more stability to the organization but also ensure that when LPs have capital to allocate, the FoF manager will always have a product available to accept the commitment. While annual program fund sizes are smaller, the fundraising stats are less lumpy year to year. Adams Street is a key example of this trend, as the firm raised \$740.0 million for the 2019 vintage of its annual global fund series originally established in 2012.

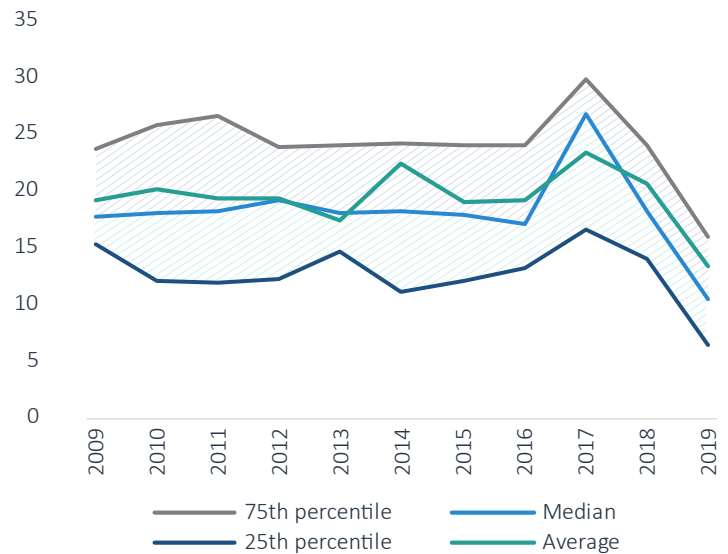
On the other end of the spectrum, massive PE programs usually have the staff and the assets to access most of the investment opportunities they want, but they run the risk of spending large quantities of time uncovering interesting strategies that can absorb only a small commitment that would not move the dial from a total portfolio perspective. Niche FoF strategies that can provide exposures in large dollar amounts are a great solution for these investors.

FoF (\$) by size



Source: PitchBook | Geography: Global

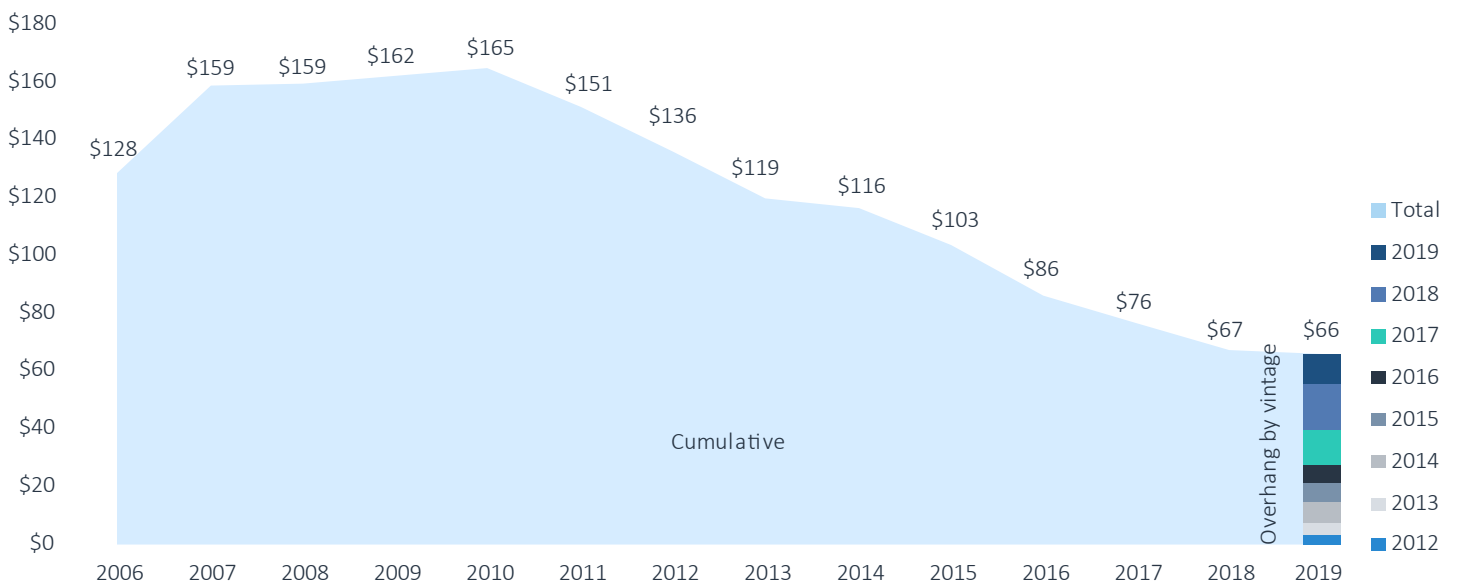
Quartile distribution of time (months) for FoF to close



Source: PitchBook | Geography: Global

Fund-of-funds

FoF capital overhang (\$B)



Source: PitchBook | Geography: Global
*As of June 30, 2019

One example outside the standard limited partnership offerings that did make it into the fund roster in 2019 was a vehicle called CalPERS Domestic Emerging Program III, a \$500.0 million pool with one LP managed by GCM Grosvenor Private Markets. One presumes that the fee terms negotiated were significantly improved over the typical FoF structure. As can be assumed by the title, this was the third in a series of emerging manager programs GCM has agreed to manage for CalPERS. The first fund, which closed in 2012, was for \$100.0 million. The 2014 Fund II was for \$200.0 million. The focus on emerging managers allows CalPERS to put fairly large sums of money to work in a portfolio of US-based managers early in their lifecycle, a time that has often been a period of great success for fund managers. Many LPs have had difficulties committing to early funds because of the high perceived risk to institutional investors unable to perform deep due diligence on newly formed teams.

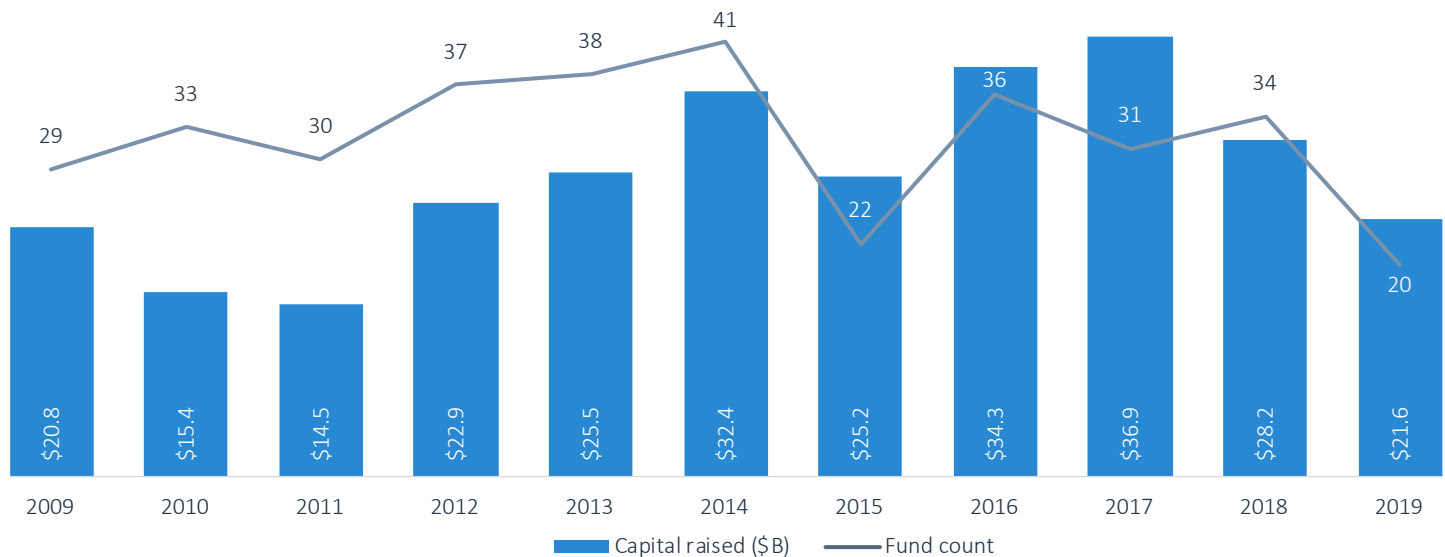
To illustrate the rise, fall and evolution of FoF managers, consider Hamilton Lane. While it was founded in 1991, they began investing out of their first FoF in 1998; it closed on \$122.0 million. In 2019, they closed on Hamilton Lane Private Equity Fund X, a \$278.0 million fund. Although this was a steep decline from the \$516.0 million raised for Fund IX, the firm has been highly

responsive to its clients, keeping itself relevant in a changing landscape. The firm has branched out into ultra-specific mandates, such as two funds investing exclusively in Brazil (Fund I was \$63.5 million and 2019's Fund II was \$59.8 million), but has also throughout its history run separate accounts for clients that were sometimes much larger than the general FoF offerings. The largest fund family the firm manages is a succession of co-investment funds, with the 2019 Fund IV closing on \$1.7 billion. In these funds, Hamilton Lane utilizes the access its FoF program brings, as well as that of its LPs, to build a low-cost option for clients who want access to PE but want to minimize the fees outlaid for such purposes. Other specialty mandates Hamilton Lane has worked on were for state-focused investment programs that sought PE opportunities in states such as Florida and Nevada. These could be considered impact funds, though without the sustainability or environmental goals often associated with impact investing.

Overall, FoF in the form they were originally conceived are in a steep decline. Firms such as Hamilton Lane have found ways to stay relevant to the institutional investor community, which still needs the expertise of a much better resourced advisor.

Secondaries

Secondaries fundraising activity



Source: PitchBook | Geography: Global

For the second year in a row, secondaries fundraising saw steep declines in both total fund count and capital raised, bringing the dollar total to a level roughly on par with 2012; 20 secondaries funds closed in 2019 on a total of \$21.6 billion. This was a marked drop from 2018, which saw 34 funds close on \$28.2 billion. The largest fund of the 2019 class was Blackstone Strategic Partners Secondaries VIII at \$11.1 billion, a nearly 50% step-up from the \$7.5 billion raised in 2016 for Fund VII. Four other vehicles topped \$1 billion in commitments in 2019, though the second largest, an offering from Glendower Capital, was only one-quarter the size of Blackstone's. As the average time between the raising of one fund and its successor has hovered around three years, there will likely be an uptick in fundraising in the next couple of years given that eight funds of over \$1 billion were raised in 2018 and 10 funds above \$1 billion were raised in 2017. Already in 2020, we have seen Lexington Partners close on \$14.0 billion in January, the largest secondaries fund ever raised to date and nearly two-thirds the annual total from 2019. In addition, both Collier Capital and Goldman Sachs have come to market with multibillion-dollar fundraising efforts that will likely close in 2020.

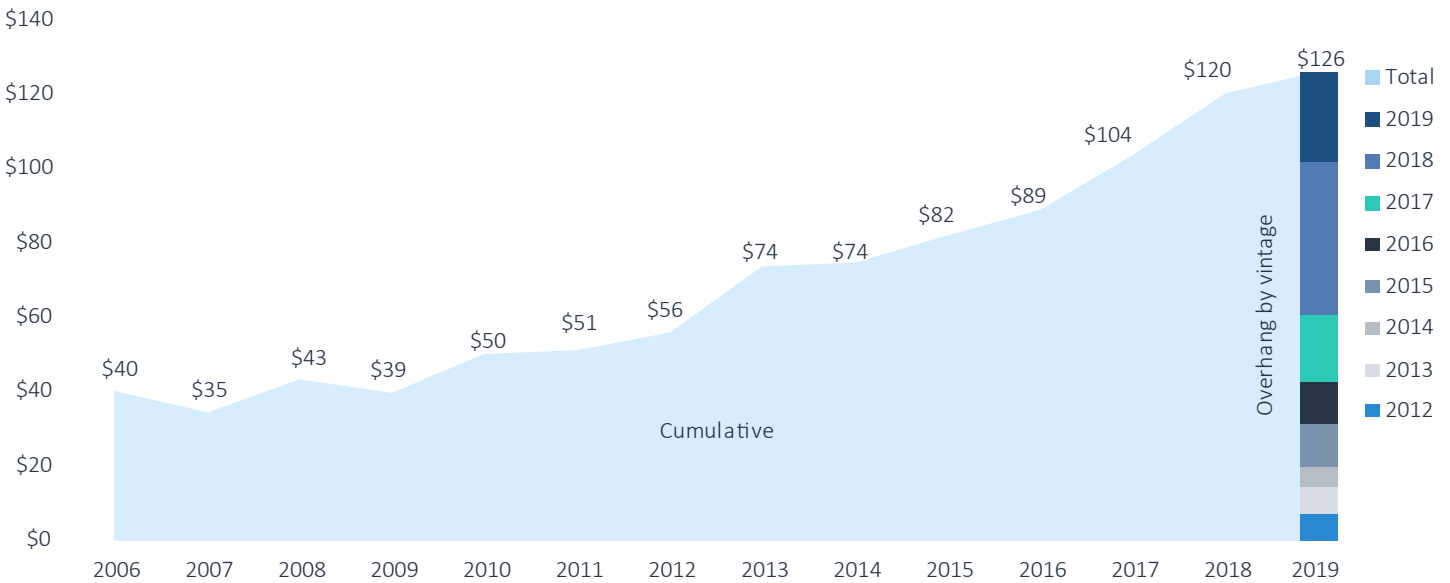
Historically, few secondaries funds have been raised outside of North America or Europe. To have a viable fund, there must be a reasonable supply of LP interests to purchase,

which usually become available once the overall private market matures. Given the Asian PE market developed after those in the US and Europe, it is not surprising that secondaries fund development in Asia also came later. That said, in 2019, an all-time high of six funds were raised out of Asia, representing \$2.1 billion and 9.6% of the total capital raised for secondaries funds. It is noteworthy that all six were raised by local GPs, not transplants from US or European investment firms. North America still dominated by dollars, if not by total fund count, with seven vehicles raised for \$15.2 billion, or 70.4% of the year's total capital raised. The Blackstone fund comprised a substantial portion of the North American total, as its regional designation is based on the main location of the investment team; however, the fund will be seeking investments globally.

The number of firms with secondaries fund offerings remains low for myriad structural reasons. The first is that transacting in secondaries requires a specific skillset that is not easy or quick to build as a GP. In addition, LP interests cannot change hands without the approval of the GP whose stake is being traded, and they would prefer to open their books to a select few buyers rather than a cast of thousands. Because the number of secondaries managers is low, fundraising figures can see big swings year to year depending on when the few participants come back to market.

Secondaries

Secondaries capital overhang (\$B)

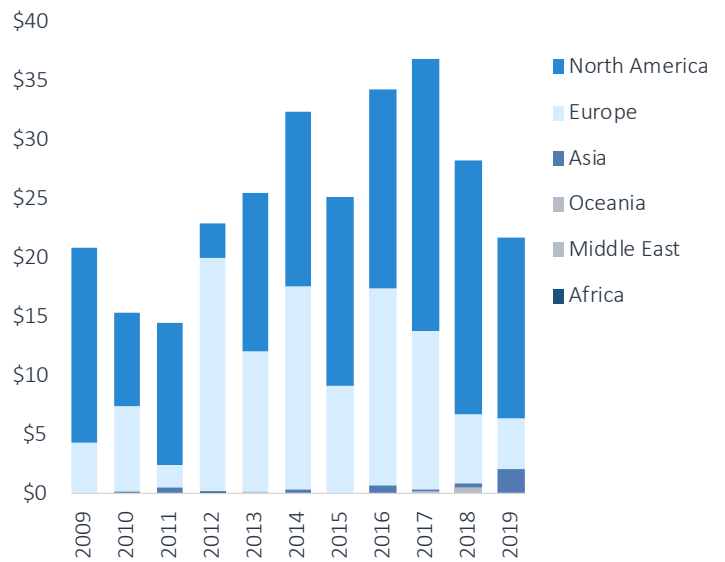


Source: PitchBook | Geography: Global
*As of June 30, 2019

The 2019 decline in fundraising may seem surprising, given that private market funds have continued to expand and a growing number of LP commitments are aging and becoming possible sources of secondaries deal flow. In addition, data from Greenhill indicates that 2019 saw record volume in secondaries transactions, with total dollars transacted growing each year since 2016.¹³ The fundraising decline feels largely like a timing issue. Most of the fundraising volume is happening with the largest funds, and they do not come to market every year. Three funds greater than \$1 billion closed in January 2020 alone; with three other massive funds likely to close in 2020, a banner year for secondaries may be underway.

When it comes to fund size, the secondaries market has to some extent bifurcated. Large funds, such as Blackstone’s, Glendower’s and Whitehorse’s in 2019, continue to successfully raise large sums in order to be able to absorb large portfolios that come to market. However, there are also a good number of GPs raising much smaller funds to serve more niche mandates. In the latter category was Stonecutter I, managed by Ion Pacific, which will focus on acquiring positions in technology, venture and growth capital funds. Another was Clean Growth Fund V, from North Sky Capital, which raised a \$219.61 million secondaries fund focused on

Secondaries funds (\$) by region



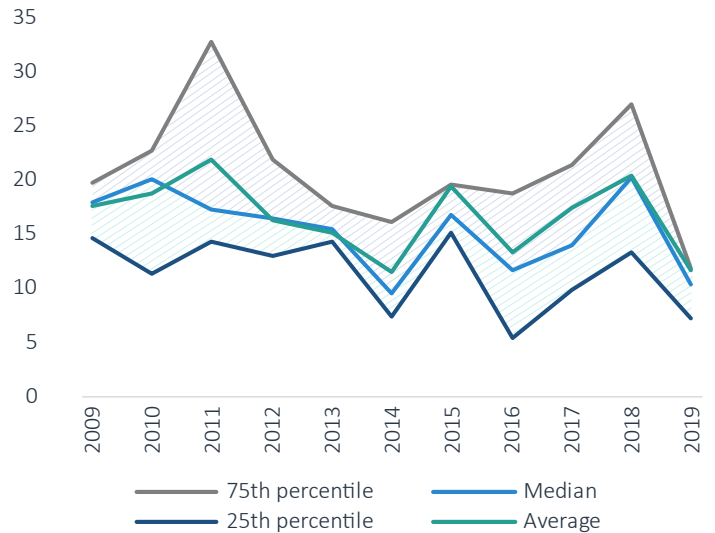
Source: PitchBook | Geography: Global

Secondaries

impact investment mandates. These smaller funds are often able to carve out specific areas of an LP portfolio that may require specialized expertise to properly value that is not necessarily found with the larger generalist managers.

In sum, the decline in the number of secondaries funds and capital raised for the strategy does not feel alarming because this is a space that will likely remain limited from the GP sponsor side. Additionally, the large funds of prior years are still in their investment periods and will likely be back in 2020 or 2021.

Quartile distribution of time (months) for secondaries funds to close



Source: PitchBook | Geography: Global

Don't see the data you need?

Download the [accompanying Excel pack](#) for all underlying data and additional charts not included in this report.

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