PitchBook

US PE Breakdown

2018 Annual

Contents

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Introduction

In 2018, US PE saw:

- $713.0 billion total deal value across 4,828 deals (17.2% and 5.5% YoY increases, respectively)
- $365.4 billion total exit value across 1,049 exits (a 0.1% YoY increase and a 16.3% YoY decrease, respectively)
- $166.4 billion total capital raised across 186 funds (25.9% and 20.9% YoY decreases, respectively)

Easy access to financing and swelling dry powder reserves led dealmakers to close on the most buyouts ever in 2018. Amid this healthy competition for assets, EV/EBITDA multiples remained elevated, finishing the year at 11.6x. The relative stability of private market valuations was not mirrored in the US public markets, which recorded the worst returns in a decade. The search for attractive returns has vaulted some niche dealmaking strategies, such as GP stakes, to record highs as well, and the burgeoning strategy appears set to continue to grow and innovate.

GPs were also active sellers in this high purchase-price multiple environment. The public markets were tapped—via IPO—less often than 2017, but GPs saw a higher total exit value as the companies were larger, on average. PE firms sustained the trend toward selling companies to another PE firm, with secondary buyouts (SBOs) accounting for over half of all exits for the first time on record.

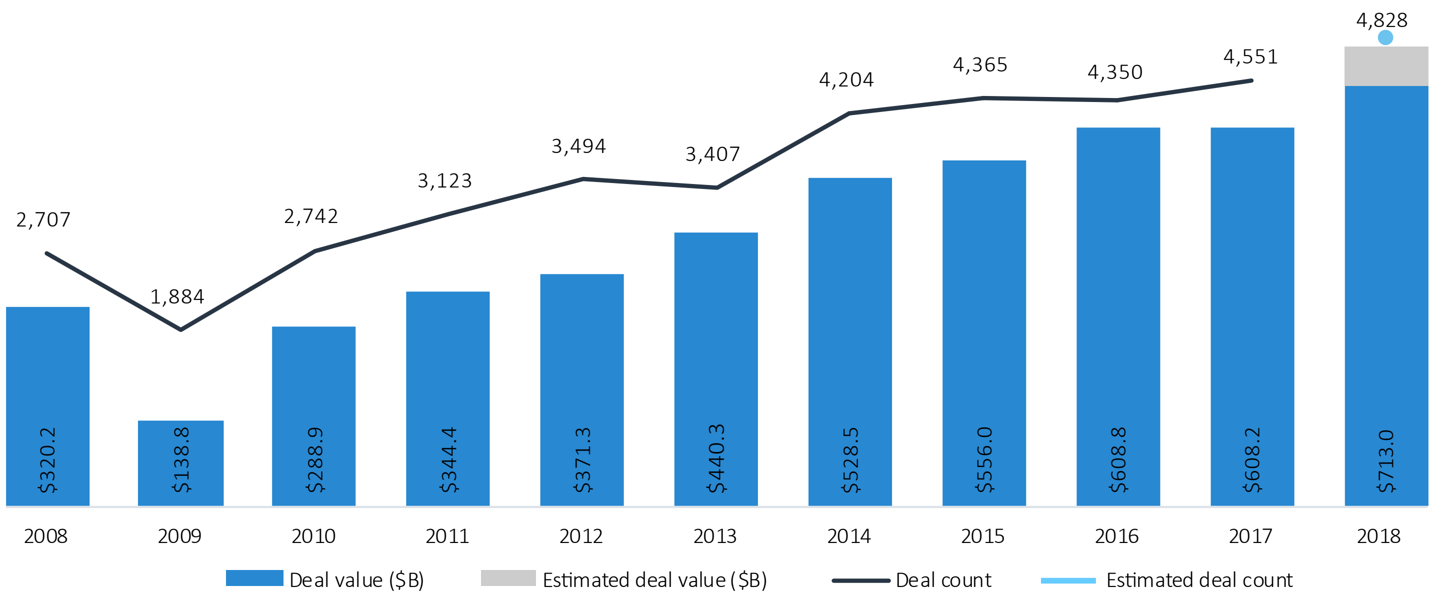
Fundraising took a breather after back-to-back years in which GPs raised above $200 billion for the first time on record. The year saw just five mega-funds ($5 billion+) close—half as many as in 2017. Going forward, LPs are expecting to lift target allocations to private markets even further, which bodes well for future fundraising. Additionally, while the largest capital allocators may be paring back LP relationships, many GPs are looking to expand the number of relationships, which may foster competition for more than just mega-fund allocations.

Wylie Fernyhough
Analyst, PE

Overview

Deal activity surpasses $700B for the second-highest annual figure ever

US PE deal activity



Source: PitchBook

Robust dealmaking propelled US PE to the highest deal count and second-highest deal value on record. The industry closed more than 4,800 deals for the first time. The 4,828 deals worth a combined $713.0 billion represent lifts of 5.5% and 17.2% compared to 2017, respectively. 4Q posted the second-highest deal value on record at $216.1 billion, falling shy of 4Q 2007's $272.2 billion. The quarter saw several mega-deals ($1 billion+) close, including the $17.0 billion buyout of 55.0% of The Financial & Risk Business of Thomson Reuters—renamed Refinitiv. Through this buyout, Blackstone will attempt to invigorate the financial data and analytics business and to take share in a notoriously competitive market. While Refinitiv was likely the most discussed buyout of the year, the $21.0 billion buyout of Dr Pepper Snapple by BDT Capital Partners and JAB Holding was the largest deal to close in 2018. The unusual deal structure saw JAB buy Dr Pepper Snapple then merge it with Keurig Green Mountain, a company it already owned. The combined company remained publicly traded with Dr Pepper Snapple shareholders and Mondelez International—JAB's partner in the Keurig Green Mountain buyout—each owning approximately 13% of the combined public company.

Another large deal was Envision Healthcare selling its subsidiary American Medical Response for $2.4 billion to Air Medical Group Holdings—a portfolio company of KKR, Ardian, and Koch Equity Development. A few months later, KKR closed on a $9.9 billion take-private of Envision Healthcare. 2018 also saw KKR close on BMC Software for $8.3 billion. Elsewhere, Roark Capital Group made a splash in the restaurant industry, closing on Sonic for $1.6 billion and Buffalo Wild Wings for $2.9 billion, both take-private transactions. Roark also created a new entity, Inspire Group, to hold the brands, as well as Arby's, which has been a portfolio company since 2011.

Extensive take-private activity was seen throughout the year as the $5.7 billion take-private of healthcare software maker Athenahealth closed in the fourth quarter as well. This deal, completed by Veritas Capital and Evergreen Coast Capital—Elliott Management's PE arm—ultimately closed at $135 per share, well under Elliott Management's original, unsolicited offer of $160 per share in May. It is also noteworthy because Elliott purchased the company through its in-house buyout team—one of just a few hedge funds with an in-house buyout group. Evergreen Coast Capital also agreed to a $4.4 billion take-private of UK-based travel software company Travelport in December 2018.

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Overview

The median EV/EBITDA multiple shrank slightly from 11.9x in 2017 to 11.6x in 2018. Additionally, the proportion of deals priced above 10.0x EV/EBITDA (61.4%) hit the highest rate on record. This stands in contrast to the US public equity markets, where EV/EBITDA multiples receded markedly in 2018. This multiple convergence, along with PE firms looking to write substantial equity checks to spend down dry powder, led to a year in which 15 take-privates above $1 billion closed. Heading into 2019—as detailed in our recent PE outlook—we expect a pickup in sizable take-private transactions.

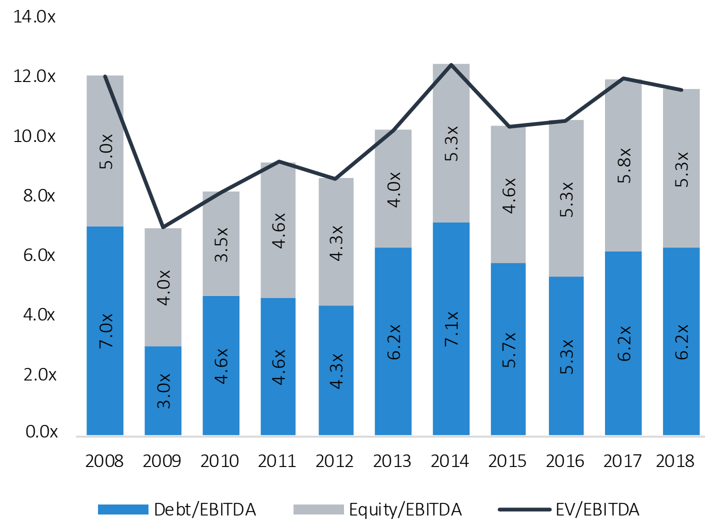
As competition is rising and PE firms are acquiring a record number of companies, multiples are being further inflated due to PE firms increasingly targeting faster-growing companies. According to our 2018 Annual Global PE Deal Multiples report, more than half (52.2%) of the companies purchased by GP survey respondents in 2018 recorded TTM revenue growth above 10%. Additionally, over two-thirds (68.1%) of GPs expect portfolio-company revenue growth above 10% over the 12 months post-purchase. Both figures were the highest we have ever recorded and may have to do with PE firms targeting software businesses more frequently than ever before.

During much of the year, PE firms enjoyed continued easy access to affordable debt financing with favorable terms thanks to the market's ravenous appetite for high-yield bonds and leveraged loans. However, after months of activity in which these loans flew off the shelves, recent months have seen a dramatic turnaround with outflows in leveraged loan funds occurring at the fastest pace ever.[1] In December, Wells Fargo and Barclays had to temporarily keep a $415.0 million loan—issued to finance Blackstone's $700.0 million buyout of Ulterra Drilling Technologies—on their books because they failed to sell it to investors.

If investors begin demanding higher interest on loans and additional covenants, dealmakers may have to reevaluate their investment theses and reprice deals. In fact, investors are beginning to rethink the proliferation of the borrower-friendly, covenant light (cov-lite) loans, as many traded down in the quarter. According to Moody's Investor Services, investors in leveraged loans can expect to recover 61 cents on the dollar in case of a default in today's environment, compared to the historical average of 77 cents. The fevered feeling in credit markets prompted Leon Black, co-founder of Apollo, to say at a conference last December, "The credit markets, unlike the equity markets, have gone to bubble status."

Multiples remain elevated amid healthy competition

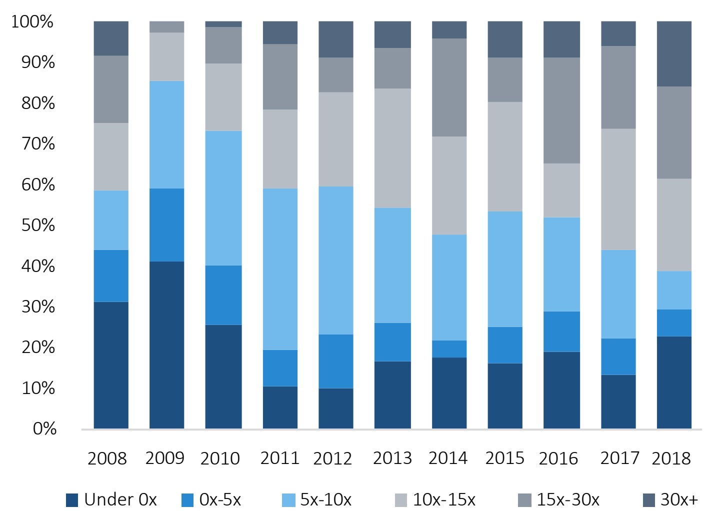
Median US EV/EBITDA multiples



Source: PitchBook

More deals are priced above 10x than ever before

US PE deals (#) by EV/EBITDA bucket



Source: PitchBook

1: S&P/LSTA U.S. Leveraged Loan 100 Index

Overview

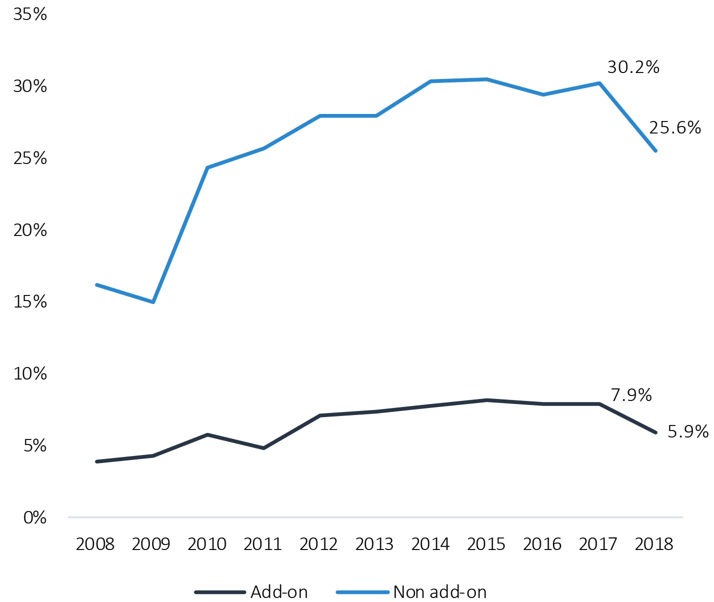
2018 set the record for number of deals closed, though the proportion of deals sourced from other financial sponsors—i.e. SBOs—fell after steadily climbing for nearly a decade. 12.6% of buyouts were sourced via SBO in 2018, compared with 15.9% in 2017. Historically, industry observers have been sharply critical of the practice, and LPs have bemoaned paying transaction fees to transfer a portfolio company from one GP to another, especially when an LP has interest in funds on both sides. The Financial Times ran several articles addressing SBOs, one titled "Private equity plays risky game of musical chairs," and another "Private equity's pass the parcel deals raise concern."[2,3] However, PitchBook research regarding the effects of SBO investing on fund performance was less clear-cut. We found no discernable link between SBOs and fund performance on an IRR or a TVPI basis.

Other deal-sourcing arenas have supplanted SBOs, contributing to the decline we saw in 2018. One of the largest factors behind the fall in sourcing buyouts via SBO has been the unrelenting increase of add-ons as a percentage of overall deal flow. Add-ons were sourced via SBO 5.9% of the time versus 25.6% for non-add-on buyouts. Many buyout shops are utilizing the now ubiquitous buy-and-build strategy with success. In this case, PitchBook research on the effects of add-on investing on fund performance showed a clear trend of outperformance by firms that used higher rates of add-ons. 2018 saw the typically small deals approximately double in median size while the median SBO size declined. Going forward, we expect GPs to continue looking beyond SBOs for deal-sourcing possibilities, including VC portfolios and take-privates.

Amid fervent activity, the growth in the median add-on deal size outpaced the growth of platform acquisitions. The jump to $159.3 million is just shy of the $182.8 million median for all buyouts (12.9% smaller). In 2017, the median add-on was 56.7% smaller than the median buyout. To note, SBOs, with a median size of $435.5 million, are more than twice the size of the median buyout. Going forward, the growth in add-on size may cause problems with the buy-and-build strategy because these higher-priced add-ons likely make blending down the purchase-price multiple more difficult, which may cause lower levels of outperformance. We will have to watch this trend closely in the coming years.

Add-ons are more likely to not have PE backing prior to acquisition

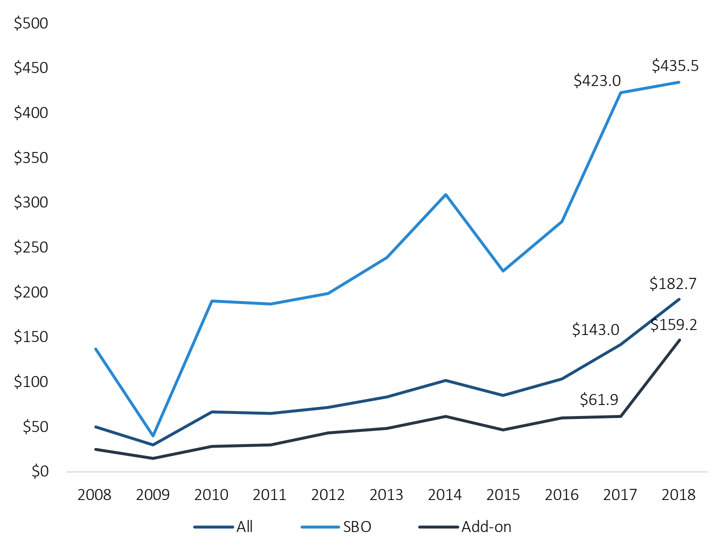
Proportion of US PE add-ons and non-add-ons sourced via SBO



Source: PitchBook

Deal sizes nearly double in 2018 amid fervent competition for add-ons

Median US PE deal size ($M) by type



Source: PitchBook

2: "Private equity plays risky game of musical chairs," Financial Times, Javier Espinoza, September 24, 2018
3: "Private equity's pass the parcel deals raise concern," Financial Times, Javier Espinoza, June 20, 2018

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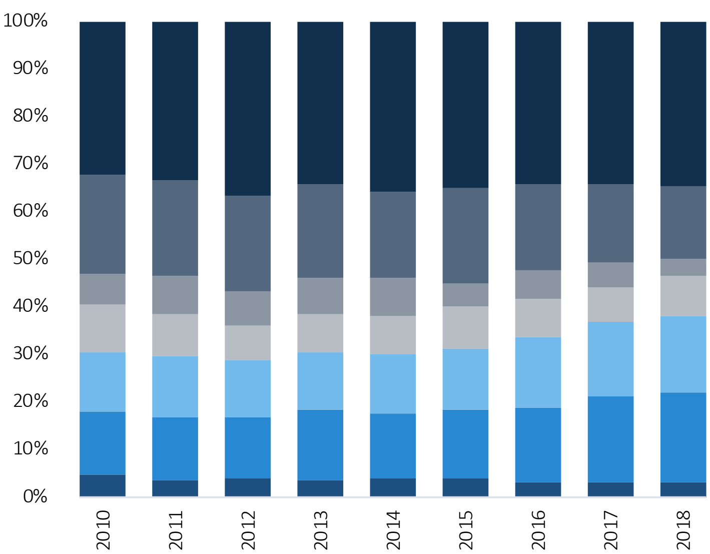
Deals by sector & size

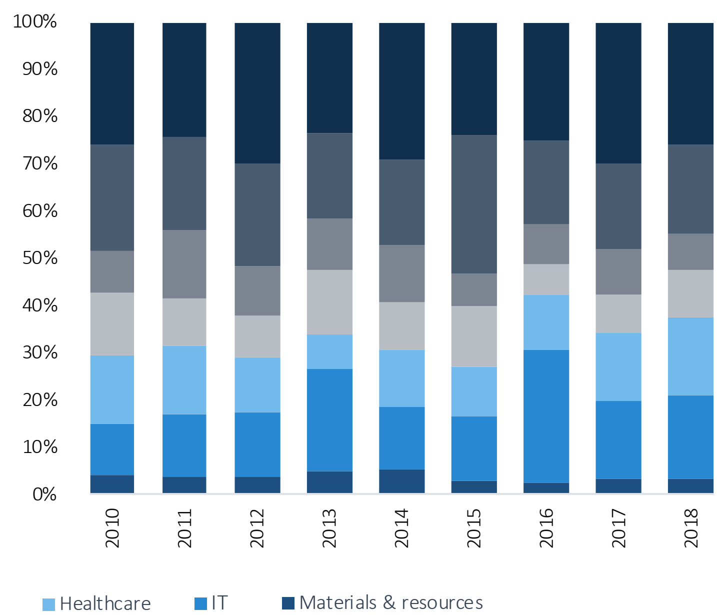
IT and healthcare grow deal count the most in recent years

US PE deals (#) by sector



B2B contracts but remains preeminent sector

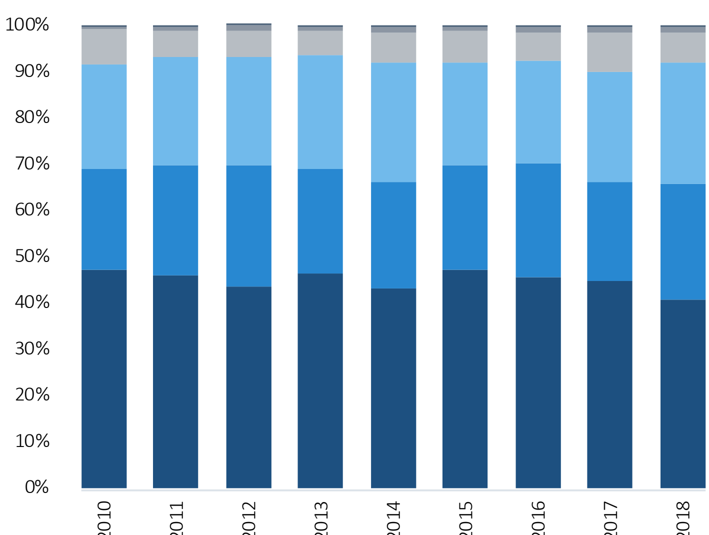
US PE deals ($) by sector



Source: PitchBook

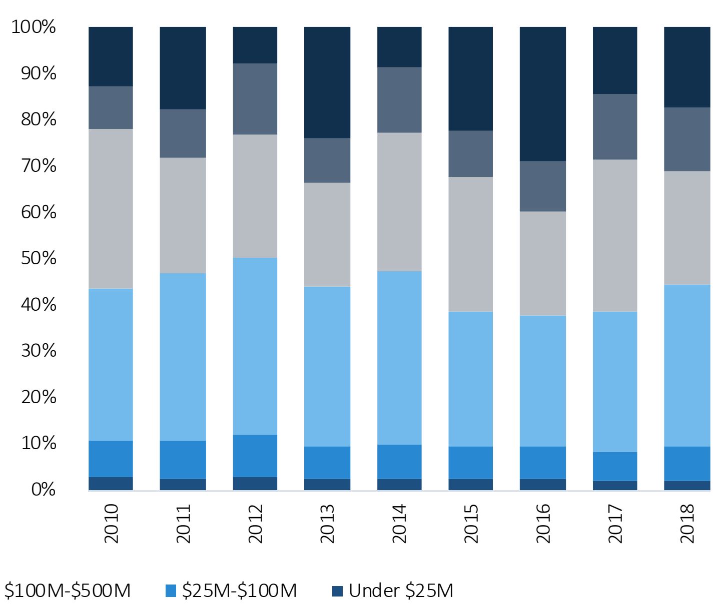
Middle-market deals make up highest proportion of deal flow this decade

US PE deals (#) by size



Deals above $1 billion account for nearly one-third of overall deal value

US PE deals ($) by size

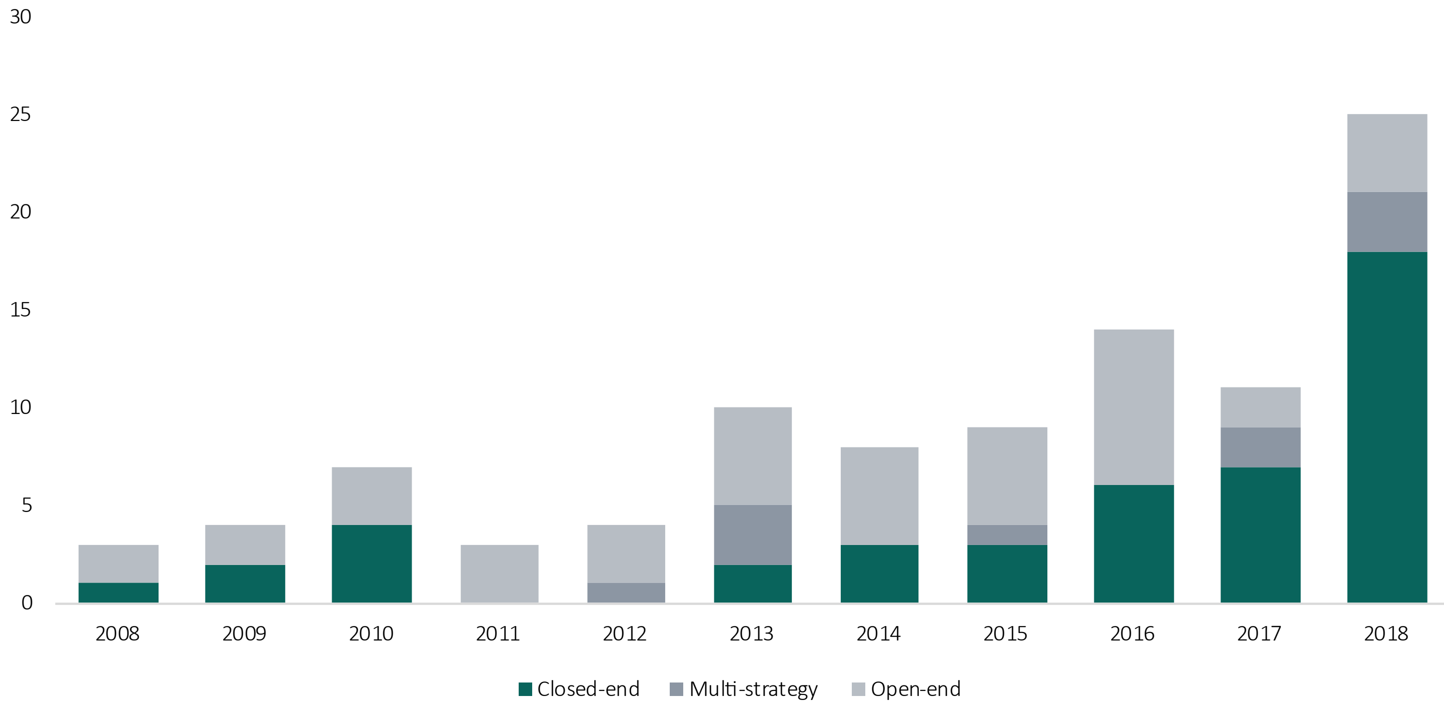


Source: PitchBook

Spotlight: GP stakes

GP stakes dealmaking hit a new record in 2018

Global GP stakes deals by target firm's fund strategy



Source: PitchBook

The recent proliferation of GP stakes investing—in which GPs invest in the management companies of other GPs—shows no signs of abating. As a primer, GPs sell minority positions in their management companies—instead of publicly listing—to generate an influx of cash that can subsequently be used to execute acquisitions, to provide liquidity to founders and partners, and/or to fuel the development of new strategies and funds. Some GPs are even using the capital raised through GP stake sales to help junior investment professionals commit capital to the firm's funds alongside LPs. In return for their capital, GP stakes investors generally receive a portion of future management fees and the potential for appreciation in their equity stake; however, deal structures vary widely, and we are seeing a proliferation of unique approaches as GP stakes deals have gained traction in recent quarters.

This strategy enjoyed a record-setting year in 2018 with 25 GP stakes investments. Not only has 2018 set records in terms of deal count, but the scope for deal sourcing is beginning to widen. The two most active and prominent GP stakes investors are Dyal (a group within Neuberger Berman) and AIMS (a group within Goldman Sachs), both of which have steadily shifted their strategies toward GPs focused

Select firm profiles

Dyal | Capital Partners

Year of first GP stakes fund: **2012**
Total capital raised for GP stakes: **$13.7B**
Number of investments: **32**
Recent closed fund size: **$5.3B**
Raising a fund targeting $6.0B, **$4.6B** currently raised

Goldman Sachs

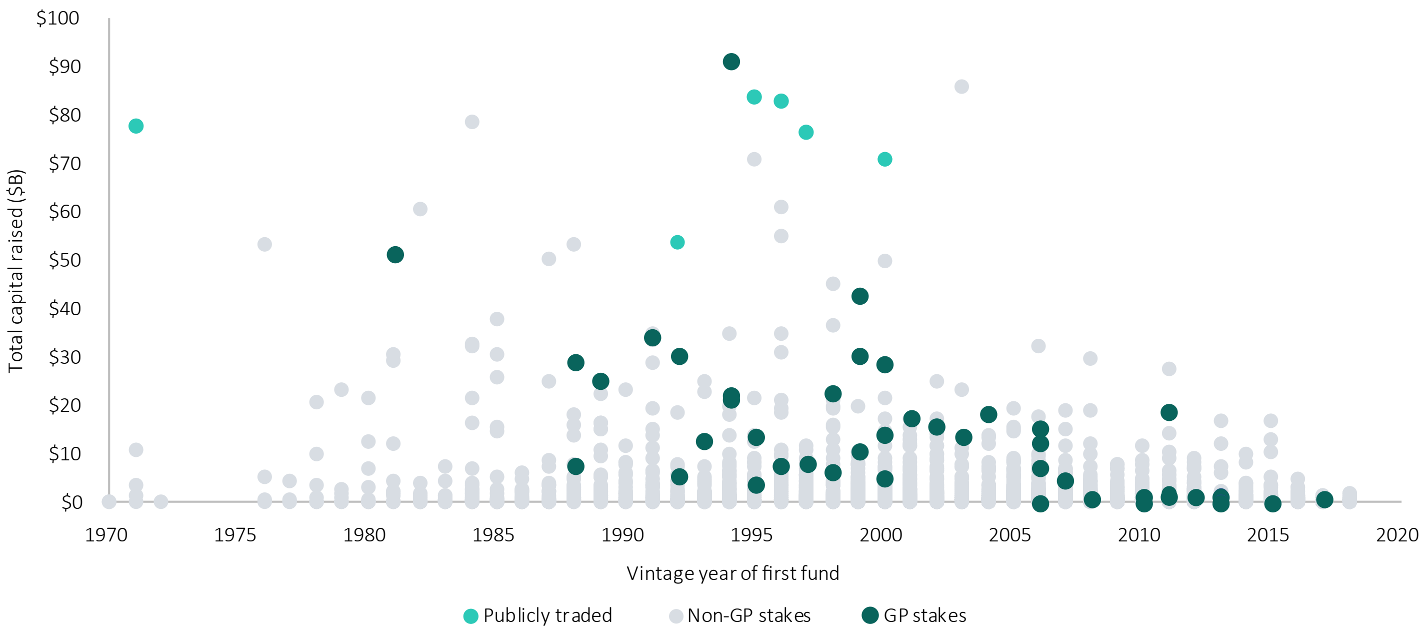
Year of first GP stakes fund: **2007**
Total Capital raised for GP stakes: **$5.0B**
Number of investments: **16**
Recent closed fund size: **$2.5B**
Closed **Petershill Private Equity** in February 2018

Blackstone

Year of first GP stakes fund: **2013**
Total capital raised for GP stakes: **$3.5B**
Number of investments: **10**
Recent closed fund size: **$3.5B**
Raising a fund targeting **$3.3B**

Firms receiving GP stakes investment tend to be older and larger

GP comparison by backing status



Source: PitchBook

on closed-end funds and are now beginning to branch out beyond more well-known GPs. Dyal recently announced an investment in Golub Capital, a publicly traded middle-market lender, and Blackstone is in talks to purchase a minority stake in middle-market PE firm GI Partners. Perhaps the most interesting deal of late, however—and a likely harbinger of future innovation within the strategy—is AIMS's investment in VC firm General Catalyst.

Initial success and satisfaction with the strategy has fomented a healthy fundraising climate. Dyal has already raised $4.6 billion of a $6.0 billion target for its fourth GP stakes fund, which follows a $5.3 billion vehicle that closed in late 2016. Additionally, Blackstone's Strategic Capital Group raised $3.3 billion for its second GP stakes fund. But as the accompanying charts illustrate, numerous managers that fit the prototypical GP stakes target profile have yet to receive outside investments into their management companies. So, despite the large sums being raised and the quickness with which AIMS and Dyal are fundraising, we think there is a sufficient supply of suitable targets to sustain the strategy for the foreseeable future. The evolution of the strategy into VC, real estate firms, and beyond ought to further grow the investable universe.

Outside simply expanding the types of closed-end strategies GP stake investments target, some newcomers are targeting firms at earlier stages of development. Sixpoint Partners, for example, has spawned a "PE seeding platform" focusing on spinout managers. Meteor5 Capital is focusing on first-time managers by taking a stake only in the manager's first two to three funds. Both firms have a defined path to exit as opposed to the permanent capital structure typical of GP stakes. Capital Constellation, a joint venture between several sovereign wealth funds and Wafra, is launching a fund that seeks to invest in GP management companies, invest in their funds, and co-invest in certain investments. Though they are focused less on nascent managers, the three-pronged investment approach is new for GP stakes.

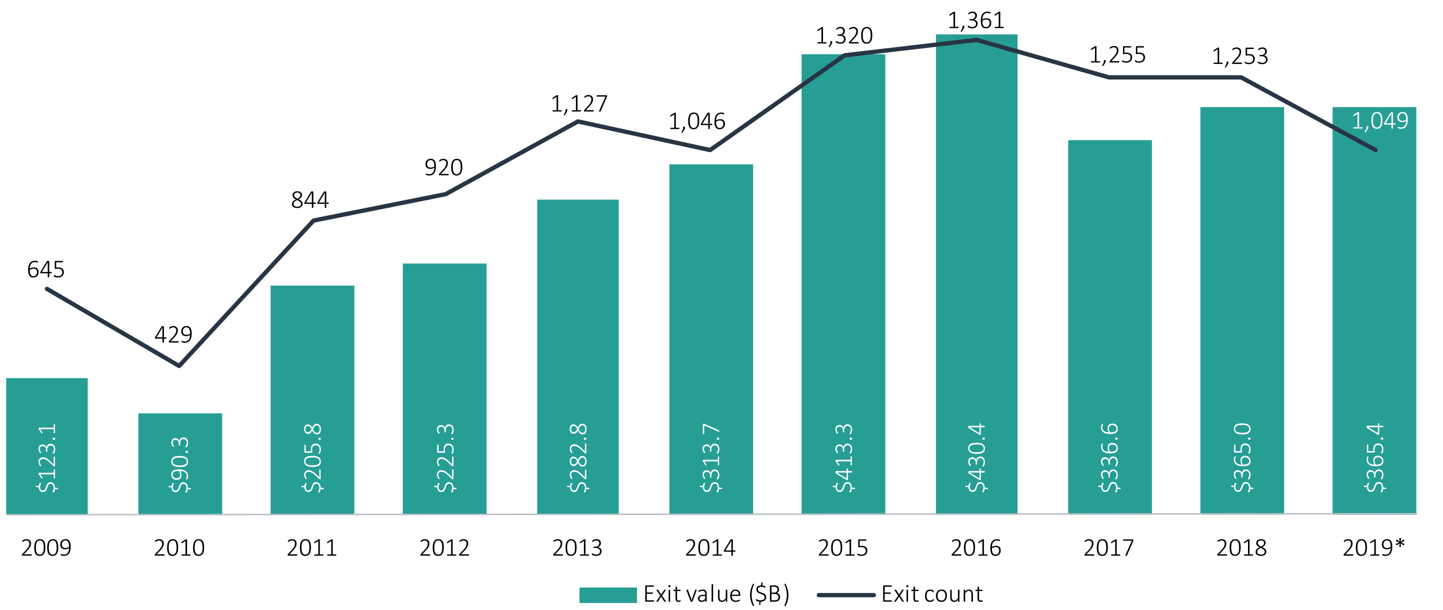
While much attention is paid to the dealmaking side of GP stakes investing, exits deserve similar attention. After AIMS's Petershill fund sold a substantial portion of its holdings to Affiliated Managers Group (AMG) for $800.0 million in 2016—rumored to produce annualized returns above 15%—the strategy gained broader acceptance. Since GP stakes is widely viewed as a viable alternative to a public listing, TPG and others have decided against going public, opting instead to pursue a GP stakes transaction. While few companies enjoy the spotlight of public markets, all investors need liquidity at some point. One option being explored by GP stakes investors is to create and list a holding company with a portfolio of minority GP interests, a strategy Dyal is said to be pursuing.

Note: This spotlight was abridged from three pieces written by PitchBook Senior Strategist James Gelfer. For a more detailed analysis of GP stakes, please read Staking Claims in PE, How GP Stakes Investing Is Becoming Less Rare, and our 2019 Private Equity Outlook.

Exits

Exit value remains relatively flat despite drop in exit count

US PE exit activity



Source: PitchBook

PE firms took advantage of a high purchase-price atmosphere in 2018 to exit 1,049 companies worth a combined $365.4 billion—a 16.3% decline and 0.1% rise from 2017, respectively. 2018 recorded 80 exits above $1 billion, including the $9.5 billion sale of Energy Future Holdings (formerly TXU) in the first quarter, though fell short of the peak selling years of 2014 and 2015. The fourth quarter saw Vista Equity Partners sell Marketo to Adobe for $4.8 billion in one of the most lucrative exits of the year. Vista took Marketo private in a $1.8 billion leveraged buyout (LBO) that closed in August 2016. In another deal, a club of Bain, Elliott Management, GIC, and others sold BMC Software to KKR for $8.3 billion—the largest SBO of the year. BMC was taken private in a $6.9 billion LBO in September 2013. Although the BMC deal produced less impressive cash multiples than the Marketo sale, these successful software sales ought to further fuel PE's foray into the software sector.

Overall though, 4Q registered the lowest cumulative exit value of any quarter in the year. 17 of the 80 exits above $1 billion in 2018 closed in 4Q, tied for the lowest figure of the year, though the 80 deals was an uptick in number of exits above $1 billion compared with 75 in 2017 and 65 in 2016. These exits accounted for 68.7% of overall exit value—the highest since the 72.5% recorded in 2013. A confluence of factors lead us to believe the number of exits valued at or above $1 billion will continue to surge. Longer holding periods give GPs more runway to grow EV while the "buy-and-build" strategy of rolling up smaller companies may help grow portfolio companies past that threshold. Finally, the number of $1 billion+ buyouts—which ought to result in $1 billion+ exits—is ballooning.

Exit count fell in 2018 compared to the prior year, but the value of those transactions rose as median exit size climbed. The median exit size of $330.0 million in 2018 is the largest on record. Additionally, the 46.7% growth over 2017's median of $225.0 million is the largest percentage gain since 2010. A sizable driver of the push upward came from corporate acquisitions, which recorded a median value of $274.0 million—82.7% growth over 2017. Strategics appear to be spending some of their tax savings and cash built up during the nearly decade-long economic recovery by cutting more sizable checks on larger acquisitions. SBOs saw an uptick in median size as well to $415.0 million. PE firms shied away from sourcing deals via SBO in 2018, though, somewhat paradoxically, the proportion of exits completed via SBO hit a record 52.0%—the first time above the halfway mark.

PE-backed IPO activity neared $50.0 billion in 2018, the highest figures since 2014's record $86.2 billion. This relatively vibrant activity is a divergence from the tumultuous year experienced in US public equity markets, which recorded the worst annual performance since the financial crisis. 2018 reported numerous moments of punctuated volatility; by historical standards, however, 2018's annual volatility was not exactly noteworthy.

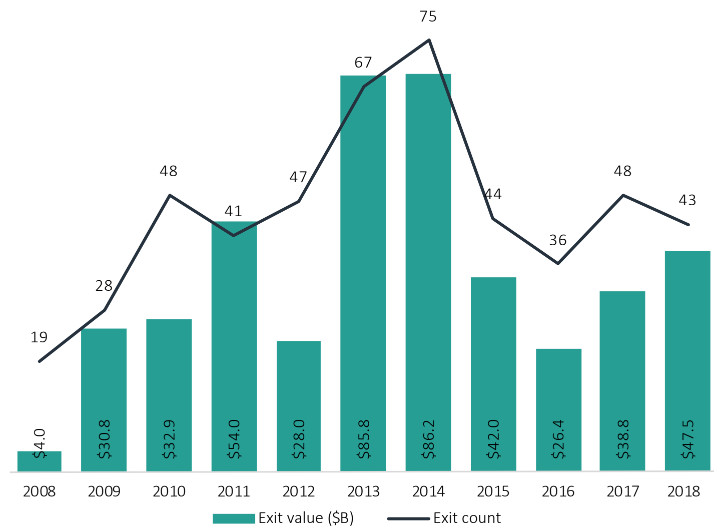
Several prominent PE exits came via IPO in the year, including SolarWinds—backed by the trio of HarbourVest, Silver Lake, and Thoma Bravo—at a $4.3 billion valuation in the fourth quarter. However, no IPO eclipsed the size of ADT Security Services, which Apollo took public on January 18 at a $9.0 billion valuation. ADT raised $1.5 billion during its public offering. Despite several notable, multi-billion-dollar IPOs, median PE-backed IPO value rose just 2.6% in 2018 to $670.9 million. In fact, median IPO value has remained relatively constant compared with the substantial growth in median value for corporate acquisition and SBO—rising at CAGRs of 2.2%, 15.8%, and 29.7% since 2009, respectively.

Many of the year's largest exits occurred in the technology sector with 23 exits valued at or above $1 billion. Most of these exits came via IPOs or sales to publicly traded strategics, despite the fourth-quarter slide in publicly traded tech shares with the NASDAQ posting a drop of approximately 20%. If PE firms attempt to avoid exiting via IPO and corporates are unwilling to spend, we may see PE firms hold these companies longer or a pickup in the frequency sold via SBO. We will be keeping a close eye on prolific technology investors, such as Vista Equity Partners and Thoma Bravo, among others, to see how they react.

PE-backed IPOs have accounted for a waning portion of overall US IPOs in recent years, declining in seven out of the past 10 years. This trend is likely to continue through 2019 as a herd of VC-backed unicorns—including Uber, Lyft, and Airbnb—gets ready to go public throughout the year. PE firms do not prefer the extended exit timeframe necessary for an IPO, which can leave investors at the mercy of public market gyrations. This sentiment is even more pronounced for LPs, who invest with private managers to reduce portfolio volatility, among other reasons. Apollo's first quarter 2018 earnings saw publicly traded investments down 16%—much of this due to sharp decline in the recently public ADT valuation—while private investments were up 4%.

IPO exit value climbs on lower count

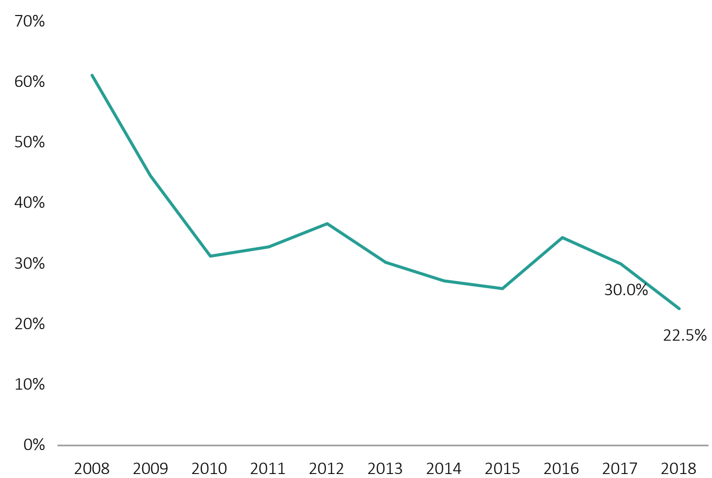
US PE IPO activity



Source: PitchBook

PE-backed IPOs make up the lowest proportion of total IPOs in over a decade

US PE IPOs (#) as proportion of total IPOs



Source: PitchBook

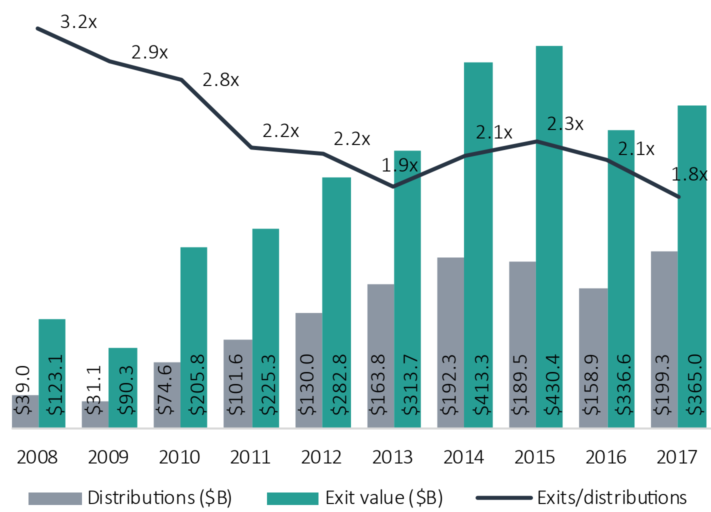
Fund distributions back to LPs have closely mirrored exit activity over the past decade, which is to be expected given that, historically speaking, most distributions occur after full-liquidity events. However, the growth in distributions is outpacing exit value and the two are beginning to diverge. In 2017, total distributions to LPs hit a record high of $199.3 billion despite exit activity peaking in 2014. This disconnect could be due to GPs tending toward using alternative liquidity events, namely dividend recaps. In fact, our data shows a spike in dividend recaps in 2018 with the highest amount paid out on record. As discussed earlier, credit markets have seen downward volatility in recent months and the market may be less amenable to dividend recaps in 2019, which may have knock-on effects on LP distributions and PE fund performance.

Additionally, GPs have been using subscription lines to boost IRR figures—and subsequent carried interest—though this does not influence cash multiples. Subscription lines can delay capital calls, shortening the time between capital calls and the return of capital—though many in the industry defend the practice, when used responsibly.[4] We will keep close tabs on 2018 cash flow figures as they are reported because this development could signify a substantial shift in the liquidity preferences and actions undertaken by PE firms.

The proportion of exits to buyouts (excluding add-ons) continues to diminish after peaking at 0.60x in 2014 and 2015, which were also the most active exit years on record. 2018's ratio of 0.47x is the first time under 0.50x since 2009, meaning PE firms are selling companies at less than half the rate that they are acquiring them. There are several possible factors affecting this figure. PE firms are lengthening their holding time, meaning there may be a temporary drop in the count of expected exits. Additionally, 2016 and 2017 saw the industry's first back-to-back fundraising in years, in which firms raised above $200 billion. These newly minted funds are firmly in the investing stage and may be tilting the exit/buyout balance. One final figure we reviewed was rate of portfolio companies going bankrupt or out of business; however, 2018 saw just 4.4% of PE-backed companies exit through bankruptcy or going out of business. This is the lowest figure since the 4.3% registered in 2007 and a healthy drop from the 8.2% in 2016.

Distributions and exit value diverge sharply

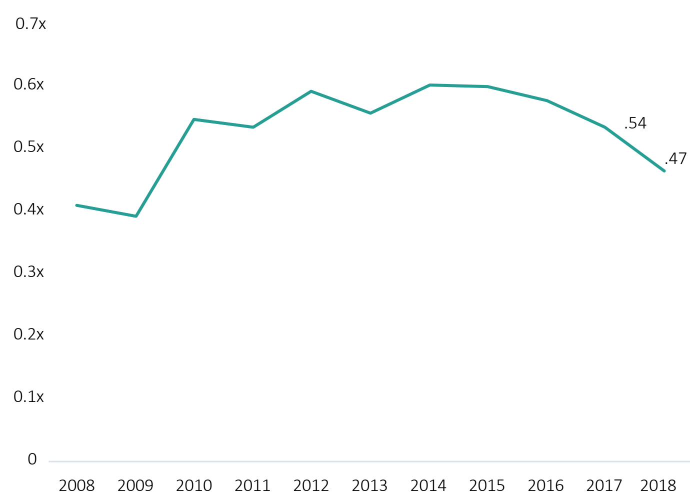
US PE distributions to LPs and exit value



Source: PitchBook
*2018 not included in the above chart since fund cash flow data lags by two quarters

Number of exits per investment hits lowest mark since financial crisis

US PE buyouts (#) (excluding add-ons) versus exits (#)



Source: PitchBook

4: "Lines in the Sand," Oaktree Capital Management, April 18, 2017

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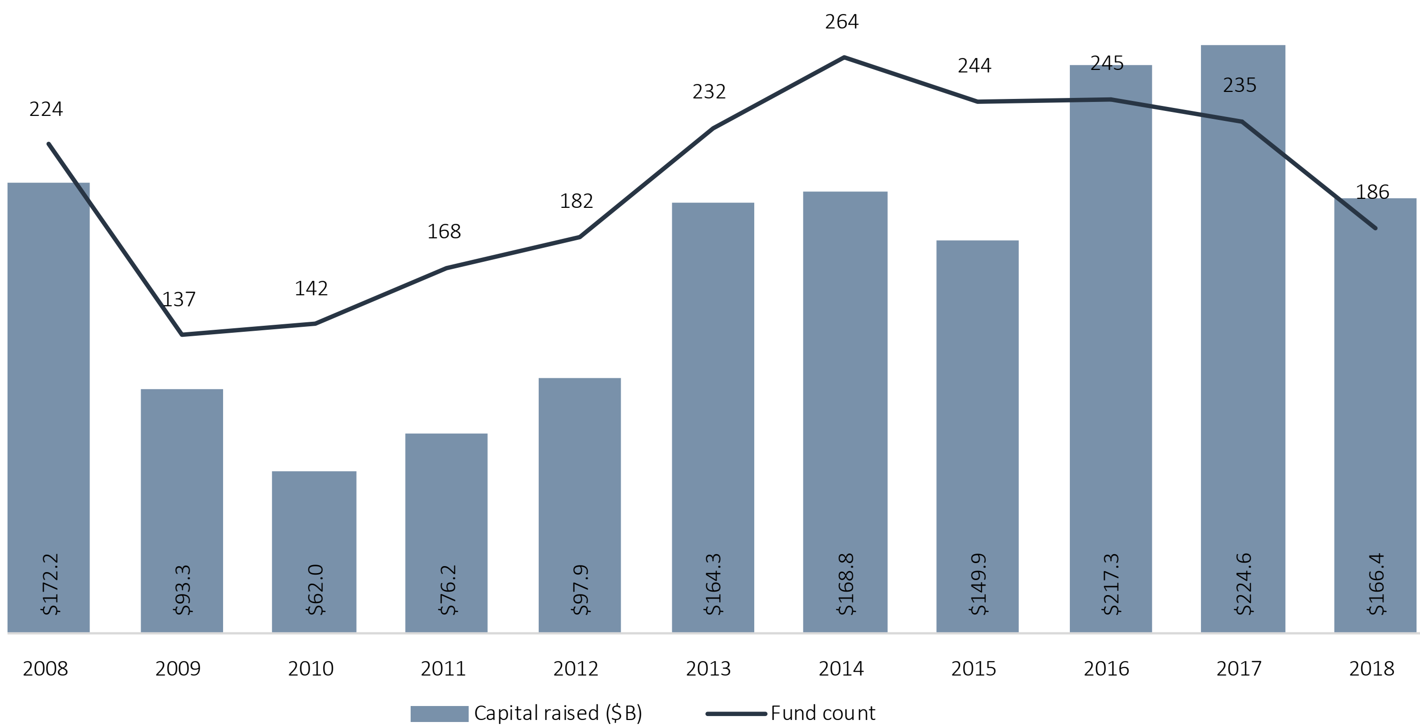
Fundraising

Fundraising retreats after cresting $200B in back-to-back years

US PE fundraising activity

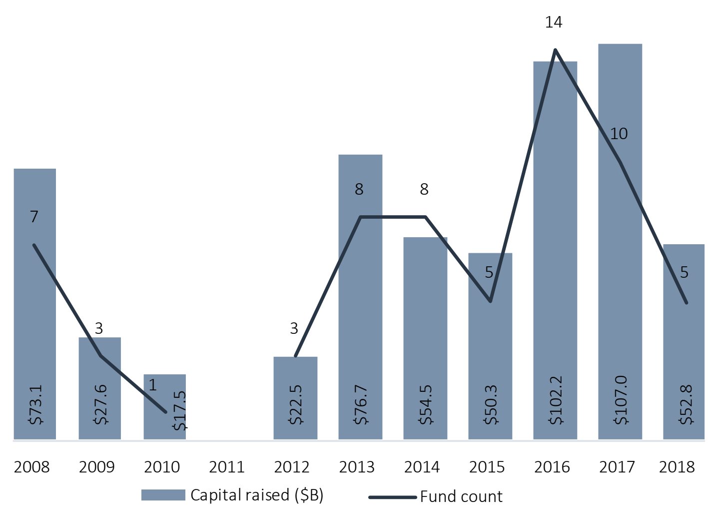


Source: PitchBook

Overall fundraising activity fell well short of the record-setting figures achieved in 2017. Year-end fundraising numbers totaled $166.4 billion raised across 186 funds—25.9% and 20.9% declines compared with 2017, respectively. The record dealmaking in 2018 was driven by past fundraising strength. Dealmakers have been utilizing more leverage than in years past—though generally less than in the pre-crisis era—allowing equity dollars to stretch even further in buyouts. Additionally, non-traditional GPs have been inking deals at a rapid clip. Private investors that are not PE firms, such as pension plans and family offices (for example, CPPIB and Koch Equity Development), have been rising in prominence and putting a growing amount of capital to work. CalPERS has also been very publicly looking into doing more direct deals, which could be a harbinger for other US pension plans. Furthermore, as many hedge funds are shedding assets and closing their doors, they are eyeing private capital to expand and lock up capital. According to EY global alternative fund surveys, 28% of hedge fund respondents offer or are planning to offer PE vehicles in the next two years.[5] Some, such as Elliott Management and Icahn Partners, already have in-house buyout teams.

Mega-fund activity drops by half

US PE mega-fund fundraising activity



Source: PitchBook

5: "2018 Global Alternative Fund Survey," Ernst & Young, 2018

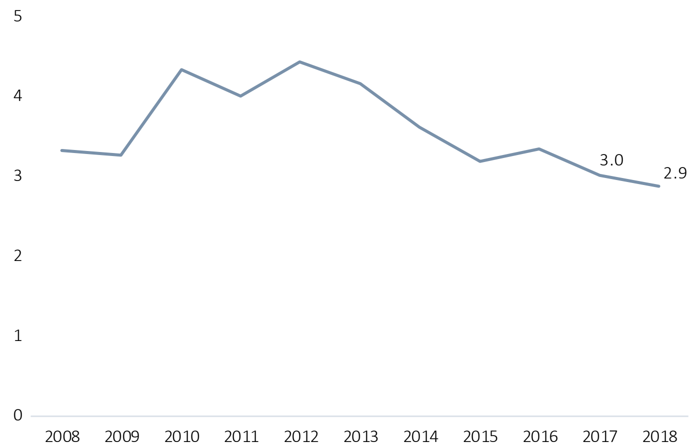
The decline in fundraising is almost entirely due to fewer mega-funds closing. Only five mega-funds closed during the year, raising $52.8 billion, compared to 10 mega-funds raising a total of $107.0 billion in 2017. Consequently, the $54.2 billion decline accounts for over 90% of the $58.3 billion overall YoY decline in fundraising, though the year still saw some of the largest fund closes that the industry has ever seen. Carlyle closed its seventh flagship buyout fund at $18.5 billion, and Hellman & Friedman closed its ninth flagship buyout fund at $16.0 billion. 2018 also saw the close of the largest growth equity fund on record, Insight Venture Partners X at $6.3 billion. Looking forward, Thoma Bravo, TPG, and Vista Equity are all fundraising for vehicles above $10 billion, which bodes well for fundraising figures in 2019. Additionally, Blackstone, Advent International, and Warburg Pincus are likely to begin fundraising for their own vehicles seeking above $10 billion.

The fundraising cycle is accelerating. Since 2010, the trend has been for PE firms to return to market with follow-on funds more quickly. In 2018, the median time between funds in the same fund family was just 34.5 months, continuing the decline in timing between funds. This is the first time the median has been under three years. This GP-friendly fundraising environment is making it easier for GPs to make the decision to swiftly return for a follow-on fund. For example, Clearlake Capital Partners closed its fourth buyout fund in August 2015; in March 2018, just 31 months later, they closed on their fifth buyout fund. To note, Clearlake received a GP stake investment from Dyal, AIMS, and Landmark Partners in May of 2018. While the time between funds has shrunk, PE firms are calling down capital more quickly. The median percentage of capital called by the successor fund before the follow-on fund closes was 81.3% in 2018, a slight rise from the 79.9% in 2017.

As the industry goes through a shakeout of managers, the count of active firms continues to decline, and we are seeing the fundraising characteristics—i.e. faster returns to market raising successor funds and calling down capital more quickly—of the more successful, remaining funds. Interestingly, as the time between funds declines, the average time to close has gone the other way, rising to 15.0 months. Slowdowns on the dealmaking side—either from a struggle to agree on pricing in a period of high purchase-prices multiples or an inability to price deals due to a collapse of the leveraged loan market—may impact how quickly PE firms call down capital and, in turn, how quickly they are willing (or able) to bring a successor firm to the market.

Fundraising cycle is shortening

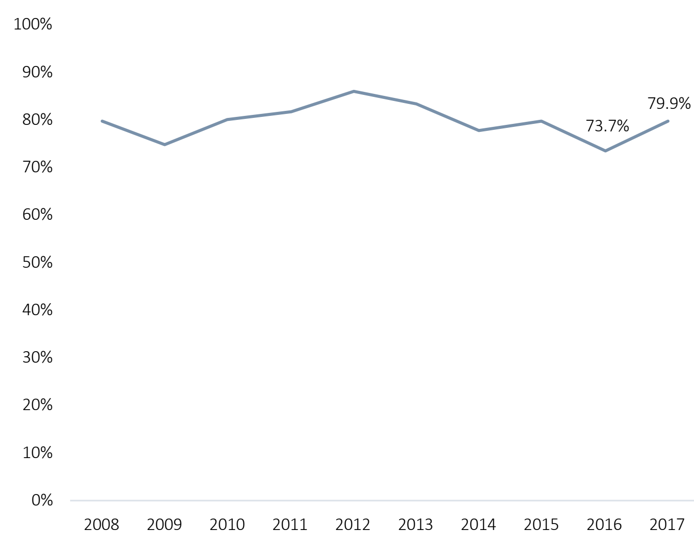
Average time (years) between US PE funds



Source: PitchBook

Capital called by next fundraise remains steady

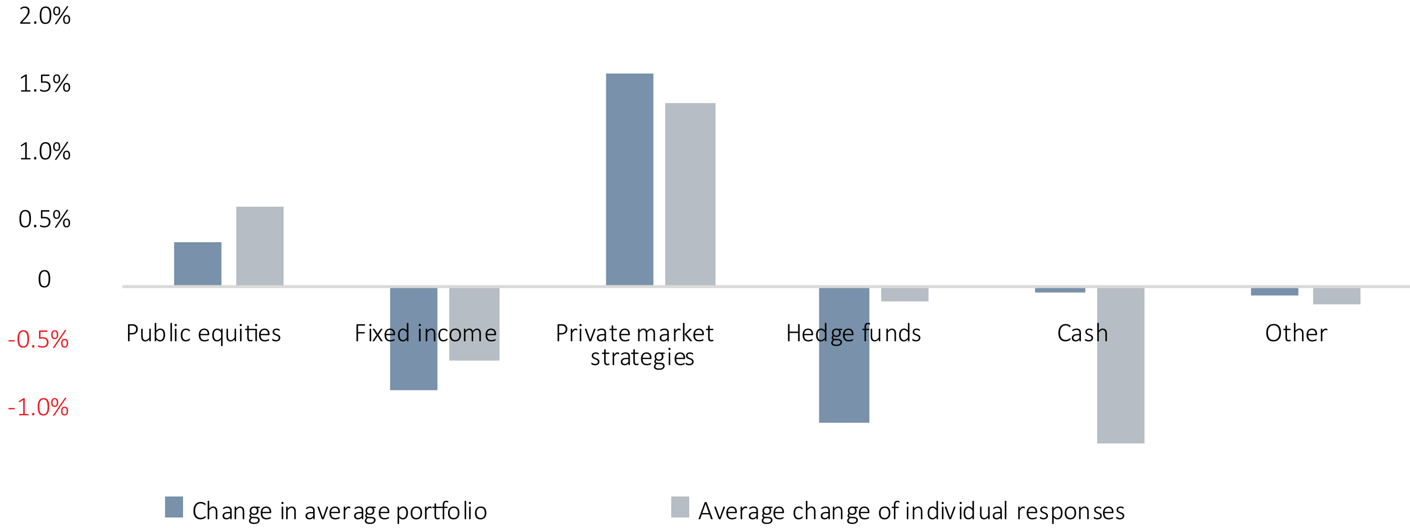
Median US PE percentage of previous fund called down at subsequent fundraise



Source: PitchBook
*2018 not included in the above chart since fund cash flow data

Private market allocations are primed to grow even larger

How do you anticipate your target allocation to the following asset classes or strategies changing in the next 24 months?



Source: PitchBook

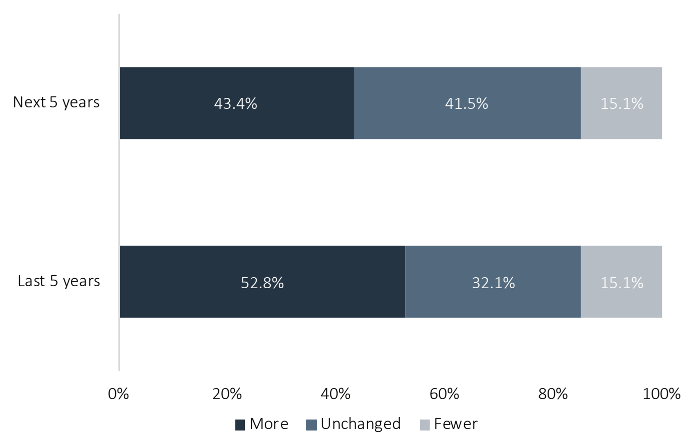
A running theme throughout private markets for the last few years has been of LPs increasing their allocations at the expense of traditional asset classes, namely fixed income and public equities. As tired as this narrative seems, it still holds true; LPs are expecting to make the largest—relative and absolute—increases to their target allocation for private market strategies as detailed in our 2018 Annual Institutional Investors Survey. Respondents foresaw their average private markets strategy allocation rising from 30.9% to 32.5%. Much of this anticipated increase will be fueled by cutting exposure to hedge funds and fixed income. Interestingly, LP respondents foresaw lifting their target allocation for public equities as well, though the change is minimal.

Recent commentary has concerned the denominator effect coming into play for future fundraising efforts. As PE outperforms public markets, LPs may be required to allocate capital away from private markets and toward public equity allocations. This phenomenon occurred during the financial crisis when public markets fell faster than PE NAVs.

Another oft-talked about theme is LPs paring down and concentrating manager relationships. While it is true that the capital allocators with tens (or hundreds) of billions of dollars, such as CalPERS, may be seeking to reduce the number of manager relationships, many smaller LPs are doing the inverse. More than one-third of respondents in our survey have more than 25 manager relationships, and more than half of them have seen their number of manager relationships increase over the last five years, while only 15.1% report a reduction.

Most investors have more GP relationships than five years ago

How has/do you expect your number of manager relationships to change(d) over the following periods?



Source: PitchBook

Most LPs do not have the rich background in PE investing that CalPERS does after decades investing in the space. These LPs may be newer to private market investing and still building out their roster of managers. This bodes well for firms that fall outside the bulge-bracket, where the major LPs often allocate the most capital. Overall, these trends ought to augment a healthy and competitive fundraising environment for funds of all sizes.