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A crowded market impending

Introduction

Key takeaways

• Private equity firms are raising more capital than at any point since 2007. Funds based in North America and Europe garnered $212.6 billion in commitments from limited partners across 214 vehicles through August 1—on pace for a 24% increase in value from the already stellar 2016.

• Venture capital fundraising hasn’t slowed down either. 2017 is on pace to be the fourth consecutive year with more than $40 billion in VC commitments.

• 2017 has seen the largest PE and VC funds of all time close: Apollo Investment Fund IX ($24.7 billion) and New Enterprise Associates 16 ($3.3 billion).

• We expect PE markets to be crowded in the years to come. Dry powder levels in North American and European PE funds reached new heights of $738.7 billion as of year-end 2016, exceeding the levels seen at the end of the last fundraising cycle in 2007 and 2008.

Since year-end 2016, interest in the private markets has only intensified. PE and VC firms continue to enjoy immense success on the fundraising trail, adding to their already hefty stores of available capital. Neither asset class shows any signs of slowing down, which could drive valuations higher, leaving dealmakers in a precarious position.

We hope you find this report useful in your practice and feel free to reach out with any comments or questions at reports@pitchbook.com.

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PE fundraising still booming

PE fundraising overview

Commitments at post-recession high
PE firms are raising more capital than at any point since 2007. Funds based in North America and Europe garnered $212.6 billion across 214 vehicles through August 1—on pace for a 24% increase in value from the already-stellar 2016. Notably, that capital is accumulating in the hands of fewer fund managers, as successful repeat funds have been able to dominate a larger part of the market. The number of individual vehicles has decreased every year since 2014 and is on track to do so again this year.

The main reasons for the exuberance surrounding exposure to PE include the asset class’s continued outperformance of public markets, unprecedented low yields on credit, lackluster performance by other alternatives such as hedge funds, and,
finally, strong recent distributions to LPs of PE funds, allowing those LPs to recycle distributions back into the asset class. These factors, in addition to the fact that the number of publicly traded firms in the US remains well below its 1996 high, contribute to an environment where capital is incentivized to chase returns through the private markets.

Prominent names top the list, technology booming

Some of the biggest names in PE—including Apollo, CVC, Silver Lake, KKR, Vista, and Clayton, Dubilier & Rice—have closed funds in the first seven months of the year. The Apollo Investment Fund IX raised $24.7 billion, surpassing Blackstone’s 2007 vehicle worth $21.7 billion to become the largest buyout fund ever raised. Less than two months earlier, CVC Capital Partners closed their seventh flagship buyout fund worth €16 billion ($17.95 billion), which set a record for largest European buyout fund.

Silver Lake Management and Vista Equity Partners closed technology-focused funds totaling $15 billion and $11 billion, respectively. Such closings at ample sums exemplify the success that general partners have had in the IT sector, as well as LPs’ continued interest in gaining exposure to the industry outside of FANG-skewed public stocks. About one-fifth of all PE deals now involve tech companies.

Further signs of ease for IR teams

Not only are PE firms raising enormous sums, but they seem to be doing it more quickly and with more consistency than they have in the past. The average time to close for PE funds in 2017 rests at just 13.2 months, down from 15.9 months for 2016 funds and the lowest figure recorded since 2006. Further, 92% of all funds to close this year have hit their stated target. Very rarely do firms come back from the fundraising trail without having met their expectations.
Funds trend larger
PE fundraising by size

**MegaFunds dominate capital commitments**

PE funds with at least $5 billion in commitments have accounted for nearly half (49.8%) of all capital committed to the asset class this year. The flurry of mega-buyout funds is driven by a multitude of factors. First, intense LP demand has allowed successful GPs to increase their target AUM. Second, committing larger amounts of capital across fewer funds allows LPs to whittle down administrative costs, streamline tracking processes, and gain leverage when it comes to negotiating for co-investment rights. CalPERS is even considering opening its own direct investment arm, similar to a plethora of Canadian LPs. Third, soaring prices in both public and private markets require that firms raise more capital to compete for the largest targets. For consideration, the S&P 500 now trades at a P/E ratio of around 24x, compared to 14x in 2012, just prior to the most recent buyout boom.

**Middle market provides the most opportunity**

Though megafunds have dominated the fundraising scene in terms of dollars raised, middle-market firms account for a larger portion of final closes this year. There have been 105 funds with between $100 million and $500 million in commitments that have closed through August 1, representing about 50% of all fund closes, the highest since at least 2006. In an ultracompetitive environment, lower and core-middle-market exposure provides a way to avoid such rich valuations by targeting companies that aren’t on the traditional investment banking circuits and thus not as likely to go through an auction process.
Dry powder at record high

**PE capital overhang**

**Dry powder climbs to staggering heights**

Dry powder levels in North American and European PE funds reached new heights of $738.7 billion as of year-end 2016. The packed coffers contain slightly more than the $732.8 billion that was available at year-end 2015 and also surpass capital overhang levels at the end of the last fundraising cycle in 2007 and 2008. The market is crowded, to say the least.

Barring a severe economic downturn, these sums will support future deal flow, putting further upward pressure on pricing for buyout targets. Since more of this capital continues to be amassed in larger funds, which necessitate larger minimum equity deployments, we expect the average size of PE deals to continue growing. Late-cycle vintages tend to underperform their early-cycle peers, but that certainly hasn’t deterred LPs from committing to PE recently. We may experience a future market where expected PE returns are far lower than historical norms.

**2017 PE capital overhang ($B) by vintage**

Source: PitchBook

Note: The LP reporting cycle is two quarters behind the most recent quarter ended. PitchBook’s most recent fund returns data is through the end of 2016. 2017 numbers are from vehicles that have begun reporting.

**Closing in on three-quarters of a trillion dollars available for deployment**

PE capital overhang ($B) by year

Source: PitchBook

*Data pulled as of 7/10/2017*
2017 set for $40B+?

VC fundraising overview

Unprecedented consecutive successes

Venture fundraising in Europe and North America is well on pace to make 2017 the fourth consecutive year with more than $40 billion raised across all vehicles. Moreover, the tally may approach last year’s record $51 billion figure when final numbers are calculated. Through July, $27.5 billion has been raised across 165 vehicles, a number that will likely lead to a year-over-year decrease in the number of funds closed as LPs continue to consolidate commitments across fewer managers. That decline in number of funds has been offset by some of the largest funds we have ever seen. In June, NEA raised the largest VC fund ever—its $3.3 billion New Enterprise Associates 16—and in Europe there have already been two vehicles closed this year on more than $750 million (Rocket Internet Capital Partners SCS and Atomico IV), only the second time in the past decade that more than one such fund has been closed in a single year in Europe.

VC fundraising activity

Source: PitchBook
*As of 8/1/2017
Moving into 2017, we expected to see fundraising slow given that both Europe and North America had just experienced near-record fundraising years. That hasn’t been the case, however, as managers have continued to raise outsized sums of capital. Since 2012, the proportion of all funds closed with less than $50 million in commitments has declined from almost 60% to 34% this year. Conversely, the proportion of vehicles raised with between $100 million and $250 million in commitments has increased from just 15.2% to near 28% during that same time period.

**Cyclical effects come full circle**

As the venture market has evolved, so has the GP fundraising landscape. Companies continue to raise larger rounds and valuations have only increased. While these trends have partially been driven by the sheer amount of capital raised since 2014 began ($166 billion), the effects they have wrought have come full circle as managers continue to raise massive pools. To illustrate, the median fund size has tripled from just $28 million in 2012 to $84 million as of 1H 2017. We believe today’s fundraising levels will underpin the current trends in VC for the foreseeable future. Further, as companies continue to raise larger rounds, managers will continue to adjust their fundraising strategies to align well with the current dynamics of the industry.

**Record average VC fund size**

VC fund size metrics

<table>
<thead>
<tr>
<th>Year</th>
<th>Median ($M)</th>
<th>Average ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$64</td>
<td>$38</td>
</tr>
<tr>
<td>2007</td>
<td>$70</td>
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</tr>
<tr>
<td>2008</td>
<td>$63</td>
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<td>$111</td>
</tr>
<tr>
<td>2016</td>
<td>$138</td>
<td>$129</td>
</tr>
<tr>
<td>2017*</td>
<td>$170</td>
<td>$153</td>
</tr>
</tbody>
</table>

*As of 8/1/2017

**More and more targets continue to be hit**

VC funds (#) that hit target

<table>
<thead>
<tr>
<th>Year</th>
<th>Hit Target</th>
<th>Missed Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>10%</td>
<td>90%</td>
</tr>
<tr>
<td>2007</td>
<td>20%</td>
<td>80%</td>
</tr>
<tr>
<td>2008</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>2009</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2010</td>
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<td>2013</td>
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<td>20%</td>
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<td>2014</td>
<td>90%</td>
<td>10%</td>
</tr>
<tr>
<td>2015</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>2016</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>2017*</td>
<td>100%</td>
<td>0%</td>
</tr>
</tbody>
</table>

*As of 8/1/2017
Upper & mid-market strong

VC fundraising by size

Fund sizes in 2017 continued their growth trajectory, increasing every year since 2012. Much of this we attribute to the upturn of deal sizes in all stages. For that reason, GPs needed to increase fundraising to be able to maintain their strategy and participate in follow-on rounds. Logically, the number of funds raising under $50 million has been hit the hardest, sliding to the category’s lowest percentage of total funds in over a decade.

On the other end of the spectrum, while there have only been two funds of over $1 billion raised through the first seven months of 2017, June saw NEA close a $3.3 billion vehicle—the largest VC fund ever. Interestingly, the focus of $1 billion+ funds has not been solely on outsized late-stage deals. Specifically, many recent mega-funds have invested a meaningful portion of their capital into seed and early-stage deals, putting even more pressure on small funds. For traditional firms investing earlier in the company lifecycle, their strategies of deploying capital might need to evolve to consider the competition, or at minimum the presence, of these mega-funds creeping into the stage where they typically invest.
First-time funds

2017 has been an especially strong year for first-time fundraisers. The amount raised in the first seven months of the year exceeds full-year totals for 2012 to 2014, and is currently on pace to best 2008’s record-breaking mark.

The spike in first-time fund closings in 2016, which has continued into this year, has been driven by a very diverse set of geographies, strategies and manager backgrounds. Our data shows that both 2016 and 2017 were dominated by funds in California, representing 41% and 52% of total first-time funds, respectively. That said, London saw the largest first-time funds raised in both years. Strangely, the diverse geographic scope of these top funds doesn’t stop there. Both were raised with a focus on aiding businesses expand into China, and both had large Chinese backers like the State-owned Assets Supervision and Administration Commission (SASAC) and ChinaEquity Group.

Although in general we saw managers trend toward focused funds, there was still a wide variance in strategies. Obviously, there were some centered around currently popular strategies like fintech, SaaS, biotech and artificial intelligence. However, we also saw funds raised to target startups co-founded by designers, retail technology and real estate tech.

The managers of these first-time funds also boast a wide range of backgrounds. While there were many who had served as founders or partners at other VC firms (Google Ventures, FTV Capital, Andreessen Horowitz, etc.) there were also a host of serial entrepreneurs raising VC funds, including co-founders of Palantir, Cabify and Invitation Homes.

<table>
<thead>
<tr>
<th>SELECT FIRST-TIME FUNDS</th>
<th>CLOSE DATE</th>
<th>CAPITAL RAISED</th>
<th>FOCUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoon Network Venture Capital Fund</td>
<td>1/19/2016</td>
<td>$721.5M</td>
<td>UK &amp; Europe</td>
</tr>
<tr>
<td>SILK Ventures Fund</td>
<td>5/16/2017</td>
<td>$500M</td>
<td>China</td>
</tr>
<tr>
<td>Geodesic Capital Fund I</td>
<td>5/17/2016</td>
<td>$335M</td>
<td>Japan</td>
</tr>
<tr>
<td>Pivotal bioVenture Partners Fund I</td>
<td>3/16/2017</td>
<td>$300M</td>
<td>Life sciences &amp; biotechnology</td>
</tr>
<tr>
<td>Centana Growth Partners</td>
<td>6/12/2017</td>
<td>$250M</td>
<td>Fintech</td>
</tr>
<tr>
<td>Fifth Wall Ventures</td>
<td>5/1/2017</td>
<td>$212M</td>
<td>Real estate technology</td>
</tr>
<tr>
<td>Section 32 Fund I</td>
<td>5/16/2017</td>
<td>$151.3M</td>
<td>Life sciences &amp; biotechnology</td>
</tr>
<tr>
<td>Maniv Mobility Fund</td>
<td>7/26/2017</td>
<td>$42M</td>
<td>Mobility</td>
</tr>
<tr>
<td>Campfire Capital Fund I</td>
<td>10/21/2016</td>
<td>$31M</td>
<td>Retail technology</td>
</tr>
</tbody>
</table>

Source: PitchBook  
*As of 8/1/2017
Plenty of capital to invest

Venture capital overhang

Global VC dry powder has dropped slightly since the last publish of this report, down just under $2 billion to $119.8 billion in aggregate. That’s no surprise given that 4Q capital commitments were much lower relative to other quarters during 2016. At its current level, VC overhang is still at a near-record total, more than $4 billion higher than any year in the past decade. Of that figure, almost $72 billion (60%) belongs to 2015 and 2016 vintages, highlighting the massive run-up we’ve seen in recent fundraising.

While the growth in dry powder provides a proxy for the overall growth of the VC industry, a look at how AUM has changed over time is more striking. AUM of the venture industry has grown by 47% since 2008’s tally of $300.4 billion. Of the $441 billion currently under management, almost 73% of that is held within portfolios. Given that exit timelines continue to extend, the combination of increased dry powder yet to be deployed and remaining fund values yet to be liquidated entail this trend is likely to remain.

78% of the current VC overhang is in vintages 2014 or later

Venture capital overhang ($B)

AUM have swelled by 47% since 2008, 69% since 2006’s mark

Venture capital AUM ($B)

Note: The LP reporting cycle is two quarters behind the most recent quarter ended. PitchBook’s most recent fund returns data is through the end of 2016. 2017 numbers are from vehicles that have begun reporting.
Methodology

PRIVATE EQUITY FUNDS
The following fund types are used in PitchBook’s PE fundraising data: buyout, PE growth/expansion, co-investment, mezzanine, mezzanine captive, diversified PE, energy and restructuring/turnaround. This report only includes funds based in North America or Europe that have held their final close. Note: for PE and VC contributions versus capital raised, the contributions are the sums called down from limited partners by general partners, compared to overall capital raised, in a given timeframe.

VENTURE CAPITAL FUNDS
In addition to traditional VC funds, PitchBook also includes corporate VC funds and seed-stage funds in our VC fundraising total. Funds that identify themselves as growth-stage vehicles are classified as PE funds in this report. Only funds based in North America or Europe that have held their final close are included in the fundraising numbers.

CLOSE DATE AND VINTAGE
Unless otherwise noted, the fundraising data in this report is based on a fund’s close date. The vintage year is based on the vintage year reported by the GP, otherwise the year in which a fund holds its final close or the year of first investment is used.

CAPITAL OVERHANG
Calculated using the most recently available fund cash flow data, the capital overhang in this report is updated through July 10, 2017. The capital overhang is based on vintage year and only capital that is held in closed funds is considered. (It is important to note that evergreen funds are included). If a fund closed on January 1, 2017 or later, it is only included in the dry powder figure if it previously held a first close and has cash flow data available.

FUND LOCATION
A fund’s location is determined by the country or region where the majority of its investments have been or will be made. Only funds based in North America or Europe are included in this report.
We do

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

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