PitchBook

Mega-Funds in US PE: Fundraising and Performance

Detailing the growth in vehicles sized $5 billion or more in the private equity space

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Credits & Contact

PitchBook Data, Inc.

John Gabbert Founder, CEO
Nizar Tarhuni Senior Director, Institutional Research & Editorial
Dylan Cox, CFA Head of Private Markets Research

Institutional Research Group

Analysis
Jinny Choi Analyst, Private Equity
jinny.choi@pitchbook.com
pbinstitutionalresearch@pitchbook.com

Data
Van Le Data Analysis Manager
TJ Mei Data Analyst

Publishing

Designed by **Chloe Ladwig & Mara Potter**

Published on January 10, 2022

Contents

Key takeaways	1
Introduction	2
The large get larger	3-4
Strategy expansion	4-7
LP's impact on mega-funds	8
Performance	8-9

Key takeaways

- The growth in mega-funds (vehicles sized $5 billion or more) was driven by record-setting deal activity, which allowed large PE firms to rapidly deploy capital and return to market sooner with new fundraises at sizable step-ups. With robust performance and sooner-than-expected distributions, LPs often recycled the capital into new fund commitments to those same large PE firms and boosted allocations, further augmenting mega-funds.

- The largest PE managers with their core strategy in the mega-fund range are able to successfully launch additional mega-funds when expanding into new strategies.

- Changes in LP sentiments, such as manager relationship consolidation and higher allocations to alternative investments, are driving more capital to large PE managers that can take larger commitments and offer multiple strategies under one firm. LPs that were understaffed and assumed defensive approaches during the pandemic often turned to re-up with mature managers and created additional demand for mega-funds.

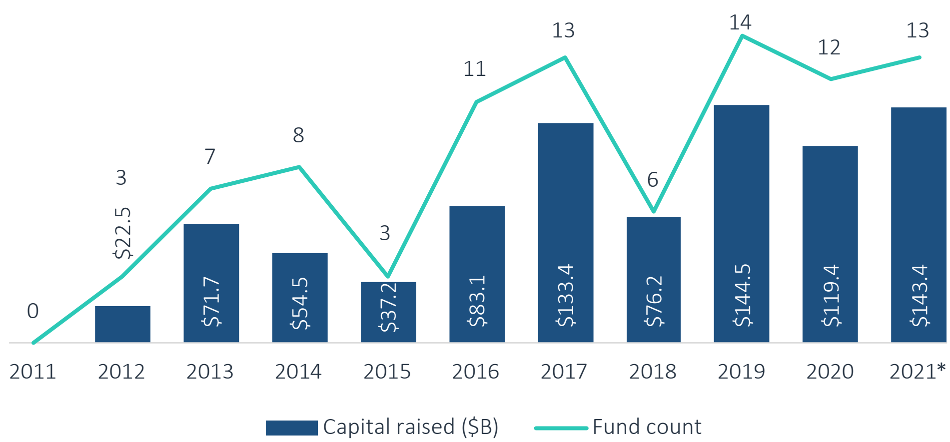
- Mega-funds posted impressive performance during 2021 thanks to their larger and more resilient portfolio assets, which also benefited from lifted valuation multiples and quick realizations during the strong economic recovery since the pandemic trough. Looking at longer time horizons, we find that mega-funds do not always result in returns of the same magnitude compared to smaller funds.

Introduction

Private equity (PE) has been noticeably shifting to the larger end of the spectrum in the last few years, with both fund and deal sizes continually rising. The average PE fund size in the US steadily approached $1 billion through 2021, and a major contributor to this increase has been the uptick in PE mega-funds themselves, defined as vehicles worth $5 billion or more. Large, diversified managers that have established their core strategy far above the $5 billion mark have also been able to cross the mega-fund threshold easily when expanding into new strategies, further increasing the number of mega-funds. Mega-funds accounted for nearly half of all capital raised in the last couple years, establishing the firms that raise them as a highly influential group within the industry. These funds raised $143.4 billion in 2021 and are poised for a substantial lift in the years ahead.

The proliferation of mega-funds that have recently closed, are still fundraising, or are expected to formally launch in early 2022, was accelerated by several conditions, some of which were strengthened by the COVID-19 pandemic. During the economic downturn, many LPs took up a defensive stance in their portfolios and looked to re-up with existing relationships rather than diligence new investment managers. This reinforced current trends as many LPs are understaffed and incentivized to simply put the capital to work, not necessarily in the most efficient manner, and ensured mature firms could fundraise without much issue. The fast economic recovery and unprecedented deal activity in the second half of 2020 allowed managers to deploy capital and return to market faster, again favoring the largest managers. These trends converged as LPs are increasingly looking to allocate more capital to alternatives.

PE mega-fund fundraising activity



Source: PitchBook | **Geography:** US
*As of December 31, 2021

The large get larger

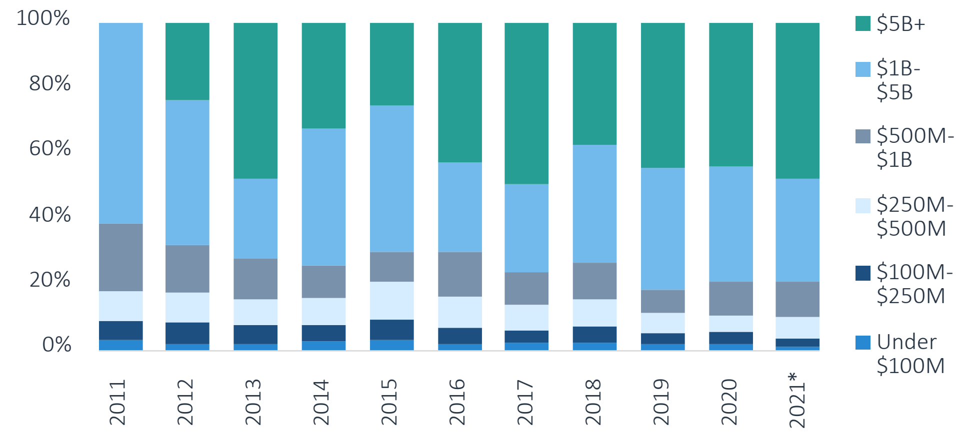
PE funds across the board have been pursuing sizable step-ups with new fund launches, taking advantage of the previously mentioned trends. We are seeing a flurry of fundraising activity as record-setting deal activity leads to capital getting called down rapidly and allows firms to return to market sooner. Large PE firms spoke of how fundraising cycles have run more smoothly and quickly this year thanks to the fast distributions that have been recycled into new fundraises. As an illustration, Thoma Bravo returned to fundraise $22 billion for its next flagship fund less than a year after it collected $22.8 billion from investors for three prior funds. The software-focused PE firm already invested most of its capital and exited over 20 companies through sales or IPOs since 2020 in a red-hot tech market, generating $29 billion in gains.[1] As LPs receive capital back sooner, it is often recycled into new fund commitments. With robust performance and more capital than they anticipated, many LPs are boosting allocations to those same large PE firms, thus reinforcing the cycle.

Public PE firms, in particular, amassed staggering levels of AUM in the last five years and continue to break their own records at a rapid pace thanks to their growing flagship buyout funds, launches of new strategies, and scaling of other current strategies. Blackstone (NYSE: BX) is expected to raise more than $30 billion for its next flagship PE fund, surpassing Carlyle Group's (NASDAQ: CG) $27 billion target for its 13th flagship fund earlier in 2021—both funds would set a new highwater mark. Breaking through the $30 billion mark would be symbolically significant because for a long while, many LPs felt fund sizes should not surpass the $20 billion to $25 billion range. We currently see at least five other firms raising funds with targets in that range. Apollo Global Management (NYSE: APO) will likely raise more than $25 billion for its next flagship buyout fund, which is expected to formally launch Q1 2022. Other players, such as Advent International and Vista Equity Partners, are setting similarly stunning targets for their next funds, which will help mega-funds achieve an incredible fundraising year in 2022.

In this era of relatively easy fundraising for large GPs, the next generation of mega-fund managers is also emerging. In recent quarters, firms including Summit Partners, Clearlake, and Veritas have scaled quickly, breaking through and easily surpassing the $5 billion mark for their flagship funds. In short order, Veritas' flagship funds went from $3.55 billion to $6.5 billion, and the latest is targeting at least $10 billion. Additional firms, including TSG Consumer, L Catterton, and more are currently vying for their first mega-fund, while managers such as Audax and AEA Investors will likely hit the mark with their next funds. Overall, the club of mega-fund managers has grown and will continue to expand quickly so long as LP demand remains.

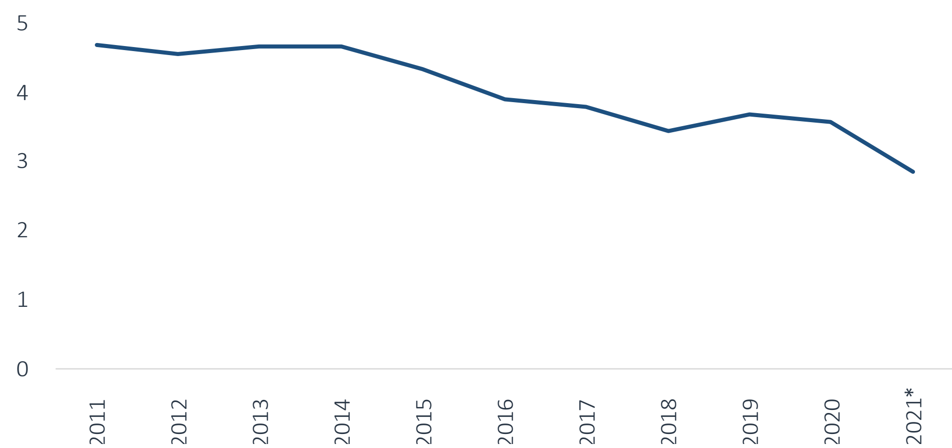
1: "Buyout Firm Thoma Bravo Goes from Niche to Big League," The Financial Times, Antoine Gara, December 6, 2021.

Share of PE capital raised by fund size



Source: PitchBook | **Geography:** US
*As of December 31, 2021

Average time (years) between PE funds



Source: PitchBook | **Geography:** US
*As of December 31, 2021

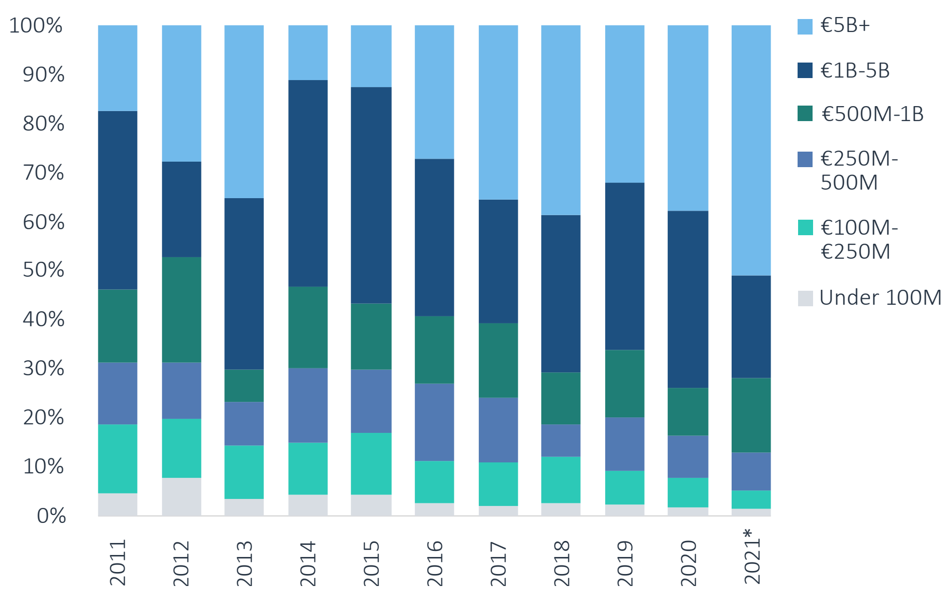
Strategy expansion

Large PE firms are also becoming more aggressive in their strategy expansions to deepen LP relationships and broaden cross-selling opportunities. As fundraising for each new strategy becomes easier with a similar group of LPs, managers continue to launch new products and are able to do so at large sizes. For example, Brookfield Asset Management (NYSE: BAM) is targeting $5.0 billion for its first Special Investments Fund, which will invest in opportunities that fall outside the flagship's mandate. The firm is also pursuing $7.5 billion for a new climate-focused fund. TPG Capital held a $5.4 billion first close on its first Rise Climate Fund in July, which already exceeded its $5.0 billion target.

The largest public PE firms in the US provide the clearest illustration of the trend toward becoming asset-gathering platforms. Beyond simply growing to appease shareholders, strategy expansion allows these managers to attract and retain talent. Many experienced dealmakers choose to take a safer job at one of the big five, opting for a smaller cut of a much larger pie, rather than to go out on their own. Blackstone, which brought in a managing director from General Atlantic to lead its growth practice, is proving out this point. The firm is setting out to raise as much as $10 billion for its second fund after closing on $4.5 billion for its inaugural growth fund. Blackstone also closed on its second GP stakes fund, which raked in $5.6 billion, in late 2021. The firm, which currently manages $731 billion, has followed a similar strategy growing its real estate and credit platforms.[2] Similarly, KKR (NYSE: KKR) announced it has 27 products coming to market in the next 12 to 18 months. The firm is raising mega-funds in Europe, Asia, and core PE, alongside its flagship North American offering. The biggest PE players are optimistic about their continued success in fundraising as they develop more strategies and larger successor funds in their platform.

While large traditional buyout firms make up most of the mega-fund space, technology-focused PE firms have become strong new entrants as tech company valuations continue to rise and performance remains high relative to other investment strategies. Frantic growth in the tech sector, huge uplifts in public company valuations, and waves of technological advancements and disruptions across various industries have allowed firms to quickly deploy capital and come back to market to raise much bigger funds. With a rush of investor capital, firms including Silver Lake Management, Thoma Bravo, and Vista Equity Partners have scaled and now raise some of the largest funds in the global buyout sphere. All three are currently fundraising for $20 billion-plus vehicles. On a slightly smaller scale, Francisco Partners is targeting $10 billion for its latest flagship tech fund after raising around $10 billion across three separate funds in 2020. With investors remaining bullish on the tech sector, tech-focused

Share of European PE capital raised by fund size



Source: PitchBook | **Geography:** Europe
*As of September 30, 2021

2: "Blackstone Eyes as Much as $10 Billion for Next Big Growth Fund," Bloomberg, Sridhar Natarajan and Sabrina Willmer, October 12, 2021.

buyout giants will continue to push the fundraising envelope and command a bigger share of the overall PE fundraising and mega-fund market. LP demand for sector specialists is only adding fuel to the fire.

The recent growth in mega-funds is not just a US phenomenon—funds with over €5 billion jumped to account for a record proportion of European PE fundraising activity by Q3 2021. CVC Capital closed its eighth flagship buyout fund at €21.3 billion in 2020, which was the largest buyout fund outside of the US. Marking a rebound for European PE fundraising activity since COVID-19, CVC's mega-fund benefited from its strong track record and loyal LP base. In addition, UK-based Apax Partners closed its latest buyout fund at $11.0 billion hard cap, and European-focused Cinven is eyeing over $12 billion for its next flagship fund. Rampant investor demand for PE is prevalent across Europe, and mega-funds are taking advantage of the current fundraising boom and investor appetite while anticipating opportunities to take large public companies private.

Some of the largest PE firms are turning to the M&A market to accelerate strategy expansion. The trend in 2021 has been secondaries, illustrated by Ares Management (NYSE: ARES), CVC Capital Partners, and Franklin Templeton (NYSE: BEN) all closing deals to acquire secondaries firms. PE behemoths' product expansion into the secondaries market could foreshadow growth into other areas of the market. Many industry observers and participants believe consolidation is coming and that the largest managers will be active buyers. We expect the largest managers to look for holes in their product offerings and add on smaller firms, which they can then rapidly expand. Sector-focused strategies will likely prove particularly lucrative, including healthcare, technology, and growth offerings.

Large PE funds closed in 2021*

Fund name	Fund size ($B)
Hellman & Friedman Capital Partners X	$24.4
Silver Lake Partners VI	$20.0
Clayton, Dubilier & Rice Fund XI	$16.0
TA XIV	$12.5
Bain Capital Fund XIII	$11.8
Genstar Capital Fund XIII	$11.8
New Mountain Partners VI	$9.6
Summit Partners Growth Equity Fund XI	$8.4
General Atlantic Partners VI	$7.8
Thomas H. Lee Equity Fund IX	$5.6
Blackstone Strategic Capital Holdings II	$5.6
The Resolute Fund V	$5.0
Madison Dearborn Capital Partners VIII	$5.0

Source: PitchBook | **Geography:** US
*As of December 31, 2021

Mega-funds currently open or expecting Q1 2022 launch*

Fund name	Expected target ($B)	Fund status
Blackstone Capital Partners IX	$30.0	Upcoming
Carlyle Partners VIII	$27.0	Open
Apollo Investment Fund X	$25.0	Upcoming
Advent International Buyout I	$25.0	Upcoming
Vista Equity Partners Fund VIII	$24.0	Open
Thoma Bravo Fund XV	$22.0	Open
Silver Lake Partners VII	$20.0	Upcoming
Warburg Pincus Fund XIV	$16.0	Open
KKR North America Fund XIII	$15.0	Open
Platinum Equity Capital Partners VI	$15.0	Open
Brookfield Asset Impact Fund	$15.0	Open
Green Equity Investors IX	$13.5	Open
KKR Core Private Equity II	$12.0	Open
Veritas Capital Fund VIII	$10.0	Open
BX Growth II	$10.0	Upcoming
Clearlake Capital Partners VII	$10.0	Open
Francisco Partners VII	$10.0	Upcoming
HPS Strategic Investment Partners V	$9.5	Open
Dyal Capital Partners V	$9.0	Open
West Street Capital Partners VIII	$8.0	Open
Berkshire Fund X	$6.5	Open
L Catterton X	$6.5	Upcoming
Centerbridge Capital Partners IV	$6.0	Open
Providence Equity Partners IX	$6.0	Open
TSG9	$5.0	Upcoming
Roark Capital Partners VI	$5.0	Open
Harvest Partners IX	$5.0	Open
TPG Rise Climate	$5.0	Open
General Atlantic Investment Partners 2021	$5.0	Open

Source: PitchBook | **Geography:** US
*As of December 31, 2021

LPs' impact on mega-funds

Changes in LP sentiments also drive the proliferation of PE mega-funds. During the pandemic-induced period of volatility and uncertainty, many LPs focused on portfolio triage, attempting to ensure stability within the portfolio. With the little time they had remaining, many LPs looked to re-up with existing relationships rather than diligence new ones. In turn, this meant that mature firms could continue to fundraise without much issue. These same mature managers are often sizable proportions of an LP's private markets allocation, meaning they are prioritized in re-up situations, feeding into a cycle of large funds getting larger. Additionally, many LPs are increasingly looking to consolidate and deepen relationships with investment managers to ease portfolio management and gain co-investment opportunities. This bodes well for big shops that can both take in additional capital with ease and house multiple fund strategies that LPs desire under one roof.

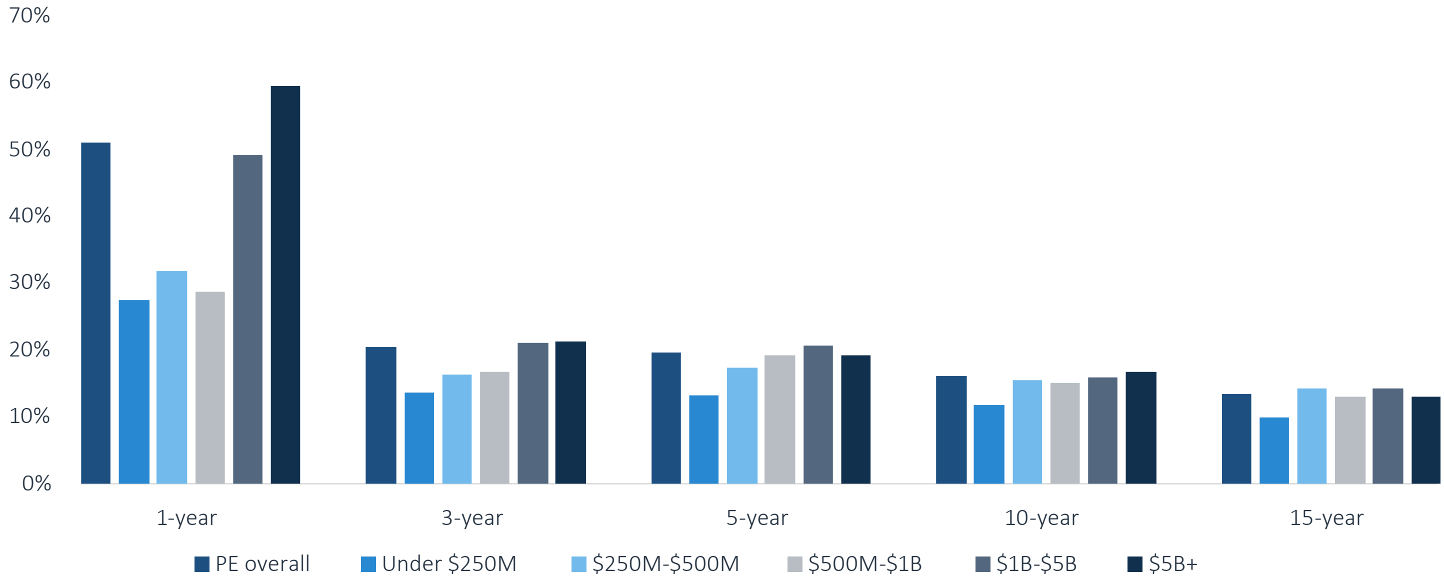
Simultaneously, LPs are increasingly looking to allocate more capital to alternatives to diversify investments and benefit from the higher returns private markets are expected to achieve over the next decade and more. Additionally, LPs are often understaffed despite having large amounts of money to put to work, and they are seeking higher allocations to private markets. This further encourages them to turn to large PE firms that manage myriad strategies in order to diligence and manage fewer GP relationships. Moreover, there is less career risk for many LP employees for allocating to household names. However, some turn to emerging managers and specialist funds to diversify.

Performance

Turning to performance, the strong economic recovery since the pandemic trough, coupled with ample capital availability and elevated investor confidence, lifted valuation multiples. This led to quick realizations and markups to net asset value, producing stellar performance. Mega-funds punched strong returns thanks to their larger and more resilient portfolio assets, which also benefited from being marked-to-market against rising public company comparables. The wave of large portfolio companies exiting to public markets was unprecedented in 2021 and propelled mega-fund performance, resulting in a 59.3% rolling one-year IRR in Q1 2021.[3]

Q3 performance figures from the corporate PE portfolios of the largest publicly traded firms—Blackstone, KKR, Apollo, Carlyle, and Ares—provide additional data points; the five firms posted quarterly PE fund appreciations between 4% (Carlyle) and 9.9% (Blackstone). The public PE firms reported robust financial results from the long-term earnings growth in their investment areas, such as their technology-related holdings and massive monetization events.

PE horizon IRRs by fund size*



Source: PitchBook | **Geography:** US
*As of March 31, 2021

However, big funds do not always result in the biggest returns. Mega-funds do not significantly outperform smaller funds on a longer timeline. Performances for PE mega-funds and funds sized between $1 billion to $5 billion look nearly indistinguishable, and the gap between mega-funds and sub-$1 billion funds' performance narrows with time. The outperformance enjoyed by mega-funds diminish relative to smaller fund returns when looking at three-year horizon IRRs, and the difference in performance becomes minuscule beyond five years. The reasons are straightforward; bigger funds usually must find bigger deals to invest in and it becomes more difficult to create meaningful upside from larger investments. However, mega-fund performance can be less volatile than that of smaller funds and be a source of outperformance during times of market downturn.

Impressive mega-fund performance will likely persist in the shorter term. Large PE exits through IPOs are benefiting from the jump in public market valuations and are expected to keep up for the time being. Mega-fund managers expect the IPO window to remain open for another 12 to 18 months. Blackstone for example, had a recent boost in its performance from taking so many companies public. In fact, over 30% of its corporate PE portfolio's value was public by H1 2021. Other firms also mentioned healthy pipelines of realizations through the end of 2022 and onward. Given the rapid pace of realizations and a still-healthy market backdrop, there is a positive outlook for mega-fund performance, and therefore fundraising, going forward.

3: Our performance data lags by a few quarters due to reporting mechanisms.