The Rise of European Megafunds: Part I

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Contents

Key takeaways

- European megafunds raised record amounts of capital in 2023. Most notably, the top five funds contributed to a record concentration of over half the year's fundraising figure in Europe, with CVC Capital Partners raising a global record €26 billion buyout fund. A mix of macroeconomic headwinds, new large institutional investors, and a democratisation of the asset class benefitted megafunds, which increased dry powder from €188.4 billion to €276.1 billion in the past two years. Megafund AUM also grew at a faster CAGR than non-megafunds.

- Megafunds benefit from less competition at the higher end of the market and thus can go after multibillion-euro megadeals—although these are harder to find and are often more complex. Their large structure allows them to charge investors lower management fees than smaller funds while also leaving room for large and loyal LPs to further negotiate their fees. Large LPs such as pension funds or sovereign wealth funds can fulfil a range of commitment sizes across fund types; however, they often seek out megafunds to satisfy their large commitment needs.

- From a fundraising perspective, European megafunds' resilience in 2023 can be attributed to a shift and trim towards experienced managers with proven track records. Over half of the megafund capital raised in Europe in 2023 came from funds with at least six preceding funds in the same fund family. Investors also refocused on the bread-and-butter of PE: traditional generalist buyout funds. And megafunds indeed tend to have experienced generalist buyout managers with strong reputations.

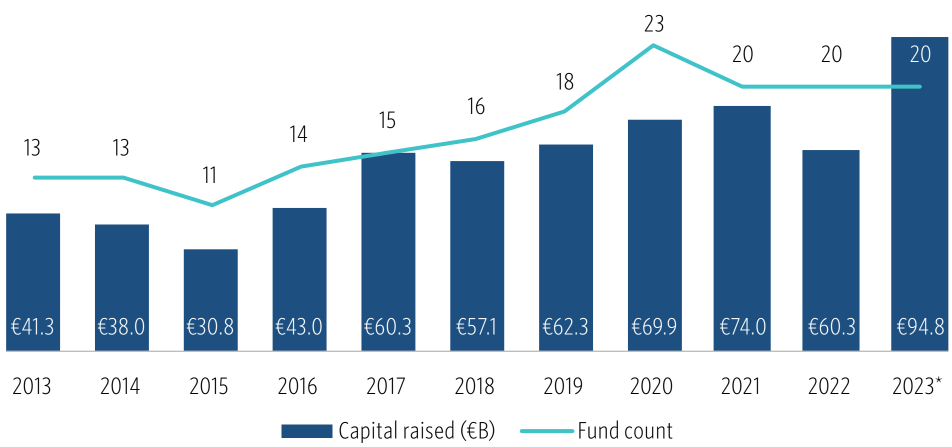
- The North American PE megafund market is 3x larger than the European one, which still has opportunities to grow. As the North American PE market matures, both GPs and LPs have turned towards Europe for further growth. 20% of the capital raised by European megafunds came from North American-headquartered firms in 2023. From the LP perspective, 75.2% of the LP commitment count into European megafunds came from North America in 2023, up from 55.1% in 2021.

- However, even in North America, we have not seen megafunds larger than €30 billion. This leads us to believe that we may be reaching a ceiling in megafund size in the near term, especially as the change in the interest rate environment will make it tougher to continue outperforming other asset classes given the importance of leverage for buyout funds. Our belief is that CVC Capital Partners' buyout fund size record will likely not be broken in the near future.

Introduction

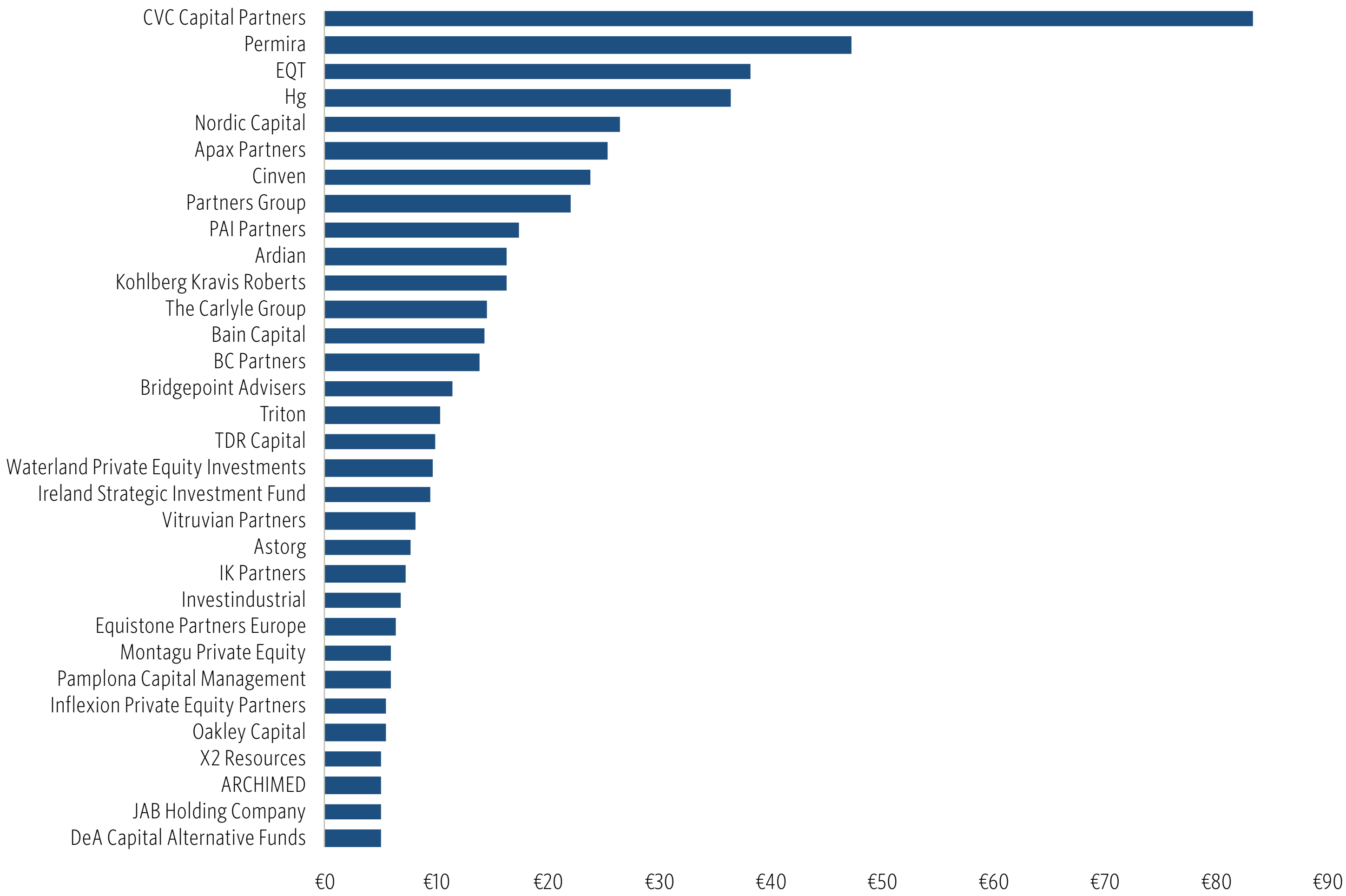
Within PE fundraising, we define megafunds as those that are €1 billion or larger. The first megafund can be traced back to the US in 1984: a €1.2 billion buyout fund raised by KKR. In Europe, the first megafund came in 1990: a €1.3 billion buyout fund by French firm Electra Private Equity Partners. Since then, megafunds have multiplied, playing an important role in the PE ecosystem by providing an entry point to larger LPs. These megafunds also fuelled dealmaking across the various size buckets but specifically at the higher end of the spectrum, thereby allowing private equity to compete with large private corporates and publicly listed companies for megadeals. This became even more prevalent after the Global Financial Crisis (GFC) when interest rates neared 0%, which allowed buyout funds to chase larger deals and take on more leverage. In Europe, capital raised from megafunds more than doubled in the past decade, going from €38.0 billion in 2014 to a record €94.8 billion in 2023. This note seeks to explain some of the factors behind the rise of European megafunds and why 2023 was an exceptionally strong fundraising year for megafunds in Europe.

PE megafundraising activity



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Megafund capital raised (€B) by investor (2013-2023*)



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2023: A record year for European megafunds

In 2023, 20 new megafunds closed in Europe—the same count as each of the previous two years and yet the amount of capital raised was 57.2% higher than in 2022, meaning the funds are getting bigger. CVC Capital Partners' Fund IX became the largest-ever buyout fund globally, closing at €26 billion in July 2023. However, for most GPs and institutional investors around the world, 2023 will be remembered as a challenging fundraising year. In the US, PE fundraising was down 1.2% YoY in terms of capital raised, while in Europe, non-megafunds were down 6.7%. This points to the fact that most of the fundraising was concentrated among megafunds, while smaller fund managers struggled to fundraise in 2023. Furthermore, the top five megafunds in Europe accounted for over half of the fundraising in 2023. These were CVC Capital Partners' Fund IX (€26.0 billion), Permira's Fund VIII (€16.7 billion), KKR's European Fund VI (€7.5 billion), PAI Partners' Fund VIII (€7.1 billion), and Bain Capital's European Fund VI (€6.5 billion). This concentration at the top of the megafund list has only become more concentrated in the past few years.[1]

The explanation to this record year of megafunds in Europe lies in understanding the dynamics of the industry. On the one hand, the industry was hit with macroeconomic headwinds in the form of monetary tightening, which led LPs to consolidate their GPs often in favour of keeping megafund managers that have proven track records. This consolidation of managers was also pointed out by EQT's management team in its Capital Markets Day held in March 2024. On the other hand, PE is a growing asset class with new and existing entrants continuously increasing their asset allocation. In March 2024, the California Public Employees' Retirement System (CalPERS), the biggest US public pension provider, decided to increase its private equity allocation from 13% to 17%, thereby unlocking $17 billion of capital for the asset class.[2] In the last few years, more interest in PE has come from sovereign wealth funds, pension funds, and family offices. These large institutional mandates usually turn to megafunds for their allocation as they may be the only ones able to take on such large commitments. Megafund AUM in Europe has more than doubled over the last seven years, and megafund dry powder went from €188.4 billion to €276.1 billion in the past two years alone. PE AUM growth has been more pronounced for megafunds, growing at a CAGR of 14.5% per annum for the last five years, as opposed to 9.2% for non-megafunds.

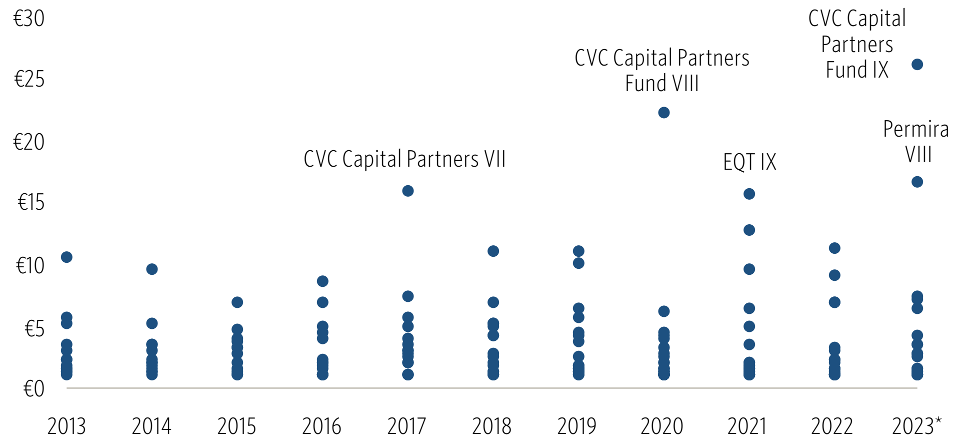
A final argument in favour of megafunds has been the democratisation of the asset class opening up to retail and private wealth investors globally. PE access to retail investors is often done through third-party platforms, which aggregate retail capital into the megafunds. One such platform is Moonfare, which currently offers access to megafunds KKR North America Fund XIII and Permira Fund VIII. The firms behind these megafunds have also begun to tap into wealthy retail investors through the private wealth channel. At the beginning of 2024, Blackstone launched a $1 billion fund aimed at retail investors, called BXPE. Similarly, EQT launched Nexus, which is aimed at private wealth clients. Optically, these funds are more of a fund-of-funds (FoF) structure and invest in the underlying megafunds of their respective firms. A recent Bain report summarises the opportunity: "Individual investors hold roughly 50% of the estimated $275 trillion to $295 trillion of global assets under management. Yet those same investors represent just 16% of AUM held by alternative investment funds."[3]

1: Please note that fundraising data can be lumpy, and as such, we often collect data on smaller funds later. Thus, the concentration levels in more recent years could still drop a few percentage points moving forward.

2: "Calpers Bets on Leveraged Equities," Financial Times, Robert Armstrong, March 20, 2024.

3: "Why Private Equity Is Targeting Individual Investors," Bain & Company, Or Skolnik, et al., February 27, 2023.

Megafund capital raised (€B) by close year



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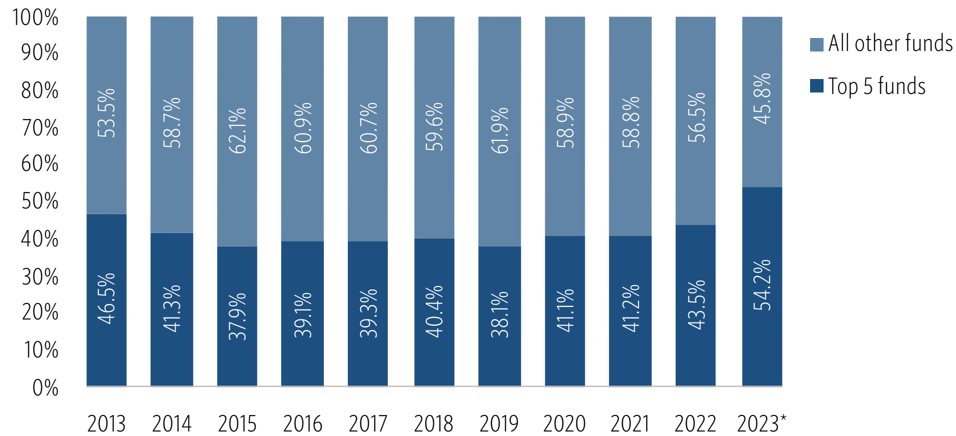
Share of capital raised by top five funds



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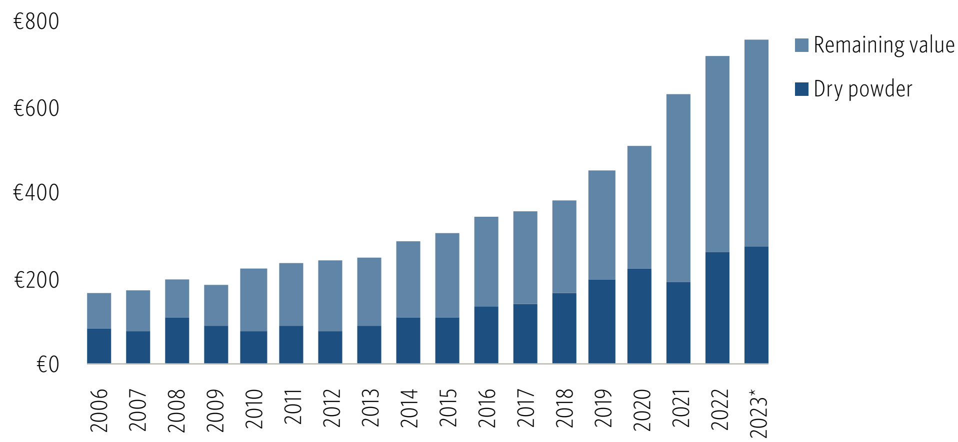
PE megafund AUM (€B)



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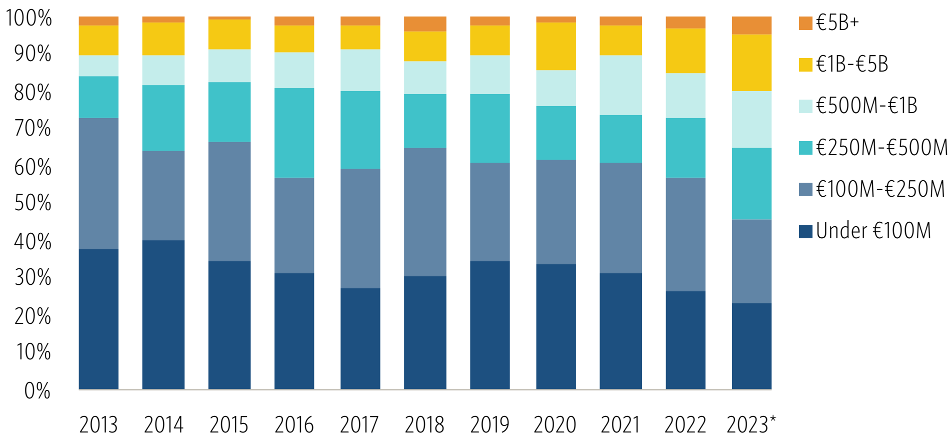
Characteristics of megafunds

Competition

Given the sheer size of megafunds, they are often chasing multibillion-euro LBOs. These will have less competition from PE than at the small- and middle-market levels of deal pricing due to the scarcity of megafund operators. The average ticket size for a megafund over the last 10 years is roughly €500 million, while for non-megafunds, it is less than €100 million. The larger the target company, the fewer potential bidders there are. At the €100 million level, at least 80 of the new European funds closed in 2023 could make such an investment, while fewer than 40 could have made a €500 million investment. Of course, other variables such as leverage, investment style, and fund concentration should be considered, but generally speaking, there are fewer players at the higher end of the deal spectrum. In January 2024, EQT closed the take-private of Dechra Pharmaceuticals for €5.2 billion. In its Capital Markets Day, EQT's management noted that this sort of megadeal would not have been possible in previous funds but was made possible thanks to the €22 billion fund size of EQT X. These so-called megadeals are more complex, take longer, are harder to find, and will invite competition from the corporate sector. Megadeals are also more likely to be rationally valued given the lower competition, which can help avoid a bidding war.

Share of PE fund count by size bucket



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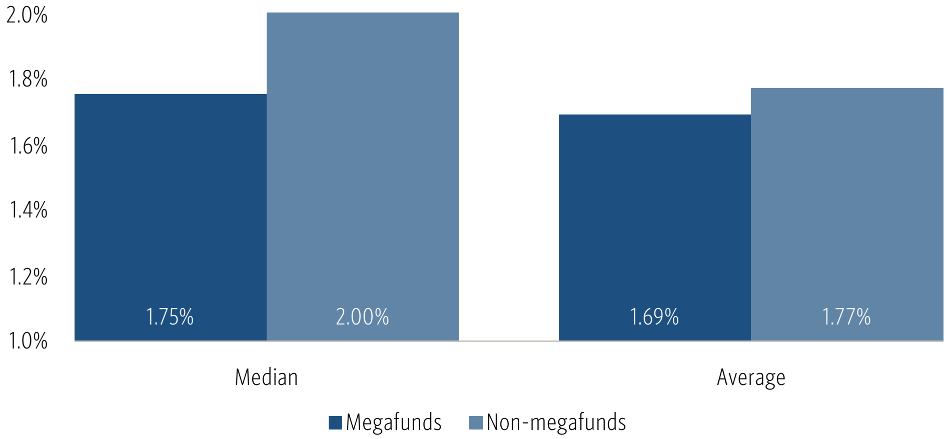
Fees

Fees on megafunds tend to be lower than the traditional 2% management fee seen across the industry. There is also often room for fee negotiation for those LPs committing big cheques to these megafunds early in the fundraising process. However, at the same time, most megafunds are part of a fund family and have proven track records, making them a popular investment that can give the advantage back to the GP. These megafunds tend to be oversubscribed by the time they close given the appetite for private equity mentioned earlier. New LPs investing in private equity for the first time are more likely to allocate to an experienced megafund manager than a first-time fund or an emerging manager.

Median and average management fees for megafunds versus non-megafunds (2013-2023*)



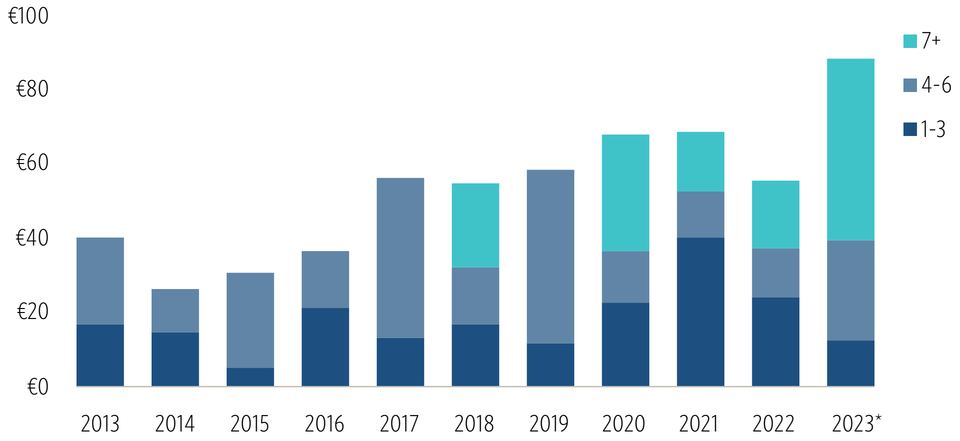
Source: PitchBook • Geography: Europe • *As of December 31, 2023

Megafund resilience despite macroeconomic headwinds

To battle persistent inflation, central banks have progressively increased interest rates over the past 18 months, going from near-zero rates to levels not seen in almost 20 years. This monetary tightening has restricted capital availability, thus causing valuations to correct, leverage to drop, and fundraising to slow. In order to rebalance their portfolios, LPs have trimmed their private market allocations due to the denominator effect. As a result, most of the PE industry has faced fundraising challenges in 2023, except for megafunds, which have shown resilience throughout these macroeconomic headwinds. In times of uncertainty, LPs refocus on the bread-and-butter of the PE industry: experienced managers of buyout funds. By dissecting European megafund data, we see that 2023 had a proportional and absolute YoY increase in capital raised from buyouts (from 91.9% to 93.2%), from generalist funds (from 82.3% to 87.2%), and from fund families with more than seven funds (32.6% to 55.5%). The following megafunds tick all three boxes: CVC Capital Partners' Fund IX (€26.0 billion), Permira's Fund VIII (€16.7 billion), Waterland's Fund IX (€3.5 billion), and Norvestor's Fund IX (€1.5 billion). Not only did megafunds show resilience during an increasing interest rate cycle, but funds from select fund families also grew as experience and firm reputation prevailed over macroeconomic headwinds. CVC Capital Partners' fund was 16.6% larger than its predecessor, Permira's was 51.8% larger, and Waterland's 31.6% larger. Having said this, we do not expect megafunds to grow indefinitely in size. The larger players will experience a concave distribution for their megafunds as they hit a size ceiling. In other words, megafunds in Europe will likely multiply but not necessarily continuously increase in size.

As capital constraints start easing towards the second half of 2024 and into 2025, fundraising will likely increase across the board, thus allowing for new money to be split across various strategies, styles, and fund sizes. Fund concentration in megafunds will reduce as the fundraising pipeline expands.

Megafund capital raised (€B) by fund family bucket



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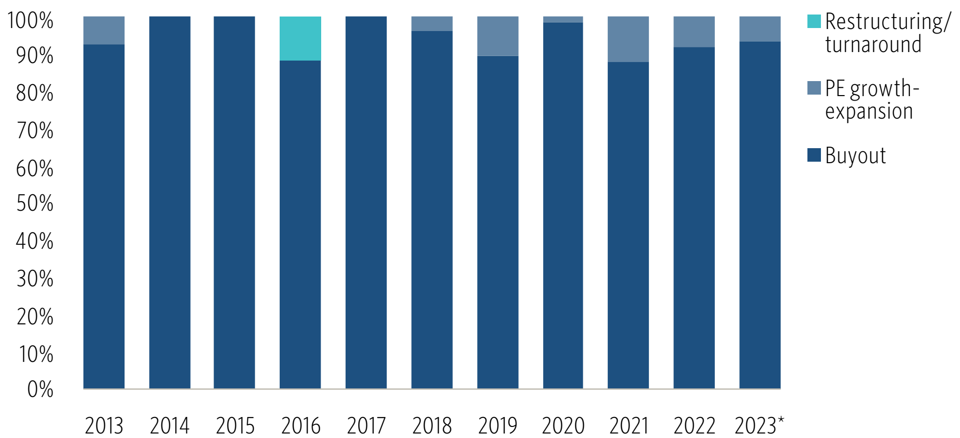
Share of megafund capital raised by fund type



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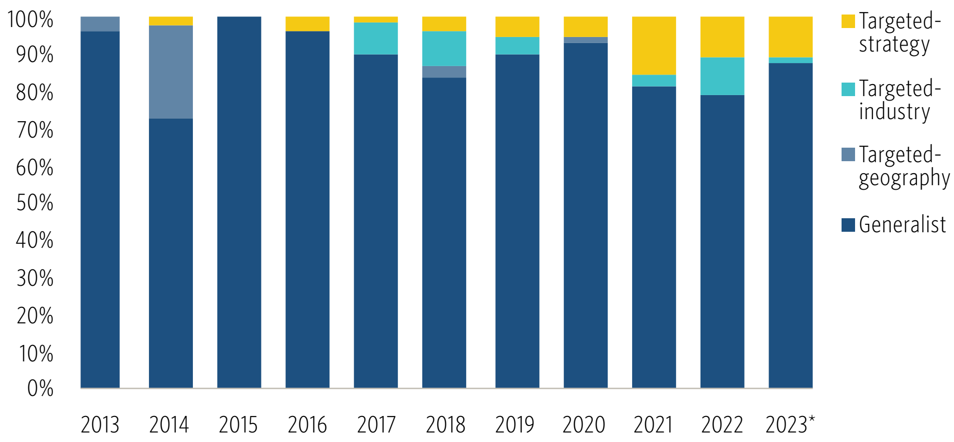
Share of megafund capital raised by fund style



Source: PitchBook • Geography: Europe • *As of December 31, 2023

Top 15 European megafunds by capital raised in 2023*

Fund	Fund size (€M)	Close date (2023)	Fund type	Fund style	Fund family	Fund country
CVC Capital Partners IX	€26,000.0	July 20	Buyout	Generalist	CVC European Equity Partners	Luxembourg
Permira VIII	€16,700.0	March 8	Buyout	Generalist	Permira Europe	UK
KKR European VI	€7,449.9	April 4	Buyout	Generalist	KKR European	UK
PAI Partners VIII	€7,100.0	November 13	Buyout	Generalist	PAI Europe	Luxembourg
Bain Capital Europe VI	€6,514.0	October 2	Buyout	Generalist	Bain Capital Europe	UK
TDR Capital V	€4,300.0	March 31	Buyout	Generalist	TDR Capital	UK
Waterland Private Equity IX	€3,500.0	January 20	Buyout	Generalist	Waterland Private Equity	Netherlands
ArchiMed MED Platform II	€3,500.0	June 5	Buyout	Generalist	ArchiMed MED Platform	France
Oakley Capital V	€2,850.0	February 2	Buyout	Generalist	Oakley Capital	UK
Keensight European Growth Buyout	€2,800.0	September 22	Buyout	Targeted - strategy	N/A	France
Providence Strategic Growth Europe II	€2,600.0	November 7	Growth/expansion	Targeted - strategy	Providence Strategic Growth Europe	UK
Triton IV Continuation US	€1,630.0	May 4	Buyout	Targeted - strategy	N/A	Luxembourg
Norvestor IX	€1,500.0	October 25	Buyout	Generalist	Norvestor	Norway
Summit Partners Europe Growth Equity IV	€1,400.0	February 13	Growth/expansion	Targeted - strategy	Summit Partners Europe Growth Equity	UK
Climate Assets I	€1,389.9	June 8	Growth/expansion	Targeted - industry	Climate Assets	UK

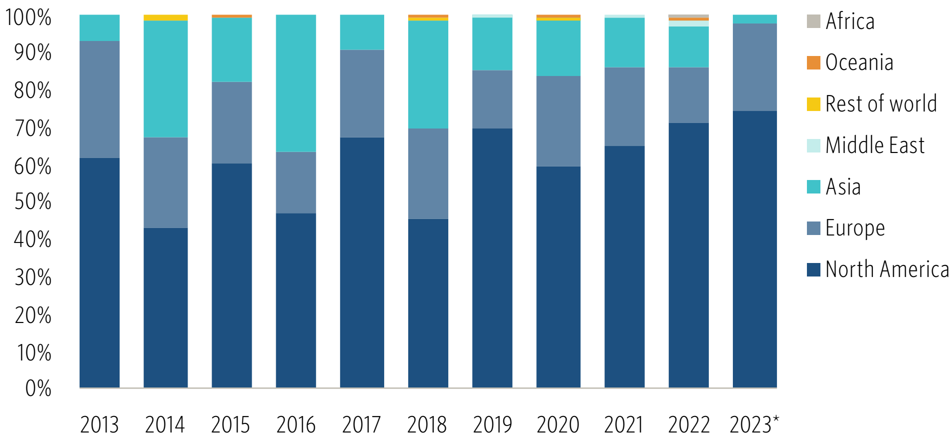
Source: PitchBook • Geography: Europe • *As of December 31, 2023

Can European megafunds continue growing and getting larger?

Yes; Europe's lag to North America could be an advantage.

North America accounts for the lion's share of PE capital. In terms of global capital raised by megafunds, Europe accounted for only 23.8% in 2023 versus 73.9% for North America. The North American market has historically been more accommodating to PE sponsors and alternative investments, whose pension funds follow the "Canadian model" and the endowment "Yale model," which both have significant allocations to alternatives. As of 2021, the Yale endowment has a 17.5% asset allocation to private equity, which is larger than its allocation to equities.[4] Similarly, the Canadian Pension Plan has a 33% private equity allocation as of 2023.[5] In contrast, the Norwegian sovereign wealth fund, which holds 1.5% of the world's equities, currently has no allocation to private equity, as discussed in our 2024 Nordic Private Capital Breakdown. As North America matures as a PE market, firms are turning toward Europe for growth. From a GP perspective, four out of the 20 megafunds closed in Europe in 2023 were US-headquartered firms: Summit Partners' Europe Growth Fund IV, KKR's European Fund VI, Bain Capital's Europe Fund VI, and Providence's Strategic Growth Europe II. From the LP perspective, North American commitment counts to European megafunds grew from 55.1% of the total commitment count in 2021 to 75.2% in 2023 as North American LPs look to diversify away and are increasingly allocating to Europe.[6] Based on the above, we expect the European megafund market to continue growing as the gap between the European and North American markets narrows.

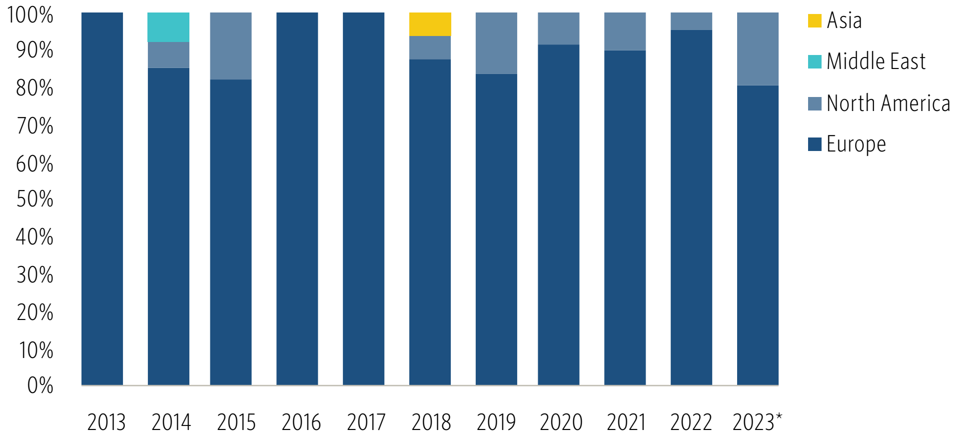
Share of global megafund capital raised by region



Source: PitchBook • Geography: Global • *As of December 31, 2023

4: "David Swenson, the Yale Pioneer Who Reshaped Investing," Financial Times, Robin Wigglesworth and Aziza Kasumov, May 7, 2021.
5: "2023 Annual Report," CPP Investments, n.d., accessed April 5, 2024.
6: Please note that this figure looks at commitment counts and not value, so we are saying there are more North American LPs in European megafunds than European LPs, but we do not comment on the amounts that those underlying LPs invest.

Share of Europe megafund count by investor region



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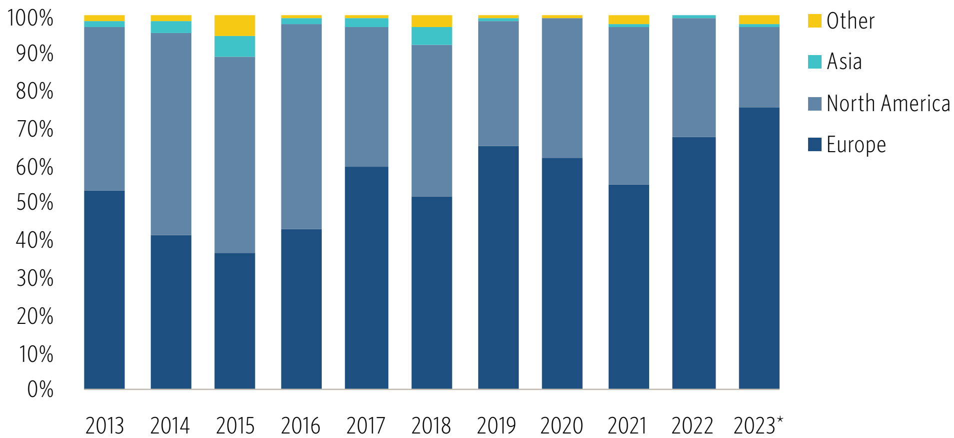
Share of Europe megafund commitment count by LP HQ location

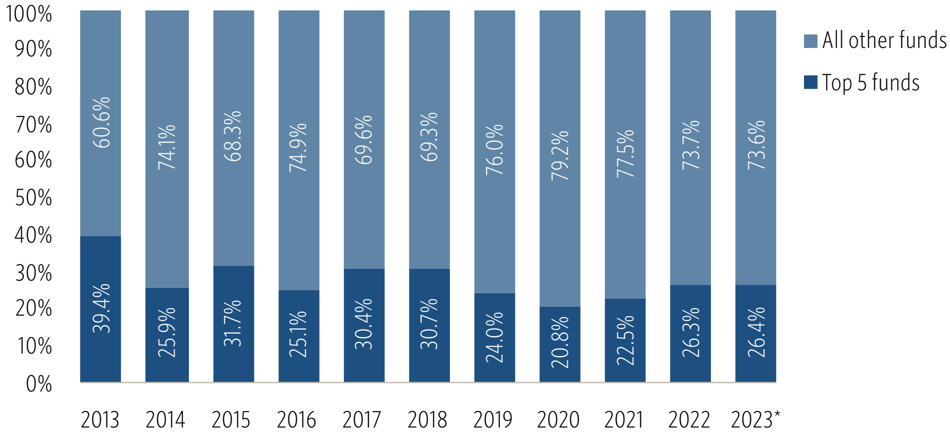


Source: PitchBook • Geography: Global • *As of December 31, 2023

Yes, but concentration in megafunds will drop like in the US.

The concentration of the top five megafunds in the US has remained fairly constant over the past decade, averaging 26.4% of capital raised compared with 41.6% for Europe. This leads us to believe that as the European PE market matures, the largest megafunds will account for a smaller share of the overall capital raised as more megafunds come to the European market and the distribution of megafunds normalises.

Share of US capital raised by top five funds



Source: PitchBook • Geography: US • *As of December 31, 2023

How much larger can PE megafunds get?

In 2023, CVC Capital Partners broke the record for the largest buyout fund at €26 billion, prompting the industry to wonder what the limit for a buyout fund is. Can we get to €30 billion? What about €40 billion? The short answer is that we do not expect CVC Capital Partners' record to be broken in the near term if interest rates remain higher for longer. The PE industry's golden years of low interest rates and high leverage are in jeopardy in the current macroeconomic environment. Given the importance of leverage to buyout funds, some of these megafunds will need to prove that they can deliver returns at those large sizes before further megafund records can be broken. We expect more megafunds from more PE firms, but the bulk of megafunds will likely raise in the €1 billion to €10 billion range like in the US.

At the end of February 2024, EQT closed its 10th fund, which raised €22 billion. As far as the European open fund list goes, it should be the largest megafund for the year, which points towards a cooling in fundraising for Europe in 2024. Across the Atlantic, the largest open fund is Vista Equity Partners' Fund VIII, which has a target of $20 billion.

Looking at other asset classes, however, we have seen even larger megafunds. For example, in real estate, in 2023, Blackstone closed its 10th fund, at €28.2 billion. In infrastructure, in 2023, Brookfield closed its fifth fund, for €27.7 billion. The co-head of secondaries at Ardian, Vladimir Colas, predicts that the first megafund over $30 billion will be a secondaries fund.[7] Indeed, both Ardian and Blackstone raised around €20 billion secondary funds in 2023 as the exit market dried up and GPs looked at secondaries for liquidity solutions.

7: "Ardian's Colas on the Potential for Secondaries Growth in 2024," Spotify, Spotlight: A PEI Podcast, January 2, 2024.

Top 20 open funds globally by target size*

Fund	Target fund size (€M)	Open date	Fund type	Fund country
Vista Equity Partners VIII	€20,669.9	October 25, 2021	Buyout	US
Thoma Bravo XVI	€18,405.7	April 5, 2024	Buyout	US
Silver Lake Partners VII	€16,893.6	February 10, 2022	Buyout	US
Blackstone Capital Partners IX	€16,807.9	June 21, 2022	Buyout	US
AG Japan Overflow	€16,616.2	April 21, 2022	Buyout	Japan
Clearlake Capital Partners VIII	€13,916.2	June 20, 2023	Buyout	US
Platinum Equity Capital Partners VI	€12,923.6	October 26, 2021	Buyout	US
Dyal Capital Partners VI	€12,080.6	June 16, 2023	Growth/expansion	US
New Mountain Partners VII	€11,903.2	March 7, 2023	Buyout	US
SoftJump	€11,438.9	September 29, 2022	Growth/expansion	UK
Blackstone Energy Transition Partners IV	€10,943.4	June 24, 2022	Diversified PE	US
Carlyle Asia Partners VI	€10,137.6	November 10, 2022	Buyout	Hong Kong
PAG Asia IV	€8,141.9	March 24, 2022	Buyout	Hong Kong
Coatue Growth V	€7,531.1	March 11, 2021	Growth/expansion	US
Onex Partners VI	€7,063.3	February 17, 2022	Buyout	Canada
Bridgepoint Europe VII	€7,000.0	September 15, 2021	Buyout	UK
American Securities Partners IX	€6,722.4	December 12, 2022	Buyout	US
Thoma Bravo Discover V	€6,442.0	April 5, 2024	Buyout	US
MBK Partners VI	€6,324.2	August 4, 2023	Buyout	South Korea
Vitruvian Investment Partnership V	€6,300.0	July 1, 2022	Buyout	UK

Source: PitchBook • Geography: Global • *As of April 11, 2024

Conclusion

In the past few years, European megafunds have increased, culminating in a record year for megafunds in 2023 as the asset class continues to attract more capital than ever before, even in a challenging macroeconomic environment. A mix of new large institutional clients and a democratisation of the asset class has helped fuel the rise of the megafund, which often ticks the required boxes for LPs of experienced manager, proven track record, generalist, buyout fund, reputable firm, and lower management fee. Megafunds will likely continue dominating fundraising in Europe in the short term, but as monetary policy starts easing, the concentration in megafunds will likely drop off. Until then, CVC Capital Partners' record buyout fund will remain the largest.

In Part II of this analyst note series, we will continue exploring megafund characteristics, focusing on returns for megafunds compared with non-megafunds.