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# The Rise of European Megafunds: Part II

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

## Key takeaways

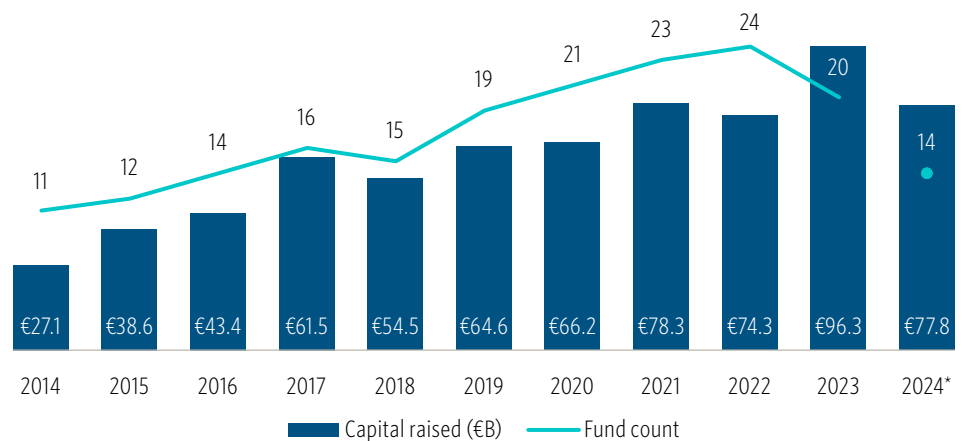
- Over the past decade, time between megafunds has decreased and megafund step-ups have increased. Looking at the differences between megafunds and non-megafunds, we find that megafunds go back to raise capital sooner, tend to have a higher step-ups, and close their fundraising in less time than non-megafunds.<sup>1</sup> Specifically, time between funds has decreased, going from a median of 5.4 years for the 2013-2015 period to 3.3 years for the 2022-2024 period for megafunds; and from 5.5 years to 3.7 years for non-megafunds. Step-ups for megafunds peaked at a median of 1.8x in the 2019-2021 period before dropping to 1.6x in 2022-2024; while step-ups for non-megafunds have remained stable at 1.4x since the 2016-2018 period.
- Time to close has increased in the 2022-2024 period as compared with the 2019-2021 period, going from nine months to 15 months for megafunds and 13 months to 16 months for non-megafunds. This is a function of megafunds often having large, specialised investor relation teams. However, recently, lower capital availability has affected both megafunds and non-megafunds by increasing timelines to close funds. This seemingly has not been enough to slow down fundraising for megafunds in Europe, which is pacing for a record 2024 in terms of capital raised.
- Since 2020, there has been a divergence in net cash flow between megafunds and non-megafunds in Europe, which is a direct result of the diverging fundraising trends between the two. Megafunds have turned cash flow negative since 2020, while non-megafunds remain cash flow positive. Fundraising for megafunds has continued growing while fundraising for non-megafunds has largely stalled.
- The percentage of dry powder held in funds 0-2 years old has been diverging between megafunds and non-megafunds in recent years and will most likely continue diverging given the record year of European fundraising in 2023 as well as the current pace of fundraising in 2024.
- It is a myth that megafunds underperform. Our performance data shows some outperformance for European megafunds when looking at long-dated horizon IRRs (130 basis points annually over 15 years), marginal outperformance with quarterly returns (86 basis points annually over 12 years), and no meaningful outperformance by TVPI. However, LPs will want to consider the dispersion of performance, which favours megafunds for their more stable and predictable outcomes, as well as the lower fees, as covered in [our first note](#) on European megafunds.

<sup>1</sup>: All 2024 data is as of June 30, 2024.

## Introduction

In [The Rise of European Megafunds: Part I](#), we looked at the record year European megafunds had in 2023 despite macroeconomic headwinds and how European fundraising for megafunds has ample room for growth before it reaches levels seen in more mature markets like the US. As of the end of Q2 2024, fundraising for megafunds in Europe is on track for another record year and is still the core driver of European PE fundraising. This note will cover fundraising timelines for megafunds, the timing of cash flows, and the returns of megafunds versus those of non-megafunds.

### Europe PE megafund fundraising activity



Source: PitchBook • Geography: Europe • \*As of June 30, 2024

## Shorter timelines and higher step-ups for megafunds

### European timelines and step-ups

We have compared megafunds and non-megafunds in Europe over the past decade by three distinctive metrics:

1. The median time between two fundraising rounds (in years)
2. The median step-up between two fundraising rounds (as a percentage change between rounds)
3. The median time to close a fund (in months)

For both megafunds and non-megafunds, we see that the time between funds has decreased over the past decade. For megafunds, the median time between funds dropped from 5.4 years for the 2013-2015 period to 3.3 years for the 2022-2024 period. For non-megafunds, the median dropped from 5.5 years to 3.7 years between the same time frames. We also note that megafunds tend to come back to market sooner than non-megafunds, at 3.3 years versus 3.7 years for 2022-2024, with the trend more notable between 2016 and 2021 before the gap narrowed over the past three years.<sup>2</sup> This is a result of the PE asset class growing and attracting more LP capital. To add further context, if we assume the life cycle of one PE fund is eight to 10 years, this means we may see three new funds come to life before the initial fund liquidates. For instance, looking at EQT's flagship fund family, if we take EQT VI as a reference with its vintage of 2011, there have been three new funds (VIII, VIII, IX) closed between 2011 and 2021. We note that EQT VI is not yet fully liquidated, but all of its investments except one were sold by 2021.

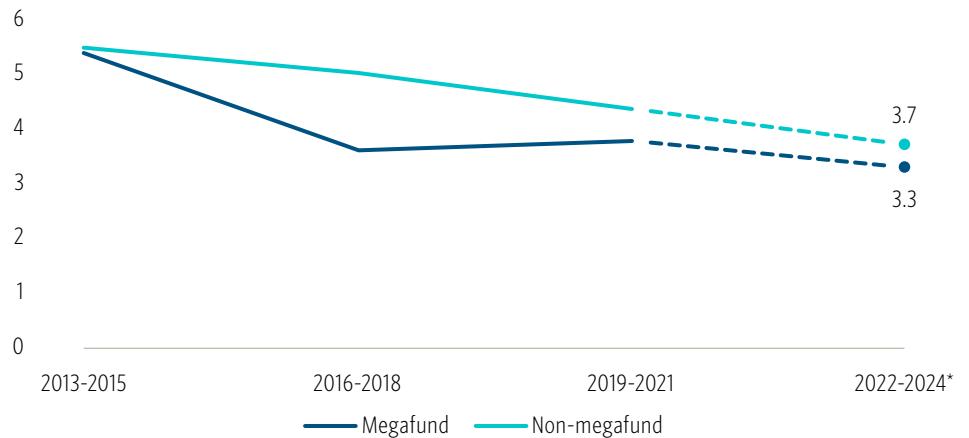
### EQT's flagship fund family\*

Fund	Vintage	Fund status	Fund size (€M)	Step-up
EQT X	2024	Closed	€22,000.0	1.4x
EQT IX	2020	Closed	€15,600.0	1.5x
EQT VIII	2018	Fully invested	€10,750.0	1.6x
EQT VII	2015	Fully invested	€6,817.0	1.4x
EQT VI	2011	Fully invested	€4,815.0	1.1x
EQT V	2006	Liquidated	€4,250.0	1.7x
EQT IV	2004	Liquidated	€2,500.0	1.3x
EQT III	2001	Liquidated	€2,000.0	2.9x
EQT II	1998	Liquidated	€695.5	1.8x
EQT I	1995	Liquidated	€381.8	N/A

Source: PitchBook • Geography: Europe • \*As of June 30, 2024

<sup>2</sup>: Please note that non-megafunds may eventually become megafunds and move to the megafund dataset at any point due to growth.

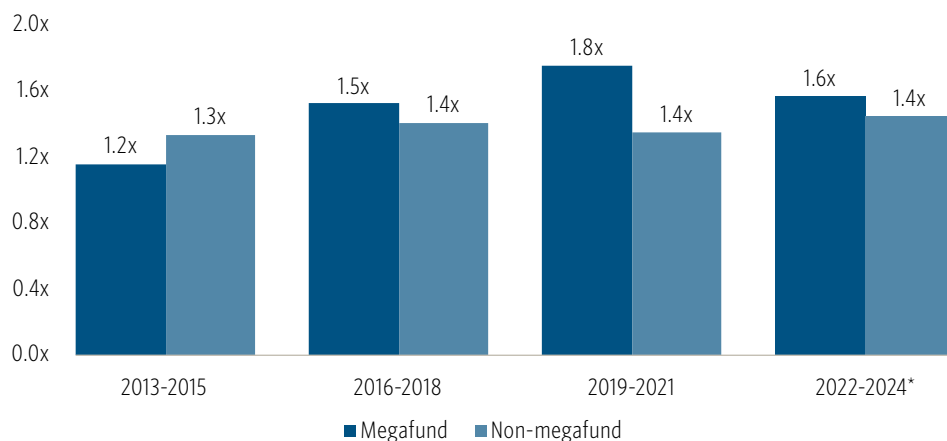
### Europe PE median time (years) between funds for megafunds versus non-megafunds



Source: PitchBook • Geography: Europe • \*As of June 30, 2024

Step-ups for non-megafunds have remained constant since the 2016-2018 period with a median step-up of 1.4x. Megafund step-ups, on the other hand, have been higher than those of non-megafunds since 2016-2018. We further observe that megafund step-ups were rising for three consecutive periods, peaking at 1.8x in 2019-2021 before dropping to 1.6x in 2022-2024. This is consistent with the end of the bull market and a shift in interest rate policy in 2022, which led to higher borrowing costs and tougher fundraising conditions. Conceptually, step-ups cannot be infinite, and megafunds will eventually find a ceiling as stated in our first note on European megafunds. This means that, in the long term, step-ups eventually decrease for a given family of funds as the funds get larger. Taking CVC Capital Partners as an example, if we take its 2014 vintage fund VI as a reference, we see that the subsequent three funds saw decreasing step-ups (1.5x, 1.4x, and then 1.2x, respectively) even though the absolute fund size rose to the global buyout fund record of €26.8 billion with CVC Capital Partners IX. Ultimately, for GPs the step-up is not too significant as long as the absolute amount raised is higher than that of the previous fund—this maintains confidence in the manager.

### Europe PE median step-ups for megafunds versus non-megafunds



Source: PitchBook • Geography: Europe • \*As of June 30, 2024

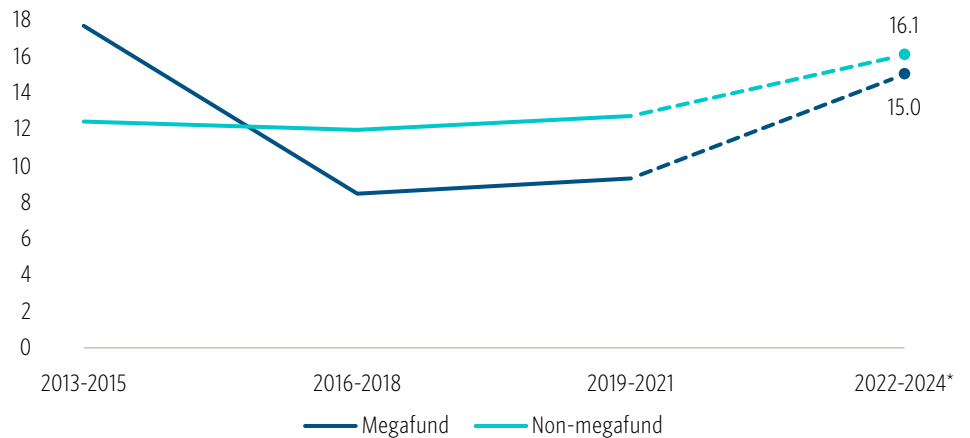
### CVC Capital Partners' flagship fund family\*

Fund	Vintage	Fund status	Fund size (€M)	Step-up
CVC Capital Partners IX	2023	Closed	€26,800.0	1.2x
CVC Capital Partners VIII	2020	Closed	€22,300.0	1.4x
CVC Capital Partners VII	2017	Closed	€16,000.0	1.5x
CVC Capital Partners VI	2014	Closed	€10,500.0	1.0x
CVC European Equity Partners V	2008	Closed	€10,750.0	1.8x
CVC European Equity Partners IV	2005	Closed	€6,000.0	1.3x
CVC European Equity Partners III	2001	Fully invested	€4,670.0	1.5x
CVC European Equity Partners II	1998	Liquidated	€3,030.0	3.1x
CVC European Equity Partners	1996	Liquidated	€991.1	N/A

Source: PitchBook • Geography: Europe • \*As of June 30, 2024

Megafunds take less time to close compared with non-megafunds. In the latest period of 2022-2024, megafunds took a median of 15 months to close, while non-megafunds took 16 months. Further, time to close increased for both megafunds and non-megafunds in the 2022-2024 period as compared with the 2019-2021 period, going from nine months to 15 months for megafunds and 13 months to 16 months for non-megafunds. Once again, we point to tightening monetary policy in the past couple of years, which has put pressure on fundraising by limiting capital availability and pushing back closing deadlines. The largest fund close of the year, EQT X at €22 billion, was meant to close in 2023, but the fundraising deadline was pushed back by six months to February 2024.

### Europe PE median time (months) to close for megafunds versus non-megafunds



Source: PitchBook • Geography: Europe • \*As of June 30, 2024

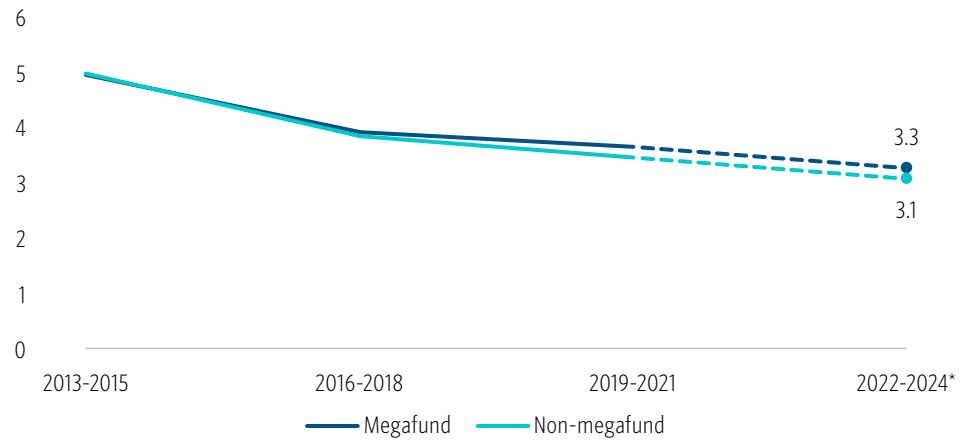
To conclude, looking at the differences between megafunds and non-megafunds in Europe, we find that megafunds go back to fundraising quicker, tend to have a higher step-ups, and close their fundraising in less time than non-megafunds. This has resulted in a record year of European fundraising for megafunds in 2023. This is a function of megafunds often having large, specialised investor relation teams which lead fundraising efforts and maintain relationships with LPs and placement agents. For example, CVC Capital Partners IX raised a global record of €26 billion for a buyout fund in only seven months in 2023—an impressive feat especially during a period of monetary tightening. However, there has been some pressure as a result of lower capital availability affecting both megafunds and non-megafunds in the latest observed period, evidenced by increasing timelines to close funds. This seemingly has not been enough to slow down megafund fundraising, which is pacing for a record 2024 in terms of capital raised in Europe.

#### Global timelines and step-ups

Finally, we compare our European data to global data, which increases the sample size to provide a global picture for cross-border GPs and LPs involved in megafunds. Given the large size of megafunds, their investor base as well as their investments are often global mandates. For time between funds, the difference between megafunds and non-megafunds is marginal: 0.2 months at best over a 12-year period. Step-ups for megafunds remain higher at the global level, and the same is true of the European data, with a stable median step-up of 1.6x for megafunds and 1.4x for non-megafunds since the 2019-2021 period. Time to close is the most interesting divergence between the datasets, as we see megafunds leap above non-megafunds for the latest 2022-2024 period at the global level, taking 14.5 months to close versus 13.5 months for non-megafunds.

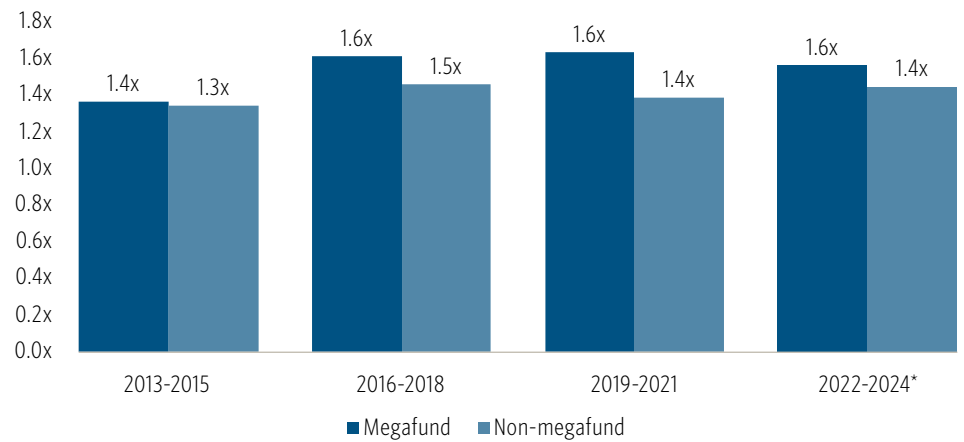
Overall, we see the trends are directionally similar and often differ only marginally between the global and the European datasets, meaning that the fund location does not have much impact on timelines and step-ups.

### Global PE median time (years) between funds for megafunds versus non-megafunds



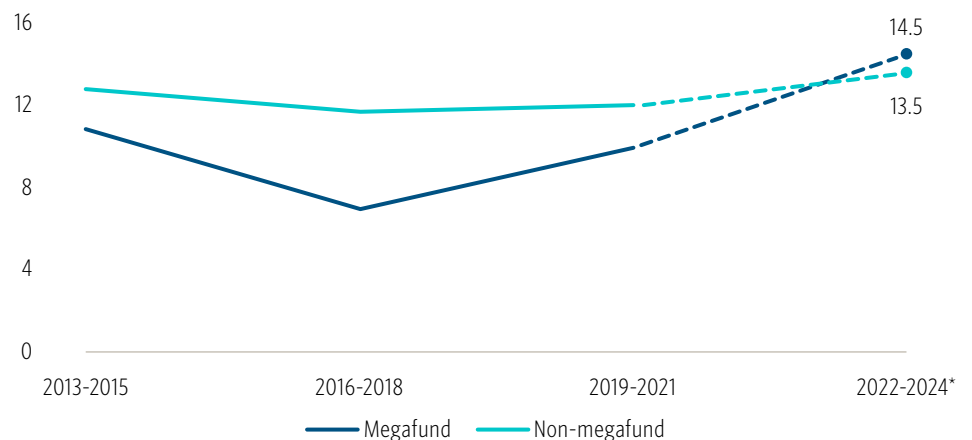
Source: PitchBook • Geography: Global • \*As of June 30, 2024

### Global PE median step-ups for megafunds versus non-megafunds



Source: PitchBook • Geography: Global • \*As of June 30, 2024

### Global PE median time (months) to close for megafunds versus non-megafunds

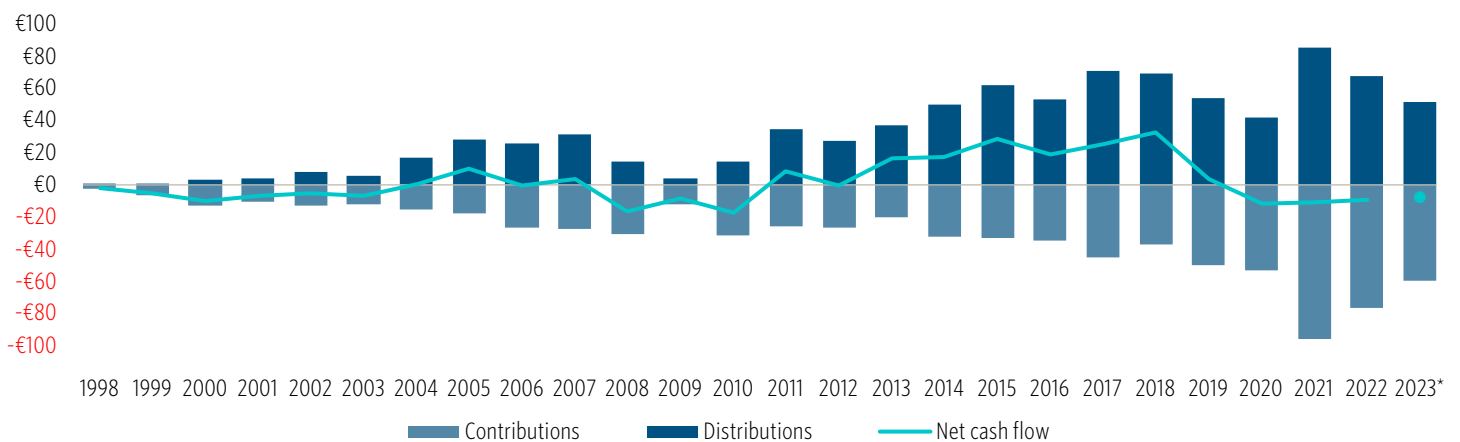


Source: PitchBook • Geography: Global • \*As of June 30, 2024

## How fundraising differences affect cash flows

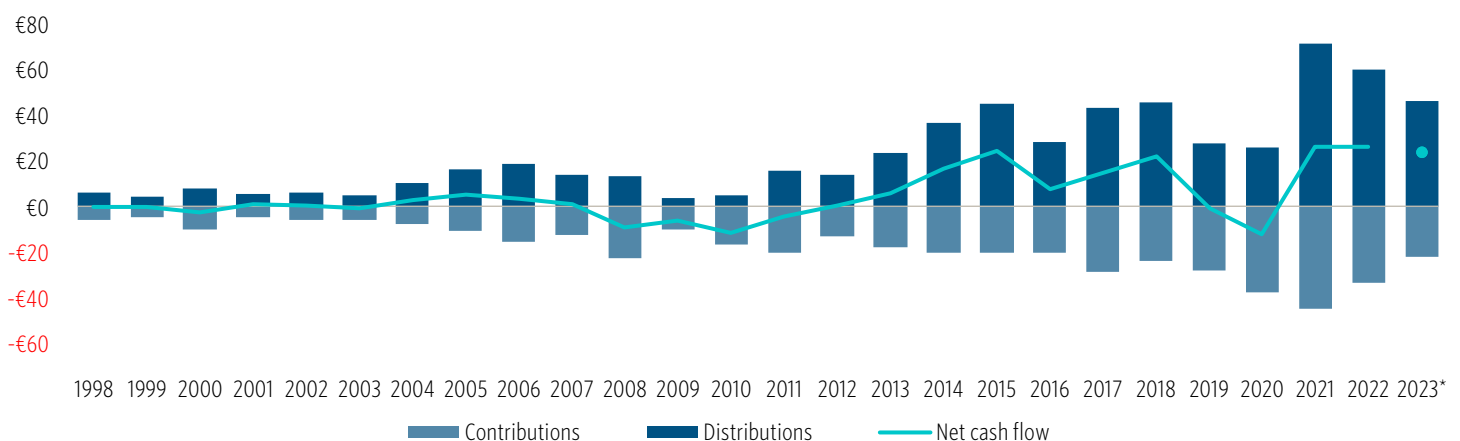
In our first note on European megafunds, we showed how dry powder increased faster for megafunds than it did for non-megafunds, reaching new heights in the past couple of years, benefiting from the low-interest-rate environment. We now look at net cash flows as a sum of contributions (for example, capital calls) and distributions (such as exits). We observe that net cash flow for megafunds increased between 2012 and 2018 before turning negative in 2020. Comparing this with non-megafunds, we see that apart from 2019-2020, net cash flow has been positive and expanding. Specifically, since 2020, European megafunds have returned close to €250 billion to LPs, or 55% of all European PE fund distributions when adding non-megafunds. This is less than the at least 67% in contributions they accounted for since 2020. This is partly a function of the fundraising differences between megafunds and non-megafunds that started as soon as 2017. We observe that fundraising for megafunds has continued growing since 2017, while fundraising for non-megafunds has largely stalled, albeit with some fluctuations. In turn, this led to higher contributions a few years later and thus negative cash flows from an LP’s perspective, as cash flows started materialising for those funds.

### European PE megafund net cash flow (€B)



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

### European PE non-megafund net cash flow (€B)

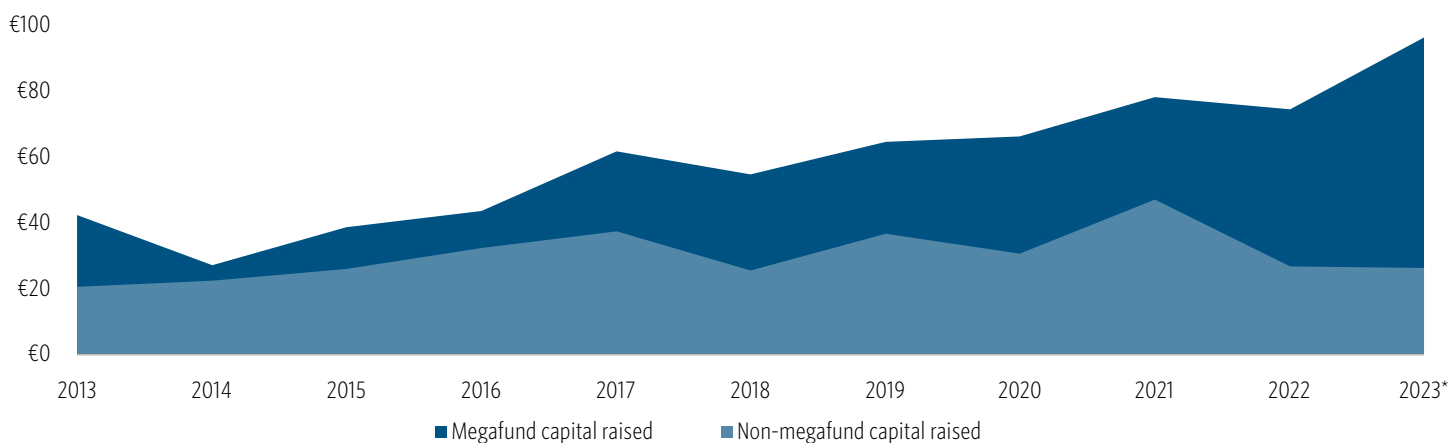


Source: PitchBook • Geography: Europe • \*As of December 31, 2023



In any case, given the negative cash flow for megafunds since 2020, investors will be paying most attention to how those contributions are deployed. GPs are currently investing the record sums of dry powder amassed in recent years and, given the higher-interest-rate environment, outperformance will become harder moving forward.

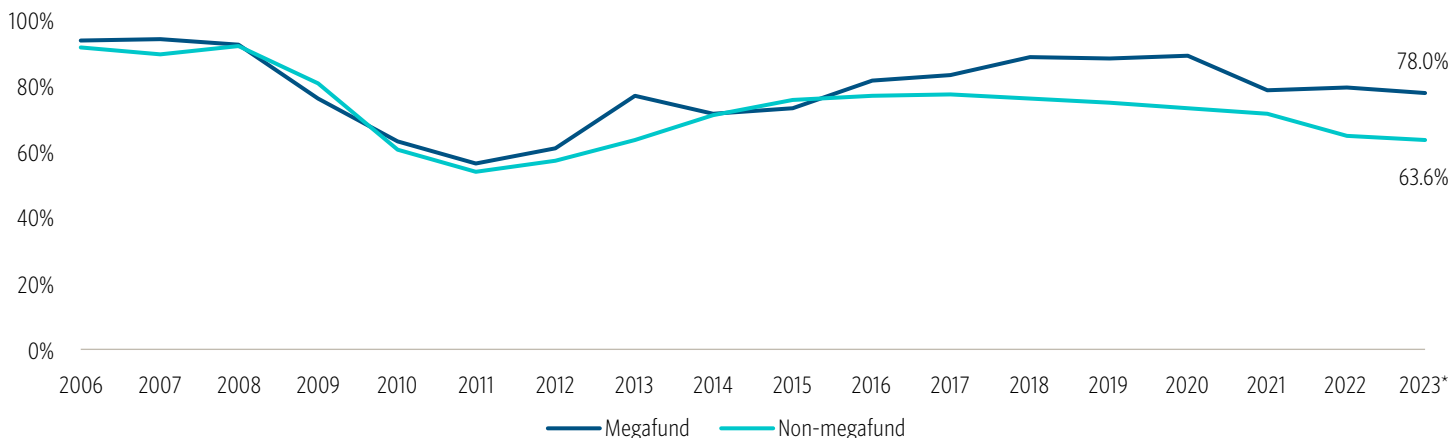
### Europe PE capital raised (€B) for megafunds versus non-megafunds



Source: PitchBook • Geography: Europe • \*As of June 30, 2024

Another way to look at this: the percentage of dry powder held in funds 0-2 years old for megafunds and non-megafunds. In the chart below, we observe both lines track each other closely until they start diverging around 2017, which coincides with the divergence in fundraising for megafunds as opposed to fundraising for non-megafunds. As of the end of 2023, we see that megafunds 0-2 years old hold 78.0% of dry powder versus 63.6% for non-megafunds. However, we also know that European fundraising for megafunds had a record year in 2023 and may finish even higher in 2024, while non-megafunds saw fundraising fall over the same period, which means the trend of divergence in dry powder between those funds will only continue diverging in subsequent years.

### Share of dry powder in European funds 0-2 years old for megafunds versus non-megafunds



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

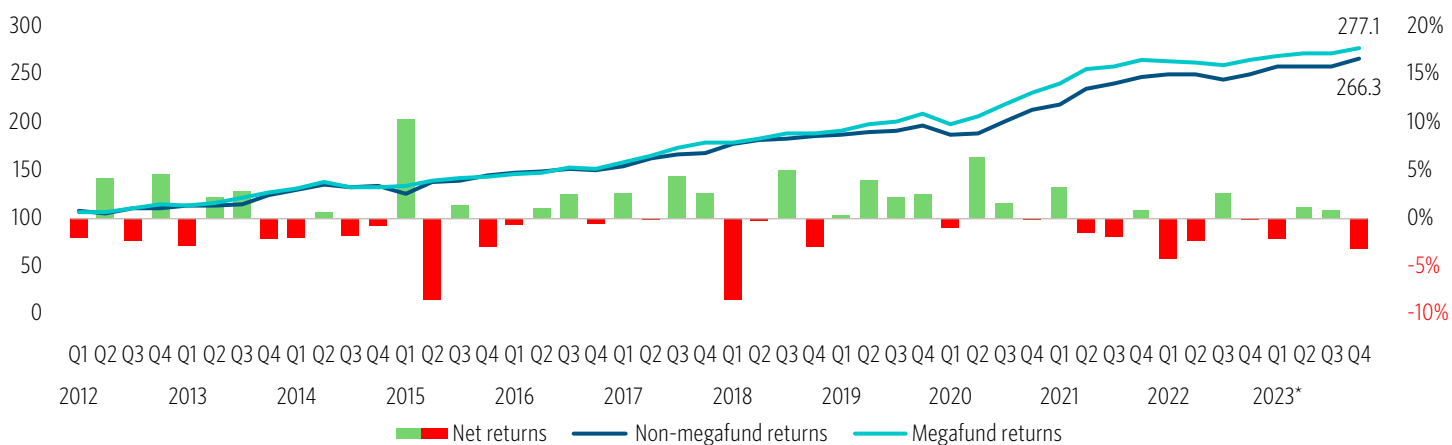
## Megafund performance

Naysayers often argue that outperformance becomes more difficult the larger the fund. This is more certainly the case in public markets where liquidity constraints, fewer suitable opportunities, and rebalancing issues all create obstacles in achieving alpha for large funds. However, private equity is subject to fewer obstacles and benefits from less transparency and fewer disclosure requirements. For instance, a megafund will most likely target a majority investment—if not 100%—of a business and as such does not face the issue of having to go out in the market and purchase shares. In this section, we aim to debunk the myth that megafunds underperform non-megafunds. We will do so by looking at three separate measures of performance: quarterly returns, annualised IRRs, and TVPI.

### Quarterly returns

We looked at quarterly returns from Q1 2012 to Q4 2023 for both megafunds as well as non-megafunds and rebased them to show the compounded returns over the full 12-year period. Megafunds returned 177.1% versus 166.3% for non-megafunds, meaning megafunds outperformed non-megafunds by 10.8% over a 12-year period. On an annualised basis, these equate to returns of 8.86% for megafunds and 8.50% for non-megafunds. Although European megafunds mathematically outperform non-megafunds, the difference remains marginal. Furthermore, megafunds outperformed in exactly half of the 48 quarters in this period, meaning that when they do outperform, the return is slightly more (relative to non-megafunds). The same logic applies to negative returns, which are less extreme for megafunds.

Quarterly Europe PE returns indexed to 100 and net returns for megafunds versus non-megafunds



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

### Annualised horizon IRRs

We can see from the table showing annualised horizon IRRs for megafunds and non-megafunds both in Europe and globally that from five-year returns onwards, megafunds outperform non-megafunds; and the longer the time horizon, the larger the outperformance for megafunds. Over a 15-year period ending in 2023, European megafunds outperform by 130 basis points, with megafund IRRs of 12.7% per year for megafunds versus 11.4% per year for non-megafunds. This trend is consistent with the European as well as the global datasets. The fact that IRR horizons for European megafunds underperform over one-year and three-year horizons is consistent with the fundraising trends outlined earlier. Because fundraising for megafunds boomed in the past three years, we expect to see a larger percentage of new/young funds comprise those IRRs and thus drag the performance lower, as new funds tend to have low IRRs compared to older funds that are already exiting investments. On the other hand, non-megafunds will have, relative to megafunds, a higher percentage of older funds contributing to their averages.

### Horizon IRRs by strategy\*

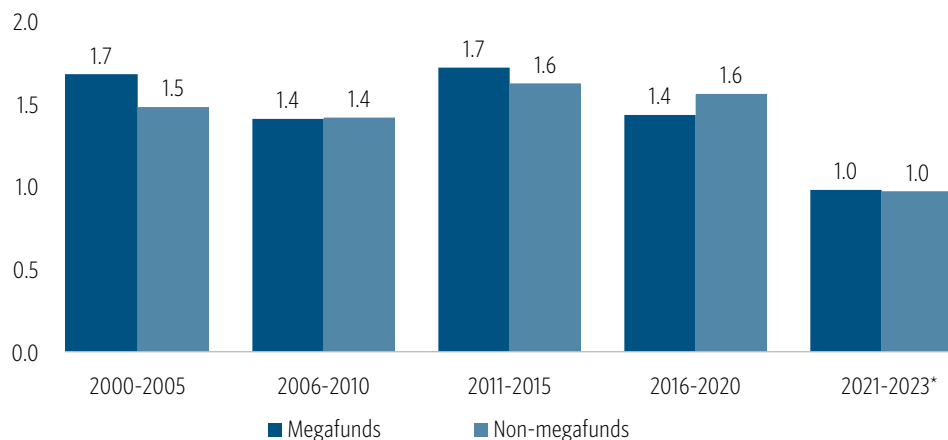
	one-year	three-year	five-year	10-year	15-year
Global PE non-megafund	7.7%	17.8%	17.6%	15.1%	13.9%
Global PE megafund	11.0%	16.5%	17.7%	15.6%	14.7%
Europe PE non-megafund	15.3%	19.5%	17.4%	14.0%	11.4%
Europe PE megafund	12.8%	15.4%	17.9%	14.6%	12.7%

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

### TVPI

To capture the performance as exhibited by TVPI for various vintage years, we have pooled TVPI figures into buckets of years to account for the various stages of the fund investment life cycle individual funds may be in. We look at data from 2000 to 2023. The first observation we make is that megafunds do not consistently outperform non-megafunds. In fact, that is the case for only three out of the five-year ranges. Second, funds with 2011-2015 vintage years earned the highest TVPI ratios, with medians of 1.72x for megafunds and 1.63x for non-megafunds. This can be explained by the recovery after the global financial crisis of 2008-2009 as well as the recovery after the Eurozone debt crisis of 2011-2012, which affected southern European countries. Periods of economic downturn provide PE funds opportunities to buy undervalued assets. Finally PE funds operating in this period benefited from historically low interest rates never seen before, allowing them to maximise leverage due to cheap borrowing costs.

### Europe PE median pooled TVPI by vintage year bucket for megafunds versus non-megafunds

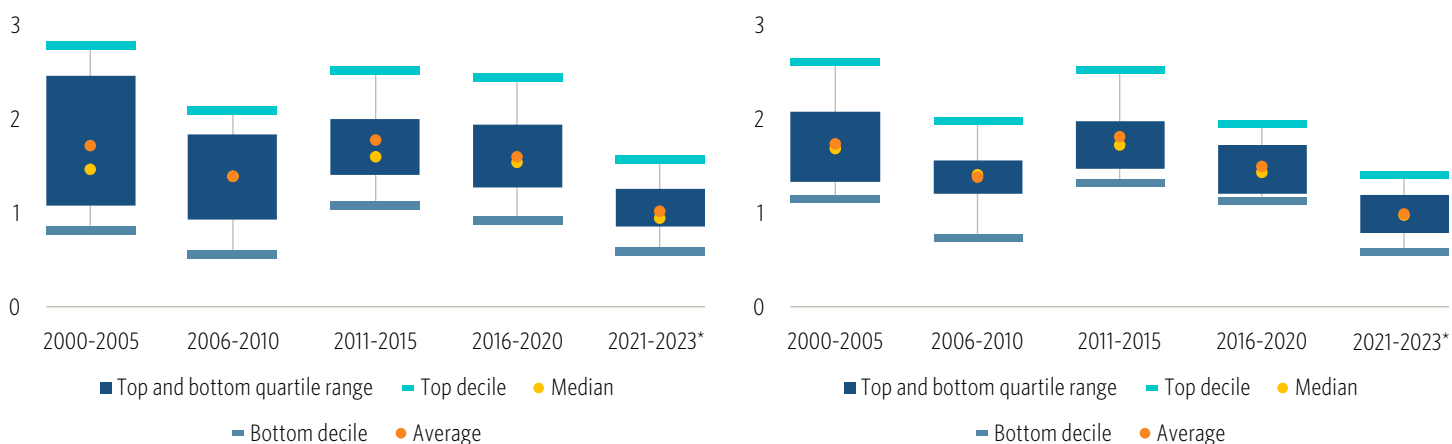


Source: PitchBook • Geography: Europe • \*As of December 31, 2023

### Dispersion

In the following dispersion chart, the dispersion of TVPI and IRR is larger for non-megafunds (right) than it is for megafunds (left).<sup>3</sup> Specifically, if we look at the average difference between top and bottom quartiles for TVPI, we see it is over 50% higher than it is for non-megafunds. For IRR, the difference between the top and bottom quartiles is 12.7% for megafunds and 19.4% for non-megafunds. For LPs, this means that megafund performance is more stable and predictable, as it is less likely to overperform or underperform dramatically, a characteristic highly sought by LPs.

### Europe PE pooled TVPI dispersion by vintage year buckets for non-megafunds (left) versus megafunds (right)

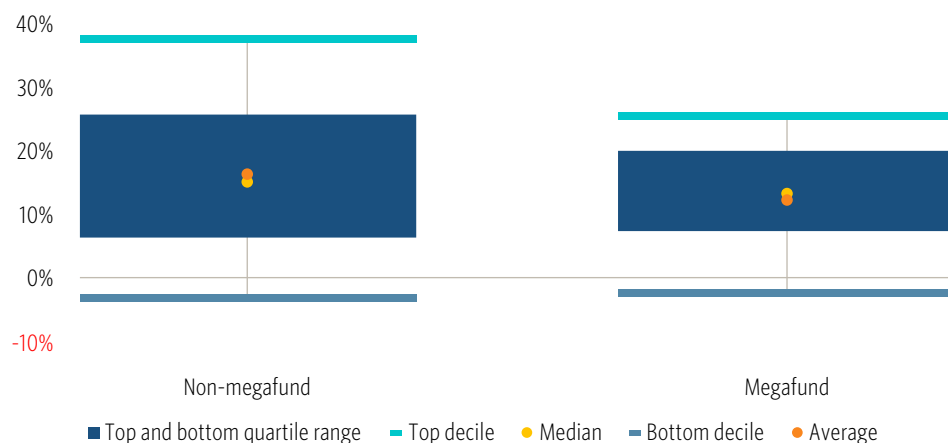


Source: PitchBook • Geography: Europe • \*As of December 31, 2023

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

3: Please note that fund count for the period 2000-2005 is low: 24 for megafunds and 20 for non-megafunds.

### Europe PE IRR returns dispersion by fund type for megafunds versus non-megafunds



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

### Limitations

Each dataset has its own limitations, and we seek to elaborate on some of the biases that may affect our performance data and thus some of the conclusions we have made as a result.

- Data in PE can be limited, especially when collecting performance figures for non-megafunds, as the larger the fund, the more likely it is to report its performance. This means we may be overstating or understating non-megafund performance figures. These inconsistencies in reporting can also happen at the level of portfolio company valuation. Companies from different industries and geographies may have different reporting standards, which in turn will affect the net asset value of the fund and thus its quarterly returns, for instance. Some PE firms may update valuations quarterly, while others may only do so semiannually. A small fund in Eastern Europe may have different reporting standards for reporting to a middle-market fund in the European Union and different standards still for reporting to a large fund in the UK.
- PE returns are subject to the smoothing effect as valuations are updated only periodically and infrequently as opposed to public market returns, which are updated daily. This tends to mask the true risk for investors and understate the volatility. If PE portfolio companies were priced daily, we would most likely see higher volatility in non-megafunds than in megafunds. In a similar way, this happens in public markets between large and small capitalization stocks, given megafunds tend to invest in larger companies than non-megafunds.

- Performance data is highly exposed to survivorship bias, meaning it does not account for funds that may have gone bust in the past, thus it overestimates historical performance on all three measures examined in this report.
- There is a further bias that the best managers, whether starting with a megafund or not, will go on to raise larger funds (often megafunds) and by definition establish sound performance track records. In other words, megafunds tend to be run by managers with a good history of performance; otherwise they probably would not be running a large fund. It is rare for first-time managers to manage a megafund.
- Returns data is aggregated from funds with diverse investment strategies, concentration levels, geographical focuses, and leverage levels, which can obscure detailed performance analysis. Wide-ranging datasets compensate for low fund count when collecting data on quarterly returns and TVPI.

### *Conclusion*

Our performance data shows some outperformance for European megafunds when looking at long-dated horizon IRRs (130 basis points annually over 15 years), marginal outperformance with quarterly returns (86 basis points annually over 12 years), and no meaningful outperformance with TVPIs. It does, however, debunk the myth that megafunds underperform non-megafunds. LPs will still want to consider the dispersion of performance, which favours megafunds for their more stable and predictable outcomes. Similarly, megafunds tend to charge lower fees, as covered in our first note on European megafunds, which may be a factor of consideration for LPs. These benefits will come at the expense of diversification for LPs at times, as megafunds will require larger commitments. The sheer size of megafunds will also make it more complicated for GPs to have significant “skin in the game” and align GP and LP interest.

## Methodology

**Quarterly returns:** Calculated as the aggregate percentage change in aggregate NAV for each group of funds in a sample, considering contributions and distributions during the quarter. This makes the calculation tantamount to a quarterly compounded growth rate. Interpolated and extended data are not used in this calculation. Preliminary data is only available for the Global Benchmarks report and will be published when NAV captured nears 50% of the expected NAV for all private capital funds with cash flow history.

**Annualised horizon IRRs:** Horizon IRR is a capital-weighted pooled calculation that shows the IRR for a certain range in time. For example, the one-year horizon IRR figures may show the IRR performance for the one-year period beginning in Q1 2023 through the end of Q4 2023, while the three-year horizon IRR is for the period beginning in Q1 2021 through the end of Q4 2023.

**TVPI:** Total value to paid-in is a metric used to measure the overall performance and value creation of a PE fund. It represents the ratio of the current value of all investments to the total amount of capital that has been invested by LPs. The numerator accounts for both realised gains, such as distributions, and unrealised gains, such as appreciation in the value of investments still held. At the start of the fund life cycle, the TVPI ratio tends to be closer to or below 1. As the fund grows its investments and then exits them, the ratio will likely increase.