Global Private Capital Fundraising Report

Momentum slows, but opportunities endure

Data provided by PitchBook

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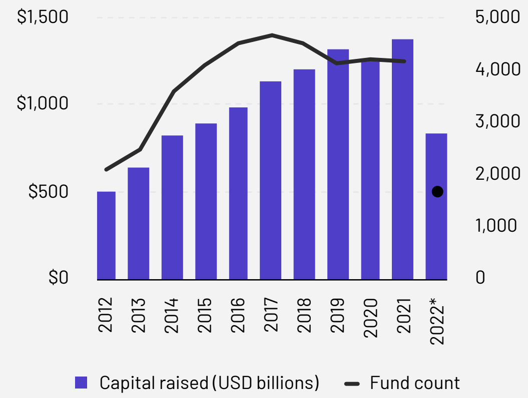
Introduction

For most of the past decade, the total amount of capital raised by private funds increased steadily as economies rebounded from the global financial crisis and participation in the private markets became more widespread. Fund count rose during this time but declined between 2017 and 2019. 2020 introduced new challenges for everyone, which was reflected in slightly lower fundraising that year, but funds bounced back in 2021.

Global private capital fundraising activity



Source: PitchBook | *As of September 13, 2022

This report explores the trends in private capital fundraising that have taken shape in 2022. VC and PE funds drive a majority of activity, but other fund types are adjusting to the market in their own unique ways. Aggregate fundraising value YTD represents 60.9 percent of 2021's total, which hit a record high of USD 1.4 trillion amid a rebound in the public markets from initial pandemic lows and a material surge in venture funding and exits.[1] Subsequent downturns and more difficult dealmaking conditions notably slowed momentum for fundraising activity in 2022. Private market players may see the turbulent state of their public market counterparts as a roadblock to successful exits and must contend with weaker investor sentiment, but fundraising efforts are moving forward.

1: YTD data collected through September 13, 2022.

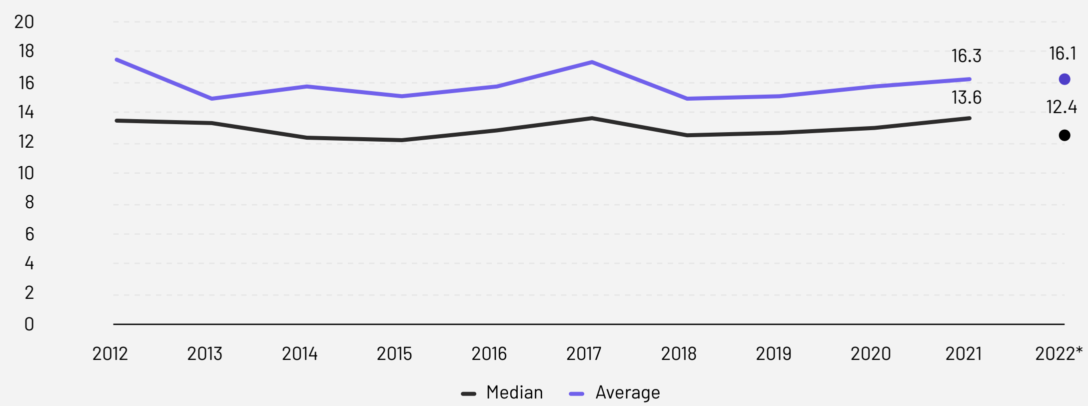
Fundraising Trends

Private capital general partners (GPs) may experience some hesitation from limited partners (LPs) in response to rougher markets, but the data so far this year does not show a significant slowing in the time taken to close private capital funds. The median time to close dropped from 13.6 months in 2021 to 12.4 months YTD, the shortest median timespan since 2015.

Venture capital (VC) and private equity (PE) typically account for roughly 50 percent of global private capital fundraising, and this has not changed YTD. These asset classes responded differently to the market downturn this year. The VC industry bore the brunt of the initial stock market slowdown due to the more speculative nature of VC investments. VC firms responded by becoming stricter with their portfolio companies and pulling back on new investments. Despite significant dealmaking and valuation challenges in the industry, capital raised YTD by VC funds represents 87 percent of VC capital raised in 2021, suggesting LPs are confident that VC firms can manage the current stage in the cycle and still provide material returns over the long run.

With their larger pools of capital, PE firms saw a greater number of target companies with freshly lowered valuations available for purchase and improvement. In this way, the macroeconomic challenges that materialized in 2022 presented an opportunity for the asset class. PE funds have raised more aggregate capital this year compared with their VC counterparts and all other fund types examined; however, the total raised represents just over half the PE capital raised in 2021.

Global median and average time (months) to close a private capital fund



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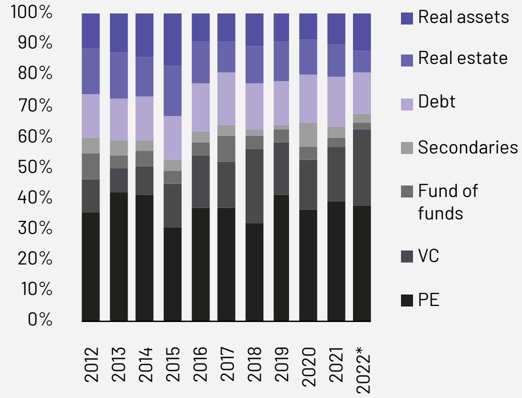
This year, smaller funds make up a lower proportion of total fund count, while the share of funds over USD one billion has increased, indicating that LPs are favoring larger, more experienced managers to a greater degree amid market uncertainty. This shift in LP preference is illustrated by first-time fundraising activity as well, which is lagging in aggregate USD value after growing 16.6 percent between 2020 and 2021. The number of first-time funds that have raised YTD is 293 compared with 824 last year. Each year since 2016, more than 800 first-time funds raised capital.

Total private capital dry powder declined from a peak of USD 3.7 trillion in 2020 to USD 3.2 trillion halfway through 2022. Capital reserves were deployed in greater quantity in 2021 when dealmaking and exit conditions were favorable. Funds are working with slightly less capital available now that dealmaking is less frenzied, and aggregate dry powder is

Share of global private capital raised by type



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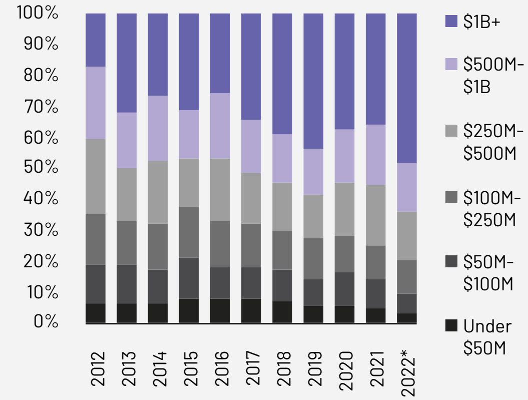
Share of global private capital raised by size bucket



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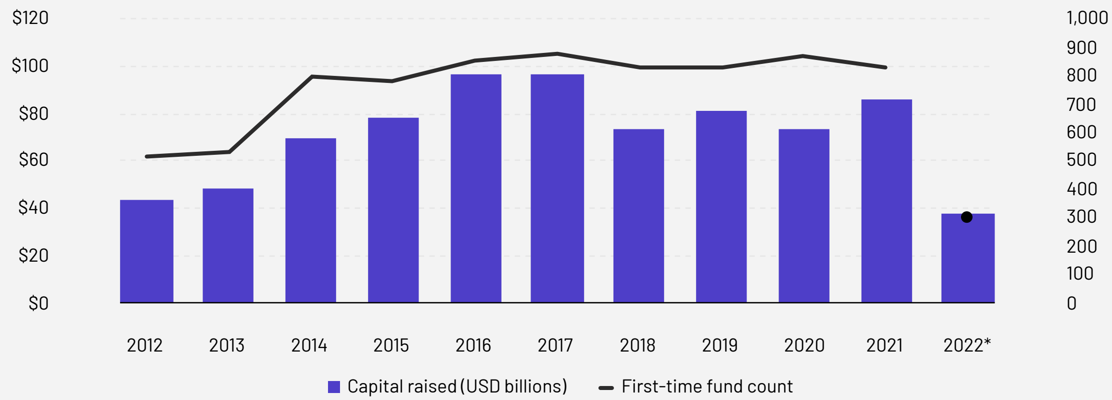
Global private capital first-time fundraising activity



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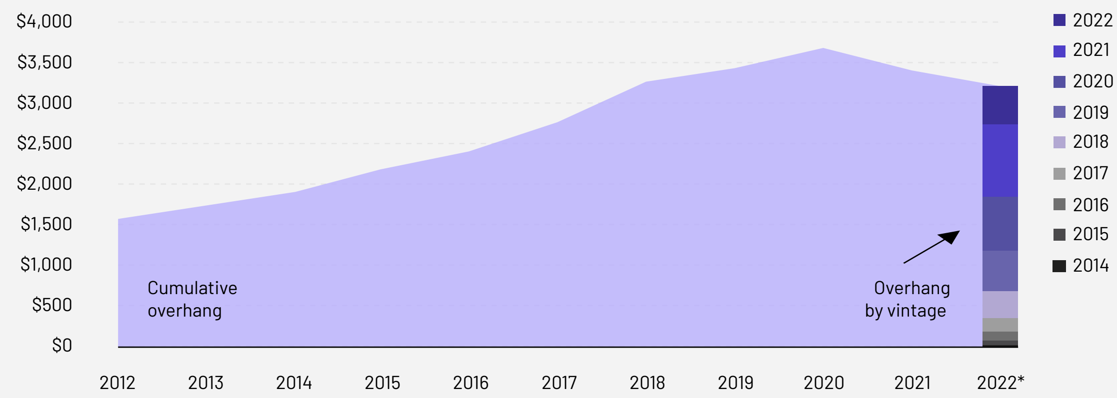
unlikely to reach its 2020 level. Investors have felt pain this year, and fundraising efforts have decelerated in response, but looking at assets under management (AUM) can further contextualize short-term roadblocks. As of the end of Q2 2022, aggregate private capital AUM totaled USD 11.5 trillion, with remaining value representing 72.1 percent. Private capital investment remains a powerful vehicle for returns despite slower momentum this year as firms prioritize using their existing capital over raising additional funds.

Global private capital dry powder (USD billions) by vintage



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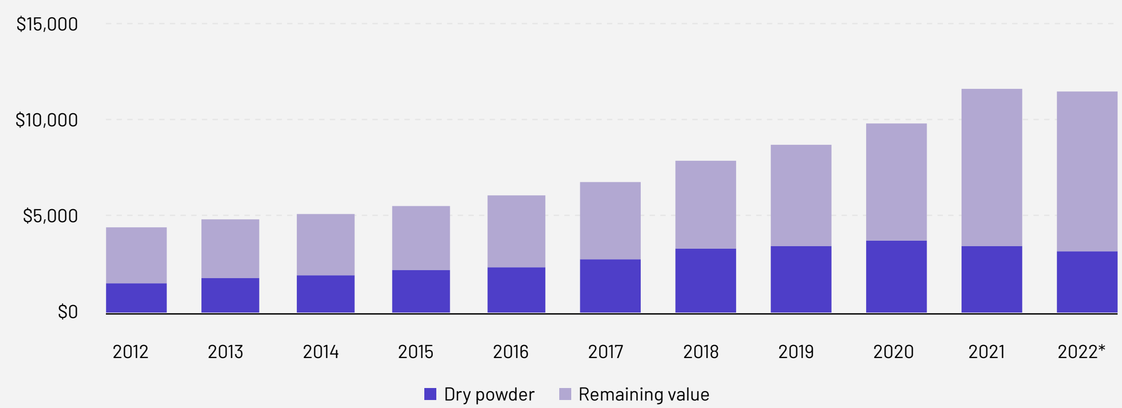
Global private capital AUM (USD billions)



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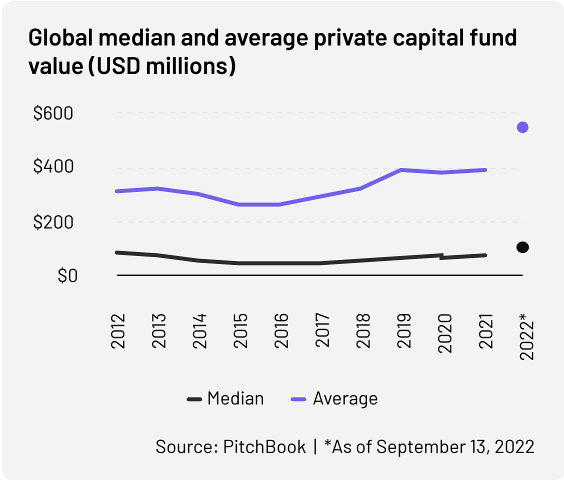
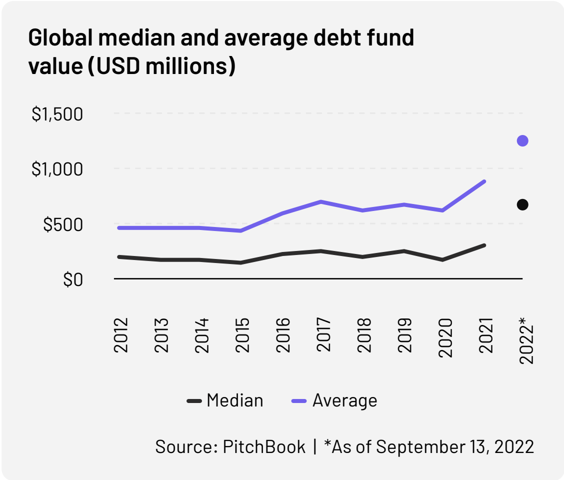
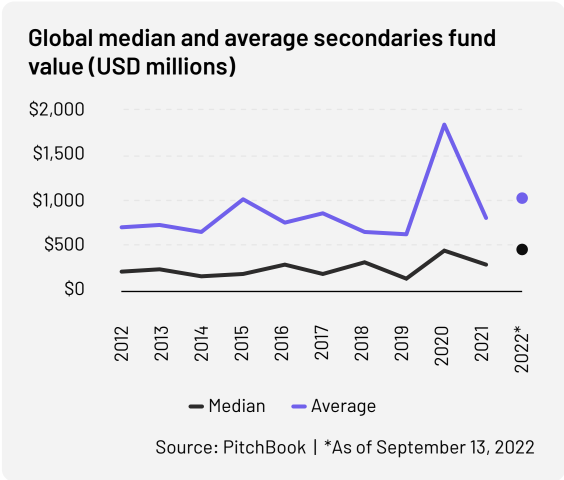
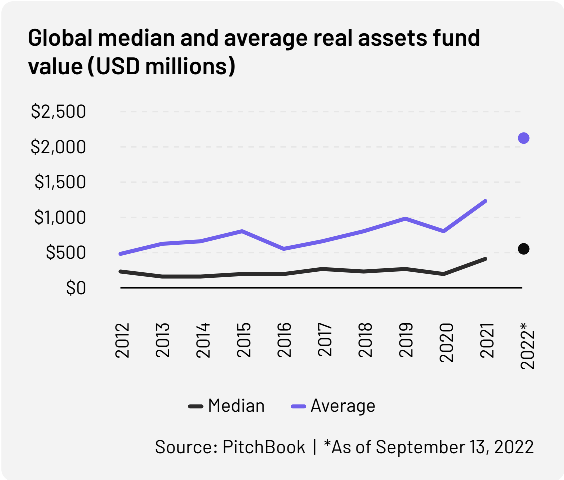
Fund Size Trends

Private capital encompasses a variety of fund types with very different strategies. The global median private capital fund size has grown by one-third YTD, exceeding USD 100 million for the first time. Beyond VC and PE, other fund types are responding to market conditions in unique ways. Shaky equities performance and rising interest rates bolstered Treasury yields, driving increased interest in debt funds. The median debt fund size has more than doubled YTD and is now more than six times larger than the median private capital fund size. Secondary markets are piquing the interest of investors that need liquidity for new capital calls, as well as those feeling the denominator effect, as other portions of their portfolios decline in value. The median secondaries fund size has grown 56.2 percent YTD, regaining losses felt in 2021 when public market performance was strong. The conflict between Russia and Ukraine sparked concerns for



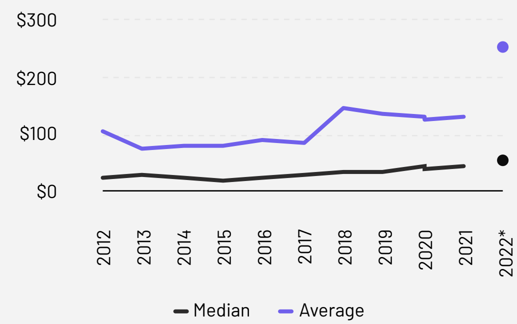






global energy infrastructure and commodities pricing. The median real asset fund size has grown 31.7 percent YTD, exceeding USD 500 million for the first time and representing the second-largest median size of all private capital fund types, behind debt funds. The conflict's full effect on real asset fundraising may have yet to play out, but it could be insulated from the greater turbulence that other fund types are facing.

Global median and average VC fund value (USD millions)



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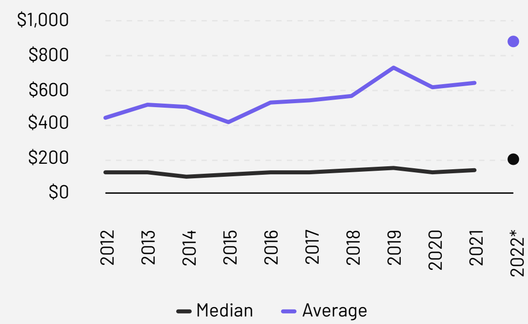
Global median and average PE fund value (USD millions)



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Looking Forward

Private capital fundraising has slowed this year with fewer funds participating. The previous slowdown in 2020 was short-lived as investors sprung back into action and accelerated activity in 2021. This year, however, the macroeconomic challenges facing public and private markets appear more enduring. Fundraising is often a lagging indicator of market performance, which means the slower deal environment in 2022 could result in further deceleration of fundraising in the coming quarters. This in turn would create a more difficult capital-raising experience for certain types of companies, and investors will be watching valuations and adjusting their strategies accordingly. Company valuation cuts have become more common in the VC world, which is one of the largest drivers of broader private capital fundraising. Competition between funds may increase if LPs prolong their hesitation amid market headwinds. Central banks will continue their fight against inflation with further interest rate increases, and disparities between fund types may grow depending on how soon these increases are reflected in pricing. Private funds have undoubtedly been impacted by global events in 2022, but investors recognize that they are more insulated from some of the noise seen in public markets.

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