Global Fundraising Outlook

Capital replenishment has slowed, but not stalled

Data provided by PitchBook

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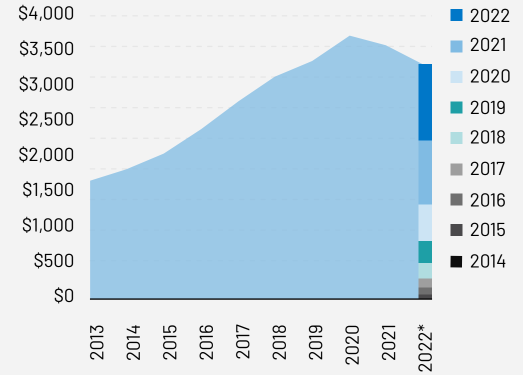
Introduction

Private funds have faced a difficult year in terms of attracting fresh capital for new commitments in 2023, with USD 735.9 billion raised through most of the third quarter.[1] Each year since 2016, private funds have collectively raised more than USD one trillion across more than 4,000 individual funds. If this year's sluggish pace continues, 2023 may be the first year in nearly a decade in which the USD one trillion threshold is not met. Limited partners (LPs) have taken their feet off the gas in a material way but are not abandoning private market opportunities. Entering 2023, funds still held several trillions of dollars in cumulative dry powder, and a slower pace of capital replenishment is not a death sentence for private dealmaking.

Fund sizes are trending larger, and first-time funds face additional challenges as demand shifts in favor of the most experienced managers. Certain strategies like private debt and secondaries have benefited from broader market movements, including higher interest rates and lower liquidity. This report examines private fundraising dynamics across a variety of factors.

Global private capital dry powder (USD billions) by vintage



Source: PitchBook | *As of December 31, 2022

1: Data is through September 25, 2023.

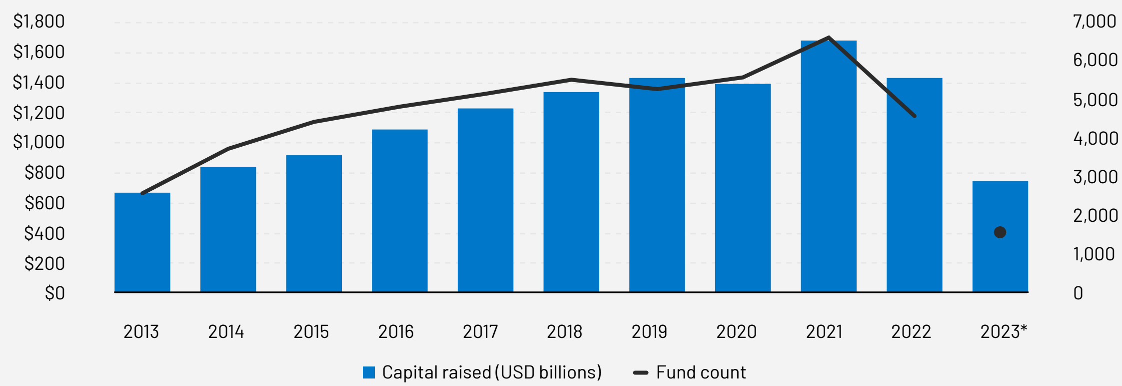
Fundraising Trends

Private capital fundraising has reached USD 735.9 billion across 1,563 funds in the year to date (YTD), representing just over half the amount raised in 2022 and signaling a continued moderate slowdown from the record high reached in 2021. 2022 introduced a broader market downturn, and private funds felt this in the form of slower fundraising. Yet funds were still able to attract significant amounts of capital — in fact, 2022 marked the third-highest year on record for total capital raised.

The number of funds that drove this amount, however, reveals another story. There was a noticeable 30.8 percent drop in the number of funds actively raising between 2021 and 2022, and this population continues to dwindle in 2023. YTD fund count represents about one-third of 2022's count, while YTD capital raised represents more than half of 2022's. In other words, the population of funds that are actively raising capital is declining faster than the cumulative amount of capital they are raising. Fewer private funds have been able to attract new commitments as LPs contend with the denominator effect and increasingly prefer experienced managers. Selectivity has grown across the board as general partners likewise raise the bar for new portfolio additions in a slower dealmaking arena for most strategies.

Even among the smaller population of funds successfully closing in this tighter

Global private capital fundraising activity

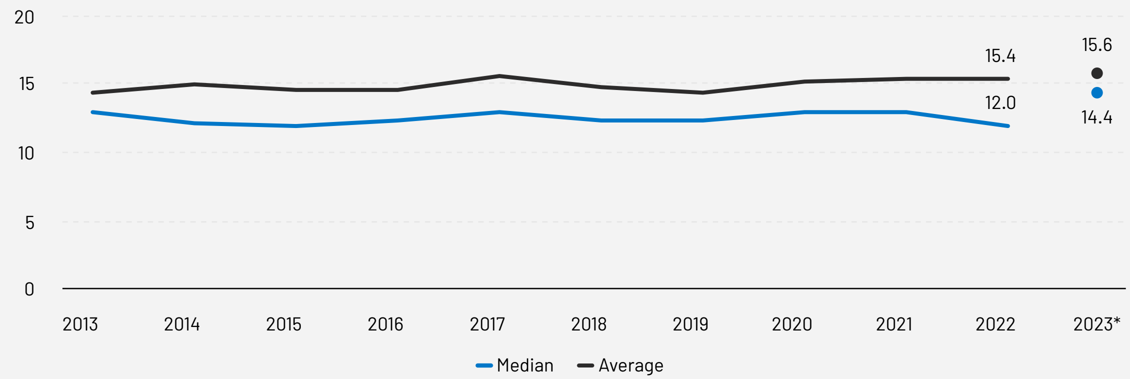


Source: PitchBook | *As of September 25, 2023

environment, funds are taking slightly longer to complete the process, with a median time to close of 14.4 months YTD compared with the median of 12 months in 2022. Portfolio reassessments and operating plans may take precedence over raising additional funds for new investments. In the U.S., new rules for private funds were recently adopted by the Securities and Exchange Commission (SEC) with the intention of increasing transparency for LPs. These new rules may create longer administrative timelines for closing funds in the coming quarters as firms update compliance practices.[2]

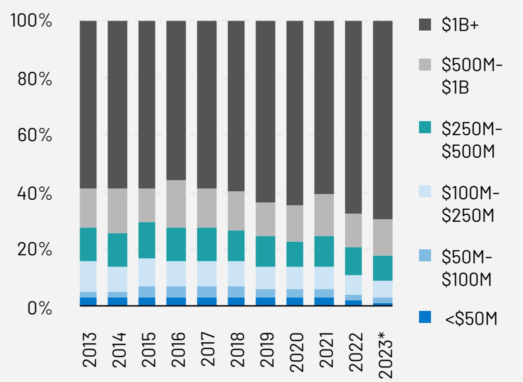
Concentration of capital among established funds with greater perceived protection against headwinds has resulted in larger — and in many cases record-high — fund sizes this year. Median fund sizes have grown for most strategies except for Real Estate, which saw its median fund size drop 14 percent YTD. Private equity

Median and average time (months) to close a global private capital fund



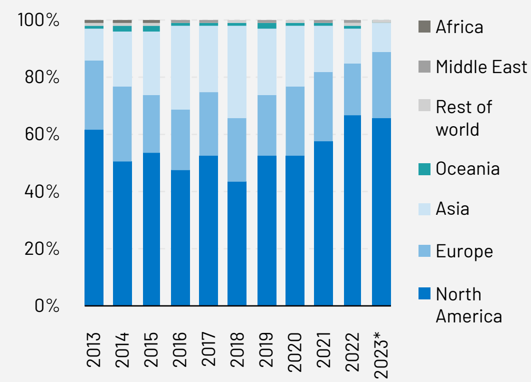
Source: PitchBook | *As of September 25, 2023

Share of global private capital raised by size bucket



Source: PitchBook | *As of September 25, 2023

Share of global private capital raised by region

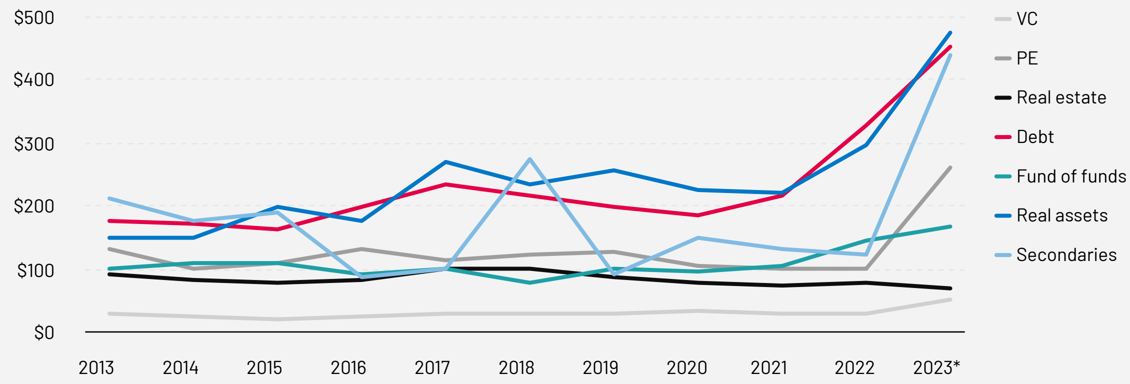


Source: PitchBook | *As of September 25, 2023

2: "SEC Enhances the Regulation of Private Fund Advisers," U.S. Securities and Exchange Commission, August 23, 2023.

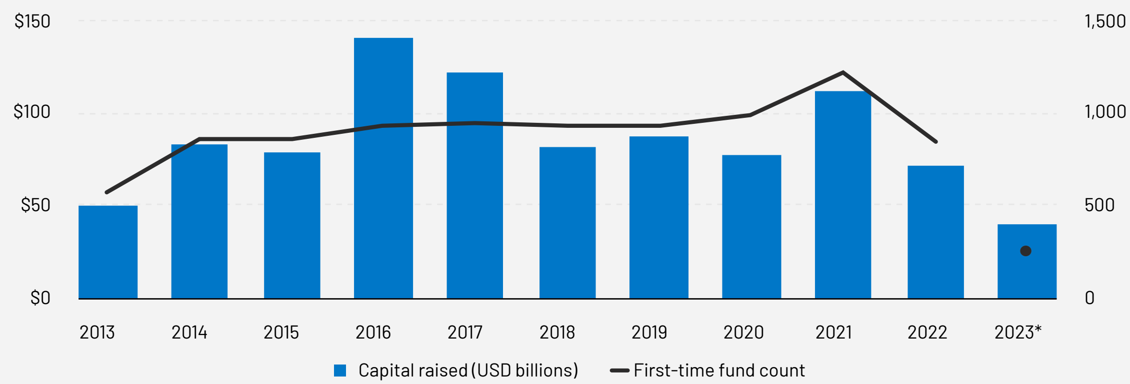
(PE) and secondaries funds saw the greatest increases in their median fund sizes over the same period, with 158 percent and 257 percent growth, respectively. The smallest funds are feeling the low-liquidity environment most acutely, as evidenced by a reduced proportion of total fund count attributed to funds under USD 50 million. Just 554 such funds have raised capital YTD, compared with 1,848 in 2022. Tangentially, first-time fundraising activity unsurprisingly dropped as investors flocked to the most trusted and experienced managers. However, total capital raised for first-time funds so far in 2023 still represents more than half the amount raised last year, indicating that barriers to entry for first-time funds are high but not insurmountable. In the *SS&C Intralinks 2024 LP Survey*, respondents that planned to allocate to emerging managers cited attractive return on potential niche strategy options (50 percent), added portfolio diversification (30 percent), and desire to access new talent (17 percent) as their main drivers.[3]

Median global fund value (USD millions) by type



Source: PitchBook | *As of September 25, 2023

Global private capital first-time fundraising activity



Source: PitchBook | *As of September 25, 2023

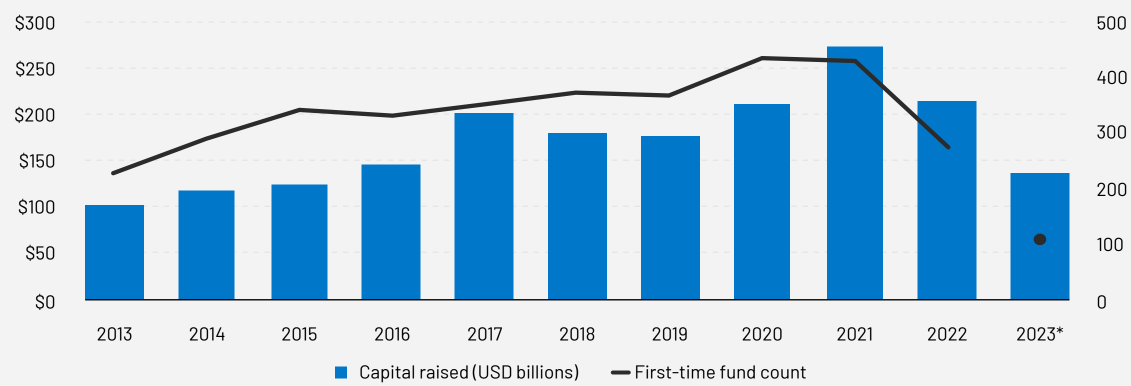
3: *SS&C Intralinks 2024 LP Survey*

Spotlight: Private Debt Funds

Private funds encompass a wide variety of strategies — each with its own nuanced response to current market conditions. One strategy that has entered the spotlight in a major way over the past year is private credit, or private debt funding. Of all the strategies, PE and debt funds have brought in the most capital YTD, together accounting for nearly two-thirds of total capital raised.

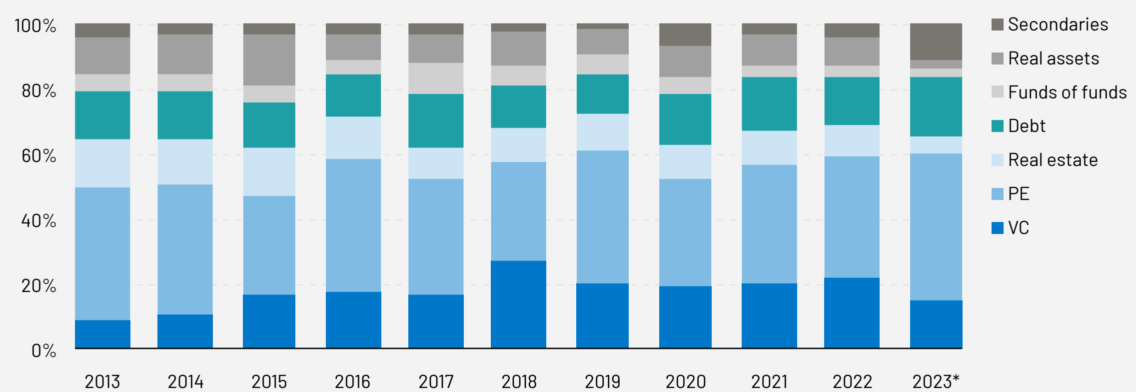
Venture capital (VC) funds typically take second place behind PE funds, but so far in 2023, debt funds have outshined their VC counterparts due to higher interest rates generating a greater pipeline for private and direct lenders, which typically offer products with tailored structuring and floating interest rates.

Global private debt fundraising activity



Source: PitchBook | *As of September 25, 2023

Share of global private capital raised by type

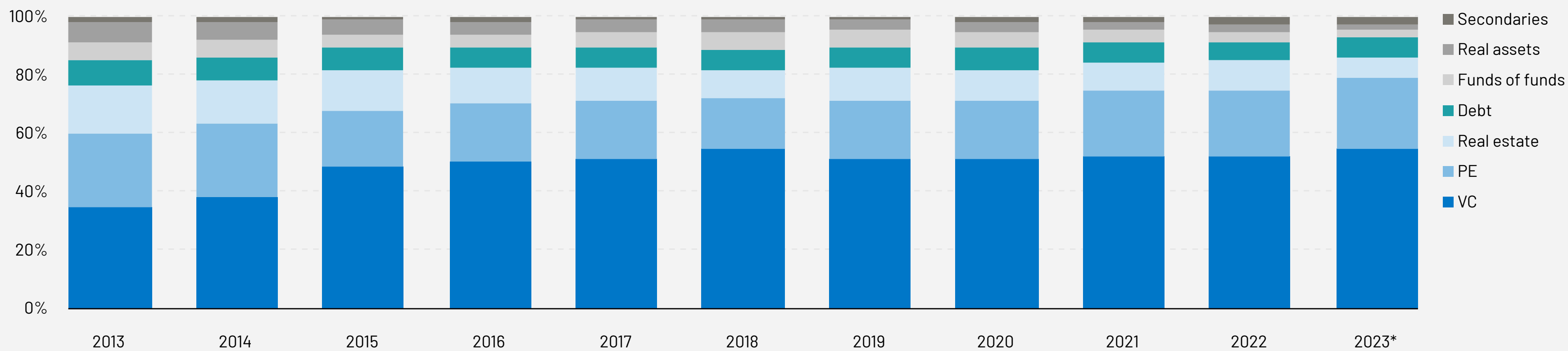


Source: PitchBook | *As of September 25, 2023

Another driving force for private debt is heightened caution among traditional banks in the aftermath of major bank failures earlier in 2023, as well as the subsequent and ongoing regulatory review of the banking industry. The median private debt fund size has grown by more than a third since 2022 to a record-high USD 451 million. The only other strategy with a higher median fund size YTD is the capital-intensive real assets category, which underscores the purchasing power of these debt funds.

The recent influx of capital for private lending raises the question of sustainability and long-term performance expectations. Companies that do not meet stricter criteria for traditional lenders provide some degree of diversification for skillful managers, which private lenders hope to capitalize on. Still, the underlying credit quality of borrowers and future downward interest rate movements, however distant they may be, increase risk for these funds in the long term.

Share of global private capital fund count by type



Source: PitchBook | *As of September 25, 2023

Looking Forward

Private capital fundraising is still amid a slowdown, but there is light at the end of the tunnel. 2023 will likely mark the second year of a decline in new funds raised, but private funds maintain significant amounts of dry powder ready to be deployed. Continued migration of capital toward larger funds administered by the most experienced managers is expected as markets navigate uncertainty, but diverse mandates and investors' long-term outlook will keep emerging and early-stage investments on the table.

Economic growth indicators, including strong jobs growth in the U.S., suggest additional interest rate hikes are likely. As a result, certain fund strategies like PE will continue to feel pressure, while others like private debt can enjoy an extended window of opportunity for dealmaking and thus capital inflows. Secondaries funds, which have had a banner year alongside private debt funds with more capital raised YTD than in both 2022 and 2021, will also remain active as allocators face headwinds in certain exit channels and seek alternative sources of liquidity. A small number of initial public offerings (IPOs) have been well received this year, increasing optimism for dealmakers that the worst of the exit dry spell has passed. If this is proven true over the next several quarters, more active fundraising will follow.

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PitchBook Methodology

PitchBook utilized its standard report methodologies for M&A, PE and fundraising data, found here. Data reflects only completed deals and utilizes primary PitchBook industry codes.

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