Private equity deal activity and fundraising drops

By Sam Birchall

There has been a slowdown in deal and fundraising activity during the second quarter of 2019, data provider Preqin has revealed in its quarterly update.

Fundraising has dipped from the record heights reached in 2017/18 and there have been fewer transactions and lower valuations so far this year.

Total fundraising for the quarter was $109bn (€96.7m), on par with Q1, but only 244 funds globally reached a final close. This is significantly fewer than the 399 funds that closed in Q2 2018, which itself represents a decline from 503 funds raised in the year previously.

The fundraising market remains crowded, with the number of funds reaching almost 4,000 at the start of Q3. Megafunds are claiming an increasingly larger slice of the fundraising market as investors put pressure on firms to raise capital sooner rather than later, before the cycle hits a downturn. This has led to much greater competition in the lower end of the market, Preqin said.

Investors are growing ever more cautious as the value of buyout deals declines. Total deal value for the quarter was $75bn, marking a sharp decline from the $102bn recorded in Q1. As such, the challenges are greater than ever both for allocators and operators.

The exit market has also slowed which Preqin said is largely due to a fall in trade sales, with the number of IPOs and sales to GPs (secondary buyouts) remaining stable.

Investors will be looking to make fewer commitments in the next twelve months with the proportion of investors looking to commit less than $50m rising from 48 per cent last June to 55 per cent this year.

With dry powder sitting at a new high of $1.54tn as of the end of June, the asset class is faced with the continuous challenge of deploying excess capital amid heavy competition for assets and higher purchase price multiples.

"For investors and fund managers alike, it will require more intensive analysis, more granular insights and more sophisticated strategies to succeed in private equity than ever before," Preqin said.

Family offices plan to increase private debt exposure

By Olly Jackson

Family offices are set to increase their exposure to private debt over the next two years to take advantage of returns in a low interest environment and as an alternative to depressed bond markets.

Research from Shearwater Aero Capital found that 63 per cent of surveyed institutions anticipate their sectors will invest more in private debt in the next two years. Only 13 per cent expect a decline.

The main drivers for this increase are the attractive returns offered in a low interest environment – 53 per cent said this was the main factor.

The anticipated monetary tightening in the US could have a bearing on demand for private debt funds. However, certainly in the UK and possibly Europe, interest rates are likely to remain relatively stagnant. This would provide comfort to private debt funds.

Of those polled, 27 per cent said the anticipated increase is as a result of bonds offering meagre returns; 16 per cent because stock markets will become more volatile.

"Our research shows family offices are placing a greater focus on investing private debt, and we are certainly seeing this through our fundraising," Chris Miller, managing partner at Shearwater Aero Capital said. "Family offices currently have around 10.7 per cent of their AUM in private debt, but our research shows that 32 per cent of family offices and wealth managers interviewed expect this to be over 12 per cent by 2022."