Private Equity International

June 2023 • privateequityinternational.com

EXTRA
Growth capital special report

PEI 300

A new winner takes the throne

PEI

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Private Equity International

ISSN 1474-8800 • ISSUE 216 • JUNE 2023

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Apollo **Fund X expected to close under target**

Apollo Global Management expects to wrap up fundraising for its 10th flagship vehicle over the summer, the firm revealed on its first-quarter 2023 results call. It expects to raise less than the $25 billion it initially set out to gather, ***writes Carmela Mendoza***.

Apollo had secured approximately $16 billion as of end-March for Fund X, co-president Scott Kleinman said on the call accompanying the earnings results in May.

"We experienced solid demand from repeat investors off the back of very strong Fund IX performance, which appreciated 23 percent in 2022 and 8 percent in the first quarter. We have… investors in the final stages of documentation, and currently expect total commitments to be in the low-$20 billion range, with a final close expected over summer," Kleinman said.

Kleinman noted on Apollo's third-quarter earnings call last year that the firm was keeping fundraising for the vehicle open until the first half of 2023, citing the fact that investors were facing allocation constraints due to the impact of the denominator effect and a crowded fundraising market. The firm had gathered $14.5 billion for the vehicle as of end-December.

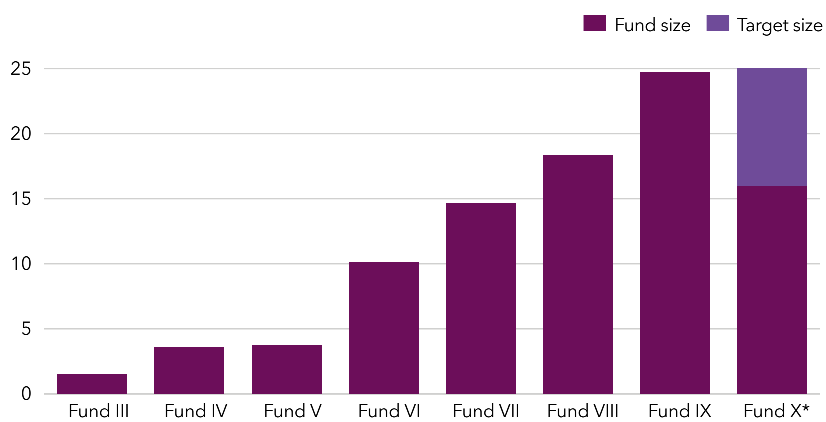
Troubled waters

Apollo is among a set of managers including the Carlyle Group, Blackstone and TPG that are on the fundraising trail and appear to be collecting less capital for their latest flagship offerings than they did for their predecessors. Carlyle CFO Curt Buser said on the firm's Q1 results, also in May, that the firm expects its buyout vehicles to be smaller than its predecessors, having raised $14.4 billion for Carlyle Partners VIII as of end-March against the $22 billion it is reportedly seeking.

Blackstone had gathered $15.5 billion as of end-March for BCP IX against an undisclosed target; the fund's predecessor raised $26.2 billion against a $25 billion target in 2019. TPG, meanwhile, said it was "too early to tell" whether it will reach its fundraising targets.

Kleinman noted on the call that Apollo's core PE business is "operating in the right size", adding that the business is sitting in the $20 billion "sweet spot", which gives the firm firepower to execute on transactions such as public-to-private

Apollo's Investment Fund X is expected to close under its $25bn target ($bn)



Fund X had raised $16bn against its $25bn target as of end-March
Source: PEI

deals and distressed opportunities. “Right now, our execution capacity is sized to that level,” he added.

Fund X has committed or invested approximately $6 billion of capital as of the end of the first quarter, Kleinman said. Latest transactions include the $8 billion acquisition of chemical company Univar Solutions and the $5 billion acquisition of aluminium products manufacturer Arconic.

Apollo gathered $57 billion of fresh capital across strategies in the first quarter. Nearly 80 percent, or

> “I would expect a near record of asset management fundraising in Q2”
>
> Marc Rowan
> Apollo Global Management

$45 billion, of inflows came from its asset management business, including $37 billion related to the February acquisition of Credit Suisse’s securitised products group, as well as through capital raised for Fund X, credit-focused separately managed accounts and wealth products, among others, according to the firm’s earnings statement.

Despite the challenging fundraising environment, Apollo chief executive Marc Rowan said the firm is set to exceed the $130 billion of capital it raised in 2022, with some sizeable closings in the second quarter.

“I would expect a near record of asset management fundraising in Q2. I believe purchase price resonates now more than ever and I expect a very strong year,” Rowan said.

Apollo’s total assets reached $598 billion, up 17 percent year-on-year. ■

Ups & downs

↑

“We believe transactions will start to close again”

Darren Massara, *managing partner of TPG’s NewQuest Capital Partners, tells affiliate title Secondaries Investor that high demand for GP-leds is causing bid-ask spreads to narrow.*

↑

↓

“We are not pleased with our first-quarter results”

In his first earnings call as CEO of the Carlyle Group, ***Harvey Schwartz*** *lamented the firm’s muted fundraising activity so far this year*

↓

The big numbers

Dynamo Software’s *Trends, Challenges & Insights from Leading Emerging Managers* report looks at emerging managers’ priorities over the next year

$1bn
Typical assets under management of an emerging manager by most definitions

90%
Proportion of all women-led funds that qualify as emerging managers

12.7%
Amount of investors that are willing to allocate more than 75% of capital to new investment vehicles

83%
Percentage of emerging managers that intend to stay focused on a single asset class over the coming 12 months

#1
Increasing internal headcount is the number one priority for emerging managers over the next year

1.6%
Percentage of emerging managers planning to decrease their tech budgets this year, versus 51% planning to increase

32%
Proportion of emerging managers that raised most of their capital from the private wealth segment last year

43%
Almost half of emerging managers anticipate an increase in ESG reporting over the coming year

Goldman Sachs **Family offices want more PE**

While GPs globally are struggling to fundraise, family offices are showing increasing appetites for private equity, ***writes Katrina Lau***.

Eyes on the Horizon, a Goldman Sachs report on the capital allocations of institutional family offices, found that 41 percent of family offices are expecting to increase their PE allocation in the next 12 months. On average, respondents have 26 percent allocated to PE, 2 percent higher than the average in 2021. A total of 166 family offices around the world were surveyed, 72 percent of which had a net worth of at least $1 billion.

Family office clients are looking to alternatives to increase their overall risk-adjusted returns and diversification for their portfolios. "They don't have to report to anybody else other than themselves, and so this is one of the reasons why they can zig while others zag," said Meena Flynn, co-head of Goldman Sachs Global Private Wealth Management, at a press briefing accompanying the report.

Light on their feet

Family office investors are also getting more professionalised while still retaining their flexibility in commitments. "What really marks the family office community out is their ability to be less dogmatic and sometimes more nimble than institutions," Rob Mullane, head of EMEA Alternative Capital Markets Group at Goldman Sachs, tells *Private Equity International*.

In terms of geographical spread, the report found that family investors allocate an average of 63 percent to the US, 8 percent towards China and 2 percent towards India. "Most Asia family offices are heavily invested in the US," says Lily Chan, head of Asia Alternative Capital Markets Group at Goldman Sachs. "Within Asia, more clients these days are also looking for investment opportunities regionally, including in India, Japan, South Korea and Australia."

Chan adds that most of her clients look to diversify away from the core businesses where they first generated wealth, both geographically and by sector.

Feeling appreciated

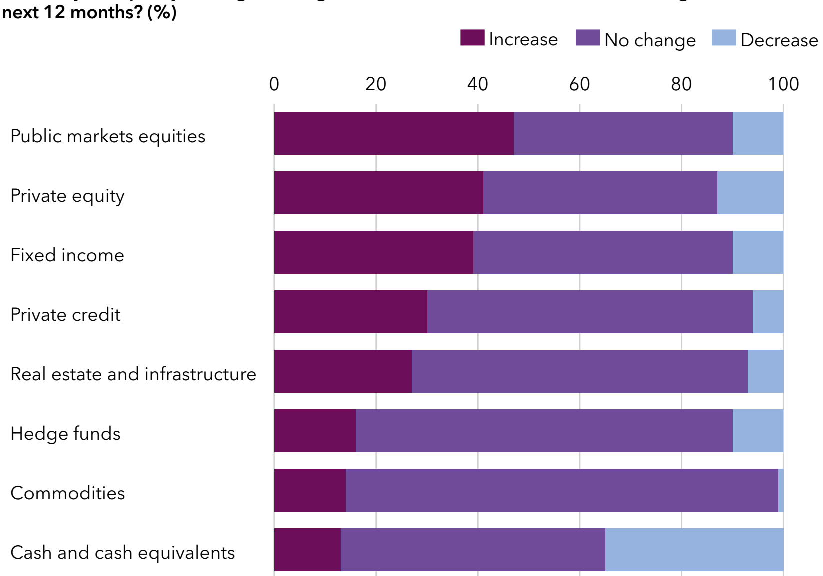
While some high-net-worth families can offer large cheques comparable to institutional investors, some family offices prefer smaller ticket sizes. These offices appreciate managers who treat them as equally important.

"Family offices want to feel like they are treated as a good client of the GP," says Mullane. "They want to feel like the access they're going to get from those managers is going to be of the right quality for them to be able to do their diligence and potentially support those GPs in things like co-investments and other endeavours."

Mullane also notes that fund managers who cater to private wealth clients have a tendency to scale up their investor relations operations, or to approach placement agents or wealth managers who already have a footprint in the family office community in order to facilitate smoother transactions.

In Asia, where the family office sphere is still growing, investors are starting to appreciate the importance of secondaries investments. "We have seen an increase in their asset allocation to secondaries in order to further mitigate the J-curve effect for their portfolios," Chan notes. She adds that semi-liquid strategies also sell well in the region, as they cater to smaller-cheque family investors and those who are new to the illiquid asset class. ■

How do you expect your target strategic allocation to these asset classes to change over the next 12 months? (%)



Source: Goldman Sachs

Tech **Sector-specific funds defy PE's fundraising freeze**

Private equity's tech specialists appear to be having greater success on the fundraising trail this year than some of their peers, ***writes Alex Lynn***.

TPG's second tech fund defied a fundraising chill in April to close above target. Launched by the firm's tech-investing unit TPG Technology Adjacencies (TTAD) in May 2021 with a $3 billion target, the fund and related vehicles collected $3.4 billion, according to a press release. The fund is more than twice the size of its predecessor, which secured $1.6 billion in 2018.

This fund family provides capital for tech companies across all stages of growth through structured and opportunistic minority investments. TTAD is led by co-managing partners Nehal Raj, who co-leads the firm's investment activities in software and enterprise technology across its PE platforms, and David Trujillo, who leads TPG's internet, digital media and communications investing efforts across the firm. The two funds have deployed more than $1.8 billion in total, per TPG's website.

TPG's close comes at a time of fundraising headwinds and deteriorating tech valuations. Closing below target seems set to become more common, even for established managers such as the Carlyle Group, which collected $950 million against a $1 billion target for its latest Asia growth fund.

Apollo Global Management expects to wrap up fundraising for its flagship vehicle Fund X over the summer with commitments in the "low-$20 billion range", co-president Scott Kleinman said on the firm's Q1 earnings call in May. The fund's target was $25 billion; it raised $24.7 billion for Fund IX in 2017 (see p. 2).

Indeed, TPG itself warned that its latest batch of flagship funds – ie, those without a dedicated tech focus – may not reach their initial targets. "We set our original flagship fundraising targets under different market conditions," CFO Jack Weingart said in a Q1 earnings call. "We still expect each fund to grow compared to its predecessor, but in aggregate, they may not grow as much as we previously expected."

Tech triumphs

TPG is not alone in finding joy for tech vehicles: tech-investor giants Silver Lake and Thoma Bravo both demonstrated clear LP appetite for the strategy. Silver Lake has so far amassed $19.2 billion for Fund VII – its predecessor closed on $20 billlion in 2020 – while Thoma Bravo Fund XV closed on $24.3 billion in December after 16 months, topping its $22 billion target.

According to McKinsey's *Global Private Markets Review 2023*, PE deal volumes in tech fell 21 percent last year, with the sector also seeing the largest decline in purchase price multiples. However, with valuation resets come opportunities, meaning GPs may now be able to back tech companies at a more favourable price. These latest vintages could prove timely. ■

KKR **Ascendent Fund hits halfway point**

KKR has eclipsed $2 billion in its fundraising efforts for its first dedicated fund targeting North American mid-market companies, ***writes Gregg Gethard***.

KKR unveiled KKR Ascendant Fund last year to complement its broader Americas platform by focusing on smaller investments. Mid-market companies have become popular for even the largest shops as debt markets remain shut at the larger end, forcing firms to go downmarket for deals. Many large firms over the years have carved out teams – and funds – to continue their pursuit of the lower end of the market.

Details about KKR Ascendant Fund were revealed in documents for Minnesota State Board of Investment's advisory committee meeting in May. Minnesota's investment staff recommended the system commit up to $200 million to KKR Ascendant, adding to the $1.9 billion in commitments raised as of Form D documents filed in April.

Finding the middle ground

According to the documents, KKR Ascendant Fund has a $4 billion target, and will seek companies with enterprise values of between $200 million and $1 billion and less than $75 million in EBITDA. The fund plans on making control investments in companies and carve-outs, and will also incorporate employee ownership plans in its investments, per the documents. KKR started to incorporate employee ownership plans in 2011 and has since expanded the process.

The fund has an 11-year term, along with two additional one-year extensions, pending LP consent. ■

Fuel **VC firm lures private investors through listed, tradable security**

Fuel Venture Capital is attempting to attract more high-net-worth individuals into its next fund with a novel structure that will give LPs the ability to cash out before the end of the traditional 10-year lifespan, ***writes Ryan Hibbison***.

The firm's sophomore fund will offer a 'Fuel VC Note', which will be a listed, transferable security representing a fractionalised interest in the fund that can be bought and sold throughout the fund's lifecycle. Public investors can get into the fund through the note for as little as $125,000.

Fuel has held a first close on $124 million for Fund II, which is targeting $300 million, firm founder and managing director Jeff Ransdell tells affiliate title *Venture Capital Journal*.

The fund will have two sets of investors: 'regular' limited partners who commit a minimum of $1 million, and holders of the publicly listed note. Both sets of investors will have access to Fuel's LP portal and its content.

The $124 million it has already closed on came from a traditional set of LPs including institutional investors, family offices and a small number of individuals. Fuel is preparing to launch the note for non-US investors and is "working through all of the legal needs for US investors right now", Ransdell says. "It's not a matter of if, but when."

Regular LPs pay a 2 percent management fee and 20 percent carried interest, while the public note holders get a break, paying a 1.5 percent management fee and 15 percent carried interest. The fund employs a back-ended carried interest distribution waterfall in which all LP capital must be returned before the GP begins to collect performance fees.

"I think that we will be very successful with this, and wherever there's success, people will watch," says Ransdell, who was a Merrill Lynch executive before making the move to venture capital in 2017. "I think everybody is going to start to do this."

The main point of the new fund structure is to help bring more high-net-worth individuals into private markets, while also providing liquidity in a tough market, Ransdell says. "The data suggests that over the next five years the demand for venture capital will increase 2.4x. People are becoming less and less tolerant for not being able to have that which they want," he tells *VCJ*.

First-hand experience

Ransdell believes his background at Merrill Lynch is what will make Fuel's new target of wealthy individuals successful. "I understand that [wealth management] business very well," he says. "I sat in their shoes. I know how to serve them. I know what it takes to get a client and what it takes to keep a client."

> "I think everybody is going to start to do this"
>
> Jeff Ransdell
> Fuel Venture Capital

He acknowledges that getting public market investors to invest in private markets will hold some challenges due to lack of transparency, but says Fuel is well positioned to help those investors make the move. The firm's quarterly mark-to-market approach will ease some investors' hesitations, and the lower minimum cheque size available through the Fuel VC Note will further encourage new investors to join the market, he says.

Note holders will be able to sell in two scenarios: if there is a liquidity event in the underlying fund or, as the firm expects, if a secondary market for the note develops, where the note holders will be able to sell to other interested parties.

"The note holder will be able to sell at any time, provided there is a buyer," Ransdell says. "Once the fund has closed and the underlying assets appreciate in value the way we think they will, it basically becomes supply and demand. We're giving [the investors] the ability, hopefully in the short term, to manufacture liquidity through a bid-and-ask spread." ■

Form PF **SEC's updated rules mark first step in private funds overhaul**

More than a year ago, US Securities and Exchange Commission chairman Gary Gensler promised to reimagine America's private fund regime, ***writes Bill Myers***.

By early May, he had begun that project by convincing the world's most powerful financial regulator to impose new emergency reporting requirements that he says will help his agency ward off systemic crises.

Registered private equity fund sponsors will have 60 days from the end of each quarter to report GP-led secondaries deals, the removal of a general partner, investor-led liquidations or other "termination events" under new Form PF rules adopted by a divided SEC at its open meeting on 3 May.

The new rules will also require large, registered PE sponsors – those with at least $2 billion in assets under management – to report any GP or LP clawbacks at least once per year and to provide more information about their fund strategies and debt loads on the revised Form PF.

The rules had been pending since early last year. In some ways, they offer compromises with the industry: the proposal had originally set some hedge fund reporting deadlines at one business day; it had defined "large" PE funds as those with at least $1.5 billion in AUM; and it had proposals for reporting by large liquidity funds. Those proposals didn't make the final rules.

In another way, though, the SEC isn't backing off any of the broader principles behind the rulemaking notice. Commission officials say they need better visibility into the $25 trillion private funds industry to ward off systemic risks.

In a fact sheet accompanying the rules, regulators referenced the collapse of Silicon Valley Bank and its knock-on effects: "The commission's experiences with recent market events have highlighted the importance of receiving current and robust information from market participants."

The power of more

The new Form PF rules are merely the beginning. Still pending is yet another Form PF overhaul, in partnership with the Commodity Futures Trading Commission, and a huge rulemaking notice that would ban a host of private fund fees.

Gensler has often said his reforms have two goals: the first is to shrink investment adviser fees; the second is to protect the millions of ordinary Americans whose pension funds prop up the private fund industry.

"History is replete with times when one corner of the financial system… spills out into the broader economy," Gensler said in voting for the new rules. "And when that happens, everyday Americans – bystanders on the highway of the economy – get hurt. Private funds also have evolved significantly in their business. Private funds today are ever more interconnected with the markets. It makes the visibility into these funds ever more important."

No 'commensurate benefit'

The vote result drew criticism from lobby group the Managed Funds Association, with president and chief executive Bryan Corbett saying it was disappointing the SEC did not move both Form PF proposals together to help reduce the implementation burden on managers.

"While alternative asset managers do not pose systemic risk, we are sympathetic to efforts seeking to monitor risk throughout the financial system," Corbett said in a statement. "We appreciate that the SEC has incorporated some of our suggestions, but we are concerned this final rule has the potential to exacerbate stress on funds, harm investors and increase market volatility without commensurate benefit."

The new rules came over the objection of the SEC's Republican commissioners. "This expansion of Form PF data collection is another demonstration in the commission's belief in the benevolent power of more," Hester Peirce said in voting against the rules. "More is not always better. Private fund managers should spend their time focusing on their risks, not filling out SEC forms." ■

China **Canadian pensions defend exposure**

Canadian pensions' investment approach to China was one of the main concerns raised at a parliamentary committee meeting in May, ***writes Carmela Mendoza***.

Representatives of Canada's largest pensions – including the Canada Pension Plan Investment Board, Caisse de dépôt et placement du Québec and the Public Sector Pension Investment Board, three of the world's biggest investors in private equity, according to *Private Equity International*'s Global Investor 100 ranking – were invited to testify at the House of Commons Special Committee on the Canada-People's Republic of China Relationship.

During the meeting, they faced tough questioning about their China investments.

"Exposing the fund to Chinese funds gives us access to one of the world's largest, fastest-growing economies and sectors such as consumer discretionary, logistics and real estate," said Michel Leduc, global head of public affairs and communications at CPP Investments. "In addition to this demographic opportunity, China often moves in ways uncorrelated to developed markets, thus adding balance to our portfolio.

> "[Exposure] to Chinese funds gives us access to one of the world's largest, fastest-growing economies"
>
> Michel Leduc
> Canada Pension Plan Investment Board

"Yes, we do absolutely understand there are important risks, particularly in the face of social issues and evolving geopolitical risks."

Leduc told the committee that CPP Investments achieves this through its investment decision-making processes, strong diligence assessing political, legal and regulatory risks, as well as through systems and tools monitoring passive and active holdings.

PSP Investments chief investment officer Eduard van Gelderen, meanwhile, noted that every single investment of the pension – especially those in private markets – has to go through its risk and investment committee. "Once a proposal is on the table… we really dice and slice an investment proposal in many different ways, including geopolitical risk and national security risk."

Staying in the game

China holdings make up 9.8 percent of CPP Investments' portfolio, Leduc said. If the ESG risk is too high, it would consider "buying, holding and selling", he added. "[On] any given day, we do all three. If we are not satisfied with the level of risk or information, we will absolutely invoke any one of those."

As some North American investors pulled back from China's PE market last year, CPP Investments remained active, with key deals including for HR services provider 51job and a $35 million co-investment in cosmetics business HCP Global alongside the Carlyle Group.

Across strategies, Asia-Pacific accounts for about 12 percent of PSP Investments and CDPQ's investment portfolios, according to their annual reports. The former finalised its APAC strategy in 2022, in which it plans to increase exposure to the region to more than C$60 billion ($45 billion; €41 billion) by fiscal year 2026. It is unclear how much of their PE holdings are in China.

APAC-dedicated PE funds accounted for just 1.4 percent, or $2.2 billion, of capital raised in the first three months of 2023, according to *PEI*'s first-quarter fundraising report. By comparison, the region took 8.3 percent of capital raised in 2022, and 13.3 percent in 2021. ■

ILPA **Continuation fund guidance addresses 'growing LP frustrations'**

The Institutional Limited Partners Association is calling for continuation fund processes to be more deliberative and transparent in a new guidance document it compiled partly to address "growing LP frustrations" over how GP-led secondaries deals are handled, ***writes Tom Auchterlonie***.

The trade group criticised the handling of the recently popular transaction type for two reasons: first, it said LPs are being rushed into deciding whether to sell or roll their investments into the funds with as little as 10 days' notice given. Such a short schedule is challenging for LPs facing re-underwriting, ILPA said, which means they are forced to cash out "if the timeline doesn't align with institutional requirements, such as investment committee meetings".

Second, the organisation said GPs have conflicts of interest because they are involved in both the buying and selling sides of the deal, spurring it to push for more disclosure.

The guidance, which was published in May and is for both LPs and GPs to use, says LPs should get at least 30 calendar days or 20 business days to decide on whether to sell or roll investments. It also calls for GPs to meet with LPACs to review proposed deals 10 business days before the election periods begin.

ILPA cautions that some LPs need ample time due to internal requirements requiring that they conduct due diligence steps from scratch, since continuation fund transactions count as new investments. The steps can include re-underwriting and getting approvals from investment committees.

LPs that don't give answers during their election windows should be given liquidity by default, the guidance says, stating they "should never be forced to roll their interests into a new vehicle". The group adds that GPs should reach out to their funds' LPACs to discuss their proposed continuation fund deals as early as possible.

ILPA advice

The guidance suggests that GPs should proactively engage in informal talks with the committee and present their rationales for transactions to LPs, including why they want to go with a continuation fund instead of alternatives such as traditional exits or fund extensions. It adds that GPs' rationales should cover capital needed, affected portfolio companies' quality, anticipated time to future realisations and exit plans.

ILPA urges LPs to pay close attention to continuation fund deals affecting less mature funds.

"The rationale should be heavily scrutinised in circumstances where the existing fund has remaining unfunded capital or is within the first five years of the inception of a fund," says the group, which counts almost 600 members with a collective $2 trillion in private equity assets under management.

LPs' side letter terms should be carried over to either the continuation fund's LPAs or to new side letters, the group says. It adds that side letter terms that aren't applicable "may be negotiated as they occur".

The guidance also calls for disclosure of fund terms for new LPs that are joining the funds, along with explanations for why the terms may differ from those that rolling LPs currently have.

ILPA endorses obtaining outside fairness opinions for affected portfolio companies' valuations in order to navigate GP conflicts, although it doesn't suggest that this process is needed in all deals.

"In certain instances, selling LPs may benefit from an independent assessment of the value of the underlying assets, together with a formal opinion stating that the cash price offered is fair from a financial point of view," the group says. "This is relevant as the NAV is determined by the GP, and, typically, a trailing number will be used for discussion purposes during the solicitation process, which may or may not be relevant to the current valuation."

The organisation says LPs can ask their GPs to commission the opinions, which would be conducted by independent advisers. ■

> "[LPs] should never be forced to roll their interests into a new vehicle"
>
> ILPA guidance letters

NAV loans

Strategy survives market instability

The market for NAV loans managed to resist much of the turmoil besetting the leveraged loan market in 2022, ***writes Graham Bippart.***

Market players say some mega-fund borrowers have been unable to get their target borrowing amounts. The NAV loan market, on the other hand, has seen only a mild drop in the total value of loans extended, and an actual increase in the number of them, according to a survey of 19 lenders conducted by fundraising adviser Rede Partners.

The North American leveraged loan market saw a 24 percent drop in volume between 2021 and 2022, while high-yield bond issuance dove 78 percent, Rede says. While the leveraged loan market dwarfs the NAV market in size, the latter saw a drop in total value of deals done of only 12.5 percent over the same time period, from $24 billion to $21 billion.

The number of transactions increased, Rede also finds: the weighted average number of deals done by each of the 19 lenders surveyed was five, up from four the year earlier.

The comparatively bright picture in NAV lending is being driven by an increase in relatively novel uses for the strategy, which was originally marketed as a defensive tool that could be used to bolster struggling portfolio companies. Today, more borrowers are using the facilities to increase their distribution-to-paid-in-capital ratios: 61 percent of respondents said they had seen an increase in the number of NAV deals used solely for the purpose of increasing DPI. ■

Diversity UK PE still has a way to go to be equitable

UK private equity still has a lot of room to improve when it comes to diversity within investment teams, though progress is being made, ***writes Madeleine Farman.***

The vast majority (83 percent) of investment professionals based in UK offices define their identity as White, according to the *Diversity & Inclusion Report* published by the British Private Equity and Venture Capital Association in collaboration with gender diversity body Level20.

Of the remaining 17 percent, 10 percent identify as Asian, 2 percent identify as Black/African/Caribbean, 2 percent identify as mixed/multiple ethnicities, and 3 percent identify with other ethnic groups.

Furthermore, 26 percent of firms have White-only UK investment teams. In previous iterations of the report, which is published every two years, all-White investment teams were found in 54 percent of firms across European workforces.

"The ethnicity data is disappointing," Wol Kolade, managing partner of UK-based mid-market private equity firm Livingbridge, Level20 advisory board member and founder of the 10,000 Black Interns programme, said in the report. "Firms need to be investing in attracting talented people from different ethnic backgrounds now, otherwise the future workforce will not look any different from today. We know that driving change is hard work – and not every initiative will succeed. But it is work which must be done."

Changes to be made

When it comes to gender breakdowns, 24 percent of investment team professionals are women, up from 20 percent in 2021. Of senior investment roles in UK offices, 12 percent are taken up by women.

Overall, women make up 40 percent of the UK private equity and venture capital workforce, a slight increase from the 38 percent stated in the last report. Of firms that participated in the survey, 17 percent have no women at all in their UK investment teams.

Breaking metrics down further, of the total private equity and venture capital workforce, 8 percent of women in the industry are from ethnically and culturally diverse backgrounds, and only 1.3 percent are Black/African/Caribbean. This becomes starker in the senior workforce: of the 20 percent of women in senior positions, just 3 percent are from minority ethnic groups. No senior Black women were reported in the survey.

As part of the survey, BVCA and Level20 carried out focus groups, which found that cultural change needs to be driven from the top. They suggested firms should encourage productivity over presenteeism and that parental leave should be normalised by senior individuals, especially men. ■

Missed targets 'Failed' fundraises have many subtleties in the eyes of LPs

Comment

Expert analysis by **Madeleine Farman**

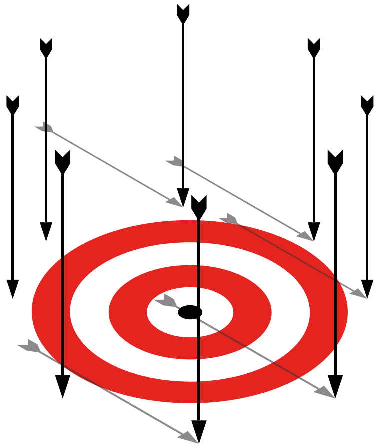
For a handful of years, fundraising press releases wrote themselves. The phrases "oversubscribed", "first and final close" and "significantly larger than its predecessor" served as easy wins for public relations professionals.

Those days are long gone. In April, *Private Equity International* reported on the dearth of oversubscriptions among private equity funds. In May, we wrote about how the perception of what counts as a successful raise in this environment has been recalibrated altogether.

A vehicle that can now reach its original target within a year of launching would be a decent outcome, according to Karl Adam, partner at placement agent Monument Group. That means, to be explicit, no massaging figures down when you realise you aren't going to hit your goal.

Speaking to LPs over the course of one week in May, the uniting words when it comes to what constitutes a failed fundraise were: "It depends." Responses from the placement agents we spoke with varied from a fund not hitting its target being forgivable, to closing below target being perceived as an outright failure.

Two key themes emerged in discussions: investors want to be kept in the loop before and during fundraising, and they want managers to be cognisant of the time they spend in the market. (Hot tip: LPs do not want you out there for too long, as they want you to be focusing on investing and monitoring your portfolio.)



> " The valuation correction may play in a manager's favour [as] more can be done with less "

Even if managers believe the sky's the limit when it comes to fundraising targets for their particular strategies, our conversations with market participants suggest it is always best to take a cautious approach by setting a modest target.

For those that do come below target, the proof will be in the returns they produce. As some LPs pointed out, the valuation correction may play in a manager's favour, both in terms of the gains that can be reaped via value creation and the fact that the deals funds can invest in are cheaper, so more can be done with less.

Pros and cons

It's well documented that the denominator effect coupled with slow distributions and steady capital calls are causing headaches for LPs. Those more experienced know this phenomenon is usually helpful over the long term because private equity managers are buying assets at lower valuations, and recession vintages tend to outperform, says Greg DeNinno, head of US-based multi-family office Pennington Partners' private equity platform.

Because there are lower valuations today compared with a year or two ago, closing on a smaller amount than targeted may actually not be such a bad thing, say some LPs. A step up in fund size between vintages from $1 billion to $1.5 billion when valuations are down 25 percent is akin to doubling the fund's size, Daniel Winther, head of private equity and infrastructure at Swedish life insurer Skandia Asset Management, points out.

"The best comparison to now are the 2001 and 2010 vintages, that both came [around] two years after a market peak," DeNinno said. "Many GPs then raised smaller funds but went on to resume growth over the longer term. However, there were far fewer PE firms back then, and many of the firms from that era are no longer active."

For those managers that have closed under their targets, the hard work begins to make sure they're in the outperformance category for this vintage. ■

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Madeleine Farman is a senior reporter at PEI Group

Continuation funds **New sources of liquidity will be vital as traditional exit routes dry up**

Comment

Expert analysis by **Adam Le**

On 19 March 2020, two days after several countries around the world went into lockdown as a novel respiratory virus began to spread from nation to nation, affiliate title *Secondaries Investor* wrote that it was time for GP-led processes to prove their worth.

With uncertainty running rife – both in financial markets and on the streets – portfolio companies would likely need extra cash from their private equity owners to pay staff, keep the lights on and prevent liquidations. GPs would require extra runway to manage assets, while LPs seeking to take cash out of private markets funds should have the chance to do so. All this could be facilitated by the GP-led market, we argued.

Three years on, the pandemic may seem like a thing of the past to many readers. And yet, a different set of market dynamics are converging to again thrust GP-leds – and continuation funds in particular – into the spotlight.

Here's the problem: a lack of viable exit options means that private equity firms have to find other ways to sell companies, both so they can provide distributions to their LPs and help generate their carried interest. IPOs are no longer seen as an attractive way to exit a business – a trend that has been growing for some time. Data from Morgan Stanley shows that the number of public companies in the US halved between 1996 and 2020. In the UK, the number of listed companies has fallen from just over 3,200 in 2007 to around 2,000 today, according to figures from the Quoted Companies Alliance.

New routes

These challenges are causing some of private markets' biggest firms to consider alternative ways to exit companies – and this includes using continuation funds. Describing the current exit market as "a little lumpy" in an earnings call in April, EQT chief executive Christian Sinding said his firm was pondering alternative liquidity options.

"If we can create more value in the companies and for our clients by keeping the business a little bit longer and going out into a more robust market, we'd rather do that," Sinding said, noting that partial sales and continuation funds were on the cards.

EQT already appears to be using the latter: while there was no mention of specific continuation fund processes on the call, affiliate title *Buyouts* reported in February that the Stockholm-headquartered firm was working on exploring a continuation fund deal to further grow its portfolio company Waystar.

Lawyers who work on secondaries deals say they're expecting a steady increase in continuation fund deals this year due to these dynamics. Speaking at Morgan Lewis's Private Investment Funds Summit in London in April, Morgan Lewis partner Joseph Zargari said the law firm was expecting to see another uptick in GP-leds this year as the M&A market slows.

"The traditional exit route for GPs is not really an option right now," he said. "GP-leds are being looked at as a way for managers to monetise their carry."

The fundamental question is, of course, where will the capital come from to finance this expected proliferation of continuation fund deals?

According to research by Evercore, there was $131 billion's worth of dedicated dry powder for secondaries at the end of last year, excluding leverage. Based on last year's volume breakdown – assuming 47 percent of that capital is to be used for GP-led deals, and roughly 80 percent of that will be for continuation fund processes (as opposed to tender offers, strip sales and preferred equity financings) – that means there's just $38.4 billion in available capital globally to help GPs hold onto their assets in this way.

To put that in perspective, that's just enough capital for nine GP-leds the size of Clayton, Dubilier & Rice's 2021 Belron deal. Food for thought. ■

"The traditional exit route for GPs is not really an option right now"

Joseph Zargari
Morgan Lewis

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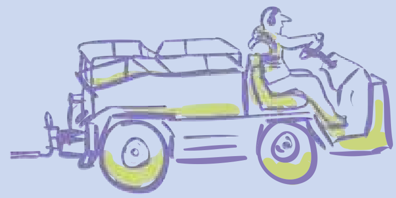
Adam Le is senior editor of private equity, EMEA at PEI Group

Rushing to the defence **Aerospace and defence investment remains subdued, but opportunities are on the horizon**

"It is too shortsighted to say aerospace is down and out"
Jim Adams, KPMG

60%

Drop in airlines' total revenue passenger kilometres in 2020 due to the covid-19 pandemic



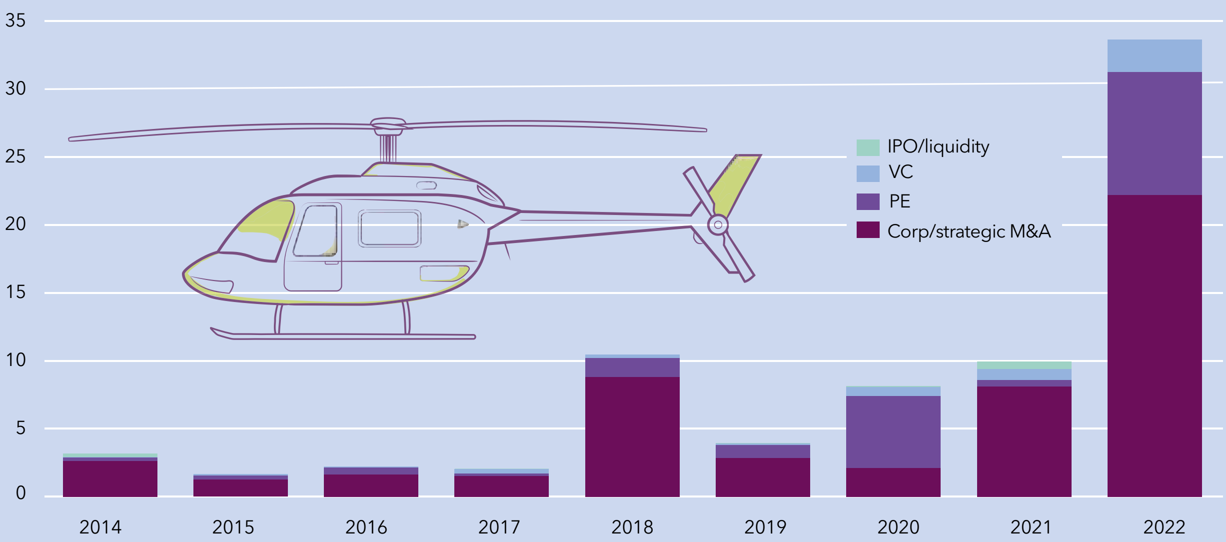
2024

The year by which the industry is expected to return to 2019 levels of demand

Aerospace and defence returns took a steeper plunge than the S&P 500 during the pandemic, and have also been slower to recover (%)

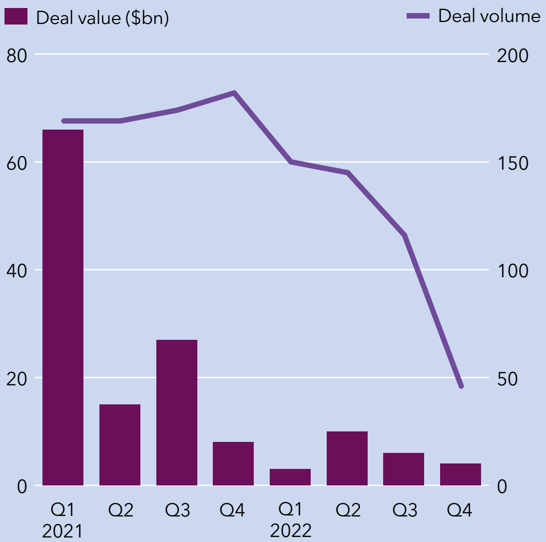
Figures show percentage change in net total returns from 2 January 2020
Source: S&P Aerospace & Defense Select Industry Index, S&P 500

PE remains a relatively minor contributor to A&D, though investment has spiked since the Russian invasion of Ukraine ($bn)



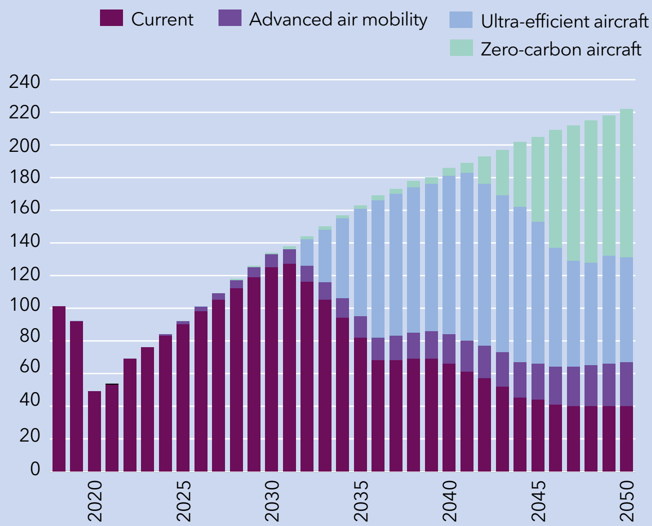
2023 data as of 20 February
Source: Morningstar, PitchBook

The Department of Defense's caution against consolidation has resulted in muted A&D dealmaking in the US

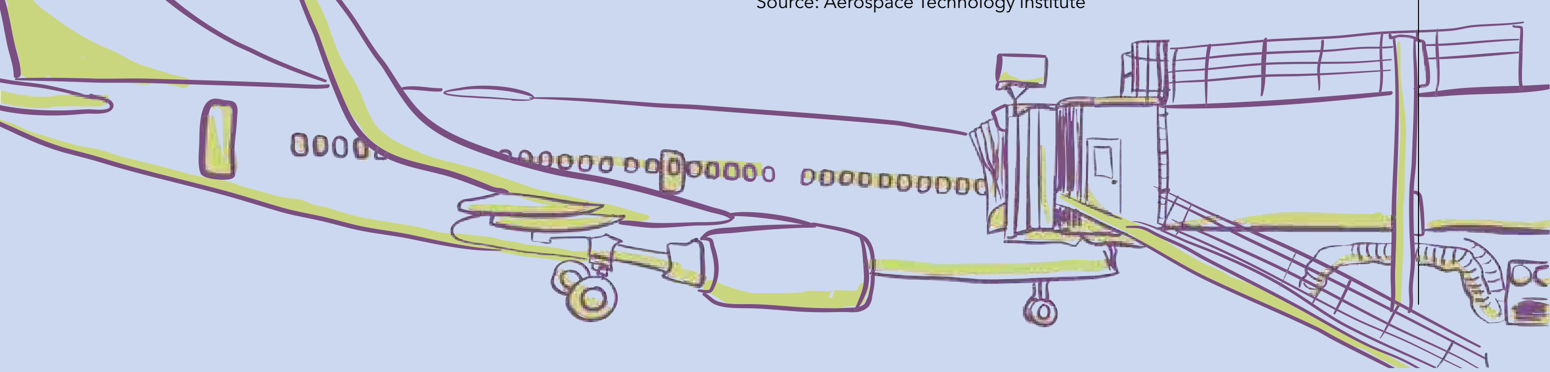


Q4 2022 data as of 15 November
Source: PwC

Looking ahead, one of the biggest opportunities in A&D investment will lie within the development of lower-emissions aircraft (global market value, £bn)

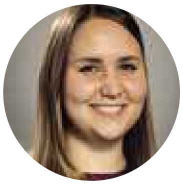


Advanced air mobility enables electric take-off and landing; ultra-efficient aircraft features light-weighting of aircraft structures and systems; zero-carbon aircraft focus on battery, hydrogen and fuel-cell technologies
Source: Aerospace Technology Institute



Editor's letter

GPs triumph despite fundraising trouble



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The mood across much of private markets is low. Investors and managers alike are all too aware of the lack of capital in pockets, leaving funds undersubscribed and struggling to close. It's a far cry from not too long ago, when one-and-done fundraises were commonplace and hard-caps were more of a suggestion than a rule.

For this reason, our 2023 PEI 300 ranking is something of a throwback (see p. 18). The annual list looks at GPs' fundraising totals over the past five years, taking into account both market highs and lows to create an overall leader board of the biggest private equity fundraisers. With this year's iteration harking back to 2018, some of the more recent difficulties facing the market have yet to make a dent.

> **"Our 2023 PEI 300 ranking is something of a throwback"**

In fact, this year's capital-raising total is the largest yet: the full list collectively raised $3.13 trillion – up roughly $530 billion on 2022's total – while firms needed to have raised at least $2.08 billion over the last five years to make the ranking at all. What's more, for the first time, three firms cracked the $100 billion mark – a huge milestone for private equity as a whole.

Of course, future iterations may look quite different: if today's fundraising turmoil continues into the years to come, the PEI 300 will begin to reflect it.

With some of PE's biggest hitters already struggling to meet their targets – Apollo said in its Q1 earnings call in May that it expects Fund X to close in the low-$20 billion range against a $25 billion target, while Carlyle simply said in its own call that it is "not pleased with our first-quarter results" – we may have to get used to a PEI 300 with a slightly different message.

Helen de Beer

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Private Equity International
Published 10 times a year by PEI Group. To find out more about PEI Group visit **pei.group**

Printed by Stephens & George Ltd
stephensandgeorge.co.uk

Blackstone on top for sixth time in a decade

This year's biggest fundraiser brought in $125.6bn over the past five years, with runners-up KKR and EQT also breaking the $100bn barrier, writes Madeleine Farman

Despite market turbulence and a harsh fundraising environment, private equity's biggest fundraisers have hoovered up a record amount of capital for the asset class. Over the past five years, the top 300 private equity fundraisers gathered $3.13 trillion between them, up around $530 billion on last year's total.

What's more, Blackstone has earned back its top spot in the ranking, pipping last year's winner KKR to the post. It's a position that Blackstone has held for six years over the past decade.

When asked what's driving investor interest in Blackstone's PE products, Joseph Baratta, global head of private equity, tells *Private Equity International* the firm "act[s] with a healthy measure of risk management". This means it is not investing its capital over a compressed period of time or overconcentrating in one narrow sector vertical.

"[Blackstone adheres] very strictly to what we told [LPs] we were going to do in our flagship buyout [fund]. It's a control strategy [with] larger, higher quality companies, and we do exactly that."

Baratta also highlights the launch of the firm's growth equity platform, which closed its debut fund on its hard-cap of $4.5 billion in 2021, and its life sciences platform, whose inaugural fund reached its $4.6 billion hard-cap in 2020. Baratta also highlights the firm's core platform, which allows Blackstone to hold companies for 15 to 20 years. The firm's second core fund, which is more than 70 percent larger than its predecessor, closed on $8 billion in 2020, according to a statement.

All the while, Blackstone has been upping its private equity flagship.

> *"I'm amused when I read there's this enormous amount of dry powder and too much money chasing too few deals. We're not experiencing that"*
>
> **JOSEPH BARATTA**
> **Blackstone**

Blackstone Capital Partners VIII closed on $26 billion in 2019, above its $25 billion target, with the vehicle around 45 percent larger than its predecessor. The firm is in the market with Blackstone Capital Partners IX, with the firm targeting "a vehicle of substantially similar size as the prior fund", president and COO Jonathan Gray said on the firm's first quarter earnings call in April.

More capital required

The PEI 300 measures the amount of private equity capital raised over the five years to 31 March 2023. This year, firms needed to have raised a minimum $2.08 billion in that time to secure a spot in the ranking. Blackstone's peers among the upper echelons of the ranking are raising increasingly vast sums of money: this year's list marks the first time that three firms – Blackstone, KKR and EQT – have exceeded the $100 billion mark. Only last year, KKR was the first firm to break the same barrier.

In general, LPs are consolidating relationships, Baratta says. "It's not necessarily just with the large multi-product managers like Blackstone. We are certainly, we believe, taking market share among the largest few hundred LPs in the world who allocate substantially to alternatives, but I think the general

The top 10

2023		2022	Firm	Five-year fundraising total ($m)	Headquarters
1	▲	2	Blackstone	125,612	New York
2	▼	1	KKR	103,713	New York
3	◁▷	3	EQT	101,660	Stockholm
4	▲	5	Thoma Bravo	74,093	Chicago
5	▲	6	The Carlyle Group	69,681	Washington, DC
6	▲	19	TPG	54,965	Fort Worth
7	▲	26	Advent International	52,939	Boston
8	▲	17	Hg	51,046	London
9	▼	7	General Atlantic	48,696	New York
10	▲	15	Warburg Pincus	48,534	New York

trend is towards consolidating relationships to fewer, higher quality, more reliable, more predictable managers."

This year's numbers, which take into account years where oversubscribed and one-and-done fundraisings were still a regular feature of the market, reflect the lofty highs and quick successions of past raises. Until the recent lull in fundraising, GPs were investing their funds quicker than they had done historically. "Returns were great, and LPs were allocating increasingly more capital to private equity strategies," Baratta says.

Today, there's less capital available and "heightened concern, rightly, among LPs on how the capital that was put in the ground over the last three or four years is going to perform".

However, Baratta adds, there currently isn't enough capital to satiate Blackstone's ambitions. "I'm amused when I read there's this enormous amount of dry powder and too much money chasing too few deals. We're not experiencing that. We're experiencing the need to go out and partner with people to allow us to transact in the way that we want." In the next five years, he expects the firm to manage even larger funds for its core strategy of buying controlling stakes in companies.

"Since 2007, the global market cap is up four-plus times. But the largest PE managers are still investing out of circa $20 billion funds… So actually, we're not over capitalised. If anything, we're undercapitalised for our strategy." ■

Methodology

How the ranking is determined

The 2023 PEI 300 ranking is based on the amount of private equity direct investment capital raised from third-party investors by firms for funds closed between 1 January 2018 and 31 March 2023, as well as capital raised for funds in market at the end of the counting period.

Definitions

Private equity

For purposes of the PEI 300, the definition of private equity is capital raised for a dedicated programme of investing directly into businesses. This includes equity capital for diversified private equity, buyouts, growth equity, venture capital and turnaround or control-orientated distressed investment capital.

Legend

★ New company for 2023
▲ Up from 2022
▼ Down from 2022
◁▷ Unchanged from 2022

Capital raised

This means capital definitively committed to a private equity direct investment programme. In the case of a fundraising, it means the fund has had a final or official interim close after 1 January, 2018. We count the full amount of a fund if it has a close after this date, and we count the full amount of an interim close that has occurred recently, even if no official announcement has been made. We also count capital raised through co-investment vehicles and other separate accounts that either invest alongside their main fund or are stand-alone, as long as these are not deal-by-deal fundraises.

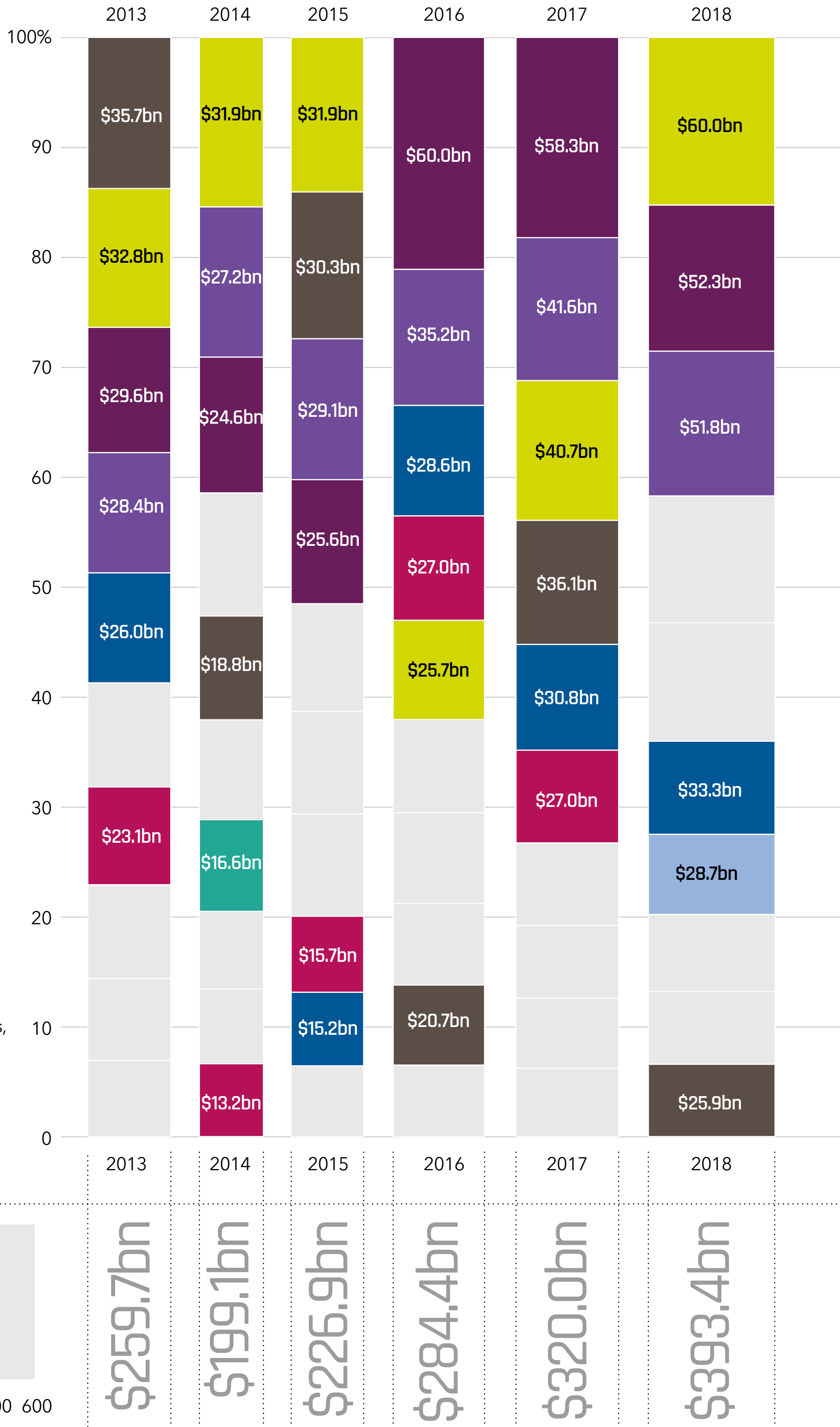
What does NOT count as private equity?

Funds of funds, as well as funds that follow a secondaries, real estate, infrastructure, hedge fund, debt or mezzanine strategy, and PIPEs.

The PEI 300 is not a performance ranking, nor does it constitute investment recommendations.

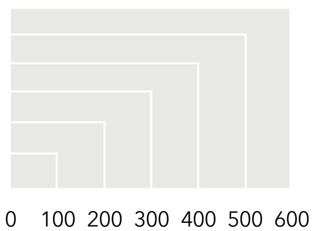
Top 10: Blackstone back on top

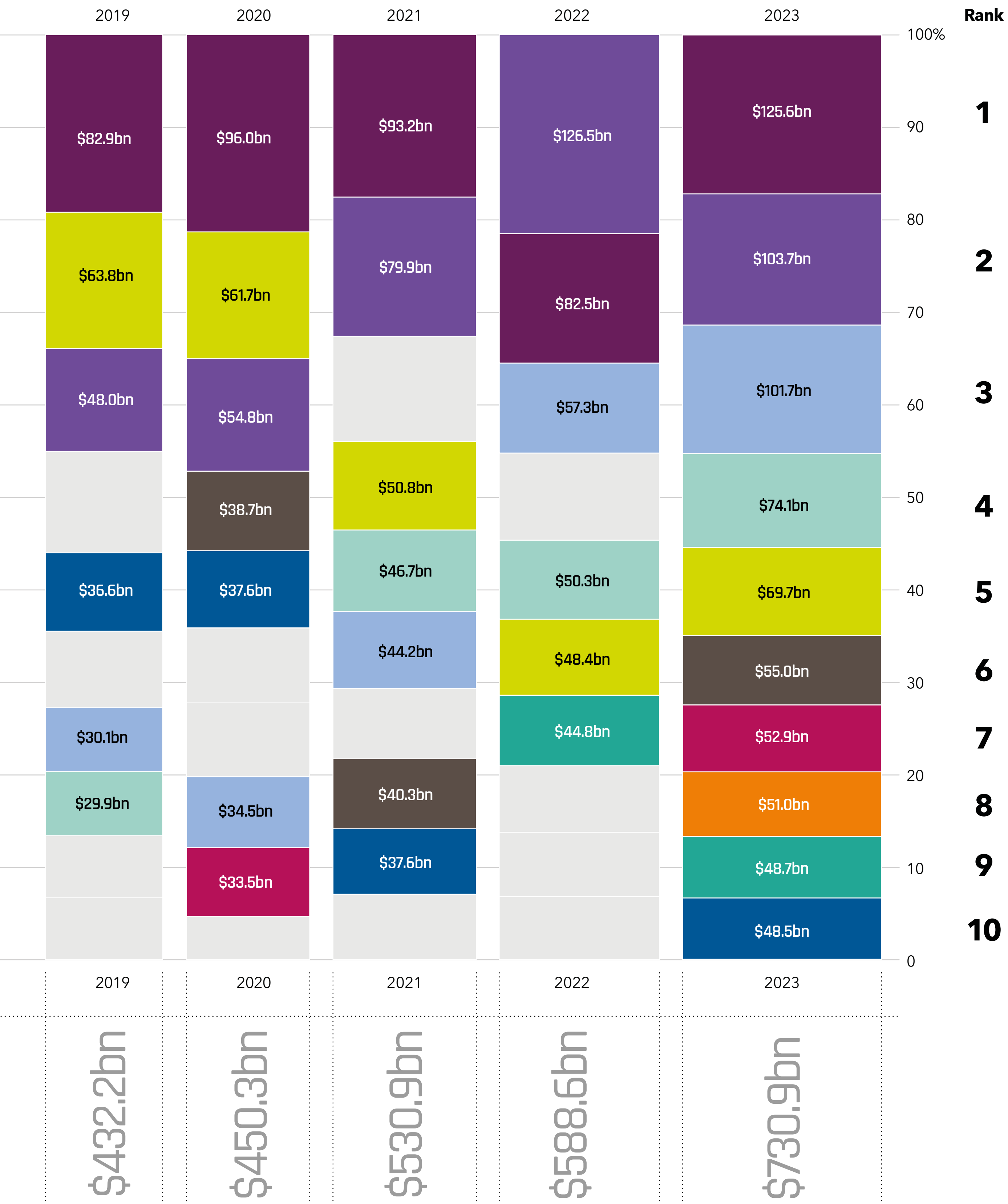
After missing out to rival firm KKR in 2022, Blackstone returns to the PEI 300 top spot



- Blackstone
- KKR
- EQT
- Thoma Bravo
- The Carlyle Group
- TPG
- Advent International
- Hg
- General Atlantic
- Warburg Pincus
- Others (Apollo Global Management. Ares Management, Bain Capital, Clayton Dubilier & Rice, Clearlake Capital Group, CVC Capital Partners, EnCap Investments, Goldman Sachs, Hellman & Friedman, Insight Partners, Neuberger Berman Private Markets, Partners Group, Silver Lake, Vista Equity Partners)

Capital raised: Column width represents total capital raised by top 10 firms for the five years up to that year ($bn)




2019
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$51.0bn
$48.7bn
$48.5bn
2019
2020
2021
2022
2023
$432.2bn
$450.3bn
$530.9bn
$588.6bn
$730.9bn

All change: risers, fallers and newcomers

A challenging fundraising environment has begun to affect the fortunes of GPs on the road, writes Katrina Lau

This year's PEI 300 welcomes 39 new entrants, 31 of which are US-based. Greenwich, Connecticut-headquartered Atlas Holdings is one of the country's highest-ranking newcomers, arriving on the 2023 list in 152nd position.

Atlas, which invests in the industrial, trading and distribution, and energy sectors, has closed two funds in the relevant five-year period: Atlas Capital Resources III, which closed in April 2018 on $1.68 billion, and Capital Resources IV, which closed in March 2021 on $3.1 billion. Both funds wrapped up fundraising on their targets, with Fund IV receiving commitments from Florida Retirement System Trust Fund and State of Wisconsin Investment Board, according to *Private Equity International* data.

Meanwhile, Parthenon Capital Partners jumped 168 places to rank 114th this year, seeing a 226 percent increase in the amount of capital raised. The firm gathered a total of $6.52 billion across the past five years, driven by Parthenon Investors VII, which closed on $4.5 billion in March 2023 against a target of $3.5 billion. The Boston-based GP invests in mid-market businesses focusing on financial, healthcare and business services sectors.

Also in the US, New York-based Sentinel Capital Partners (118) secured a 201 percent increase in capital raised, boosting its ranking by 153 places. Though its second credit fund Junior Capital II closed $415 million below target, its seventh buyout strategy, Sentinel Capital Partners VII, had gathered $4.3 billion by December 2022, closing $550 million above target.

In Europe, London-headquartered software specialist Hg has climbed its way up to the top 10 for the first time, rising nine places to eighth – up from 17th in 2022 and 31st in 2021. Hg began life as a mid-market generalist and later narrowed its focus to tech; today, it specialises in buyouts of software and services businesses. "There's obviously risks and rewards to [specialising in software]. But that felt more motivating and encouraging for the people who work here as well, and for our clients," Nic Humphries, senior partner and executive chairman at Hg, told *Private Equity International* in our May deep dive into the firm.

39

The number of new entrants in this year's ranking

Hg's sharp focus helped its latest large-cap strategy, Saturn 3, close on $11.06 billion in August last year, $2.56 billion north of its initial target. Hg's 2022-vintage Genesis 10, meanwhile – which focuses on medium-sized businesses in western Europe – has already secured €6.75 billion, or 90 percent of its €7.47 billion target, as of its first close in April 2023.

Sitting just above Hg is Advent International (7), which returns to the top 10 for the first time since ranking ninth four years ago. This jump was largely driven by the $25 billion final close of GPE X, making it the world's second-largest PE fund at the time.

Down the list

Some firms had less luck in fundraising this year. The Hague-headquartered Main Capital Partners came close to falling off the list entirely, dropping from 240th position last year to 299th. The firm's 12 percent drop in fundraising stems from its fifth flagship – Main Capital V, which closed in December 2017 – falling out of the PEI 300's five-year fundraising period.

Canadian firm Onex (272) saw a fundraising drop of 67 percent, causing it to fall out of the top 100. In its Q1 2022 earnings call, the GP admitted fundraising efforts could be delayed. In November 2022, the firm held a first close on $2 billion for its sixth flagship vehicle against an $8 billion target. ■

Blue Owl Capital

28 ▲

New York

The firm's rise exemplifies the growing popularity of the GP stakes model

If any firm embodies the meteoric growth of the GP stakes universe, it is Blue Owl Capital. The New York-based alternatives manager – founded in 2021 through the merger of credit specialist Owl Rock Capital Group and Neuberger Berman's GP stakes unit Dyal Capital Partners – climbed to 28 in the rankings this year, from 42 in 2022. Blue Owl's rise comes as little surprise: the firm closed Dyal Capital Partners V on $12.9 billion in December 2022, 43 percent more than its predecessor.

As of April, the firm was understood to have invested $23 billion into GPs from its Dyal Capital Partners III, Dyal IV and Dyal V funds, inclusive of co-investment capital. These include some big GP scalps, such as CVC Capital, HIG Capital and North Asia's MBK Partners.

Blue Owl's growth echoes that of the wider GP stakes community. In a challenging fundraising environment, striking a strategic partnership with a firm that is perceived as being able to help with fundraising – either by providing LP capital itself, or offering assistance from its wider platform, or by helping with introductions to other LPs – can be a significant differentiator. This can include providing access to new forms of capital, such as retail and wealth management channels.

With demand for capital injections only likely to grow, expect more GP stakes firms to climb the rankings in future iterations.

2023 Rank		2022 Rank	Firm	Five-year fundraising total ($m)	Headquarters
11	▲	14	Silver Lake	48,280	Menlo Park
12	◁▷	12	Goldman Sachs	45,358	New York
13	▼	11	Bain Capital	44,347	Boston
14	▼	8	Clearlake Capital Group	43,967	Santa Monica
15	▼	4	CVC Capital Partners	41,750	Luxembourg
16	▼	13	Vista Equity Partners	41,500	Austin
17	▲	18	Clayton, Dubilier & Rice	41,082	New York
18	▼	9	Hellman & Friedman	40,925	San Francisco
19	▼	10	Insight Partners	40,166	New York
20	▼	16	Leonard Green & Partners	39,645	Los Angeles
21	▲	24	Permira Advisers	34,801	London
22	▲	28	Cinven	32,722	London
23	▲	34	Brookfield Asset Management	31,230	Toronto
24	▲	29	Nordic Capital	31,050	Saint Helier
25	▲	33	Genstar Capital	29,920	San Francisco
26	▼	20	Francisco Partners	28,341	San Francisco
27	▲	43	Tiger Global Management	28,292	New York
28	▲	42	Blue Owl Capital	27,156	New York
29	▲	45	Partners Group	26,683	Zug
30	▼	23	Ares Management	26,587	Los Angeles
31	▲	55	Hillhouse Capital Group	26,387	Hong Kong
32	▼	30	L Catterton	24,098	Greenwich
33	▲	39	Neuberger Berman Private Markets	23,711	New York
34	▲	60	PAI Partners	23,666	Paris
35	▼	27	TA Associates	23,500	Boston
36	▼	21	Apollo Global Management	22,837	New York
37	▼	25	Stone Point Capital	22,286	Greenwich
38	▼	32	BC Partners	20,266	London
39	▲	48	Adams Street Partners	20,159	Chicago
40	▼	31	BlackRock	19,864	New York
41	▲	44	BDT Capital Partners	19,470	Chicago
42	▼	38	Veritas Capital	18,950	New York
43	▼	41	Bridgepoint	18,013	London
44	▲	50	Ardian	17,850	Paris
45	▲	56	HarbourVest Partners	17,460	Boston
46	▼	22	China Reform Fund Management Corporation	16,770	Beijing
47	▲	53	Andreessen Horowitz	16,663	Menlo Park
48	▲	61	Thomas H Lee Partners	16,042	Boston
49	▼	36	Summit Partners	16,042	Boston
50	▲	64	PSG Equity	15,750	Boston

Europe's stars shine

The region's managers amassed $139bn more in this year's ranking than the prior period – an all-time high for Europe, writes Carmela Mendoza

Even amid a war in Ukraine and a rapidly tightening monetary policy, Europe-headquartered GPs managed to set a new PEI 300 record. Firms based in the region gathered nearly $592 billion between them over the past five years – an increase of 30 percent over the previous five-year period, *Private Equity International* data shows.

There are 47 Europe-based managers in this year's ranking, almost in line with the 2022 list. Among the top 30 firms in the ranking, some $320 billion was collected by European GPs, nearly $100 billion more than the prior period.

Stockholm-headquartered EQT is the highest-ranked player in the region, keeping its third-place position after raising $101.7 billion over the qualifying period. EQT has been busy on the acquisition front over the past two years as it sought to broaden its healthcare and Asia play with the takeover of Dutch venture firm Life Sciences Partners in 2021 and the €6.8 billion purchase of Hong Kong-based Baring Private Equity Asia in 2022.

London-based software specialist Hg, meanwhile, is one of the biggest climbers in the top 10, jumping nine places to eighth in this year's ranking, with $51 billion raised over the period.

Other European standouts include CVC Capital Partners at 15th, raising $41.8 billion over the past five years; Permira Advisers in 21st place with $34.8 billion raised; Cinven at 22nd with $32.7 billion; and Nordic Capital at 24th with $31.1 billion. Permira and Nordic Capital's latest mega-funds – €16.7 billion for Permira VIII and €9 billion for Nordic Capital XI – contributed to the boost in the firms' respective rankings this year. Permira was up three places and Nordic Capital five.

PAI Partners, BC Partners and Ardian have also risen in this year's PEI 300, having gathered $61.9 billion between them over the qualifying period.

"Now is a good time to be investing in Europe," Rhonda Ryan, partner and head of European private equity at Mercer, tells *PEI*. "If you have the right manager, if you have access to the best managers… then you have the potential to make good returns."

$592bn

Capital raised by Europe-based GPs over the past five years

More than 50 percent of respondents to *PEI*'s latest *LP Perspectives* survey said that they have a similar level of interest in investing in the European market this year, compared with 2022, reflecting the long-term confidence of investors in the region's GPs.

While investors are focused on the macro environment and potential recession in European countries, sectors such as industrials with a more value-orientated play continue to attract capital, as do tech-centric and growth-focused strategies.

"From US investors' point of view, there is a little bit more concern around the Ukraine conflict, coupled with a potential recession," the head of investor relations at a pan-European firm tells *PEI*. "[For them] this tends to be more drawn out in Europe compared to in the US, where it's typically a sharper correction and then a quicker bounce back."

Nevertheless, capital from North American LPs accounted for the highest proportion – nearly one-quarter – of total fundraising in the region in 2022, according to data from Invest Europe. By type of investor, pension funds contributed the most to funds raised by European GPs at 27 percent, followed by funds of funds at 18 percent and sovereign wealth funds at 15 percent. ■

Eurazeo

59 ▲

Paris

Despite recent leadership turmoil, Eurazeo rose 13 spots in this year's ranking

It has been a tumultuous year for Eurazeo. In February, Virginie Morgon, the firm's chief executive and one of the most recognisable faces in European private equity, was ousted from her post amid apparent dissatisfaction from the firm's main family shareholder. The discontent stemmed from Eurazeo's flattish share price and slow fundraising progress for its flagship buyout strategy.

Then, in April, the firm said it was unwinding its relationship with New York's Rhône Group after nearly five years of partnership.

Morgon, who had overseen the acquisition of Rhône, also led Eurazeo's push into the US and was a champion of ESG issues: when *Private Equity International* sat down with her in Eurazeo's headquarters in 2019, Morgon spent half an hour talking about ESG issues alone.

Despite this turmoil, Eurazeo had a sizeable jump in the PEI 300 this year, rising 13 spots to 59th. It's also the third-highest ranked Paris-headquartered firm after PAI Partners and Ardian.

Eurazeo raised $13.2 billion over the relevant five-year period, 55 percent more than the $8.5 billion it raised for last year's ranking. Notable capital raises include its China Development Fund, which counts sovereign giant China Investment Corporation as an LP, and Growth Fund III, which beat its €1 billion target to close on €1.6 billion during the pandemic.

2023 Rank		2022 Rank	Firm	Five-year fundraising total ($m)	Headquarters
51	◁▷	51	China Merchants Capital	15,325	Shenzhen
52	▼	47	HIG Capital	14,871	Miami
53	▲	70	Sequoia Capital	14,643	Menlo Park
54	▲	66	Accel-KKR	14,510	Menlo Park
55	▲	86	Lightspeed Venture Partners	14,332	Menlo Park
56	▲	71	ECP	13,656	Summit
57	▼	49	Apax Partners	13,580	London
58	▲	63	Hamilton Lane	13,338	Conshohocken
59	▲	72	Eurazeo	13,167	Paris
60	▲	106	Astorg Asset Management	12,773	Luxembourg
61	▼	37	Platinum Equity	12,760	Beverly Hills
62	▼	57	CPE	12,714	Beijing
63	▲	68	GI Partners	12,600	Scottsdale
64	▲	80	Roark Capital Group	12,520	Atlanta
65	▲	95	Audax Group	11,760	Boston
66	▲	143	TSG Consumer Partners	11,708	Larkspur
67	▲	117	TowerBrook Capital Partners	11,230	New York
68	▲	74	General Catalyst Partners	11,196	Cambridge
69	▲	293	Bessemer Venture Partners	10,500	Redwood City
70	▼	40	New Mountain Capital	10,465	New York
71	▲	113	Quantum Energy Partners	10,128	Houston
72	▼	46	GTCR	10,100	Chicago
73	▼	62	New Enterprise Associates	9,996	Chevy Chase
74	▲	79	Madison Dearborn Partners	9,981	Chicago
75	▲	78	TCV	9,971	Menlo Park
76	▼	67	Oaktree Capital Management	9,802	Los Angeles
77	★	–	AXA IM Alts	9,604	Paris
78	▼	69	Primavera Capital Group	9,492	Beijing
79	▼	58	Oak Hill Capital	9,440	New York
80	▲	99	Bregal Investments	9,433	New York
81	▲	97	Waterland Private Equity Investments	9,246	Bussum
82	▼	52	Morgan Stanley Private Equity & Credit	8,759	New York
83	▲	138	Arcline Investment Management	8,750	San Francisco
84	▲	136	Welsh, Carson, Anderson & Stowe	8,719	New York
85	▲	89	The Jordan Company	8,630	New York
86	▲	176	Founders Fund	8,571	San Francisco
87	▼	73	Arsenal Capital Partners	8,559	New York
88	▼	85	Coatue Management	8,205	New York
89	▲	142	Harvest Partners	7,936	New York
90	▼	77	American Securities	7,860	New York
91	▼	75	Inflexion Private Equity	7,854	London
92	▼	65	Great Hill Partners	7,750	Boston
93	▼	76	Triton Partners	7,709	Luxembourg
94	▲	297	GCM Grosvenor	7,687	Chicago
95	▼	59	Charlesbank Capital Partners	7,658	Boston
96	▼	90	Cerberus Capital Management	7,488	New York
97	▲	154	Battery Ventures	7,480	Boston
98	▲	118	NGP Energy Capital Management	7,457	Dallas
99	▼	91	Kelso & Company	7,427	New York
100	▼	82	K1 Investment Management	7,377	Manhattan Beach

Eye on the mid-market

Funds that focused on mid-market buyouts saw significant gains in this year's ranking, writes Carmela Mendoza

Last year, KKR – the second-place firm in this year's PEI 300 ranking – unveiled its Ascendant strategy, a fund dedicated to mid-market companies in North America. Capital raised for the vehicle – which is seeking up to $5 billion and had gathered close to $2 billion as of April – will make investments in financial services, healthcare, industrials, consumer and TMT.

The trend of large-cap managers launching smaller fund vehicles has accelerated in recent years. In fact, since 2019, firms including Thoma Bravo (4) and PAI Partners (34) have established platform extensions dedicated to the mid-market, allowing them to invest across smaller deal sizes as well as to pick up more assets under management.

In December, Thoma Bravo held a final close on $6.2 billion for its North American mid-market vehicle Discover IV – 60 percent more than the amount it collected for its 2020-vintage, $3.9 billion predecessor. Earlier this year, the firm began raising capital for its debut European fund, targeting €1.5 billion, according to affiliate title *Buyouts*. Paris-headquartered PAI, meanwhile, gathered about €920 million against a €700 million target for its debut mid-market fund in 2021.

Different definitions

Mid-market private equity has broad definitions across geographies and industry organisations. The Institutional Limited Partners Association describes "middle-market firms" as those with "growth prospects of more than 20 percent annually and five-year revenue projections between $10 million and $50 million". These firms account for "less than 10 percent of all start-ups annually" and are "the backbone of the US economy", according to ILPA.

HEC Paris Business School, on the other hand, defines mid-market buyout firms as PE firms that have cumulatively raised between $1 billion and $3 billion over the course of a decade, while Invest Europe defines buyout or growth mid-market funds as those that have at least 50 percent of investments in the vehicle in the €15 million to €150 million ticket range.

Investors are fond of the mid-market, as the space demonstrates resiliency and the ability to recover faster in market turmoil when compared with large-cap firms. The market also presents lower entry multiples, more room to grow operationally through add-on acquisitions, and the option for inorganic growth through M&A. What's more, the slowdown in large leveraged transactions in the high interest rate environment has meant that smaller deals requiring less debt picked up the share in overall totals, according to a report from Bain & Company.

20%

Mid-market firms' annual growth prospects, per ILPA's definition

In this year's PEI 300 ranking, standout mid-market-focused GPs include San Francisco-based Genstar Capital, which climbed eight spots to 25th with a five-year fundraising total of $29.9 billion. Genstar amassed $12.6 billion for its 11th buyout fund, surpassing its $11 billion target and gathering $2.4 billion more than its predecessor.

Software and IT specialist Accel-KKR jumped 12 places to 54th in this year's ranking, with a capital-raising total of $14.5 billion over the qualifying period, representing an increase of 58 percent over the 2022 ranking. This was driven in part by the more than $8.4 billion it hauled in over the last 14 months for funds including its seventh flagship fund, Emerging Buyout Partners II, Growth Capital IV and a continuation vehicle for its 2013-vintage fund. Additionally, French firm Astorg catapulted to 60th this year from 106th in last year's ranking, with $12.8 billion gathered over the last five years. ■

PAG

109 ▼

Hong Kong

Diminished appetites for Asia may have contributed to PAG's drop this year

Hong Kong-based PAG ranked 109th this year, sinking 22 positions from 87th in last year's PEI 300. Although the firm's capital-raising total stayed the same, at around $6.92 billion over the past five years, its efforts to raise further capital appear to be slow going.

At this year's Asian Financial Forum, the pan-Asian giant's chairman and chief executive, Weijian Shan, emphasised that "geopolitics risks are very real". For China-focused strategies, PAG has only been investing in businesses that cater to domestic consumption to hedge against geopolitical risks, tight profit margins and rising labour costs.

PAG's latest flagship buyout vehicle launched in October 2021 with a $9 billion target and had secured $2.4 billion as of late March, according to US Securities and Exchange Commission filings. By way of comparison, the firm took less than six months to raise $6.1 billion against a $6 billion target for its third flagship, which launched in 2018.

Geopolitical tensions and macroeconomic risks have contributed to diminished appetites for APAC PE more broadly. Funds targeting the region closed on $2.2 billion in Q1 2023, representing just 1.4 percent of global fundraising, according to *PEI* data.

PAG is, however, finding success in other strategies, with private credit stepping up in Asia amid deteriorating appetites for PE.

2023 Rank		2022 Rank	Firm	Five-year fundraising total ($m)	Headquarters
101	▼	84	KPS Capital Partners	7,142	New York
102	▲	109	AEA Investors	7,133	New York
103	▲	115	Pathway Capital Management	7,129	Irvine
104	▲	150	China Renaissance Group	7,110	Beijing
105	▼	94	Investindustrial	7,098	London
106	▼	100	Index Ventures	7,050	San Francisco
107	▼	96	TDR Capital	7,033	London
108	▼	101	IK Partners	6,947	London
109	▼	87	PAG	6,924	Hong Kong
110	▲	249	ArchiMed	6,868	Lyon
111	▲	133	Accel	6,859	Palo Alto
112	▲	121	The Riverside Company	6,699	New York
113	★	-	Sixth Street	6,550	San Francisco
114	▲	282	Parthenon Capital Partners	6,522	London
115	▼	92	MBK Partners	6,500	Seoul
116	▼	93	Norwest Venture Partners	6,500	Palo Alto
117	▼	103	Affinity Equity Partners	6,456	Hong Kong
118	▲	271	Sentinel Capital Partners	6,450	New York
119	▲	180	Qiming Venture Partners	6,289	Shanghai
120	▼	111	GHO Capital Partners	6,289	London
121	▲	184	Oakley Capital Private Equity	6,230	London
122	★	-	Legend Capital	6,136	Beijing
123	◁▷	123	Sapphire Ventures	6,106	Austin
124	▲	172	ARCH Ventures	6,060	Chicago
125	▼	102	Providence Equity Partners	6,016	Providence
126	▼	104	Thrive Capital	6,000	New York
127	▲	227	Greenbriar Equity Group	5,973	Greenwich
128	▲	175	Valor Equity Partners	5,849	Chicago
129	▼	122	Linden Capital Partners	5,570	Chicago
130	▼	110	Montagu Private Equity	5,541	London
131	▼	116	Gryphon Investors	5,515	San Francisco
132	▲	230	FountainVest Partners	5,500	Hong Kong
133	▼	114	DCP Capital	5,500	Hong Kong
134	▲	163	Patria Investments	5,484	São Paulo
135	▼	107	Novacap	5,423	Montreal
136	★	-	B Capital Group	5,415	Manhattan Beach
137	▼	98	CITIC Capital	5,250	Hong Kong
138	▲	169	Centerbridge Partners	5,200	New York
139	▲	165	One Equity Partners	5,176	New York
140	▼	120	GGV Capital	5,160	Menlo Park
141	▲	265	Investcorp	5,139	Manama
142	▼	125	Levine Leichtman Capital Partners	5,082	Los Angeles
143	▼	54	EnCap Investments	5,065	Houston
144	▼	126	The Vistria Group	4,995	Chicago
145	▲	211	KSL Capital Partners	4,984	Denver
146	▼	128	Ridgemont Equity Partners	4,973	Charlotte
147	▼	137	Arctos Partners	4,960	Dallas
148	▲	269	Pacific Equity Partners	4,939	Sydney
149	▼	144	Wellington Management	4,933	Boston
150	▲	200	JMI Equity	4,900	Baltimore

Individual investors make their presence felt

The top 10 firms in this year's PEI 300 have employed different strategies for targeting the private wealth channel, writes Helen de Beer

Fund managers' increasing interest in private wealth capital is tangible across all facets of private markets. The PEI 300 is no exception.

As part of its 2023 *Global Private Equity Report*, Bain & Company found that of the roughly $275 trillion to $295 trillion in estimated global assets under management, around 50 percent is held by individual investors. However, only 16 percent of their wealth is allocated to alternative investment funds. There is plenty of room for growth in this untapped opportunity, as the firms on the 2023 PEI 300 ranking can attest.

Looking at the top 10 firms in this year's list, a pattern immediately becomes clear: almost all have been actively improving their private wealth offerings in recent years. This year's top-ranked firm, Blackstone, is one of the heaviest hitters in this space, recording $48 billion of sales in the private wealth channel in 2022, it said on its full-year earnings call.

Strategies for tapping into this capital source vary across the ranking: KKR (2) expects between 30 and 50 percent of new capital raised over the next few years to come from the private wealth channel, chief financial officer Robert Lewin said on a February earnings call.

In a similar vein, EQT (3) launched EQT Nexus, a semi-liquid strategy designed to expand its reach in the private wealth segment, in May. "With the launch of EQT Nexus, we are excited to finally be able to offer individual investors the opportunity to benefit from

EQT's approach," Suzanne Donohoe, chief commercial officer at EQT, said in a statement.

Paul Ferraro, global head of private wealth at the Carlyle Group (5), tells *Private Equity International* that wealth capital is an increasingly important part of the firm's fundraising strategy. "We have been focused on the private wealth opportunity for many years and have a number of products for a wider audience of investors to gain exposure to Carlyle strategies. This includes traditional institutional-quality, closed-end products, as well as semi-liquid vehicles," he says.

In spite of its widely acknowledged potential, some firms don't appear to have jumped on the private wealth bandwagon just yet. There is minimal reporting to suggest that Thoma Bravo (4) and Advent International (7) have plans to expand access to individual investors; neither firm responded to a request for comment from *PEI*.

16%

Proportion of individual investors' wealth allocated to alternatives

Smaller slices of the pie

The second half of the top 10 list – comprising TPG, Hg, General Atlantic and Warburg Pincus, in addition to the aforementioned Advent – have mixed strategies for targeting individuals. In its June 2022 investor presentation, TPG (6) said the private wealth channel accounted for only 7 percent of its LP commitments, and identified retail and high-net-worth investors as one of three key opportunities for growth. Software specialist Hg (8), meanwhile, told *PEI* in April that it is in the nascent stages of adding a dedicated private wealth team to its operations.

General Atlantic (9) tapped the private wealth channel for the first time at the end of 2021 when it held a $7.8 billion final close on its largest flagship growth fund. Of this total, $1.2 billion came from private wealth feeder funds, a source told *PEI* at the time. Lastly, Warburg Pincus (10) in December partnered with investment platform CAIS to extend its reach to individuals.

What's clear is that there is no one single technique for attracting high-net-worth investor capital. Over the coming years, this may play a critical role in shaping the PEI 300. ■

Patient Square Capital

175 ★

Menlo Park

The firm's debut fund has pushed it into an elite group of healthcare specialists

Patient Square Capital, based in Menlo Park, California, features in the ranking for the first time, at 175th, having gathered nearly $4 billion over the last five years.

The firm – led by the former head of KKR's Americas healthcare team, Jim Momtazee – held a final close on $3.9 billion for its inaugural fund, Patient Square Equity Partners, in February. As one of the largest first-time funds in private equity history, the raise is a sign that investor appetite for healthcare continues apace. The firm was initially seeking $3 billion for the vehicle when it began raising capital in February 2021. The New York State Common Retirement Fund made a $350 million commitment to the fund, *Private Equity International* data shows.

Patient Square backs buyouts and growth equity investments across healthcare products, services and technologies in biopharmaceuticals, the pharmaceutical value chain, medical devices, healthcare providers and tech-enabled services. Its total AUM, including co-investments, stood at approximately $5.9 billion as of end-January.

Momtazee's founding team includes Alex Albert, formerly co-head of private equity healthcare at Ares Management; Neel Varshney, previously a managing director on KKR's Americas healthcare team; and Karr Narula, who was head of KKR's portfolio operations team in the Americas.

2023 Rank		2022 Rank	Firm	Five-year fundraising total ($m)	Headquarters
151	▼	119	BGH Capital	4,788	Melbourne
152	★	-	Atlas Holdings	4,775	Greenwich
153	▲	161	Gaorong Capital	4,770	Beijing
154	▼	105	Sycamore Partners	4,750	New York
155	◁▷	155	Hahn & Co	4,633	Seoul
156	▼	83	Vitruvian Partners	4,563	London
157	▼	131	Nautic Partners	4,500	Providence
158	▼	157	CDH Investments	4,446	Hong Kong
159	▼	147	Tikehau Capital	4,424	Paris
160	▼	127	CBC Group	4,372	Singapore
161	▼	159	Spectrum Equity	4,368	Boston
162	▼	129	Berkshire Partners	4,350	Boston
163	▲	199	SK Capital Partners	4,218	New York
164	▼	124	Flagship Pioneering	4,194	Cambridge
165	▲	185	Hidden Hill Capital	4,148	Shanghai
166	▲	205	Oak HC/FT	4,140	Stamford
167	▼	139	Centurium Capital	4,086	Beijing
168	▼	112	China Everbright Limited	4,082	Hong Kong
169	▲	190	Cathay Capital	4,045	Paris
170	▲	251	50 South Capital	4,022	Chicago
171	▲	188	Pantheon	4,013	London
172	▲	221	Värde Partners	3,980	Minneapolis
173	▼	148	OrbiMed Advisors	3,977	New York
174	▼	145	Trilantic Capital Partners North America	3,924	New York
175	★	-	Patient Square Capital	3,900	Menlo Park
176	▲	229	Sun Capital Partners	3,872	Boca Raton
177	▼	141	Summa Equity	3,872	Stockholm
178	▼	156	Equistone Partners Europe	3,841	London
179	▼	152	FTV Capital	3,824	San Francisco
180	★	-	Frazier Healthcare Partners	3,784	Seattle
181	▼	153	Lindsay Goldberg	3,751	New York
182	★	-	Gridiron Capital	3,714	New Canaan
183	▲	206	Matrix Partners	3,661	San Francisco
184	★	-	Capital Constellation	3,635	New York
185	▼	108	Boyu Capital	3,605	Hong Kong
186	★	-	Georgian Partners	3,550	Toronto
187	▲	208	Wind Point Partners	3,540	Chicago
188	▲	209	Revelstoke Capital Partners	3,534	Denver
189	▲	203	Altor Equity Partners	3,503	Stockholm
190	▼	182	LGT Capital Partners	3,499	Pfaeffikon
191	▼	186	Kinderhook Industries	3,492	New York
192	▼	187	IMM Private Equity	3,477	Seoul
193	▼	160	Siris Capital Group	3,450	New York
194	★	-	Paine Schwartz Partners	3,443	San Mateo
195	▼	167	Searchlight Capital Partners	3,410	New York
196	▼	130	Kohlberg & Company	3,400	Mount Kisco
197	▼	164	Kayne Anderson Capital Advisors	3,382	Los Angeles
198	▼	151	Source Code Capital	3,347	Beijing
199	▼	146	Alpine Investors	3,340	San Francisco
200	▼	135	Seven2	3,318	London

Chinese firms cede ground as fundraising slows

More than two-thirds of firms in Hong Kong and mainland China saw lower rankings in this year's list, writes Alex Lynn

It's no secret that China's private equity market has slowed in recent years, as international LPs grow more cautious and dealmakers navigate pandemic disruption and regulatory uncertainty.

This dynamic is particularly evident in this year's PEI 300 ranking. Of the 30 mainland China and Hong Kong-headquartered managers in this latest edition, 21 dropped in standing from last year.

Chinese growth firm Boyu Capital experienced the sharpest fall, dropping 77 places to 185. Asset manager China Everbright was also among the biggest fallers, shifting 56 places to 168, and supply-chain specialist Eastern Bell Capital slid 55 places to 213. Buyout firm CITIC Capital dropped 39 places to 137.

What's more, five such GPs fell out of the ranking altogether. These include Orchid Asia (which stood at 238 last year), AGIC Group (258 last year) and CMC Capital Partners (262).

"The current fundraising environment, especially as it relates to China, has been one of the toughest I have seen in over 20 years of operating in this industry," says Vince Ng, a Hong Kong-based partner at GP advisory Atlantic-Pacific Capital.

"Against this backdrop of extremely strong headwinds, it is not surprising to see such a material drop in the rankings of China funds relative to their global peers. With continued concerns over geopolitical tensions, regulatory uncertainty, and overall performance numbers, the global appetite for China offerings will remain challenged in the near term."

Learning to adapt

As Asia-Pacific's largest private equity market, China's slowdown appears to be contributing to diminished appetites for pan-regional strategies. Funds targeting the region raised just $2.2 billion in the first quarter of this year, representing a mere 1.4 percent of global fundraising, according to *Private Equity International*'s Q1 fundraising data.

Funds are taking longer to raise in these conditions. Back in 2018, pan-Asian giant PAG, a firm with strong pedigree in China, took less than six months to raise $6.1 billion against a $6 billion target for its third flagship. By comparison, PAG Asia IV launched in October 2021 with a $9 billion target and had raised around $2.4 billion as of 21 March 2023, according to SEC filings. The firm slipped out of the top 100 this year, dropping from 87 in 2022 to 109.

Some firms in the region are adapting. A growing number of international players are, for example, launching yuan-denominated vehicles targeting Chinese investors or funds that use China's Qualified Foreign Limited Partnership programme to convert foreign currency into renminbi.

Of course, this year's ranking wasn't all doom and gloom. Regional giant Hillhouse Capital Group climbed 24 places to 31, making it the top-ranked Asia-headquartered firm in 2023. Beijing-headquartered Legend Capital entered the rankings at 122, and Hong Kong's FountainVest Partners rose 98 places to 132.

"Given the sheer size, range and depth of opportunities available in China relative to other Asian markets, and assuming the macro environment stabilises over time with no further major shocks to the system, I believe the fundraising winds will shift back towards the middle kingdom in the medium term," Ng notes.

"Whether it will ever get back to those historical highs, only time will tell, and would require a lot of stars to align in perfect unison. In the meantime, fundraising in China will be dominated by a small handful of leading players that will continue to capture the lion's share of the capital and investor attention." ■

Lovell Minnick Partners

248 ★

Radnor

The financial services-focused firm is currently in market with its sixth flagship fund

Financial and business services-focused buyout house Lovell Minnick Partners is a new entrant to this year's PEI 300, raising $2.68 billion over the past five years.

The firm, headqartered in Radnor, Philadelphia, targets mid-market companies and is currently in market with its sixth flagship targeting $1.5 billion, according to *Private Equity International* data. The vehicle has so far received a $150 million commitment from the Massachusetts Pension Reserves Investment Management Board, according to the LP's December board meeting materials.

Lovell Minnick cracked the $1 billion mark to raise $1.28 billion for Lovell Minnick Equity Partners V in 2019.

Recent transactions include the acquisitions of majority stakes in Definiti, London & Capital and STP Investment Services.

Speaking with *PEI* last year, partner Spencer Hoffman said managers need to focus on what will be driving the companies they are investing in over both the next five years and the next 20 years amid global market turbulence.

"There could be a lot of challenges that need to be dealt with on a short-term basis, but if you maintain a long-term view, that will help you decide how you deal with those short-term challenges, as well as find the opportunities to build great businesses for the next decade," Hoffman said.

2023 Rank		2022 Rank	Firm	Five-year fundraising total ($m)	Headquarters
201	★	–	Lead Edge Capital	3,315	New York
202	▲	236	Hony Capital	3,275	Beijing
203	▼	171	G Squared	3,261	Chicago
204	▼	173	BOND	3,250	San Francisco
205	▼	174	Odyssey Investment Partners	3,250	New York
206	▼	179	Trustbridge Partners	3,220	Shanghai
207	▲	246	Vertex Holdings	3,207	Singapore
208	▼	183	IDG Capital	3,173	Beijing
209	▼	177	Rothschild Merchant Banking	3,149	Paris
210	▲	239	AE Industrial Partners	3,146	Boca Raton
211	★	–	Meritech Capital Partners	3,103	Palo Alto
212	▼	194	American Industrial Partners	3,100	New York
213	▼	158	Eastern Bell Capital	3,066	Shanghai
214	▼	193	Oceanpine Capital	3,036	Beijing
215	★	–	RUBICON Technology Partners	3,031	Boulder
216	▲	237	Cornell Capital	3,025	New York
217	★	–	Ampersand Capital Partners	3,010	Wellesley
218	▼	195	Altas Partners	3,000	Toronto
219	▼	196	LLR Partners	3,000	Philadelphia
220	▲	241	Rhône Group	2,986	New York
221	▲	255	Kimmeridge	2,984	New York
222	★	–	Qualitas Energy	2,952	Madrid
223	★	–	Riverwood Capital	2,924	Menlo Park
224	▼	210	Yingke Private Equity	2,921	Shanghai
225	★	–	Brighton Park Capital	2,901	Greenwich
226	▼	197	Symphony Technology Group	2,900	Palo Alto
227	▼	212	Stripes	2,891	New York
228	▲	286	Summit Rock Advisors	2,880	New York
229	▲	296	STIC Investments	2,847	Seoul
230	▼	189	Littlejohn & Co	2,840	Greenwich
231	▼	178	Lux Capital Management	2,835	New York
232	▼	204	Flexpoint Ford	2,825	Chicago
233	▲	300	Reverence Capital Partners	2,819	New York
234	▲	264	Sagard	2,810	Toronto
235	▼	202	3i Group	2,801	London
236	★	–	Silversmith Capital Partners	2,800	Boston
237	▲	260	Advantage Partners	2,790	Tokyo
238	★	–	Generation Investment Management	2,781	London
239	▲	247	Webster Equity Partners	2,758	Waltham
240	★	–	The Column Group	2,755	San Francisco
241	▲	245	Avista Capital Partners	2,749	New York
242	▼	201	5Y Capital	2,743	Shanghai
243	★	–	SkyKnight Capital	2,713	San Francisco
244	★	–	SDC Capital Partners	2,708	New York
245	▲	259	MidOcean Partners	2,700	New York
246	▼	215	Court Square	2,700	New York
247	▼	217	Peppertree Capital Management	2,683	Chagrin Falls
248	★	–	Lovell Minnick Partners	2,680	Radnor
249	▼	223	Barings	2,661	Charlotte
250	▲	283	The Sterling Group	2,656	Houston

GPs in market brace for impact

Some private equity funds are beginning to close under target as the battle for LP allocations takes its toll, writes Madeleine Farman

The PEI 300 could look very different in the coming years, with this year's totals bolstered by the frothy fundraising environment of years gone by.

The 300 largest private equity managers once again broke their own record, raising $3.13 trillion over the five years to 31 March – a significant step up from the $2.6 trillion recorded last year.

However, fundraising confidence is beginning to fracture. In May, the Carlyle Group's chief financial officer Curt Buser conceded that the firm's upcoming fundraising hauls could look more subdued.

"While we believe that we will attract a significant amount of capital for our next vintage of buyout funds, we no longer expect these funds in the aggregate to be the same size as their predecessors," Buser said on the firm's first-quarter earnings call. "We now expect to see a decline in buyout fund sizes across most geographies."

Carlyle, which took the fifth spot in this year's PEI 300, closed its latest Asia-Pacific growth fund on $950 million; Carlyle Asia Partners Growth II had been targeting $1 billion.

Other firms have also had to close funds under target or put raises on ice.

KKR, which took the second spot on this year's list, gathered $8 billion for European Fund VI, raising roughly 20 percent more than its 2018-vintage predecessor. However, research by *Private Equity International* had the vehicle seeking somewhere between €8 billion and €10 billion when it began raising in 2021. A spokesperson for KKR declined to provide further details when contacted by *PEI* at the time of close.

BC Partners, which fell six places to 38 this year, closed its flagship BC European Capital XI last year on €6.9 billion against a target of €8.5 billion, *PEI* data shows.

Winners and losers

Managers are trying to control the messaging. In some instances, targets are being revised downwards; in others, firms are avoiding publicly sharing information around targets and hardcaps, and some managers aren't setting them at all.

€6.9bn

Final close on BC Partners' European Capital XI, against a target of €8.5bn

Some investors have been eyeing lower mid-market and mid-market opportunities – where dealmaking requires less debt, valuations have been less of a concern and acquisitions can be done creatively.

For other pockets of the market, this comes at a cost: "There are investors who are saying that, in this market, larger deals are harder to get done until the debt markets reopen," says Sunaina Sinha Haldea, global head of private capital advisory at Raymond James.

This is a message that Monument's Karl Adam also reinforces: "Some LPs I've spoken to recently are looking more at the lower mid-market… With the large-cap deals, some of them at least will be harder to finance, so perhaps the track record for the next five or seven years of the big-cap firms won't be as good as it has been historically."

Generalists could feel the pinch as investors lean towards specialists, Sinha Haldea says. However, LPs won't be seeking out just any specialist, placement agents tell *PEI*, with strategies that were once high in demand also slipping out of favour. Technology-focused funds, on the whole, aren't seeing as much investor interest; consumer-focused strategies are a difficult sell; and growth, in some instances, is an uphill battle.

Other specialists could be benefactors of LPs' risk-off approach. Healthcare strategies and more traditional private equity plays – like industrial manufacturing – are among those winning over the limited capital there is. ■

Arlington Capital Partners

300 ★

Washington, DC

Arlington returned to the market with two funds last year after closing its last flagship in 2019

The final firm on this year's PEI 300 ranking is also a returning GP: Arlington Capital Partners appeared on the PEI 300 for the first time in 2021 at number 201, before dropping off again in 2022. The Chevy Chase-based GP is now back in the running, having raised $2.08 billion in the past five years – an increase of 22 percent from 2022.

Arlington invests across four main industries: aerospace and defence, government services and technology, healthcare, and business services, and generally follows the buy-and-build model.

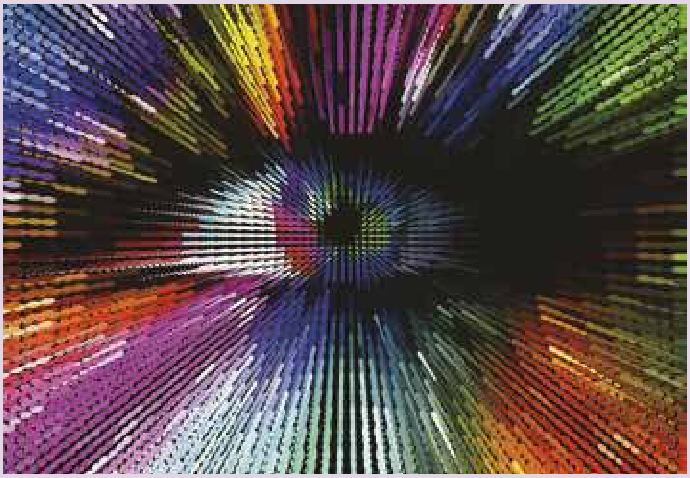
Arlington is currently in the market with two funds: its sixth flagship, which is seeking $3.5 billion; and Timber Coast Private Opportunities, a buyout fund with an undisclosed target. Arlington Capital Partners VI has raised $2.98 billion as of its first close in April, including commitments from California Public Employees' Retirement System, Teachers' Retirement System of the State of Illinois, New Mexico State Investment Council and Arkansas Teacher Retirement System, according to *Private Equity International* data.

According to documents prepared for an April 2022 Arkansas board meeting, the fund targets quality companies and buys them at as much as 30 percent below market value. Arlington's non-core deals have generated an average 2.6x gross return on investment.

2023 Rank		2022 Rank	Firm	Five-year fundraising total ($m)	Headquarters
251	▲	253	Thompson Street Capital Partners	2,650	St Louis
252	▼	218	Ribbit Capital	2,632	Palo Alto
253	▼	220	Lenovo Group	2,600	Hong Kong
254	▼	242	FSN Capital	2,599	Oslo
255	★	–	Fondo FSI	2,578	Milan
256	★	–	Kaszek Ventures	2,575	São Paulo
257	★	–	HGGC	2,540	Palo Alto
258	★	–	Felicis Ventures	2,539	Menlo Park
259	▲	298	BV Investment Partners	2,536	Boston
260	▼	222	Livingbridge	2,534	London
261	★	–	JC Flowers & Co	2,528	New York
262	▼	149	Altaris Capital Partners	2,526	New York
263	▼	224	LS Power Group	2,524	New York
264	★	–	Energy Impact Partners	2,521	New York
265	▲	295	RoundShield Partners	2,506	Saint Helier
266	▼	226	YunFeng Capital	2,500	Shanghai
267	▼	231	Kleiner Perkins	2,488	Menlo Park
268	★	–	Highland Europe	2,439	London
269	▼	228	Polaris Capital Group	2,434	Tokyo
270	▼	214	Incline Equity Partners	2,425	Pittsburgh
271	▼	268	Hermes GPE	2,414	London
272	▼	81	Onex	2,410	Toronto
273	▼	198	Lime Rock Partners	2,391	Westport
274	▼	162	ACON Investments	2,384	Washington DC
275	★	–	Shamrock Capital	2,375	Los Angeles
276	▼	261	Aquiline Capital Partners	2,365	New York
277	★	–	True Ventures	2,360	Palo Alto
278	▼	266	Breakthrough Energy	2,350	Kirkland
279	▼	166	Peak Rock Capital	2,350	Austin
280	★	–	Fifth Wall	2,326	Marina del Rey
281	★	–	8VC	2,322	Austin
282	▼	233	Quadrant Private Equity	2,280	Sydney
283	▼	248	Wynnchurch Capital	2,280	Rosemont
284	▲	289	Menlo Ventures	2,257	Menlo Park
285	▼	256	Leeds Equity Partners	2,241	New York
286	▼	250	Brightstar Capital Partners	2,227	New York
287	▼	276	Tailwater Capital	2,223	Dallas
288	★	–	Trivest Partners	2,220	Coral Gables
289	★	–	Vivo Capital	2,206	Palo Alto
290	▼	191	Lightyear Capital	2,182	New York
291	▼	272	Palladium Equity Partners	2,175	New York
292	▼	267	Crestview Partners	2,150	New York
293	★	–	Chicago Pacific Founders	2,147	Chicago
294	▼	281	Hopu Investment Management	2,141	Beijing
295	▼	232	Alvarez & Marsal Capital Partners	2,140	Greenwich
296	▼	274	ABRY Partners	2,100	Boston
297	▼	275	Cortec Group	2,100	New York
298	▼	263	Deutsche Private Equity	2,078	Munich
299	▼	240	Main Capital Partners	2,076	The Hague
300	★	–	Arlington Capital Partners	2,075	Chevy Chase

GROWTH CAPITAL

An 11-page special report



Growth comes into focus

After a blurring of the lines with venture and buyout strategies, market conditions are bringing greater clarity to growth capital. Nicholas Neveling reports

After a red-hot run for fundraising and deal activity in 2021, growth managers are feeling the pinch. Year-on-year fundraising for growth capital fell by a third from $140.2 billion in 2021 to $93.5 billion in 2022, according to *Private Equity International* data.

Meanwhile, growth and late-stage venture deal value slid 28 percent to $644 billion last year, per Bain & Co analysis. Valuations have also been squeezed, with figures from Carta showing that down funding rounds (where venture and growth companies raise capital at a lower valuation) nearly quadrupled year on year in the first quarter of 2023.

The growth segment has been hit particularly hard by rising interest rates and inflation, with investors treading cautiously and pivoting to other asset classes. Lower valuations, meanwhile, have deterred some companies from coming to market for capital, limiting the scope to secure funding for future expansion.

"Growth has been a booming market for the past four to five years, but the current macroeconomic conditions mean that LPs are becoming more discerning about their investments," says Alexis Saada, a managing director and head of growth at Ardian. "There has certainly been a flight to quality funds and those managers that have demonstrated consistent returns despite tougher market conditions."

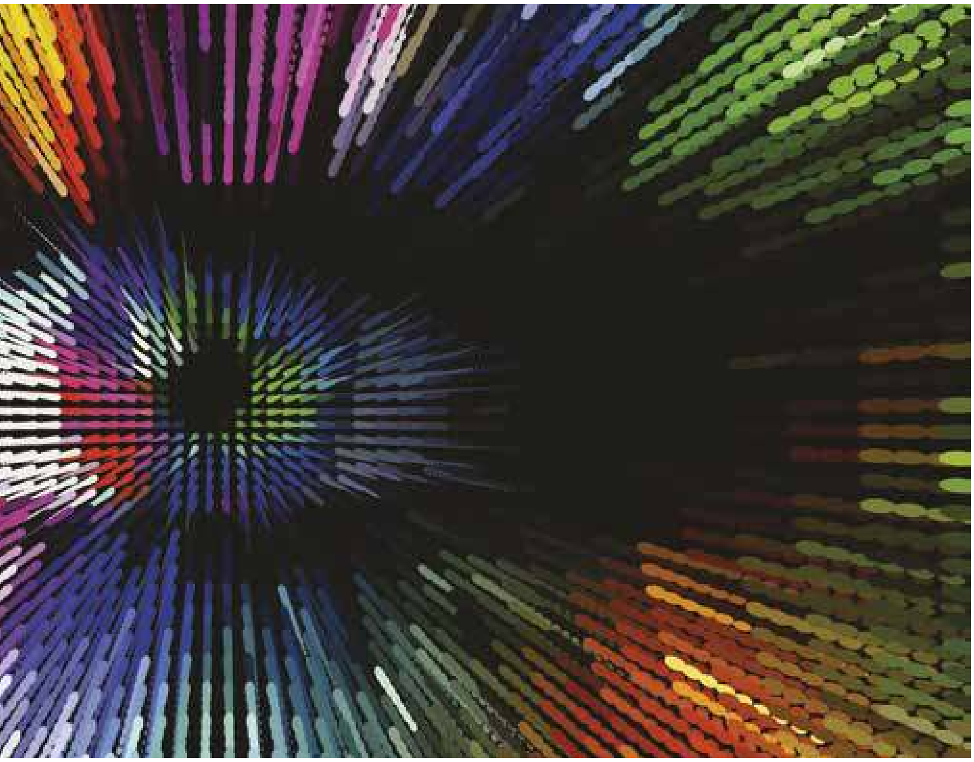
But while the headline figures may paint a bleak picture for growth equity prospects, managers and investors are sanguine about the growth opportunity. Apax Digital partner Mark Beith says: "Growth fundraising and deal activity has slowed, and valuations have come down, but if you step back and take a longer view, growth equity remains attractive.

"Before the market turned, we saw higher and higher levels of investment as prices increased. This is a better market for disciplined investors. Valuations are not at bargain basement levels, but the market is less frothy."

The slowdown has also impacted supply-and-demand dynamics. Brian Dudley, a growth equity partner at Adams Street Partners, says: "For the first time in almost a decade, we are seeing the demand for growth capital from companies far outweigh the supply of growth capital from investors, presenting a compelling investment environment where valuation multiples on entry are far more palpable than what we have seen in recent years."

"Different firms and investors have different definitions of growth"

SANJOT MALHI
Northzone



> *"In the bull market, lines between late-stage venture, buyouts and growth did blur"*
>
> **KAREN MCCORMICK**
> **Beringea**

Strategic clarity

The growth reset is also expected to refocus minds on what growth investing is, and how it is differentiated from venture and buyout strategies. Growth equity encompasses elements of both buyout and venture strategies and can be broadly defined, but it has historically always been clearly positioned between the two on the risk-return spectrum.

"Different firms and investors have different definitions of growth," says Sanjot Malhi, a partner at seed to growth-stage investor Northzone. "For us, growth capital means investing in companies that are genuinely at the growth stage. These businesses have product-market fit, a viable business model and a repeatable, scalable go-to-market strategy."

At the peak of the market, with venture and buyout managers eager to deploy dry powder, firms that wouldn't normally have pursued growth targets drifted into the space. As the macroeconomic backdrop has deteriorated, however, genuine growth expertise and track record has come to the fore, bringing investment discipline and clarity back to the segment.

"In the bull market, lines between late-stage venture, buyouts and growth did blur," says Karen McCormick, chief investment officer at growth firm Beringea. "Venture managers were flush with liquidity and cut bigger and bigger cheques, while buyout firms were looking for growth and alpha in a low-rate environment, driving more overlap with pure-play growth strategies.

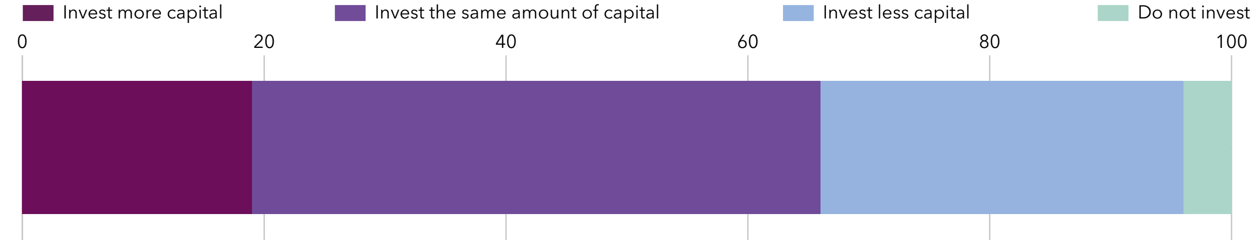
"The change in the cycle has changed the dynamics. Fund managers are taking pause and refocusing on core strategies."

A broad opportunity set

Looking ahead to the next 12 to 18 months, growth managers are optimistic that the underlying fundamentals that drive growth dealflow and returns are strong, despite ongoing macro dislocation. Adams Street Partners' Dudley notes that long-term trends in the

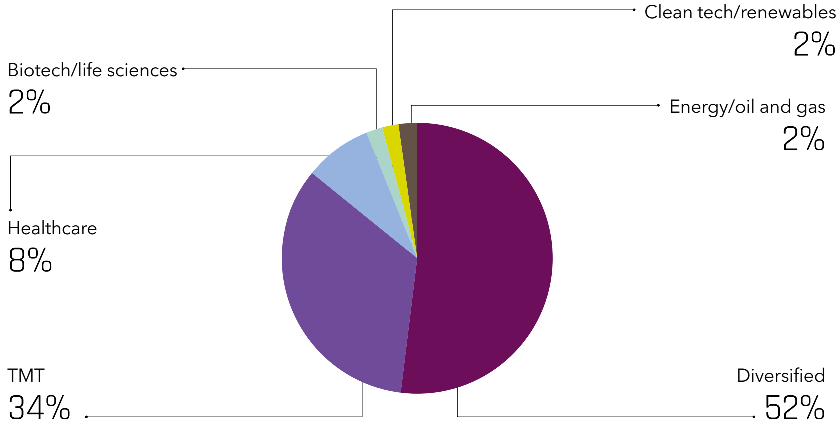
> *"Entry valuations are now attractive and there is still conviction that top-tier growth managers and growth companies will deliver returns over time"*
>
> **IMOGEN RICHARDS**
> **Pantheon**

How LPs plan to invest in growth capital over the next 12 months compared with the previous 12 months (%)



Source: Private Equity International's LP Perspectives 2023 Study

Proportion of capital raised by growth equity funds by sector in 2022



Source: Private Equity International

technology space, a core component of growth portfolios, are robust, with consultancy Gartner forecasting that global spend on software will continue to grow, climbing from $807 billion in 2022 to $1.3 trillion by 2026.

Innovation, another key predictor of growth equity opportunities, is also robust, with patent issuance in the US continuing to set annual records thanks to developments in internet, smartphones, cloud computing, artificial intelligence, automation and robotics. "The sheer pace of technological innovation will only drive more disruption across numerous industries, which points to a consistently expanding pool of growth deal opportunities," Dudley says.

Outside of the technology vertical, Ardian's Saada sees strong growth potential in healthcare, where entrepreneurs have identified opportunities based on the needs of an ageing population and more health-conscious consumers, while Beringea's McCormick sees value in counter-cyclical sectors such as consumer.

"Technology has accounted for an outsized share of growth deal volumes, as well as higher valuations… but other sectors continue to offer compelling growth opportunities," McCormick says. "Counter cyclical sectors such as consumer have been a key theme for Beringea. Entry multiples are lower, and we have a track record of growing consumer companies through US expansion."

Keeping growth in the mix

LPs are also looking through short-term market disruption, and even though allocations to growth may have recalibrated, the strategy remains a key part of the long-term asset mix.

"Pantheon's allocation to growth strategies for some of our key strategies is around 20 percent, and we remain positive about the prospects for growth assets," Pantheon partner Imogen Richards says. "There has been some rebalancing in the market, and revaluations have come with a slice of realism, but entry valuations are now attractive and there is still conviction that top-tier growth managers and growth companies will deliver returns over time."

Haresh Vazirani, private equity senior investment director at abrdn, adds: "Private equity primaries always require long-term, stable thinking. It's very hard to time making fund investments and it is important to remember that the market disruption themes that have driven the growth space in recent years are secular in nature and will persist across economic cycles." ■

"The market disruption themes that have driven the growth space in recent years are secular in nature and will persist across economic cycles"

HARESH VAZIRANI
abrdn

Minority investors playing defence

Guest comment by **Alex Wills, Tom Maturi** and **Anna Sykes**

Interest in sports-focused growth funds is on the up, but there are certain mechanisms sponsors should consider to help mitigate the risks that minority stakes in this sector can present

Earlier this year, Bluestone Equity Partners closed Bluestone Capital I, its inaugural $300 million growth fund focused on the global sports, media and entertainment sector. The fund – founded by Bobby Sharma, former general counsel of the National Basketball Association Development League (now the G League) – is yet another example of the rising trend in sports-focused growth equity funds.

Growth funds tend to acquire large minority, non-controlling stakes in fairly established companies with high growth potential, which makes it crucial for sponsors to negotiate protective rights for their limited partners. In a sports context, where such investments tend to be channelled into newly established investment vehicles, securing these protective rights becomes even more of a critical concern, especially given the multitude of interested stakeholders in this sector.

The division of responsibility and control between investors in any sports-related company will typically be negotiated and defined in a shareholders' agreement and the company's constitutional documents. Private equity investors, including growth fund investors, will typically seek a level of control by negotiating favourable terms in such documentation.

However, given the tendency for growth funds to acquire minority stakes and the regulatory framework of certain sporting leagues (the NBA in the US, for instance, only allows private equity investors to hold minority stakes), these terms may be subject to even heavier negotiation as the funds look to compensate for their smaller portion of ownership. Sponsors and LPs will also recognise, and want to account for, the greater risks associated with sports investments as a relatively illiquid, regulated and novel asset class.

"The importance of fan loyalty and tradition within sports… can make executives more hesitant to yield any significant control to equity providers"

Sports-focused growth funds can seek greater control through the negotiation of favourable exit mechanics, processes to resolve decision deadlock, 'drag-along' and 'tag-along' rights, information, veto and appointment rights, and other general governing provisions. They will tend to demand strong veto rights and a 'reserved matters' list stating actions which the company can only take with the approval of a requisite majority or specific persons, to combat the greater risks which come with taking a minority stake.

In a sports context, this might relate to the particular terms of a sponsorship or broadcasting agreement, or the purchase of players. This can be particularly important in the sports sector, where the importance of fan loyalty and tradition within sports, particularly in a club context, can make executives more hesitant to yield any significant control to equity providers. ■

Alex Wills is a senior associate, Tom Maturi is an associate and Anna Sykes is a trainee solicitor at law firm Norton Rose Fulbright

KEYNOTE INTERVIEW

A new era for growth equity

The days of a near exclusive focus on revenue expansion are over as the emphasis shifts to profitable growth, say Matthew Hobart and David Trujillo, co-managing partners at TPG Growth

SPONSOR
TPG

Q What makes growth equity an attractive investment proposition in the context of the current macro environment?

David Trujillo: Whenever the market resets, such as after the global financial crisis, for example, you tend to see very attractive vintages. It's clear that this has been a reset period for growth-stage companies, at least from a valuation standpoint. Business fundamentals are still strong for the most part, but we are seeing valuations that have adjusted to this new interest rate environment.

There are still ample opportunities to invest behind secular growth themes, but we are now able to do so at lower valuations than would have been possible in 2021. That all suggests an attractive vintage is on the way.

Q What lessons have been learned from growth equity investing over the past decade, particularly as it relates to growth at all costs?

DT: For much of the past decade, businesses have traded off revenue multiples and revenue growth rates, meaning that founders and CEOs have been incentivised to focus almost exclusively on the top line, regardless of what the bottom line and the actual unit economics of the company looked like. With interest rates at zero, money has been virtually free, on a relative basis, and plentiful. That meant that businesses were able to continue raising funds, even if they had been burning cash and failing to show profitability.

That has all changed now. As equity and credit have tightened, that ready supply of capital is no longer available, so everyone has naturally started prioritising profit. Investors want to see that the dollars going in are delivering long-term viable benefits for the business. There has been a total shift away from growth at all costs.

Growth is still important, of course, but the emphasis is on profitable growth, which is precisely what TPG has always focused on. Essentially, 100 percent of our last fund's portfolio companies are either profitable or funded to profitability. In other words, we knew the business would reach cashflow-positive with our financing and without needing to rely on capital markets to get there.

Matthew Hobart: It's also important to note that we have a fairly concentrated portfolio. We prefer to take meaningful ownership stakes in a relatively smaller number of companies in our core sectors, positioning our teams to actively manage and add value through best-in-class business building capabilities and operational expertise.

That approach differs from many others in the growth equity space, some of which often have very large books of investments, effectively making them tech index funds. Operational capabilities create a meaningful difference because in these more volatile times they enable firms like ours to drive transformation and generate alpha rather than being passive investors at the mercy of the market.

Q What is your approach to origination and what do you look for in a target company?

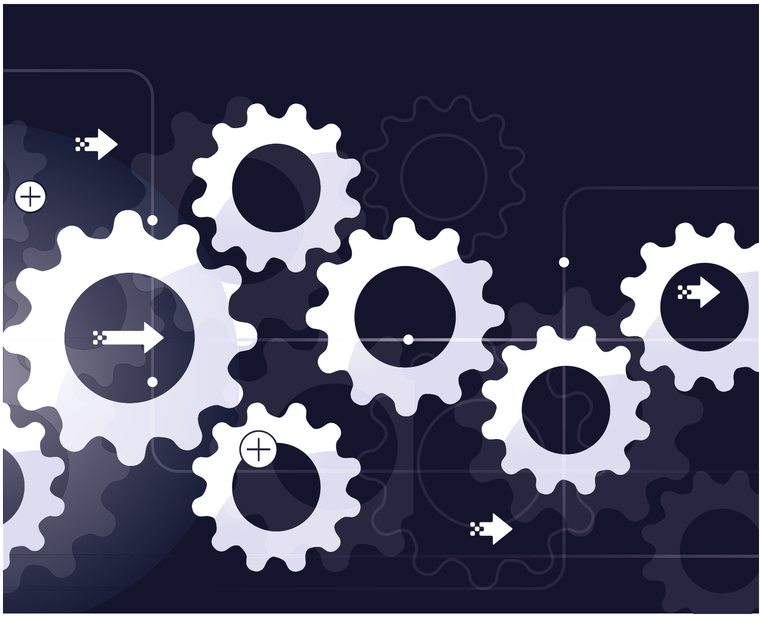
DT: We have four principal sector teams: software and enterprise technology; internet, digital media and communications; healthcare; and business services. We hire directly into those four teams. When people join us as analysts or associates, they build a career in those sectors. Each team has a dozen or so themes that they pursue, meeting with every company in the space and building relationships with the founders and CEOs. This sector-first strategy allows us to build differentiated angles and insights, and ultimately gives us the right to win.

It also means that most of what we do is either proprietary or pre-emptive in nature – we are creating the deal opportunities. That stands in marked contrast to the request for proposal or the FOMO (fear of missing out) style of investing that the industry has gravitated towards over the past decade. That kind of reactive or passive approach is anathema to what we do and what we think will be successful moving forward.

MH: We believe that it will be the unique insights and value you can add after you invest that will be the critical force over the next five to 10 years. We have an operating team of more than 60 individuals who are either experts in their sector or functional experts in pricing and packaging, for example, or sales force effectiveness, supply chain procurement or digital marketing. Those operations professionals, working in close coordination with our deal partners who take seats on the board, can add tremendous value to the businesses we back.

Q Do you expect the emphasis of your value-creation strategy to evolve given the macro context?

DT: Founders and CEOs realise that they will no longer be able to raise money easily, take their company public, and then 'figure it out' from there. They recognise that they are going to need to focus on profitable growth and that they are in for a prolonged period of unpredictability. For many, that will mean learning how to use different muscles and seeking support from a partner that has experience and success over cycles.



Q The growth equity industry has been heavily focused on the tech sector over the past decade. Do you think that will continue to be the case?

MH: There has been a tendency over the last 10 years for growth equity firms to be technology specialists. We have always approached growth equity in a diversified manner, and you can see it in the portfolio balance of our funds over the years. That means we are comfortable moving in and out of sectors at times when they are more or less attractive. That flexibility and nimbleness has served us well since we started our growth equity business 15 years ago and we believe it will continue to be advantageous in the years ahead.

DT: Technology is a secular growth area so the sector will absolutely continue to be a major focus. But I do think that perhaps there has been too much focus on technology at the expense of other sectors over the past five years.

We look at technology in two areas – software and enterprise technology, and also internet, digital media and communications. We didn't get stuck only focusing on technology at a time when technology was expensive. We were able to pivot to other sectors that are also in secular growth mode, principally healthcare and business services. Now that tech valuations have come down, we have been able to pivot back to take advantage of the new environment.

Q How do you expect the exit market to evolve and what is your approach to driving liquidity?

DT: Given the size and stage of the companies we invest in, we generally have a variety of exit opportunities to choose from. While IPOs are market dependent, and the US IPO market has been shut for most of the last 12 months, we were able to take a number of companies public over the last year in India, where our growth franchise has had a longstanding presence.

Meanwhile, strategics are always looking to buy growth-stage businesses and we have companies that not only offer that growth but also offer good unit economics. That profitability is attractive to strategic acquirers.

We are also able to sell companies to other sponsors and, even though debt markets are more constrained at the moment, we have been able to successfully leverage our capital markets teams at TPG to do dividend recapitalisations, which means we are able to continue to return capital to our investors, while maintaining ownership of these businesses.

MH: Aligning with our companies on terms, deal structure and pro forma governance at the time of investment is so critical to creating the optionality David describes. Also important is that in approximately half of our deals we hold a controlling stake, and in the other half, where we are minority shareholders, we nonetheless have significant governance and exit rights, which enables us to drive liquidity how and when we believe is most prudent. That orientation stems from our private equity roots, as opposed to the more common route of growth equity strategies evolving out of venture capital.

> *"There has been a total shift away from growth at all costs"*
>
> DAVID TRUJILLO

> *"Operational capabilities create a meaningful difference because in these more volatile times they enable firms like ours to drive transformation"*
>
> MATTHEW HOBART

Q What key skills and capabilities do you believe it will take to be successful in the growth equity market over the next decade?

MH: I would point to longevity and experience. We are not new to the growth equity market. A lot of dollars have come into the growth equity market in recent years, from public hedge funds, mutual funds, high-net-worth individuals, sovereign wealth funds and venture firms that have raised growth funds, for example. However, those dollars have now largely gone away, and the crowding effect has eased. That has created an attractive competitive dynamic and we are going to keep on doing what we believe has worked really well for us and our investors over the past 15-plus years.

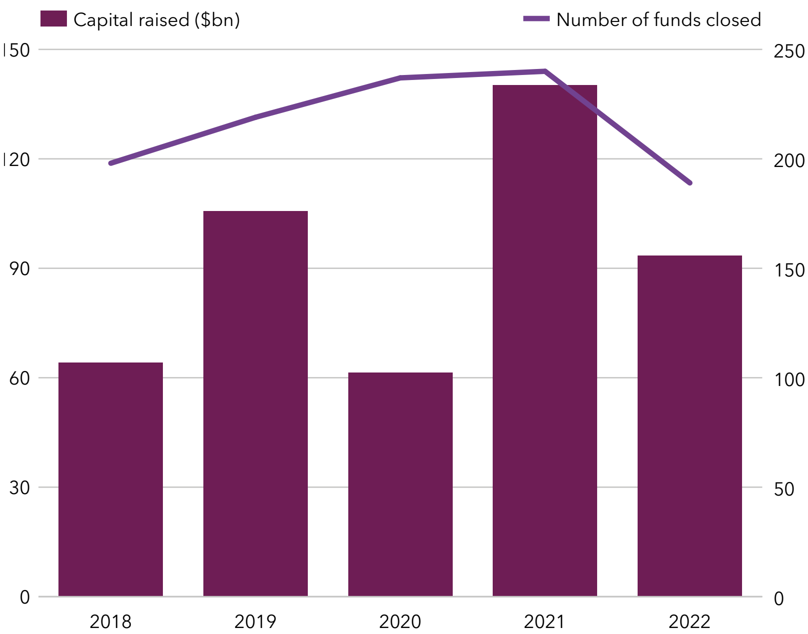
DT: In our experience, a focus on core sectors and themes to create differentiated insights and angles will continue to be integral to success. Once you've created unique opportunities, you need to be able to execute, and that speaks to the importance of being a value-add investor.

The growth equity business is going to be less reliant on sourcing and more reliant on how you can truly help companies after you have invested. It is worth repeating the critical nature of profitable growth. That has always been central to our ethos, but will become absolutely essential in this reset environment. ■

Tempered growth

Last year's growth equity fundraising couldn't quite match the heady days of 2021, but average fund size for the strategy was still the second-highest in the last five years

Growth equity fundraising



$93.5bn

Capital raised by growth equity funds in 2022

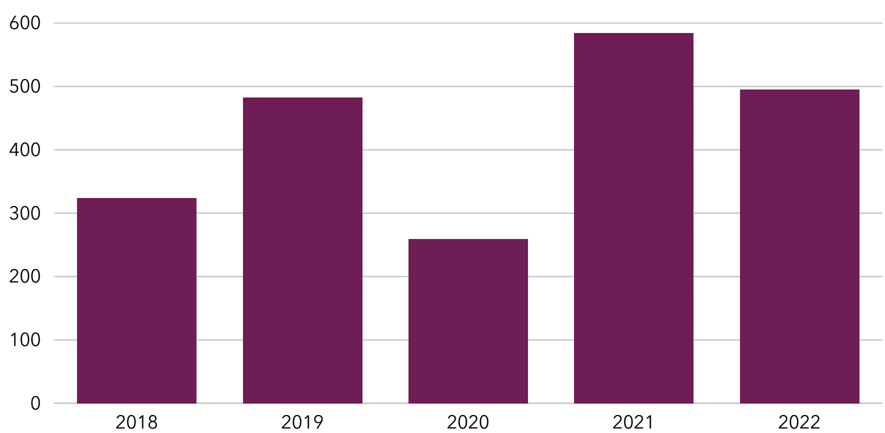
189

Number of growth equity funds that closed in 2022

$495m

Average growth equity fund size in 2022

Average size of growth equity funds ($m)



Source for all data: Private Equity International

Growth equity: Ready for a reset?

Macro challenges are prompting different value-creation priorities to come to the fore, but the underlying fundamentals of the asset class remain intact, writes Claire Coe Smith

Growth equity has been battered by valuation volatility, an effective IPO market shutdown, more expensive financing and a recessionary environment that has put portfolios under pressure. But with dry powder still available and strong targets still out there, GPs say now could be a great time for the asset class.

"The engine of growth equity is alive and well," says Martín Escobari, co-president, head of Latin America and chair of the investment committee at General Atlantic. "The reason growth equity is now more than a third of the private equity industry compared to single digits a decade ago is that companies using technologies are disrupting more and more industries at an increasingly accelerated pace."

That transformation, he argues, is unaltered by stock prices, dislocation or the threat of recession. Instead, it can present an opportunity.

"If you look at the last two corrections, some of the best returns for our asset class have been achieved in the three-year period starting 18 months into that correction. So this might be the best window of the last decade," says Escobari. "Why? Because rationality comes back to the industry and

things are priced at more reasonable levels as growth at any cost is replaced by a respect for capital efficiency and profitability. This is a moment where strong companies become stronger, which weeds out the unprepared."

Yet there is no doubt some of the shine has come off the market. Zak Ewen, a partner at Battery Ventures, says: "In 2020 and 2021, the growth equity market was really hot: there was a lot of capital, a lot of exit opportunities, a lot of strategic interest, a robust IPO market, SPACs [special purpose acquisition companies] were buoyant and large crossover funds were piling money into businesses that already had robust balance sheets.

"Those businesses didn't necessarily need capital but took it regardless because prices were stepping up with every substantive round and interest rates were low. None of those things are true right now. Every factor that was driving the market collapsed simultaneously, creating an air pocket today."

The result is a shift in growth equity priorities, says Ewen: "One thing that is still true is there is quite a lot of dry powder from a funds point of view and that hasn't changed. So if you look at the activity in the market, deal pace was significantly slower in 2022, and will be through 2023 and we are seeing a big change in behaviour."

There is now a much greater focus on efficiency in business models rather than pure top-line growth, explains Ewen: "In 2020 and 2021, ARR [annual recurring revenue] growth was the primary metric in the software space, and if businesses were inefficient, the thinking was that there was a path to growth and then to efficiency. Today, you have to demonstrate that efficiency has been obtained or will be in a short period of time. There is much more emphasis on cash burn."

Marc Brown, a partner and head of EQT Growth, says there has been a notable move towards profitable growth rather than growth at all costs, and sponsors have been helping management teams and boards embrace that approach. "That means concentrating on operations, so right-sizing the cost base to the current revenue opportunity and figuring out the customers they want to pursue, with the goal of achieving profitable growth," he says.

Escobari agrees that sponsors have a big role to play in helping portfolio companies adapt and take advantage of the dislocation. "There are three steps that companies need to take to weather the tough fundraising environment and work the economic cycle," he says.

"First, they have to have their war chest fully funded, which means cash, a limited amount of debt and access to credit lines. Second, they have to be the most efficient players in their industry, which requires a sober look at their metrics versus the best in the industry and then taking steps to address efficiency and cost rationalisation."

Third, they have to be "acquisition minded", so that they can capture opportunities in the market. "We are partnering with our companies to ensure they are being aggressive and creative in thinking about how to build value," says Escobari.

Emphasis on value creation

In the early days of growth equity, the focus was more on organic growth and sponsors were called on primarily for capital and ideas. Now, funds need to field sizeable value-creation capabilities, and M&A is a bigger part of company growth strategies.

"We have roughly 75 people helping companies with everything from digital marketing to leveraging data science, sourcing talent and excellence in sales execution," says Escobari. "Those are muscles that no one had a decade ago."

"Today, a lot of growth equity businesses are leaning more on M&A as a route to growth than they did historically"

ZAK EWEN
Battery Ventures

Growth equity has always been slightly amorphous, says Battery Ventures' Ewen, falling "somewhere between venture capital and private equity, where you are betting on organic growth but borrowing tools from both of those playbooks".

"Today, a lot of growth equity businesses are leaning more on M&A as a route to growth than they did historically, to supplement organic growth," adds Ewen. "The pace of venture investing in recent years has outpaced what the public markets and large strategics can reasonably absorb, so the number of add-on acquisition targets has grown."

Meanwhile, EQT's Brown argues any reset will do little to change the fundamentals of the asset class: "The pace is slower but we are doing the same kinds of deals, looking for the same kinds of great companies where we can provide capital to really enhance and hopefully de-risk their growth journeys in order to achieve great outcomes. We are backing long-term trends like digitalisation, productivity enhancements through the application of technology, providing value to consumers via online services and climate change-related investments."

Still, growth equity may be witnessing a coming of age. Roberto Italia, chief executive of Verlinvest, says: "With regards to investments in companies that are not yet profitable, reaching conviction is much harder in the current environment. Deal structures will reflect the complex times we find ourselves in and will be adjusted to provide for greater investor flexibility. True value-add and the ability to play investments out over longer time horizons will be key elements of distinctiveness, and founders and business leaders will put greater emphasis on such features when choosing between capital providers."

While growth equity firms are having to adapt to current conditions, the longer-term secular trends they are investing behind remain in play. "In growth equity, you are betting on a shift in a market and a technology company's ability to address that shift," says Ewen.

"Realistically, you are talking about 10-year shifts, so what is happening over the next six-month period is not so impactful. The underlying trends are still solid; technology budgets are still growing and companies are still looking to address inefficiencies using technology." ■

Frosty fundraising drives dearth of closes

The number of vehicles to wrap up fundraising during Q1 2023 suggests total funds to close this year could fall by half, writes Alex Lynn

Getting a fund over the line is proving no mean feat in 2023. PE funds raised $163.9 billion in Q1, down nearly 19 percent from the equivalent period last year and 35 percent from Q1 2021, according to *Private Equity International* data.

LP capital is becoming more concentrated across a smaller number of vehicles, with the number of funds closing also plummeting. Only 204 did so in the first quarter, putting this year on track to finish well below the 1,615 closed across the whole of last year and 2,356 the year prior.

"The period we are entering at the moment is similar to what we saw following the global financial crisis; there was, and now is, a flight to home markets and a flight to quality," Niklas Amundsson, a Hong Kong-based partner at placement firm Monument Group, tells *PEI*. "First-time managers and managers in emerging markets will be the ones not closing at all. However, for most established managers in developed markets, they will continue to be supported by existing investors and close funds. These funds may not all meet their original targets, so some managers that have been used to increasing their fund sizes may be frustrated by the experience."

Regional focus

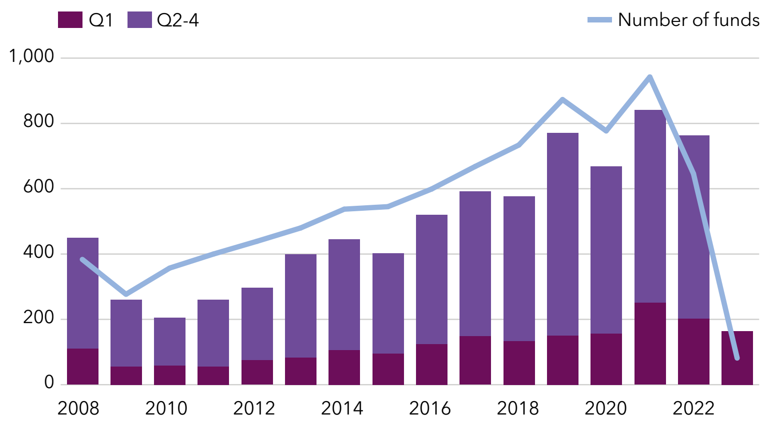
Asia-Pacific's share of fundraising dropped below historic levels in the first quarter. Funds targeting the region closed on just $2.2 billion, representing only 1.4 percent of global capital raised. By comparison, the region took 8.3 percent of capital raised in 2022, and 13.3 percent in 2021.

LP appetites for the region have been dented in no small part by China's PE slowdown. Funds targeting the region's largest market are taking longer to raise capital thanks to geopolitical tensions, regulatory uncertainty and lengthy pandemic disruption.

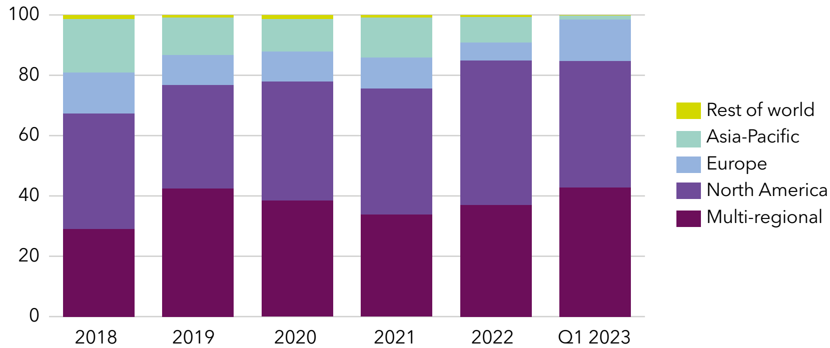
"Last year, the average fundraising timeline globally took closer to 17 months," Amundsson says. "This trend has continued into 2023, where it has now become the norm to apply for fundraising extensions, especially for… managers operating in markets facing macro headwinds, such as China."

As of 21 April, funds in market were seeking approximately $1.24 trillion between them. Of this, Asia-Pacific funds were targeting $131.5 billion, compared with $105.4 billion for Europe and $502.3 billion for North America. Eight funds were seeking at least $20 billion each, including CVC Capital Partners IX (€25 billion), Apollo Investment Fund X ($25 billion) and Hellman & Friedman Capital Partners XI ($23 billion). ■

Capital raised in Q1 was broadly in line with prior years, though a smaller number of funds closed ($bn)



Asia-Pacific funds accounted for just over 1% of capital raised in Q1 (%)



Source: PEI

Q&A

Permanent capital specialist Kudu Investment Management's strategy is 'the antithesis of a private equity approach', says managing partner and chairman Charlie Ruffel

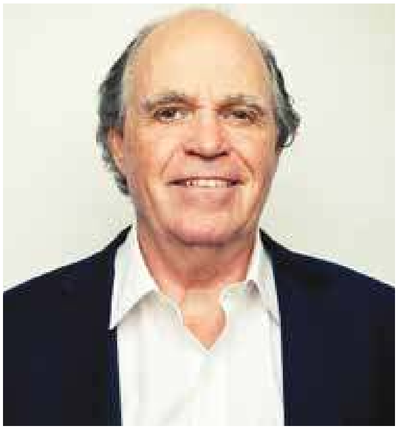
GP stakes firms – which once occupied but a narrow corner of the private equity universe – are rapidly proliferating.

The market has grown to at least a dozen central firms, and funds dedicated to the strategy now attract billions of dollars. Most recently, Hunter Point Capital – a comparatively recent entrant to this space – has raised at least $2.66 billion for its debut offering, according to US Securities and Exchange Commission filings.

Kudu Investment Management, however, is one of the industry's more distinctive players. That's because, unlike most of its GP stakes peers, Kudu no longer invests through funds.

The New York-headquartered firm was co-founded in 2015 by managing partner Charlie Ruffel and partner Nick Platt, who previously led financial publisher Asset International – best known for its *Chief Investment Officer* magazine – as chairman and chief operating officer, respectively. They were joined as co-founders by managing partner Rob Jakacki, who is also Kudu's chief executive and chief investment officer; and partner and CFO Gavin McLeod. Both previously worked at US capital provider Asset Management Finance; Jakacki as CIO and McLeod as principal.

Kudu began life as a third-party manager, raising around $140 million in a fund structure from Australian investment manager Challenger. This vehicle backed two public equities managers, one of which has since been exited.



"Permanent capital… frees us from the tyranny of having to continually raise capital ourselves"

In 2018, Kudu moved to a different capital structure and closed a $250 million investment from funds managed by Oaktree Capital Management and White Mountains Insurance Group. White Mountains acquired Oaktree's interests in 2019 and was joined as an equity owner in 2022 by MassMutual.

Today, the firm owns minority stakes in at least 19 asset and wealth managers across North America, Europe and Australia, of which nine are active in private markets. These include impact investment firm Creation Investments; private credit and growth equity firm Escalate Capital Partners; and European special situations manager Warwick Capital.

Private Equity International recently caught up with executive chairman and managing partner Ruffel to discuss the firm's novel approach to this burgeoning strategy.

Q What sets Kudu apart from its ever-expanding peer group?

A We have permanent capital – we're an operating company, not a fund. So when we say to a prospective partner firm that we are equipped to be a permanent capital partner, we don't have to, quite frankly, give them some song and dance about how we're going to extend the fund life or… our ability to essentially force liquidity events on them.

Our capital comes from an insurance holding company, primarily from [White Mountains]. And White Mountains is like a mini-Berkshire Hathaway. It just simply allows us – when we talk about our capital – to pretty much differentiate ourselves from everybody else, because most of the people we compete with in one shape or another have raised funds.

I think the next differentiator is where we choose to compete, because we don't do the mega-deals that Dyal and Petershill do. We're generally writing cheques somewhere between $50 million and $100 million. We very rarely see these larger players that have raised huge sums of money and need to deploy it in our space. We're just not playing in the high-altitude, high-octane world.

Q An operating company is a very different kind of model to that of private equity. Is there ever any hesitance on the part of GPs who think you may not have the best understanding of what it takes to raise and manage a fund?

A The reality is we operate, in every shape and form, in a way that's completely understandable to them. We've just been lucky enough to get permanent capital, and that actually frees us from the tyranny of having to continually raise capital ourselves, so we can actually be better partners for our firm.

We started off as a fund to do our first handful of investments, so we understand that whole world – it's just suboptimal, in our view.

Whether it's a private equity or private credit or even a long-only manager, if you can really constitute yourself as a permanent partner and not to have to force some sort of liquidity event on them except at their own choosing, you're a better partner. Period.

Q What do you look for in a potential GP target?

A We see a million different asset managers. The luxury of being in this space is we see a lot, and – like most businesses – you have to kiss a lot of frogs. But the short answer to your question is what matters to us first and foremost is the integrity. And that's what we do: we find management teams and back them. We're relatively indifferent as to the type of manager they are.

Obviously, a really interesting place to invest right now is in the alternatives space, and particularly in locked-up funds like private equity, private credit and private real estate. And that tends to be where we have focused our attention and where most of our deals have been. But at the end of the day, we're trying to find a management team with a proven track record of adding value to their clients, whether it's institutional [or] retail.

Q How do you ensure alignment without a fund model?

A We want to get our rewards – effectively, our dividends – from the same streams as they do, so that's both carry and management fee. We tend to do revenue shares… [that involve] bottom-line as well as top-line… because part of our promise to our investors is a yield component, and the top-line revenue share gives us most visibility into that yield component.

We have quite a lot of structure in some of our deals, including ratchets, where they choose certain milestones or the stake dials down. But at the end of the day, what we're trying to create is alignment between ourselves and the management team. If we can do that, then we've done a good deal.

We're very light on corporate governance, deliberately: we don't sit on boards; we don't get involved in the day-to-day and running of their businesses. In many ways, we're the antithesis of a private equity approach. We want to be a value-add partner, and there are many ways we can be, but it's always at the behest of the companies we invest in. We're not trying to fix anything – none of these are science projects for us.

"The luxury of being in this space is we see a lot [of potential GP targets], and – like most businesses – you have to kiss a lot of frogs"

Q Do you have an exit strategy?

A We have some of the attributes of a private equity firm, but we don't have the disadvantages that [the] structure imposes upon our outcome. And our own success is not predicated on our ability to sell any partners in our portfolio. We've had sales… generally they're selling it to a strategic, and one's gone public.

Q You have some international GPs in your portfolio. Do you have any plans to expand overseas?

A We thought about whether we should open an office in Europe or even Australia – that might happen, but it's not tomorrow. Australia is a great place to do business and a really fun place to be. And, maybe most important of all, we have an absolutely terrific portfolio company in Australia called Channel Capital. And Channel is itself a multi-boutique player that has extraordinary potential. ■

Listed PE, and all that jazz

PE journalists spend a huge amount of time listening to earnings calls – and, inevitably, the hold music that precedes them. Can you guess the firms from the song picks?

'Look into my eyes – can't you see they're open wide?" croon US duo Charles & Eddie in their 1992 hit. The song – 'Would I Lie to You?' – was the choice of hold music by a US-listed private equity firm on its first-quarter earnings call in early May (see if you can guess which one below). It was a more mainstream track than the firm's previous choices: the chilled dance anthem 'Fade Out Lines' from French DJ The Avener was used for its full-year 2022 results in February.

Perhaps the song choice was a message to shareholders, analysts and journalists: the earnings call would be about transparency and disclosure, "grounded in facts". After all, senior executives from the firm in question were nothing but honest when they said their latest buyout flagship will likely miss its initial target of $25 billion amid market volatility.

Retro jazz and blues influences were used by several North American buyout shops, including a New York-based PE behemoth with $85 billion of dry powder as of end-March, and an alternatives giant with some recent senior leadership changes.

Listening in, Final Close felt good: the tunes were light-hearted and promising. We reached for our phones to trigger Shazam in hopes of finding the source of our musical salvation, but after a few twirls of the app's logo, we received the ill-fated response: "This is tough… We couldn't quite catch that." Sigh. We'd been let down.

Are you not entertained?

With Final Close tuning into around 20 earnings call per quarter, we'd say our hold experience over the years has been mainly dull.

Most firms usually queue Mozart or Debussy and call it a day. It's a rare experience to hear contemporary grooves – hence our excitement upon hearing Charles & Eddie's track. In fact, spokespeople from one buyout giant told us they're actually on a separate speaker line prior to the call, so they don't get to hear the hold music themselves – nor do they get to pick it.

No matter the secondary purpose for the selected songs, we appreciate any attempts to keep us amused during the moments of waiting. ■

Can you guess the firm based on their hold music?

Mozart – Divertimento in D Major

(a) TPG
(b) KKR
(c) SoftBank Group

Charles & Eddie – 'Would I Lie To You?'

(a) Apollo Global Management
(b) Carlyle Group
(c) Brookfield Asset Management

King LP – 'It's My Opinion'

(a) Ares Management
(b) Blackstone
(c) EQT

Mozart - c. SoftBank Group; **Charles & Eddie** - a. Apollo Global Management; **King LP** - b. Blackstone