VC-PE Index

A Look at North American Private Equity as of Q1 2017

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Private equity has experienced six straight years of strong fundraising, which has propelled the industry to new heights. Over the last five years, private equity has raised more than $2.6 trillion. What is fueling this rise? How are managers responding to this influx of capital?

When the book is finally closed on 2016 fundraising, we will have a fourth straight year with more than $500 billion raised. Couple that with the 2,800 funds currently seeking close to $640 billion and it is easy to see that markets that demand but also competition for capital is at all time highs in the industry.

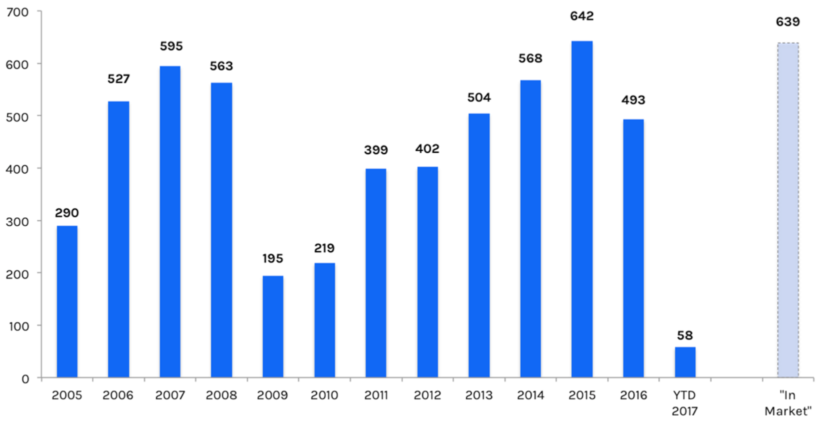
What is fueling this growth?

There are certainly exogenous factors at play which are driving the industry's growth, including disappointing returns in other asset classes and new sources of capital in Asia and the Middle East that are large contributors to the strong fundraising market.

If we dig into industry-specific dynamics, we will see that the strong exit markets are at the heart of what is fueling strong fundraising.

Based on what our clients have been saying, Q4 2016 was an incredibly strong quarter for distributions. This means 2016 will be the fourth

Private Equity Fundraising 2005 - 2017 ($ bil)

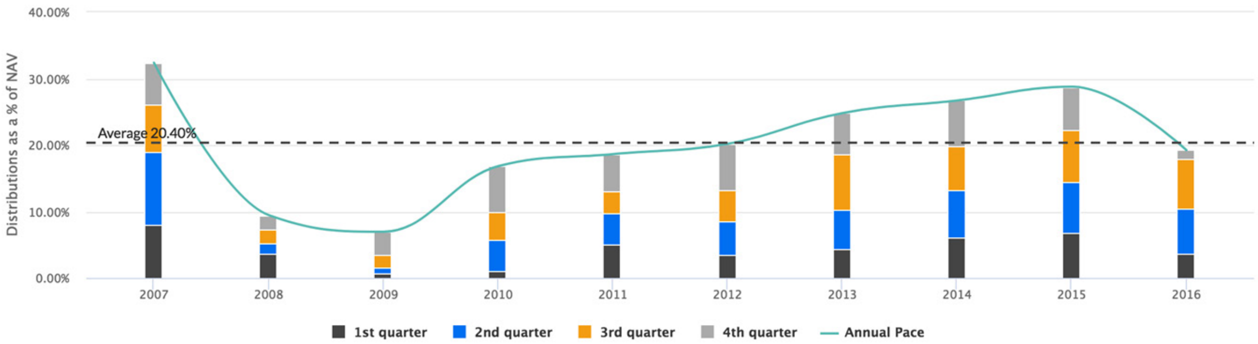


consecutive year of strong, above average exit activity. Looking closely at the above chart, we can see that this bull market got its start in Q4 2010. Q4 2010 was a strong quarter for exits, representing more than 40% of 2010's exit activity, and it represents the start of the upward trend in exit markets.

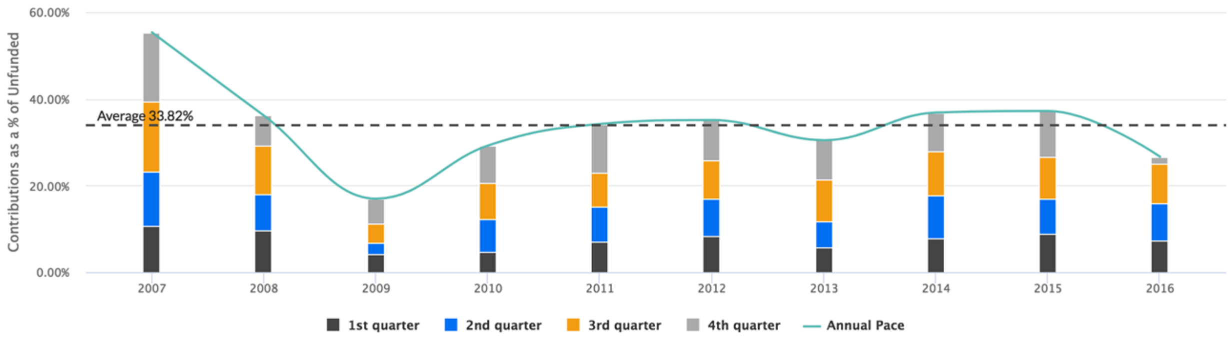
How are GPs responding to this influx of capital?

Despite the record setting commitments, GPs have remained relatively disciplined. As the chart below indicates, the annual investment pace has fluctuated around the 10-year average of 38% of unfunded commitments.

Distribution Pace (As of Dec 31, 2016 - USD)



Contribution Pace (As of Dec 31, 2016 - USD)



This contrasts with the bubble that came to a halt in 2008. During the 2005 - 2007 vintage years, GPs invested more than 55% of their available unfunded commitments each year. An unprecedented amount of capital was put to work in a short period of time.

While deal activity has been healthy up until now, the growing supply of dry powder begs the question of "How long will this last?" Either GPs will continue to let dry powder swell while they wait for a buying opportunity or they will succumb to the unspoken pressure to deploy capital and start doing deals that are reminiscent of the 2004 - 2007 boom. Using our market data to approximate the amount of dry powder industry-wide, we estimate there is $1.4 trillion waiting to be deployed.

Wrapping up

Private equity is in the midst of its longest streak of strong fundraising - six straight years of at least $400 billion raised. Relatively strong returns, new pools of capital and sustained strength in exit markets indicate to us there is at least another year, if not two, of runway left in the current golden age. The area to watch for any signs of overheating will be the investment pacing. If deal activity starts to pick up, that will be a sign that GPs have decided to put their money to work rather than accumulate dry powder. In that situation, LPs will want to perk up and pay extra attention to where their GPs are investing in case things start to get carried away.

Author's Bio

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Mike Roth is the Research Manager at Bison and oversees the data collection and content production. Before Bison, Mike spent six years on the investment team at SVG Advisers. There, he conducted research and due diligence on buyout and venture capital funds in the Americas. Mike received his BA in Economics from Boston College and is a CFA Level III candidate.