PRIVATE MARKETS TO FUEL FUNDRAISING BOOM IN 2018

Looking back at 2017 capital raising figures and IR recruitment activity reveals three major trends for 2018

Sasha Jensen, CEO of Context Jensen Partners

The private equity and private debt sectors each had record fundraising years in 2017, combining for a total of $560bn in commitments, according to Preqin. Although private equity accounted for the bulk of capital with a record-high $453bn in assets raised, it is private debt that is growing the fastest, having nearly doubled in the past five years to $107bn as of the end of 2017.

This activity is evidence of strong demand for private markets strategies in 2017. Another valuable indicator of change is marketing moves, which signals which alternative investment firms are hiring distribution and fundraising professionals and in what specialties.

In 2017, Context Jensen Partners tracked 274 marketing moves in private equity and 73 in private credit. Both sectors also finished strong, with 58 and 15 hires in Q4, respectively. This includes several high-profile hires, such as Noel Kimmel joining Cerberus Capital after several years with Cantor Fitzgerald, and Simon Jennings joining HarbourVest Partners having previously served as the global head of private equity for HSBC. Within private credit, Jonathan Bylin left Carlyle's credit team to join JP Morgan, while Antoine Autain became Oaktree Capital's marketing VP after a stint at Jupiter Asset Management.

This suggests the strong fundraising numbers should continue into 2018. Indeed, Preqin shows 2,296 private equity funds and 336 private debt funds currently in the market seeking a combined $900bn. While not every fund will close at its desired goal, the sheer volume of capital being chased highlights marketers' optimism towards 2018.

So what else should marketing and distribution professionals expect in 2018?

Larger fund sizes

Apollo may have grabbed the headlines for its record $24.76bn private equity fund, but this was far from the only 11-figure fundraise in 2017. Other high-profile closes included CVC Capital Partners ($18.6bn), Silver Lake Partners ($15bn) and KKR ($13.9bn). And then there's SoftBank's $100bn Vision Fund.

Private equity firms raised $453bn across 921 funds at an average of $492m per fund. This is up from $333m per fund in 2016 and $290m in 2015. The average private debt fund size is growing even faster, ballooning to $787bn in 2017 compared to $595bn in 2016 and $588bn in 2015.

This push towards larger fund sizes reflects increased demand among institutional investors for alternative investment strategies that offer a differentiated return stream. With the bull market expected to continue into 2018, many investors are proactively repositioning their portfolios by making big bets on long-term oriented investment vehicles

Growth in Asia

The majority of private markets fundraising activity is still dominated by firms in Europe and North America. But this is starting to change as more Asian investors join the alternative investing ecosystem.

Asian investors are beginning to flock to private debt strategies. This trend shows no signs of abating, with Asia-focused private debt funds raising $5.9bn in 2017. Private equity firms are also targeting Asia, with reports that Morgan Stanley is raising $2bn for an Asia-focused fund.

The last quarter saw several large firms positioning themselves for the Asian market via senior marketing hires. For example, Hermes hired Lin Chew as business development director for the Asia-Pacific region, building on her previous role at Winton Capital Management where she focused on Southeast Asia, Hong Kong and Taiwan. Similarly, Barings brought in Melissa Chang from Providence Equity Partners as a director for its Asia subsidiary.

I've met with dozens of Asian investors interested in entering the private equity and private debt markets. While allocation sizes have thus far been fairly small, this likely has more to do with the lengthy due diligence process than it does with a lack of investor appetite.

We predict Asian investors will continue making sizeable allocations to private equity and private debt strategies in 2018.

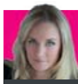
Responsible investing to take centre stage

Every asset manager and investor took notice when BlackRock CEO Larry Fink published a missive calling for every company to "not only deliver financial performance, but also show how it makes a positive contribution to society." While some fund managers may chafe at being lectured about their investment strategy, the reality is that more and more institutional investors are demanding fund managers take responsible investing seriously.

Pension funds like CalPERS and NYCERS are leading the way for advocating for responsible investing, and they are not alone. According to the *2016 Global Sustainable Investment Review*, $22.89trn global assets are being managed via responsible investment strategies, an increase of 25% since 2014. But this is still just 26.3% of global assets under management, meaning there is still significant growth potential.

The UN PRI lists more than 330 private equity firms in its directory, all of which have made a pledge to practice responsible investing. More are likely to follow suit in 2018.

Private equity and private debt firms that want to continue attracting investors will have to think hard about their long-term investment philosophy and whether it aligns with the larger trend towards responsible investing.



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