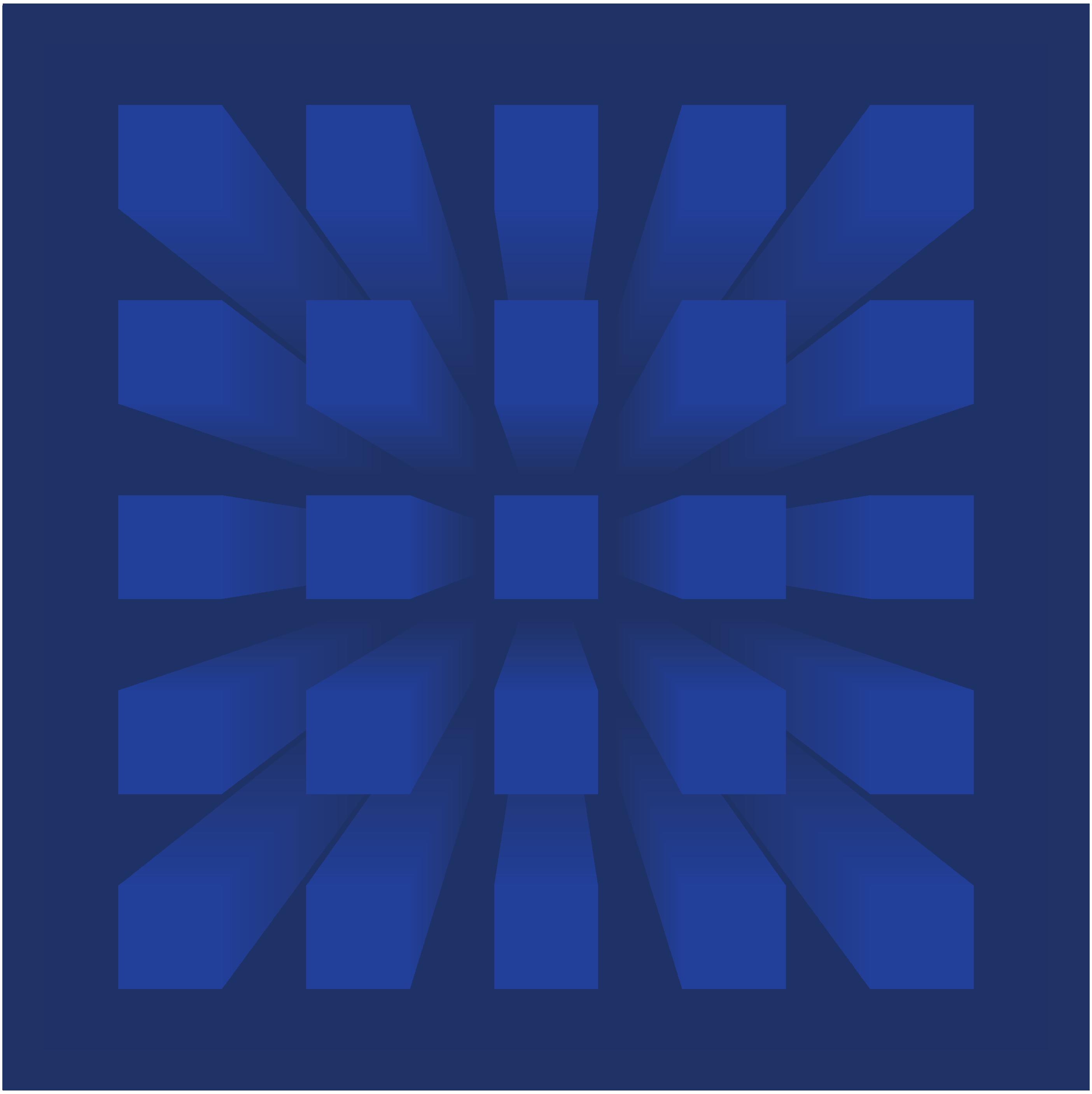
AUGUST

2023 Q1 European Private Equity Fundraising Report



Intro

2022 was a challenging year for public and private markets alike, marked by geopolitical turmoil, increasing interest rates, surging inflation and continuous uncertainty. Given the current macroeconomic environment, it's only natural for the following questions to arise: how did private equity funds perform in 2022, and will the same trend continue throughout 2023? With this quarterly report on European Private Equity Fundraising, August aims to provide an answer to those questions, while giving more insight into how investors navigate the PE asset class in uncertain times.

The report focuses on the evolution of fundraising within the European PE space. It highlights the main funds that had their last close in the most recent quarter, with a specific focus on possible trends in the Benelux market. The report is compiled using Pitchbook data and is supplemented with market commentary from the August team.

Key takeaways

The data from 2022 and Q1 2023 shows a clear slowdown in fundraising in private markets, confirming the difficult fundraising environment in the private asset space.

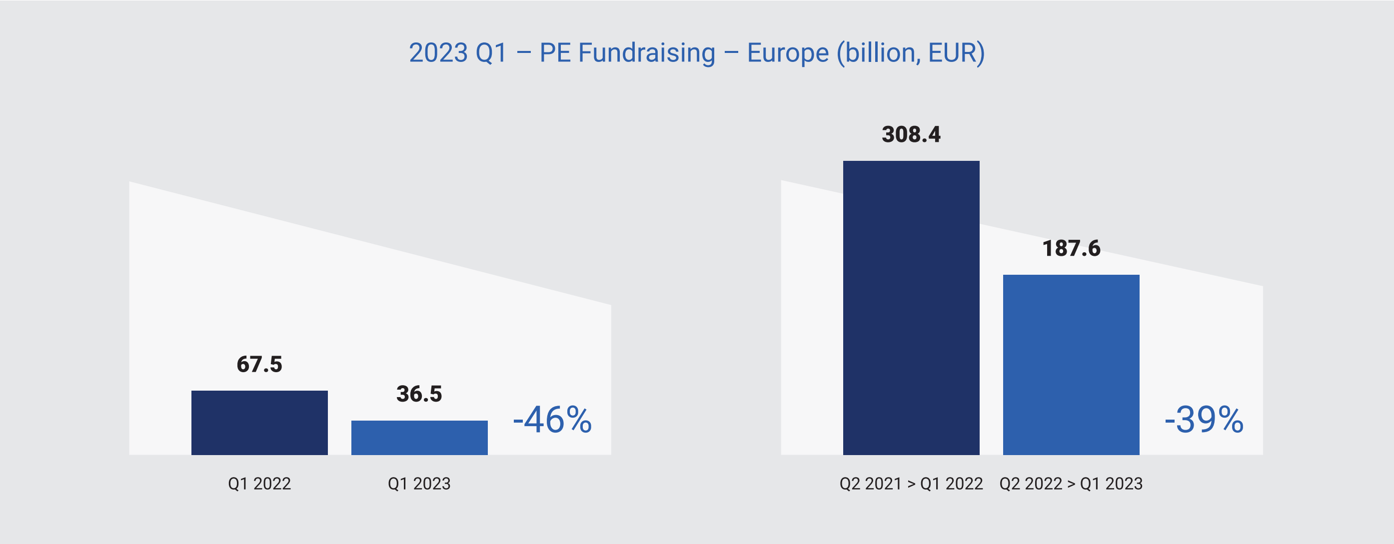
PE Fundraising in Europe:
- Q1 2023: €36.5bn (-46% compared to Q1 2022)
- LTM Q1 2023 vs previous LTM: €187.6bn (-39%)

PE Fundraising in Benelux:
- Q1 2023: €4bn (+45% compared to Q1 2022)
- LTM Q1 2023 vs previous LTM: €11.7bn (-18%)

Larger funds dominate the market:
Permira VIII (€16.7bn raised),
Nordic Capital IX (€9bn) across Europe;
Waterland IX (€4bn) in the Benelux

2023 Q1 PE Fundraising – Europe

In Q1 2023, European PE managers closed funds totalling €36.5bn worth of commitments, down about 46% from Q1 2022. In the year ending 31 March 2023, European PE managers closed on €187.6bn worth of funds, down approximately 39% from the previous 12-month period.



source: PitchBook – Geography: Europe

These steep drops could be a sign of the difficult fundraising environment in the private assets space, as investors rebalance their asset allocations in the view of decreasing public market valuations (the "denominator effect") and take a cautious view of the global macroeconomic context.

Indeed, the combination of higher interest rates and a slowing global economy has put pressure on public equity markets; the S&P 500, a bellwether of global equity markets, is still down about 13% since the beginning of 2022. This has been gradually permeating private equity markets, with investors looking to keep a balance between their public and private holdings, which means being much more careful when committing to new PE funds.

We believe we're navigating different times. Our economy is slowing down and interest rates are normalising.

The biggest European funds raised in the last year include the eighth vintage of Permira's flagship buyout strategy, **Permira VIII** (€16.7bn), Nordic Capital's ninth buyout vintage **Nordic Capital IX** (€9bn), and ICG's eighth flagship European mezzanine fund, **ICG Europe Fund VIII** (€8.1bn). All three funds closed at or above their target, and well above their respective predecessors, which highlights the polarised nature of the fundraising market at times of tension, with capital concentrating on the best and biggest platforms.

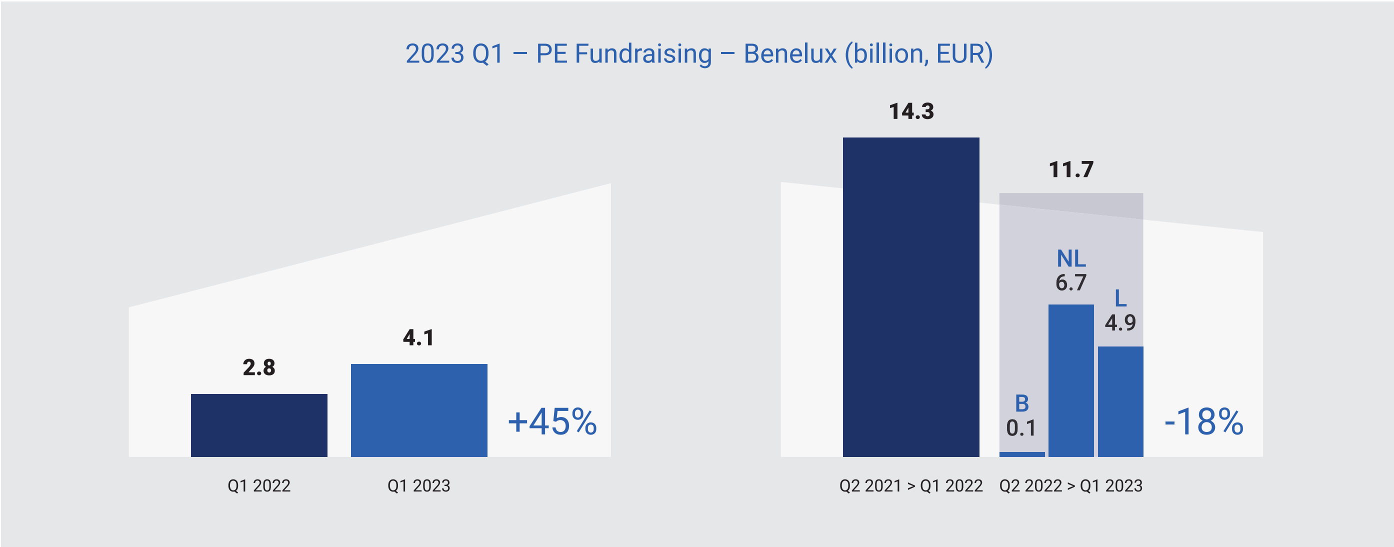
Markets then vs now: historical comparison

Are we facing the same economic downturn as markets did during the dot-com bubble and the financial crisis of 2008? Are these situations similar?

We believe we're navigating different times. Our economy is slowing down and interest rates are normalising. We may or may not enter a period of recession, which will obviously impact public and private companies. The economy might be slowing down, but it doesn't seem to be bursting into flames.

2023 Q1 PE Fundraising – Benelux

Benelux-based managers raised slightly above €4bn in Q1 2023, up 45% from Q1 2022. In the year ending 31 March 2023, Benelux-based managers raised an aggregate of €11.7bn worth of funds, down approximately 18% from the previous 12-month period.



source: PitchBook – Geography: Europe

We believe this relative stability of the Benelux market can be attributed to a few factors. First, the region is home to a number of top-performing managers who are capable of raising money from global investors, such as Waterland or Carlyle's AlpInvest. Second, the three countries, and in particular Luxembourg, act as a magnet for PE funds thanks to their mature and experienced fund management ecosystems. Last but not least, we believe that the region's private investor base is waking up to the importance of allocating part of their investment portfolio to private equity, counterbalancing the slowdown in the institutional investor base.

In the Benelux, we see signs of greater market resilience, which we will seek to confirm in the coming quarters. Investors, notably private ones, seem to have integrated the importance of allocating part of their investment portfolios to PE.

Private investors and their advisors are gradually realising the importance of exposure to privately traded companies (as explained below), and at the same time, private market players are opening up to private investors in order to diversify and strengthen their investor bases.

The biggest Benelux-based funds raised in the last year include the ninth vintage of Waterland's flagship buyout strategy, **Waterland Private Equity Fund IX** (€3.5bn – €4bn in total with another affiliated fund), Ergon Capital's fifth fund, **Ergon Capital Partners V** (€800m), and Endeit Capital's third growth fund, **Endeit Capital Fund III** (€300m). As was the case above, all three funds closed at or above their target.

Investing in PE:
an interesting bet in turbulent times

In turbulent times, investors tend to retreat to perceived safe havens such as cash, bonds, gold, etc. These are often the best times to invest in the real economy. By investing in PE, you have access to the real economy and to companies and projects owned by shareholders that are aligned with you as an investor.

Indeed, one of the main advantages of investing in PE is the alignment of interests of all the parties involved. Incentives put in place by PE managers ensure that both they and the management of the acquired companies work to maximise the return on investment for the shareholders over the holding period. Other advantages include a focus on long-term value creation (longer holding periods favour long-term strategic initiatives vs the public market's shorter-term bias), an optimal financial structure of acquired companies with an appropriate amount of leverage, and an ability to attract top talent at both the PE fund and acquired company level, thanks to the clear incentives in place.

Private investors and their advisors are gradually realising the importance of exposure to privately traded companies and at the same time, private market players are opening up to private investors in order to diversify and strengthen their investor bases.

While PE has many advantages over public markets, it is important to keep in mind that investing in PE is a long-term and illiquid endeavour, and that returns can be volatile and vary greatly from one fund manager to another. That is why it is important to keep a few core principles in mind when looking to invest in private markets:

- **Consistency in allocation**: PE is a long-term asset class and it is difficult to predict market cycles, making it important to be in the market on a consistent, annual basis to mitigate the risk of market timing.
- **Manager selection**: A wide dispersion of returns in PE, from the first to fourth quartile performers, necessitates a focus on manager selection to identify top managers.
- **Portfolio diversification**: PE spans all phases of the business lifecycle and opportunities can be found in different sectors, industries and geographies; a well-balanced private equity programme can diversify return drivers across these metrics.

Investing in PE: Funds of funds (PE FoF)

There are many ways to invest in PE: directly, by acquiring stakes in private companies, or indirectly, by committing capital to PE funds or funds of funds (FoF). The latter aggregate capital from a large number of investors and invest it in a diversified list of PE funds.

The benefits of investing in a PE FoF for a private investor are numerous: professional manager selection, consistent and diversified allocation across managers, industries, geographies and stages in the business cycle, regular reporting and portfolio insights. Last but not least, financial returns are attractive, as evidenced below. FoFs are the third best strategy in the private markets space over both the short and long term (up to 10 years). In other words, your downside is protected through diversification and your upside remains through superior manager selection.

Horizon IRRS by strategy *

	Q3 2022 **	1-year	3-year	5-year	10-year
Private equity	-0,6%	11.4%	23.9%	19.9%	16.9%
Venture capital	-4,8%	2.8%	26.8%	22.8%	16.6%
Real estate	0.5%	24.2%	14.1%	12.0%	12.9%
Real assets	4.6%	18.5%	9.9%	8.4%	7.7%
Private debt	1.3%	3.5%	7.8%	7.5%	8.8%
Funds of funds	**8.4%**	**11.5%**	**23.6%**	**19.1%**	**14.2%**
Secondaries	8.2%	21.7%	18.6%	17.0%	14.0%
Private capital	**1.0%**	**12.0%**	**19.1%**	**16.2%**	**14.4%**

* Yearly horizons are as of June 30, 2022 – ** Preliminary quarterly return

source: PitchBook – Geography: Global

Conclusion

Although experiencing a rebound in Q1 from last year's lacklustre figures, PE fundraising has clearly slowed down from the 2020-21 peaks. Large funds account for the bulk of the fundraising figures, a sign that investors prefer to allocate to more established players in times of uncertainty.

In the Benelux, we see signs of greater market resilience, which we will seek to confirm in the coming quarters. Investors, notably private ones, seem to have integrated the importance of allocating part of their investment portfolios to PE.

About August

August (www.august.lu) is a Luxembourg- and Belgium-based investment platform focused on private equity. It was founded in 2009 as the dedicated investment vehicle of four entrepreneurial families with roots in the port logistics industry. August started investing in private equity funds in 2011 and today manages approximately €250 million in assets, having invested in more than 80 funds from around 30 leading private equity managers.

Our goal is to leverage our long-standing experience as a private equity investor to be the partner of like-minded families, entrepreneurs and high net worth individuals as they diversify their wealth into private markets. Besides offering access to the best managers in a wide range of asset classes – venture capital, growth and buyout, secondaries, property – we provide our investors with state-of-the-art reporting and insights as well as access to funds and co-investment opportunities.

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