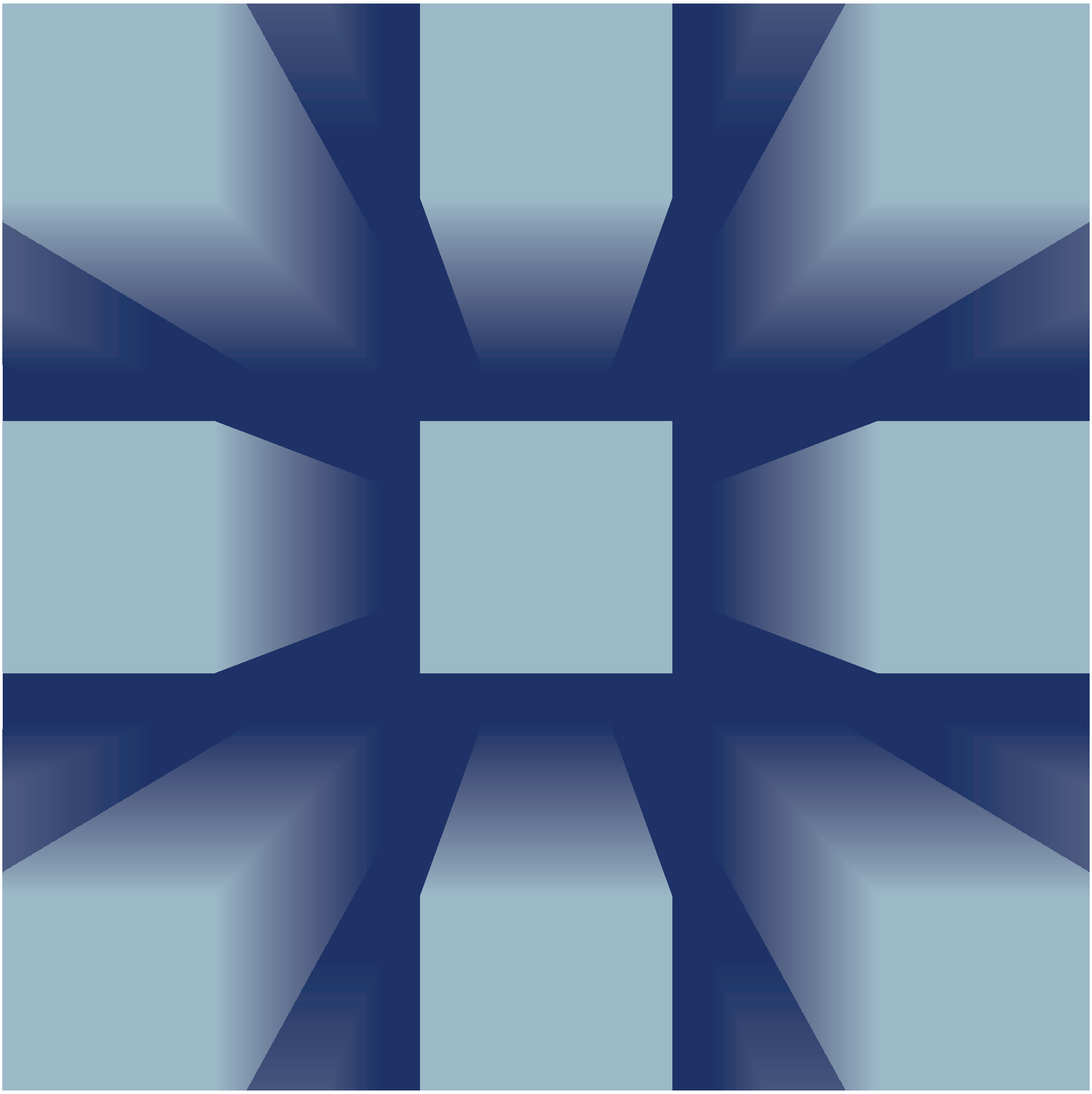
AUGUST

2023 Q2 European Private Equity Fundraising Report



Intro

After a challenging Q1 in terms of fundraising in Europe, marked by a preponderance of large funds vs smaller ones, Q2 promised to be an interesting quarter. Has fundraising rebounded across Europe? How has the Benelux fared after a comparatively strong Q1? It is time to find out in the second installment of our quarterly European Private Equity Fundraising Report.

The report focuses on the evolution of fundraising within the European PE space and highlights the main funds having 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

Fundraising in Europe has picked up pace in Q2 2023; the picture in the Benelux is not as clear.

PE Fundraising in Europe:
- Q2 2023: €72.2bn (+98% compared to Q1 2023; +50% compared to Q2 2022)
- LTM Q2 2023 vs previous LTM: €232.9bn (+26%)

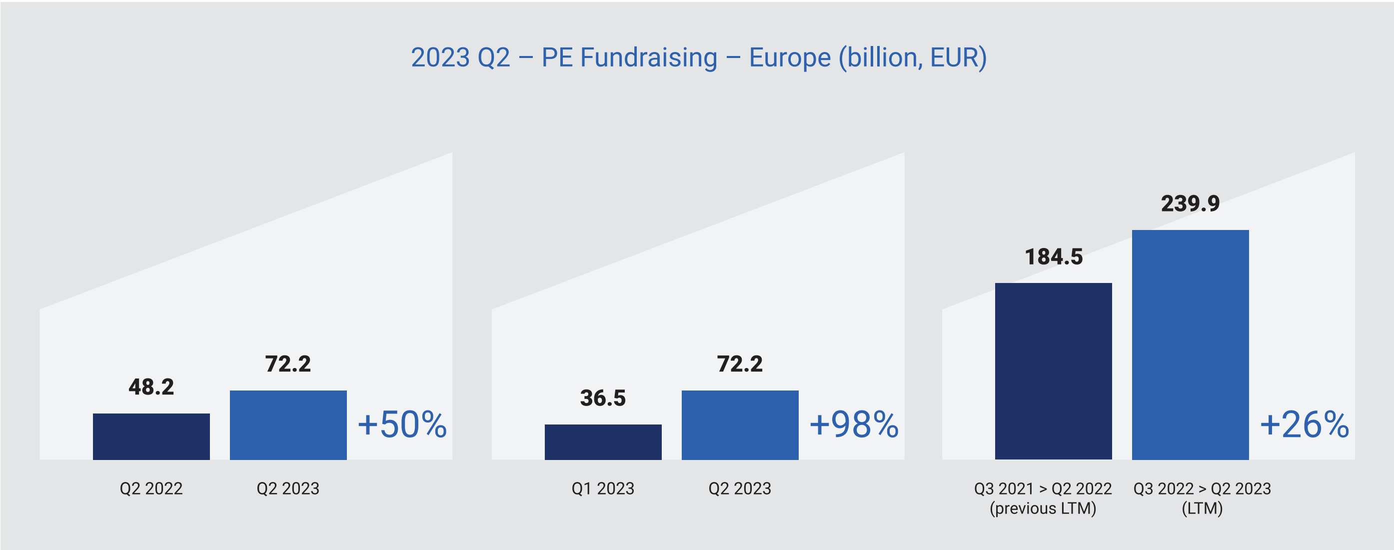
PE Fundraising in Benelux:
- Q2 2023: €3.7bn (-10% compared to Q1 2023; -40% compared to Q2 2022)
- LTM Q2 2023 vs previous LTM: €9.4bn (-49%)

Credit funds dominate the market:
- HSBC UK SME Fund (€17.2bn raised);
- Permira Credit Solutions V (€4.2bn);
- LCM Credit Opportunities IV (€4.1bn)

2023 Q2 PE Fundraising – Europe

In Q2 2023, European PE managers closed funds totaling €72.2bn worth of commitments, up about 50% from Q2 2022 and almost doubling the tally in Q1 2023 (€36.5bn), in a sign that private markets have started recovering from a dismal start of the year.

In the year ending June 30th 2023, European PE managers closed on €232.9bn worth of funds, up c. 26% from the previous 12-month period, further confirming the rebound in fundraising in the past quarter.



source: PitchBook – Geography: Europe

The list of the biggest European funds raised in Q2 is topped by **HSBC's** maiden **UK SME fund** (€17.2bn), the bank's first fund dedicated to lending to UK SME's. In fact, all of the three biggest funds raised in the quarter are credit funds, with the #2 being **Permira Credit Solutions V** (€4.2bn) and the #3 **LCM Credit Opportunities IV** (€4.1bn).

This revival of the private markets coupled with an investor focus on credit vehicles (45% of the total amount raised, vs 34% for equity-related strategies) is a sign that European investors are finding good opportunities on the debt side of the market, as yields in Europe push higher after years of rock-bottom interest rates.

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The revival of credit markets: our perspective

With risk-free rates in Europe (i.e. German government bonds) now well above 2% and banks retreating from their core lending activities, companies across the continent are finding it harder (and more expensive) to get financing, pushing corporate spreads higher.

Private markets have been stepping into the space, attracted by the return potential (high single-digits/low double-digit yields are not uncommon in the high-yield space) and perceived safety of the credit markets (defaults have hovered around 2-6% in the European junk bond markets in the past few years).

We are cautious on the space as we expect defaults to rise in the coming quarters, as Europe enters into a recession. In addition, we believe credit markets remain too complacent and are not adequately pricing the embedded risk. As a result, we have largely stayed away from the credit markets in the recent months, and forecast to remain so for the foreseeable future.

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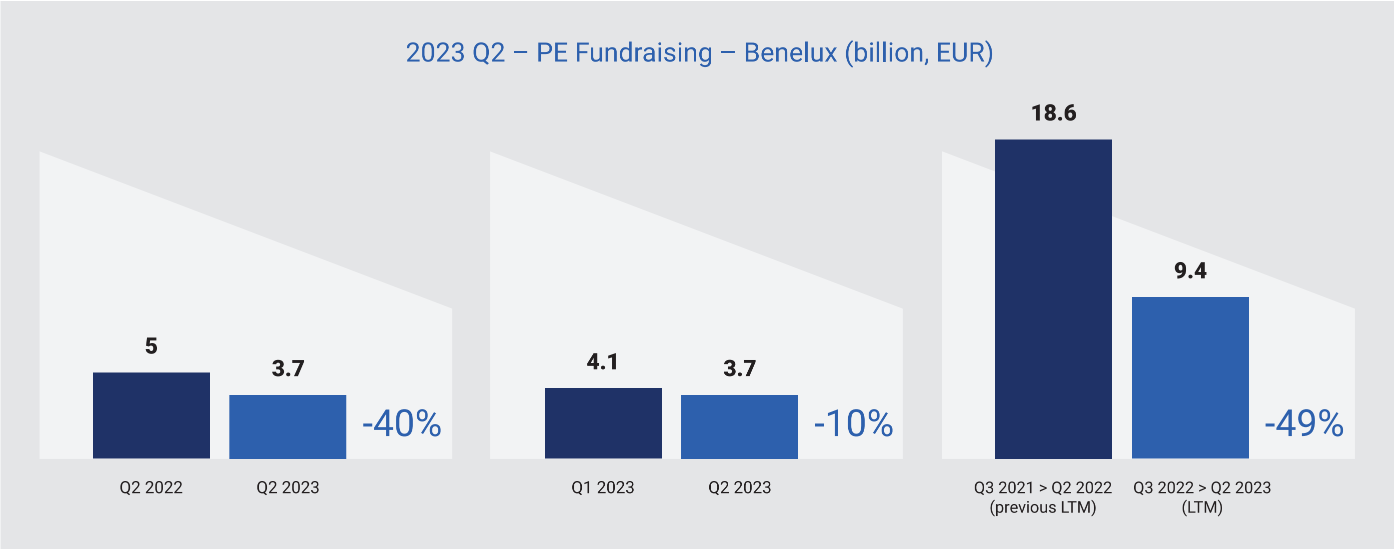
2023 Q2 PE Fundraising – Benelux

Benelux-based managers raised c. €3.7bn in Q2 2023, down 40% from about €5bn in Q2 2022 and roughly on par with the €4.1bn raised in Q1 2023. In the year ending June 30th 2023, Benelux-based managers managed to raise an aggregate of €9.4bn worth of funds, down almost 50% from the previous 12-month period, highlighting the volatile nature of regional fundraising figures, after a comparatively strong Q1.



source: PitchBook – Geography: Europe

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), which we highlighted in our previous report, as well as **Triton IV Continuation Fund** (€1.6bn), and **Forbion Ventures Fund VI** (€750m).

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The growth of GP-led secondary transactions

Triton's fund highlights an interesting trend in recent years, that of fund managers setting up continuation funds to provide liquidity to fund investors while at the same time keeping control of some of their best assets. In this case, Triton rolled four companies from their Triton IV fund into a new vehicle, underwritten by large secondary fund managers HarbourVest Partners and LGT Capital Partners.

The Triton fund is what's also known as a GP-led (general partners) opportunity. GP-led opportunities are situations where a fund sponsor sells one or more assets from a fund it already manages to a new fund. This 'continuation vehicle' is managed by the same sponsor and generally capitalized by one or more secondary buyers, who negotiate the pricing and terms of the transaction with the sponsor. GP-led secondary transactions have experienced explosive growth over the past five or so years, going from 24% of the secondaries market in 2016 to more than 50% in 2021.

According to recent research from Bain & Company, most PE investors would rather cash out of their investments than wait for the possibility that valuations will rise further in continuation funds. This, according to Bain, is notably due to weak cumulative distributions to investors over the past few years, leaving the latter cash-flow negative on PE allocations that represent a significantly larger slice of their overall portfolios.

This rebalancing of allocations, which we highlighted in our previous report, is one of the reasons why fundraising has been turbulent in private markets this year and last, as evidenced by the figures provided.

How to diversify in PE

Given the numerous dimensions a PE investment can take, well-constructed private equity portfolios are typically diversified across multiple areas, including vintage year, geography, strategy, manager, and industry.

This obviously creates a challenge for non-institutional investors: whereas in public markets, ETF's are available at the distance of a click and with rock-bottom minimum investment amounts, creating instant diversification, such a solution does not exist – yet – in private markets. PE funds are often closed-end, highly targeted in their investment approach, and only available to investors capable of committing large amounts (often above €1 million).

In our previous blog posts, we identified funds of funds (FoF) as the best way to create a well-diversified PE portfolio. A FoF is a pooled investment fund in which capital commitments from many investors are invested across a diversified list of PE funds based on several investment criteria (target geography, sector, size, etc.). A FoF is advantageous for both investors with small private equity allocations (as they can diversify their portfolio without having to invest large amounts) as well as for investors with large private equity investment allocations (as they can gain access to smaller corners of the PE market). Moreover, financial returns can be more attractive than investing in companies or funds directly.

Do you want to find out more about investing in a private equity fund of funds? Read all about it on our website.

Conclusion

PE fundraising in Europe has staged a rebound in the last 12 months compared to the previous 12-month period, with credit funds representing close to half of the fundraising tally in Q2 2023, as European investors are increasingly looking at the debt side of the market with interest rates normalising.

The Benelux market paints a more volatile picture, with the last 12-month period being a slow one in terms of fundraising, after a comparatively strong Q1. The highlight of the past quarter is Triton's new continuation fund, shedding some light on a recent trend in the private markets.

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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