AUGUST

2023 Q3 European Private Equity Fundraising Report

Intro

Marked by a resurgence in credit vehicles and the rise of continuation funds, Q2 showed a significant rebound in European fundraising. But did Europe's fundraising climate continue this trend in Q3 despite rising interest rates? Have the Benelux countries shown signs of recovery from a less fruitful Q2? And what does the rise of secondary funds mean for both investors and the market? Time to find out in the third 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 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

Fundraising in Europe has slowed down in Q3 2023 compared to Q2 and is slightly down year-to-date. The picture in Benelux is skewed by CVC's new large fund but is quite positive nevertheless.

PE Fundraising in Benelux:
- Q3 2023: €27.6bn (+646% compared to Q2 2023) – without CVC: -57% QoQ
- YTD 2023 vs 2022: €37.0bn (+345%) – without CVC: +33% YoY

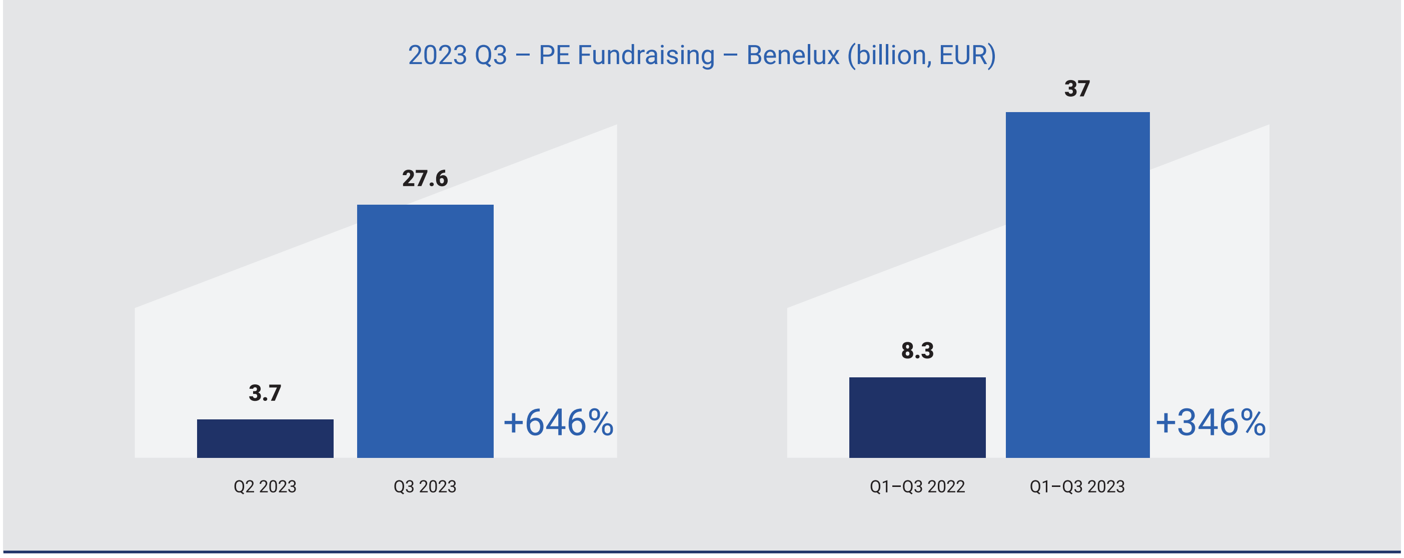
PE Fundraising in Europe:
- Q3 2023: €58.5bn (-19% compared to Q2 2023)
- YTD 2023 vs 2022: €154.7bn (-5%)

Interesting trends this year:
- Fundraising is increasingly concentrated on a few – large – funds
- Credit funds are staging a comeback in Europe
- Larger-than-ever secondary funds are coming to market

2023 Q3 PE Fundraising in Benelux

In Q3 2023, Benelux-based PE managers raised €27.6bn, up more than seven-fold compared to the €3.7bn raised in Q2. However, this figure is skewed by the fact that CVC's €26bn fund was established in Luxembourg. If we remove this CVC fund from the total, the fundraising amount falls to €1.6bn (less than half that of Q2).

In the year-to-date, Benelux-based PE managers managed to raise €37bn, more than four times the €8.3bn raised in the first nine months of 2022. Without the CVC fund, this year's figure is still c. 33% higher than last year's.



source: PitchBook – Geography: Europe

Besides the CVC fund, the biggest Benelux-based funds raised in the year-to-date include the ninth vintage of Waterland's flagship buyout strategy, **Waterland Private Equity Fund IX** (€3.5bn), as well as the **Triton IV Continuation Fund** (€1.6bn), both highlighted in our previous reports.

As mentioned in our previous report, Triton's fund highlights an interesting trend of recent years: that of the rise of GP-led transactions. This is where fund managers set up continuation funds alongside secondary investors, in order to provide liquidity to fund investors, while at the same time keeping control of some of their best assets.

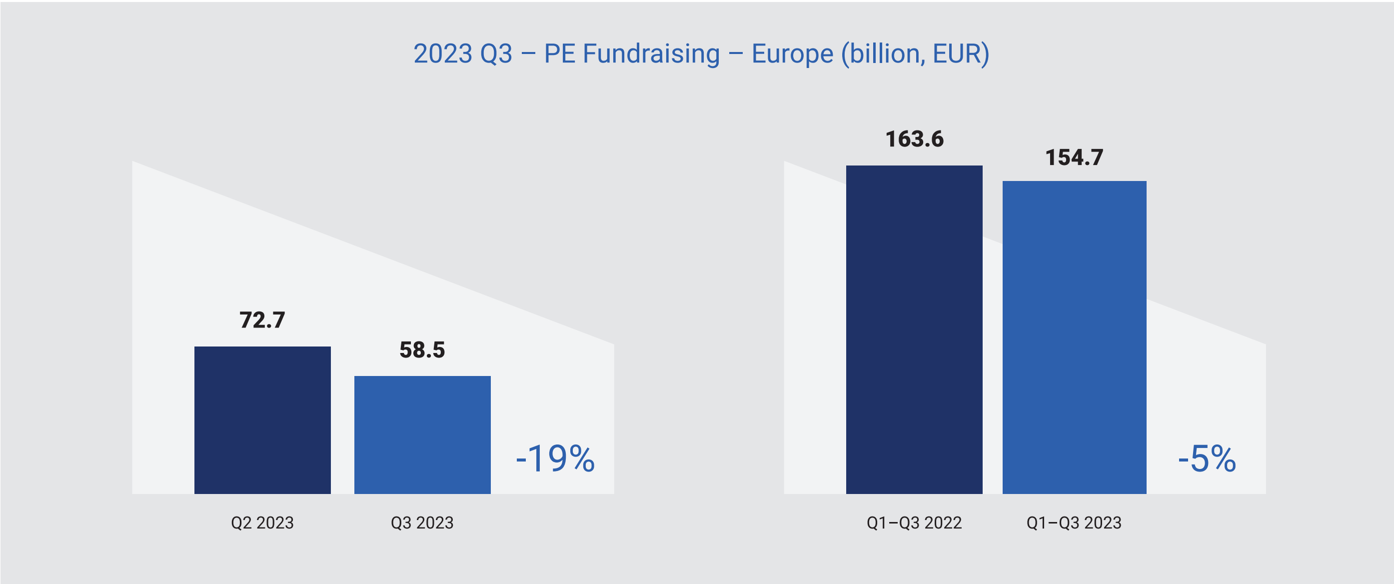
In the year-to-date, Benelux-based PE managers managed to raise €37bn, more than four times the €8.3bn raised in the first nine months of 2022. Without the CVC fund, this year's figure is still c. 33% higher than last year's.

João Vale de Almeida, Investment Director

2023 Q3 PE Fundraising in Europe

In Q3 2023, European PE managers closed funds totalling €58.5bn worth of commitments, down about 19% from Q2.

In the year-to-date, European PE managers closed on €154.7bn worth of funds, down about 5% from the €163.6bn raised in the first 9 months of 2022. This indicates that the rebound in Q2 was not enough to compensate for a difficult fundraising environment, as investors increasingly went into "wait and see" mode with regards to committing to new funds as liquidity for older funds dried up.



source: PitchBook – Geography: Europe

The list of the biggest European funds raised in Q3 is topped by **CVC Capital Partners' Fund IX** (€26bn), with is not only by far Europe's largest fundraise this year, but one of the largest PE funds ever raised. Year-to-date, CVC's ninth flagship fund obviously tops the list, followed by **Permira VIII** (€16.7bn) and **Hayfin Direct Lending Fund IV** (€6bn).

Three recent market trends

This year's rankings highlight some of the market trends already identified in our previous reports:

1. Concentration of fundraising

First, the increasing concentration of fundraising on a small number of managers and their flagship funds: the top five funds by size represent 38% of total fundraising this year, versus 19% in the first nine months of 2022.

For investors, this means that PE investment is more and more focussed on a smaller number of funds, which require ever-increasing minimum amounts, making it difficult for small investors to gain access.

2. Renewed focus on credit vehicles

Second, the renewed focus on credit vehicles, as yields in Europe push higher after years of rock-bottom interest rates. Four out of the top 10 largest funds raised this year are focused on credit, versus just one in the first nine months of 2022.

This trend highlights the comeback of fixed income investments in investor portfolios after years of ultra-low rates across the world.

3. Emergence of secondary funds

We are also witnessing the emergence of a new, powerful fundraising trend in private markets: that of larger-than-ever secondary funds. This is exemplified by Glendower Capital's fifth Secondary Opportunities fund, which this past quarter raised €5.2bn (more than double the amount reached by its predecessor). We are seeing a great deal of interest in secondary funds, as global investors look for liquidity to rebalance and shore up their portfolios, and as they come to understand the significant market opportunity for these liquidity providers.

As a refresher, secondary funds are private equity funds focused on (i) acquiring stakes in other private equity funds from investors (also known as LP-led deals in the PE jargon), and (ii) providing liquidity to PE managers on one or several of their portfolio companies (GP-led deals).

We are indeed seeing a massive supply-demand imbalance in private markets, with global investors managing their PE portfolios more actively than before, against a backdrop of reduced portfolio liquidity and lacklustre public market performance (the infamous "denominator effect").

This offers buying opportunities. For one thing, due to the recent fall in the value of public equities (think rising interest rates and increasing likelihood of recession), many investors are having to sell down their private equity fund stakes, so that the ratio of listed to unlisted companies is back in line with their own guidelines.

This also benefits secondary funds who can price transactions at even more attractive terms than usual (larger discounts to the portfolio NAV, deferred payment terms, etc.). This makes secondary funds a great buying opportunity for investors to get in.

In light of that, we have set up a dedicated secondaries fund allowing investors to capitalise on this trend. This is of particular interest for investors that are relatively new to the PE investing: because secondary transactions generate liquidity faster, investors limit the cash flow effect of private equity, whereby capital is only returned several years after having been committed. By acquiring stakes in older funds, secondary funds are able to generate liquidity soon after their investments are made (as underlying funds sell their existing assets), without having to wait the usual three-to-five year holding period.

In addition, secondary funds are inherently less risky than their primary counterparts: instead of holding 15-20 portfolio companies, they assemble portfolios of funds holding hundreds, if not thousands, of underlying assets. This embedded diversification greatly reduces the risk of capital loss for investors.

When is the best time to invest in PE?

Private equity 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. That being said, we believe that the current environment offers a particularly attractive opportunity for investment in secondaries.

Indeed, the combination of an attractive market backdrop, limited cash flow impact and reduced capital risk makes it an excellent strategy for an investor to start their journey into private equity.

The combination of an attractive market backdrop, limited cash flow impact and reduced capital risk makes secondaries an excellent strategy for an investor to start their journey into private equity.

João Vale de Almeida, Investment Director

Conclusion

PE fundraising in Europe has remained subdued in 2023 (compared to the same period in 2022), and it has been largely concentrated around a handful of very large funds. In contrast, the Benelux market has been quite strong this year, again helped by the strength of certain managers (CVC, Waterland), and by Luxembourg's central place in terms of fund management in Europe.

The main market trends identified in previous reports are still valid: fundraising is increasingly concentrated around a few large platforms and credit funds are back in fashion. Looking forward, we expect secondary funds to revive the fundraising market in the coming quarters.

All in all, even though it is important to always be "in the market", the current environment provides an excellent opportunity for investors to dip their toes into PE, with the secondary market being a great place to start.

Looking forward, we expect secondary funds
to revive the fundraising market in the coming quarters.

João Vale de Almeida, Investment Director

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 90 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.

www.august.lu

AUGUST