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# PE Pulse

## Quarterly insights and intelligence on PE trends

**February 2020**

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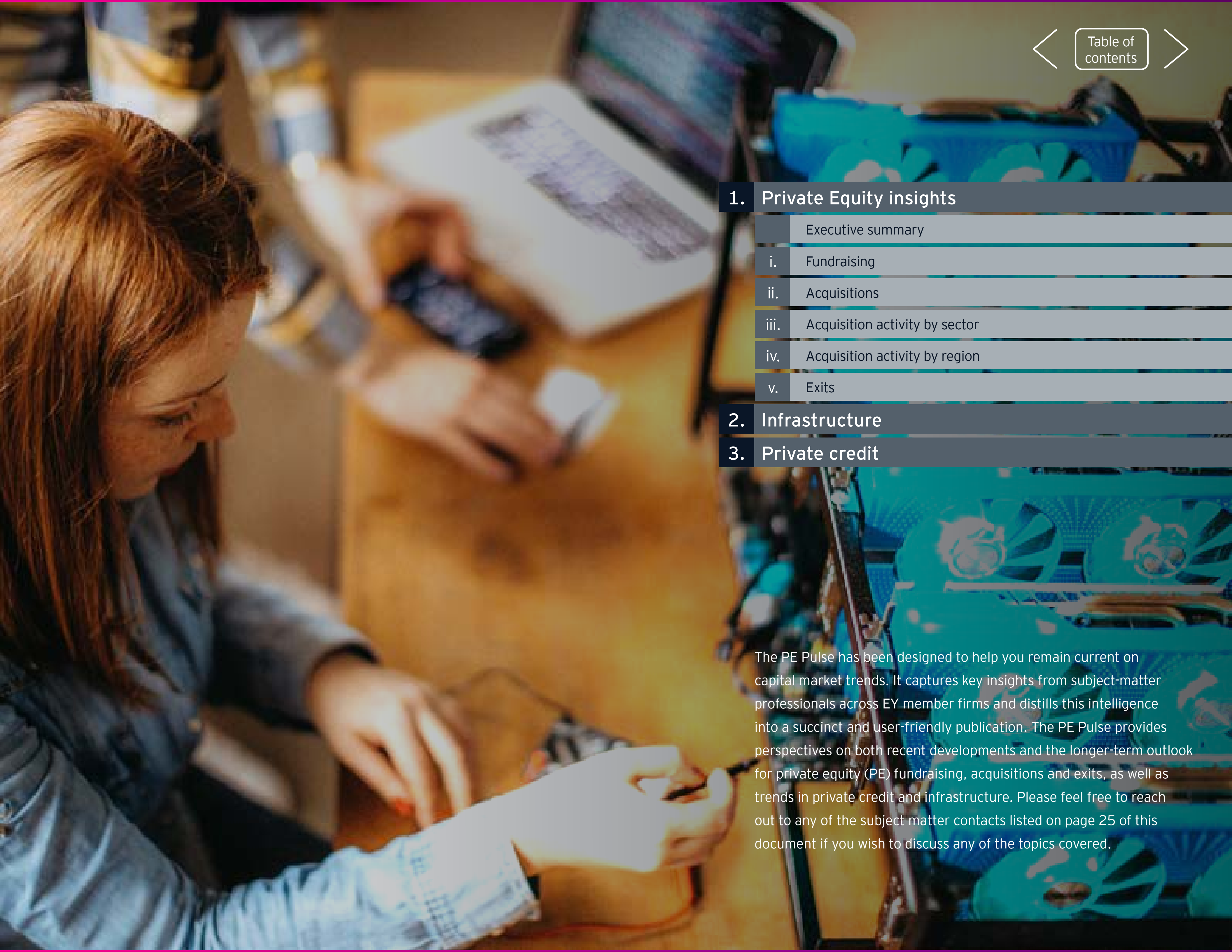






The PE Pulse has been designed to help you remain current on capital market trends. It captures key insights from subject-matter professionals across EY member firms and distills this intelligence into a succinct and user-friendly publication. The PE Pulse provides perspectives on both recent developments and the longer-term outlook for private equity (PE) fundraising, acquisitions and exits, as well as trends in private credit and infrastructure. Please feel free to reach out to any of the subject matter contacts listed on page 25 of this document if you wish to discuss any of the topics covered.

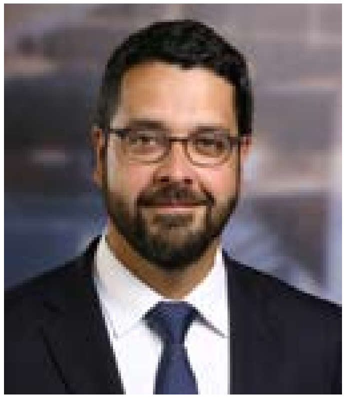


# PE to see continued strength in 2020 as firms seek clear air for deployment

We expect overall PE activity to remain strong in 2020. 2019 was a strong year from a fundraising perspective, albeit slightly off the high-water mark of 2017. While valuations and the challenges in deploying capital continue to raise concerns among some LPs, any hesitation in committing fresh capital is being offset to a degree by entirely new investors that are moving into the space. Indeed, high-net-worth individuals (HNWI) and family offices now account for 15% to 20% of new money coming in at some of the industry's largest firms. Thus, the secular nature of these asset flows should make them somewhat insulated from the credit cycle, and we're therefore bullish on continued strength in inflows.

From a deal perspective, deployment remains challenging. Currently, competition for deals is pushing multiples well above the top of the last cycle. In the US, purchase multiples have reached 11.5x (versus 9.7x in 2007), and 11.1x in Europe (versus 10.3x in 2007). As a result, firms are seeking "clearer air" by moving downmarket into the growth capital space, where growth rates are higher and there are increased opportunities for operational value-add. The largest firms are leveraging their size to move up market into large take-privates and complex carve outs where their scale is a differentiator. It's a dynamic we expect to continue barring exogenous shocks.

Geopolitical developments will continue to shape the dispersion of activity. In the US, for example, activity has continued largely unabated, driven by a strong macro backdrop and accommodative lending markets. PE firms announced deals valued at US$249b, up 3% from last year, making it among the most active years since the global financial crisis (GFC). With valuations continuing to converge between the public and private markets, take private deals will remain a source of opportunity for funds. Add-on activity will also continue, although buy-and-build as a strategy has become increasingly challenged as high valuations permeate deeper into the middle market.



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Firms are seeking 'clearer air' by moving downmarket into the growth capital space, where growth rates are higher and there are increased opportunities for operational value-add. The largest firms are leveraging their size to move up market into large take-privates and complex carve outs where their scale is a differentiator. It's a dynamic we expect to continue barring exogenous shocks.

Andres Saenz, EY Global Private Equity Leader

In the UK and the rest of Europe, activity was muted in 2019, which saw PE firms announce deals valued at US$159b, down 12% from 2018. However, with fundraising strong – firms headquartered in the region raised US$162b last year – and Brexit moving toward a final, albeit messy conclusion, dealmakers are likely to see a reappearance of compelling opportunities, particularly in take-private transactions and distressed opportunities.

In Asia-Pacific, the ongoing trade dispute between the US and China is disproportionately affecting the China market, a theme that could persist. However, the degree to which activity remains predicated on the domestic growth story means opportunities will continue to remain robust in less export-sensitive industries; consumer spending in China is currently growing at 10% per year, more than double the rate of the US.

The trend toward increased interest in impact-oriented investments is expected to continue. For many years now, PE firms have been identifying, managing and tracking environmental, social and governance (ESG) factors across the full life cycle of their investments; now, however, many are moving beyond the "do no harm" mentality of ESG and are actively working toward creating positive social change through their investments. Last year alone, according to the Global Impact Investor Network (GIIN), impact investors put more than US$5b to work in PE investments. 2020 should see even more capital devoted to the space, and more investments in businesses with a high social value-add.

Exit activity will remain market dependent. 2019 saw a measure of caution in the IPO space, as investors pushed back on the valuations of many unicorn IPOs. The pipeline remains robust; however, investors will be increasingly focused on fundamentals and the long-term sustainability of business models. Trade sales should remain active, as will exits to other PE funds. Moreover, the rise of the LP secondary market is providing new options for LPs seeking liquidity. Five years ago, this was approximately a US$26b market – now, activity is pushing US$100b.

One significant open item is the overall economic outlook and the way in which that might impact PE activity. The last decade has been one of unprecedented growth for private equity. Since the GFC roughly a decade ago, the size of the industry has more than doubled. However, we now enter a period, where the outlook is more mixed. On one hand, we have a picture of robust, albeit slowing growth. On the other, mounting concerns around the potential for a widespread economic downturn driven by geopolitical instability, pockets of market excess and the overall length of the current economic expansion.

Indeed, one of the lessons from the last crisis was that while PE acted quickly to protect its portfolio companies (as evidenced by the relatively few defaults among PE-backed business), it was too conservative in deploying additional capital on new platform investments and add-on transactions. Should the market turn, we expect the industry to view it as a buying opportunity, and to deploy rather aggressively. With more than US$740b in dry powder at its disposal, it is better positioned than ever before to execute on these ambitions.

# 1. Private Equity insights

# 1.i.
# Fundraising

## Executive summary

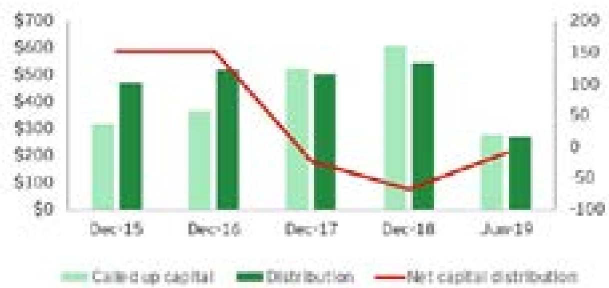
- PE fundraising remains healthy, though off the record levels of the last two years. Firms raised US$800b in 2019, versus US$852b in 2018, a decline of 6%.
- Mega funds, those raising US$5b and above, continue to dominate activity. Average fund sizes increased 32% in 2019 compared with 2018.
- Buyout strategies accounted for 42% of the funds raised in 2019 followed by real estate (19%), growth (12%) and infrastructure (12%).
- Dry powder continued its upward movement, but at a slower pace in 2019 compared with recent years.

## Current state

Investors remained enthusiastic in 2019 as activity remained strong, and in line with 2018. Activity is expected to remain healthy in 2020, with increased allocations expected from institutional investors.

- PE firms raised US$800b during 2019, compared with US$852b in 2018, a decline of 6%. The number of funds closed in 2019 declined by 30% from 2018. Notably, the average size of funds closed in 2019 reached US$846m, up 32% versus 2018.
- Buyout remains the most active strategy, increasing 35% to US$336b in 2019 from US$250b in 2018.
- PE dry powder continues its upward run, reaching US$760b as of Dec. 2019, 7% higher than the same period a year earlier. However, the rate at which available capital accumulated has begun to decelerate.
- According to Preqin figures, net capital distributed grew in 2019, while total distributed capital remained in line with that in past two years.

**Annual and net called up and distributed capital (US$b)**
Source: Preqin




## Environment and horizon

Buyout funds saw an upswing in activity by 35% in 2019 from 2018 and comprised 42% of the PE funds closed in 2019.

- A recent survey by Montana Capital Partners found strong interest in mid-market buyout strategies. More than 90% of family offices and foundations surveyed, and 85% of institutional investors surveyed cited mid-market buyout as a preferred strategy. Further, respondents expect secondaries market volume to pick up in case of market correction. Nearly half of the respondents agree to be actively investigating secondaries funds as a strategy to benefit from a change in the market cycle.
- With concerns pertaining to economic slowdown looming, technology-focused fundraising and investments are expected to remain active. Technology companies are often asset-light, requiring comparatively less capital to scale. For management teams and tech founders, PE is increasingly becoming an attractive option; PE owners can offer a high degree of autonomy and flexibility to executives who are meeting or exceeding agreed-to milestones, as well as additional capital to take advantage of strategic opportunities.
- Though dry powder accumulation slowed in 2019, capital allocated for growth investments accelerated at a higher pace from 2018. The focus seems to have shifted from Mezzanine, which fell by 28%, to growth, which has leapt by 21% in 2019. It clearly indicates toward expected jump in growth investments over the next year or two.

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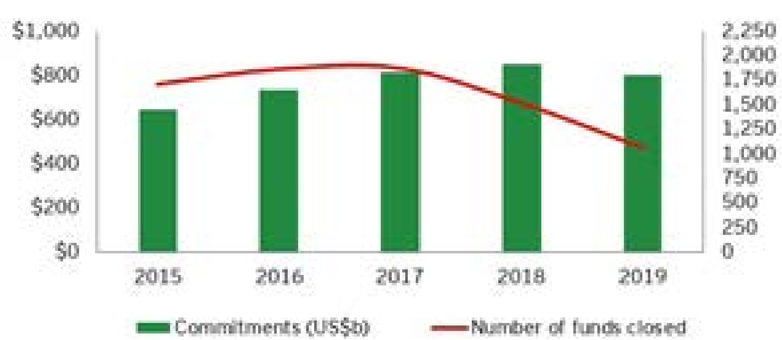
## Top funds raised over the last 12 months
Source: Preqin

| Fund | Type | Value (US$b) |
|---|---|---|
| China Integrated Circuit Industry Investment Fund II | Growth | 30 |
| Blackstone Capital Partners VIII | Buyout | 26 |
| Global Infrastructure Partners IV | Infrastructure | 22 |
| Blackstone Real Estate Partners IX | Real estate | 21 |
| Advent Global Private Equity IX | Buyout | 18 |
| Vista Equity Partners Fund VII | Buyout | 16 |
| Brookfield Strategic Real Estate Partners III | Real estate | 15 |
| Thoma Bravo Fund XIII | Buyout | 13 |
| Permira VII | Buyout | 12 |
| Green Equity Investors VIII | Buyout | 12 |
| Platinum Equity Capital Partners Fund V | Buyout | 10 |

## PE fundraising by year (US$b)
Source: Preqin




## Dry powder by fund type (US$b)
Source: Preqin

# 1.ii. Acquisitions

## Executive summary

- Investment activity fell moderately in 2019, with 2,067 deals announced valued at US$515b, down 4% from 2018.
- While the global economy currently remains robust, fears of a downturn are leading some PE funds to be more selective while evaluating large assets.
- The Americas region saw the most activity, comprising 56% of the total investment activity by value, followed by EMEA at 33%.

## Current state

Global PE deal activity fell 4% in 2019, driven by declines in Asia-Pacific and the EMEA regions.

- In 2019, both PE deal value and volume fell moderately by 4% to US$515b and 2,067 respectively. The ten largest acquisitions by value consisted of more than 20% of aggregated PE investment during the year.
- The Americas witnessed an 8% increase in the aggregate value of PE investments in 2019, reaching US$287b. While activity in the US was up 3%, activity in Latin America increased approximately tenfold on the strength of several multibillion-dollar deals.
- Activity in Asia-Pacific saw a fall of 31% amid concerns around the impact of US-China trade relations and geopolitical uncertainty in the region.
- PE deals by value in EMEA fell 9% in 2019 from previous year.

**PE deal activity by value (US$b), 2019 vs. 2018**
Source: Dealogic


## Environment and horizon

Amid growing concerns around the length of the current expansion, some funds are shifting away from cyclical sectors.

- As the current economic expansion continues to lengthen, concerns are increasing around the potential for an economic downturn. Firms are preparing for the possibility in a number of ways; testing resiliency by modeling significant EBITDA declines; making certain that leverage levels are resilient given future scenarios and covenants are not so tight that economic weakness could push a company into a debt restructuring; and refocusing on more resilient and noncyclical sectors and avoiding more vulnerable cyclical industries.
- According to a survey of institutional investors by Probitas Partners, health care and technology were preferred industries for investment, with more than 60% respondents favoring them. In contrast, interest in the energy sector, which picked up pace in 2019 driven by large-sized investments in pipelines in Americas, is expected to fall in mid- to long-term future. Notably, just 8% of survey respondents are targeting energy as a potential area of investment for the next five years as compared with 30% who showed interest in energy as a potential area for investments in the preceding year's survey.

# 1.ii. Acquisitions

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## PE acquisition values and volumes by year (US$b)
Source: Dealogic


## Top deals in last 12 months
Source: Dealogic

| Target | Industry | Sponsor | Value (US$b) |
|---|---|---|---|
| GLP US Income Partners I (US logistics assets, 100%) | Real estate/property | Blackstone | 19 |
| Zayo Group Holdings Inc (100%) | Telecommunications | EQT AB | 14 |
| Ultimate Software Group Inc (100%) | Computers and electronics | Blackstone<br>CPPIB<br>GIC Pte Ltd.<br>Hellman and Friedman LLC<br>JMI Equity Inc. | 12 |
| Buckeye Partners LP (100%) | Oil and gas | IFM Investors Pty. Ltd. | 11 |
| Nestlé Skin Health SA (100%) | Consumer products | Abu Dhabi Investment Authority Ltd. - ADIA<br>EQT AB<br>Public Sector Pension Investment Board | 10 |
| Oaktree Capital Group LLC (61.2%) | Finance | Brookfield Capital Partners Ltd.<br>Oaktree Capital Group LLC | 10 |
| Genesee & Wyoming Inc (100%) | Transportation | Brookfield Capital Partners Ltd.<br>GIC Pte. Ltd. | 9 |
| Transportadora Associada de Gas SA (90%) | Utility and energy | CDPQ | 9 |
| Tallgrass Energy LP (55.29%) | Utility and energy | Blackstone<br>GIC Pte. Ltd. | 7 |
| Andeavor Logistics LP (23.17%) | Oil and gas | Kayne Partners<br>Stonepeak Infrastructure Partners | 7 |

# 1.iii.
# Acquisition activity by sector

### Executive summary

- Aerospace and defense (A&D) gained traction from investors, with deal value growing nearly 60% over the past five years.
- Consumer sector saw flat growth rate in investments though the food and beverages sub-sector outperformed with huge growth registered last year.
- Healthcare sector underperformed, with investments declining by more than 50% compared with last year.
- Technology witnessed a moderate decline in aggregate deal value compared with last year, though it remains a key focus area for PE funds. Communication infrastructure witnessed a major investment from PE in 2019. Investor focus is expected to shift from nascent stage tech firms to investing in more established companies.

| Industry | 2018 | | 2019 | |
|---|---|---|---|---|
| | % of Value | % of Volume | % of Value | % of volume |
| Oil and gas | 4% | 2% | 8% | 2% |
| Materials | 10% | 12% | 5% | 11% |
| Industrials | 11% | 9% | 11% | 10% |
| Consumer goods | 6% | 13% | 9% | 13% |
| Healthcare | 10% | 9% | 5% | 9% |
| Consumer services | 4% | 14% | 7% | 13% |
| Telecom | 6% | 2% | 7% | 2% |
| Utilities | 11% | 3% | 8% | 3% |
| Financials | 9% | 7% | 7% | 6% |
| Technology | 23% | 24% | 20% | 26% |
| Retail | 0% | 3% | 2% | 3% |
| Real estate | 5% | 3% | 9% | 3% |

Increase Decrease No change

### Key themes

Technology remained the largest constituent for the consolidated PE deal activity in 2019.

While oil and gas, consumer services, consumer goods, retail and real-estate picked up momentum, contribution of materials, health care, utilities, financials and technology to the aggregate deal value fell in 2019 compared with 2018.

## Industrials

- PE activity in the industrials space was flat in 2019 relative to 2018; only aerospace and defense saw positive growth, whereas other areas saw a decline in deal value.
- Activity in aerospace and defense has grown at a CAGR of 58% between 2015 and 2019, much higher than consolidated industrials, which witnessed a CAGR of 7.1% during the same period.

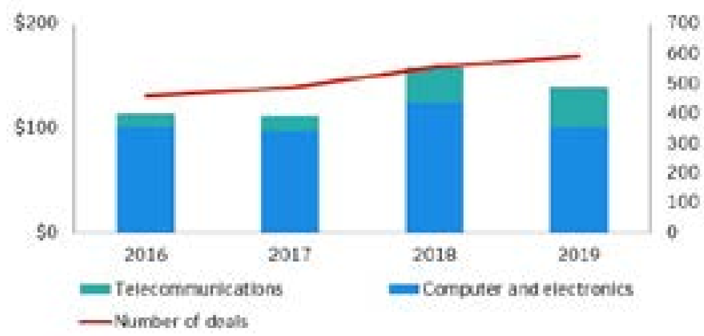
## Technology

- Despite a decline in deal value in 2019 versus the prior year, technology remained the biggest focus area for PE. Since 2015, investments in the technology sector have grown at a CAGR of 13%, strongly aided by sub-sectors PCs, telephone and radio/TV broadcasting.
- Investment in wireless/cellular and services sub-sectors showed significant de-growth at a negative CAGR of 35% and 39% respectively.

**PE acquisition in industrials — values and volumes (US$b)**
Source: Dealogic


Note: industrials include transportation, machinery, auto/truck and aerospace & defense sub-sectors

**PE acquisition in tech — values and volumes by year (US$b)**
Source: Dealogic



# 1.iii. Acquisition activity by sector

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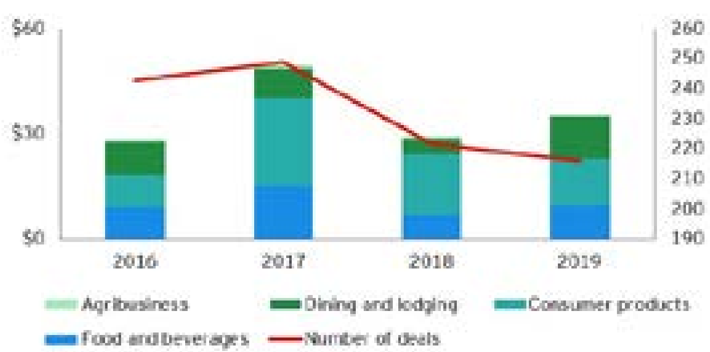
### Consumer

- PE investments in overall consumer industry (including goods and services) increased in 2019.
- Food and beverages witnessed a decline at a negative CAGR of 14% between 2015 and 2019. However, it picked up a solid pace in 2019 and grew by 40% from 2018.
- Notably, PE investments in dining and lodging sub-sector in 2019 saw an upsurge at a staggering rate of 193%.

### Health

- In 2019, investments in health sector declined by almost 50% due to negative performance of all the sub-sectors except biomed/genetics, which grew at an exceptional growth rate of 211% in 2019.
- Provider care was the highest performing sub-sector with investments growing at a CAGR of 18.1% between 2015 and 2019.

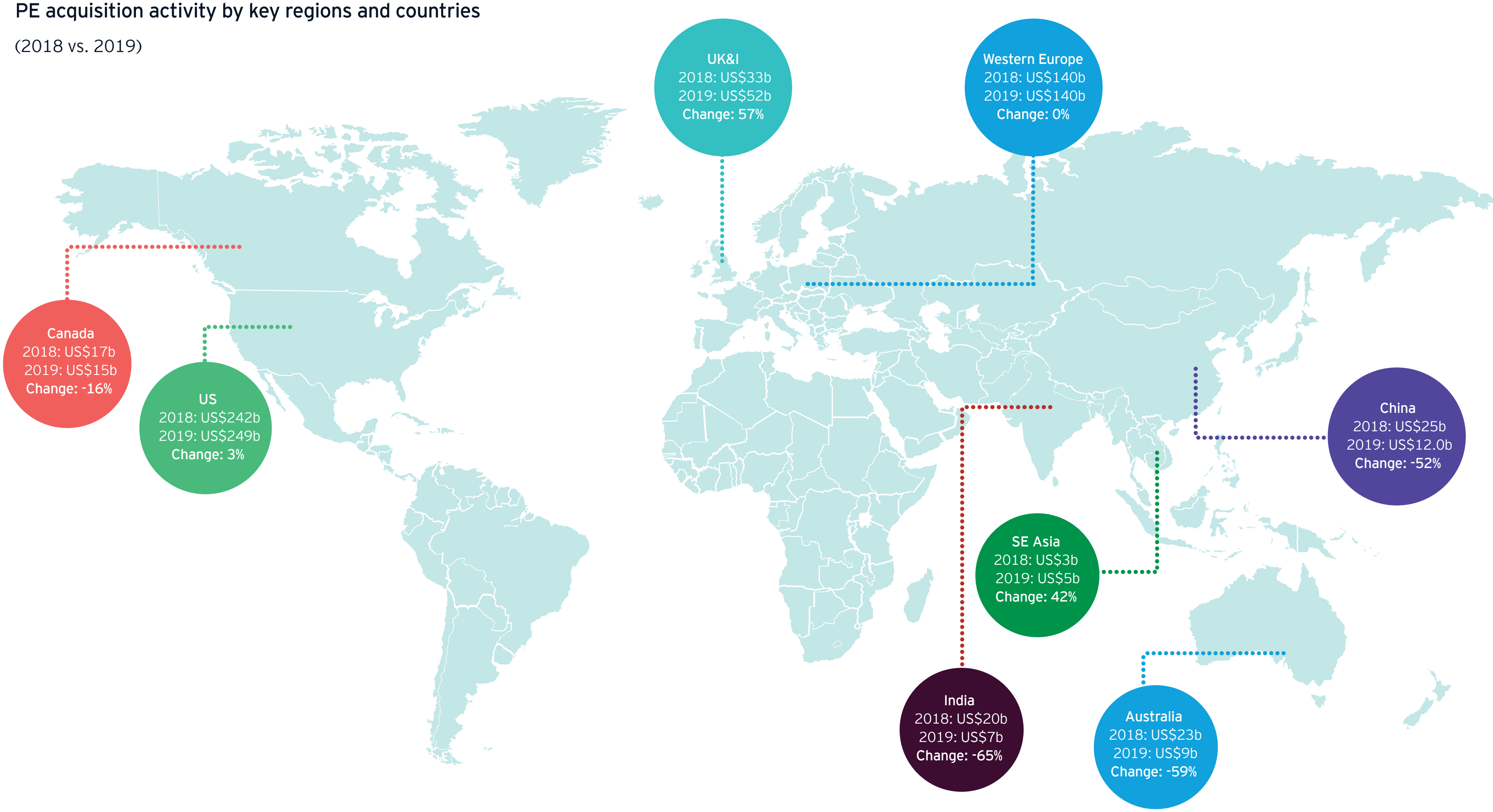
**PE acquisition in consumer — values and volumes by year (US$b)**
Source: Dealogic




**PE acquisition in health — values and volumes by year (US$b)**
Source: Dealogic


PE acquisition activity by key regions and countries

(2018 vs. 2019)



# 1.iv. Acquisition activity by region



PE deal activity by country and region (from 2010 through 2019, in US$b)

| Target nationality and region | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | % Δ 2018 vs. 2019 | Five-year CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Americas** | | | | | | | | | | | | |
| Canada | $4.9 | $11.6 | $6.4 | $5.3 | $4.4 | $8.3 | $5.6 | $6.3 | $17.3 | $14.5 | -16% | 27% |
| US | $116.5 | $107.2 | $120.4 | $157.7 | $142.0 | $208.8 | $189.1 | $193.7 | $242.1 | $248.8 | 3% | 12% |
| Latin America | $8.0 | $6.5 | $7.5 | $9.6 | $5.1 | $7.8 | $11.9 | $12.7 | $1.9 | $19.8 | 916% | 31% |
| **EMEA** | | | | | | | | | | | | |
| UK&I | $39.4 | $23.9 | $29.9 | $28.3 | $35.5 | $49.8 | $44.4 | $56.8 | $33.0 | $51.7 | 57% | 8% |
| Germany/Switzerland/Austria | $8.1 | $8.9 | $15.3 | $21.9 | $29.4 | $18.2 | $30.0 | $20.5 | $20.5 | $45.0 | 120% | 9% |
| Belgium/Luxembourg/Netherlands/France | $19.5 | $28.8 | $8.4 | $26.8 | $29.3 | $32.1 | $27.8 | $30.3 | $40.8 | $19.1 | -53% | -8% |
| Nordics | $5.6 | $17.1 | $7.7 | $6.0 | $13.4 | $8.3 | $6.3 | $26.3 | $35.1 | $10.7 | -69% | -4% |
| Mediterranean | $10.8 | $14.5 | $6.4 | $11.7 | $18.1 | $14.4 | $24.8 | $34.6 | $45.5 | $24.5 | -46% | 6% |
| Western Europe | $77.9 | $76.2 | $59.9 | $88.6 | $112.3 | $114.5 | $127.0 | $142.2 | $139.8 | $140.3 | 0.30% | 5% |
| **Asia-Pacific** | | | | | | | | | | | | |
| China | $6.6 | $6.4 | $10.6 | $11.3 | $18.8 | $8.7 | $4.3 | $31.6 | $24.9 | $12.0 | -52% | -9% |
| SE Asia | $1.7 | $3.4 | $1.1 | $4.5 | $3.9 | $2.6 | $4.9 | $9.9 | $3.5 | $4.9 | 42% | 4% |
| India | $4.3 | $6.7 | $3.4 | $2.7 | $4.0 | $4.4 | $2.7 | $6.4 | $19.7 | $6.9 | -65% | 12% |
| Australia | $19.1 | $9.1 | $8.0 | $14.5 | $5.1 | $24.1 | $38.4 | $8.8 | $22.6 | $9.3 | -59% | 13% |
| Japan | $3.6 | $7.9 | $4.8 | $4.8 | $8.5 | $4.8 | $8.5 | $29.3 | $1.4 | $14.4 | 902% | 11% |

Source: Dealogic. 
Note: data is continually updated and therefore subject to change.

# 1.v.
# Exits

## Executive summary

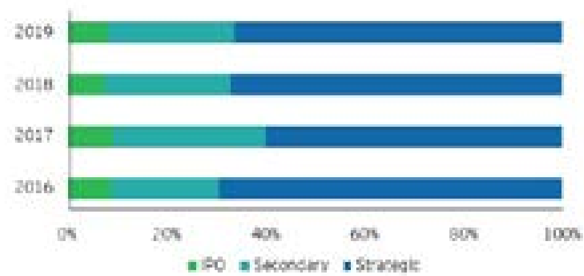
- PE exits increased by 2% in 2019 to US$435b. However, exit volume fell 12% to 1,215 versus 1,375 in 2018.
- Exit value through IPOs, however, grew 9% to US$34.8b in 2019 .
- The Americas region presented increased opportunities for fund managers to monetize their investment and return capital to LPs.

## Current state

Exit activity witnessed a moderate increase in deal value as activity in Americas went up in 2019. The continued strategic evaluation of PE portfolios may provide further tailwinds for activity in 2020.

- PE exit activity rose by 2% in 2019 to US$435b from US$426b in 2018, however, the number of deals declined by 12% to 1,215 during 2019 from 1,375 in 2018.
- The global IPO markets saw an uptick of 9% by value, however, the number of companies going public dropped by 32%.
- Americas saw the largest increase in activity in 2019 rising to US$254b from US$207b in 2018.

**PE exits by deal type (% of deal value)**
Source: Dealogic




## Environment and horizon

Amid prospects of economic headwinds and lower earnings, sponsor-to-sponsor deals expected to experience lower activity as buyside and sellside parties may face difficulty in finding a middle ground.

- Secondary buyouts may be challenged by difficulties in bridging the valuation gap between buyers and sellers, given the prevailing high valuation environment.
- While geopolitical uncertainty and trade tensions impacted the overall 2019 IPO landscape, pushing the number of companies going public down by 32% from the preceding year, 2020 is expected to be more active as several lingering uncertainties, including trade tensions between the US, China and the EU, the outcome of Brexit and uncertainty with respect to the stability some European economies fade early in the year and positively impact overall IPO sentiment.

PE M&A exits by year (US$b)
Source: Dealogic


PE-backed IPOs by year (US$b)
Source: Dealogic


Largest PE exit deals in 2019
Source: Dealogic

| Target | Industry | Sponsor | Value (US$b) | Type |
|---|---|---|---|---|
| First Data Corp (100%) | Technology | KKR | 48 | M&A |
| Refinitiv US Holdings Inc (100%) | Technology | Blackstone; CPPIBGIC Pte. Ltd. | 27 | M&A |
| GrandVision NV (100%) | Consumer | Hal Investments BV | 9 | M&A |
| Beijing Easyhome Furniture Chain Store Group Co Ltd (100%) | Retail | Boyu Capital; Advisory Co Ltd | 8 | M&A |
| Ascendas Pte Ltd (100%)Singbridge Pte Ltd | Real estate | Temasek Holdings (Pte) Ltd | 8 | M&A |
| Acelity LP Inc (100%) | Healthcare | Apax Partners; CPPIB; Public Sector Pension Investment Board | 7 | M&A |
| Hess Infrastructure Partners LP (100%) | Oil and gas | Global Infrastructure Partners | 7 | M&A |
| Altran Technologies SA (100%) | Consumer services | Apax Partners SAS | 6 | M&A |
| Red de Carreteras de Occidente SAB de CV (100%) | Industrials | GIC Pte Ltd; Goldman Sachs; Capital Partners | 6 | M&A |
| Pattern Energy Group Inc (100%) | Utilities | CPPIB; Public Sector Pension Investment Board | 5 | M&A |

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2.

# Infrastructure

# 2. Infrastructure

## Executive summary

- Fundraising for the infrastructure space remained strong, although not reaching the highs of recent years. Infrastructure funds raised US$98b in 2019, down 7% from the US$106b raised during 2018.
- Infrastructure funds currently have record levels of dry powder available for deals, with approximately US$213b in capital to deploy. The bulk of this is focused on the US and Europe.

## Current state

- Infrastructure fundraising dipped in 2019 compared with 2018, both in terms of value and the number of funds. There were 95 funds closed in 2019, raising US$98b of capital, down 7% from 2018.
- The fourth quarter, however, was particularly active; infrastructure fundraising increased from US$15b in 4Q18 to US$36b in 4Q19.
- While the number of infrastructure deals declined by 4% in 2019, the aggregate deal value improved from US$386b in 2018 to US$496b in 2019.
- Firms have a collective US$213b in capital available for deals, up 19% from the beginning of 2019. Nearly 84% of this amount is focused on opportunities equally in the Americas and Europe, while Asia-Pacific represent 8% of the industry dry powder.
- Between dry powder and capital already deployed in existing projects, infrastructure managers now have more than US$610b in assets under management.

### Top infrastructure funds raised in 2019

Source: Preqin

| Fund | Target (US$b) | Commitments (US$b) | Type |
|---|---|---|---|
| Global Infrastructure Partners IV | 22 | 22 | Brownfield, secondary stage |
| EQT Infrastructure IV | 9 | 10.2 | Brownfield, greenfield, secondary stage |
| Ardian Infrastructure Fund V | NA | 6.9 | Brownfield, greenfield |
| Macquarie European Infrastructure Fund VI | 6 | 6.8 | Brownfield, secondary stage |
| North Haven Infrastructure Partners III | 4 | 5.5 | Brownfield, greenfield, secondary stage |

## Environment and horizon

- A recent report by UBS suggests that asset valuations in the private infrastructure sector have been steadily rising due to heavy inflows of funds. The low yield environment has contributed to the attractiveness of private markets. Consequently, the increased interest in the asset class may lead to return compression; however, relative to risk-free rates, which have been trending down, the asset class continues to provide attractive premium.
- A recent analysis by Partners Group predicts continued interest in renewables, given its increasingly competitive cost, the phasing-out of coal generation in the majority of the developed nations and a growing trend toward increase for electricity demand worldwide.

### Infrastructure fundraising by year (US$b)
Source: Preqin


### Infrastructure dry powder by region (in US$b)
Source: Preqin


### Infrastructure deals by year (US$b)
Source: Preqin


3.

# Private credit

## 4.
# Private credit

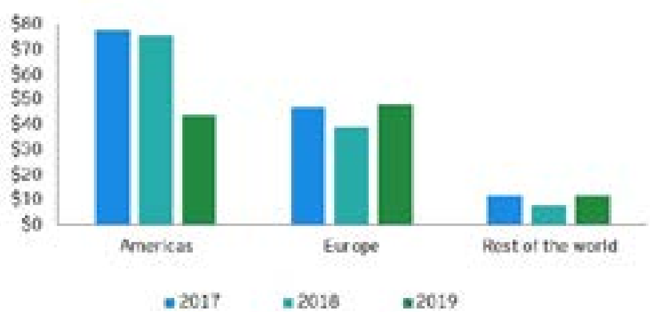
## Executive summary

- After a healthy start to private debt fundraising in 1H 2019, the asset class witnessed a decline in the second half of the year. Funds raised in 2019 declined 15% from 2018, to US$103b.
- While the aggregate capital raised for direct lending increased by 12% compared with 2018, capital raised for mezzanine witnessed a decline of 83% in 2019. However, the number of funds closed declined for both direct lending and mezzanine vehicles.
- The outlook for fundraising remains strong, with 422 funds currently on the road, seeking an aggregate US$190b in fresh capital.

## Current state

- In line with the broader fundraising environment for private capital, fundraising for credit vehicles also slowed down in 2019.
- Firms closed 154 separate vehicles in 2019 with aggregate commitments of US$104b, down 15% from 2018.
- Though the number of funds closed for direct lending vehicles declined from 95 funds in 2018 to 72 funds in 2019, the aggregate commitments increased by 12% from US$54b in 2018 to US$60b in 2019.
- Mezzanine funds witnessed a sharp decline in traction from investors from 2018 to 2019. Fundraising slowed by 83% to US$5b in 2019 compared with US$29b in 2018. Though the fundraising stats in 2019 are lower than in 2018, analysts expect that the pace will pick up in 2020.

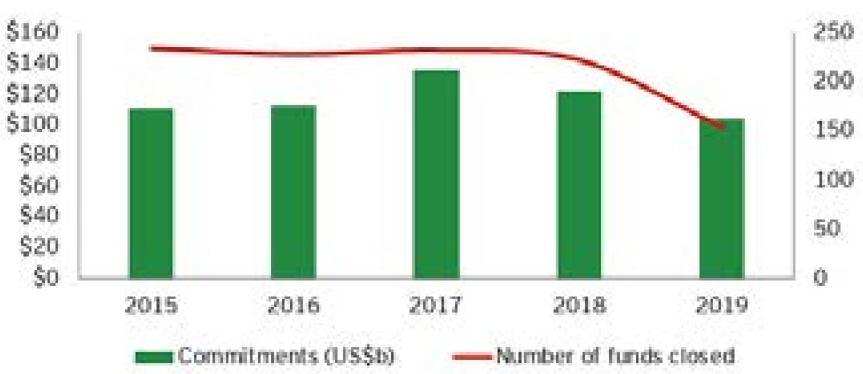
**Private credit fundraising by region (US$b)**
Source: Preqin



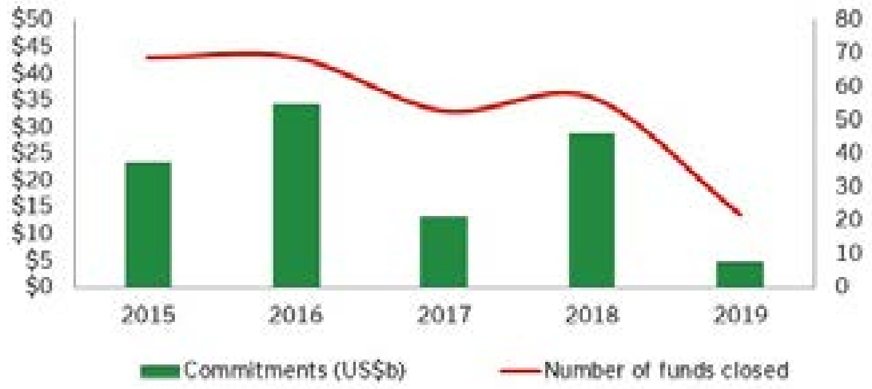

## Environment and horizon

- Interest is growing in the small but developing market for private debt secondary interests. According to statistics compiled by Setter Capital and published in Private Equity International, such deals totaled US$2b in the first half of 2019, up from just US$980m from 2018. While still nascent relative to the nearly US$100b expected to have traded hands in the secondary market for buyout interests, its expected to see rapid growth, given the large amounts of capital that have flowed into the private credit space over the last five years.
- As per a recent report by Fitch, the leveraged loan default rate in the US may swell to 3% in 2020 from 2% in 2019. A number of defaults in the in retail and energy spaces are among key drivers. Rising default rates are one of a number of concerns identified by respondents to Coller Capital's latest Global Private Equity Barometer report. Eighty-two percent said an increase in default rates will be a significant challenge to private credit funds over the next three years. Seventy-five percent said increasing competition could lead to lower returns in the space; and 73% said that an increase in covenant light structures is likely to lead to lower recoveries.

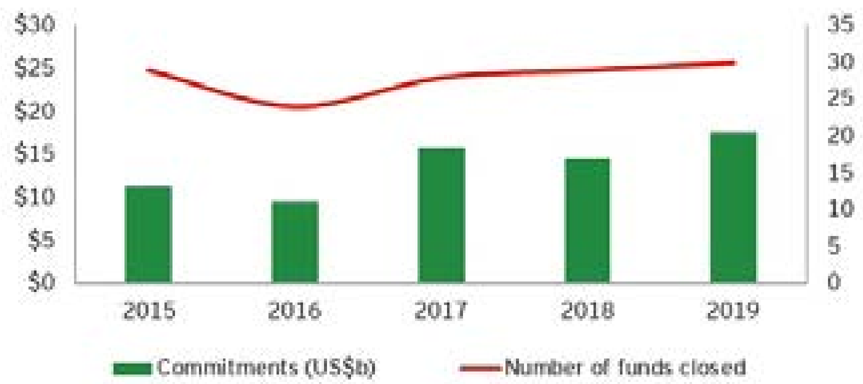
**Private credit fundraising (US$b)**
Source: Preqin




**Mezzanine fundraising (US$b)**
Source: Preqin




**Special situation fundraising (US$b)**
Source: Preqin




**Direct lending fundraising (US$b)**
Source: Preqin

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