

COMMENT

A changing landscape

Steve Standbridge, managing partner and president at Capstone Partners, discusses how the global fundraising landscape has evolved and what the coming months may hold.

The last two years have seen unprecedented challenges for fundraising, and as the pandemic gradually recedes out of view, we hear much speculation about what the private equity landscape will look like later in 2022 and into 2023. Will the business of private equity fundraising return to its pre-pandemic state or evolve into a new “normal”?

It's still early days but we are starting to see certain changes. While the last two years have been dominated by re-ups and the rise of mega funds, we are starting to see some return to normality, with investors increasingly taking in-person meetings with new relationships and cross continent interest growing.

The first quarter of 2022 showed a significant decrease in the number of funds closing globally; almost half the number that were raised in Q1 of 2021, according to Preqin. Similarly, high numbers of funds continued to close in the second quarter of 2021, but again, this hasn't been replicated this year. Since May 2022, we have seen just 260 funds close, a small

proportion of the total funds closing in the same quarter last year.

However, private equity dollars raised have stayed fairly consistent. We saw funds raise over \$325bn globally in the first quarter of this year versus just over \$365bn in the same period in 2021. It remains to be seen if Q2 2022 will match the same period last year (over \$145bn raised globally so far), but these trends speak to the dominance of larger funds in the market this year.

US-focused private equity funds have tended to be the most active so far this year. Of funds raised to date during the first half of 2022, over 60% have been US-focused. This continues a trend seen throughout 2021. We have also seen more activity from European-focused funds this year (17% of funds closing in Q1 2022 and 17% so far in Q2) and a drop in activity among Asia-focused funds (13% in Q1 2022 versus 24% in Q1 2021). Asian activity has rebounded somewhat in the second quarter to date with 17% of funds raised.

The highest levels of fundraising activity have continued to be at the lower end of the market with 85% of

funds closing under \$1bn in Q1 2022 and a very similar trend continuing into Q2. The first quarter of this year also saw a higher proportion of very large funds over \$4bn - 18 funds in total and a further six so far in Q2.

To date, 2022 has seen a wider polarisation between the number of funds missing or exceeding their targets, with approximately 45% of the funds raised exceeding their target. This is notably higher than the same period last year. In addition, 17% of funds missed their target in Q1 2022 and 23% have followed suit so far in Q2, which again, represents higher levels than in the first half of 2021.

During the last two years, global private equity fundraising has benefited from LPs continuing to commit to existing relationships close to home and often without in-person interaction. However, new international relationships have been harder hit by travel restrictions and market uncertainty and LPs have tended to hold back allocations to new relationships outside their home markets.

All that said, we are now starting to see a gradual reversal of this dynamic, with European LPs scheduling trips to the US, and North



While it is still early days, we look forward to a likely rebound in cross-regional LP investments later in 2022 and 2023.

American LPs more open to travelling to London and Europe this year. This is good news for sponsors that are expecting to be in the market later in 2022 and 2023, and targeting LPs outside their home market. While it is still early days, we look forward to a likely rebound in cross-regional LP investments in 2022 and 2023. ●

Founded in 2001, Capstone Partners is a leading placement agent focused on raising capital for private equity, credit, real assets, and infrastructure firms from around the world.

In 2022, Capstone announced its acquisition by Mizuho Americas, part of Japan-based Mizuho Financial Group, Inc. (NYSE: MFG), one of the largest financial institutions in the world, with assets of \$2.1 trn (as of 31 December 2020) and a presence in nearly 40 countries throughout the Americas, EMEA and Asia.

By joining forces with Mizuho, Capstone will have a breadth of additional solutions to offer their clients, providing increased value and deepening already strong relationships.

**Market data sourced by Preqin
www.csplp.com**

