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Fundraising Roundup

Private Equity | Q1 2016

An in-depth conversation with industry experts

Includes a bonus interview with:

Michael Fascitelli

Co-founder and Managing Partner, Imperial Companies

About The Experts

Alan Pardee is a Managing Partner and co-founder of Mercury Capital Advisors, among the world's elite institutional capital raising and investment advisory enterprises. Pardee was previously a managing director and chief operating officer of Merrill Lynch Private Equity Funds Group. Learn more about **Mercury here.**

Click to watch the companion video

Courtney Candrilli is Head of Sales, Americas, for Preqin, the alternative assets industry's leading source of data and intelligence. Preqin's products and services are utilized by more than 40,000 professionals located in more than 90 countries for a range of activities including investor relations, fundraising and marketing, and market research. Learn more about **Preqin here.**

David Snow is CEO and co-founder of Privcap Media, the leading channel for thought leadership in private capital investment. **www.privcap.com**

Modest Start

LP have been conservative in their commitments in Q1

David Snow, Privcap: Private equity fundraising in the first quarter of 2016 was off to a modest start, with $71B in total LP commitments. Alan, what's your take on the numbers?

Alan Pardee, Mercury Capital Advisors: You're exactly right in calling it a modest start. What's been going on overall in the world is that in August we started to have a swoon in the stock market driven in part by a slowdown in China. Now as we come into 2016, people are concerned about the potential for a Brexit in June, and God knows what's going to happen with the U.S. presidential election. So investors are more conservative with their allocations. They have money—there's no shortage of capital at the moment. It's more a shortage of bravery.

Courtney Candrilli, Preqin: Across the board, fundraising is down for alternative investment asset classes. It's the lowest quarterly fundraising total since Q3 2013. That said, private equity investors were very happy with the returns they saw in 2015.

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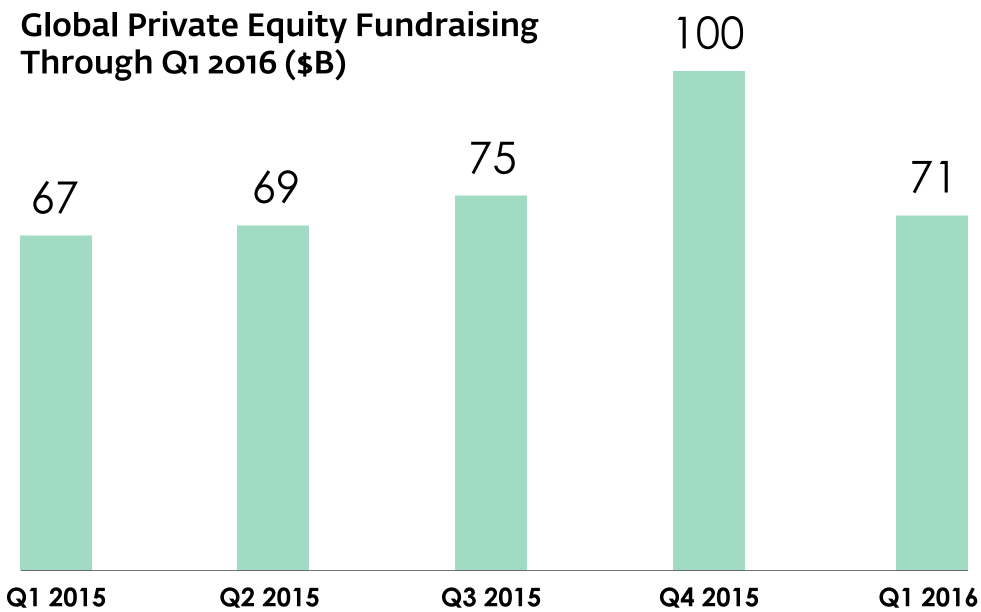


So moving into 2016, investors will either maintain or raise their allocation levels. But a lot will depend on what's happening in the global market.

You would think that limited partners would be more enthused, notwithstanding the macro factors. Private equity as an asset class has shown itself to be a strong performer in the long term. Allocations are rising for many investors, and record amounts of cash distributions have been made. You'd think there would be stronger redeployment of that capital.

Pardee: What we've really seen in the first quarter is more of a pause than a problem. My belief is that as we near year-end, we're going to see a fair amount of capital come into funds. There is seasonality to our business— Q4 is always pretty big.

Are there any strategies or regions generating relatively strong investor interest?

Candrilli: The three strategies that investors are increasing their allocations to are private equity, private debt and infrastructure. Then if we look at the private equity subsectors, investors are gearing towards small and mid-market investments. Secondarily, they're looking at venture and the mega-buyouts.

Pardee: What we're seeing at the moment is a bit of a rush toward the United States as a safe haven. And within that, established funds are very much in favor. Two or three years ago, first-time funds were en vogue. That's not the case anymore.

Candrilli: Investors are all chasing the same funds. Many investors are chasing funds with a brand names. We're seeing a lot of re-ups with existing managers—other investors want to get into those funds but might not have a chance.

Are investors edging away from emerging markets?

Candrilli: Investors are staying away from Asia and leaning more towards North America or Europe.

It's worth noting that vintage years in which fundraising was weak tend to be strong performers.

Pardee: Exactly right. Everybody loves to be a contrarian, but most people love being contrarians when they see a whole lot of contrarians around them. That said, are people beginning to get brave again? It's beginning to feel like it. Bit by bit, I believe over the course of 2016—barring another corrective movement in the markets—we'll see more people starting to move again.

Rise of the Road Warriors

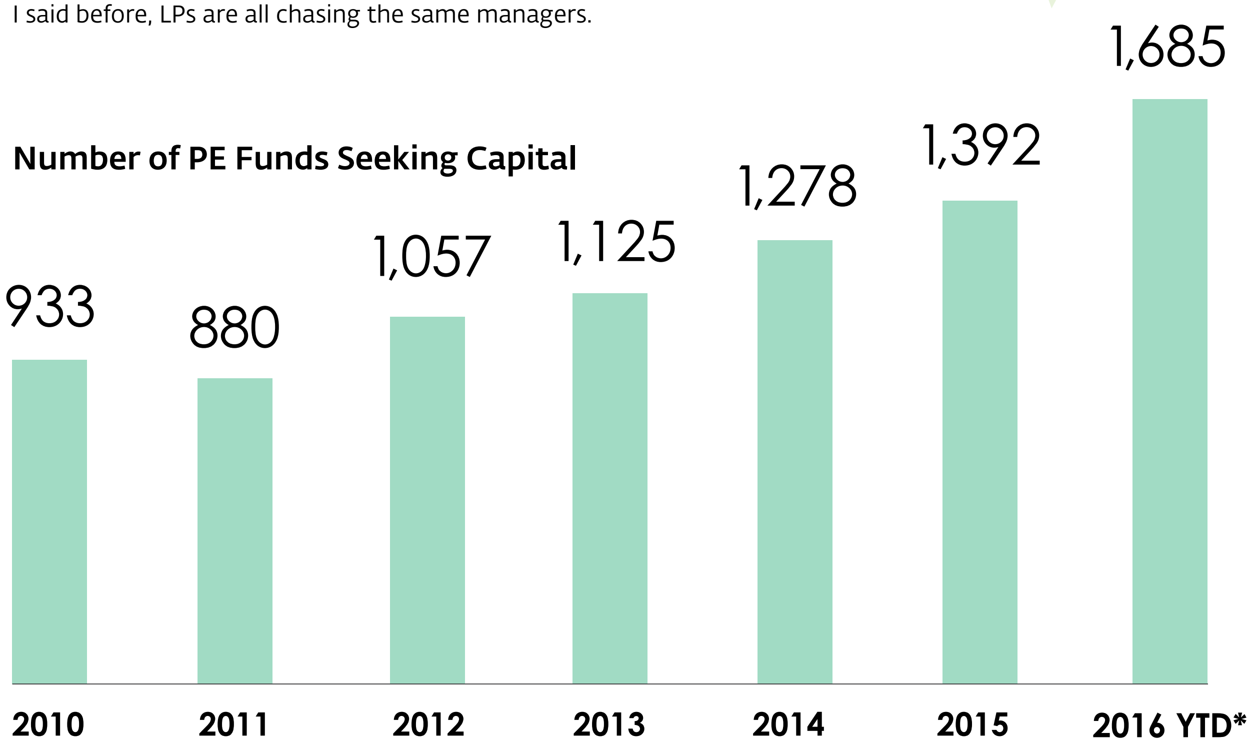
An increasing number of GPs are hitting the pavement for fundraising

There are currently more general partners on the road seeking capital than ever before, with more than 1,600 funds in the market. Are these guys deluded or are they rational in thinking that there's capital out there for the right funds?

Pardee: They're rational. There is capital. Capital is available. It's a little bit more discerning in terms of which decisions people are ready to make today than it was maybe last summer or the spring. But there's money out there. The question mark really is going to be who gets the capital. Certainly in this environment there is a "haves and have-nots" dynamic out there.

Candrilli: It's record breaking—more and more managers just keep coming to market. But like I said before, LPs are all chasing the same managers.

Number of PE Funds Seeking Capital



*As of April, 2016

Those Who Close, Close Fast

Managers that are high performers are closing funds quicker than ever

Two years ago, the average time it took to reach a final close was nearing two years. Today the average time to close, according to Preqin, is 11 months. Courtney, give us your analysis on why that contraction took place.

Candrilli: One thing we're now seeing is that established managers that have historically performed well are closing rather quickly with a lot of re-ups.

Pardee: When we were at the bottom of the global financial crisis, if I were sitting with a general partner planning to go on the road, I would have told them to plan for 18 months to forever. And that's roughly what the Preqin data shows in that time window. Today, I start out by saying it's probably a 12-month process. This has everything to do with the capital that's available and the fact that, generally speaking, returns are better than they were a few years back. If you have an established team, a good track record and a good history of being able to deploy capital, those funds will enjoy a certain amount of speed.

To put things in perspective, a private equity fundraise that lasts only three or four months is astonishing, correct? That's not fundraising, it's order taking.

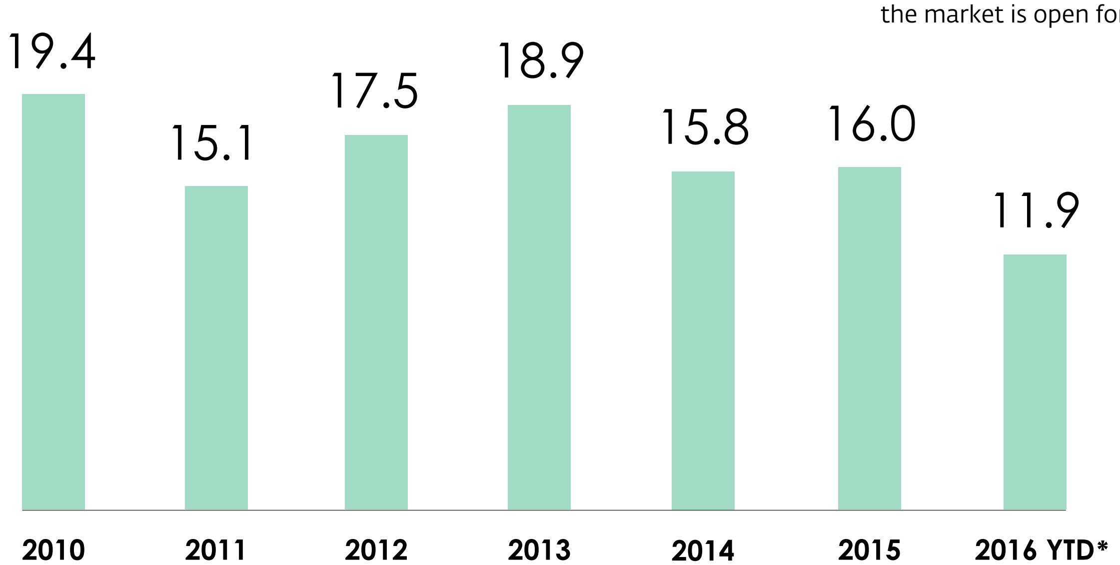
Candrilli: Yes. For the most part, if it is a good fund with good performance, we are seeing it close quicker than we have historically.

Does Preqin track how many fundraisings are abandoned?

Candrilli: We track firms with fundraises that last more than 36 months. They usually close up shop.

Pardee: One has to have the takeaway that it's an attractive market. Coming into this market is a good time to be raising money. If your strategy is strong and your performance is strong and your team has been together for a good while, those funds are getting raised. They might take three months. They might take a year. Maybe it's a little longer, but if a strategy holds in terms of what the future is looking like, then the market is open for them. ■

Average Number of Months to Final Close



*As of April, 2016

POWER BROKERS: Michael Fascitelli

Insights from the world's leading investors and dealmakers

Mercury Capital's Michael Ricciardi sat down to discuss real estate investing and presidential politics with Michael Fascitelli, co-founder and managing partner of Imperial Companies and former CEO of Vornado Realty Trust

Michael Fascitelli
Imperial Companies

Michael Ricciardi
Mercury Capital

Michael Ricciardi, Mercury Capital: What economic indicators do you consider when you and the Imperial Companies contemplate an investment?

Michael Fascitelli, Imperial Companies: Obviously, one of our biggest impacts in real estate is job creation. If you think about jobs and residential and retail, it's incomes, it's jobs. And economic growth is a key to that. We're not economists, but we try to understand that [economic growth] and what that might be. We look at the downside, but if it doesn't come the way we think it should and we measure that in terms of what the growth in rents might be because in our business, it's all about getting an increase in cash flow and that's mainly through the rents going up.

I think what's happened in the world is that it's not only an absolute game, it's a relative game. The U.S. hasn't been high-growth, but compared to a lot of the other countries around the world, people think it's got a better risk-adjusted growth rate than most other places.

Ricciardi: How do you expect the outcome of the election to impact the economy and the U.S. real estate market in particular?

Fascitelli: The real estate market and other capital markets have been quite volatile and shaky over the last year, basically starting in the summer. I think the uncertainty over the election has been more problematic than who might win. It's causing a lot of pause right now in terms of investment dollars. ■