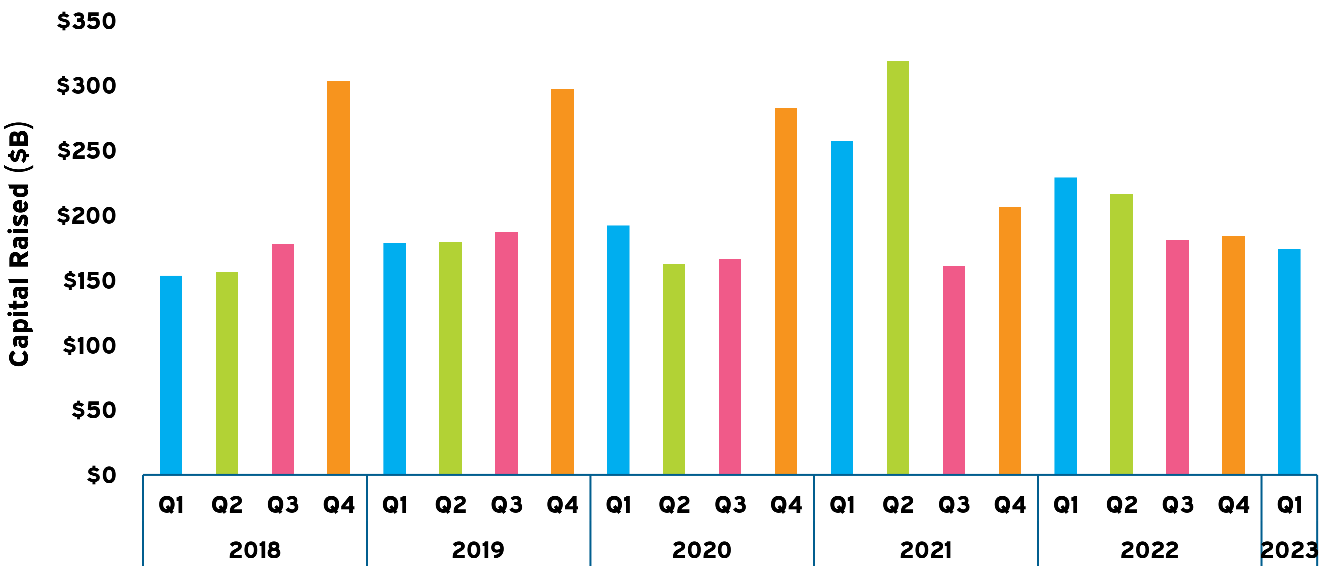
September 18, 2023

Attachments

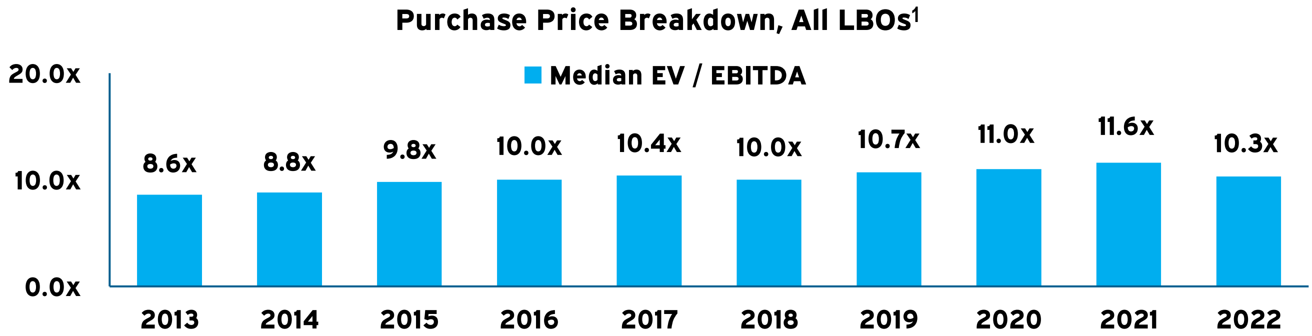
Private Equity Market Commentary – Q1 2023

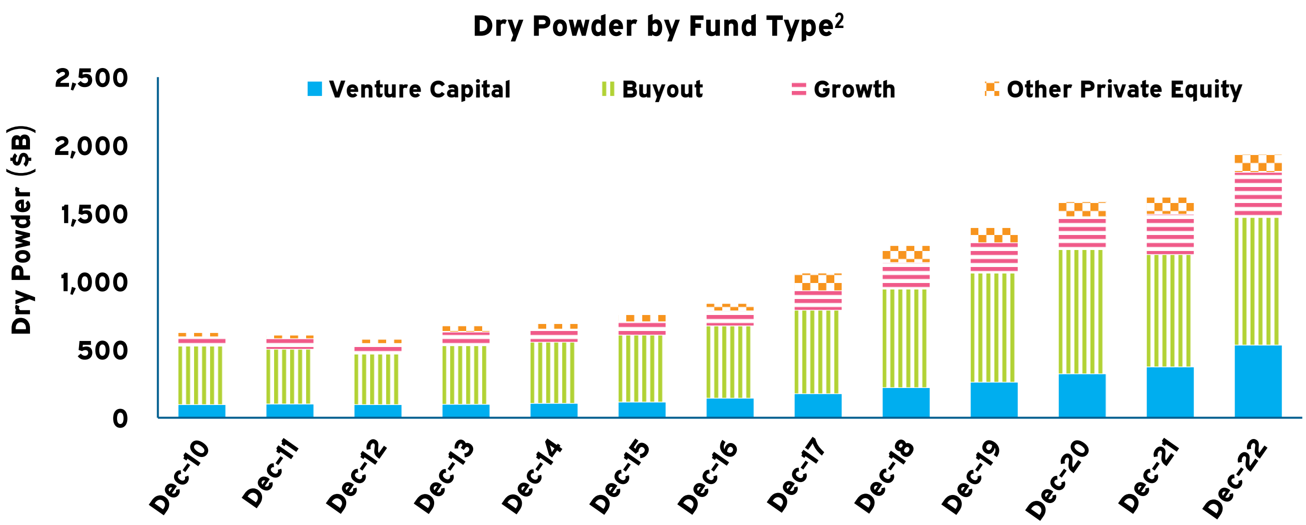
Global Fundraising[1]



Fundraising activity for private equity funds in the first quarter of 2023 decreased by 5% compared to the previous quarter, with $173.8 billion raised, and represents the lowest amount of capital raised for the first quarter since Q1 2018. The first quarter of 2023 showed continued signs of moderation in the private equity fundraising market as allocators digest higher interest rates and their effect on the longer-term private equity environment. Additionally, the denominator effect on investors' portfolios has remained a factor in driving softer fundraising totals. As public equity and fixed income markets declined in 2022, private equity allocations had become proportionately higher as a percentage of investors' overall portfolios, given the delay in private equity valuations reflecting those of public markets. Some investors have found themselves relatively closer to (or exceeding) long-term target allocations, which have curbed their appetite for fresh allocations. That said, global public equity markets have recovered thus far in 2023, supported by fading recessionary risks in developed markets. However, this came amid volatility following the collapse of Silicon Valley Bank ("SVB") and concerns over banking sector contagion. Per Preqin, despite overall uncertainty with public markets, most investors still plan to continue committing capital to private equity in 2023 even as the aggregate amount of fundraising is expected to remain weak. According to Preqin data, there were 6,644 funds raising in the market as of March 2023, with aggregate capital targeted of over $1.7 trillion. Both metrics are pushing record highs, and therefore, paint a picture of highly competitive fundraising. As a result, funds have been spending more time on the road than ever, with 52% of private equity funds (and 40% of venture capital funds) closed in Q1 2023 having been in market for more than 18 months compared to an average of 37% (and 35% for venture capital) from 2018-2022.

[1] Preqin.

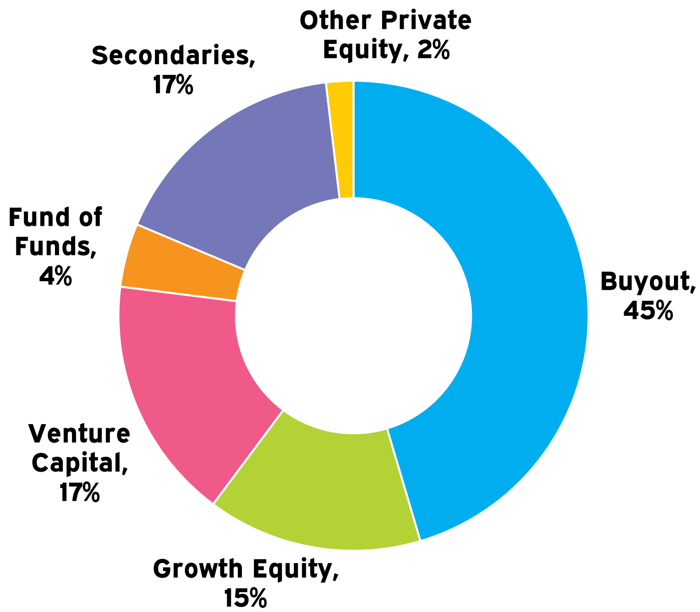




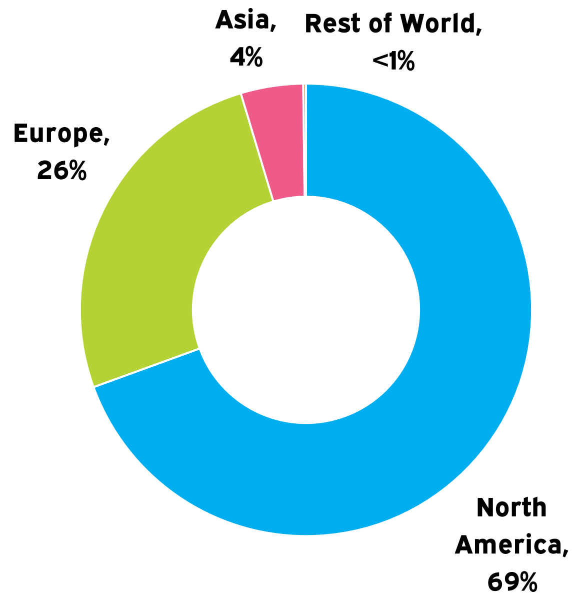
Relative to 2021, the median private equity purchase price multiple has decreased from 11.6x EBITDA to 10.3x EBITDA in 2022. This represents an 11% decrease from 2021 relative to the 5% increase observed in 2021 from 2020. The drop of purchase price multiples on the year shows signs of downward pressure on private equity valuations as deal activity slowed in the second half of 2022 resulting from rising interest rates, the decrease in public market valuations, and an imbalance between expectations of buyers and sellers. Furthermore, global private equity deal volume declined by 34% in the first quarter, compared with the same period last year. Average deal values also declined in line with lower valuation multiples, prompting global buyout deal value to decline by 54% to reach $113.7 billion. However, the quarter-on-quarter decline of 12% is less pronounced. Global private equity exit volume declined by 41% in the first quarter compared with the same quarter last year, but there was a much heavier 84% decline in exit value to $20.6 billion from $126.2 billion. Dry powder levels at year-end 2022 have increased by approximately 20% from Q4 2021 and remain at all-time highs. Despite macroeconomic worries, GPs still have ample dry powder to deploy, which helps support deal flow even if debt financing becomes more expensive and more restrictive. Despite dry powder levels, private equity deal valuation multiples have experienced downward pressure with mismatched expectations of valuations between buyers and sellers as well as increased borrowing costs.

[1] Preqin. Data pulled on July 19, 2023. Purchase prices for 2023 deals not yet available.
[2] Global Private Equity Dry Powder Split by Strategy. Provided by Preqin on July 13, 2023. There is a six-month lag with Preqin's dry powder analysis with December 31, 2022, being the latest figures, which were released in early July 2023.

Capital Raised by Strategy[1]



Capital Raised by Geography[1]



Buyout (45% of all private equity capital raised), Venture Capital (17%), and Secondaries (17%) represented the most popular private equity sub-strategies during the first quarter of 2023. Buyout funds slightly decreased from 47% of capital raised in Q4 2022 to 45% in the first quarter of 2023, and Venture Capital increased from 13% to 17% of capital raised. Secondaries, as a percentage of total capital raised, increased the most of any strategy over Q1 2023 jumping from 2% of capital raised in Q4 2022 to 17% in Q1 2023. Over half of this total can be attributed to one large fund. The slight recovery in public markets has helped to better link public and private valuations making the supply of LP interests coming to market more likely to be transacted in the secondary market. This amount nearly matches the $35.5 billion raised in Secondaries in 2022 collectively. Fund of Funds and Other Private Equity, which includes co-investment and hybrid vehicles, decreased from 21% to 6%, collectively, through the first quarter compared to the previous quarter.

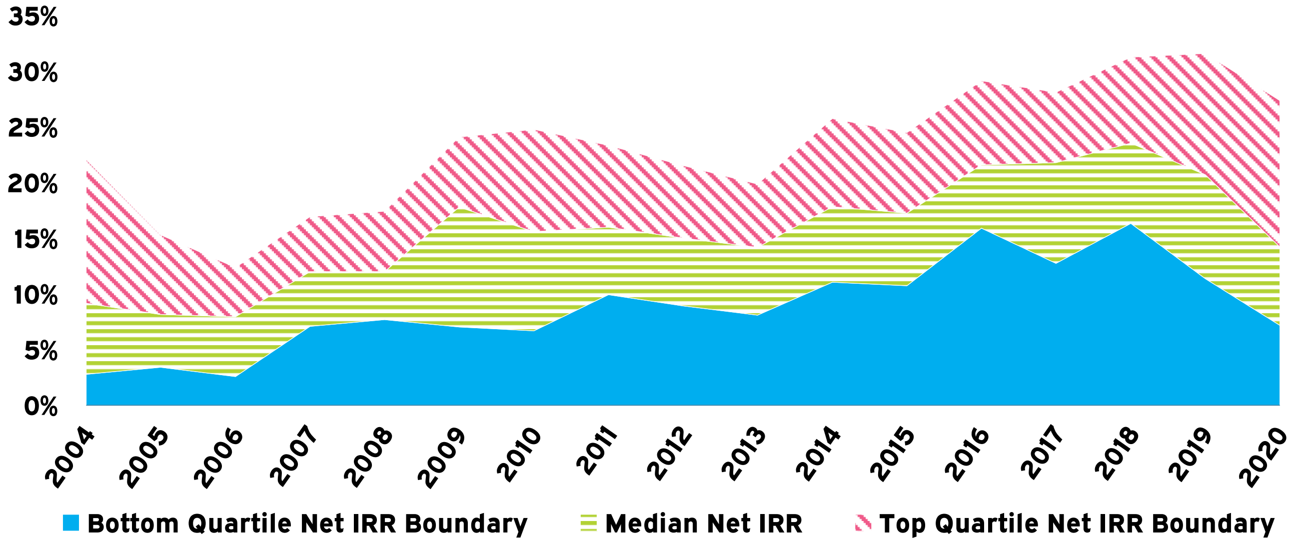
North America-focused vehicles continued to represent the majority of funds raised during the first quarter, representing 69% of total capital. This represents a decrease from 74% in the prior quarter. Alternatively, as a percentage of total capital raised, commitments to Europe increased by 10% during the first quarter. However, Europe only represented 15% of the total number of funds closed. Relative to Q4 2022, Asia-focused funds remained low, only representing 4% of total capital raised. As China-focused funds have made up the lion's share of funds raised in the region in recent years, the limited capital raised by Asia-focused funds highlights investors' risk aversion toward China among geopolitical and economic challenges. Overall, private equity investors continued to favor commitments to North America-focused funds. Investor appetite for Rest of World decreased from 6% of capital raised to <1%, and approximately $300 million of aggregate capital raised across 15 funds during the quarter.

[1] Source: Preqin.

Private Equity Performance by Horizon[1]

Horizon	Private Equity (%)	Buyout (%)	Venture Capital (%)	Growth Equity (%)
1 Year to 12/2022	-0.2	2.1	(16.8)	(10.9)
3 Years to 12/2022	18.3	19.7	17.2	12.8
5 Years to 12/2022	17.5	18.5	16.1	15.8
10 Years to 12/2022	16.4	17.5	14.3	16.3

Private Equity Performance by Vintage Year[2]



As of December 31, 2022, private equity returns continued to decline from the prior quarter, generating a -0.2% IRR over the trailing 12 months through Q4 2022. This compares to the trailing 12-month return of 3.5% as of Q3 2022 and a one-year return of 34.8% at Q4 2021. Overall, private equity returns ultimately reflected the decline of valuations observed in the public markets throughout 2022 and the dampening effects of inflationary pressures, rising interest rates, and geopolitical concerns on performance. One-year returns have decreased significantly across each private equity strategy with Venture funds experiencing the largest drop from (4.7)% one-year returns as of Q3 2022 to (16.8)% as of Q4 2022. In general, however, performance has been strong in each vintage year since the Global Financial Crisis. Buyout, Venture, and Growth funds have all generally performed well over the various time horizons on an absolute basis, with Buyout funds slightly outperforming Venture and Growth funds across longer time periods as of Q4 2022. Lastly, the spread between first and third quartile performance in private equity has grown consistently since the Global Financial Crisis; 2007 vintage funds reported a 9.8% spread while 2020 vintage funds reported a 20.2% spread.

[1] Preqin Horizon IRRs as of 12/31/2022. Data as of 3/31/2023 not yet available.

[2] Preqin, Private Equity – All, Quartile Returns as of 3/31/2023. Data pulled on July 19, 2023.