PEI Alternative Insight

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Land of the giants

PEI Alternative Insight

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The battle of the brands

TOBY MITCHENALL
EDITOR'S LETTER

It is the story that that's been playing out for a decade. Big firms getting bigger and using their brand capital to grow their franchises upwards and outwards.

The growth of powerful franchises happens in two ways and both are on abundant display in this year's Annual Review. First is the fund size growth. Contributing to the $411 billion raised across all private equity funds last year were the largest ever euro-denominated fund (CVC Capital Partners' Fund VII), the largest ever Asia-focused fund (KKR's third Asia fund) and the largest fund ever, full stop (Apollo's Fund IX).

However, a series of banner fundraises do not alone explain the growth of the market, or indeed the growth of the individual buyout shops. Yes, fund size is increasing; the average fund raised in 2017 was $754 million. In 2014 it was just $508 million. However, if you look at the largest three funds raised in any year, they tend to account for around 20 percent of the buyout market, which held true in 2017 (see page 71).

The second contributor to private equity franchise growth has been the sideways expansion into new strategies, geographies and asset classes, as explored on page 6. Whatever you do, don't call it style drift; it is established managers with the infrastructure, connections and know-how to offer their investors a comprehensive set of products to access private markets, which appears to be what they want.

What does this mean for institutional investors? In a nutshell, more work and tight due diligence deadlines. As noted in our review of the US market on page 80, advisor Hamilton Lane said it had received a record number of private placement memoranda in 2017 – around 800 – and that this, combined with faster fundraising processes, has made it difficult to some investors to make considered decisions.

This chimes with what we hear from other investors: that the number of funds in the market at the moment is making it tricky to do anything but re-up with existing relationships.

This is turn gives rise to a recurring complaint we hear about the advent of more GP-led secondaries transactions (as we explore on page 10): "If I have my hands full with the day job of assessing managers and making commitments, why should I be forced to reassess a fund to which I have already committed?" It is an issue that we expect to hear more about in the months to come.

New managers, or even established managers looking to forge new relationships, are struggling to get a foot in the door unless they have something genuinely extraordinary and a spotless record to offer.

One normally associates a flight to quality with times of uncertainty or turmoil. While today's market is characterised by some of the former we have not yet seen much of the latter. However, the consolidation of capital among some of the established brands in the private equity business – and indeed their dominance of our 2017 Awards roll of honour in both vanilla private equity and emerging strategies and specialist sectors – suggests investors are seeking comfort in the familiar. For more on the awards turn to page 36.

Enjoy the review.

Toby Mitchenall

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KEY THEMES 2017

THE PRIVATE EQUITY INTERNATIONAL AWARDS 2017

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MOVING ON

Succession, succession, everywhere

Some of the largest private equity managers have unveiled their transition plans from founder control to the next generation. By Marine Cole and Toby Mitchenall

Part and parcel of the evolution of the private equity industry is the gradual withdrawal of the personalities that helped shape it. The most successful have managed to create institutions that bear their cultural DNA, but that will ultimately outlive them with new generations at the helm.

That became apparent in 2017 with a string of leading fund managers unveiling their succession plans as the founders reach retirement age.

In July, KKR appointed Joe Bae and Scott Nuttall as co-presidents and co-chief operating officers, with co-founders Henry Kravis and George Roberts, both 73, remaining co-chairmen and co-chief executive officers. A few months later, it was Carlyle's turn. Effective 1 January 2018, co-chief executives David Rubenstein and Bill Conway and chairman Daniel D'Aniello stepped back and Kewsong Lee and Glenn Youngkin became co-CEOs.

And in mid-November, Apollo Global Management expanded its executive leadership team by naming Scott Kleinman and James Zelter as co-presidents, with the three initial founders keeping their current roles.

***Handing over control**: many firms have yet to address the issue publicly*

> ***We began to feel at some point that it's time to hand the reins to younger people***
>
> **David Rubenstein**

"We began to feel at some point that it's time to hand the reins to younger people," Rubenstein told Bloomberg. "Our firm is in a very good shape so we wanted to make a transition when it was in good shape."

These succession events are, of course, inevitable and necessary.

From an industry observer's standpoint, though, they are also tinged with regret. Rubenstein, in particular, has been a source of colour and column inches since he graced the pages of *PEI* in our first edition. Who could forget the holiday rap he recorded for investors back in 2014?

The entrepreneurial spirit needed to found a firm in an alternative asset niche is not necessarily the same spirit required to guide a publicly listed asset management business. The challenge, as Rubenstein told us in 2016, is to find someone with the creative mindset of an entrepreneur.

Of course, Rubenstein, Conway, Kravis and Roberts have not left the building: they are all still involved in their firms. And less operational responsibility frees up time for more extracurricular activities – like rapping.

Nevertheless, one can't help feeling that as the founders of the industry take their steps away from the limelight, the industry will lose some of its colour. ■

TIMELINE

01 – 02 – 03 – 04 – 05 – 06 – 07 – 08 – 09 – 10 – 11 – 12 **2017**

July
KKR appoints Joe Bae and Scott Nuttall as co-presidents and co-chief operating officers

September
"The PE industry is still very personalised, and not very institutionalised," TPG's David Bonderman says in a report. "Most of the big businesses are still run by their founders. There will need to be a generational change over time."

October
Carlyle announces Kewsong Lee and Glenn Youngkin will become co-CEOs on 1 January

November
Apollo Global Management expands its leadership team by naming Scott Kleinman and James Zelter as co-presidents

GROWTH STRATEGIES

GPs branch out

Private equity firms have turned to credit and sector-specialisation to keep up with LP demands for capital allocations over the past year, writes Alex Lynn

With vast amounts of capital being committed to private equity funds in 2017, general partners have branched out into other strategies and geographies to ensure this money is put to work.

Private credit has been among the most common routes for strategic expansions this year. In August, Chicago-based Thoma Bravo hired Jack Le Roy from Summit Partners amid plans to raise $750 million for the strategy. Texas-based The Sterling Group is raising its initial private credit vehicle with a target of between $200 million and $250 million, sister publication *Private Debt Investor* reported in August.

Zug-based Capital Dynamics is aiming to hold a first close in Q2 for its first direct lending fund after launching a new private credit division in September.

There were 23 first-time corporate credit funds in market as of 12 December, targeting at least $8.7 billion, according to *PEI* data.

Many firms have launched sector-specific funds in order to differentiate themselves from the competition, with healthcare and technology vehicles among the most popular areas.

Hong Kong-based private equity firm China Everbright and venture capital firm Walden International are seeking $500 million for their new private equity vehicle focused on the semiconductor industry. Apax Partners has also raised at least $1 billion for a vehicle targeting minority stakes and buyout deals in high-growth software, internet and tech-enabled services companies globally.

This year also saw the continuation of the trend of firms looking at long-term capital. More than one quarter of private equity professionals believe long-life funds will grow in popularity over the next five years, according to Intertrust's *Private Equity Market 2017* report.

GPs also began looking further afield for opportunities in 2017.

Permira Advisers, one of Europe's biggest private equity firms, was seeking $1.5 billion for its debut Asia-focused vehicle, *PEI* reported in November. Chinese private equity giant CITIC PE appointed Réal Desrochers, former head of private equity at the California Public Employees' Retirement System, to lead the firm's expansion in North America.

***Growth areas**: expansion is targeting new strategies and geographies*

"We are starting to see Asian GPs – mainly from China where there are some huge firms – setting up teams in Europe and the US," Antoine Dréan, founder of placement agent Triago, says. "I wouldn't be surprised if we see a mega-firm from China acquire a group or groups in either the US or Europe over the coming year."

Strategic mergers and acquisitions are an "increasingly common" means of achieving broader geographic presence, Dréan notes. Notable examples include Paris-based Eurazeo's purchase of a 30 percent stake in New York-headquartered Rhône Group in November. ■

23

Number of first-time corporate credit funds in market in0 2017

$1.5bn

Target size of Permira's debut Asia-focused fund

FIRST QUARTER MOST READ ONLINE

1. **PEI awards: KKR, EQT among the winners**
2. **Coller: shared ownership 'biggest mistake' new GP can make**
3. **Hamilton Lane files for IPO**
4. **Carlyle paid nearly $48m in clawback in 2016**
5. **CalPERS' PE advisor resigns**
6. **Vista plots 'long-life' fund offering**
7. **SoftBank to acquire Fortress for $3.3bn**
8. **CalPERS considers alternatives to PE model**
9. **SoftBank: 'We are a small group and can move very fast'**
10. **Axiom Asia smashes target with over $1bn close**

FUND FINANCE

Credit line controversy

The use of subscription credit lines was one of the most divisive issues in 2017, writes Toby Mitchenall

The use of subscription credit lines was a defining debate among LPs and GPs in 2017. While it is nothing new for a fund to use a credit facility to finance acquisitions, concern began to mount about the length of time managers were leaving these facilities outstanding before calling capital from limited partners.

In March, San Bernardino County Employees' Retirement Association, a California pension fund with more than $8 billion of assets under management, rescinded a commitment to a private credit fund managed by Alcentra over concerns about the leverage facility used in the fund.

Howard Marks, the chairman of Oaktree Capital Management, poured petrol onto this sparking debate when he chose to focus one of his widely read memos on the topic in April. Among the many aspects Marks explored, the most notable ones pointed to the unknown risks that may result from the practice.

His note would later prompt a former board member at the California Public Employees' Retirement System, Michael Flaherman, to quiz the board about how much the pension understands the risks of credit facilities. In July ILPA released a document offering a nine-point guide for investors to help ensure credit facilities are used appropriately.

In doing so, the association nudged the debate in the direction of creating 'industry best practice' (while also acknowledging that different fund types had differing credit facility requirements).

As the debate rumbled on, *PEI* was gathering views from all parts of the private equity ecosystem to get a better handle on how important an issue this was. What we found was an issue as divisive among limited partners as any we've covered during our 17 years of publishing. This is not because investors seem genuinely worried about the possibility of fund level leverage triggering the next financial crisis (they don't), but because GPs who use long-dated lending facilities to postpone capital calls can make their performance look better than it otherwise would.

LPs who, like these managers, strive to maximise IRR tend to welcome the approach. But if you are an investor who focuses on the money multiple, and all you can do with your uncalled cash is park it in a zero-interest bank account while footing the extra cost of the facility – well, then you will be less inclined to applaud GPs for perfecting the art. ■

***Cash call**: lending facilities are used to postpone capital calls*

TIMELINE

01 02 03 04 05 06 07 08 09 10 11 12 2017

February
ILPA gathers LP views on fund finance

March
SBCERA rescinds Alcentra commitment based on credit facility

April
Howard Marks publishes 'Lines in the sands' memo

May
Ex-CalPERS board member asks for report on credit line use

July
ILPA issues nine-point guidance on the use of credit lines

What we found was an issue as divisive among limited partners as any we've covered during our 17 years of publishing

SECONDARIES

Blue chips are down with GP-leds

A handful of big-name deals pushed GP-led processes into the mainstream in 2017, but questions around their planning and execution will dominate discourse going into 2018, says Rod James

Many were expecting 2017 to be the year when GP-led secondaries processes truly arrived, when big-name deals would cement their role as a portfolio balancing tool, not just a cry of distress. These observers were largely correct, as one big deal after another came to the market.

In June it emerged that BC Partners, one of Europe's biggest private equity houses, was considering using a stapled deal to help boost fundraising for its €6.7 billion 10th fund.

The process, which closed in September, involved secondaries firm Lexington Partners buying around $700 million worth of stakes from 22 limited partners in BC European Capital IX, a 2011-vintage, €6.7 billion vehicle, at the same time as committing around $300 million to Fund X.

In October Warburg Pincus sold a $1.2 billion strip of Asian investments from its 2012-vintage, $11.2 billion Fund XI, helping the firm reduce its exposure to the region. Lexington and Goldman Sachs Asset Management backed the deal.

In September EQT gave investors in its sixth and seventh flagship buyout funds the option to sell their stakes to Partners Group, which in turn made a stapled commitment to the $800 million-target EQT Mid-Market Asia III. LPs who decided to part with their stakes received a 19.5 percent net internal rate of return and a 1.8x net money multiple.

***All in**: Blue-chip GPs are targeting secondaries*

19.5%
Net IRR for LPs in EQT deal

$1.2bn
Size of Asian investment sold by Warburg Pincus

A process on Nordic Capital's Fund VII, a €4.3 billion buyout vehicle, had its first bidding round in the last week of November. The deal would involve moving the remaining 10 assets in the 2008-vintage fund, which has a net asset value of around €2 billion, into a multi-year continuation vehicle which would have a five-year term.

The traffic has not all been one-way. In October Apax Partners decided against carrying out a process on its €11.2 billion 2007-vintage Apax Europe VII fund as it became clear that there was insufficient investor support. Debate continues to rage as to whether it is fair to propose a process with no "do-nothing" option which would allow LPs to continue with what they originally signed up to. As secondaries become more mainstream, further debate regarding how best to run such processes is likely to continue into the new year. ■

TIMELINE

01 02 03 04 05 06 07 08 09 10 11 12 2017

June (06)
BC Partners said to be considering using a staple to help raise its €6.7bn 10th fund

July (07)
Warburg Pincus taps Lazard to run the $1.2bn sale of a strip of Asian assets from its 11th fund

September (09)
EQT uses a secondaries deal on its sixth and seventh funds to help raise its $800m Asian mid-market fund

October (10)
Apax Partners decides not to proceed with process on its seventh fund after push back from its LPAC

November (11)
First bids received for process on 2008-vintage €4.3bn Nordic Capital VII

DIRECT INVESTING

Finding their own targets

Limited partners bulked up direct investment teams and made large purchases in 2017, says Adam Le

Direct hit: *The Canadian pension funds were among those selecting their own deals*

From sovereign wealth funds such as Abu Dhabi Investment Authority, to pension funds including Canada Pension Plan Investment Board and Ontario Public Services Employees Union Pension Trust, to family offices such as Man Capital or Chinese fund of funds Gopher Asset Management, making direct investments in private companies has been "very hot", the head of private equity at a large pension fund told *PEI*.

The reasons are varied. ADIA, the world's second-largest sovereign wealth fund, said in July it had increased its exposure to direct private equity investments amid fears of a potential drop in returns. It cited a combination of high valuations, increasing competition and rising interest rates in the US as potentially dampening future absolute returns for private equity, in its annual report for 2016.

Others, such as Canada's Caisse de dépôt et placement du Québec, have cited the ability to select the types of assets it feels will be more resilient amid a potential downturn.

Sovereign wealth funds in general have been preparing to ramp up direct investments. Almost half of SWFs surveyed in PwC's Sovereign Investors 2020 report in 2016 said they would invest in targets directly, up from 21 percent two years earlier.

"They want to do it on their own," Babak Nikravesh, a partner at Hogan Lovells and one of the organisers of the inaugural Sovereign Investors Conference in New York, told *Private Equity International* in late November. "Concretely, that means scaling up and putting people on the ground."

Notable large deals by pension funds this year included CPPIB's November acquisition of a 30 percent stake in online insurance business BGL Group and fellow pension fund CDPQ's $400 million investment in Hyperion Insurance Group.

LPs are, of course, bulking up their teams in order to make more direct investments, such as USS Investment Management, the investing arm of the UK's Universities Superannuation Scheme, which hired three investment professionals in October to help it pursue its continuing shift towards directs.

But interest in the strategy may have reached its peak. According to secondaries firm Coller Capital's bi-annual LP barometer, the number of LPs planning to make direct investments has plateaued at 31 percent, after jumping to 30 percent from 17 percent between summer 2006 and summer 2012.

The difficulty of making investments directly, as opposed to through a fund structure or co-investing with a GP, may have contributed to the levelling off of interest in the strategy. Florida's $196 billion State Board of Administration mulled going direct, according to documents published at the beginning of the year. After robust internal discussion it ultimately passed on the proposal, citing a lack of internal staff resources. ■

SECOND QUARTER MOST READ ONLINE

1. **PEI 300: Blackstone claims top spot**
2. **PEI 300 revealed: the industry's fundraising giants**
3. **CalPERS considers merging PE with public equities**
4. **CPPIB: 'We are part of too much money in Asia'**
5. **Blackstone launches retail channel**
6. **Ex-CalPERs member asks for credit-line report**
7. **Ardian invests $2.5bn in Mubadala deal**
8. **Abraaj shifts focus from regional funds**
9. **SoftBank Vision Fund: $93bn and counting**
10. **CalPERS cuts yearly costs by nearly 40%**

LEVERAGE

The rise of cov-lite loans

Should we be worried about the continued loosening of debt covenants, asks Isobel Markham

Over the last 18 months, leverage has been creeping up to 2007 levels, but this time around there's an added element, something which the private equity industry didn't see even in those heady pre-crisis days.

Back in 2007, only 29 percent of institutional debt issued in the US was 'covenant-lite' – devoid of all maintenance covenants. In Europe, the figure was just 7 percent, according to data from LCD, part of S&P Global Market Intelligence.

This has rocketed to 75 percent of newly-issued institutional debt in the US last year, and 60 percent in Europe. To look at it another way, in January 2006, just 0.95 percent of outstanding leveraged loans in the US were cov-lite. In July this year, that number was 72.71 percent.

The attractiveness of cov-lite loans for private equity buyers is clear: they offer much more flexibility. The firms can pursue expansion plans, add-on acquisitions, new product roll-outs and the like without lenders looking over their shoulders.

For the private equity house, cov-lite loans are no more risky than those with a full set of covenants. A prudent GP will be closely monitoring the financial performance of its businesses, covenants or not.

However, Randy Schwimmer, head of origination and capital markets at credit asset management firm Churchill Asset Management, makes the case in his research paper *The Case for Covenants* that, if a business starts to go downhill, it's best for the private equity house to bring the lender in on the discussion at an early stage.

"The sponsor and borrower can then outline what steps they will take to remedy the situation. That in turn allows lenders to provide thoughtful, constructive solutions, including more time and capital."

In a cov-lite situation, the lenders are forced to take a back seat, Schwimmer tells *PEI*.

Lenders are "praying for a correction" that will allow them to tighten up on terms, Schwimmer says. A rise in interest rates would have more of a long-lasting impact. However, as Schwimmer points out, LIBOR peaked at around 5.5 percent in 2007; in September it was at 1.3 percent. "We've got a long way to go before we're at pre-crisis interest rate levels," he says. ■

***Rough ride**: cov-lite loans put lenders at a disadvantage*

TIMELINE

01 02 03 04 05 06 07 08 09 10 11 12 **2017**

January (01)
US Libor at 1.6%

July (07)
72.7% of outstanding US leveraged loans are cov-lite, up from 0.95% in 2006

August (08)
Hellman & Friedman raises $265m in cov-lite loans to fund its acquisition of SanpAV

October (10)
A healthcare services company with EBITDA in $75m-$100m range has a covenant capping leverage at 9.5x EBITDA

December (12)
US Libor at 1.9%

SOUTH KOREA

Korean LPs to the fore

A low interest rate environment and growth in pension fund money continue to fuel South Korean LPs' expansion into alternatives, says Carmela Mendoza

Flying the flag: South Korea looks set to be a growing force in private equity as pensions try to boost returns

The South Korean investor landscape saw great changes in 2017.

Several pension funds and insurance companies pledged to increase their exposure to alternatives this year as they face public pressure to deliver higher returns.

Korea's largest pension, the 601 trillion won ($550 billion; €466 billion) National Pension Service, said in March it is planning to increase its holdings of foreign and alternative investments from 31.3 percent in 2017 to up to 40 percent by 2021, following the Ministry of Strategy and Finance's asset allocation plans.

Other institutional investors are following NPS's lead. By 2021 the 5.4 trillion won Government Employees Pension Service is set to allocate up to 24 percent of its total assets to alternatives, and the 14 trillion won Korea Teachers Pension Fund is planning to allocate 40 percent over the next three years. Meanwhile the Public Officials Benefit Association is plotting to expand its alternatives portfolio with an additional 700 billion won into private equity.

Korean pensions have been overweight in fixed income – as much as 70-80 percent of their portfolios historically. Because of the sensitivity of interest rate movements as well as the foreign exchange rate, Korean pensions suffer more compared with other global pensions.

With pension fund sizes increasing, it has become difficult to achieve required returns from investing in conventional fixed income and bonds, which is prompting this move toward greater exposure to alternatives, including alternative investments overseas.

Insurers such as Samsung Life Insurance, Kyobo Life Insurance and Hyundai Marine & Fire Insurance are also getting more active in private equity and increasingly favouring the North American and European markets, according to *PEI* data.

Korean LPs are diversifying into new strategies such as distressed debt and credit, and a separately managed accounts have also grown in favour. Korea Scientists and Engineers Mutual Aid Association plans to allocate $120 million to a separately managed account for a multi-asset strategy by year end. Hyundai Marine & Fire Insurance, with $27 billion in assets, is also keen to expand its private equity and private credit exposures via separately managed accounts from its existing manager roster. ■

TIMELINE

01 02 03 04 05 06 07 08 09 10 11 12 2017

March
National Pension Service plans to increase foreign and alternative investments to 40% allocation by 2021

April
Government Employees Pension Service names Chang-hoon Lee, former head of Prudential Asset Management, as CIO

May
The Public Officials Benefit Association commits $40m to Apollo Investment Fund IX

October
Korea Scientists and Engineers Mutual-aid Association issues RFP for $120m SMA

November
Korea Post Insurance Fund finalises negotiations to allocate $100m apiece to two global multi-strategy FoFs

FUNDRAISING

Apollo's mega-raise

The largest private equity fund of 2017 was unorthodox, writes Marine Cole

In many ways, Apollo Investment Fund IX, Apollo Global Management's ninth vehicle, and its 2017 fundraising, nicely sum up the state of the current private equity market.

The fund was oversubscribed in a matter of months, illustrating the robust fundraising environment. It plans to invest more heavily in distressed debt opportunities – possibly a quarter of total capital – reminding us that the current economic cycle has reached a high and looks set to turn a corner in the next couple of years.

The process demonstrates how large listed alternative asset managers have created internal fundraising machines, which allows them to lower placement fees. For Fund IX, Apollo spent just $3.5 million on third-party placement agents, down from $15.4 million for Fund VIII, which closed on $18.4 billion four years ago; and more than $20 million for Fund VII.

In an unusual strategy, Fund IX had no specific initial target or hard-cap, which some limited partners saw as a risk. Apollo initially said in its 2016 third-quarter earnings conference call that the size of Fund IX would be similar to Fund VIII. At launch, it verbally communicated to LPs that the fund would not exceed $20 billion – although it ultimately closed at nearly $25 billion.

Regardless of such unorthodoxies, Apollo's fundraising process was quick and successful.

Co-founder Leon Black indicated in early December that it received $30 billion in demand in only six months. "We cut people back to about $25 billion because we thought that's what we could handle responsibly," he said.

LPs were attracted by the performance of Fund VIII which has an unrealised net internal rate of return of 23 percent and Fund VII which had a 26 percent net IRR as of 31 December. The mix of equity and distressed debt strategies was also attractive, as it allows investors to cash in on both sides of the cycle.

Apollo co-founder Josh Harris told analysts in April that its LP base is globalising, particularly in Asia, the Middle East and Europe, with North America representing a little less than half of investors.

Apollo, which had $249 billion in total assets of the end of the year, will start deploying the fund in early 2018. ■

$248.9bn

Apollo's AUM as of December 2017

26%

Net IRR of Fund VII

We cut people back to about $25 billion because we thought that's what we could handle responsibly

Leon Black

***Sky high**: Apollo's huge fund was oversubscribed by $5 billion*

THIRD QUARTER MOST READ ONLINE

1. **The 10 largest H1 fund closes**
2. **Warburg Pincus to explore secondaries process**
3. **Deutsche secondaries team spins out**
4. **Committed capital fees 'on the way out'**
5. **Apax runs GP-led process on Fund VII**
6. **Family offices in five charts**
7. **GIC warns of investor complacency**
8. **BC investors agree secondaries deal with Lexington**
9. **EQT runs stapled secondaries deal on Fund VI**
10. **CITIC PE to market $2bn fund before year-end**

ASIA

The rise of Japan

With structural changes in place, increased appetite from LPs and strong dealflow, Japan will continue to be a major market for private equity, writes Carmela Mendoza

Japan made headlines this year with mega-deals and oversubscribed fundraises, as private equity firms continue to cash in on enhanced corporate governance standards, demographic shifts and a buzzing mid-market scene.

Consulting firm Bain & Company characterised 2017 as one of the biggest years ever for Japan's private equity market, on track to deliver its largest deal volume since the 2008 global financial crisis. Deal value climbed to $24 billion through September, an almost three-fold increase from the previous year's $8.8 billion.

Global firms KKR and Bain Capital set their sights on closing mega-deals – $18 billion for Toshiba's memory chip unit, $4.5 billion for auto parts maker Calsonic Kansei and $1.3 billion for Hitachi's power tools unit, among others.

Fundraising activity also soared this year, with 12 Japan-focused vehicles raising more than $4 billion, dwarfing the $350 million that was raised in 2016, according to *PEI* data.

J-STAR and Advantage Partners held final closes for their latest buyout vehicles on a combined ¥168 billion ($1.5 billion; €1.4 billion). Final closings of more than $3 billion were also held for Integral Group, NSSK, Tokio Marine Capital, CITIC Capital and The Longreach Group, all of which will mainly invest in Japan. Nomura Holdings is also back in private equity after a three-year hiatus and is looking to seed a Japan-focused fund with $895 million of its own capital.

Richard Folsom, co-founder of Advantage Partners, expects the strong investment activity to continue in 2018. "Founder/owner successions have been a large part of that and continue to drive a lot of dealflow in the mid-market buyout space," he says.

Tsuyoshi Imai, a Tokyo-based partner at Ropes and Gray, adds that a lot of private equity firms are bullish on Japan because of the strong exit activity in the last three to four years.

Folsom believes the penetration of private equity in Japan, which is just 5 percent of overall M&A activity, will grow further going forward. "That 5 percent could move to 10 percent in the future, which means the size of the pie for private equity could double, opening a lot of room for new players in the market," he says. ■

***Bright prospects**: private equity's share of M&A is forecast to double in the future*

TIMELINE

01 02 03 04 05 06 07 08 09 10 11 12 **2017**

January
KKR buys Hitachi Koki, Hitachi's power tool unit, for $1.3bn

April
J-STAR No. 3 closes in on ¥33.25bn

May
Advantage Partners V closes on ¥60bn

September
Bain Capital-led group buys Toshiba's chip unit for $18bn

November
Nomura Holdings returns to private equity

TEAM WORK
Our investment professionals collaborate across continents as we are dedicated to giving our investors genuine global advice.
Fund Investments
Co-Investments
Secondary Investments
Partnership Investments
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PRIVATE EQUITY INTERNATIONAL AWARDS 2017
Secondaries deal of the year in Europe
PRIVATE EQUITY INTERNATIONAL AWARDS 2017
Secondaries firm of the year in the Americas
ALP INVEST

LONG-TERM FUNDS

Time on their side

Investors can expect more vehicles with a life longer than 10 years in 2018, writes Adam Le

Patient approach: *holding assets for longer brings greater expertise*

Long-term funds – vehicles with a life longer than the traditional 10 years – increased in popularity this year with the arrival of several funds dedicated to the strategy.

Long-term funds that held their final close include Bain Capital spin-out Core Equity Holdings, which raised €1 billion for its debut vehicle in September, and Cove Hill Partners, also founded by a Bain alumnus, which held a final close on its debut vehicle in September on $1 billion.

Proponents of the strategy argue the traditional private equity model is an outdated piece of technology that needs a revamp. By holding assets for longer, these managers believe they can gain deeper expertise in the industries they focus on without having to sacrifice returns, as they would in an infrastructure-like fund.

"Why would you sell a business that you know, a team that you like, a strategy that you've helped devise, [when] you keep generating the sorts of returns you want to generate?" Core Equity partner Alain Stoessel told *PEI* in June.

Other private equity firms are getting in on the long-term action in different ways. KKR is seeking to acquire as many as 12 long-term core investments from its balance sheet over the next five years, Scott Nuttall, the firm's co-president, said. KKR completed the first of these with the $4.3 billion acquisition of US insurance brokerage and consulting firm USI Insurance Services alongside CDPQ in March.

Blackstone, which raised $5 billion for its Core Equity Partners long-term vehicle, made investments from the fund this year including music rights organisation SESAC Holdings in January.

Carlyle was also active during the year, making at least two investments from its $3.6 billion Carlyle Global Partners vehicle. Launched in 2015, the fund focuses on long-dated investments in North America and Europe and holds six assets including the March acquisition of ice products distributor Arctic Glacier and the July purchase of basin energy assets Hilcorp San Juan.

Apollo Global Management plans to launch a long-term equity and credit vehicle, it announced in December. Named Hybrid Value, the fund will aim to deliver returns in the mid-teens. ■

TIMELINE

"Why would you sell a business that you know, a team that you like, a strategy that you've helped devise, [when] you keep generating the sorts of returns you want to generate?"

01 02 03 04 05 06 07 08 09 10 11 12 2017

January Blackstone's $5bn Core Equity Partners fund invests in SESAC

March Carlyle's long-term fund acquires Arctic Glacier

July Carlyle fund acquires Hilcorp San Juan assets

September Core Equity and Cove Hill hold final closes on their debut vehicles

December Apollo announces plans for Hybrid Value long-term vehicle

INVESTING IN GPS

Grabbing a slice of the PE pie

General and limited partners have been snapping up manager stakes during 2017, writes Alex Lynn

Private equity firms are finding that, rather than doing the deal, they are the deal, as specialist funds and other asset managers see the value in the GP model.

A number of firms who raise capital for the strategy – acquiring stakes in asset managers primarily to access a share of management fees and carry across all the target GP's vehicles – have enjoyed a strong year of fundraising. Dyal Capital Partners' fourth fund, for example, had secured $1 billion of commitments as of the end of October and had been expected to hold a first close on $2 billion in December.

> *In some cases, the funds are looking at an IPO for the management company*
>
> **Virginie Bourel**

Goldman Sachs Asset Management is understood to be raising at least $1.5 billion for its second Petershill fund, which will acquire stakes in hedge funds and private equity firms. Meanwhile, Hycroft Capital is aiming to raise at least $750 million for its debut fund.

The fund of firms model is by no means new. Pennsylvania-based Rosemont Investment Partners was an early adopter of the model, having first raised such a vehicle in 2000.

And just as the private equity model has evolved to welcome more long-term funds or permanent capital vehicles, so too have funds of firms. Rosemont, which has so far raised three closed-ended funds targeting minority equity stakes in other investment management businesses, has scrapped the traditional fixed-term fund model, founder Chas Burkhart told *PEI* in November. It instead plans to launch a$200 million permanent capital vehicle of "unconstrained duration" by the second quarter of 2018.

In July, Blackstone acquired a minority stake in buyout firm Leonard Green & Partners through its Strategic Capital Holdings fund, a $3.3 billion permanent capital vehicle focusing primarily on hedge fund managers.

Likewise, Eurazeo, which uses permanent capital, acquired a stake in New York-based Rhône Group in November, and then a majority stake in Paris-based Idinvest in February 2018.

With this flurry of activity late in the year, the trend shows little sign of slowing down in 2018. However, the depth of the exit market remains to be seen, Virginie Bourel, partner and head of strategic advisory at placement agent and advisory firm Triago, tells *PEI*.

"In some cases, the funds are looking at an IPO for the management company; it could be one by one or a combination of several," she says. ■

***Tempting target**: funds are looking to buy stakes in GPs*

FOURTH QUARTER MOST READ ONLINE

1. **Blackstone is moving towards permanent capital**
2. **10 new firms making waves in 2017**
3. **CDPQ poaches PSP private equity senior director**
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5. **Apax pulls GP-led deal**
6. **Carlyle names successors as co-founders step aside**
7. **PEI Awards 2017: let the games begin**
8. **Apollo's child prodigy**
9. **LPs face huge risks on co-investments**
10. **Fundraising continues to outstrip 2016**

FIRST-TIME FUNDS

Making waves in 2017

From Sydney to Boston, a slew of firms made a splash with their first vehicles last year. We profile the top debut fundraises

Raising a first-time fund is never an easy task, but limited partners' insatiable appetite for private equity coupled with a desire to get in there early with potential future winners has made this year a good time for established teams with a strong track record to try their luck. Here's a compilation of some of the top debut fundraises by emerging managers.

SPINNING OUT OF AUSTRALIA'S GIANT

Adamantem Capital

Founded in July 2016 by Anthony Kerwick and Rob Koczkar, former managing directors at Pacific Equity Partners, Adamantem Capital is expecting to hold a final close on its debut fund on around A$600 million ($456 million: €385 million) to invest in mid-market opportunities in Australia and New Zealand. The founders were hit with a lawsuit by PEP in April alleging the Adamantem team might have used confidential information such as the financial performance of PEP's funds and portfolio companies in its fundraising materials, but PEP lost its case in late September.

WHERE EUROPE AND ASIA MEET

AGIC Capital

Founded in 2015 by ex-Deutsche Bank executive chairman Henry Cai, Asia Germany Industrial Promotion Capital targets investments in European small and mid-cap companies specialising in intelligent manufacturing, high-end equipment, advanced materials, medical technologies and environmental protection technologies looking to expand their businesses into China. The firm closed its debut fund on its $1 billion target, with China Investment Corporation as an anchor investor.

GOING LONG (EUROPE VERSION)

Core Equity Holdings

The Brussels-based firm closed on $1 billion for Core Equity Holdings I, a 15-year life structure that aims to invests between €200 million and €500 million of equity in three to five deals. The four main partners, who together have more than five decades of combined experience in private equity – most of it at Bain Capital, have collected capital from North American and European endowments, foundations and large family offices.

GOING LONG (US VERSION)

Cove Hill Partners

Bain Capital veteran Andrew Balson raised more than $1 billion this year in a few months for his new long-term private equity fund, Cove Hill Partners Fund I, which has a 15-year life span. Boston-based Cove Hill Partners, which Balson founded after working for 17 years at Bain Capital, collected money mostly from family offices, university endowments and foundations to make five to eight investments in the consumer and technology sectors in North America.

THE APOLLO OF THE LOWER MID-MARKET

Gamut Capital Management

Former Apollo Global Management senior partners Stan Parker and Jordan Zaken launched mid-market firm Gamut »

» Capital Management in 2015 and held a final close on their debut fund Gamut Investment Fund I on $1 billion, ahead of its $750 million target, at the beginning of 2017. Their aim is to replicate Apollo's strategy of investing in buyouts, carve-outs and distressed-for-control investments in the lower mid-market.

Summa Equity: *trend spotting in the Nordic region*

DEUTSCHE SECONDARIES VETERANS

Glendower Capital

The secondaries team, led by Carlo Pirzio-Biroli, Charles Smith, Adam Graev, Chi Cheung and Deirdre Davies, spun out of Deutsche Bank in the summer and will continue to advise on existing assets. The firm also planned to pre-market Glendower Secondary Opportunities Fund IV in the autumn, seeking between $1.5 billion and $2 billion, indicating it will be in full fundraising mode in 2018. Meanwhile, it has already closed a couple of deals, purchasing two stakes in Duke Street Capital's sixth fund from Kuwait Investment Authority.

ZEROING IN ON AUSTRALIA'S MID-MARKET

Odyssey Private Equity

Former Quadrant Private Equity co-founder George Penklis teamed up with three former CHAMP Ventures executives – Gareth Banks, Jonathan Kelly and Paul Readdy – to set up Odyssey Private Equity in 2016. The firm raised A$275 million ($211 million: €198 million) for its debut fund, which will invest A$15 million-A$40 million in local mid-sized companies with enterprise values of up to A$100 million across a broad range of industries in Australia and New Zealand.

Odyssey Private Equity: *backing mid-market deals in Australia*

OPERATIONS-HEAVY CARLYLE SPIN-OUT

Stellex Capital Management

The mid-market private equity firm launched by two former Carlyle executives held a final close on its first fund in the summer after nearly two years of fundraising, raising $870 million, ahead of its $750 million target. The Teachers' Retirement System of Texas was an early backer, committing $50 million in November 2015 to the fund raised by founding partners Ray Whiteman and Michael Stewart.

FOLLOWING NORDIC MEGA-TRENDS

Summa Equity

Set up in 2016 by five partners – Reynir Indahl and Johannes Lien, formerly at Scandinavian private equity house Altor, Tommi Unkuri and Jenny Keisu, formerly at Nordic Capital, and Christian Melby, formerly at Norwegian firm Norvestor Equity – Nordic lower mid-market firm Summa Equity smashed through its initial SKr3.3 billion ($372 million; €349 million) target to close its debut fund on SKr4.3 billion. The "mega-trend driven" firm follows four investment themes: resource scarcity, energy efficiency, changing demographics and tech-enabled businesses.

TARGETING UK BUSINESSES

Tenzing Private Equity

Founded in January 2015 by Guy Gillon and Rob Jones, who both have experience investing with special situations investment firms, and Christian Hamilton, a former partner at UK mid-market firm Inflexion Private Equity, UK lower mid-market firm Tenzing closed its debut fund on its £200 million ($269 million; €227 million) hard-cap after just three months in market. The fund is targeting buyout investments in UK businesses with enterprise values of between £10 million and £50 million with high organic growth prospects. ■

A YEAR IN PE

Friday's best

A look back at highlights from *PEI*'s Friday Letters tells you everything you need to know about the last 12 months

Whether you agreed or disagreed with them – and as ever we had subscribers who did both in 2017 – our Friday Letters sought to provide fresh insight into the day's trends and news.

WHY THIS ISN'T 2007

At the start of the year, references to the re-emergence of pre-crisis excessive behaviour proliferated. Surely the signs were pointing to a return to the bad old days? *Private Equity International* thought it was worth examining how different the market of 2017 was from a decade before.

"Let's take a breath and consider two good reasons why this is not 2007. First is total deal value. In 2007 the total value of global buyout activity was $683 billion, a shade lower than in 2006's $685 billion total. Last year the equivalent figure was just $257 billion, and the annual total has not exceeded $300 billion in any year since the crisis."

DIVIDING LINES ON FUND FINANCE

Subscription credit facilities were a defining topic of debate for the industry in 2017. Our February letter 'Money for nothing' prompted reader responses that encouraged us to investigate the issue in greater depth. Having explored it throughout the year, *PEI* concluded in November this was an issue as divisive among limited partners as any we've covered during our 17 years of publishing.

"Managers who have their clients' best interests at heart will need to tread carefully to not upset anybody. Says an industry veteran in Hong Kong: 'We haven't used any facilities at all. Half my investors tell me to keep it this way. The other half aren't happy.' Now there's a dilemma. When what's at stake is the goodwill of the investor base, GPs know they have their work cut out."

SUPER RESPONSIBLE

In April Australian superannuation fund First Super said it would stop making new private equity commitments, and might wind down its entire programme, pending a review of its portfolio. This was prompted by revelations of "poor labour practices" at some portfolio companies. The fund's public reassessment of its private equity programme was "unlikely to spark a revolution", *PEI* concluded, but raise some questions such as whether other LPs have a fiduciary duty to take a similar stance.

"One thing can be said for sure; the episode serves as another reminder to both LPs and GPs – if one is needed in 2017 – that environmental, social and governance issues have a tangible financial significance."

BLACKSTONE'S BIG NUMBERS

Rarely is the industry's largest manager far from the headlines, but in May Blackstone was on the front pages for securing a whopping $20 billion commitment from Saudi Arabia's Public Investment Fund which, with further fundraising, was to grow into a $40 billion infrastructure fund. *PEI* noted that another, lower profile, deal the firm had struck that week – the acquisition of annuity provider Fidelity & Guaranty Life – would have a bigger impact.

"The FGL deal brings the firm an alternative asset manager's holy grail: ready access to a sizeable chunk of quasi-permanent capital – up to $28 billion of it – to invest across all its platforms while earning management fees and carry from those commitments."

IMPACT INVESTING IS COMPLICATED

A debate among board members of the New Mexico State Investment Council in June showed that – for those responsible for public money – investing with purpose may not be the simple 'win-win' it first seems.

"While every public body will have its own political sensitivities that need to be taken into account, it's clear impact investment does come with political implications – not least the argument that the pension plan should be looking first and foremost to make social and environmental impact in its own state."

TECHNOLOGY EVERYWHERE

Huge amounts of capital for technology-focused funds made us wonder whether the 'too much money, too few deals' maxim

would apply more readily than it already does to the sector. Two factors were worth considering, *PEI* noted. First was the shrinking public markets; "the public market investor's loss is the private equity investor's gain when it comes to increasingly sizeable dealflow." Second was the sheer scope of target companies that fall into a tech funds remit.

"To describe 'technology' as a sector is, at best, to capture a very broad church of investment strategies and, at worst, to mislabel it as a sector altogether."

NORWAY GPFG: LATE TO THE PARTY

In September Norway's giant Government Pension Fund Global hinted that it was now too big and too late to think about investing in alternatives. We disagreed.

"This does not seem rational. Yes, it would and should take a long time to implement a private equity strategy of this scale responsibly, but as a fund whose mission is to safeguard and grow assets over generations, it has time on its side."

FUND RESTRUCTURING FRICTION

As a number of high profile firms orchestrated secondaries processes on ageing funds, *PEI* examined the "frictional" costs to LPs of being forced to roll over into a new vehicle.

"For an LP with a small investment staff – as many have – being asked to roll over into a new fund is not as simple as ticking a box: there are frictional costs. They may not be measured in millions, but they could be avoided altogether simply by sticking to the original fund plan."

GOODBYE TO THE ENTREPRENEURS

As two of the industry's largest and most influential groups – KKR and Carlyle – announced plans to shift leadership away from the founders to the next generation, in October *PEI* lamented the institutionalisation of private equity.

"These succession events are, of course, inevitable and necessary. From an industry observer's standpoint, though, they are also tinged with regret. Rubenstein, in particular, has been a source of colour and column inches since he first graced the pages of *PEI* in our first edition. Who could forget the holiday rap he recorded for investors back in 2014? (Try as they might.)"

LESS ISN'T MORE FOR CALPERS

In November we learned that the California Public Employees' Retirement System's drive to reduce its number of GP relationships to benefit from efficiency gains and negotiate favourable terms had not yielded the results it had hoped for. Complexity and monitoring intensity haven't diminished and CalPERS hasn't benefited from significant fee reductions.

"This is not a sign, by any means, that the trend for concentration of private equity portfolios has failed. Rather, it's a realisation that CalPERS' approach has not let it fully milk these fewer but deeper relationships. For other big US public pensions, there is no reason for it not to roll on." ■

VALUE CREATION

Smooth operators

Our Operational Excellence Awards provided a welcome reminder of how private equity can create lasting value

What do a bankrupt American 10-pin bowling firm, a struggling Dutch pastry maker and a tiny Vietnamese mobile phone retailer have in common? It's the kind of question that crops up every year when we choose the winners of our annual Operational Excellence Awards, celebrating the GPs that have done the most to transform portfolio companies.

All three of these companies – US bowling alley operator Bowlmor AMF, Dutch baker Banketgroep and Vietnam's Mobile World – made the 2017 winners list in another stark reminder of the power of private equity to turnaround wildly different industries.

Now in their sixth year, the search for the award winners started in July when we asked fund managers to submit their best examples of how they deliver operational value as owners. To be eligible, an investment had to be either fully or partially realised after 1 June 2016. Entries are invited from three regions — Americas, Asia-Pacific and Europe, Middle East and Africa. We then divided them into four categories, according to the deal's entry price — large cap (greater than $500 million), upper mid-cap ($150 million-$500 million), lower mid-cap ($50 million-$150 million) and small cap (less than $50 million).

Competition was particularly tough. There were record entry levels in many categories, making it a difficult call for the judges, who comprise some of the leading scholars and operational experts in the private equity industry.

It's never easy. How exactly do you balance the dizzying array of entrants in sectors ranging from financial services to outdoor retailers and Chinese tape manufacturers, all with multiples that would please even the most demanding investor? And returns are only part of the criteria. GPs are also expected to provide specific details of the changes and the initiatives they had undertaken, from product development and acquisition activity through to supply chain improvement and management enhancement.

And not just details but tangible evidence of how these initiatives created value. Impressive exit numbers were clearly a plus, but the main thing our judges were looking for was some genuinely groundbreaking work.

"The entries get better every year," said long-time judge Steve Kaplan, professor of entrepreneurship and finance at the University of Chicago's Booth School of Business. Or as fellow judge and ex-3i executive Miles Graham put it: "This year (once again) it is more challenging to identify clear winners than last year."

But there was widespread agreement that the 11 winners – there was no large-cap Asia-Pacific award in 2017 – really had achieved the astonishing turnarounds we've come to expect from this remarkable roll of honour. ■

PEI Alternative Insight
PRIVATE EQUITY INTERNATIONAL
operational excellence awards 2017

WINNERS

AMERICAS

Large cap
The Carlyle Group – Vogue International

Upper mid-market
Cerberus Capital Management – Bowlmor AMF

Lower mid-market
Francisco Partners – Paymetric

Small cap
The Riverside Company – YourMembership

EMEA

Large cap
Partners Group and Capvis – VAT Group

Upper mid-market
EQT – Faerch Plast

Lower mid-market
Gilde Equity Management – Banketgroep

Small cap
YFM Equity Partners – GO Outdoors

ASIA-PACIFIC

Upper mid-market
ShawKwei & Partners – YongLe Tape

Lower mid-market
Advantage Partners – Hisense Broadband Multimedia Technologies

Small cap
Mekong Capital – Mobile World

In their own words

Every month, *PEI* talks to a leading figure in the private equity industry for our Privately Speaking feature interview. Here's our pick of this year's responses

Blackstone global head of private equity Joe Baratta

ON THE DANGERS OF RELYING ON RISING PUCHASE MULTIPLES:

"That to me is the biggest risk. Many invest today assuming the low interest rate world will persist forever and the next buyer will pay the same high multiples. We don't do that."

ON SHIFTING THE FOCUS TO OPERATIONAL IMPROVEMENT:

"That's leading us into companies where we can do a lot to them during our ownership to really transform the profitability, either through consolidation or operating margin restructuring, or by buying things that are out of favour. Our ability to act as a good custodian and value-added industrialist in our portfolio companies is way beyond what it was even 10 years ago."

ON BLACKSTONE'S 2006 INVESTMENT IN CASUAL DINING OPERATOR TRAGUS:

"Ultimately, we lost money. We lost investor capital, which was painful. It obviously got hit hard by the financial crisis and the recession. Much harder than theme parks and visitor attractions."

PAI Partners chief executive Michel Paris

ON STICKING TO WHAT IT KNOWS:

"For the time being we are a pure leveraged buyout player, and we're just trying to be as good as possible as a pure LBO player covering the whole of Europe."

ON REASSURING ITS LP BASE:

"It's clear we significantly challenged the investor base last time. Also because some of our investors suffered a lot through the crisis and had a diminished capacity to come back. At least one large investor decided not to come back, which has forced us – or helped us – to think about new names… We've made a significant effort to reshape the investor base, and we are going to benefit from that."

ON COMPETITION IN THE MARKET:

"Everybody is trying to be opportunistic. It's difficult at the start of a process to assess correctly the competitive landscape and to be sure about who will be there at the end… We are trying to be as tactical as possible. In some cases we are moving full-speed, in some other cases we are just taking our time to have the opportunity to better assess the competition."

Clessidra chief executive Mario Fera

ON THE DECISION TO BUY CLESSIDRA AFTER THE DEATH OF THE FOUNDER CLAUDIO SPOSITO:

"I saw the opportunity for Italmobiliare almost immediately when I realised there was an entry point: it was time to go live on Clessidra. It is a fascinating platform that is on the verge of disappearing and we can probably recoup it and make it brighter and stronger."

ON SHARING ECONOMICS WIDELY AMONG THE TEAM:

"I told them I wanted to bet on the younger team, on everyone's ability to do well on Fund III, because it will be the foundation of Fund IV. Juniors will get their chance on the next fund, which means more visibility and more accountability and feeling like more of a part of the story."

ON WHY THE FIRM HAD TO RELOCATE TO A NEW OFFICE:

"I was very adamant right from the beginning that we had to move offices. A psychological restart."

Stonehage Fleming head of private equity Richard Clarke-Jervoise

ON FAMILIES' APPROACH TO PE:

"Private equity is very intuitive for a family, because for most families, that's where their wealth came from, it was created by a private company of one sort or another, so they get that. And they understand risk completely from that point of view."

ON CHARGING FEES ON COMMITTED CAPITAL:

"I would be very surprised if in 10 years' time much more than 50 percent of the asset class was charging on the basis of committed capital. It's just such an anomaly within investment management as an industry. There are very good reasons for it, but I just think people will eventually say 'we're not prepared to pay for that'."

ON NAVIGATING THE NEXT DOWNTURN:

"Everyone says private equity had quite a good crisis, and I do worry that the next one won't be quite as good. I worry about the complacency within parts of industry that you saw within hedge funds previously, and you saw what happened to the hedge fund industry."

CDH Investments founder Wu Shangzhi

ON CDH'S DIFFERENTIATING FACTOR:

"Each deal is driven by a different value proposition, but if you look closely, it's about building long-term relationships, waiting for the opportune time and discussing the next investment opportunity."

ON SEEKING BUSINESSES WITH A UNIQUE CHINA ANGLE:

"We seek to leverage our extensive experience investing and helping Chinese companies become leaders in China's fast-growing domestic consumption sectors. These deals provide our investors exposure to opportunities that they will not get from their global buyout funds and we believe CDH is well-positioned to continue to capitalise on these opportunities in the future."

ON ENSURING A SMOOTH TRANSITION TO NEW LEADERSHIP:

"If you look at the other partners and key leaders, most are in their late 40s or 50s, and their responsibilities and expectations are quite clear."

Prudential Portfolio Management Group head of alternatives Michael Howard

ON SUBSCRIPTION CREDIT LINES:

"If you are collecting all the expenses and then clearing it off in three months' time, then that is fine. If there is a long period of leverage in there, then that is an issue, because it means we will be underweight [against] our target and have to make a decision as to where we put that money that should have been invested in private equity."

ON PUSHING INTO CO-INVESTMENT:

"We already have a reasonably established co-investment programme in the US but it makes sense for us to establish a bigger programme going forward... It will be interesting to see how the industry develops."

ON MAINTAINING A PE ALLOCATION:

"It means we are making slightly larger commitments but quite frankly I would rather our managers use their discretion to choose the right deals rather than feel obliged to quickly get money out the door. Obviously if it persists for a few years, then you have a J-curve starting to kick in, but for now I am quite happy if it is a one or two-year phenomenon to see people harvesting and being cautious about how they deploy." ■

PRIVATE EQUITY INTERNATIONAL
AWARDS 2017

THE DOMINANCE OF PE POLYMATHS

The asset class is growing and evolving.

The most influential firms in the private equity business have been busy, not only raising capital for their flagship programmes, but also diversifying, innovating, building expertise and expanding their horizons.

It seems fitting that the *PEI* Awards should also grow and evolve.

This year, the thousands of voters who had their say in our annual awards were asked to pick not only which firms, investors and advisors had dominated in each region around the globe, but also to decide which houses had distinguished themselves in several new global categories, covering impact investing, long-term investing and a number of sector specialisms.

What do we learn from the results? That multi-strategy franchises are forces to be reckoned with when they engage in either new ventures or specialised sectors, but they do not have it all their own way. Blackstone beat specialists to the crown in the energy and long-term fund categories, and TPG won in the impact category, but Silver Lake and L Catterton are both recognised as leaders in their fields.

Across the entire honour roll, it is KKR that swept the board, thanks largely to its dominance in Asia. The firm won Healthcare Private Equity Firm of the Year, Fundraise of the Year in Asia-Pacific, Firm of the Year in South-East Asia and Large-Cap Firm of the Year in Asia-Pacific.

Apollo, buoyed by its world-beating fundraise and its reputation as a firm that can generate returns whether the economy is going up, down or sideways, won three awards. As did emerging markets giant Actis, recognised for its ability to invest successfully in regions that prove too tough for many firms.

The *PEI* Awards remain the only awards in the industry decided solely by the industry. The shortlists are drawn up in November by our global edit team who canvass the views of colleagues and contacts in the market to find out which firms, funds and deals stood out during the year. We also solicited nominations for the 71 categories. The four-strong shortlist was opened up to voting in early December and included a fifth write-in box, in case readers felt we had left anyone out. As ever, votes poured in from all over the world. Thank you to all those who participated.

The one gong that is not put to the reader vote is our Private Equity Gamechanger Award, awarded at the discretion of the editorial team. This year we pay tribute to SoftBank's founder and chief executive Masayoshi Son. Rarely has the title of our award been more appropriate.

Congratulations to all our winners and runners up.

PEI AWARDS 2017

PRIVATE EQUITY INTERNATIONAL
AWARDS 2017

GLOBAL

ENERGY PRIVATE EQUITY FIRM OF THE YEAR
Blackstone

HEALTHCARE PRIVATE EQUITY FIRM OF THE YEAR
KKR

TECHNOLOGY PRIVATE EQUITY FIRM OF THE YEAR
Silver Lake

CONSUMER PRIVATE EQUITY FIRM OF THE YEAR
L Catterton

LONG-TERM PRIVATE EQUITY FIRM OF THE YEAR
Blackstone

FRONTIER MARKETS FIRM OF THE YEAR
Actis

IMPACT INVESTMENT FIRM OF THE YEAR
TPG

EMEA

LARGE-CAP FIRM OF THE YEAR IN EUROPE
CVC Capital Partners

MID-MARKET FIRM OF THE YEAR IN EUROPE
Equistone Partners Europe

LIMITED PARTNER OF THE YEAR IN EUROPE
APG Asset Management

DEAL OF THE YEAR IN EUROPE
Bain Capital Private Equity and Cinven for Stada

EXIT OF THE YEAR IN EUROPE
Equistone Partners Europe for Meilleurtaux

FUNDRAISE OF THE YEAR (EMEA)
CVC Capital Partners

SECONDARIES DEAL OF THE YEAR IN EUROPE
AlpInvest Partners, Landmark Partners, Lazard for Investindustrial

SECONDARIES FIRM OF THE YEAR IN EUROPE
Ardian

SECONDARIES ADVISOR OF THE YEAR IN EUROPE
Campbell Lutyens

FIRM OF THE YEAR IN AFRICA
Actis

FIRM OF THE YEAR IN BENELUX
Waterland Private Equity Investments

FIRM OF THE YEAR IN CEE
Mid Europa Partners

FIRM OF THE YEAR IN FRANCE
Apax Partners MidMarket

FIRM OF THE YEAR IN GERMANY
Deutsche Beteiligungs

FIRM OF THE YEAR IN IBERIA
Black Toro Capital

FIRM OF THE YEAR IN ITALY
Ambienta

FIRM OF THE YEAR IN MENA
Actis

FIRM OF THE YEAR IN THE NORDICS
EQT

FIRM OF THE YEAR IN SWITZERLAND
Partners Group

FIRM OF THE YEAR IN THE UK
Advent International

FUND OF FUNDS MANAGER OF THE YEAR IN EUROPE
HarbourVest Partners

PLACEMENT AGENT OF THE YEAR IN EUROPE
Rede Partners

LAW FIRM OF THE YEAR IN EUROPE (FUND FORMATION)
Debevoise & Plimpton

LAW FIRM OF THE YEAR IN EUROPE (TRANSACTIONS)
Clifford Chance

LAW FIRM OF THE YEAR IN EUROPE (SECONDARIES)
Kirkland & Ellis

LENDER OF THE YEAR IN EUROPE
Ares Management

AMERICAS

LARGE-CAP FIRM OF THE YEAR IN NORTH AMERICA
Apollo Global Management

MID-MARKET FIRM OF THE YEAR IN NORTH AMERICA
Oak Hill Capital Partners

LIMITED PARTNER OF THE YEAR IN NORTH AMERICA
Alaska Permanent Fund

NORTH AMERICAN DEAL OF THE YEAR
Blackstone for Aon Hewitt

NORTH AMERICAN EXIT OF THE YEAR
Oaktree Capital Management for AdvancePierre Foods

FUNDRAISE OF THE YEAR (AMERICAS)
Apollo Global Management

SECONDARIES FIRM OF THE YEAR IN THE AMERICAS
AlpInvest Partners

SECONDARIES DEAL OF THE YEAR IN NORTH AMERICA
Landmark Partners for Clearlake Capital

SECONDARIES ADVISOR OF THE YEAR IN THE AMERICAS
Evercore

DISTRESSED DEBT INVESTOR OF THE YEAR IN NORTH AMERICA
Apollo Global Management

FIRM OF THE YEAR IN CANADA
Bain Capital Private Equity

FIRM OF THE YEAR IN LATIN AMERICA
Advent International

FUND OF FUNDS MANAGER OF THE YEAR IN NORTH AMERICA
HarbourVest Partners

PLACEMENT AGENT OF THE YEAR IN NORTH AMERICA
Eaton Partners

LAW FIRM OF THE YEAR IN NORTH AMERICA (FUND FORMATION)
Debevoise & Plimpton

LAW FIRM OF THE YEAR IN NORTH AMERICA (TRANSACTIONS)
Kirkland & Ellis

LAW FIRM OF THE YEAR IN NORTH AMERICA (SECONDARIES)
Kirkland & Ellis

LENDER OF THE YEAR IN NORTH AMERICA
Ares Management

ASIA-PACIFIC

LARGE-CAP FIRM OF THE YEAR IN ASIA
KKR

MID-MARKET FIRM OF THE YEAR IN ASIA
Everstone Group

LIMITED PARTNER OF THE YEAR IN ASIA
China Investment Corporation

DEAL OF THE YEAR IN ASIA
Bain Capital and others for Toshiba Memory Corporation

EXIT OF THE YEAR IN ASIA
PAG for Universal Studios Japan

FUNDRAISE OF THE YEAR (ASIA-PACIFIC)
KKR

SECONDARIES FIRM OF THE YEAR IN ASIA
TR Capital

SECONDARIES DEAL OF THE YEAR IN ASIA
Lexington Partners and Lazard Asia for Warburg Pincus

SECONDARIES ADVISOR OF THE YEAR IN ASIA
Lazard

FIRM OF THE YEAR IN AUSTRALASIA
Pacific Equity Partners

FIRM OF THE YEAR IN CHINA
CITIC Capital Partners

FIRM OF THE YEAR IN JAPAN
NSSK

FIRM OF THE YEAR IN KOREA
Affinity Equity Partners

FIRM OF THE YEAR IN INDIA
Everstone Group

FIRM OF THE YEAR IN SOUTH-EAST ASIA
KKR

FUND OF FUNDS MANAGER OF THE YEAR IN ASIA
Asia Alternatives

PLACEMENT AGENT OF THE YEAR IN ASIA
Eaton Partners

LAW FIRM OF THE YEAR IN ASIA (FUND FORMATION)
Weil, Gotshal & Manges

LAW FIRM OF THE YEAR IN ASIA (TRANSACTIONS)
Clifford Chance

LAW FIRM OF THE YEAR IN ASIA (SECONDARIES)
Kirkland & Ellis

GAME CHANGER

PRIVATE EQUITY GAME CHANGER OF THE YEAR 2017

Masayoshi Son, founder and chief executive, **SoftBank**

In 1981 Masayoshi Son built a company inspired by a photograph of an Intel microprocessor that he saw in a science magazine at university. Thirty-seven years, one initial public offering and several M&A deals later, the billionaire founder of Japanese telco company SoftBank rocked the private equity industry by forming the biggest fund in history – the SoftBank Vision Fund, which has an unprecedented planned $100 billion war chest for technology deals.

The Vision Fund was launched in October 2016 and held a first close on over $93 billion in just seven months. Backers of Son's colossal fund include the Saudi Arabia Public Investment Fund, Mubadala Investment Company, Apple and Foxconn, among others.

Blackstone's Stephen Schwarzman, calls Son "bold, sleepless and aggressive" while Oaktree Capital's Howard Marks questions the structure of his Vision Fund. But no matter. Son is convinced the future is all about artificial intelligence, internet of things and emerging technologies, and he is building what he believes will be the historic private equity fund that will transform the future.

Over the course of 2017, Son has made big and bold investments and taken stakes in visual computing company NVIDIA, San Francisco-based indoor farming company Plenty, office messaging service Slack and AI-based driving systems developer Brain Corporation, as well as investment manager Fortress Investment Group – altogether deploying about one-third of the capital, according to the firm's latest financials.

Son's giant fund might merely be the tip of the iceberg. He is already thinking of follow-on raises to the Vision Fund. Speaking to Nikkei in October last year, Son said the "Vision Fund is just the first step and ¥10 trillion ($88 billion; €72 billion) is simply not enough." Son plans to expand the scale, with Vision Funds 2, 3, and 4 launched every two years, as part of his grand vision for SoftBank to "keep growing for 300 years". ■

1981

Year that Son founded SoftBank

$100bn

Target for Vision technology fund

7 months

Time taken to reach $93 billion first close

GLOBAL

ENERGY PRIVATE EQUITY FIRM OF THE YEAR

1. Blackstone
2. Actis
3. EnCap

Blackstone committed and invested $3.5 billion in seven new energy companies in 2017, including the acquisition of EagleClaw Midstream Ventures in the Permian's Delaware Basin in West Texas, which the firm purchased for about $2 billion through its flagship fund and its energy-focused fund. The investments are "consistent with our view of significant growth in US natural gas production volumes – not necessarily higher gas prices – in the future", said David Foley, chief executive of Blackstone Energy Partners, the energy-focused private equity business of Blackstone. "In a year when the public equity markets did not favour midstream master limited partnerships, we were successful in investing approximately $2 billion equity in three new natural gas-focused midstream investments, two of which were in partnership with large public midstream companies, Grand Prix with Targa and Rover with Energy Transfer," he said.

Blackstone: *cooking with gas*

KKR: *healthcare fund held a final close in November*

HEALTHCARE PRIVATE EQUITY FIRM OF THE YEAR

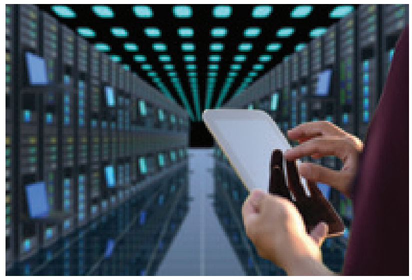
1. KKR
2. Summit Partners
3. Waud Capital

KKR successfully raised its debut healthcare growth fund, KKR Health Care Strategic Growth Fund, in 2017, holding a final close on $1.45 billion at the end of November. But it's no foreigner to the space. The New York-based alternative asset manager, which also has offices in Menlo Park, California, has been investing globally in the healthcare sector for more than 20 years, having deployed about $12 billion across private markets often directly from its balance sheet. It also made a slew of investments in 2017 including Cerêve, which makes devices to fight insomnia, and has created a new platform, Ajax Health, which sources and provides operational and financial capabilities to a diversified portfolio of emerging medical device companies.

TECHNOLOGY PRIVATE EQUITY FIRM OF THE YEAR

1. Silver Lake
2. Vista Equity Partners
3. Providence Equity Partners

Silver Lake cemented its position as the largest technology-focused private equity firm in the world in 2017 with the $15 billion final close in the spring of its latest flagship fund, Silver Lake Partners V. The fund had a $12.5 billion target and the firm ultimately attracted LP commitments totalling $14.5 billion. "What resonated with investors in this fundraise is what resonates with industry CEOs: Silver Lake's flexible investment structures, conservative use of leverage and an intensive focus on growth," said Susannah Carrier, managing director and global head of fundraising and investor relations. The Menlo Park, California-headquartered firm, which now has $39 billion in combined assets under management and committed capital, also completed several deals, including a $500 million investment in finance company SoFi.



Smarter solutions: *Silver Lake is the world's largest technology-focused PE firm*

CONSUMER PRIVATE EQUITY FIRM OF THE YEAR

1. L Catterton
2. Ardian
3. Sycamore

More than a year after Catterton partnered with LVMH and Groupe Arnault to create L Catterton, the firm has been running at full speed and now has more than $14 billion of equity capital across six fund strategies. After closing on $4.2 billion in capital in 2016, the firm continued its fundraising »

GLOBAL

L Catterton: acquisitions include high-end gyms

» efforts last year with L Catterton Asia III, which is seeking $1.25 billion, and L Catterton Europe IV, which has a target of €500 million. On the deal side, the firm invested $2.3 billion in 26 consumer business across North America, Latin America, Europe and Asia, including the acquisition of high-end gym Equinox and Leslie's, a retailer and online marketer of swimming pool and spa supplies and services. It also had 17 exits and recaps totaling more than $1 billion.

LONG-TERM PRIVATE EQUITY FIRM OF THE YEAR

1. Blackstone
2. CVC Capital Partners
3. Cove Hill Partners

This year we are recognising the emergence of a new breed of private equity fund. The field of long-term funds includes established franchises, like our inaugural winner, and new entrants, like third placed Bain Capital spin-out Cove Hill Partners. Blackstone, which takes the crown, is investing its $4.76 billion 20-year Blackstone Core Equity Partners fund – currently the largest dedicated long-term fund in the market. It is relatively early days for the strategy: as of 31 December 2017 the team, led by head of private equity Joe Baratta (pictured), had deployed $1.4 billion into two investments last year: music rights business SESAC and online education business Ascend Learning.

FRONTIER MARKETS FIRM OF THE YEAR

1. Actis
2. LeapFrog
3. The Abraaj Group

Frontier markets can be tricky to navigate. Actis blazed a trail last year with $830 million deployed in markets such as Africa and Latin America as of November. The London-headquartered firm made waves in Latin America with the launch of renewable energy platform, Atlas Renewable Energy, which is targeting over 1.5GWs of installed solar capacity across the region. Actis also expanded its footprint in Brazil by establishing wind platform Echoenergia. In Africa, Actis has created a $275 million higher education platform which spans nine countries. The Honoris United Universities group brings together private universities and colleges in 48 campuses in 30 cities in Africa, targeting the rapid growth in interest in education.

IMPACT INVESTMENT FIRM OF THE YEAR

1. TPG
2. LeapFrog
3. Bain Capital

TPG's debut impact fund hit its $2 billion hard-cap in October after launching at the end of 2016. As of January, the Rise Fund had done about half a dozen investments, including Dodla Dairy, a dairy company aimed at reducing poverty in India. Focused on making measurable social and environmental improvements without compromising on returns, Rise has developed its own impact multiple of money, which determines how much net positive value is being created, and hopes the work it is doing in impact investing will eventually set a standard for the industry. "It was a big investment to create this approach, and this is one of the contributions that we feel as a larger fund we can make to the industry," said Maya Chorengel (pictured), Rise Fund senior partner. ■

Actis: education is a growth sector in Africa

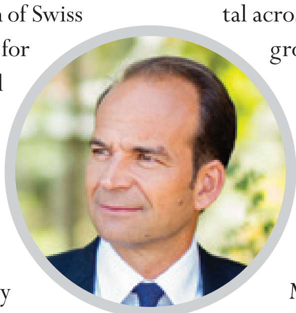
EMEA

LARGE-CAP FIRM OF THE YEAR IN EUROPE

1. CVC Capital Partners
2. Advent International
3. Apax Partners

Was it ever in doubt? Well, maybe. Having been unseated in 2016 by EQT, CVC Capital Partners has returned, edging out rival Advent International, to claim the honours at the large end of the European market. Doubtless helped forward by its monstrous fundraise for Fund VII (see details in the Fundraise of the Year category), the firm also notched a series of smaller wins in the "business as usual category". The firm deployed around €5 billion across 13 new investments, including the £3 billion take private of payments business Paysafe alongside Blackstone, the acquisition of Swiss luxury watchmaker Breitling for an undisclosed amount and a $703 million carve-out of women's health products from Israeli pharma giant Teva. The firm also sold its majority stake in Ista, one of the world's leading energy efficiency service companies, to Cheung Kong Property Holdings Limited.

Timely deal: the Breitling acquisition helped CVC claim the honours



MID-MARKET FIRM OF THE YEAR IN EUROPE

1. Equistone Partners Europe
2. Partners Group
3. IK Investment Partners

Firm of the Year in France in 2014, Firm of the Year in Germany in 2016, and now scooping the award in Europe in the mid-market category. Not surprising for Equistone Partners Europe – the firm made seven investments last year across France, Germany, the Netherlands, Switzerland and the UK and generated around €1.3 billion in proceeds across its exits. "2017 was another successful year for Equistone – one in which we continued to deploy capital across our target markets amid growing competition and to realise strong returns for our investors," said Guillaume Jacqueau, pictured, managing partner and Paris office head. If its sale of French retailer Meilleurtaux is anything to go by (the deal was selected by readers as Exit of the Year in Europe), 2018 will be yet another successful year for the firm.

LIMITED PARTNER OF THE YEAR IN EUROPE

1. APG Asset Management
2. Stonehage Fleming
3. ATP Private Equity Partners

Pension-owned APG Asset Management is an investment giant; the 700 staff at the organisation invest €469 billion of Dutch pension fund money. The investor launched its in-house private equity programme in 2013 and now has 23 investment professionals in two offices, with teams dedicated to primaries and co-investments. In 2017 the team put €4.5 billion to work through funds and co-investments. It is a scale player – individual fund commitments can range up to €1 billion – and is regarded as one of the industry's more sophisticated investors. GPs wanting to get APG on board need to know it is serious about ESG issues: APG asks partners to provide detailed ESG disclosure through a reporting framework it developed with other LPs. Its ESG head – Marta Jankovic (pictured) – is now also chair of industry body InvestEurope.

DEAL OF THE YEAR IN EUROPE

1. Bain Capital Private Equity and Cinven for Stada
2. HgCapital and others for Visma
3. BC Partners and Pollen Street Capital for Shawbrook Bank

In what was Europe's largest buyout in four years, Bain Capital Private Equity and »

PEI AWARDS

EMEA

***Hard to swallow**: Stada acquisition was 'by no means straightforward'*

» Cinven partnered to acquire Stada, the listed German manufacturer of generic copies of drugs such as Viagra. The deal was "by no means straightforward", according to Supraj Rajagopalan, a partner at Cinven who leads the healthcare and business services teams. The nail-biting contest hit several speedbumps, including counterbids from Permira and Advent International as well as not enough shareholders accepting the initial offer. Bain and Cinven eventually emerged victorious with Stada agreeing to the group's €4.1 billion bid. If their 2017 activity is anything to go by – Bain was one of the top three largest deployers of private equity capital in Europe while Cinven sold stakes in at least six assets including Visma – 2018 may be an even bigger year for the buyout giants.

EXIT OF THE YEAR IN EUROPE

1. **Equistone Partners Europe for Meilleurtaux**
2. Magnum Partners for Iberchem
3. Nordic Capital for Tokmanni

European M&A activity slipped last year by almost 20 percent with just over $1 trillion recorded across 8,188 deals, according to data from PitchBook. Declining volumes did little to thwart Equistone Partners Europe's exit activity – the firm began its year with a splash with the February sale of French retail financial services broker Meilleurtaux to Goldman Sachs. Between acquiring the asset in 2013 to exit last year, Meilleurtaux's revenues grew to €50 million from €16 million and upon exit the deal generated an 8.2x return and a whopping gross internal rate of return of 70 percent. The win in this category – Equistone's first – no doubt contributed to readers also deeming the firm Mid-Market Firm of the Year in Europe, beating the likes of Partners Group and IK Investment Partners. With five other exits recorded last year, it's clear Equistone is on a roll.

***Meilleurtaux:** sale generated an 8.2x return*

FUNDRAISE OF THE YEAR (EMEA)

1. **CVC Capital Partners**
2. HgCapital
3. Waterland Private Equity Investments

CVC Capital Partners held a 'one-and-done' on the largest euro-denominated fund in private equity history in June 2017: the €16 billion CVC Capital Partners VII. And it could have raised that amount twice over. The fund officially launched in January with a €12.5 billion target. A month later the firm held two due diligence weeks – one at the Savoy Hotel in London and one at the Park Hyatt in New York – where its investment professionals from around the world gathered to answer investors' questions. All in all, CVC held more than 1,500 LP meetings over the five-month fundraising, including those conducted during the two due diligence weeks. The fund received €30 billion-worth of interest from LPs despite offering no early-bird discount and lowering its hurdle rate to 6 percent. It also marked the last involvement for one of the firm's long-time IR partners Mark St John (pictured), who will retire from the firm in 2018. »

EMEA

SECONDARIES DEAL OF THE YEAR IN EUROPE

1. **AlpInvest Partners, Landmark Partners, Lazard for Investindustrial**
2. Lexington Partners and Campbell Lutyens for BC Partners
3. Ardian, Campbell Lutyens for Mubadala

AlpInvest Partners and Landmark Partners were rewarded for their role in one of the more unusual secondaries deals of the year. It involved southern-Europe-focused Investindustrial raising a fund to buy €750 million of assets from its own 2008-vintage vehicle. Believing that there was still value in the fund the firm transferred six assets into the new vehicle, a move that effectively amounted to a 10-year extension on the original vehicle. It was partly a response to increased competition from sovereign wealth funds, who can leave assets to mature for longer. AlpInvest became the majority LP in the new fund, with Landmark also backing the process. The innovative structure was formulated by secondaries advisor Lazard.

SECONDARIES FIRM OF THE YEAR IN EUROPE

1. **Ardian**
2. HarbourVest Partners
3. AlpInvest Partners

Ardian continues to tower over the rest of the secondaries market. According to the SI 30, an annual survey published by sister publication *Secondaries Investor*, Ardian raised $31.6 billion in the five years leading up to August 2017, compared with $16.8 billion for second-placed Blackstone. Last year saw it participate in the largest stapled deal of all time – a $2.5 billion transaction involving sovereign wealth fund Mubadala – and set in motion the launch of an $8 billion mature secondaries fund for the second half of 2018. It was also very active on the sell-side, offloading $1 billion of pre-crisis stakes to CPPIB and around $1.5 billion of stakes to Strategic Partners across two transactions.

SECONDARIES ADVISOR OF THE YEAR IN EUROPE

1. **Campbell Lutyens**
2. Credit Suisse
3. Lazard

Few have done as much to promote the use of GP-led transactions as Campbell Lutyens. While North America was big on volume, it was Europe that led the way on innovation, due in no small part to the secondaries advisor's influence. In April, the firm worked on the largest-ever stapled secondaries transaction, a $2.5 billion deal involving Ardian's 2015-vintage ASF VII fund and Abu Dhabi sovereign wealth fund Mubadala. Then in September, it managed a deal that saw BC Partners, one of Europe's biggest private equity houses, run a process on its ninth fund and use a staple to help raise its €7 billion 10th fund, making it clear that GP-led processes are not just for those that are struggling.

"We continue to see strong interest in the market in 2018, both in private equity and infrastructure opportunities, and we are focused on maintaining our flexible approach, working with both GPs and LPs across a wide range of mandates," said partner Thomas Liaudet (pictured).

FIRM OF THE YEAR IN AFRICA

1. **Actis**
2. Apis
3. AfricInvest

Africa is by no means a one-speed continent. Actis made strides in connecting its many diverse markets, cultures and languages with the launch of Africa's first private higher education network in 2017. The firm built on two previous education acquisitions with deals for Moroccan engineering school Ecole Marocaine des Sciences de l'Ingénieur, as well as Management College of Southern Africa and REGENT Business School in South Africa. Honoris United »

Africa: *by no means a one-speed continent*

EMEA

» Universities – which is led by chief executive Luis Lopez – spanned 27,000 students on 48 campuses, learning centres and online, in nine countries and 30 cities across Africa.

Apax Partners MidMarket team: *prepared to jump into less familiar territory*

FIRM OF THE YEAR IN BENELUX

1. Waterland Private Equity Investments
2. Gilde Equity Management
3. Main Capital Partners

Buy-and-build specialist Waterland was in demand last year, raising €2 billion for its seventh vehicle less than two months after its launch. "[Waterland] is the only GP in our portfolio where we have re-opted five times," Torben Vangstrup, managing partner at ATP PEP, told *Private Equity International* after the close. "I have seen other buyout groups doing some buy-and-build work, but I have never seen it done as consistently and systematically as Waterland has been able to do over the years." Waterland's commitment to the strategy is evident from its activity last year; it made a flurry of bolt-on and platform investments and opened a new UK office in February.

FIRM OF THE YEAR IN CEE

1. Mid Europa Partners
2. Abris Capital Partners
3. Enterprise Investors

It is a good time to be the dominant force in CEE private equity. In a watershed moment from last year's *PEI* awards, a Polish transaction – one led by Mid Europa Partners – was voted European Deal of the Year. It seemed like the appeal of the region may have finally imposed itself on the global stage. Mid Europa, which also took the CEE honours in last year's awards, has picked up where it left off, inking a number of significant transactions and, *PEI* understands, started fundraising for its fifth fund seeking €800 million. Among the highlights from the firm's year were its sale of Zabka, the leading convenience store chain in Poland, to CVC Capital Partners in what the firm described as the largest private equity exit ever in the region. The firm is led by Robert Knorr and Matthew Strassberg (pictured).

FIRM OF THE YEAR IN FRANCE

1. Apax Partners MidMarket
2. Equistone
3. Omnes Capital

Last year was a mix of old and new for Apax Partners MidMarket. The firm smashed its €750 million target to raise €1 billion for Fund IX, having secured 84 percent of its commitments from existing LPs in euro terms and 69 percent by number. A number of previous investors also returned for the vehicle. Apax later ventured into less familiar territory. It jumped into the small cap space with the acquisition of French private equity firm EPF Partners, which it renamed Apax Partners Development. Another nod to the future was its appointment of Microsoft's former head of MSN France, Gregory Salinger, as chief digital officer.

FIRM OF THE YEAR IN GERMANY

1. Deutsche Beteiligungs
2. 3i Group
3. Equistone

It's fair to say that private equity is currently a seller's market. Few managers have provided better evidence of this than Deutsche Beteiligungs. The German firm completed five disposals within the space of only a few months last year, according to its 2016-17 annual report. Together these sales generated an average sale multiple of 3.8x; well above the long-term average. It's no surprise the firm was hungry for more deals. Deutsche Beteiligungs invested around €63 million from its balance sheet alone in 2016-17, around two-thirds more than the average amount invested over the last five years.

EMEA

FIRM OF THE YEAR IN IBERIA

1. Black Toro Capital
2. CVC Capital Partners
3. Magnum Partners

Sweet deal: *Black Toro tasted success in the ice cream market*

Black Toro Capital is a fitting name for the Spanish firm. A number of impressive deals last year suggest the special situations manager was more than a little bullish about its domestic market. Among the sweetest deals was a €40 million investment in ice-cream manufacturer Farga Group, owner of the Farggi ice cream brand. The transaction saw Farga acquire rival La Menorquina's Iberian production unit and distribution network from its founder-owner, creating one of Europe's biggest ice cream producers in the process. Other notable deals included Black Toro's second investment into Seville-based fashion retailer Marypaz, which is among the largest in Spain, and an investment in biopharmaceutical company Bionaturis.

FIRM OF THE YEAR IN ITALY

1. Ambienta
2. Clessidra
3. Quadrivo

Environmentally friendly deals which generate attractive returns are the ultimate 'win-win' of private equity. Last year, Ambienta proved that responsible investing can go hand in hand on growth. The Milan-headquartered manager completed three primary acquisitions and sold Italian manufacturer IP Cleaning Group to Tennant Company for €330 million in April, having invested just €50 million three years prior. Ambienta's ownership had seen IPC save 73,000 cubic meters of water and cut detergent usage by 2,200 tons in 2016 alone. "[This award] reinforces our core principle that the way to drive sustainable value is through investing in companies driven by environmental trends," Nino Tronchetti Provera, founder and managing partner, said.

FIRM OF THE YEAR IN MENA

1. Actis
2. Investcorp
3. Gulf Capital

Investors in North Africa and the Middle East have had to contend with a degree of political and economic upheaval in recent years. Actis appears to have taken these issues in its stride; a particular highlight was the 2.5x return it generated through an initial public offering of North African snack food business Edita. Such performance was all the more striking given that Actis had taken on the family business at the height of the Arab Spring. The firm was also active in Morocco. Honoris United Universities – a pan-African education network launched by Actis in 2017 – bolstered its North African presence with the acquisition of Ecole Marocaine des Sciences de l'Ingénieur, the country's largest private education institution.

Rising dough: *Egyptian snack foods business Edita generated 2.5x return*

FIRM OF THE YEAR IN THE NORDICS

1. EQT
2. Nordic Capital
3. HgCapital

The Nordic region is well-known for its less than temperate climate, but EQT showed no sign of feeling the chill in 2017. The Swedish firm started the year strong with a final close for its EQT Mid Market Europe fund at its €1.6 billion hard-cap in May. The same month was capped by its sale of business intelligence company Bureau van Dijk at a 3x multiple. It would come to be a heated year of fundraising for EQT; the firm began marketing for Fund VIII in September and was said to be racing towards its €10.7 billion hard-cap in December. "They are having their arm bitten off," said one member of the investment advisory community on the sidelines of a recent event in London.

FIRM OF THE YEAR IN SWITZERLAND

1. Partners Group
2. Capvis
3. Ace & Company

Partners Group is flying the flag for Swiss private equity on both the primary and secondaries side. As of June 2017 the firm has over €57 billion in assets under management, 17 percent of which comes from clients based in its home market. Last year saw it

EMEA

Nordic bright spot: *EQT had a stellar year*

raise €3 billion for its Partners Group Direct Equity 2016 fund along with an additional €3 billion to go towards direct private equity investments. The fund will target the mid-market, along with select large-cap investments, and will follow its tried-and-tested strategy of identifying trends in a sector and picking the companies best placed to benefit from them. The firm's existing direct private equity portfolio has recorded compound annual revenue growth rates of 15 percent and EBITDA growth of 19 percent since 2014.

FIRM OF THE YEAR IN THE UK

1. Advent International
2. Livingbridge
3. Vitruvian

Advent International has enjoyed its most active year in the UK for over a decade. The firm completed three acquisitions in the UK, including the take-private of industrial maintenance distributor Brammer Limited in February. These were accompanied by two exits; most notably the sale of its final shares in global payments business WorldPay in February. "We have been active in the market for over 30 years and last year deployed a record amount of capital in a number of exciting UK-based international businesses," James Brocklebank, managing partner, said.

FUND OF FUNDS MANAGER OF THE YEAR IN EUROPE

1. HarbourVest Partners
2. LGT Capital Partners
3. AlpInvest

There is much more to being a successful fund of funds manager than just managing funds of funds. A look at HarbourVest Partners' activity in 2017 gives a sense of the diversity of skills required to complement and enhance a firm's ability to access the right funds when demand is through the roof. HarbourVest committed $821 million to European private equity funds in 2017, 70 percent of which were oversubscribed. Alongside this, the firm invested around $1 billion through 14 co-investments and $552 million into EMEA-focused secondaries transactions. While the firm is rooted in Boston – it celebrated its 35th anniversary in 2017 – its team in Europe, which is led by Pete Wilson (pictured), has been operating from London since 1990.

PLACEMENT AGENT OF THE YEAR IN EUROPE

1. Rede Partners
2. Campbell Lutyens
3. MVision Private Equity Advisers

Fundraising for private equity vehicles hit a decade-long high last year with at least $411 billion amassed in final closes. London-headquartered Rede Partners was the driving force behind many of the year's headline fundraises in Europe, helping amass more than €12 billion of primary capital for 10 clients including Alchemy, FPE and Summa Equity. Rede was also behind HgCapital's double fund close on more than £3 billion ($4.3 billion; €3.4 billion) and Apax France IX which raised €1 billion. Credit Suisse's chief operating officer for EMEA M&A Mark Barbour-Smith joined as chief of staff. Rede takes its name from a word which means "to counsel or advise" and it's clear "to lead" is also part of the firm's DNA.

LAW FIRM OF THE YEAR IN EUROPE (FUND FORMATION)

1. Debevoise & Plimpton
2. Goodwin Procter
3. Simpson Thacher & Bartlett

One of the law firms in Europe spearheading the surge in fundraising towards pre-crisis highs is Debevoise & Plimpton. This is the first time the firm has won in this »

EMEA

» category in Europe, having clinched top place for fund formation in Asia in 2013 and North America in 2012.

Some of the firm's highlights in the region last year include advising London-based Metric Capital Partners on the first and final close of its Fund III on its €850 million hard-cap, and the hire of King & Wood Mallesons' co-head of funds team Simon Witney in January.

"Fundraising levels reached a high [since 2008] against a backdrop of ongoing regulatory change, both for funds and their investors," said Geoffrey Kittredge (pictured), a partner who leads Debevoise's fund formation group. "In that context, it is perhaps more important than ever for funds and their advisors to stay engaged with industry associations, regulators, and government bodies to help chart a forward path for private funds in Europe."

LAW FIRM OF THE YEAR IN EUROPE (TRANSACTIONS)

1. Clifford Chance
2. Latham & Watkins
3. Debevoise & Plimpton

With the exception of 2015 when King & Wood Mallesons usurped its stronghold on the title, Clifford Chance has won in this category every year since the *PEI* Awards began in 2001. The reason? It works with some of the biggest names in private equity and on some of the largest deals. In 2017 the law firm advised private equity clients on more than 40 deals representing a value of over £28 billion ($38.9 billion; €31.9 billion) and worked with stalwarts of the industry including Advent, Apax Partners, Blackstone, Carlyle, CD&R, Cinven, CVC Capital Partners, EQT, KKR, Partners Group and Permira, to name just a few.

With deals including CVC and Cinven's acquisition of NewDay as well as Permira, Cinven and Mid Europa's $3.3 billion purchase of Poland's largest online marketplace Allegro as some of its headline transactions last year, Clifford Chance has much to boast about. Will they clinch the title again next year? A betting person would say yes.

***Ares:** many happy returns*

LAW FIRM OF THE YEAR IN EUROPE (SECONDARIES)

1. Kirkland & Ellis
2. Clifford Chance
3. Macfarlanes

In September 2016 Kirkland promoted Ted Cardos to partner and charged him with leading the firm's secondaries operation in Europe. The firm had won that year's award for best secondaries law firm in Europe, so the pressure was on to keep up the good work. The numbers speak for themselves. In 2017, Kirkland & Ellis advised on $963 million of European secondaries portfolio trades and more than €1 billion-worth of GP-led processes. Among the many deals it worked on was our European Secondaries Deal of the Year, the €750 million recapitalisation of Investindustrial's 2008-vintage fund, which was backed by AlpInvest and Landmark. Kirkland has 250 dedicated investment funds lawyers, including 86 partners, across North America, Europe and Asia-Pacific.

LENDER OF THE YEAR IN EUROPE

1. Ares Management
2. ICG
3. Alcentra

A decade after launching its direct business in Europe on the eve of the financial crisis, Ares Management has completed more than 130 investments totaling more than €10 billion. On the heels of raising €2.5 billion for its third European direct lending fund, Ares Capital Europe III, in 2016, European direct lending was one of Ares's most active investment strategies in 2017. It provided €330 million loan financing to Dutch gaming company JVH, which Waterland subsequently put up for sale in June.

In addition to Ares' European direct lending team significantly increasing its assets under management, the strategy also recognised a gross asset level realised IRR of 10.3 percent since inception as of 30 September. ■

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LARGE-CAP FIRM OF THE YEAR IN NORTH AMERICA

1. Apollo Global Management
2. Clayton, Dubilier & Rice
3. The Carlyle Group

Who can raise $25 billion in less than a year? Apollo can, with investors entrusting capital to the manager even before a target was set. On the investment front, Apollo deployed $5 billion in private equity last year and committed a further $2.6 billion. This includes the take-private of telephone conferencing services provider West Corp in a transaction valuing the business at $5.1 billion, teaming up with Ontario Teachers' Pension Plan to acquire a majority stake in job portal CareerBuilder, and the $1.1 billion take-private of gulf club operator ClubCorp.

Towards the end of the year, Apollo hinted at a future succession plan, naming Scott Kleinman (pictured) and James Zelter as co-presidents, in which capacity the pair will have full responsibility for the firm's revenue-generating and investing businesses.

MID-MARKET FIRM OF THE YEAR IN NORTH AMERICA

1. Oak Hill Capital Partners
2. New Mountain Capital
3. Audax Group

It's a first-time win for Oak Hill Capital Partners, a firm with a family office heritage that makes a point of being the largest investor in each of its funds. The firm closed its fourth fund on $2.65 billion in 2017, significantly surpassing both its $2 billion target and its $2.5 billion hard-cap (including a $300 million GP commitment). As well as more conventional LPs, the fund attracted investment from current and former portfolio company management teams.

On the transaction side, Oak Hill offloaded Wave Broadband to TPG in a $2.4 billion deal and picked up several businesses, including Checkers & Rally's Restaurants. The firm also continued to build its senior advisor programme with the hire of former FedEx Corporate Services CEO T. Michael Glenn.

Oak Hill: *driving up returns with Checkers & Rally's*

Bright spot: *Alaska Permanent is rapidly gaining ground*

LIMITED PARTNER OF THE YEAR IN NORTH AMERICA

1. Alaska Permanent Fund
2. University of California
3. Ford Foundation

The newest converts are often the most zealous, and Alaska Permanent Fund is no exception.

The $65 billion sovereign wealth fund is a relative newcomer to private equity, having only invested through two separately managed accounts prior to the appointment of Stephen Moseley as head of private equity in 2013.

APFC is now making up for lost time; the fund committed $1.2 billion to funds and co-invested $200 million alongside sponsors last year alone. Its direct and co-invest portfolio netted a 9.7x cash-on-cash return through Celgene's pending acquisition of Juno Therapeutics.

"We spend more than half of our time on co-investments and direct investments so we're continually assessing the expected return on both our time and our money," Moseley told *PEI*.

"Recent performance definitely supports this approach."

NORTH AMERICAN DEAL OF THE YEAR

1. **Blackstone for Aon Hewitt**
2. Sycamore Partners for Staples
3. Apollo Global Management for West Corp

Blackstone agreed to pay up to $4.8 billion for Aon's tech-enabled benefits and human resources platform, the largest of its kind in the US serving approximately 15 percent of the US working population across more than 1,400 companies. Blackstone relaunched the company as Alight, and has partnered with management to invest into new products and services as well as pursuing add-ons to build on its core benefits administration platform, accelerate growth in its cloud deployment and services business and enter key strategic adjacencies.

"We saw Alight as a tremendous opportunity to invest in a highly attractive business with strong margins and cash flow, with the opportunity to accelerate growth in multiple vectors by investing in next generation technology and driving increased innovation," said Peter Wallace, a senior managing director.

NORTH AMERICAN EXIT OF THE YEAR

1. **Oaktree Capital Management for AdvancePierre Foods**
2. Berkshire Partners, ABRY Partners, Pamlico Capital Management for LTS Group
3. Cerberus Capital Management for Bowlmor AMF

Oaktree invested $100 million to acquire Pierre Foods through bankruptcy in 2008, and merged the business with Advance Food Co. and Advance Brands in September 2010. When Oaktree listed the business in 2016, retaining a 42 percent share, the firm reportedly scooped a massive 17x money. The total return was bumped up to 23x with an IRR of more than 90 percent when the company was acquired by Tyson Foods in a $4.2 billion take-private.

"Clearly, one of the all-time great private equity investments and certainly the standout in the history of Oaktree, it's even more astounding to note that this is not a high-tech company, but a prosaic food producer and distributor," co-chairman and chief investment officer Bruce Karsh said on the firm's first-quarter earnings call in April.

FUNDRAISE OF THE YEAR (AMERICAS)

1. **Apollo Global Management**
2. Silver Lake
3. Bain Capital Private Equity

Apollo Global Management's ninth flagship fund will go down in private equity history. In less than a year the firm raised almost $25 billion for Fund IX, shattering the record for the largest-ever private equity fund set by the $21.7 billion Blackstone Capital Partners V back in 2007. Investors entrusted their capital to the manager even before a target was set, and the fund attracted $30 billion in investor interest. In the end, the fund welcomed 350 distinct limited partners. As with all its predecessors, Fund IX will invest across three broad areas – distressed-for-control, carve-outs and buyouts – and has the ability to tailor the asset mix depending on the investment climate. Due to come online imminently, the market is watching with keen interest to see where this capital is deployed.

Apollo: eclipsing the rest

SECONDARIES FIRM OF THE YEAR IN THE AMERICAS

1. **AlpInvest Partners**
2. Landmark Partners
3. Lexington Partners

Last year was a record one for secondaries fundraising and AlpInvest played no small part, hitting a $6.5 billion final close on its sixth secondaries programme. The $3.3 billion dedicated commingled secondaries vehicle AlpInvest Secondaries Fund VI was almost four-and-a-half times the size of its previous dedicated fund. The fund has committed to 12 transactions since it began deployment in September 2016, more than half of which were GP-led deals. "One of the biggest challenges was getting the AlpInvest brand known in the LP »

AMERICAS

» market," the firm's secondaries head Wouter Moerel told *PEI* in December. They know now.

SECONDARIES DEAL OF THE YEAR IN NORTH AMERICA

1. **Landmark Partners for Clearlake Capital**
2. CPPIB, Evercore for Ardian portfolio sale
3. Coller Capital and UBS for Avista Capital stapled deal

Preferred equity was a key theme in the secondaries market last year, with 17Capital raising more than €1 billion in record time and Whitehorse Liquidity Partners closing its debut fund above target on $400 million. Few secondaries generalists have embraced preferred equity as wholeheartedly as Landmark, with such deals accounting for nearly a quarter of invested capital from its 2008-vintage Fund XV. In April last year, the firm used the fund to help Clearlake Capital, a West Coast lower- and mid-market private equity firm, purchase Reservoir Capital's stake in its own GP management company. The stake represented around a 20 percent stake in Clearlake, sister publication *Secondaries Investor* reported at the time. Around a third of voters threw their backing behind the deal.

SECONDARIES ADVISOR OF THE YEAR IN THE AMERICAS

1. **Evercore**
2. Credit Suisse
3. Park Hill

According to a report published by Evercore, 2017 saw record secondaries market transaction volumes of $54 billion, $17 billion up on 2016. The advisory firm itself helped a lot of that happen, proving to be among the busiest in North America last year. In March it helped Ardian offload a portfolio of more than $1 billion in pre-crisis stakes to Canada Pension Plan Investment Board. It also helped struggling Dallas Police and Fire Pension System execute multiple stake sales as it looked to generate cash flows from its illiquid portfolio. With a couple of big deals already in the pipeline, including Alaska Permanent Fund's sale of $1 billion of stakes, 2018 is set to be just as busy.

DISTRESSED DEBT INVESTOR OF THE YEAR IN NORTH AMERICA

1. **Apollo Global Management**
2. Oaktree Capital Management
3. GSO Capital Partners

Investors clearly have confidence in Apollo's distressed investing capabilities. Pension fund documents during its latest fundraising indicated Apollo was intending to invest up to a quarter of its mammoth $25 billion Fund IX in distressed debt opportunities, compared to less than 5 percent in Fund VIII. Investors were clearly in favour, with demand reaching $30 billion. Whether Apollo sticks to the plan to invest Fund IX in this way will depend on broader market conditions.

"[If] a recession happens in the next four years, it will be something we can also take advantage of in Fund IX in terms of that prowess," co-founder Leon Black said on the firm's second-quarter earnings call in August, "but if it doesn't happen, we're confident from what we were able to do in Fund VIII that we can continue to do that in Fund IX."

On the investment side, Apollo teamed up with GSO Capital Partners to acquire Mood Media and provided $800 million in debtor-in-possession financing to Westinghouse Electric Company.

FIRM OF THE YEAR IN CANADA

1. **Bain Capital Private Equity**
2. Whitehorse Liquidity Partners
3. Onex

The initial public offering of luxury parka maker Canada Goose in March on the New York Stock Exchange and the Toronto Stock Exchange was one of the biggest of the year, a success for Bain Capital, which purchased a majority stake in the company in 2013. Canada Goose could be the gift that keeps on giving, as Bain has sold only a minority

In distress: *ready for the downturn*

AMERICAS

***Bain Capital:** golden eggs*

of its shares in the IPO and hasn't pocketed its full return yet.

"We look for great companies with strong brands, a great consumer proposition and strong management teams who are looking for partners who can help them grow and expand, whether that's into new markets, new product categories or other strategies," said Ryan Cotton, managing director at Bain Capital Private Equity.

FIRM OF THE YEAR IN LATIN AMERICA

1. Advent International
2. Actis
3. Nexxus Capital

Advent International invested nearly $1 billion last year in Latin America, venturing into new markets not explored before.

"2017 was a record year for Advent in Latin America in terms of both capital deployed and realisations," said Patrice Etlin, a managing partner at Advent International in Sao Paulo. "We invested over $700 million in seven new deals and add-on acquisitions, including our first direct investments ever in Peru and Chile, GMD and Enjoy, respectively."

Advent also purchased a minority stake in Estácio Participações, the second-largest post-secondary education company in Brazil, building off its prior success with Kroton Educacional.

The firm also generated $1 billion in realisations from eight companies, including pending deals, breaking previous years' figures. "These results underscore the effectiveness of our strategy, which combines deep sector expertise, local market knowledge and a collaborative, operational approach to building value in companies."

FUND OF FUNDS MANAGER OF THE YEAR IN NORTH AMERICA

1. HarbourVest Partners
2. Adams Street Partners
3. Hamilton Lane

Boston-headquartered HarbourVest Partners knocked last year's winner Adams Street Partners off the top spot to claim the crown, which it has now held no less than nine times. In 2017 the firm raised $5 billion for fund of funds, both commingled and separate accounts, $1.8 billion of which was for US primary fund investments. It also committed $1.7 billion to 31 funds, deployed $1.4 billion of US co-investment capital and $1.3 billion of US secondary capital. To top it off, HarbourVest closed its fourth co-investment fund on its $1.75 billion hard-cap.

"Both public and private markets were incredibly robust in 2017, which made for an active year in private equity," said managing director John Toomey (pictured). "As a result, we saw commitments from more than 100 new investors globally who turned to HarbourVest for access to not only fund of funds, but also secondary, co-investment and bespoke SMA solutions."

PLACEMENT AGENT OF THE YEAR IN NORTH AMERICA

1. Eaton Partners
2. Park Hill
3. Credit Suisse

Eaton Partners helped raise nearly $11 billion in aggregate globally in 2017, including seven funds that hit their hard-cap or were oversubscribed. In North America, the placement firm, which was started in 1983 by Charlie Eaton (pictured), placed or arranged about $5 billion.

The firm also bulked up its workforce, forming a team dedicated to direct capital raising and hiring managing director Bill McLeod as part of the team. It also hired five more people in the rest of the business, including a managing director.

Two years after being acquired by mid-market investment bank Stifel Financial, Eaton Partners continues its growth plan, opening offices in San Francisco and in New York in 2017, following a new Chicago outpost in 2016. »

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LAW FIRM OF THE YEAR IN NORTH AMERICA (FUND FORMATION)

1. Debevoise & Plimpton
2. Simpson Thacher & Bartlett
3. Linklaters

Debevoise & Plimpton knocked last year's winner Proskauer off the top spot to claim the crown for fund formation law firm of the year on the back of a string of impressive fundraisings.

The jewel in the crown on the private equity side was the $10 billion Clayton, Dubilier & Rice Fund X, which attracted more than $20 billion in investor demand. The firm also worked with Stone Point Capital in the formation of the $5.5 billion Trident VII buyout fund, advised HarbourVest Partners on its $1.9 billion Global Investment Program and $1.75 billion co-investment fund, mid-market firm One Equity Partners on its $1.65 billion Fund VI, and Morgan Stanley Investment Management with the formation of North Haven Capital Partners VI, which raised more than $1.5 billion.

***On a high:** Debevoise & Plimpton helped clients reach new heights in 2017*

LAW FIRM OF THE YEAR IN NORTH AMERICA (TRANSACTIONS)

1. Kirkland & Ellis
2. Simpson Thacher & Bartlett
3. Dechert

Kirkland & Ellis worked on more than 200 deals and on some of the largest transactions in the region last year, including Blackstone's $6.1 billion acquisition of TeamHealth Holdings, a physician services organisation, and Pamplona Capital Management's acquisition of global biopharmaceutical provider Parexel International for about $5 billion. It also advised on one of the most contrarian transactions of 2017: Sycamore Partners' acquisition of Staples, for $6.7 billion.

"Dealflow in 2017 remained very robust, which required us to utilise both our depth and breadth of experience – which is unique given the size of our practice and the number of deals we handle – to help both long-term clients and new clients execute important transactions," said Jon Ballis, a corporate partner and member of Kirkland's global management executive committee.

LAW FIRM OF THE YEAR IN NORTH AMERICA (SECONDARIES)

1. Kirkland & Ellis
2. Proskauer
3. Simpson Thacher & Bartlett

In North America, Kirkland & Ellis's name pops up on many of the most prominent secondaries deals to have taken place last year. It worked on our American Deal of the Year, Clearlake's acquisition, using preferred equity financing, of a stake in its own GP. It also dotted the i's and crossed the t's of the Warburg Pincus strip sale and the fund recapitalisations carried out by tech-focused PE firm Vector Capital. Michael Belsley, who leads Kirkland's secondaries practice, said: "With respect to secondary transactions, Kirkland's goal is not only to provide high-quality legal services to our clients, but to be a thought-leader in this market segment."

In 2017, across all markets, Kirkland was involved in more than $12.9 billion of secondaries transactions, including 61 secondaries portfolio sales for an aggregate of $6.1 billion of transaction value.

***On its own:** Ares targets less crowded markets*

LENDER OF THE YEAR IN NORTH AMERICA

1. Ares Management
2. KKR
3. Golub Capital

It was a big year for Ares Management. In January, it acquired American Capital, bringing its BDC's assets under management to more than $12 billion. It also raised $3.4 billion for its junior lending fund, surpassing the $2.5 billion target for its first vehicle for the strategy. Ares Private Credit Solutions will allow the firm to boost its deal activity in the upper mid-market.

"A big part of why we raised this fund was to migrate 'upmarket' into larger companies, where we continue to bring private capital into a market segment that is less crowded from competition," Jim Miller, a partner and co-head of US direct lending for Ares, said during the firm's conference call for third-quarter earnings results in November. ■

ASIA-PACIFIC

LARGE-CAP FIRM OF THE YEAR IN ASIA

1. KKR
2. Baring Private Equity Asia
3. Affinity Equity Partners

A second large-cap title in a row for KKR, whose expertise in the region continues to be highly prized by LPs. It's easy to see why – KKR amassed $9.3 billion in June against a $7 billion target for its third pan-Asia fund, the largest ever in the region's 20-year private equity history. That fund will focus on cross-border deals, corporate carve-outs and the Asian consumer story. Highlights of the year also included 13 new investments across Japan, Australia, South-East Asia and India. In Japan alone, the private equity powerhouse sealed nearly $6 billion worth of deals, betting big on the deal-making potential of the country. All this, and an eighth office in Asia too: the firm opened its Shanghai office in August, as it seeks to partner with more Chinese companies in their regional expansion.

***KKR:** opened a Shanghai office to aid its expansion in China*

MID-MARKET FIRM OF THE YEAR IN ASIA

1. Everstone Group
2. Navis Capital Partners
3. Kedaara Capital

For the second time in a row, Everstone has come out on top among mid-market firms in Asia. With $4 billion of assets under management and teams in India, Singapore, London and Mauritius, the firm is one of the largest investment houses in the region. It's also one of the top restaurateurs in India and South-East Asia, as it continues to extend the reach of portfolio companies Burger King in India and Indonesia and Domino's Pizza. In 2017, Everstone, founded by Atul Kapur and Sameer Sain (pictured) in 2006, made investments in two healthcare and wellness companies, and delivered four successful exits to its LPs. During the year, it also raised about $70 million for DSG Consumer Partners, a consumer-focused platform, which will back early-stage ventures in India and South-East Asia.

LIMITED PARTNER OF THE YEAR IN ASIA

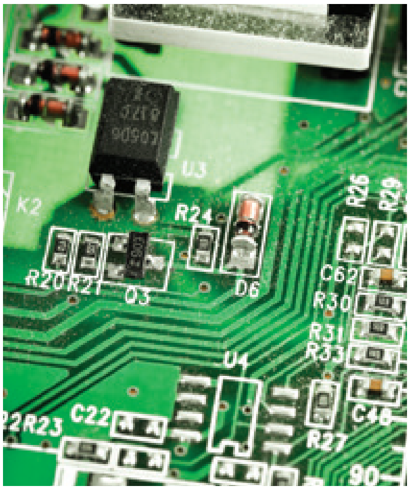
1. China Investment Corporation
2. Japan Post Bank
3. Government Pension Investment Fund

At a time when many Chinese investors are facing scrutiny on overseas investments, China Investment Corporation continues to take a different path. The year's top investor in Asia has been vocal about ramping up its direct investments in the US, especially in advanced manufacturing, technology healthcare and infrastructure, in a bid to diversify its portfolio amid low returns in public markets.

Currently, CIC allocates approximately 40 percent of its $813 billion of assets to overseas investments. In line with this, CIC teamed up with Goldman Sachs in November to raise a $5 billion private equity fund for US companies to tap the Chinese market. The sovereign wealth fund is all about "diversifying and not putting all its eggs in one basket", CIC chairman Tu Guangshao said in Hong Kong in January. »

***CIC:** teaming up with US firms to tap China's potential*

ASIA-PACIFIC



Bain: *Toshiba chip business was Japan's biggest PE deal in a decade*

DEAL OF THE YEAR IN ASIA

1. **Bain Capital and others for Toshiba Memory Corporation**
2. KKR for Calsonic Kansei
3. Queensland Investment Corporation, Pagoda Investment, Goldman Sachs, PIA for Icon Cancer Care

The Bain Capital-led consortium's $18 billion investment in Toshiba's prized memory chip business was Japan's largest private equity deal in a decade, which was finally sealed in September after being delayed by lawsuits and government opposition. Bain was joined in the deal by Apple, Dell Technologies Capital, Kingston Technology and Seagate, the firm said when the deal was formally sealed. The deal felt like the crest of a Japanese mega buyout wave. By the end of September, private equity deal volume in Japan has reached an all-time high of $23.9 billion, according to consulting firm Bain & Company, 2.5x the previous year's total. Bain's win – which saw it edge out a competing KKR-led consortium – will be viewed as a watershed moment for Japanese private equity.

EXIT OF THE YEAR IN ASIA

1. **PAG for Universal Studios Japan**
2. Warburg Pincus for Vincom Retail
3. LeapFrog Investments for Mahindra Insurance

In one of this year's tightest races, Asian stalwart PAG pipped global rival Warburg Pincus and emerging markets specialist LeapFrog to take top honours for its exit from Universal Studios Japan. PAG first invested in the Japanese theme park in 2013, when the firm took a $250 million stake in the business alongside existing investors including majority owner Goldman Sachs, according to media reports at the time. After a successful run at the park driven in part by the opening of its Harry Potter-themed attraction, PAG completed the sale of Universal Studios Japan in February 2017 to Comcast NBC Universal, giving Comcast total ownership of USJ and valuing the theme park operator at $7.5 billion.

Source: TAKA@P.P.R.S, flickr

Universal credit: *PAG sold Japanese theme park to Comcast*

FUNDRAISE OF THE YEAR IN ASIA

1. **KKR**
2. Affinity Equity Partners
3. Asia Alternatives

When it comes to selecting the standout fundraises of the year, size matters to voters in the *PEI* awards. When KKR closed KKR Asian Fund III in June on $9.3 billion it broke its own record for the largest private equity fund dedicated to the region, surpassing its $6 billion Asian Fund II. The latest Asian fund, which received strong support from its existing investors including Washington State Investment Board and New York State Common Retirement, will focus on cross-border deals, corporate carve-outs – particularly in Japan – and the Asian consumer story. In keeping with KKR's other recent funds, the firm and its staff accounted for a sizeable chunk of the fund – around 9 percent of the total.

Rising sum: *Japan will account for a lot of capital*

ASIA-PACIFIC

SECONDARIES FIRM OF THE YEAR IN ASIA

1. TR Capital
2. HarbourVest Partners
3. NewQuest Capital Partners

The Asian secondaries market has come a long way in recent years and last year accounted for around 8 percent of global deal volume by seller base, according to Evercore. Hong Kong-based TR Capital is one of the few secondaries firms making waves in this area. Highlights from last year include closing its third fund on $200 million and closing five deals, including its first Vietnamese LP stake acquisition and two Indian fund restructurings which are understood to have closed.

"As Asian investors become increasingly sophisticated, secondary investment is no longer a niche option," said partner Frederic Azemard.

This is TR Capital's second win in this category in a row – surely a sign we'll be hearing more about the direct secondaries specialist in years to come.

***TR Capital:** Good morning, Vietnam!*

SECONDARIES DEAL OF THE YEAR IN ASIA

1. Lexington Partners and Lazard for Warburg Pincus
2. Temasek and Greenhill Cogent for British Columbia Investment Management Corporation
3. Canada Pension Plan Investment Board and Lazard for Olympus Capital Asia

Competition for Asian secondaries deal of the year in 2017 was fiercer than ever and it's arguable the three deals in contention all deserve honourable mention. There can be only one winner, and this year secondaries giant Lexington Partners along with advisory firm Lazard took top place. "A really cool deal," was how one market source described this innovative transaction. Warburg Pincus sold a roughly $1.2 billion strip of its Asian portfolio, made up of stakes in 29 Asian companies, into a new vehicle with new terms.

Lexington was the majority buyer, and Goldman Sachs Asset Management, along with a few other parties, also joined in.

The deal was significant because it involved a large, brand name primary manager tapping the secondaries market to help with its portfolio management – a sign secondaries are becoming more mainstream.

SECONDARIES ADVISOR OF THE YEAR IN ASIA

1. Lazard
2. Greenhill Cogent
3. Atlantic-Pacific Capital

Leading the charge in the region last year was Lazard, which executed at least two headline-grabbing deals, one of which was voted by *PEI* readers as Secondaries Deal of the Year in Asia. The firm advised on around $2 billion in net asset value of Asia-focused secondaries deals last year, accounting for around 40 percent of regional volume.

"The legitimisation and growth of GP-led liquidity solutions was a key theme in 2017, and Lazard expects volumes in Asia-Pacific to grow in both GP-led solutions and LP portfolio sales in 2018," said Nick Miles, regional head of Lazard's private fund advisory group for Asia-Pacific.

Lazard's work with buyout giant Warburg Pincus on the sale of a strip of assets from its Asian portfolio worth around $1.2 billion grabbed headlines for its innovation, size and brand name GP. Expect Lazard to further open up the Asian secondaries market this year.

FIRM OF THE YEAR IN AUSTRALASIA

1. Pacific Equity Partners
2. Quadrant Private Equity
3. Archer Capital

Perhaps not surprising, given its longstanding name in Australian private equity, Pacific Equity Partners retains its crown as the king of Australasia for the fourth year in a row, marking its eighth win in the category. PEP continued to invest its fifth fund, an »

***PEP:** buoyed by bakery good manufacturer*

ASIA-PACIFIC

» A$2.1 billion ($1.6 billion; €1.4 billion) vehicle that closed on its hard-cap in September 2015 and added two investments to its portfolio this year.

The first involves a complementary business to portfolio company Pinnacle Bakery. PEP acquired all of the shares of bakery goods manufacturer Allied Mills for A$190 million. And with its second deal, it teamed up with The Carlyle Group in a 50/50 partnership for pharmaceutical company iNova, for $930 million in cash. 2017 also saw the firm bolster its team with new hires and promotions.

FIRM OF THE YEAR IN CHINA

1. CITIC Capital Partners
2. CMC Capital Partners
3. PAG

CITIC Capital Partners took the China award from last year's winner PAG. 2017 saw CITIC Capital raise $1.57 billion for the US dollar-denominated tranche of CITIC Capital China Partners III. The Hong Kong-based buyout house also scored seven notable investments brought about by its resources and deep network in China. Key investments were centred on its China cross-border strategy, a first for its third China buyout fund, including German automotive and component supply provider Formel D, Ansell's sexual wellness business, APAC healthcare solutions company Fullerton Health and McDonald's 20-year franchise in China and Hong Kong.

CITIC Capital: *completed McDonald's acquisition in August*

Expect CITIC's investments to make it big not just overseas but also in their home markets. Since completing its acquisition of McDonald's in August, the firm has already forged partnerships with Chinese strategics, to expand the burger chain's footprint in China, especially in the lower-tier cities.

FIRM OF THE YEAR IN JAPAN

1. NSSK
2. Advantage Partners
3. J-STAR

In a closely fought race, NSSK came out just ahead of a very strong mid-market field. NSSK closed its second flagship fund on ¥60 billion ($532 million; €453 million) in September, exceeding the $500 million target it had set when it began pitching NSSK II to investors in the summer of 2016. Unlike its predecessor which received commitments solely from Japanese LPs, NSSK II was backed by global institutional investors from North America, Europe and Asia such as public pension funds, endowments, funds of funds, and financial institutions, according to founder Jun Tsusaka (pictured).

In addition to knocking out a successful fundraise, the firm scored three deals – publishing group Bunkasha, transport business Kantoku Global and elderly care business SCH.

Affinity: *strength in Korea won over chaebols including Hyundai*

FIRM OF THE YEAR IN KOREA

1. Affinity Equity Partners
2. MBK Partners
3. Hahn & Company

Another year, another win for Affinity Equity Partners. The Hong Kong-headquartered firm's story in Korea highlights its strength in buying from chaebols (family owned conglomerates) and in securing proprietary deals, in an otherwise challenging market to do so.

In February Affinity teamed up with two LP co-investors, GIC and AlpInvest Partners, as well as Hyundai Commercial to acquire General Electric's 43 percent stake in South Korean credit card business Hyundai Card. Five months later it bought a 64 percent stake in listed plastic storage company Lock & Lock for over $560 million. Building on its platform investing strategy, Affinity also secured the master franchise rights for Burger King Japan, working off its operating platform and management expertise of portfolio company Burger King Korea. Capping the year, »

ASIA-PACIFIC

» Affinity sold half of its shares in Loen Entertainment to mobile operator Kakao, in a deal that saw a more than 50 percent jump in share price at exit.

FIRM OF THE YEAR IN INDIA

1. Everstone Group
2. Kedaara Capital
3. ChrysCapital

For the seventh year running, Everstone takes home the award for India. Building on strong economic fundamentals and fast-growing consumer themes across India and South-East Asia, Everstone backed two healthcare and wellness focused companies, OmniActive Health Technologies and Chemopharm, in 2017. It also re-launched 50-year old bakery brand Modern Bakery in India with a new brand entity as well as enhanced and healthier products. The manager achieved liquidity for its LPs through a row of four successful partial and full exits for 20 percent of the invested capital of Everstone Capital II, its second private equity fund that closed on $730 million in 2015.

FIRM OF THE YEAR IN SOUTH-EAST ASIA

1. KKR
2. Navis Capital Partners
3. Mekong Capital

Perhaps not surprisingly, given its victory in the large-cap and fundraise of the year in Asia categories, KKR retains its crown as king of South-East Asia for the second year in a row.

In a year where private equity-backed deals in the region slowed down, KKR powered ahead on the deal-making front with significant acquisitions in Indonesia and Vietnam.

The firm acquired a minority stake in Indonesian mass-market bread company Sari Roti and invested another $250 million in Vietnam's largest diversified corporation Masan Group and its branded meat platform Masan Nutri-Science.

What's more, KKR backed the series E round of Indonesian moto-hailing company GO-JEK.

Long admired for its activities elsewhere in Asia, KKR is now very much a South-East Asian powerhouse too.

Everstone: *took home India award for seventh year running*

KKR: *powered ahead on deals in Vietnam and Indonesia*

FUND OF FUNDS MANAGER OF THE YEAR IN ASIA

1. Asia Alternatives
2. HarbourVest Partners
3. Axiom Asia Private Capital

A first victory in this category for Asia Alternatives, following one of its quickest fundraises for Fund V, which saw first close to final close in just three months. The San Francisco-headquartered fund of funds manager amassed $1.8 billion for its fifth pan-Asia fund and separate pockets, with about 85 percent of commitments coming from the firm's existing investors.

Founder and managing director of Asia Alternatives Rebecca Xu called the fund "a milestone for the company", reflecting on the $515 million it raised for its debut fund in 2007.

Xu added that while the majority of its capital raised of our capital came from North American LPs, the firm also attracted new commitments from LPs in Latin America, Europe and Asia.

ASIA-PACIFIC

PLACEMENT AGENT OF THE YEAR IN ASIA

1. Eaton Partners
2. Campbell Lutyens
3. MVision

With LPs scrutinising commitments like never before, closing five funds in Asia with aggregate capital of over $3.6 billion – all of which hit the hard-cap or were oversubscribed in less than a year – is no mean feat. Eaton has been pivotal in getting the fundraises done but what's important to highlight is the range and diversity of its investment funds – from early stage through buyouts, to country-specific sector specialists, to pan-Asia. Chris Lerner, global partner and head of Asia for Eaton, calls 2017 the firm's "best year in Asia in which the firm focused on a limited number of high conviction ideas".

The Connecticut-based firm also celebrated its first decade in Asia in 2017, having raised over $10 billion for clients in the region since 2007 – a worthy winner for our placement agent of the year category.

LAW FIRM OF THE YEAR IN ASIA (FUND FORMATION)

1. Weil, Gotshal & Manges
2. Cleary Gottlieb Steen & Hamilton
3. Shearman & Sterling

PEI is delighted to welcome Weil, Gotshal & Manges to its awards with its debut win, clinching the top spot in this competitive category. In the past 12 months the firm advised on close to 10 funds including CLSA Capital Partners' $400 million Japan mid-cap buyout vehicle, CMC Capital's $600 million China buyout fund and CITIC Capital's third Japan fund and third China fund which between them raised more than $1.8 billion. The group's expertise is deep and wide, acting as fund counsel across asset classes spanning private equity, real estate, special situations, credit opportunity and infrastructure. And to top it off, Weil also has expertise advising on co-investments as well as carried interest plans and management platforms. With Asia the next private equity hotspot, expect to find the team – including Hong Kong-based partners John Fadley (pictured) and Albert Cho – at Weil behind many of the headline funds over the coming year.

Legal workout: *Clifford Chance advised on gym merger*

LAW FIRM OF THE YEAR IN ASIA (TRANSACTIONS)

1. Clifford Chance
2. Morrison & Foerster
3. Weil, Gotshal & Manges

Clifford Chance is taking home the gong for transactions law firm of the year for the seventh year in a row thanks to its involvement in a slew of the region's most high-profile deals. Its Asia team – based out of offices in Beijing, Hong Kong, Seoul, Shanghai, Singapore, Sydney and Tokyo – worked with the Canada Pension Plan Investment Board on its acquisition together with KKR of a stake in India's Bharti Infratel, a telecom tower infrastructures provider, with Navis Capital on the merger of the Celebrity Fitness chain of gyms with Fitness First, with CVC on the $330 million sale of its stake in the content solutions business of SPi Global, and with Actis on its acquisition of a majority stake in China-based textile company Zhejiang RGB Textile Group, to name a few.

LAW FIRM OF THE YEAR IN ASIA (SECONDARIES)

1. Kirkland & Ellis
2. Debevoise & Plimpton
3. Simpson Thacher & Bartlett

Kirkland & Ellis has done a clean sweep of the secondaries categories, picking up the award for best in North America, best in Europe and best in Asia, for the second year in a row. The firm worked on one of the most interesting deals to take place in 2017, the $1.2 billion sale of a strip of Asian assets from Warburg Pincus XI, an $11.2 billion, 2012-vintage buyout fund. The deal, which involved the sale of 29 separate stakes, many of which were in venture capital funds, was backed by a group of investors led by Goldman Sachs and Lexington Partners. As well as being one of the largest secondaries transactions to take place last year, the structure highlighted the growing range of possibilities that the market can offer. ■

KEY THEMES 2017

FUND CLOSURES

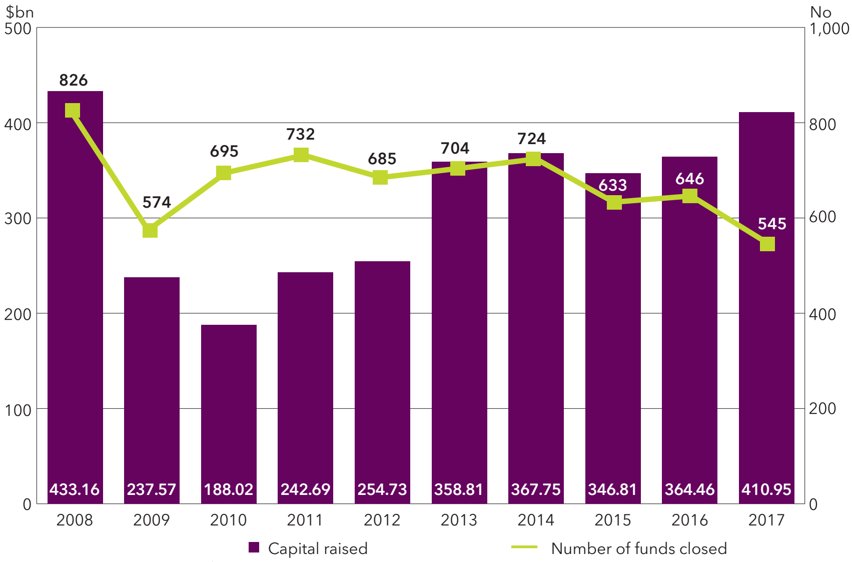
Strength in numbers

Fundraising soared to a post-crisis high in 2017 with both capital raised and average fund size showing impressive growth, writes Sam McMurray

CAPITAL RISING

- It was the most successful year for fundraising since 2008, with $410.95 billion raised by the 545 funds that held a final close. Fund size continued to grow: there were 34 percent fewer funds closed than in 2008, but only 5 percent less capital. Average fund size hit $754 million, up 44 percent since the financial crisis.
- The amount of capital raised was up 12.8 percent from 2016 – the biggest year-on-year change since 2013. Conversely, the number of funds that closed fell 16 percent from 646 in 2016. Buyout funds saw the largest year-on-year increase in average fund size – up a mighty 45 percent.

Private equity fundraising, 2008-17

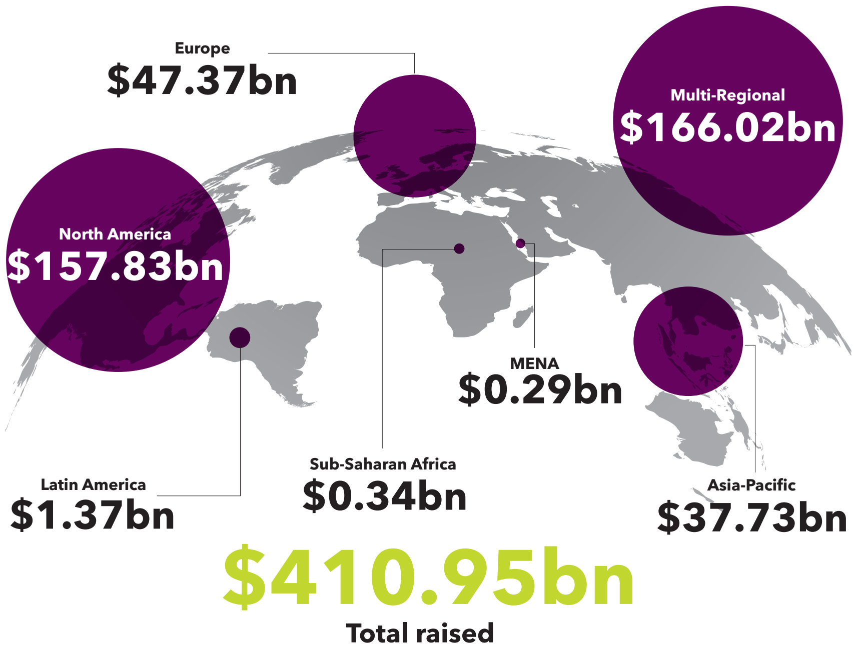


Source: Private Equity International

REGIONAL SHIFT

- Capital raised by funds targeting multiple regions has remained relatively constant since 2012, standing at 40.4 percent of total capital in 2017, against 41.5 percent five years earlier. In the same period, the proportion of capital focusing on only North American opportunities has risen from 31.6 percent to 38.4 percent, while the European share is up from 6.1 percent to 11.5 percent.
- The portion of capital raised by funds focusing on Asia-Pacific increased from 8.8 percent in 2016 to 9.2 percent in 2017. But this is well below the 12.9 percent in 2008 and the 15 percent in 2012. Since 2008, there have only been three occasions where less capital has been raised by funds with an Asia-Pacific focus than in 2017.

Capital raised by geographical focus, 2017



Source: Private Equity International

Top 10 largest funds closed in 2017

545

Funds closed in 2017

$24.7bn

Apollo Investment Fund IX was the largest fund close in 2017

$7.5bn

Strategic Partners Fund VII, a secondaries vehicle, is the only non-buyout fund in the top 10

Buyout

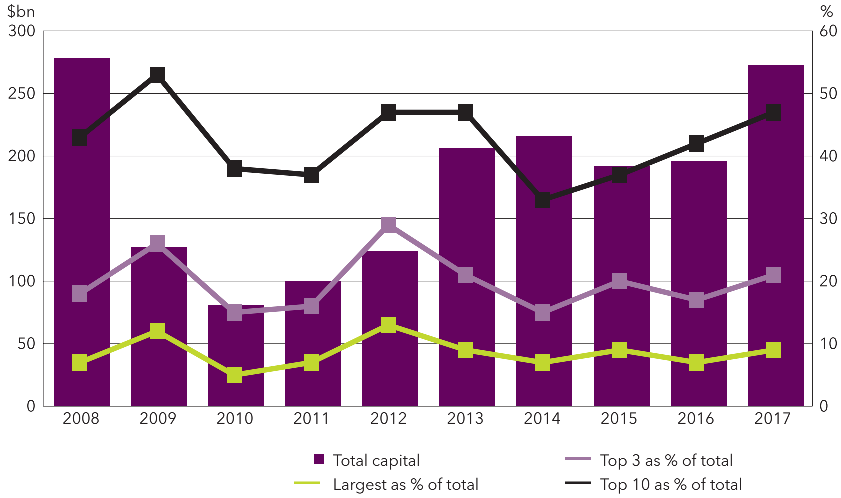
Secondaries

Source: Private Equity International

BUOYANT BUYOUTS

- Capital raised by buyout funds has decreased by only 2 percent since 2008 – the smallest fall for any strategy except secondaries. Buyout capital grew by 28 percent since 2016 – the largest growth for any strategy.
- The proportion of capital raised by the largest, the top three and the top 10 buyout funds has remained relatively consistent. Rather than simply being a case of the largest funds getting larger, this suggests a greater proportion of buyout managers are raising significantly more capital quicker than in previous years.

Capital raised by buyout funds, 2008-17

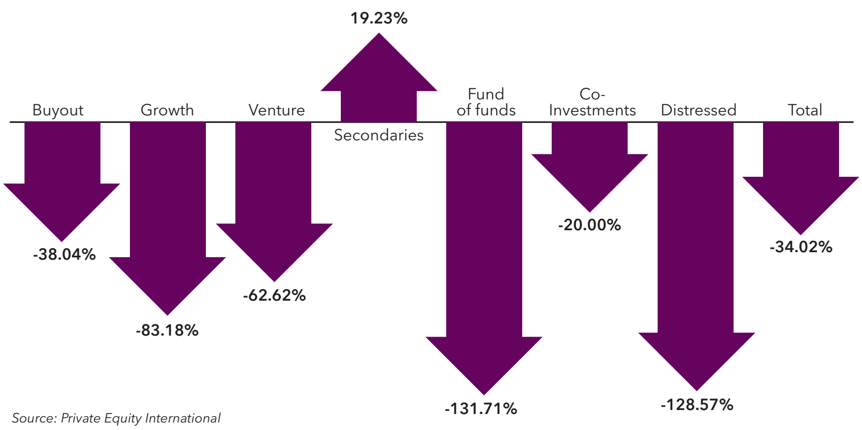


Source: Private Equity International

GENERALISING GROWTH

- The number of growth capital funds closing each year has fallen at a greater rate than for any strategy since 2008 (with the exception of fund of funds and distressed strategies).
- One explanation is that buyout and venture capital managers are encroaching into traditional growth territory. Companies are staying private longer, particularly in the tech sector, backed by VC funds that are sticking around for additional rounds of financing before exiting through a higher-valued IPO.

Change in number of funds closed by strategy, 2008-17

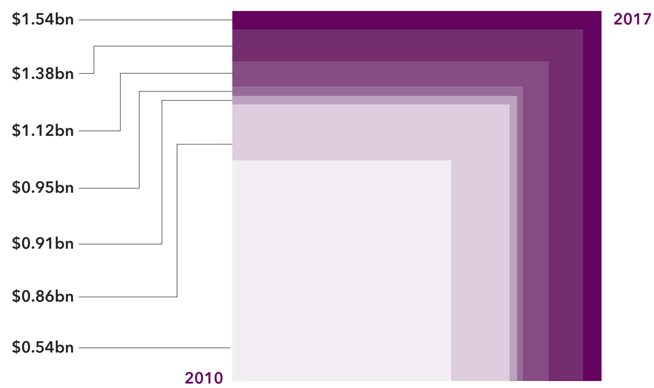


Source: Private Equity International

SIZEABLE SECONDARIES

- Secondaries is the only private equity strategy to see positive year-on-year growth in average fund size since 2010. The number of funds closing per year peaked in the period after the financial crisis and has steadily increased again since 2015, with 26 funds closing on an aggregate $38.29 billion in 2017.
- Secondaries and co-investments were the only strategies to raise more capital in 2017 than in 2008, with secondaries recording a 381 percent increase.

Average size of secondaries funds, 2010-17

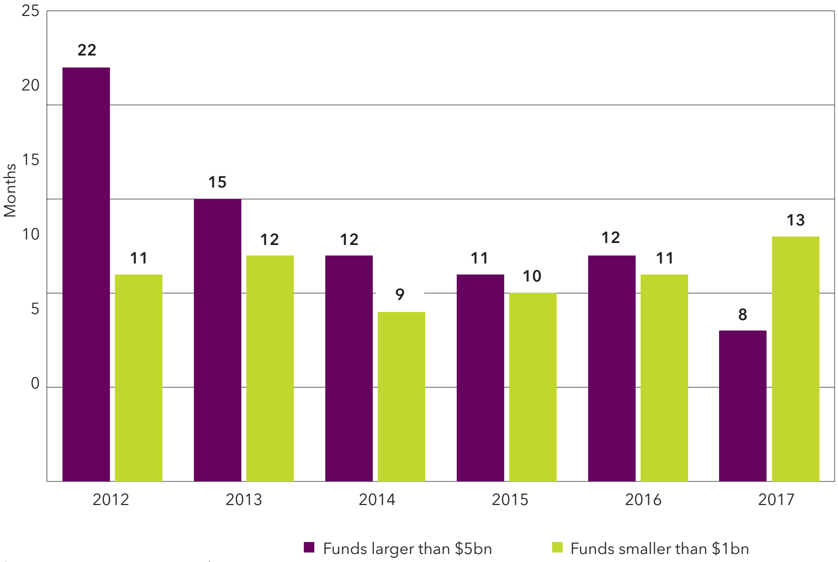


Source: Private Equity International

TIME ON THE ROAD

- While there is much talk about speed in today's fundraising environment, smaller funds are actually spending longer on the road. At the larger end, for funds of over $5 billion, the average time to reach a final close dropped from 12 months in 2016 to just eight months in 2017. But for funds smaller than $1 billion, the average time increased from 11 to 13 months.
- At the same time, the number of firms holding 'one-and-dones' is rocketing – a remarkable 43 percent of funds were raised during 2016 and 2017 without holding interim closes, according to Hamilton Lane. "If you are not there, it is gone," Ilmarinen's Katja Salovaara told *PEI*.

Average time taken to reach a final close by private equity funds, 2012–17



Source: Private Equity International

CONVERTING EQUITY TO DEBT

- For many private equity firms, the move into debt strategies is a natural way to expand. There is logic to such moves and it isn't necessarily a worry for LPs. Equity shops can expand their LP bases, increase their fee-paying assets under management and diversify their product offering. Of course, any expansion is not without risks.
- Data from our sister title *Private Debt Investor* show there are currently 150 first-time funds in market targeting a combined $46.7 billion for private debt. In 2017, 22 first-time funds closed, locking down nearly $9.2 billion.
- Meanwhile, Apollo has increased expectations for capital expenditure on debt investment in its ninth vehicle up from the 1 percent predicted for credit opportunities in Apollo VIII.

Private equity firms coming to market with debt vehicles in 2017

PRIVATE EQUITY FIRM	PRIVATE CREDIT HEAD (PREVIOUS FIRM)	DEBUT FUND SIZE
Thoma Bravo	Jack Le Roy (Summit Partners)	$750m
BC Partners	Ted Goldthorpe (Apollo Global Management)	$700m-plus
Capital Dynamics	Jens Ernberg and Tom Hall (Credit Suisse Park View BDC)	$500m
The Riverside Company	David Dobies (NewStar Financial)	$350m
The Sterling Group	Sean Davenport (BNP Paribas)	$200m
eQ Asset Management	Anne Reikki (Finnish Industry Investment)	$107.5m
Gryphon Investors	–	$100m
Bridgepoint	David Walsh (Bank of Ireland)	n/a
Francisco Partners	Scott Eisenberg (GSO Capital Partners)	n/a
Pantheon Capital Partners	Keith Cox (Sun Trust Bank)	n/a

Source: Private Equity International

SECONDARIES

Powering ahead

Fundraising and transaction volumes hit new highs in the secondaries market in 2017, with deals expected to smash records again in 2018, write Rod James and Adam Le

The results are in: 2017 was the biggest-ever year for private equity secondaries fundraising.

Twenty-six funds hit final close on a combined total of $38.3 billion, outstripping the amount raised in previous high-point 2016 by a little over $5 billion. The mean size of a secondaries fund to hold a final close last year also hit a record $1.47 billion, above the previous year's figure of $1.38 billion and the 2015 average of $1.12 billion.

Deal volume also broke records in 2017, by hitting $58 billion, up 57 percent on the 2016 figure of $37 billion, according to Greenhill Cogent.

Some familiar names sat at the top of the fundraising league table. The largest fundraise was by Strategic Partners, which in January collected $7.5 billion for its Fund VII, followed by Goldman Sachs Asset Management, which is understood to have held a $7.1 billion final close in July on its Vintage VII fund. NB Alternatives, Lexington Partners and AlpInvest were also represented in the top five with funds ranging in size from $2.5 billion to $6.5 billion.

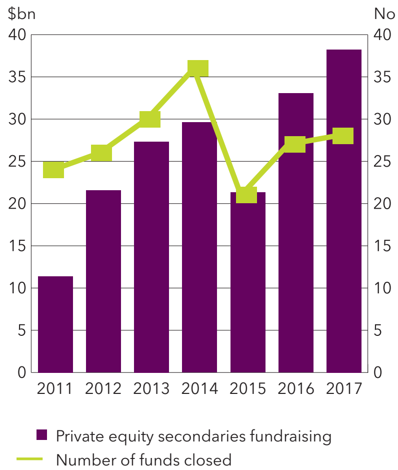
Ardian, Coller Capital and Lexington Partners are all expected to return to market in 2018, and with limited partners such as California Public Employees' Retirement System expressing the desire to increase their exposure to the asset class, it will be a fascinating beauty contest between the three firms.

"Four years ago a lot of LPs were saying, why should I add a lower IRR, lower multiple quasi-fund of funds to my portfolio?" says Sunaina Sinha, managing partner of secondaries advisor Cebile Capital. "Today they see a shorter lifecycle, healthy return levels – lower or equivalent to other private equity strategies but with more »

> ***Barring a major economic shock, expect the secondaries market to transact record volumes in 2018***
>
> **François Aguerre**

A RISING TIDE

Closed-ended private equity secondaries fundraising 2011-2017 ($bn)



Source: Private Equity International

» diversification – and higher realisation rates. That has been proven cycle in, cycle out."

While the long-term fundamentals are strong, headline fundraising figures for PE secondaries are likely to show something of a lull in 2018. The big three of Ardian, Coller and Lexington won't see the fruits of their fundraising labour until 2019 at the earliest. Two of the three largest secondaries funds in market going into 2018 are real estate, rather than private equity, and there are no funds in market targeting more than Landmark Partners' $4 billion, *PEI* data show.

There is also some evidence that secondaries funds may be becoming victims of their own success. September's H2 Liquidity Index, compiled by advisor and placement agent Rede Partners, found that high pricing, driven in no small part by the huge amounts of money raised, is dampening LPs' enthusiasm towards the asset class.

A report from placement agent Probitas partners found 26 percent of LPs "are not active in secondaries in any manner", up from 17 percent the year before.

Managing director Kelly DePonte said buoyant fundraising numbers were being driven more by the supply of brand-name product in the market at the same time, than a widespread demand for secondaries exposure.

"Fundraising for secondaries is up again [for 2017] but that has really been driven by three well-regarded, long-lived managers that a number of investors see as core holdings," he told *PEI* sister title *Secondaries Investor*. "I'm not sure interest [last year] was truly widespread, and on the basis of this survey it won't be widespread in 2018."

While fundraising looks likely to pause for breath in 2018, deal volume is predicted to power ahead to another new high: "Barring a major economic shock, expect the secondaries market to transact record volumes in 2018," says François Aguerre, a partner with Coller Capital.

Noteworthy deals include Ardian and Mubadala's $2.5 billion stapled deal and what was regarded as a watershed moment for the blue-chip GP-led process when BC Partners, one of Europe's biggest private equity houses, used a $1 billion staple to help raise its €7 billion 10th fund in September.

So what's in store for 2018? Here are *Secondaries Investor*'s predictions for the coming year.

Secondaries firms may move into primaries

Diversification and specialisation will continue. Firms may raise primary or co-investment vehicles, while captive teams will spin out amid a rise in first-time fundraises, according to Shawn Schestag, leader of the secondaries advisory unit at Sixpoint Partners in New York.

Firms may even structure fundraises with preferred and common LP commitments, he adds.

A wider range of geographies

Deals in far-flung places like Peru and Russia emerged in 2017. Transactions outside North America and Western Europe are likely to increase by 3 to 5 percentage points of total volume next year, according to Philip Tsai, global head of secondaries market advisory at UBS in New York.

Volume is strong in the more established markets, but buyers are always looking to push the envelope by finding new areas to invest in with less competition, Tsai adds.

Returns will start to diverge

Secondaries funds have historically delivered returns within a narrow range, with LPs even complaining that they struggle to tell funds apart. This is likely to change »

» in the next year as buyers' strategies begin to diversify, according to Matt Jones, a London-based partner in Pantheon's global secondaries team.

"You now have people who are focused on large diversified deals, and they may or may not apply leverage to those. Then you have people just focusing on tail-end positions, or GP restructurings, or small positions," Jones says. "We're seeing some players making more concentrated bets in these deals, and some will work out and some will not work out."

GP interest transactions may become dealflow

Funds of firms may be able to find exits for their investments via the secondaries market, according to a London-based partner at a law firm. Dyal Capital Partners, which acquires minority equity stakes in the management companies of private equity firms, and other firms using similar strategies could be attractive to secondaries buyers due to the diversification they offer through exposure to the manager's various funds and underlying assets.

Younger-vintage assets will make life easier for GPs

According to data from Campbell Lutyens, 2006- and 2007-vintage funds accounted for around half of secondaries market volumes in 2016, a figure which dropped to below 40 percent in 2017. At the same time, 2017 saw an appreciable increase in the proportion of newer vintage funds to hit the market; in fact, it was the first year that funds of 2014-, 2015- and 2016-vintage changed hands. This could have positive implications for GPs' ability to price assets going into 2018, says Richard Hope, a managing director in the fund investment team Europe at Hamilton Lane.

"With those funds which are over 10 years old, many of the good assets have been sold; the tail of the portfolio normally surprises to the upside, but it's a question of how much it surprises," he says. "For a 2010-vintage portfolio, the portfolio is more diversified, you can do your full underwrite, find out about their profitability and what revenue growth has been like. You get the opportunity to participate in more exits as the fund matures."

European carry model will drive GP-led deals

European-style carried interest, which is calculated based on capital being returned from all investments, as opposed to the US deal-by-deal model, means GPs have more of an economic incentive to restructure their funds, according to one legal source.

Fear of a market-destabilising event over which GPs have no control means European managers are also more incentivised than their US counterparts to sell off remaining assets in a bundle and lock in value for the purposes of the carry waterfall. Expect more brand-name European GP-led deals in 2018.

STRONG SHOWING

5 largest secondaries funds raised in 2017

FUND MANAGER	FUND NAME	SIZE ($BN)
Blackstone Strategic Partners	Strategic Partners Fund VII	7.5
Goldman Sachs Asset Management	Vintage VII	7.1
AlpInvest Partners	AlpInvest Secondaries Program VI (ASP VI)	6.5
Lexington Partners	Lexington Middle Market Investors IV	2.7
NB Alternatives	NB Secondary Opportunities Fund IV	2.5

Source: Secondaries Investor

* Private equity secondaries only

***Yuan guns**: 2018 is expected to be a significant year for the renminbi-denominated secondaries market*

> ***We see [renminbi] being a more active part of the market and institutional investors starting to enter as both sellers and buyers***
>
> **Michael Hu**

Lumpy dealmaking to continue in Asia

The Asian story in 2017 was one of continuity. Deals in the region accounted for around 6 percent of global volume, very similar to last year, according to data from Greenhill Cogent, and only one Asia-Pacific-dedicated fund hit final close, the $200 million TR Capital III.

At the same time, it was the location of one of the biggest secondaries deals of 2017. Warburg Pincus's sale of a $1.2 billion strip of Asian assets from its 11th fund made up a sizeable chunk of the estimated $3 billion-$4 billion of transactions to take place in Asia-Pacific last year.

Predictions for deal value in Asia in 2018 among those *Secondaries Investor* spoke to range from $3 billion to $5 billion – around 10 percent of the global total and more or less in line what we've seen in recent years. Activity is likely to remain sporadic, with one or two big deals making up a large proportion of value. November saw Standard Chartered revive its plan to spin out its Asia private equity team, a deal that, if successful, would be worth more than $1 billion and set just the right tone for the year ahead.

A significant year for the yuan-denominated market

The yuan primary market is nascent, so it's no surprise that its equivalent secondaries market is small and shallow. Most stakes in the secondaries market are offloaded by ultra-high-net-worth individuals and a general lack of quality assets has kept institutional investors largely on the sidelines. While opinion is split on what 2018 holds for the market, there's no shortage of optimism.

"That market has been difficult to play in given the small ticket sizes," says Michael Hu, a vice-president at Greenhill. "Going forward, probably starting next year, we see [renminbi] being a more active part of the market and institutional investors starting to enter as both sellers and buyers." ■

US GROWTH

Going supersize

Predicting what will happen in 2018 is tough, but one thing is almost certain: more money is likely to flow into private equity. By Isobel Markham and Marine Cole

Private equity saw several records broken last year, with the largest fund ever raised, the most money raised and highest valuation multiples in a decade. It should come as no surprise that North America – still the largest private equity market by some distance – led the way.

More than $156 billion was raised to invest in North America, compared with $138 billion in 2016 and $110 billion in 2015, according to *PEI* data.

"It has been a very, very favourable market for general partners raising funds. The average time to close has come well down," said Brian Gildea, managing director in the co-investment team at asset manager Hamilton Lane. "Managers that have done well with their prior funds and have proven track records have been able to fundraise on that basis."

FAST FUNDRAISING

Data from EY show the average time private equity buyout funds are on the road has been going down since 2013.

Of the funds reviewed by Hamilton Lane in the 2016-17 period, 72 percent were oversubscribed and 45 percent held 'one-and-done' final closes, compared with 50 percent and 20 percent respectively in 2013-14. In the first half of the year valuations in US private equity transactions as a multiple of EBITDA hit new highs at 13.7x, according to a report from valuation firm Murray Devine. The average debt multiple hit 7.2x EBITDA, a full turn and a half above 2016's average and on pace to top any other year in the last decade.

Elevated valuations are affecting deal activity; US private equity activity is on pace to decline by almost 10 percent this year, according to PitchBook. It should come as no surprise that North American investors responding to *PEI*'s annual *LP Perspectives 2018 Survey* cited extreme market valuations as their number one concern, closely followed by the increasing availability of leverage in alternative investment markets.

Andrew Olinick, co-head of 3i Group's North America private equity team and the global head of business and technology services, said that with assets "priced to perfection", maintaining discipline in competitive auction processes is key.

"Given high valuations, we are seeing an increasing number of auctions that do not complete," he said, adding that this can present opportunities.

Despite concerns that too much dry powder and high purchase prices will drive down returns – 39 percent of North American LPs are less confident about returns in the coming 12 months, according to our *LP Perspectives* survey – private equity remains popular with investors, which has made 2017 a good year for first-time managers.

> **People talked a lot about the denominator effect when the market plummeted during the global financial crisis but in a year when public equity markets went up so much, it's still very powerful**
>
> Stewart Kohl

"Due to the relatively strong performance of many first-time fund managers, institutional investors, particularly those with increased private equity allocations, seem to have taken greater interest, a trend that will likely continue into 2018," said Shukie Grossman, co-chair of the investment funds practice group at Gibson Dunn.

While more managers equals more choice for investors, this does not come without its challenges. For Hamilton Lane, 2017 is on track to be a record year for the number of private placement memoranda received at around 800. Combined with faster fundraisings, this can make it difficult for LPs to keep up, said Gildea.

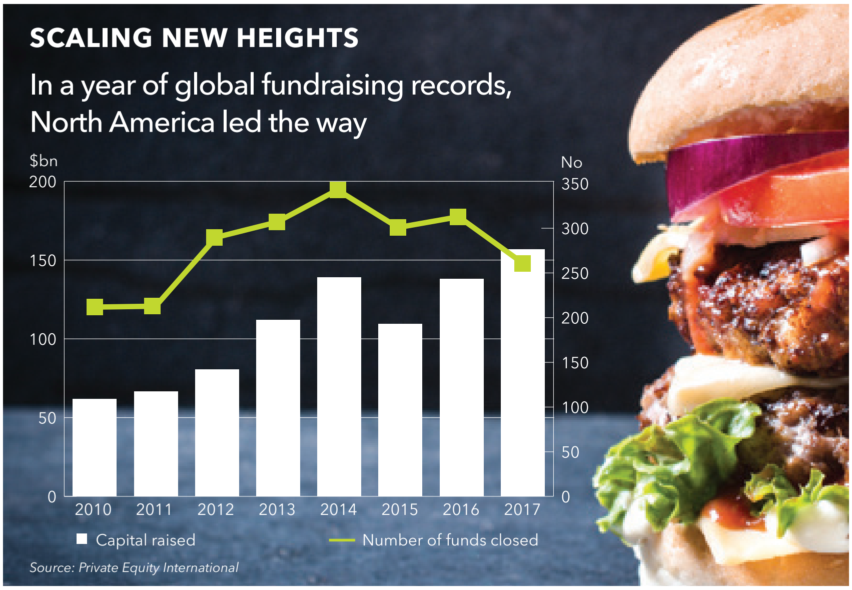
"It's putting a lot of pressure on LPs to be able to make those timely decisions to commit to the hardest-to-access managers," he said.

"All investors like having choice, but it also means more implications on performance. If you choose to go into one strategy over another, you're going to have a different portfolio outcome".

POLITICAL UNCERTAINTY

So what are the prospects for 2018? As the economic cycle approaches its peak, it can be challenging to predict what will happen. With a stock market bull run that is still going strong more than eight years after its start, it's no wonder some may start to get nervous about the direction of the economy and the private equity market.

However, at least until signs of a slowdown appear, funds will continue to be furnished with capital and limited partners will still be eager to send more money to the asset class.



THE BIG VISTA

Largest North America-focused funds closed in 2017

FUND NAME	HEAD OFFICE	FUND MANAGER	SIZE ($BN)
Vista Equity Partners VI	United States	Vista Equity Partners	10.6
Clayton, Dubilier & Rice X	United States	Clayton, Dubilier & Rice	9.4
Bain Capital Fund XII	United States	Bain Capital	9.4
Onex Partners V	Canada	Onex	7.2
EnCap Energy Capital Fund XI	United States	EnCap Investments	7.0
New Mountain Partners V	United States	New Mountain Capital	6.2
GTCR Fund XII	United States	GTCR	5.3
Genstar Capital Partners VIII	United States	Genstar Capital	4.0
Veritas Capital Fund VI	United States	Veritas Capital	3.6
Olympus Growth Fund VII	United States	Olympus Partners	3.0

Source: Private Equity International

"The business is definitely cyclical and it's been a pretty good run for private equity," said Brian Conway, the chairman and a managing partner at TA Associates, which focuses on growth investing. "There's more political uncertainty than we've had in a long time, but who knows when it will end. If you call the end of the cycle, you're probably wrong by two or three years."

He anticipates that the private equity landscape in 2018 will look similar to activity in 2017, unless there is a major geopolitical shock such as hostilities breaking out between the US and the North Korean regime or a significant terrorist event.

"The easy thing to predict is that everything is going to crack, rates are going to go up and the equity market is going to start to contract and eventually it will happen, but you can't predict it will happen in 2018."

STRESS TESTING

GPs are conscious that a downturn is coming and have been running more downside cases and stress testing of portfolio companies. The need for more caution may be wise, but it comes as LPs are still struggling to stay on target for their allocation to private equity and generally want greater exposure to the asset class.

"People talked a lot about the denominator effect when the market plummeted during the global financial crisis but in a year when public equity markets went up so much, it's still very powerful," said Stewart Kohl, co-chief executive of The Riverside Company. "This is driving the need for more private equity exposure."

The embrace of private markets in general by LPs is nothing new but it was on full display in 2017. With high distributions in private equity added to growth in stocks and the projection that returns in public markets will go down in the next decade or so, 2018 is likely to see even more money flowing into private equity.

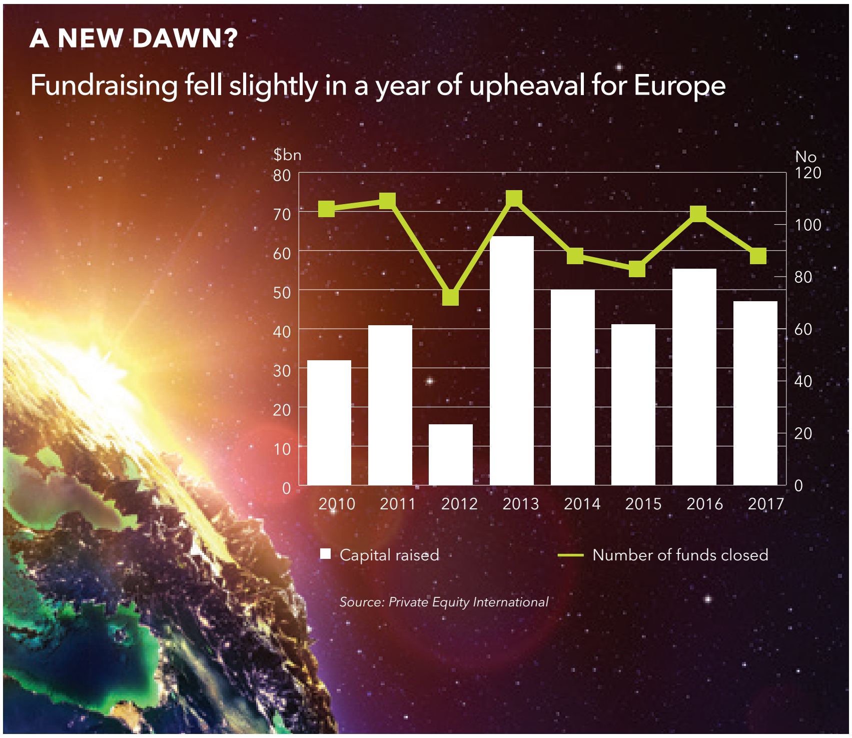
"I think there's an evolving change in perception of the private markets as being a permanent part of the capital market landscape and an alternative to companies seeking access to public market capital," said Greg Stento, a managing director at HarbourVest.

"For some investors, their allocation to private markets is higher than public markets. It very well may be that we're going to see other investors beginning to rethink their asset allocation around the permanency of private markets. We're still in the early innings of investors repositioning their equity allocations and maybe 2018 will be a year where investors move further along that path." ■

EUROPEAN MARKET

Winds of change

The French presidential election and Britain's impending exit from the EU come amid worries about a possible bear market, writes Alex Lynn



A NEW DAWN?

Fundraising fell slightly in a year of upheaval for Europe

Source: Private Equity International

It's fair to say that 2017 was a year of significant transformation for Europe. The French presidential election, Angela Merkel's struggle to form a parliamentary coalition and the triggering of Article 50, which started the negotiations for the UK to exit the EU, contributed to a tumultuous year on the continent.

European private equity has also been no stranger to the winds of change over the past 12 months.

Fundraising for Europe-focused private equity vehicles totalled $47 billion in 2017, down from $55 billion in 2016, according to *PEI* data. The largest purely Europe-focused fund to close was Bridgepoint Europe VI which was oversubscribed at €5.5 billion, but CVC Capital Partners broke records in June with the closing of its seventh flagship buyout fund on €16 billion which is focused on Europe and North America.

European buy-and-builds also hit record levels during the first half of the year, according to data from European mid-market firm Silverfleet Capital.

While the region's political uncertainty does not appear to have significantly dented appetite for European private equity, individual markets have not fared as well.

INDEPENDENT STREAK

Tim Wright, head of European private equity at law firm DLA Piper, told *Private Equity International* he saw a number of overseas investments in Spain put on hold or fall through after Catalonia voted for independence in the latter half of the year.

The threat of independence also appears to have affected UK private equity. In November one European general partner with partial exposure told *PEI* that "Brexit is stifling our business". The firm said it would seek discussions with the British Business Bank in the hopes of filling a gap left by the European Investment Fund, with the latter reportedly more cautious of supporting UK-focused funds since last year's referendum.

The two independence events have had "slowing effects", Wright noted.

A move from limited partners to reduce their general partner relationships has resulted in a concentration of capital in European funds, according to Mounir Guen, chief executive of MVision Private Equity Advisers.

Many LPs carry self-imposed rules dictating that they not exceed a certain proportion of a single fund. This, in combination with a trend towards fewer manager relationships, has seen investors drawn towards larger funds in order to maintain their allocation while not violating their mandate, Guen said.

"It's not that easy to find those [smaller] funds in Europe now," he noted. The average European fund size had reached $534.28 million as of 1 January, up from $532 million last year, *PEI* data show.

THE GRASS IS ALWAYS GREENER

European firms also faced stiff competition from abroad this year. Strictly US-based firms had invested €1.3 billion into European companies as of September, exceeding the €1.1 billion total for 2016, according to data from S&P Global Market Intelligence.

The growing demand for European assets has been particularly noticeable

BRIDGING THE GAP

Largest Europe-focused funds closed in 2017

FUND NAME	HEAD OFFICE	FUND MANAGER	SIZE ($BN)
Bridgepoint Europe VI	United Kingdom	Bridgepoint	6.6
HgCapital 8	United Kingdom	HgCapital	3.4
Vitruvian Investment Partnership III	United Kingdom	Vitruvian Partners	2.9
Waterland Private Equity Fund VII	Netherlands	Waterland Private Equity Investments	2.4
EQT Mid Market Europe	Sweden	EQT	1.9
Chequers Capital XVII	France	Chequers Capital	1.3
Apax France IX	France	Apax Partners MidMarket	1.2
Core Equity Holdings fund I	Belgium	Core Equity Holdings	1.2
Alpha Private Equity Fund 7	France	Alpha Associés Conseil	1.1
Egeria Private Equity Fund V	Netherlands	Egeria	1.0

Source: Private Equity International

among healthcare and technology funds, Stewart Licudi, head of European financial sponsors coverage at investment bank William Blair, told *PEI* in September. Funds with deep knowledge of a sector are less likely to be concerned by a lack of familiarity with new markets.

"I think if you are a specialist healthcare fund, even if you sit in the US, clearly you understand that your exciting markets are global and therefore you're not necessarily going to find everything you need within the borders of the US," Licudi said. "There's a scarcity value to the asset."

Fears of a bear market, declining UK appeal and acquisitions from Asia are expected to dominate the continent in 2018.

There is plenty of talk of the next downturn. Such concerns have already seen investors flock to distressed debt funds in anticipation of a sinking market.

"Fears of the bull market ending will only increase in 2018," says Adam Turtle, founding partner of placement agent and advisory firm Rede Partners. "LPs are becoming more attracted to less cyclical sectors such as healthcare and strategies with debt or assets underpinning them, as the bull market gets long in the tooth."

GPs are already mobilising. CVC Capital Partners has had around a fourfold increase in healthcare opportunities taken to its investment committee since the beginning of 2017, head of European healthcare Cathrin Petty told *PEI* in October.

Others are tapping into this shifting LP demand with the introduction of new products. Capital Dynamics is understood to be targeting a first close in Q2 for its debut lending fund after launching a credit arm last year.

CONTINENTAL DRIFT

The Brexit referendum had a tangible impact on demand for UK assets in 2016, before a resurgence in 2017. With Brexit negotiations an ongoing – and increasingly difficult – task, limited partners could turn to mainland fund managers in a bid to minimise their exposure to uncertainty in the UK.

"There's going to be the ongoing circus of Brexit next year," Turtle notes. "France, Spain and Italy have been harder to raise money in but we're likely to see a rebound of continental Europe in contrast with [the UK]." French private equity firms had a 30 percent rise in fundraising during the first half of 2017, according to research from the French private equity association and Grant Thornton. GPs raised €8.1 billion in H1 2017, up from €6.2 billion the same period of the previous year.

GO WEST

Even with the shifting political sands, the well-developed European private equity market is proving an attractive destination for LP capital and, say some, will become more attractive destination for managers from other regions to expand their franchises through acquisition.

"We are starting to see Asian GPs – mainly from China where there are some huge firms – setting up teams in Europe and the US," Dréan says.

Chinese companies have already shown growing interest in European financial services. In September Beijing-based investment group Legend Holdings announced plans to acquire an 89.9 percent stake in Banque Internationale à Luxembourg.

In 2016 Chinese technology and investment group Cocoon Networks launched a £500 million ($670 million; €564 million) London-based venture capital fund targeting UK and European start-ups.

Asian GPs setting up teams in Europe and the US is likely to amplify considerably over the next few years given the size and ambitions of the largest Asian funds, Dréan says.

"I wouldn't be surprised if we see a mega-firm from China acquire a group or groups in either the US or Europe over the coming year." ■

ASIA FUNDRAISING

Picking up speed

The year delivered strong exits for GPs, increased dealflow in Japan, South Korea and Australia, and a rise in fundraising, says Carmela Mendoza

SET FAIR

Asia-Pacific saw impressive fundraising levels in 2017

Source: Private Equity International

Asia-Pacific saw a year of strong private equity fundraising and cross-border transactions in 2017, particularly in developed countries.

According to *PEI* data, 74 Asia-Pacific-focused funds raised $38 billion in 2017, compared with 77 funds and $32 billion in the previous year. KKR amassed $9.3 billion for the region's largest-ever private equity fund, with most of the capital to be deployed in corporate carve-outs in developed Asia.

The Carlyle Group, Blackstone, Morgan Stanley Private Equity and TPG are also in market with their multibillion Asia-focused vehicles.

Jie Gong, a partner at Pantheon, observed an increase in specialist funds. "We have seen a pick up in healthcare funds this year," she said. "Generally speaking the market is moving towards further specialisation, a reinforcement of what has started about three years ago."

On the deal front, market sentiment has shifted, and pan-Asian funds have stepped up investment activity in Japan, South Korea and Australia. KKR struck more than $6 billion worth of deals in Japan this year. Bain Capital made headlines with its record-breaking $18 billion acquisition of Toshiba's memory chip unit.

TPG re-entered South Korea with its $437 million investment in Kakao Mobility. And Australia saw big-ticket transactions with Carlyle and Pacific Equity Partners'

STRONG WINDS

Largest Asia-focused funds closed in 2017

FUND NAME	HEAD OFFICE	FUND MANAGER	SIZE ($BN)
KKR Asian Fund III	United States	KKR	9.3
Affinity Asia Pacific Fund V	Hong Kong	Affinity Equity Partners	6.0
Asia Alternatives Capital Partners V	United States	Asia Alternatives Management	1.8
CITIC Capital China Partners III	Hong Kong	CITIC Capital	1.6
Axiom Asia Private Capital Fund IV	Singapore	Axiom Asia Private Capital	1.0
Quadrant Private Equity No. 6	Australia	Quadrant Private Equity	0.9
Kedaara Capital Fund II LLP	India	Kedaara Capital	0.8
Polaris Private Equity Fund IV	Japan	Polaris Capital Group	0.7
Integral Fund III	Japan	Integral Corporation	0.6
ChrysCapital VII	India	ChrysCapital	0.6

Source: Private Equity International

$900 million acquisition of iNova Pharmaceuticals, as well as Queensland Investment Corporation and Pagoda Investments which purchased Icon Cancer Care for more than $750 million.

"It's important to note that the GDP growth in Asia's main economies remains healthy," says Mingchen Xia, a managing director at Hamilton Lane. "And in this type of environment, it's easier to make deals because the outlook and expectation of sellers and buyers is positive, it's fairly easy to reach an agreement on price. We've also seen faster investment pace, which itself is a driver of fundraising."

It was also a strong year for exits, driven by the stronger IPO markets in the US and Hong Kong as well as robust activity in trade sales.

Xia adds that Hong Kong's IPO market has particularly opened up to technology companies from China. "The retail investors have come back, partially driven by Stock Connect, which allows international and mainland Chinese investors to trade securities in each other's markets."

In 2018, Asia private equity insiders expect larger pools of capital coming to market, growth in shadow capital and an increase in China technology deals.

Here are five predictions for 2018:

1. SHADOW CAPITAL IS HERE TO STAY

From sovereign wealth funds to family offices, more investors will engage in direct investments in 2018. LPs are getting savvier and deploying capital directly because of the cost advantage and the potential for higher returns.

A September report from UBS and Campden Wealth also revealed global family offices plan to expand their co-investment efforts in the next year, driven by access to qualified prospects through trusted networks and a chance to collaborate with like-minded investors.

The Canadian pension funds and Singapore's GIC and Temasek, plus China Investment Corporation remain at the forefront of direct investing in the region.

2. TECHNOLOGY DEALS WILL PICK UP

Of huge interest to private equity firms in Asia is how disruptive technology is changing businesses and consumption patterns, especially in China. Technology as an investment theme will continue to attract huge amounts of capital in 2018 mostly in venture and growth capital.

Xia expects the number of unicorns in China to keep growing next year in line with the trend in the US.

"We've observed the unicorns tend to stay private a longer time than before. These five to 10-year old companies traditionally would have listed by now but there's so much capital raised from private markets. Private equity funds, venture funds, insurance companies and even government funds want exposure to these companies earlier and participate in financing. That's a first in history."

3. CORPORATE CARVE-OUTS WILL DRIVE JAPAN AND KOREA DEALFLOW

Private equity will only get bigger in Japan and Korea as underlying economic trends, corporate governance awareness and growing reception to the asset class boost dealflow.

Japan's corporate governance code, which took effect in 2015, continues to push large conglomerates to think about how to increase returns and make core businesses more competitive.

Meanwhile in Korea, the government's view on *chaebols*, or family-run conglomerates, is steadily shifting. The government is no longer buying out big *chaebols* with taxpayers' money; instead it is encouraging self-reform via a market-oriented approach, offering fresh investment opportunities for private equity.

4. FUNDS WILL GET LARGER

Large funds getting larger will drive Asia fundraising statistics. The Asia market has been resilient through China's economic slowdown, demonetisation in India and even political scandal in Korea. A lot of capital is being returned relative to money being drawn, resulting in new investors entering the asset class, such as North Asian insurers, Indian financial institutions and Chinese government-backed funds. Veteran LPs will also continue to increase relative allocations as they gravitate towards private equity's promise of double-digit returns.

5. CHINA BUYOUTS WILL RISE

The country's private equity market today offers a lot of potential in control buyout opportunities as the economy is transitioning from a planned to a market economy. It is also being transformed by disruptive technology, thereby forcing businesses to adopt to newer consumption patterns and technologies.

Doug Coulter, partner at LGT Capital Partners, notes: "The rise of more buyouts in China is a long-term trend that we like for 2018 and beyond. And these are growth buyouts with generally less leverage than the four to six turns you see in western markets."

That provides more capacity for GPs to do dividend recaps down the road and also gives managers more flexibility, Coulter adds. "If economies turn and businesses don't grow as strongly as expected, obviously having less bank debt is better than more." ■

EMERGING MARKETS

Asia powers ahead

Emerging markets fundraising is showing signs of bouncing back with Asia leading the way

Fundraising for private equity strategies in emerging markets climbed 15.6 percent in 2017 to hit $45.3 billion, the highest since 2014, according to EMPEA. Emerging Asia was the star performer with fundraising surging to $39.8 billion, up from $32.1 billion in 2016.

"EMPEA's year-end data illustrate that private capital in many emerging markets regained momentum in 2017," said Jeff Schlapinski, EMPEA's research director. "Even with EM regions globally at different stages of the fundraising and capital deployment cycles, the strong performance of public equities was broadly positive as fund managers took to exchanges to generate liquidity for their investors."

Private capital in emerging Asia has benefited from the growing interest of global limited partners moving into the region with large-scale commitments, EMPEA says. Among the countries showing increased private equity fundraising was India where 40 private equity funds took in $3.8 billion, up 19 percent on 2016 levels.

The big growth was in pan-Asia vehicles, with KKR Asian Fund III accounting for $9 billion of the total.

Consumer services led all other sectors for investment in 2017. After a subdued 2016, there was rebound in public market exits in 2017, with Latin America and CEE/CIS standing out. ■

TOTAL FUNDS RAISED IN EMERGING MARKETS

2016	2017
$39.2bn	$45.3bn
224 funds	208 funds

LATIN AMERICA

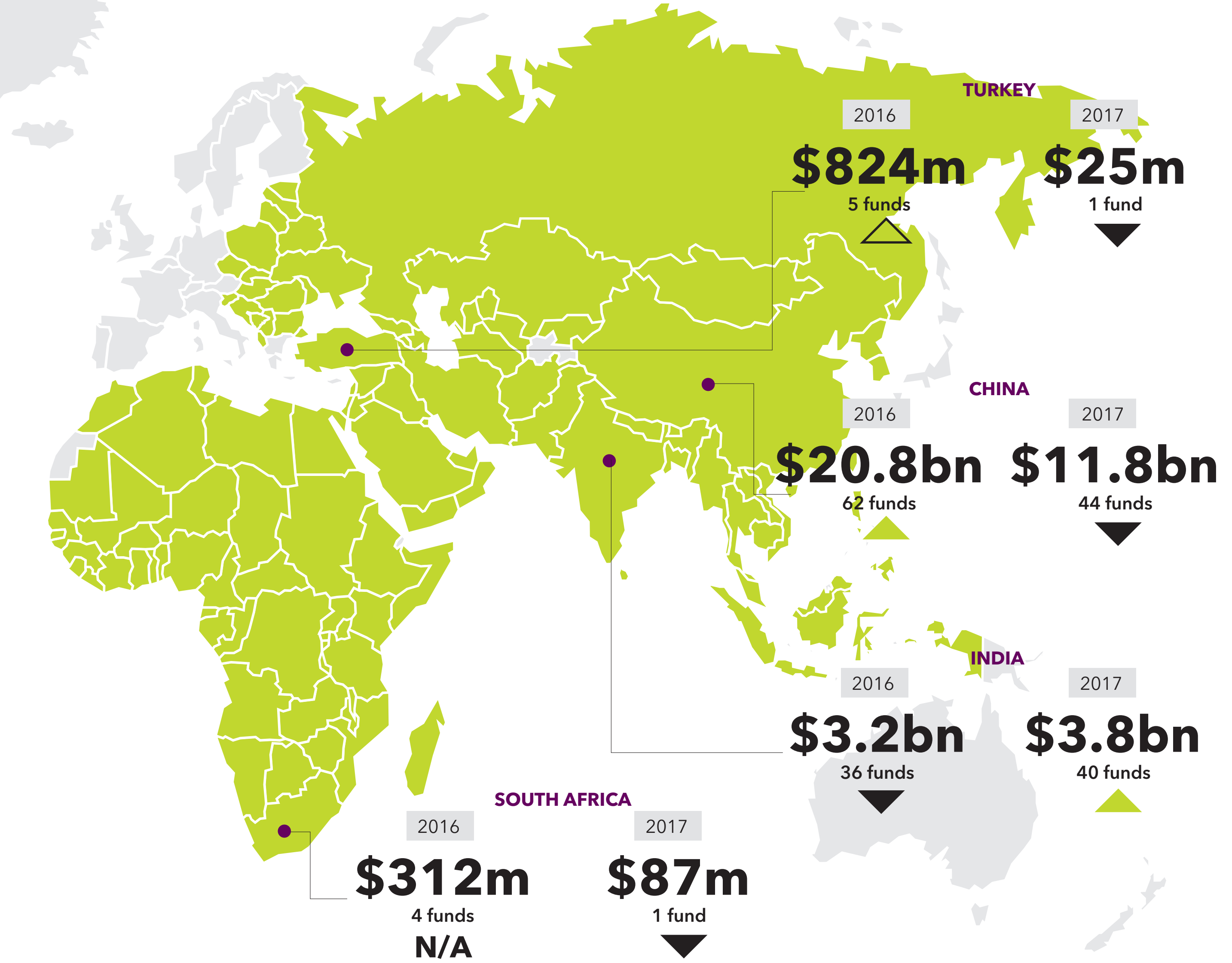
2016	2017
$2.1bn	$2.8bn
23 funds	26 funds

CEE & CIS

2016	2017
$1.1bn	$1.8bn
13 funds	19 funds

EMERGING ASIA

2016	2017
$32.1bn	$39.8bn
151 funds	141 funds



SUB-SAHARAN AFRICA

2016	2017
$1.5bn	$724m
19 funds	14 funds

MENA

2016	2017
$197m	$454m
14 funds	9 funds

PICK OF THE YEAR

The final word

Our favourite stories from *PEI*'s Final Close section this year include some right royal secondaries investments and why private equity loves magic mushrooms

Queen Elizabeth the second(aries)

For her seven decades on the throne, Queen Elizabeth II has hovered above the fray. While some of her nearest and dearest have faced public derision, allegations of adultery or become notorious for gaffes, the queen has for the most part remained solid, apolitical – admirably beige.

The Paradise Papers, a leak of 13.4 million files, primarily from the servers of offshore services provider Appleby, represented a rare blip, at least in the eyes of some media.

Source: by Joel Rouse/ Ministry of Defence via Wikimedia Commons

Pretty in pink: *we are pleased to announce Queen Elizabeth II is a secondaries investor*

The papers revealed that the Queen, through her private portfolio the Duchy of Lancaster, had invested $7.5 million in Dover Street VI, HarbourVest Partners' $750 million, 2005-vintage flagship secondaries fund.

It was not her choice of fund that was the issue, nor the size of her commitment, but the fact that the vehicle she invested in was registered in the Cayman Islands.

Overnight, Her Maj was dropped onto the front-line of the battle between onshore and offshore, avoidance and evasion, the letter of the law versus its spirit.

Like the queen, Final Close likes to think of itself as beige and apolitical. But if we took one thing from this, it is an appreciation of her sophistication. Queen Elizabeth II understands the importance of J-curve mitigation. Queen Elizabeth II is a secondaries investor. ■

The locust's redemption

Locusts may not be the private equity *bête noire* they once were. Since 2004 the mere mention of the winged insect has struck fear – or at least mild annoyance – into the heart of private equity professionals everywhere. Franz Müntefering, of Germany's social democratic party, coined the phrase, accusing financial investors of "sucking off substance and let companies die once they have eaten them bare". The label stuck.

Perhaps, however, it has now finally been put to bed. One firm has definitely not let the insect's reputation get in the way of a potential value-creation opportunity.

Aqua-Spark, an investment fund focused on sustainable aquaculture, teamed up with Dutch responsible investment heavyweight Rabobank to back "leading insect company" Protix, which has acquired locust breeder Fair Insects. Insects are exceptionally good at taking "end-of-life" organic waste and extracting valuable nutrients. Perhaps the industry should reclaim the nickname. ■

A different drum

Looking at documents from Oregon State Treasury's September meeting, it appears that its chief investment officer John Skjervem has an unusual way of looking at its holdings: the rock band analogy.

To him, equities and private equity are like the lead and rhythm guitar, at the forefront, taking the biggest risk but (hopefully) generating the best returns.

Then you have the alternatives portfolio, which includes asset classes such as infrastructure and real estate. These are like the bass and keyboard, occasionally spectacular but more consistent in their returns, taking a back seat to the six-string shredders.

Then there is fixed income – the drums: uncorrelated to equities, low risk but offering a steady, consistent rhythm of returns.

While this analogy stands up well, Final Close must raise one point of difference.

Throughout its inglorious musical history, it hasn't met a single 'low-risk' drummer, happy to do the basics in an understated manner. In fact, "uncorrelated" is apt, given that the average drummer, possessed by the demon of rock 'n roll, often appears to be playing a different song to the rest of the group. Maybe early stage venture capital is a more apt comparison? ■

Shroom at the top

High times: *private equity is starting to see things differently*

Back in the day, when all this was fields and the sun always shone, Final Close would go hiking in the beautiful British countryside armed with three pieces of advice: don't annoy the cows, always close the gates and definitely, definitely, don't touch the wild mushrooms.

Given that the UK is home to at least 50 varieties of poisonous mushroom, some of which can kill within hours, this is clearly sound advice.

But Final Close, as a naive young 'un, had no idea that this was not the only reason it was ordered to give the fungi a wide berth.

The UK has a bountiful harvest of psilocybin – or magic – mushrooms, a tiny bite of which can make the eater lose all sense of time, see colours and shapes and, on a bad day, hide under the covers and not emerge until the bad men have gone away. Like many other types of drug, magic mushrooms are illegal in Britain, though they might not be for long.

According to a story in the *Financial Times*, British start-up Compass Pathways is set to launch the largest ever clinical trial to assess the therapeutic benefits of magic mushrooms.

From early next year, 400 patients from eight European countries will start a three-month course of psilocybin to see if it can help fight treatment-resistant depression.

If successful, it could lead to the kind of fever provoked by the legalisation of marijuana in some US states, which saw managers like Benchmark Capital invest in Hound Labs, an Oakland-based start-up that has developed the pot smokers' equivalent of a breathalyser.

Private equity firms are reportedly already in conversations with Compass, which has £4 million in seed capital from backers including Christian Angermayer, chief executive of family office Apeiron Investment Group. Final Close, for its part, will be sticking to ale. ■

A friendly rivalry

For Final Close US public pensions are among the toughest nuts to crack. Just getting an investment officer on the phone is hard enough, never mind convincing them to give you a hot tip or a colourful opinion.

However, Christopher Ailman, CIO of California State Teachers' Retirement System, is more colourful than most.

He turned up at neighbour California Public Employees' Retirement System's August board meeting in Sacramento with a band of interns in tow.

And he chose a good meeting to attend – the CalPERS investment committee was given a grilling by its board as to why in the last fiscal year it was outperformed 13.4 percent to 11.2 percent by cross-town rival CalSTRS, or as board member JJ Jelincic described them "a little fund across the river".

And in private equity the gap was even wider – 17.2 percent for CalSTRS versus 13.9 percent for CalPERS. "They're obviously doing something different and obviously the results are better," a CalPERS board member lamented.

A tweet summed up Ailman's mood with an élan and pithiness that Final Close could not hope to match. Take it away Chris… ■

Financial muscle

Naming a new strategy or firm can always be tricky. One can come up with a nifty Latinate creation, only to find that some cosmetics business has already nabbed it. Or worse still, you come up against a very 1990s stumbling block: the domain name is already taken.

Respect is due, then, to the team at Bain which, when faced with the challenge of naming its newest strategy – its impact investment business – went with the pithy title of 'Double Impact', seemingly unperturbed by the fact that the name was already taken by a 1991-action thriller starring Jean Claude Van Damme. Van Damme, known as "The Muscles from Brussels", plays a set of twin brothers, separated at birth but reunited 25 years later to avenge their parents' murder.

Source: Daniel Colin/Flickr

Van Damme: *unlikely impact pioneer*

Importantly from a legal perspective, there is little similarity between the two brands, so the potential for consumers to be misled is minimal. For one thing, while the movie gets a paltry return from critics – 14 percent, according to review site Rotten Tomatoes, the Bain unit is gunning for returns in line with its flagship buyout funds. With this in mind, perhaps they should have chosen another Van Damme classic, this one from 1993: *Hard Target*. ■

Lay-ups and start-ups

Final Close had always thought the demands of modern sport were such that athletes had to retire, or at least semi-retire, before pursuing other lines of interest like golf, commentating or releasing their own brand of something-or-other.

Yet Kevin Durant, or the Durantula, manages to keep his fingers (or should that be legs?) in a lot of pies while being one of the world's best basketball players. As well as being an eight-time NBA All-Star, he has dallied with video-blogging, acting, philanthropy and, for the purposes of all assembled, venture capital.

Back in September 2016 Durant invested an undisclosed sum in Acorns, an app that helps users keep track of their daily expenditure. In June he announced he was committing $2 million to a software start-up called Slyce, co-founded by his Golden State Warriors teammate Stephen Curry – another person with more time on his hands than we imagined.

Source: Keith Allison (Creative Commons)

Durant dunk: *the Durantula in his previous role as 'small forward' at Oklahoma City Thunder*

Early stage technology investor CerraCap Ventures announced in August that Durant had expanded "his foray into start-ups" by investing in its analytics, cybersecurity and healthcare-focused business.

As Final Close spends – literally – tens of minutes trying to correctly format a chart or get the text to wrap in an Excel spreadsheet cell, it can only salute these supermen. ■

PEI Fortune Teller

Our creative bods at PEI came up with an origami 'chatterbox' fortune teller to show you what to do if there is another GFC

Whisper it quietly, but some believe we could be looking down the barrel of another economic crash. So would should you do if there is there is another global financial crisis? Don't panic. Help is at hand courtesy of this handly little origami cut-out-and-fold finger fortune teller.

To make: simply cut it out and with the fortune teller face up in front of you, fold back the corners to leave just the predictions showing. With the predictions face up, fold back each corner one by one towards the centre so the numbers are displayed and the predictions are covered. Fold in half then into quarters. Place your thumbs and index fingers under the *PEI* logos to pinch and make the opposite corners come together.

To play: choose a colour and spell out the letters in the colour by opening your fingers alternately with each letter. Then choose a number and open the flap to see what you should do if faced with another financial crisis.

And if you can't follow the instructions, just ask an 8-year-old! ■

Q

It's here: GFC mark II! What should you do?

1

Check your LPs are well capitalised (your sub line provider may well be…)

2

'Pivot' to become a special sits investor (you always were one, right?)

3

Highlight your operational credentials. If you don't have them, hire them ASAP

4

Give thanks for how cov-lite your portfolio company's loans are

5

Rethink that bold push into EMs/Venture/Credit [delete as appropriate]

6

Take comfort in your sweet 0% hurdle rate

7

Fast-track that succession plan. It's time to give the next gen a go

8

Call up the secondaries buyer and ready the spin-out!

BEST QUOTES

Soundbites of the year

Fund managers and investors had plenty to say about private equity in 2017

"If too many people try to get in that door, there's going to be a problem"
Princeton University professor **John Mulvey** warns of the dangers of too many investors moving into private equity

"If you believe that returns are going to be lower, then I do believe fees should be lower"
BlackRock chief executive **Laurence Fink** offers his thoughts on private equity fees

"We are a small group of people and can move very fast"
Jonathan Bullock, chief operating officer of SoftBank Group, says the $100bn fund can be very nimble

"We are going into the era of private markets"
TPG co-founder **James Coulter** says fast-growing companies are choosing to stay private for longer

"Selling one's business to private equity used to be the last resort. With the low interest rate environment, different Japanese companies are willing to work with funds"
Masamichi Yoshizawa of the Longreach Group at the PEI Global Investor Forum Tokyo 2017

"At this point I'm not essential"
Blackstone founder **Stephen Schwarzman** talks about change at the firm

"You can't have a successful transition if you are helicoptering over the people. We don't want to be helicopter parents"
Carlyle co-founder **David Rubenstein** talks succession on Bloomberg Television

"I always thought the rules were pretty clear that you weren't supposed to defraud people"
Joseph Smith, partner, Schulte Roth & Zabel

"The proverbial elephant – 2006 and 2007 deals – has now largely passed through the snake"
Bain & Co global head of private equity **Hugh MacArthur** on today's exit market

"Not to sound scalding and I don't mean it that way but just do your homework"
CalPERS **Paul Mouchakkaa** offers guidance to firms aspiring to manage capital for the pension fund