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Research Paper

Private Markets Prosper During Pandemic:

Private Markets Semi-Annual Update

March 2022

Key Observations

- *Annual deal activity surpassed historical highs as total private equity deal value reached approximately $1.2 trillion, nearly twice that of 2020.*[1]
- *Funds continued to increase as both buyout and venture managers returned to market quicker and raised funds at a heightened level relative to their prior fund size.*
- *Performance soared as multiples expanded; revenue and earnings grew, and debt magnified returns in an enduring low interest rate environment.*

Introduction

Private markets had a stellar year in 2021, with eye-popping metrics across performance, fundraising, and deal-making. The past year benefitted from deals and fundraising postponed from 2020 to 2021 while potential tax consequences created an urgency to close deals before year-end. As equity valuations continued to climb across the globe and fixed income yields remained low, investors increasingly turned to alternative asset classes, and specifically private equity, to reach return targets. While the data and performance are overwhelmingly positive, we believe there are risks worth noting as we progress into 2022 including:

- The ability of fund managers to invest the capital they have raised
- Sky-high inflation
- Geopolitical tensions
- Higher asset prices fueled by dry powder and low-interest rates

[1] Pitchbook 2021 Annual US PE Breakdown Summary

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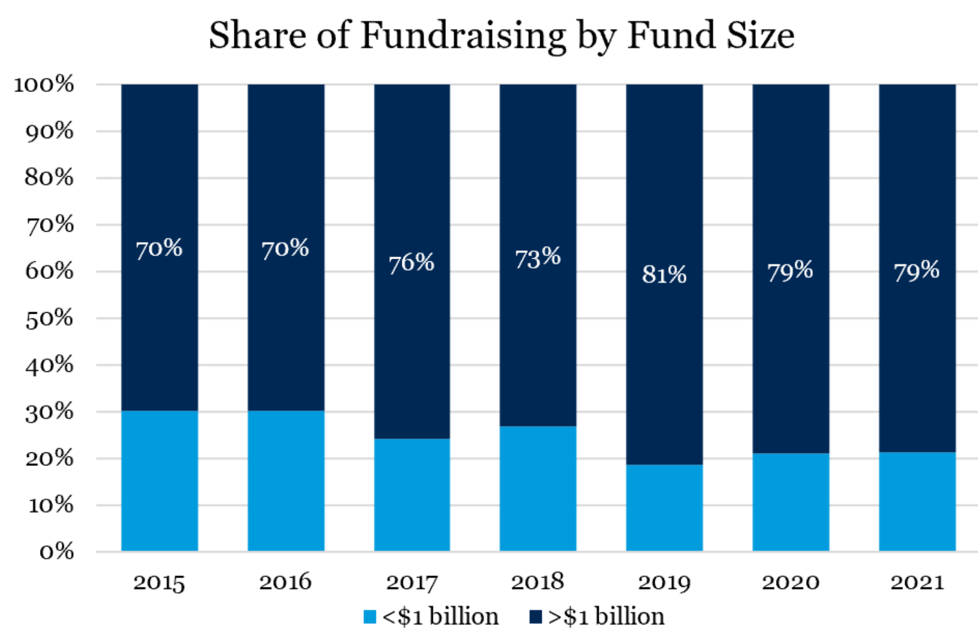
Fundraising Activity

Although fundraising in 2021 did not break any records, it still was quite robust. As the market failed to meet investors' expectations, many of them sought alternatives to bridge the gap. In all, approximately 400 funds raised slightly more than $300 billion in U.S. Private Equity.[2] While this outpaced 2020, which was largely quiet in the second quarter, it did not surpass fundraising in 2019.

Not surprisingly, funds increased to the largest amount of capital raised per fund since 2007. Funds raising more than $1 billion accounted for nearly 80 percent of total capital raised during the year and mega-funds, larger than $5 billion, accounted for about less than half of the capital raised. Some names at the top of that list include Hellman & Friedman, which raised $25 billion and Silver Lake, which raised $20 billion for their flagship, while CD&R ($16 billion), TA ($12.5 billion), and Bain ($12 billion) all contributed to those numbers significantly.[3]

This trend does not appear to be slowing in 2022 as many firms are reportedly expected to be in market with larger funds once again. According to Forbes and Bloomberg, Blackstone could be eyeing a $30 billion fund size for its next flagship while Carlyle targets $27 billion. Immediately proceeding in order are Apollo ($25 billion), Vista ($24 billion), and Thoma Bravo ($22 billion).[4] The chart below highlights the percentage of funds closing that are over one billion in size relative to their smaller fund counterparts.



Source: Pitchbook 2021 Annual US PE Breakdown Summary

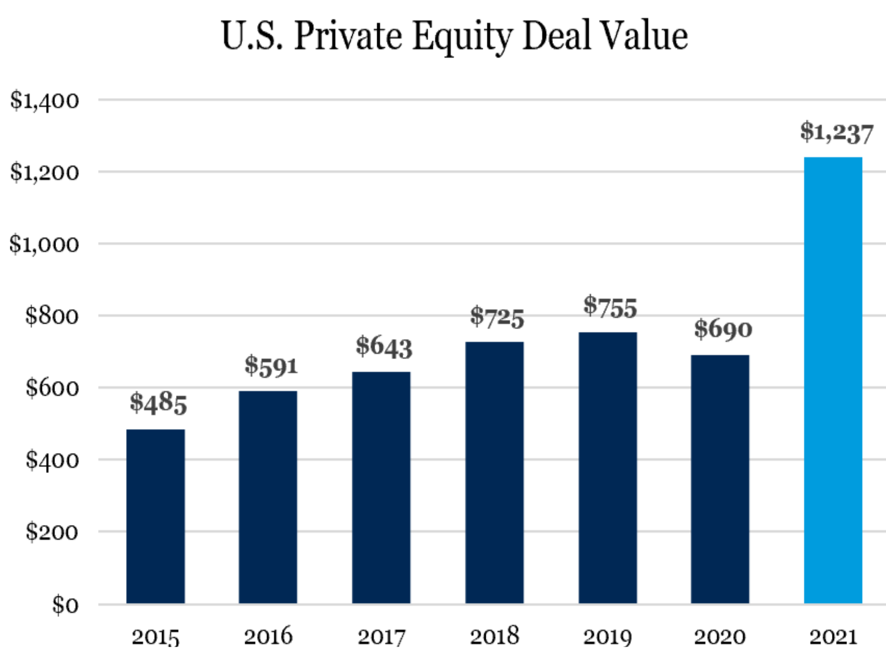
[2] Pitchbook 2021 Annual US PE Breakdown Summary
[3] Pitchbook 2021 Largest Mega Funds in Private Equity
[4] Forbes and Bloomberg

Overall, the competition for deals at the larger end of the market continues to be fierce and is showing few signs of stalling. Larger funds will need larger deals. While the value and count of deals greater than $1 billion increased by 90 percent and 62 percent, respectively, these deals represented only 27 percent of deal value and 2 percent of deal count.[5] This has led to an increase in syndication or "club" deals among funds that inevitably compete with each other for the same deals.

While fundraising is strong within buyout and growth equity, fundraising in venture is staggering as it eclipsed $128 billion, almost 50 percent higher than the next highest year on record (2020, $87 billion).[6] Like buyout and growth equity, the increase in capital raised came from larger funds rather than more funds in market. Strong performance within the venture market compounded by the robust exit market (via IPO and SPAC acquisition) triggered exceptional liquidity over the past several years.

Dealmaking

Deal activity exploded in 2021 due to a confluence of events. This partially stemmed from a large amount of pent-up demand for deals that stemmed from a "pencils down" environment for part of 2020. This delayed many transactions planned for 2020, causing them to close at the turn of the calendar. Additionally, there was the overhang of potential tax changes and subsequently higher tax bills for would-be sellers upon exit. While the latter turned out to be noise, it was nonetheless a frequently cited reason for urgency. At the end of the year, deal value surpassed $1.2 trillion, easily exceeding the previous record of $765 billion set in 2007.[7] Software and healthcare continued to be the most active sectors in the market as COVID lingered in many conversations, seeming more resilient and therefore valuable. Software deal activity among buyout and growth equity (not including venture) was 40 percent higher by count and more

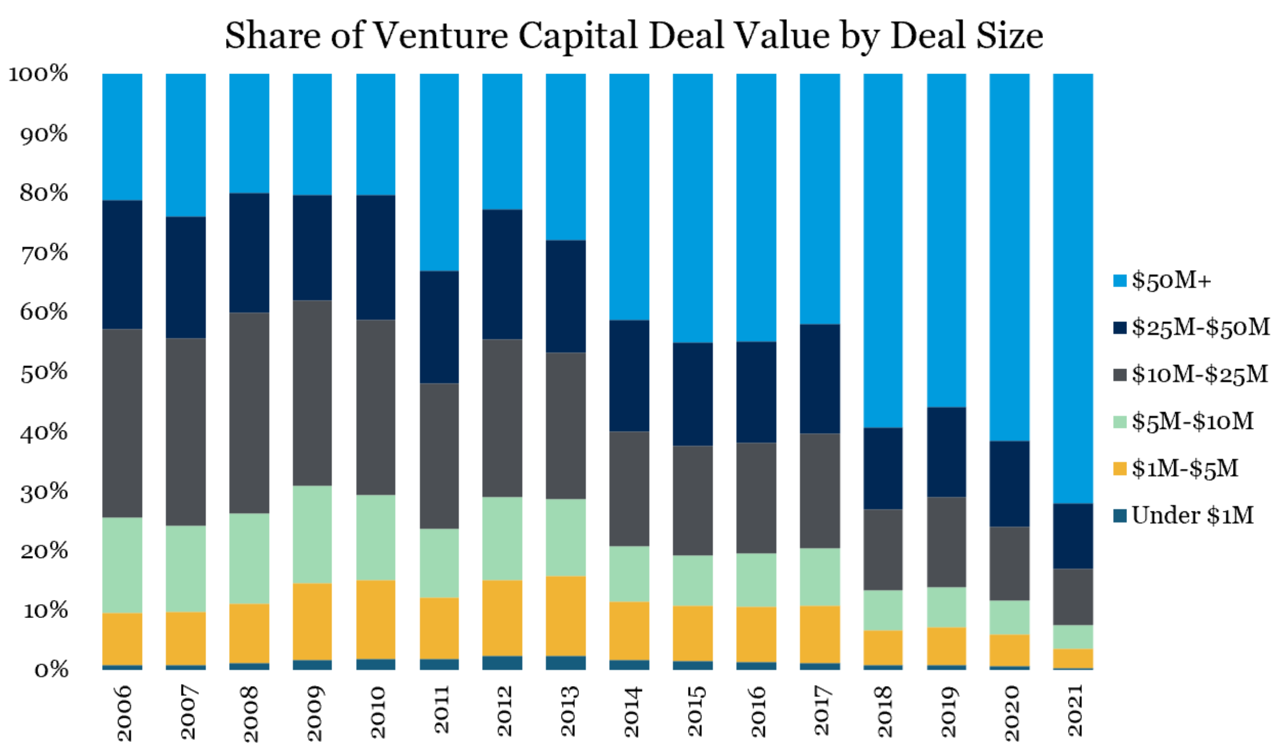


Source: Pitchbook 2021 Annual US PE Breakdown Summary

[5] Pitchbook 2021 Annual US PE Breakdown Summary
[6] Pitchbook 2021 Record Year in US Venture Capital
[7] Pitchbook 2021 Annual US PE Breakdown Summary

than 70 percent greater by overall deal value than in 2020, highlighting the appetite for the space.[8] On the other end of the spectrum, energy, which has historically been around 10 percent of total deal value, was just 3 percent in 2021[9], tracing how capital has fled the space after a volatile decade as well as a noted energy transition that is very clearly underway across the globe.

Within venture capital, deal value exploded – nearly doubling from 2020 in total. This was substantially driven by larger, later-round financings that raised more than $50 million, taking a greater share of overall deal value. The chart below summarizes this data.



Source: As of December 31, 2021. Data from Pitchbook and NVCA Venture Monitor.

In addition to the dollars invested, the overarching story within venture was that the liquidity window opened for mature deals through strong IPO activity, which broadened significantly beyond the traditional IPO to include SPAC exits and direct listings. In fact, IPOs accounted for slightly less than 90 percent of the total exit value, although strategic acquisition accounted for approximately 60 percent of exit activity by count[10].

[8] Pitchbook 2021 Annual US PE Breakdown Summary
[9] Pitchbook 2021 Annual US PE Breakdown Summary
[10] Pitchbook NVCA Venture Monitor Summary Q4 2021

Real Assets and Debt

Real assets fundraising continued at a moderate pace during 2021 with capital raised since 2015 being relatively consistent. Similar to what occurred with private equity, the trend of larger funds with rather meaningful step-ups remained true for real assets. Within real estate, the bulk of new capital commitments went toward value-added and opportunistic strategies as opposed to core and core plus. Larger infrastructure funds accounted for a growing percentage of the capital raised as investors looked to reallocate their oil and gas investments into broader infrastructure opportunities. Real assets also garnered more interest later in the year as the role of inflation became more central and consequential.

Private debt fundraising in 2021 totaled $192 million, the second highest fundraising year on record, behind 2017.[11] Assets under management (calculated as current value and dry powder) surpassed $1.2 trillion.[12] This pushed private debt above private real estate in terms of assets under management. Direct lending continues to be the dominant strategy within private debt as these lenders continue to take share from banks, a transition that has been occurring since the Great Financial Crisis. The expanding universe of buyout deals provides an evolving, vast and varied set of opportunities for many private debt managers once assuming primary lender status for sponsor-backed acquisitions as well as add-ons.

Performance

Much like public markets, performance in private markets was strong throughout 2021. This bolstered exit value for all asset classes as capital markets remained resilient while the world continued to navigate the pandemic. Growth was rewarded handsomely during the year as greater expectations for such heightened development equated to higher valuations. Consequently, robust exit values and more ubiquitous and accessible follow-on financing at higher multiples enabled stronger performance among venture. For longer time periods, this performance normalizes as different interest rate regimes value future growth differently, something the market may be on the verge of now.

Private Markets Index Performance

	1 Year	3 Year	5 Year	10 Year	15 Year
U.S. Buyout	43.3%	22.6%	20.8%	17.6%	13.3%
Growth Equity	68.7%	35.7%	29.2%	21.5%	17.2%
Venture Capital	83.7%	38.4%	27.6%	20.1%	15.2%
Real Estate	21.7%	9.4%	10.0%	10.8%	6.4%

Source: Cambridge Associates, as of September 31, 2021. Return calculations are horizon-pooled IRRs net of fees, expenses and carried interest. All indexes are the Cambridge Associates Index for their respective asset class. Past performance does not indicate future performance and there is a possibility of a loss.

[11] Pitchbook 2021 Annual Private Fund Strategies Report
[12] Pitchbook 2021 Annual Private Fund Strategies Report

Conclusion

While the aggregated performance of private markets has been strong, dispersion among funds remains incredibly high relative to other asset classes. This grants funds and managers an opportunity to add distinct value through unique sourcing and hands-on operational expertise that differentiates from the broader market over time and across cycles. As such, we believe access, sponsor selection, and thoughtful portfolio construction remain key tenets in a successful private markets program.

Please reach out to any of the professionals at Apollon for more information.