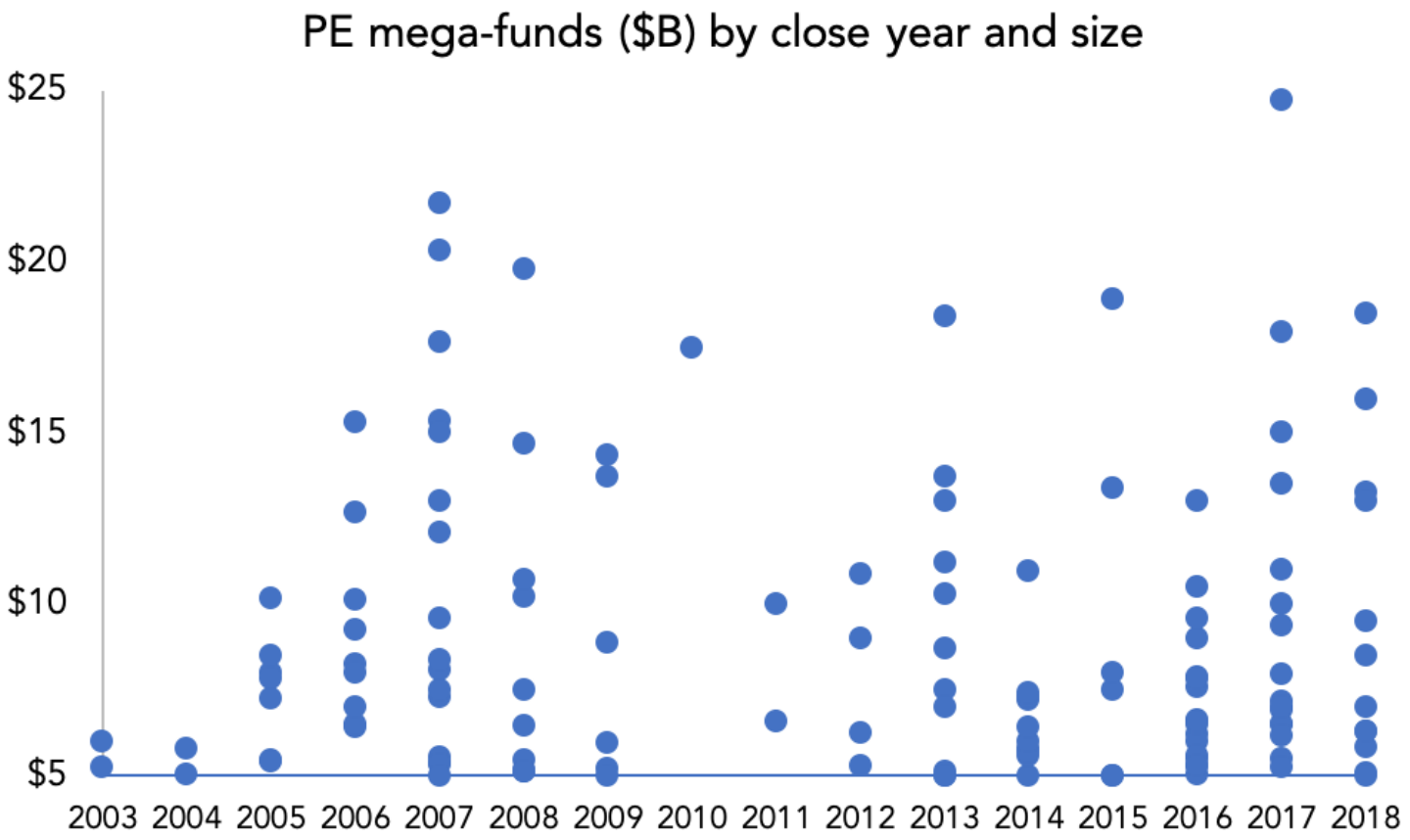
Acacia funds

PitchBook | March 13, 2019



Download PitchBook's Report here.

Acacia trees are those huge, canopy-like trees in Africa that giraffes feast on. It helps to be that tall—there's virtually no competition to eat the leaves. Sheer size in private equity brings similar advantages, as only mega funds can compete for certain deals. Corny metaphors aside, it's a more useful way of looking at mega funds than pointing out that they're really big. They aren't as nimble, but is that a bad thing? Giraffes probably don't lose sleep over it, either.

Less competition brings a higher likelihood of rational pricing, something of a rarity in today's market. Looking back, frothy markets and more mega-funds have historically gone hand-in-hand. Conventional opinion points to fee opportunism, and there is some of that. But for the name-brand firms that can reach those heights and maintain reasonable returns, why not go where it's less crowded? There's a loose correlation between mega-fund proliferation and overall valuations, where both go up in tandem. HOV lanes are the most desirable when traffic is bad.

LPs are jumping at the chance to back them—mega-funds are a convenient way to meet private market allocations while keeping the number of GP relationships (and the due diligence costs that come with them) somewhat limited. The tricky part for LPs is getting in them in the first place. Mega-funds are raised by elite GPs with the experience and wherewithal to handle them. Solid past performance boosts LP demand for those GPs over time, helping fund sizes grow. But mega-fund allocations are typically accounted for early on, leaving most LPs on the outside looking in. Their best bet is to commit to today's smaller rising stars who may be on their way to premier status in the future. Lucrative LP/GP relationships are often the result of decades of investing together, but they start with some foresight on the LP's part.

Contact: Alex Lykken
alex.lykken@pitchbook.com