Fundraising sped up in Q1

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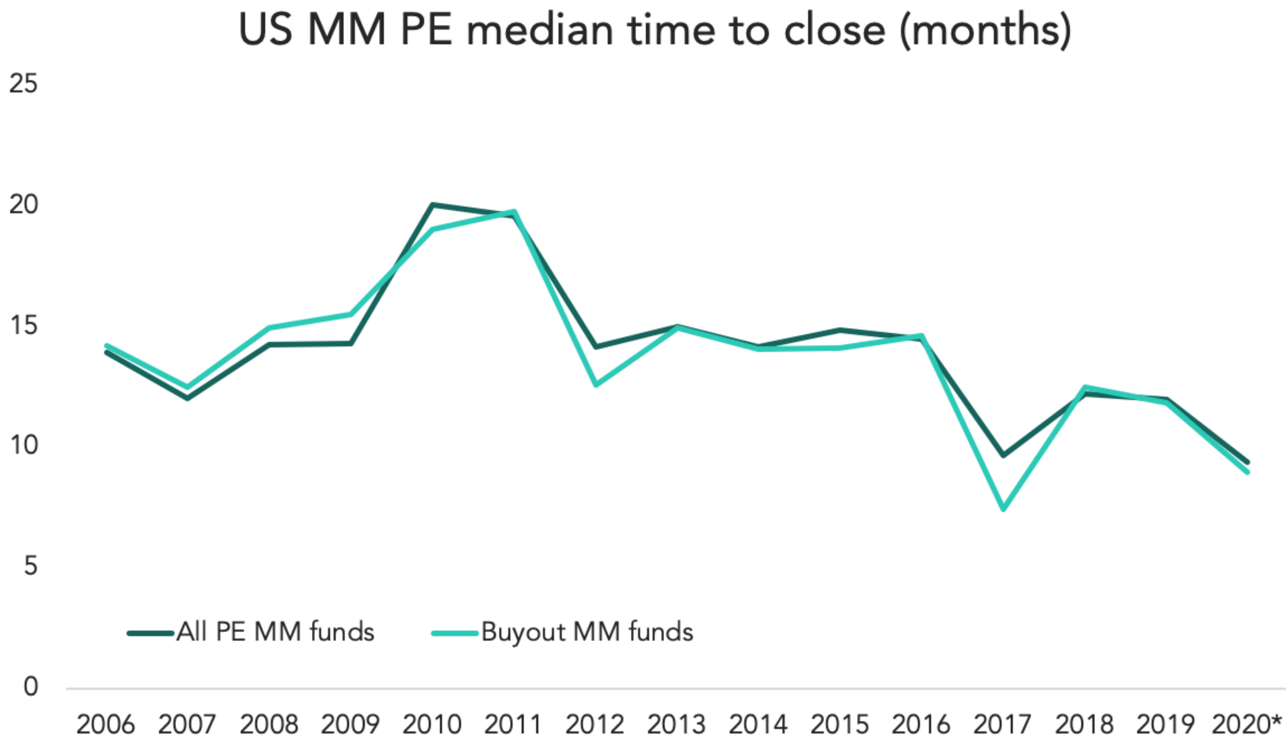

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Somewhat expected, we found a quirk in Q1 fundraising data that should reverse soon. Funds that closed in the first three months of 2020 were wrapped up relatively quickly compared to 2019, according to PitchBook's latest US Middle Market Report. As a whole, middle market funds that closed in Q1 took only 9.4 months to do so, which was visibly faster than the 12.0 months it took similar funds to close in 2019. It continued a downward trend that dates back to 2010, when it took upwards of 20 months to close the typical MM fund.

The quirk is partially explained by the pandemic and stay-at-home orders. By the end of February and into March, it was becoming apparent the world was looking at a substantial healthcare crisis and potential economic fallout. Quarantines began in mid-March, putting a crimp in fundraising logistics, among other things. If they hadn't closed their funds already, investors were under sudden pressure to do so. Travel restrictions were being put in place in California, New York and other states that made it impossible to meet with LPs and do in-person due diligence. For many investors, if they were close enough to their targets or were trying to eek out a few more commitments before wrapping up, their window to do so was rapidly closing.

From this point forward, we suspect the time-to-close metric will go up from here. Q2 statistics will more fully reflect those stay-at-home orders, and will partially reflect the hesitation LPs were having in committing to new funds in a wildly uncertain environment. The bigger question is how much that metric will rise in the year or two ahead. It took a median of 14.3 months to close for 2009 vintages; 2010 vintages took 20.1 months to close, a slowdown that extended to 2011 vintages, as well. It wasn’t until 2012 that fundraising speed reverted to their historical norms, despite the deal flow opportunity for PE following the crash.