Private Equity Now – Impact on Fundraising (GP Perspective)

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So far in our "Private Equity Now" series we've covered the various technologies available to LPs and GPs to access liquidity in this difficult environment. This week we focus on fundraising to understand how GPs are navigating with investors pining for distributions.

Indeed, private equity fund managers are facing a landscape unlike any we've experienced in recent years. According to Pitchbook, the median time to close a fund is now nearly 17 months, as of September 30. That is up from 14 months in 2023 and 11 months in 2022. Those timelines extend even further for less experienced or first-time managers.

The slow return of capital has created an imbalance between the amount raised and the supply available from investors. This imbalance is an opening to stand out in a competitive market.

A successful track record of investment exits is always a given, but doing so today is essential to attract new LP commitments. Timing is key – entering a fundraising cycle with recent realizations proves a manager can navigate a challenging market and generate realizations even in tough conditions. Featuring recent exit activity and distribution-to-paid-in (DPI) ratios compared to industry benchmarks have become a mainstay in marketing documents.

This market not only demands exits, but managers must prepare for higher scrutiny on investments with longer hold periods. Portfolio company lifespans have extended in recent years, the average investment life now well beyond the typical four-to-five-year timeline to which investors are accustomed. Well-documented macroeconomic headwinds and sub-optimal capital markets have delayed exits for better outcomes.

Because investors greet borrowers with longer holding periods with skepticism, GPs preparing to fundraise should have clear rationales on why certain exits have been pushed off. This includes a refreshed view of value propositions and a plan to maximize outcomes. It's tough to get new commitments if investors feel capital is locked up with no end in sight.

With fresh capital hard to come by, investing that dry powder with precision is a priority. Experienced GPs often call on co-investors to fill equity voids for new platform opportunities. The GP can then fully invest their existing commitments, and make additional investments, while also buying time to find liquidity in older vintages. Sponsors are also using structured capital in lieu of new equity to fund large acquisitions or right-size balance sheets. These tools help keep critical investors engaged and allow managers to prolong their current fund's runway before returning to market.

Middle-market private equity fundraising today is a balancing act between managing holding periods and proving that realizations are within reach. For firms raising capital, engaging investors on this path to liquidity is key to deal with what has been a trying time of scarce realizations.