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Private Equity Market Is Expected to Attract $629 Billion in 2015

By LIZ MOYER NOV. 30, 2015

Private equity funds took in $364 billion in the first three quarters of the year, and fund-raising is on pace to reach $468 billion by year-end, the highest annual amount for traditional funds since 2008, according to data from the investment advisory firm Triago.

Notable is the amount of money raised in a separate category — what Triago calls "shadow capital," or side deals that investors strike with funds to co-invest or directly invest in deals. So far this year $121 billion of investor funds have been committed to co-investments, direct investments and separate accounts, and the activity is on pace to hit $161 billion by the end of the year.

Adding investments in traditional funds and shadow capital together, the private equity market will attract a record $629 billion this year, Triago says.

What is driving all the fund-raising? Investors have money to put back to work after being paid for earlier private equity investments. Net cash returned to investors through the first nine months of this year was $138 billion, Triago says, getting close to last year's record for the full year of $156 billion.

It also reflects a bit of a backlog in committed but not invested money. This “dry powder,” as funds call it, is up 23 percent, to $1.3 trillion, since the beginning of 2015 as private equity funds hold off on acquisitions but investor money keeps pouring in.

Funds raised as shadow capital have steadily gained ground in the last few years. Whereas the amount of shadow capital raised in 2008 was just 11 percent of overall fund-raising, its share had climbed to 16 percent in 2012, and 23 percent last year. It is on pace to make up 26 percent of overall fund-raising this year.

Co-investing, which involves putting up money alongside a fund manager, and direct investing, which sidesteps a manager altogether, make up 60 percent of shadow capital.

The trend toward co-investing has been growing for a while but has caught fire in the last year, according to data from Preqin. About half of 222 private equity investors surveyed recently by Preqin said they were actively looking at co-investment deals, and many want to raise their exposure in the future. About 69 percent of private equity funds offer co-investment deals and another 18 percent are considering doing so.

The typical size of a co-investment is $2 million to $10 million, according to Preqin.

Direct investing is becoming more popular with wealthy families who run their own investment firms.

Last year, about 77 percent of families with an average net worth of $1 billion preferred putting money into direct investment deals rather than private equity funds, according to a survey by McNally Capital, a Chicago firm that makes investments for families.

Investors who put money into private equity funds and now have buyer’s remorse are selling their stakes in a growing secondary market, which is on pace for a record $40 billion in volume, up from $36 billion last year, Triago says.

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