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Private Equity's Wealth Divide

ByMiriam Gottfried

In keeping with its red-blooded capitalism, the world of private equity may increasingly be one of haves and have-nots. And that looks as true for funds as it is for investors.

Private-equity investors have received $120 billion, net, in cash from distributions, according to advisory firm Triago. That amounts to 12% of all capital committed to private equity funds, compared with 8% called this year to finance investments. Thanks in part to this extra liquidity, annual fundraising rose 35% to $365 billion, the largest sum taken in since 2008.

Yet, despite that surge, the number of final fund closures is up only 12%. That suggests many funds are falling short of their goals or failing to raise money altogether.

How could there be famine amid such plenty? Investors are committing larger sums of money to a smaller number of bigger, better known firms and concentrating due diligence efforts on an increasingly select number of funds. Indeed, the average size of funds reaching a final close will be $676 million this year, beating the 2012 record of $599 million.

For private-equity funds, capitalism giveth and capitalism taketh away.

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