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Fundraisers set for record-breaking year

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Managers will need to convince investors to increase their stakes

Fundraising in 2005 will set new records, according to placement agents, managers and investors. At least €40bn ($53.3bn) of investor money is being targeted by European managers, according to figures compiled by Financial News.

The figures do not include HgCapital, Duke Street and Cinven, all of which are expected to come to market in 2005, but whose fund targets remain unclear. Nor does it include US funds that will be looking to European investors.

Mounir Guen, chief executive of MVision, a private equity adviser, said: "2005 will be a record-breaker for fundraising, but not because funds are doubling in size; rather the market will be congested by the number of funds coming in at once."

Andrew Sealey, partner at Campbell Lutyens, a placement firm, said: "There is a good level of institutional demand. European appetite has continued to increase and US demand has bounced back."

Guen said it was likely that established firms would be raising funds 20% to 30% bigger than their existing vehicles. In those circumstances success hinges on the private equity managers' ability to convince existing investors to reinvest and increase their commitment – known as "re-upping".

He said: "Fundraising in 2005 will be an exercise in the re-up rate. If the managers have performed decently and have a good mix of investors, then you would expect a 20% attrition of investors and a 20% increase in fund size and that is where the opportunity for fundraising exists."

One placement agent said: "CVC is heavily reliant on North American investors; it would be good for it to balance that with investors from elsewhere, especially Europe."

For some funds, like Barclays Private Equity, fundraising is all but a done deal. The mid-market buy-out firm, owned by the UK's Barclays Group, will disappoint new investors eyeing its €1.5bn fund, which is due to start marketing early this year.

A source at the firm said: "The indication of demand from existing investors is strong. We will have limited capacity for new investors."

Barclays' success highlights the increasing polarisation in private equity fundraising. According to one placement agent, some managers will struggle to accommodate all their investors, while others will have trouble drumming up interest.

An investor in the bank's first fund said: "Barclays has been an outstanding success, with returns of a magnitude that the industry was once famous for. Investors that may have held back are clamouring to get into the new fund."

Others, such as Doughty Hanson and Industri Kapital, will continue to struggle this year, as they did in 2004, the former hampered by a lack of returns, the latter by strategy drift and an over-ambitious funding target.

One investor said: "Industri Kapital was punished. It was forced to refocus its strategy. You would hope that other general partners would have taken note. But most are too arrogant to think the lesson could apply to them. It is almost inevitable that some will be caught out."

Other managers will be just plain unlucky. Guen said: "Investors have programmes that they stick to. How much money can they allocate in a given year? For many it is finite. Up to 80% will be committed to re-ups in existing relationships. But this year there is going to be double the headcount. It will be hard to increase the amount, let alone keep anything over to experiment." This will particularly affect mega-funds. Guen said: "Smaller funds will be more stable. You can re-up in the blink of an eye."

Investor programmes will also make life tougher for some funds' strategies. The plethora of UK funds coming to market will have a harder time convincing investors to back them.

Guen said: "Investor exposure to the UK is a question of programme structure. Last year, Exponent was popular because it filled a space. UK exposure is a programme issue not a vintage year exposure." The threat to UK-focused funds is that too many are arriving too late.

The polarisation of fundraising success will also find its expression in the due diligence conducted by investors. One investor said he had to take investment proposals to a committee decision before he had received the manager's private placement memorandum, the official fundraising prospectus. This effectively means a decision before full due diligence can be completed.

Sam Robinson, investment manager at fund-of-funds SVG Capital, said: "You have to steam in before the competition. You need an angle with the managers and you have to be able to give them comfort early." He said if you wait until the large funds of funds have committed, then you would only secure a quarter of your allocation.

On the other hand, some investors will make sure their money finds a good home. Sealey said: "Nearly all investors are doing more work and the most popular funds have the luxury of tailoring their investor base to the long term."

One placement agent said all investors are equal in the short term, but over time some prove to be more equal than others.

The irony of 2005 will be that in a year that will break records a significant number of managers will struggle to close or even start fundraising.

Fundraisers 2005

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Rank	Fund	Target (€bn)
1	CVC Capital Partners	6.00
2	BC Partners	5.50
3	Apax Partners	4.50
4	Candover	3.00
5	Montagu	2.20
6	Carlyle	2.00
7	Bridgepoint	2.00
8	PAI	2.00
9	Barclays Private Equity	1.50
10	Electra Partners	1.00
11	Palamon Capital Partners	1.00
12	GMT	0.37

Source: Financial News