Unquote
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Fundraising Report 2021

Analysis of European private equity fundraising trends

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Fundraising Report 2021

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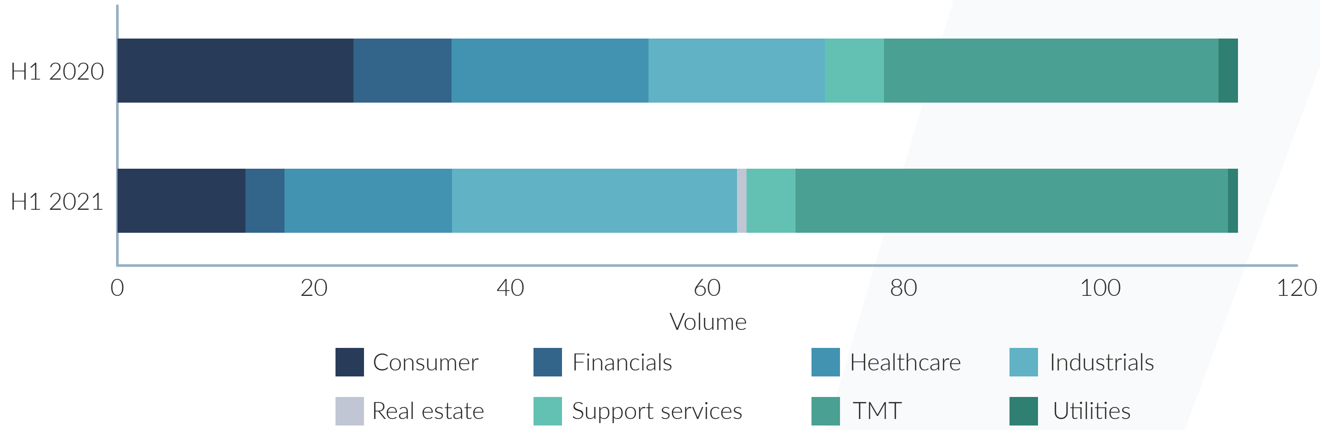
Market trends

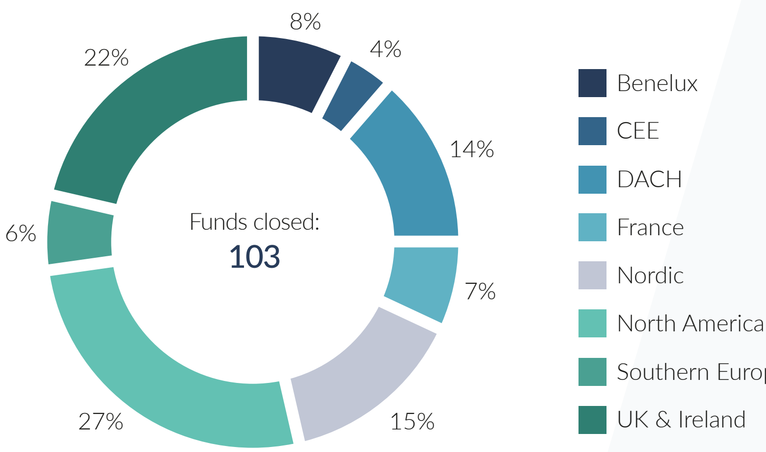
A selection of key metrics on the European private equity fundraising market from *Unquote Data*

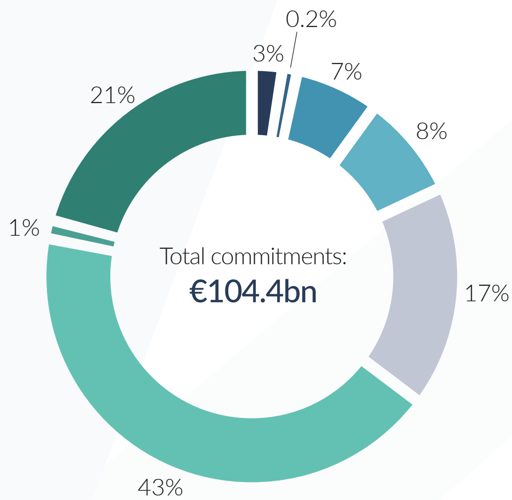
Volume of buyout fund final closes by sector preference



Numerous PE players that have historically had a much broader horizon have now started to narrow down their scope, specialising predominantly in areas like technology – particularly software and tech businesses with strong recurring revenues – as well as healthcare and some resilient healthcare-related segments.

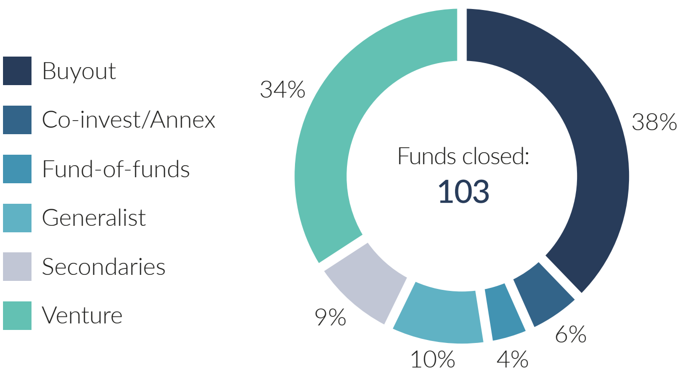
2021 final closes by region of origin





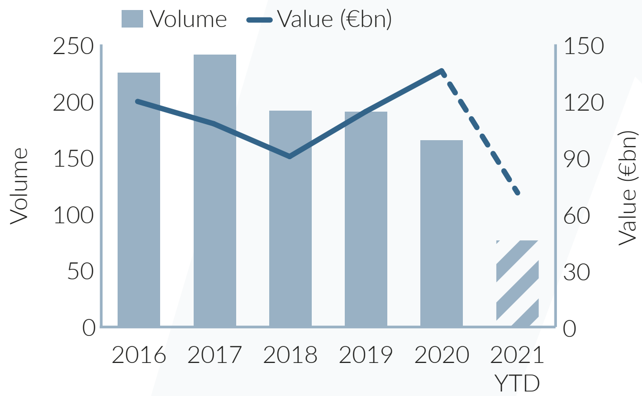
The bulk of the fundraising market continues to be driven by managers predominantly based in the UK or the US. The latter in particular have hauled in record amounts of capital in the first half of 2021 on the back of several mega-fund closes. Meanwhile, Nordic managers have punched well above their weight too, capitalising on LP appetite for the region.

2021 final closes by fund type



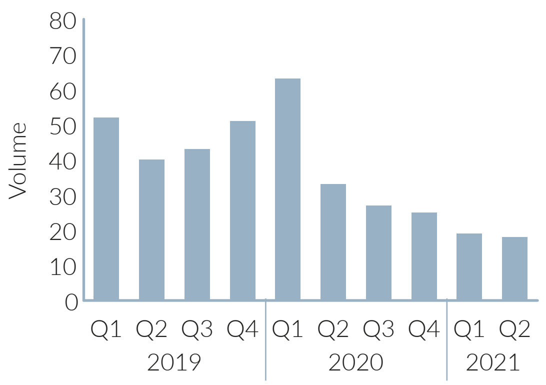
The pandemic does not seem to have dramatically altered the balance of power between the various PE sub-strategies – the breakdown of fund closes in 2021 so far is broadly similar to that seen over the preceding three years. That said, secondaries is clearly the strategy gaining ground, as it accounted for just 5% of all fund closes between 2015-2020.

Fundraising by European PE managers



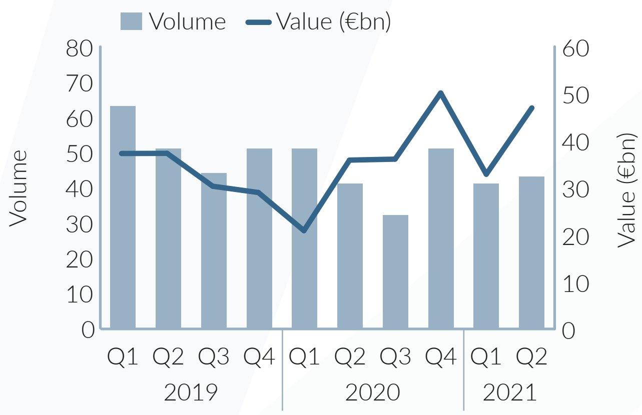
Fundraising figures for 2020 highlight how bifurcation in the market has significantly increased in recent months. While the aggregate amount of capital raised continued to climb sharply, the number of vehicles closed was down compared with the 2018-2019 period. Figures for 2021 to date are still healthy, but it is likely that the phenomenon of fewer funds attracting more capital will persist.

European PE fund launches



The pandemic has acted as a very noticeable brake on a number of fundraising efforts. A number of GPs with which *Unquote* spoke in 2020 stated they would pause and see how the market plays out before launching their next vehicle – an approach that seems to be corroborated by the dwindling number of fund launches in each quarter following the outbreak.

Final closes of European PE funds



On the other hand, looking at quarterly final-close numbers highlights how the funds that did launch either pre- or even post-outbreak managed to rally after Q3, as GPs and LPs alike processed the impact of the pandemic and resumed due diligence in largely virtual formats. Once again, quarterly figures show that mega-fund closes have not been slowed, with record amounts of capital raised in both Q4 2020 and Q2 this year.

Notable fund closes (2021 YTD)

Vehicle	Fund manager	Country	Fund Type	Amount raised (€m)
EQT IX	EQT Partners	Sweden	Buyout	15,600
Apax X	Apax Partners	UK	Buyout	9,584
Ardian Buyout Fund VII	Ardian	France	Buyout	7,500
Coller International Partners VIII	Coller Capital	UK	Secondaries	7,368
IK Small Cap III	IK Investment Partners	UK	Buyout	1,200
PAI Middle Market Buyout Fund	PAI Partners	France	Buyout	920
Triton Smaller Mid-Cap Fund II	Triton Partners	Germany	Buyout	815
Norvestor VIII	Norvestor Equity	Norway	Buyout	800
Capital Dynamics Global Secondaries V	Capital Dynamics	Switzerland	Secondaries	638
Agilitas 2020 Private Equity Fund	Agilitas Partners	UK	Buyout	565
Sofinnova Crossover Fund 1	Sofinnova Partners	France	Venture	445
Abingworth Bioventures VIII	Abingworth Management	UK	Venture	426
Aurelius European Opportunities IV	Aurelius Equity Opportunities	UK	Buyout	360
Advent Life Sciences Fund III and Advent-Harrington Impact Fund	Advent Venture Partners	UK	Venture	184
CapMan Buyout XI	CapMan Group	Finland	Buyout	160

Source: Unquote Data

Notable fund launches and registrations (2021 YTD)

Vehicle	Fund manager	Fund type	Target (€m)	Status
Inflexion Buyout Fund VI	Inflexion Private Equity	Buyout	2,260	Open
Permira Growth Opportunities II	Permira	Generalist	2,071	Registered
Apax Digital Fund II	Apax Partners	Buyout	1,243	Open
Investcorp European Buyout Fund 2021	Investcorp	Buyout	1,000	Registered
Ufenau VII German Asset Light	Ufenau Capital Partners	Buyout	800	Registered
FII Agritech Fund	Fondo Italiano d'Investimento	Generalist	700	Open
Afinum Neunte Beteiligungsgesellschaft	Afinum Management	Generalist	500	Open
Silver Economy Fund	Quadrivio Group	Buyout	400	Open
Octopus Ventures Healthcare Fund	Octopus Ventures	Venture	111	Registered
Shackleton Secondaries V	Shackleton Ventures	Secondaries	87	Open
Dawn Capital Opportunities Fund II	Dawn Capital	Venture	n/d	Registered
L Catterton Europe V	L Catterton Europe	Buyout	n/d	Registered
Pantheon Global Secondary Fund VII	Pantheon Ventures	Secondaries	n/d	Registered
SHS VI Fonds	SHS Gesellschaft für Beteiligungsmanagement	Buyout	n/d	Registered
Schroder Adveq Secondaries IV	Schroder Adveq	Secondaries	n/d	Registered

Source: Unquote Data

Fundraising fortunes: prevailing LP preferences persist

Far from totally upending the private equity fundraising market, the past 12 months have instead turbocharged a number of pre-existing trends and offered extra clarity as to what LPs are hungry for in this new cycle. Alessia Argentieri looks at the winning strategies, and gathers insight from placement specialists as to what the rest of 2021 has in store

Given the unprecedented challenges that befell the private equity industry in 2020, market participants breathed a collective sigh of relief when it became clear that the fundraising momentum seen in the latter part of the 2010s would not be abruptly broken. According to *Unquote Data*, funds based in Europe collected €141bn across 168 final closes, equating to a 6% increase in capital raised and an 18% drop in number of closings on 2019, when managers raised €133bn across 205 final closes.

While the overall picture is no doubt reassuring, the discrepancy between the smaller number of vehicles crossing the finish line and the fact that they pulled in yet more capital in 2020 highlights how the Covid-19 difficulties deepened the bifurcated nature of the market, with very different outcomes depending on the profile and strategy of the funds on the road.

Established managers performed well and achieved some of the largest closings ever recorded, including CVC Capital Partners VIII, which collected €21.3bn, surpassing its €17.5bn target and becoming the largest European buyout fund ever raised. Other significant fund closes included Nordic Capital X, which collected €6.1bn, exceeding its target of €5bn; Hg Genesis 9, which raised €4.4bn; and IK IX, which held a €2.85bn final close, surpassing its €2.5bn target.

While the appeal of name brands in the large-cap space was arguably strengthened by the events of the past year, it does not fully account for the resilience of the fundraising market. Smaller players were also able to raise impressive amounts quickly, with one undoubtedly winning trend being sector specialisation, and particularly the blooming of vehicles dedicated to technology and healthcare. ▶

> "The pandemic accelerated the shift towards sector specialisation across Europe, something we have already seen in the larger US market"
>
> *– Marc Wursdorfer, UBS*

“Growth funds are now a big theme for investors, and I see this trend continuing for the rest of 2021 and further”

– Sunaina Sinha, Cebile Capital

Call in the specialists

“The pandemic has accelerated the shift towards sector specialisation across Europe, something that we have already seen in the larger US market,” says Marc Wursdorfer, head of UBS’s private funds group. “In 2020, we saw generalist funds become much more multi-sector-focused, and other managers that had already embraced the road towards specialisation accelerate and optimise this trend, taking a much deeper focus on certain industries. Numerous players that have historically had a much broader horizon have now started to narrow down their scope, specialising predominantly in areas like technology – particularly software and tech businesses with strong recurring revenues – as well as healthcare and some resilient healthcare-related segments.”

In addition to technology and healthcare-focused vehicles, food-dedicated funds have also performed well during the pandemic. Among others, Idea Taste of Italy 2 raised €330m, surpassing its initial target of €250m and €300m hard-cap; Pontifax AgTech closed on $302m; and Cibus Fund collected $66m.

“Sector-specialised funds are the winners of this pandemic, and not only in the tech and health sectors,” says Sunaina Sinha, managing partner of Cebile Capital. “Five years ago, when we worked on our first food and agriculture fund, we had to do a lot of investor education on why food and agriculture can successfully be the perfect scope for a standalone sector fund. Since the pandemic started, we have had two oversubscribed food and agriculture funds, and the appetite for this type of sector-specialised vehicle remains very strong. An increasing number of LPs are looking for general partners that are sector specialists able to understand the space, strategy and complexity of intensive investments in a selected number of sectors, as the opportunities across these industries become greater.”

Growing trend

Another strategy that has proven successful and has emerged as a winning trend of the pandemic is growth-focused investing. Growth funds are typically smaller vehicles dedicated to minority investments through expansion deals and capital increases. They target profitable companies, with strong revenue generation and high-growth potential. The capital invested does not include any debt packages or significant leverage and is used to fuel the growth and expansion of a promising company, in partnership with its management and possibly with other minority shareholders.

Sinha says: “Pre-pandemic, when we suggested a growth fund to investors, a lot of them were sceptical and uninterested. But today, because of the pandemic, there has been such a resurgence in the idea of growth, and the ability for a manager to develop a growth vehicle able to make expansion deals and successful exits, has become very popular. Growth funds are now a big theme for investors, and I see this trend continuing for the rest of 2021 and further.”

Alongside some buyout and growth strategies, and despite a pause in transactions over Q2-Q3 last year, it also seems clear that the appetite for secondaries vehicles has continued unabated. Last year, Ardian closed the world’s largest vehicle to date dedicated to the secondaries market, Ardian Secondary Fund VIII, which raised $19bn, exceeding its $18bn target. On a smaller but equally remarkable scale, AlpInvest Secondaries Program VII closed on its hard-cap of $9bn, surpassing its $8bn target, while Dover Street X held a final close on $8.1bn.

Tough going

While it would be easy to look at headline fundraising figures and individual success ▶

stories, and assume that the market was broadly unaffected, the smaller number of final closes in recent months offers a first hint that numerous GPs have also struggled to attract new LPs and often had to delay or postpone their fundraising projects.

For emerging GPs and first-time funds, the market has been a far more competitive and hostile environment than a year before. Most of the capital raised last year was collected by GPs with long track records featuring several generations of fundraisings, while only 6% of the final closings recorded were made by first-time funds.

Wursdorfer says that, while we are still in a very strong market environment for raising private equity funds, not every manager has been able to benefit from it: "For lesser-known managers, emerging GPs and first-time funds, it has been very difficult to build solid relationships and expand their network of contacts with new LPs. Some young funds that had a chance to put their heads down, hold some meetings and present their proposition ahead of the lockdown, have been able, to a certain extent, to navigate through the crisis." Without a very differentiated offering and solid track record, most of them had to put their fundraising on pause or, alternatively, raise capital on a deal-by-deal basis.

"For emerging GPs and first-time funds, it has been very difficult … to expand their network with new LPs"

– Marc Wursdorfer, UBS

Some established GPs were also hit by this tough climate, especially those with an excessive overexposure to specific segments of the consumer market most impacted by the spread of the virus and the lockdown measures imposed by the local governments.

Sinha says: "Even if we are not completely out of the crisis yet, we can clearly see which funds and strategies have recorded the deepest loss and shown the greatest flaws. General partners with a consumer bias – funds excessively or exclusively focused on consumer strategies with a high exposure on travel and leisure – have been the main losers and will have to strive to regain success."

Another factor that will now increasingly influence fundraising success is Covid-19's impact on a GP's portfolio, and how the manager navigated the crisis, Wursdorfer points out. "How to evaluate this and which parameter to use is a much more complex matter," he says. "There is a broad set of approaches to valuations and they can vary based on the situations. An uplift in NAV for one manager may not mean the same for another. What is actually essential is looking at the operational performance, at how managers have reacted operationally to Covid-impacted assets, and at what the trajectory of a portfolio has been. There are managers that still need to demonstrate that they can get the portfolio back on track, and therefore will have slow and lagging fundraisings. There are others that have been badly impacted, but have been able to rapidly implement operational change and regain investors' confidence, ultimately coming out very strong on the other end."

Looking ahead

Judging by the first few months of 2021, the market appears set for more of the same: a number of top-flight funds and standout niche offerings are acting as magnets for large amounts of capital, but fewer vehicles overall are wrapping up their fundraising efforts. The growing backlog of funds on the road is therefore unsurprisingly acting as an added deterrent for less high-profile managers to return to market for their new funds.

Unquote recorded 37 final closes of PE funds managed by European GPs (excluding credit and infrastructure funds) in the first quarter ▶

of 2021, gathering aggregate commitments of €29.9bn. This is among the quietest quarters for final closes in recent years, second only to Q2 2020's 30 closes. By comparison, *Unquote*

"Much capital has gone into large funds and large deals, and the danger is that GPs will buy expensively"

– Sunaina Sinha, Cebile Capital

recorded 45 final closes in Q4 last year, 48 closes in Q1 2020 and 58 closes in Q1 2019.

The aggregate commitments of Q1's closes, at €29.9bn, is much more encouraging. But it also highlights how, as seen in 2020, success is heavily skewed by mega closes: Apax X closed on $11bn in January and Coller International Partners VIII held a final close on $9bn that same month.

But Wursdorfer finds cause for optimism in the fact that investor appetite remains strong and LPs remain less risk-averse than could have been feared given the macro context. "We expect that fundraising volumes will be up this year, after going slightly down last year," he says. "Many LPs already have their pipeline defined and they will execute their allocation strategy, probably more selectively than pre-Covid, but not excessively cautiously, because this capital needs to be put at work."

Hot on the heels of Apax (and more recently EQT with its target-smashing €15.6bn final close), several large funds are inching closer to their finish lines, including BC European Capital XI, which has an £8.5bn target; HIG Middle Market I, with a €2bn target; and NB Renaissance Partners III, which has raised €950m so far and expects to close by the summer of 2021.

Other heavyweights are also preparing the launch of their new vehicles, including Investcorp, which plans to launch its second European buyout fund after the summer, aiming for €1-1.5bn; and Permira, which has registered its second growth opportunities fund, Permira Growth Opportunities II, with a target of $2.5bn.

Open for everyone

But in addition to the market's giants, industry observers are also hopeful that smaller vehicles and lower-mid-market specialists will be increasingly able to attract capital in the post-Covid landscape.

"Last year, a lot of investors focused on larger, more established funds, but they have now realised that this large-cap-orientated strategy cannot constitute their entire private equity programme," says Sinha. "They also need some smaller funds specialised in the lower end of the market, in order to target different parts of the market and reap higher returns. Much capital has gone into large funds and large deals, and the danger is that GPs will buy expensively and therefore the returns on the vintage will suffer. That's why investors will pay more and more attention to lower-mid-market buyout funds and growth GPs."

This view is shared by Monument partner Karl Adam, who recently told *Unquote* that he would expect lower-mid-market managers to be able to find success in the coming months: "If you think of the current environment – with fierce competition for deals and high valuations in most sectors – the intrinsic qualities of funds in this bracket stand out even more. The lower-mid-market offers greater opportunity for a private equity firm to acquire companies outside of a competitive process, which should result in more favourable entry valuations. And once invested, the GP's ability to make fundamental operational changes and dramatically grow EBITDA is often higher than in multi-billion-dollar companies. [...]

"So the conditions are there for lower-mid-market fund managers to break through; for most, it's just a matter of being able to find the right path to resonate with investors hungry for new relationships." ■

Q&A: Monument Group's Karl Adam

While the biggest brands in private equity seem to get bigger every year, an opportunity to break through still exists for lower-mid-market managers, Monument partner Karl Adam tells Greg Gille

Greg Gille: A few years ago, small-cap and lower-mid-market funds were tipped as the most promising pocket of opportunity for LPs, given their attractive returns.

However, it would seem that in the very bifurcated market of the past couple of years, mega-buyout funds and big-name brands have been the clear magnet for capital. What is your take on this?

Karl Adam: The largest PE funds have indeed become even bigger over the past decade, consuming a greater share of overall capital raised. According to Preqin's 2020 Private Equity and Venture Capital report, the 20 largest funds accounted for approximately 40% of the total capital raised across the asset class in 2018 and 2019, representing a marked jump over the previous four years, when the 20 largest funds in each year accounted for less than a third of the total annual fundraising (which is still quite significant). And in many cases, the very largest managers are raising multi-billion-dollar funds rapidly.

They have also been successful in their efforts to add non-flagship funds. Data from Cobalt shows that among the top 10 GPs, more than 50% of their total fundraising is now being channelled to vehicles and strategies other than their flagship funds. Effectively, one GP can serve the needs of an investor across various asset classes, a trend that appears to be unchanged following the Covid-19 disruption, and may even be accentuated.

This fundraising success among the best-known GPs often comes at the expense of lower-mid-market firms, particularly those without strong brands. ▶

"The opportunity for investors to be a meaningful investor, perhaps with an advisory board seat, will appeal to a large segment of the institutional investor universe"

– Karl Adam, Monument Group

GG: Does that call into question the intrinsic attractiveness of smaller funds?

KA: No, I would say that the lower-mid-market remains a fundamentally attractive environment for PE funds. For instance, the BVCA's latest PE & VC Performance Measurement Survey shows that "small PE" has outperformed all other sub-categories, including "large PE", over a 10-year time horizon. So from a performance perspective, the smaller end of the market should remain firmly on the radar for investors.

If you think of the current environment – with fierce competition for deals and high valuations in most sectors – the intrinsic qualities of funds in this bracket stand out even more. The lower-mid-market offers greater opportunity for a PE firm to acquire companies outside of a competitive process, which should result in more favourable entry valuations. And once invested, the GP's ability to make fundamental operational changes and dramatically grow EBITDA is often higher than in multi-billion-dollar companies.

Furthermore, the executives of the PE firm itself are primarily focused on generating outsized returns. Managers of large asset management firms often earn huge and stable management-fee incomes, so firms where carry is a bigger proportion of managers' overall compensation better align with the interests of investors.

GG: Are there any common strategies that stand out for lower-mid-market funds that have recently raised successfully?

KA: Technology- and healthcare-focused funds have been very much in vogue, including in the lower-mid-market. We are seeing an increasing number of sector-focused funds in Europe; they have been well established in the US for a long time. In theory, turnaround/distress should also be of interest in that segment, but equity markets recovered strongly in 2020, so many LPs feel they have missed the boat, unless they committed to this strategy already.

GPs that genuinely have off-market sourcing strategies (for example a focus on complex situations and/or companies not easily accessed via auctions) are popular with LPs, given the ongoing high-valuation environment.

GG: With that in mind, how would you advise lower-mid-market managers to position themselves in order to maximise their chance of success on the trail?

KA: Even in the current crowded fundraising environment, these managers can certainly be successful in fundraising. One of our main pieces of advice would be for them to emphasise the benefits that a relatively small fund can provide investors. The opportunity for investors to be a meaningful investor, perhaps with an advisory board seat, will appeal to a large segment of the institutional investor universe. Better access to co-investment opportunities, regular and direct dialogue with the most senior people at the GP, and other factors related to access can all be strong differentiators in the current market.

Another key is to focus the messages on the differentiation and high alignment that funds in that bracket can offer. Some features that may appeal to investors are a large GP commitment to the fund, as well as the absence of any distractions stemming from other complementary funds or conflicts of interest that other business lines may pose. Investors are also drawn to a constant focus over multiple ▶

> "GPs that genuinely have off-market sourcing strategies are popular with LPs, given the ongoing high-valuation environment"
>
> *– Karl Adam, Monument Group*

fund series on a manager's "sweet spot" market opportunity.

GG: Beyond these strategic messaging recommendations, do you have any other practical tips on how lower-mid-market managers can best navigate a process?

KA: First of all, they should not ignore communications with investors until they commence pre-marketing. Investors take time to build relationships, so it makes sense to increase the number of high-quality touch points ahead of a fundraising. These can include update calls to keep investors apprised of developments, webinars, or invites to prospective investors to an upcoming AGM.

And I know this won't be surprising coming from a placement agent, but I truly feel GPs should not underestimate the value of an experienced guide. Proven placement agents with an extensive track record and network can create bespoke investor target lists, help fine-tune marketing materials, and add heft and bandwidth to distribution efforts. GPs should consider engaging these early in the fundraising process – typically, the earlier they start, the better the outcome.

GG: Looking ahead, what is your take on the fundraising environment over the coming months, and do you feel there are trends that could specifically benefit lower-mid-market funds?

KA: While 2021 is still young, many anticipate it could be a bumper year for fundraising. Pitchbook, for instance, predicts PE fund managers will raise more capital in 2021 than in any year in the history of the asset class, fuelled by a "reverse denominator" effect attributable to the growth in public equities as well as pent-up demand for new commitments from investors. Its latest PE and VC report also documented a 100 basis point increase in the proportion of capital raised by funds outside of the top 50 in 2020, signalling demand from investors to broaden their relationships and access to smaller funds. The conditions are there for lower-mid-market fund managers to break through; for most, it's just a matter of being able to find the right path to resonate with investors hungry for new relationships. ■

> "The conditions are there for lower-mid-market fund managers to break through"
>
> *– Karl Adam, Monument Group*

Heritage funds: Large-cap GPs explore mid-cap dealflow

With a number of large-cap and international players raising mid-cap funds to complement and extend their existing strategies in the European market, Harriet Matthews looks at what it takes to raise such a fund and the effects for LPs, GPs and the market as a whole

Many established private equity investors have gradually moved up through the deal bands that they can target, raising bigger funds to do bigger deals, and gradually developing their deal sourcing and value-creation strategies. However, some players are seeing the advantages of expanding their strategy to cover smaller or mid-market deals, too.

The first few weeks of 2021 have offered more examples of larger GPs going back to their roots. Astorg is on the road for Astorg Mid-Cap, its first mid-market fund, with a final close anticipated in summer 2021, as reported. Triton held a final close for Triton Smaller Mid-Cap II in March 2021 on €815m, as reported. And PAI Partners held a final close in March 2021 on €920m for its debut mid-market fund, as reported.

Richard Howell, a managing partner at PAI who also heads the firm's investor and capital markets teams, says the strategy appealed to both new and existing LPs: "We ended up attracting a broader depth of interest than we had forecast, with many new investors joining. It suited people to whom the mid-market appealed; they saw the compelling cross-border consolidation that we could bring and were keen to get involved."

Large-cap players raising mid-market funds to target more opportunities is by no means a new development, of course: brand names including EQT have raised several funds to target the mid-market alongside their large-cap strategies. Carolina Espinal, a managing director in the primary team at HarbourVest, says: "There have been quite a few funds that have done this; it is a type of franchise extension that has existed in the global market for some time, but we've seen a trend acceleration over the past few years. They

"Part of the success of this strategy is that it is not a bolt-on, a diversification, or just hiring a team and moving into an alternative product. We are building on what we do well"

– Richard Howell, PAI Partners

are also commonly known as heritage funds and have been used not only as investment vehicles but also as talent retention tools."

LPs have needed to ask themselves questions before committing to funds that are an expansion of large-cap players' existing strategies. Till Burges, a managing director at HabourVest in the firm's primary group, says: "Going back a couple of years, there were a lot of questions when the first heritage funds came into the market: how are they managed? What happens with dealflow and what happens to the attention of the key partner? There is now a lot more understanding of heritage funds as they've become more established in the market."

> "It's about backing a strong, well-known GP, with the potential for better outperformance than would be found in the LP's flagship"
>
> *– Till Burges, HabourVest*

Building on success

Howell attributes the success of PAI's first mid-market fundraise to the fact that the vehicle is an extension of its pre-existing strategy. "Part of the success of this strategy for us is that it is not a bolt-on, a diversification, or just hiring a team and moving into an alternative product. It has been driven by a goal to be more impactful across the sectors and countries that we focus on by extending our core strengths into the mid-cap segment, which was part of the reason it was a successful fundraise. We are building on what we do well."

LPs are well aware of these factors when committing to these funds, Burges argues. From an LP point of view, these extensions are often seen as a way to expand the exposure with a manager that LPs understand well and have a good experience with. "So, it's about backing a strong and well-known GP, sometimes even with the potential for better outperformance than what would be found in the LP's flagship fund," says Burges.

Such strategies are helpful for LPs that are subject to certain restrictions, Burges adds: "It could be a way to put in more capital with an access-restricted manager, too. Some LPs are restricted in terms of manager count; fund extensions enable them to commit more capital with mangers, but without increasing the manager count."

Safety in numbers

The focus on fewer but larger relationships with name-brand GPs, combined with a flight to quality and institutionalisation, has been reshaping fundraising dynamics for years. The pandemic has clearly turbocharged this phenomenon, and large-cap GPs raising mid-cap vehicles can offer LPs a tried and tested strategy and team at a time when the appetite for taking a risk on smaller or less established GPs is arguably even lower.

The perception of heritage funds as benefiting from the institutional qualities of a larger organisation does resonate in the case of PAI. Howell notes that, while the fund and strategy themselves are newly established, PAI's mid-market team is able to take advantage of pre-existing structures within the firm. "Compared with a more independent, new mid-market offering, this was an advantage, as the infrastructure was already in place, allowing the mid-market team to become operational immediately." While the GP built a framework with a separate fund and team for its mid-cap fund, it also provided economic incentives to the broader team to be part of the overall success, and its central functions can be used by the mid-market team, Howell adds.

"Another positive side effect is smaller funds sharpening up with the cascade down of operational best practice from the parent GP," Burges says. "You see operations teams that are standard on the large-cap side (HR, IT, investor relations) being introduced as part of a 'trickle down' effect and as part of the increased pressure from competition."

As highlighted by Espinal, raising a mid-cap fund can also be a useful talent retention tool for large-cap players in a competitive market. "As GPs continue to build large funds they simultaneously invest heavily on talent and capability, building dynamic and ambitious teams that can tackle large ▶

and complex transactions," she says. "Heritage funds help the GPs retain talent, redeploying the amazing teams they have built and allowing them to continue to grow and nurture their people and portfolios. By building mid-cap funds with a home-grown team, the GP can work with a management team it understands, who shares the same investment strategies and expertise. This leads to high returns and stronger partnerships."

Trickle-down impact

The topic of talent – and specifically how to staff up these funds with the right profiles – highlights how larger GPs moving into the mid-market will impact other players in that space. Investors at established mid-market managers have usually spent years honing their craft in this market segment, making them a prime recruitment pool for funds venturing down the value range. "The advantage that the mid-market managers have is the sourcing network and contacts with intermediaries in the local market – this can help them unlock deals and is generally different from how larger managers will source dealflow," says Espinal. "Generally, we see larger managers looking to attract this talent."

Existing mid-cap players might not welcome raids on their workforce, but the more pressing concern usually lies with dealflow and increased competition, in what are already heated processes for the best assets. "It clearly increases competition by and large. There might be heritage funds that focus on specific countries or industries, which some managers don't have as much exposure to, and hence these don't impact their deal pipeline, but the overall competition still increases," says Burges.

Funds that have historically focused on the mid-cap space can rely on their undeniable track record and closer proximity to other stakeholders in that segment in order to prevail in tight processes. However, mid-market funds raised by large-cap or international GPs can also offer differentiated opportunities to appeal to business owners, management teams and co-investors – such as access to an alternative network of operators or portfolio companies in other regions.

And while it might take some time for newcomers to crack a more relationship-driven corner of the market, each successful deal can contribute to an image shake-up that further boosts the credentials of heritage funds, particularly when it comes to international firms looking to conquer Europe, Burges argues: "Because of the increase in transactions, they often transform their brands in certain markets. They go from three to four deals done per year in Europe to 10-15 deals in Europe per annum by making additional platform deals and add-ons from the heritage fund. This increase really transforms their brand with advisers, as well as the skill set of the investment team."

On the flip-side, larger GPs that come to fish in a smaller pond can generate new exit opportunities welcomed by traditional mid-cap managers. "Some of our portfolio companies were previously owned by single-country funds that did not have the capability for the next phase of their development, particularly pan-European expansion," Howell says. "It does not mean they have not performed well, but it means that we can take the journey from there. There is a clear role for specialist funds with a niche in one particular sector, and that will continue." ■

"There is a clear role for specialist funds with a niche in one particular sector, and that will continue"

– Richard Howell, PAI Partners

VC fundraising enjoys strong 2020 vintage, sunny prospects

With record amounts of capital raised for the strategy in 2020, venture capital fundraising does not appear to have been slowed by the pandemic. Alessia Argentieri examines the corners of the market that have enjoyed the most success and looks at what is still in the fundraising pipeline

Earlier this year, *Unquote* reported on how Covid-19 had bolstered venture capital deal-doing in the biotechnology space. This appetite for life sciences investments – to say nothing of the continued flight to tech-centric businesses – has in turn boosted activity in the VC fundraising space: in 2020, 90 venture capital funds with a remit to invest in Europe reached a final close, raising $36.4bn in aggregate capital, more than double the $17.6bn collected in 2019 across 80 final closings, according to *Unquote Data*.

Among the largest closes recorded last year were Tiger Global XII, which raised $3.75bn, and KKR Next Generation Technology Growth Fund II, which collected $2.2bn.

In the first half of 2021, activity has remained strong across the venture capital space, with several large funds holding their final closes and often surpassing their initial targets. Notable closes have included Bain Capital Venture, which raised $1.3bn, and Digital Alpha Fund II, which closed on its $1bn hard-cap.

On a smaller scale, regional markets like Italy and Iberia were revitalised by the new trends that emerged during the pandemic and saw a flurry of launches and new vehicles closing. In Spain, Nauta Tech Invest V, which has a target of €155m, and Seaya Ventures III, which plans to collect €125m, held their first closes on €120m and €85m, respectively. More recently, Columbus Life Sciences Fund III closed on €120m and Ysios BioFund III on €216m.

In the meantime, in Italy, 360 Capital V held a €90m first close, while Primo Space Fund raised €58m and Eureka Fund I – Technology Transfer collected €51m. ▶

“The strongest sectors across the VC market have been fintech and digital working, alongside life sciences and digital health”

– Ian Connatty, British Patient Capital

"In countries like Italy, which for a long time has lingered at the periphery of the venture capital market, local and international LPs have become increasingly more open and responsive to funds and businesses operating across the startup ecosystem and the technology industry," says Stefano Peroncini, CEO of Eureka Venture. "In particular, investors have been interested in funds that have the expertise and knowhow required to focus on niche segments of the tech industry, such as deep-tech and biotech".

Across Europe, funds dedicated to a specific segment of the VC market have proven very successful during the pandemic, which has accelerated a shift towards specialisation that had already emerged globally.

"The pandemic has shown ... the importance of developing innovative therapeutics that have the potential to significantly improve human health"

– Tim Haines, Abingworth

"The strongest sectors across the VC market have been fintech and digital working, alongside life sciences and digital health," says Ian Connatty, managing director at British Patient Capital (BPC). "Funds focused on these segments have benefited from the new trends and priorities that emerged during the pandemic, and have continued to attract interest and capital from large pools of LPs."

That's life

The life sciences segment in particular has been thriving during the pandemic and has seen a burst of large fundraises, including the final closings of LSP 6 on $600m in March 2020 and Forbion V on €460m in December 2020. Furthermore, Advent Life Sciences closed two new funds with commitments totalling $215m; and Abingworth, an investment firm dedicated to life sciences, closed Bioventures VIII on $465m and Clinical Co-Development Fund 2 on $582m.

"The pandemic has shown to investors and fund managers the importance of developing innovative therapeutics that have the potential to significantly improve human health," says Tim Haines, chair and managing partner at Abingworth. "We have seen the sector booming, with a wide range of promising opportunities flourishing across Europe, and a large amount of capital pouring into the industry from institutional and private investors." ▶

Notable 2021 VC fund closes

Vehicle	Fund Manager	Country	Amount raised (€m)
Digital Alpha Fund II	Digital Alpha	US	852
Bain Capital Venture Fund 2021	Bain Capital Europe	US	810
Balderton Growth Fund I	Balderton Capital	UK	563
Commonfund Venture Partners XIII	Commonfund Capital International Partners	US	517
83 North VI	83North	UK	456
Sofinnova Crossover Fund 1	Sofinnova Partners	France	445
Abingworth Bioventures VIII	Abingworth Management	UK	426
Ysios BioFund III	Ysios Capital Partners	Spain	216
Advent Life Sciences Fund III and Advent-Harrington Impact Fund	Advent Venture Partners	UK	184
Blue Horizon Ventures I	Blue Horizon Ventures	Switzerland	183

Source: Unquote Data

> “From an LP perspective, it has become very important to measure how resilient a GP can be in dealflow generation and dealflow management”
>
> *– Ian Connatty, British Patient Capital*

Despite their renewed interest in the VC space, LPs have also become more selective in their allocation, and more careful when evaluating a VC fund manager’s activity and potential.

“From an LP’s perspective, it has become very important to measure how resilient a GP can be in dealflow generation and dealflow management,” says BPC’s Connatty. “The pandemic has shaped a new way of doing business, which requires a different skill set and a different way of engaging with the market, while the interaction between limited and general partners has become more challenging but remains absolutely vital.”

Onwards and upwards

While the disruption caused by the pandemic is slowly starting to wane, the VC market has continued to pick up steam and is expected to flourish in the coming quarters. Several vehicles are wrapping up their fundraisings and are expected to reach a final close in the following weeks. Most recently, *Unquote* reported that DN Capital has so far raised more than €200m for its latest vehicle, Global Venture Capital V (GVC V), surpassing its initial target with a final close expected soon. Meanwhile, numerous VC houses are preparing the launch of new vehicles. One such example is Insight Venture Partners XII, which was registered in March 2021 and is understood to be targeting around $12bn.

“Despite the many challenges and disruptions of the pandemic, the venture capital market has progressed at a very fast pace and activity has been buoyant both on the deal and exit side,” says Connatty. “In the coming months, we expect to continue seeing strong activity, especially from vehicles dedicated to investments across the life sciences and fintech sectors. Overall, it has been a very fast-moving picture, with the emergence and acceleration of new trends and strategies that have rapidly matured and become predominant. Both LPs and GPs will have to keep an eye on this fast-paced landscape to successfully navigate the post-Covid waters.” ■

Notable European VC funds on the road

Vehicle	Fund manager	Country	Fund target (€m)	Launch date
Skymind I	Skymind Global Ventures	UK	713	Jan 2020
BioDiscovery 6	Andera Partners	France	450	Jan 2020
Azimut Demos I	Azimut Libera Impresa	Italy	350	Sep 2019
Hermes GPE Innovation Fund	Hermes GPE	UK	277	Dec 2019
Health for Life Capital II	Seventure (SPEF)	France	200	Jan 2019
Nauta Tech Invest V	Nauta Capital	Spain	155	Dec 2019
Northzone Conviction I	Northzone Ventures	US	152	Mar 2020
360 Capital V	360° Capital Partners	Italy	150	Sep 2019
Klima Energy Transition Fund	Alantra	Spain	150	May 2021
Kibo Ventures III	Kibo Ventures	Spain	100	Jul 2019

Source: Unquote Data

Fundraising Pipeline

Unquote compiles a roundup of the most notable fundraises ongoing across the European market, with the latest available intel for each vehicle. Click on each fund to see more information

BC European Capital XI
Strategy: Large-cap buyouts
Country: UK
Vintage: 2020
Launched: Jan 2020 **Target:** €8.5bn

BC Partners
Latest update: *A source close to the situation told Unquote that BC European Capital XI held a first close on €4bn towards the end of Summer 2020, with no further update since.*

HIG Middle Market I
Strategy: Mid-market buyouts
Country: UK
Vintage: 2020
Launched: Sep 2020 **Target:** €1.9bn

HIG Capital
Latest update: *HIG Middle Market I is still on the road, having been registered in early 2020.*

17Capital Fund 5
Strategy: Preferred equity
Country: UK
Vintage: 2019
Launched: Jul 2019 **Target:** €1.8bn

17Capital
Latest update: *17Capital Fund 5 held an interim close on €1.2bn in October 2019.*

Apax France X
Strategy: European mid-market buyouts
Country: France
Vintage: 2019
Launched: Mar 2019 **Target:** €1.2bn

Apax Partners
Latest update: *Apax France X was launched in March 2019 with a target of €1.2bn and a hard-cap of €1.4bn. It had reached its target as of March 2020 but remains on the road.*

Trilantic Capital Partners VI Europe
Strategy: Mid-market buyouts
Country: UK
Vintage: 2020
Launched: Jun 2019 **Target:** €1.0bn

Trilantic Capital Partners
Latest update: *Trilantic Europe has held several closes since a dry interim close a year ago and is nearing a final close on target, according to a person familiar with the situation.*

Eurazeo Growth Fund III
Strategy: French series-C rounds and upwards
Country: France
Vintage: 2019
Launched: Sep 2019 **Target:** €1.0bn

Eurazeo
Latest update: *Eurazeo Growth Fund III held an interim close on €155m in December 2019 and had raised €500m as of January 2021."*

NB Renaissance Partners III
Strategy: Mid- and upper-mid-market buyouts
Country: Italy
Vintage: 2018
Launched: Oct 2018 **Target:** €1.0bn

NB Renaissance Partners
Latest update: *NB Renaissance Partners III has raised €950m so far and expects to close by the summer of 2021.*

Sagard IV
Strategy: French mid-cap buyouts
Country: France
Vintage: 2020
Launched: Feb 2020 **Target:** €800m

Sagard
Latest update: *Sagard's fourth fund launched in Q1 2020 with an €800m target. It inked its first deal with Ceva Santé Animale in February 2020.*

Unigestion Secondary Opportunity V
Strategy: Small-cap secondaries
Country: DACH
Vintage: 2019
Launched: Jan 2020 **Target:** €700m

Unigestion
Latest update: *Unigestion held a first close for its fifth secondaries fund in June 2020 on €228m.*

Sovereign Capital V
Strategy: Mid-market buy-and-build
Country: UK
Vintage: n/d
Launched: n/d **Target:** €500-600m

Sovereign Capital
Latest update: *A source close to the situation told* Unquote *that the fund is now currently raising, targeting £450-500m, and is expected to reach its target later this year. Sovereign Capital previously delayed the fundraising process of its fifth-generation fund,* Unquote *was told in May 2020.*

Palamon European Equity IV
Strategy: European mid-market buyouts
Country: UK
Vintage: 2018
Launched: n/d **Target:** n/d

Palamon Capital Partners
Latest update: *Palamon European Equity IV was expected to launch in 2018. The fund was registered and is domiciled in Luxembourg.*

Silverfleet Capital Partners III
Strategy: European mid-market buy-and-build
Country: UK
Vintage: n/d
Launched: n/d **Target:** n/d

Silverfleet Capital
Latest update: *Silverfleet Capital Partners III was registered as a UK LP in July 2019.*

Capiton VI
Strategy: Mid-market buyouts
Country: DACH
Vintage: 2019
Launched: Jul 2019 **Target:** €550m

Capiton
Latest update: *Capiton VI was launched in July 2019 and remains on the road, targeting €550m. The vehicle espects to hold a final close in summer 2021, as reported.*

Clessidra Capital Partners IV
Strategy: Mid-market
Country: Italy
Vintage: 2021
Launched: No 2020 **Target:** €500m

Clessidra
Latest update: *Clessidra Capital Partners IV was launched with a €600m hard-cap in late 2020 and held a first close on €270m in June 2021. A source close to the situation told* Unquote *that the fund expects to hold a final close at the end of 2022.*

Quadriga Capital Private Equity Fund V
Strategy: DACH Mittelstand buyouts
Country: DACH
Vintage: 2019
Launched: Aug 2019 **Target:** €500m

Quadriga Capital
Latest update: *Quadriga's fifth flagship fund was registered in August 2019 with a target of €500m. The fund has so far invested in Algesiologikum Group and Degedi Group; both investments were made in 2020.*

Afinum Neunte Beteiligungsgesellschaft
Strategy: DACH Mittelstand buyouts
Country: DACH
Vintage: n/d
Launched: Feb 2021 **Target:** €450-500m

Afinum
Latest update: *Afinum is on the road for its ninth fund. The vehicle aims to hold a first close in Q3 2021.*

Magnum Capital III
Strategy: Mid-market buyouts
Country: Spain
Vintage: 2020
Launched: Dec 2019 **Target:** €400m

Magnum Capital Industrial Partners
Latest update: *Magnum Capital III held two interim closings last year and expects to reach a final close by July 2021, the GP told* Unquote.

MCH Iberian Capital V
Strategy: Mid-market buyouts
Country: Spain
Vintage: 2020
Launched: Apr 2019 **Target:** €400m

MCH Private Equity
Latest update: *The fund held a €200m first close in April 2020 and has raised €300m so far, the GP told* Unquote. *It expects to hold a new interim closing in the coming months and a final close by the end of the year.*

Made in Italy Fund
Strategy: Mid-market buyouts
Country: Italy
Vintage: 2018
Launched: Jan 2018 **Target:** €300m

Quadrivio
Latest update: *Made in Italy Fund was launched by Quadrivio in partnership with advisory firm Pambianco Strategie d'Impresa in January 2018. The fund expects to hold a final close by Q3 2021, Quadrivio told* Unquote.

Activa Capital IV
Strategy: French lower-mid-market buyouts
Country: France
Vintage: 2021
Launched: n/d **Target:** €200m

Activa Capital
Latest update: *Activa Capital IV was launched in 2020 with a €200m target and €250m hard-cap. It held a first close on €100m in Q1 and expects to hold a final close by the end of the year.*