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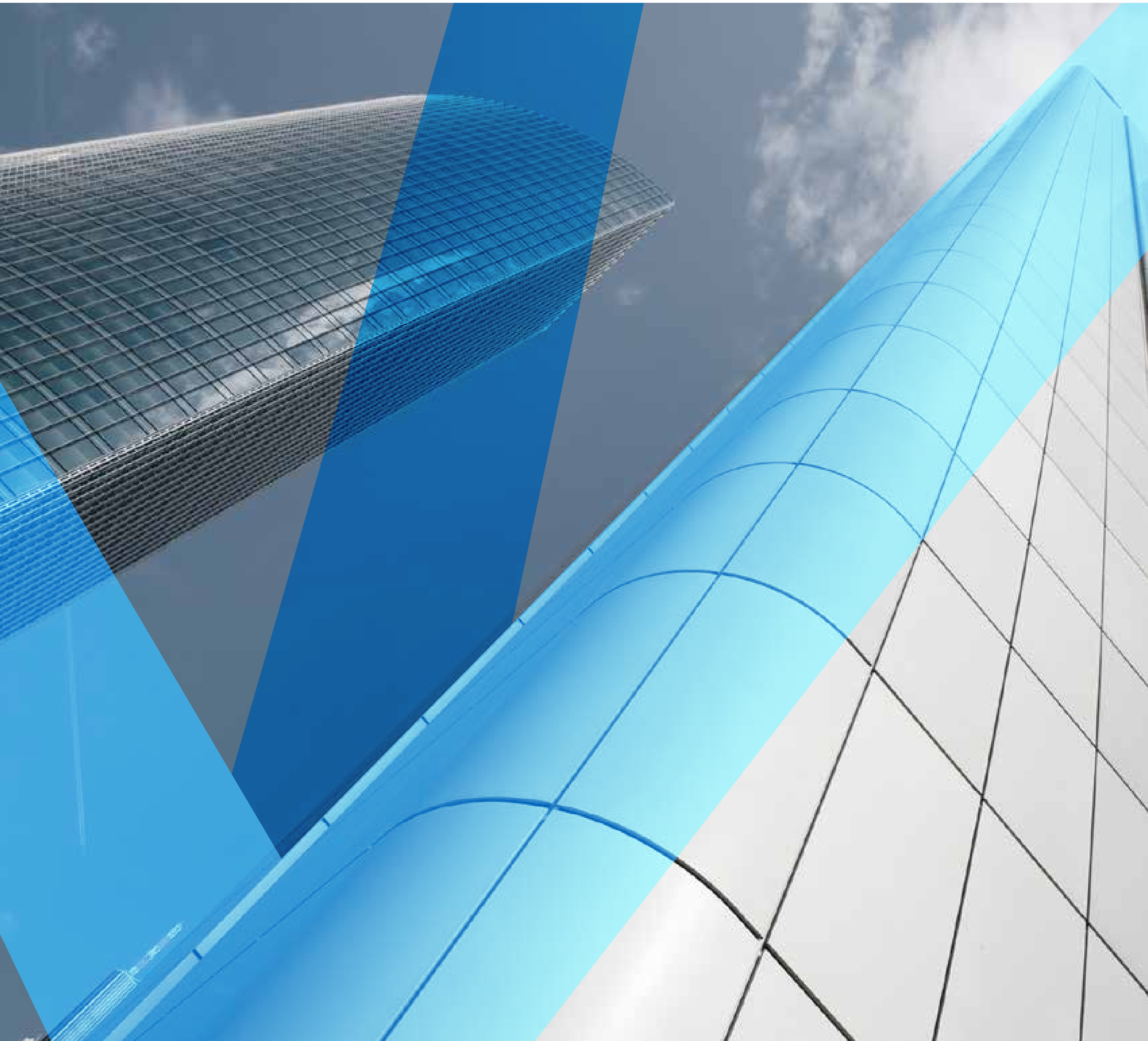
DACH Fundraising Report

2018 edition



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Market overview

Gareth Morgan
Senior research analyst

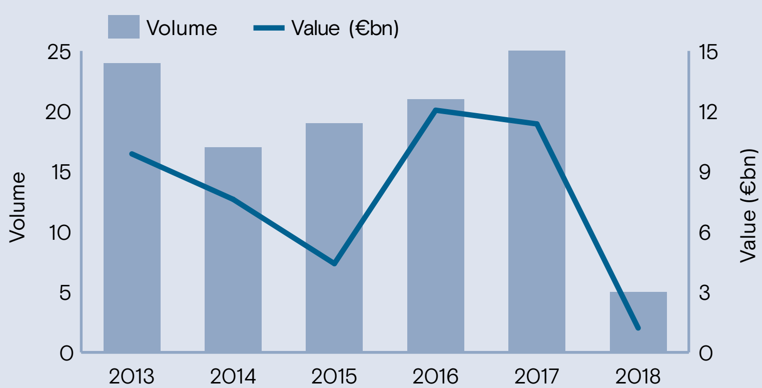
Private equity fundraising in the DACH region continued to build on strong momentum in 2017, with 25 funds holding a final close during the year securing a total of €11.37bn. This total is a slight dip on 2016's €12.05bn, but does represent the second strongest year on record.

The largest fund to close was Partners Group Direct Equity 2016, which closed on €3bn in July, followed by Rocket Internet Capital Partners, which hit its $1bn hard-cap in January, and the Asia-Germany Industrial Promotion Capital Fund 1, which also raised $1bn holding a final close in February. The largest fund targeting solely the DACH region to close during the year was Deutsche Private Equity's DPE Deutschland III, which hit its €575m hard-cap in January, an increase of 65% on the GP's previous offering.

Q1 2018

2018 got off to a relatively slow start in Q1, with five funds holding a final close raising €1.21bn. The largest of these was SwanCap Opportunities Fund III, which hit its €433m hard-cap in February, and had already deployed around half of its total capital, having completed 20 deals before final close.

Final closes of DACH PE funds



Source: *Unquote Data*

Looking ahead

Encouragingly for the German private equity market, the remaining three quarters of the year look set to be much more active in the fundraising space. Since the end of Q1, by the time of writing four funds had held final closes, securing €1.61bn, more than doubling the total amount raised for the year.

In addition to this, *Unquote Data* currently tracks 33 funds either currently raising in the market or about to come to market before the end of the year, targeting a cumulative €14.05bn. The largest of these is Triton's latest offering, which is understood to be targeting €3bn, launching in Q3 2018. There are three other €1bn funds upcoming: Capvis Equity V, which is understood to be due to close imminently, DPE Deutschland IV, to launch in Q4 2018, and Bregal Unternehmerkapital II.

Underperformance

Historically, the German private equity market has struggled to punch its weight in comparison with its European neighbours. "If you look at the PE penetration in the region, it's still significantly below its potential and also below other markets," says Christian Böhler, partner at Unigestion. "The number of deals is still relatively low given the size of the economy."

Over the last five years, German buyout deal value as a percentage of GDP has risen from 0.64% to 0.77%, up 19%, where over the same period this number for the UK rose from 1.37%

Despite historically high fundraising over recent years, the DACH private equity market still struggles to fulfil the potential of Europe's largest economy. Gareth Morgan explores the hurdles it faces

to 2.21%, an increase of 61%, and France from 0.8% to 1.39%, up 73%. Of the 10 largest EU economies, just Finland posted a lower increase in deal value as a percentage of GDP, a fall of 57%. Looking at buyout fundraising as a percentage of GDP paints a similarly torpid picture for Germany, where this number fell 61% from 2013 to 2017, again the second worst number among the EU's 10 largest economies.

Culturally, financial sponsors have not always been seen in the best light, particularly in Germany, where Franz Muntefering, leader of the Social Democratic Party, referred to private equity companies as "locusts" in a 2005 interview. The following year, *Der Spiegel*, a prominent German publication, ran an article entitled "Private equity firms strip mine German firms", which spoke of companies "falling victim" to private equity owners.

With recent coverage of the industry in *Der Spiegel* striking a far less damning tone, it's fair to say that this view has softened somewhat over time, but the industry still faces issues. "Basically, PE is not a German concept," Böhler says. "It's less in the blood of the people compared with the UK or France. Entrepreneurs in the UK want to ultimately sell their business to PE and get rich, which contrasts with the typical DACH model of family ownership & succession and socially responsible business ownership." One adaptation the PE market has made to adapt to accommodate this model of business ownership is the adoption of alternative fund models, explored in detail later in this report (*see page 10*).

This lack of penetration has resulted in what, in comparison to the rest of Europe, has been less than impressive performance. "In general, PE in the DACH region has not overperformed over

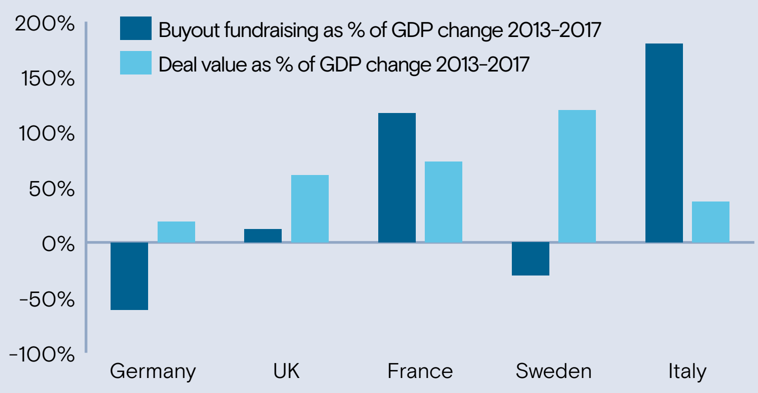
Q1 2018 final closes

FUND NAME	AMOUNT RAISED AT FINAL CLOSE (€m)
SwanCap Opportunities Fund III	433
Holtzbrinck Ventures Fund VII	306
Euro Choice Secondary II	300
BioMedInvest III	94
Quantum Opportunity Fund II	78
Grand Total	**1,210**

Source: *Unquote Data*

"UK entrepreneurs want to ultimately sell their business to PE and get rich, which contrasts with the DACH model of family ownership, succession, and socially responsible business ownership"
Christian Böhler, Unigestion

PE markets relative to their local economies



Source: *Unquote Data*

the years but it has been a solid midfielder," says Böhler. "The two main reasons for that are there is a bit more volatility between fund managers than in other markets and also the sophistication of the average fund manager is a probably bit behind the most mature markets."

In some ways, the German fiscal environment can hamper managers, since there is a potential tax liability for a fund deemed to be carrying on a business or trade, and so managers can often be more reluctant than those elsewhere in Europe to be too operationally hands-on with portfolio companies. "How intensively and usefully the average DACH Mittelstand-focused PE firm engages with portfolio companies isn't as developed as counterparts in other markets," says Karl Adam, managing director at Monument Group. "However, we are seeing a few GPs break the mould, and actively seek out and adopt best practices."

2017 final closes

FUND NAME	AMOUNT RAISED AT FINAL CLOSE (€m)
Partners Group Direct Equity 2016	3,000
Rocket Internet Capital Partners	917
Asia-Germany Industrial Promotion Capital 1 (AGIC Fund I)	894
InvestIndustrial IV Build-Up Fund	750
Monte Rosa IV	748
DPE Deutschland III	575
Euroknights VII	520
Afinum Achte Beteiligungsgesellschaft mbH	410
Euro Choice VI	410
Golding Buyout 2015	364
EMH Digital Growth Fund	350
European Special Situations Venture Partners IV	320
PE Invest 3	312
Unigestion Secondaries Opportunities IV	306
Maxburg Beteiligungen III	300
Unigestion Direct Opportunities 2015	255
Pinova Capital Fund 2	180
Cipio Partners Fund VII	174
Project A Ventures II	140
Capnamic Ventures Fund II	115
Fidelium Special Situations Fund	103
Cross II LP	92
DBAG Expansion Capital Fund First New Vintage	85
Fly Ventures Fund I	35
Innovationsstarter Fonds Hamburg II	12
Grand Total	**11,367**

Playing to win

Competition has also impacted performance for DACH managers operating in the upper end of the mid-market. Pan-European firms are often active in bidding for larger DACH assets, and this competition is increasing with regional managers, particularly from the Nordic region that have outgrown local markets looking at DACH as a fertile ground for capital deployment. Says Unigestion's Böhler: "Deals at this end of the scale are typically fully auctioned and get offered to buyers from across the world, so there's only a limited strategic advantage to being a local manager."

From the point of view of an LP, the variability in returns among DACH managers makes selection more crucial than usual. "It is possible to find DACH-focused GPs with consistently good track records, and the potential to deliver these going forward," says Monument's Adam. "Groups that have a source of differentiation - such as flexibility to take minority stakes, which can help to overcome family business owners' reticence about selling a controlling stake - should be well positioned."

Although the DACH PE industry continues to develop, it still faces stumbling blocks when it comes to catching up with more mature markets elsewhere in Europe. "On the timeline, PE in the DACH region is probably one generation behind most mature markets," Unigestion's Böhler says. "15 years ago people believed it would catch up very quickly, but this never really happened. There are still certain hurdles to overcome – both cultural as well as in the financing/banking landscape." ■

DACH funds currently in market

Fund name	Fund manager	Fund type	Fund target (€m)	Fund Status
The Triton Fund V	Triton Partners	Buyout	3,000	Pre-Launch
Bregal Unternehmerkapital II	Bregal Unternehmerkapital	Buyout	1,000	Announced
Capvis Equity V	Capvis Equity Partners	Buyout	1,000	Announced
DPE IV	DPE	Buyout	750-1,000	Pre-Launch
PG Life	Partners Group	Generalist	819	Announced
Golding Private Debt 2016	Golding Capital Partners	Direct lending/ credit	600	First Close
Capiton VI	Capiton	Buyout	600	Pre-Launch
Lakestar Growth I	Lakestar	Buyout	550	Announced
Adveq Global II	Schroder Adveq	Fund-of-funds	500	Announced
Paragon Partners Fund III	Paragon Partners	Buyout	500	Pre-Launch
Unigestion Global Choice VII	Unigestion Capital Partners	Fund-of-funds	480	Announced
Invision VI	Invision Private Equity	Buyout	450-500	Announced
Golding Buyout 2018	Golding Capital Partners	Fund-of-funds	400	Pre-Launch
Emeram Fonds II	Emeram	Buyout	400	Pre-Launch
German Equity Partners V	ECM Equity Capital Management	Buyout	325	Pre-Launch
Triton Smaller Mid-Cap Fund	Triton Partners	Buyout	300	First Close
Alpina Partners Fund II	Alpina Partners	Buyout	250-350	Pre-Launch
Lakestar III	Lakestar	Venture	250	Announced
Steadfast Capital Fund IV	Steadfast Capital Partners	Buyout	250	Announced
Castik Special Opportunities Fund	Castik Capital	Buyout	250	Pre-Launch
Ufenau VI German Asset Light	Ufenau	Buyout	200-300	Pre-Launch
CGS IV	CGS Management	Buyout	171	First Close
SHS V Fonds	SHS Gesellschaft für Beteiligungsmanagement	Buyout	150	Announced
Cross III LP	Cross Equity Partners	Buyout	150	Pre-Launch
Digital Growth Fund I	Digital+ Partners	Venture	132	First Close
Target Global Early Stage Fund I	Target Global	Venture	100	First Close
Unternehmertum Fonds II	UVC Partners	Venture	70	First Close
1717 LSV Fund	1717 Life Science Ventures	Venture	50	Announced
Astorius Capital Fund IV	Astorius Capital	Fund-of-funds	50	Announced
Capital300	Startup300	Venture	50	Announced
IBG Risikokapitalfonds III	BMP Media Investors	Venture	50	Announced
Apex One	Apex Ventures	Venture	30	First Close
Bitkraft eSport Venture Fund	Bitkraft	Venture	30	First Close

Fund in focus: Steadfast Capital Fund IV

Oscar Geen
Senior reporter

Steadfast Capital Partners is holding a first close on approximately €220m for Steadfast Capital Fund IV, *Unquote* understands.

The vehicle has a target of €250m and a hard-cap of €300m, which the GP is expected to reach before the end of the year.

The raise has picked up pace, as Fund III returns have increased, following the divestment of road safety services provider AVS Verkehrssicherung to Triton Partners in November last year.

Steadfast generated a multiple of 10.7x on the sale, which has corresponded to a fund level return of 2.1x and 150% DPI, with five portfolio companies remaining. A person with knowledge of the matter told *Unquote* that the GP is expecting to return up to 3x to investors following further divestments.

The new fund size represents a significant increase on Steadfast Capital Fund III, which held a final close on €128m in June 2011. Fund III closed with the help of a €104m stapled secondary when ING sold its stake in Fund II to a consortium of investors that also committed capital to the new vehicle.

> "If you decide you do want to grow, you can either go up in deal size or get more people on the ground and do more deals"
> *Nick Money-Kyrle, Steadfast Capital Partners*

Steadfast's founding partner Nick Money-Kyrle explains that having a larger fund will mean doing more deals. "There are three options for lower mid-market German GPs: One is don't grow, but if you decide you do want to grow, you can either go up in deal size or get more people on the ground and do more deals," he says. "We have a clear idea of what we want to do with Steadfast. There is space to grow in the lower-mid-market and while smaller deals are more people- and time-intensive,

As Steadfast Capital Partners prepares to hold a first close for its fourth fund, founding partner Nick Money-Kyrle, discusses time and price pressures in the lower-mid-market, avoiding high entry multiples and the potential for geographic expansion

doing more transactions at reasonable multiples and building the platforms through acquisitions is more likely to deliver value."

Like its predecessor, Fund IV will invest in businesses with enterprise values between €20-150m. Money-Kyrle explains Steadfast's niche in this section of the lower-mid-market: "Lack of market transparency, and the relatively high volume of potential targets, equals value in this market, and the bigger pan-European funds that would like to access that value often do not have the resources on the ground, or the contact network to generate proprietary access to dealflow."

It also allows the firm to avoid the high entry multiples seen in other parts of the market: "We are not fighting purely on price. The main problem with competing in a wider auction is you get pushed on timing and are then less able to clarify issues and explore structures that would actually be more beneficial to all parties."

Looking east

The fund will make between 8-10 platform investments and approximately the same number of bolt-ons. It will continue to focus on the DACH and Benelux markets, although Money-Kyrle does not rule out further geographic expansion in the future: "Nordic investors had to come south because they raised a huge amount of money and the funds have outgrown their home market. There is plenty of opportunity in Germany for the next few years, but, were we to start to move into new geographies, we would go east to countries such as Poland, where the private equity industry is less mature."

The current fund's strategy has been well received by LPs, says Money-Kyrle: "Investors are worried about markets overheating on pricing and therefore look for more niche strategies, where

> "Investors are worried about markets overheating on pricing and therefore look for more niche strategies, where there is less competition"
> *Nick Money-Kyrle, Steadfast Capital Partners*

there is less competition. The fact is that lower-mid-market country funds can access dealflow at attractive multiples."

The majority of commitments to the first close come from European institutions and international funds-of-funds, with a sizeable amount, believed to be €80-100m, from US investors.

A group of high-net-worth individuals has committed and a German bank has indicated its willingness to join at the next close. However, beyond that the fund is underrepresented by German investors at this stage. It is also expected that the fund will shortly receive the backing of a sovereign wealth fund.

The vehicle is registered in Luxembourg. Legal advice was provided by Dechert, fund administration services by SGG Group, and Northern Lights Alternative Advisors is acting as placement agent. ■

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AZTEC GROUP

Q&A: Aztec Group's Hana Prochaska

***Unquote*: What is outsourcing?**
Hana Prochaska: As far as the funds industry is concerned, outsourcing describes an arrangement whereby an investment manager appoints a third party to undertake certain activities relating to the day-to-day operations of a fund.

The scope of the role is determined by the manager, but the most comprehensive outsourcing relationship will involve the fund administrator taking care of the manager's middle- and back-office requirements. This will often encompass the administration of the fund, investment and carry vehicles, as well as acting as the depositary.

> "Many managers want to stay focused on managing their investments, preferring to entrust the operational and administration side to specialists. Outsourcing enables them to do just that"
> *Hana Prochaska, Aztec Group*

***Unquote*: What drives the decision to outsource?**
HP: There is a range of factors that can influence a manager's decision to outsource, particularly cost and expertise. Managers are subject to an ever-growing list of AML, compliance, accounting and regulatory reporting requirements. Managing these requirements in-house comes at a considerable cost, with the manager usually having to recruit professionals or pay significant consultancy fees.

The same applies to technology. Managers want the most robust systems in place, but capitalising on advancements requires investment. Beyond the outlay for the technology, support will be required for set-up and configuration and any ongoing maintenance or upgrades.

The modern administrator is built and resourced to manage these and a range of other challenges. So, by outsourcing, the manager gets direct access to the expertise they require, and benefits

from the administrator apportioning the costs they incur across an entire client base.

Expertise and cost aside, many managers want to stay focused on managing their investments, preferring to entrust the operational and administration side to specialists. Outsourcing enables them to do just that.

Aztec Group's senior business development manager, Hana Prochaska, speaks with *Unquote* about why managers decide to outsource, key considerations in the process, and how to effectively manage the transition to an outsourcing model

***Unquote*: How do you ensure an outsourcing relationship gets off to the best start?**
HP: Selecting an outsourcing partner is not a decision any manager takes lightly. Therefore, it is vital that the manager is at ease with the process.

The starting point is to undertake a review of the manager's requirements to ensure that the right systems, processes and controls are adopted.

With both parties agreed on how the relationship should take shape, a detailed migration plan follows. This sets out responsibilities, action points, deadlines and what measures will be taken to minimise any potential disruption. The manager is looking for business-as-usual throughout the process, and it is up to the fund administrator to deliver that.

***Unquote*: What should a manager look for in a fund administrator?**
HP: Managers should pay attention to the scale of investment the administrator has made in their systems. The right technology offers an array of benefits from greater efficiency to enhanced control and security.

An administrator's ability to provide consistent services from multiple jurisdictional offices is a pre-requisite for their selection. Perhaps more importantly, the administrator needs to demonstrate how they intend to deliver their services consistently across multiple jurisdictions. Put simply, everyone needs to be on the same page.

This brings me onto the subject of service model. Some administrators are more functional in their approach, whereby clients' requirements are effectively serviced by different departments and often different people within those departments. The downside to this model is there is little in the way of continuity provided for the client.

A true relationship-based approach involves building a stable and consistent team around the client, ensuring the manager can deal with the same people day in, day out. I would even argue that the fund administrator needs to organise themselves to effectively operate as an extension of the manager's own team. If the relationship is seen as a partnership, the manager can be sure they have got it right.

Managers should pay close attention to the administrator's client base and their background in serving clients of a similar size, investment strategy, asset class focus and geography. Having teams in place with relevant expertise and experience is an absolute must, along with relevant language skills or, at the very least, cultural affinity.

Managers should not be afraid to look at retention rates either and should speak directly to the administrator's clients before starting a relationship. There is no substitute for hearing from those with experience, with this feedback either validating the administrator's service proposition or letting a manager know that maybe they should keep looking. ■

DACH GPs consider alternative funding models

Oscar Geen
Senior reporter

Fundraising for buyouts in the DACH region reached a post-crisis record in 2017, raising €6.2bn across nine vehicles. However, as the market matures, some GPs are looking at alternatives to the standard LP fund model.

There are some clear advantages to raising a traditional private equity fund: equity capital is readily available for fast deployment and GPs are clearly incentivised to be focused on the eventual exit and therefore the LPs' returns.

However, in the past year there have been some high-profile examples of GPs having success with other models. Three of the top five most active buyout investors based in the DACH region last year used non-standard models. Aurelius Equity Opportunities uses a listed industrial holding structure, while Hannover Finanz uses a range of evergreen vehicles and Perusa recently revised plans for a new buyout fund in favour of a more bespoke vehicle (*see box*).

Brockhaus Private Equity took a similar approach to Aurelius last year and launched a listed investment vehicle. Marco Brockhaus explains: "The vehicle is an AG (German stock corporation) that is to acquire and hold the companies. The technology holding will have consolidated financials starting with the first deal. To date, we have raised approximately €50m. The number of investments will depend on their size."

One reason for seeking a different structure is the longer investment horizon that it enables, Brockhaus says: "A lot of our past investments continued to show impressive growth trajectories after our exit; with a longer term exit horizon the full value of investments could be realised."

This is also attractive to potential portfolio companies, says Brockhaus: "Additionally, in discussions with entrepreneurs who are seeking a perfect home for their companies, we observe a substantial USP of our new long-term approach, with a lot of entrepreneurs preferring to sell their businesses into a structure like ours."

Former CVC managing director Gregor Hilverkus recently founded Swiss private equity firm, Legian Investments, focusing on the DACH region. He recognises the flexibility afforded by not having a standard fund. "We wanted to focus our time on doing deals and developing companies," he says. "Not having a fund simplifies overheads and gives us a bit more flexibility with respect to holding periods."

> "Not having a fund simplifies overheads and gives us a bit more flexibility with respect to holding periods"
> *Gregor Hilverkus, Legian Investments*

Alignment

Hilverkus sees three main options for firms such as Legian: "We can continue on a deal-by-deal basis, raise a traditional fund or raise a vehicle that is a bit more bespoke, where you put three or four deals into it." This excludes the evergreen fund option that he looks on slightly less favourably. "Many

DACH-based GPs are increasingly looking to alternative fund models, with Brockhaus Private Equity, Perusa Partners and Legian Investments among the most recent firms to have adopted other approaches

people dream of having an evergreen vehicle, but if I put myself in an LP's shoes I think it is better to have the exit focus that comes from one of the other structures," he says.

However, the other models have been more warmly received by LPs in certain circumstances. Says Hilverkus: "Some capital providers do not like blind pools. They would rather have a direct stake in a company where they know the management and the business than a fund commitment that seems a bit more abstract." In these cases, a deal-by-deal arrangement works best and also helps LPs to reduce management fees. "There is also the advantage of not charging any fees on non-invested capital in a deal-by-deal structure," he says. "We charge a moderate ongoing fee to cover expenses and we are aligned on realisation. We also invest a meaningful amount of our own money."

A listed vehicle often leads to a more diversified LP-base. "Our investor base spans a variety of backgrounds," says Brockhaus. "However, due to a quick fundraising during the private placement last year, it was principal investors that subscribed rather than asset managers. At public markets where investors are used to short timeframes, we expect that to change."

In general, Legian's Hilverkus sees this development as part of a more general post-crisis expansion of the capital base in private markets, linking it to specialisation in other parts of the market: "More funding models is a part of this general trend and I think it is here to stay." ■

Perusa changes fundraising strategy

German turnaround specialist Perusa Partners has changed its fundraising strategy and no longer plans to launch Perusa Partners III in 2018, *Unquote* understands.

The firm has agreed an alternative funding structure with LPs that it will review after 12-18 months. *Unquote* previously reported that Perusa was gearing up to launch its third fund with a target of €250m.

Perusa did five deals out of Perusa Partners II between its final closing on €207m in November 2011 and December 2016. It then did five more deals between September 2017 and January 2018, according to *Unquote Data*.

The new structure is said to be more appropriate for the turnaround nature of the firm's investments, which leads to this non-standard rate of deployment. It will also enable the GP to offer more co-investment opportunities to its LPs. The firm is sticking to the same strategy and is said to have a healthy pipeline.

The exact nature of the new structure is not clear. Brockhaus Private Equity announced it would eschew the standard fund model in October last year, electing instead to raise capital in a vehicle that would ultimately be listed.

MVision Private Equity Advisers acted as placement agent on Perusa's previous two funds and is taking an advisory role to the new structure.

Perusa and MVision declined to comment on the situation.

DACH-based VC funds beat buyouts in 2018

Oscar Geen
Senior reporter

Fundraising in the DACH region has got off to a slow start in 2018. By this stage last year, four buyout funds had held final closes for a total of almost €2bn, while VC funds lagged behind, even taking into account Rocket Internet's $1bn contribution.

This has been the normal state of play in the region in the post-crisis era. The only exception was 2015, when 11 VC funds raised a total €1.8bn compared to just four buyout funds, which brought in €1bn.

So far in 2018, only five primary investment vehicles have held final closes in total. Four are VC funds: Holtzbrinck Ventures Fund VII; HTGF III; BioMedInvest III; and UnternehmerTUM Fonds II for a total of €791.4m. The other, Quantum Opportunity Fund II, is a €77.5m special situations vehicle.

In 2015, the discrepancy was mostly explained by the fact that VC funds had a relatively quiet preceding two years while the buyout market had been hitting post-crisis peaks, as 10 buyout funds raised €7.1bn in 2013-2014, and most of the brand-name fund managers were already in deployment mode.

However, this time both buyout and VC fundraising came into 2018 following two years of strong performance and, while there are several buyout funds currently in the market that could easily tip the scales if they get over the line in the last few weeks of the first half of the year, the fact that VC funds have been quicker to get there is indicative of the strong growth in the asset class in recent years.

> "Compared to some years ago, funds are slightly more focussed on specific sectors. However, the market is not really mature or deep enough to play too narrow sector approach"
> *Christian Böhler, Unigestion*

Fund evolution

Between 2008-2017 the average VC fund size more than tripled from €82m in 2008 to €249m in 2017 (*see graph, opposite*). For 2018 so far, this figure has dropped to €197.85m, but looking at the specific funds involved still reveals growth. UVC Partners raised the hard-cap of its latest fund twice and ended up with commitments totalling more than three times the previous generation, and Holtzbrinck Ventures has increased its fund size by 72% since becoming independent in 2010.

Ingo Potthof of UVC Partners is wary of taking the statistics at face value: "I would be a bit cautious that the average fund size has increased quite as much as the graph shows, a few large vehicles could be distorting it. However, the general trend is upwards and the number of funds and type of investors in venture capital has also increased a lot."

One hurdle that buyout firms have to overcome in the DACH region is the reluctance of some

Not a single vanilla buyout fund has held a final close in the DACH region in 2018 so far, while four VC funds have wrapped up their raises for a total of €791.4m. Oscar Geen examines the growth of the asset class in the region

business owners to sell to private equity. Potthof says this is less of an issue for VC firms: "The founders that early-stage venture capital backs are much more open to investors than traditional companies that buyout funds target. They have recently set up a company and understand that they need to raise capital from a VC, family office or corporate investor."

Wider influence

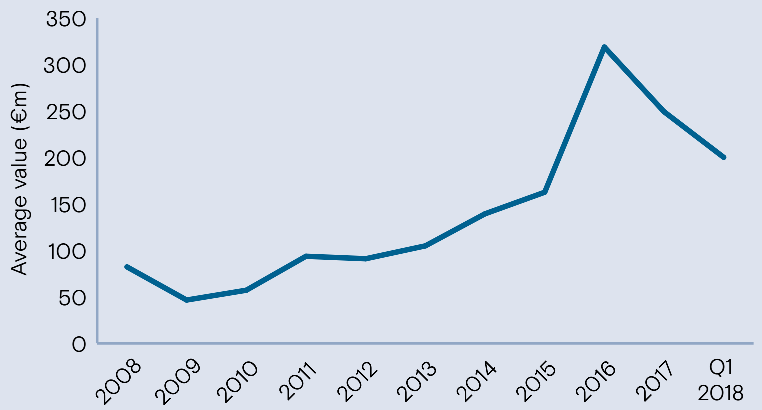
However, Christian Böhler of Unigestion sees this trend spilling over into the larger deal brackets, and therefore fundraises: "We see a lot of technology deals in industries such as software, renewable energy and high-value-add engineering, and the bulk of these deals are minority or growth financing, which is mirrored in many funds coming to the market respectively. Compared to some years ago, funds are slightly more focused on specific sectors. However, the market is not really mature or deep enough to play a too-narrow sector approach. Other than technology growth funds, there are not too many."

The trend of buyout firms doing more growth and technology deals has supported VC firms both directly and indirectly. Says Potthof: "There are also more of the larger growth equity and technology-focused private equity funds. We have co-invested alongside one and have heard of buyout firms acquiring companies from VC firms directly, although we have not done this at UVC yet."

Potthof also sees more specialisation in the VC space, but thinks it is important for VC firms to be able to change their strategy to follow trends. "We do see a bit more specialisation of VC funds, but I'm not sure it will be a long-term trend. In general, I believe you need to have a bit of a broader strategy and be flexible as a VC firm."

Regardless, it is clear that VC funds are attracting more LP attention, and not just from German investors. "Our LP base for our latest fund is purely German because we did not go fundraising internationally. However, we do see more interest in German VC generally and international funds-of-funds have selectively made some fund commitments," says Potthof. ■

Average DACH venture capital fund sizes



Source: *Unquote Data*

The LP experience

Gareth Morgan
Senior research analyst

The DACH region, particularly the Mittelstand, has historically been very difficult to access for international LPs investing through external fund managers. Despite a rich corporate landscape, the region is underrepresented in private equity portfolios across the globe, and LPs face challenges in building out exposure to a region that has historically underperformed. "LPs are generally short DACH exposure, in that their portfolios are structurally underweight relative to the country's GDP," says Mounir Guen, CEO of MVision Private Equity Advisors. "Statistically, the volume of potential opportunities in Germany is very large, but as an investor looking to capture the market, access can be difficult as there is a limited domestic headcount of GPs."

Earlier in this report we discussed some of the issues that DACH GPs face in operating in the region. Culturally, Germany can be hostile to financial sponsors, seeing them as value extractors rather than creators. For international investors, this can be frustrating, as access to investments in private companies in Europe's largest economy is otherwise very hard to come by. Alongside access issues, LPs also face a high degree of variability in performance, and general underperformance relative to elsewhere in Europe. A recent report published by alternative investments software provider eFront said the DACH region had "the worst risk-adjusted performance" of buyout funds from across the world, citing an average historic IRR of just 5.87% and TVPI multiple of 1.27x. In comparison, the Nordic region averaged 16.73% IRR and 1.96x TVPI, the UK 15.76% and 1.62x, and France 10.24% and 1.51x. The DACH region also has the highest selection risk, measured as the difference between the top and bottom quartiles, according to the report.

> "LPs are generally short DACH exposure, in that their portfolios are structurally underweight relative to the country's GDP"
> *Mounir Guen, MVision Private Equity Advisors*

Worst-case scenario

These numbers underline the development deficit the DACH private equity market faces in comparison to elsewhere in Europe, and also the importance of manager selection in the region for LPs. Several industry participants have spoken of a lack of sophistication among DACH fund managers compared with practitioners in other markets, citing a less proactive approach to deal sourcing in the lower-mid-market, resulting in a slow deal pace, competitive auction processes in the larger deal brackets inflating asset prices, and less emphasis on hands-on value creation within portfolio companies generally. From an LP perspective, the worst-case scenario of a GP that deploys slowly and pays above the odds for a business, which it subsequently is not able to optimise, is not an attractive investment proposition.

On the other hand, where LPs have access to managers with a deep sourcing network within the Mittelstand, or are able to maximise value creation, either through majority or minority ownership, returns have been impressive. However, given the limited supply of these managers, funds they raise are quickly oversubscribed, and LPs without an existing relationship can find it very difficult

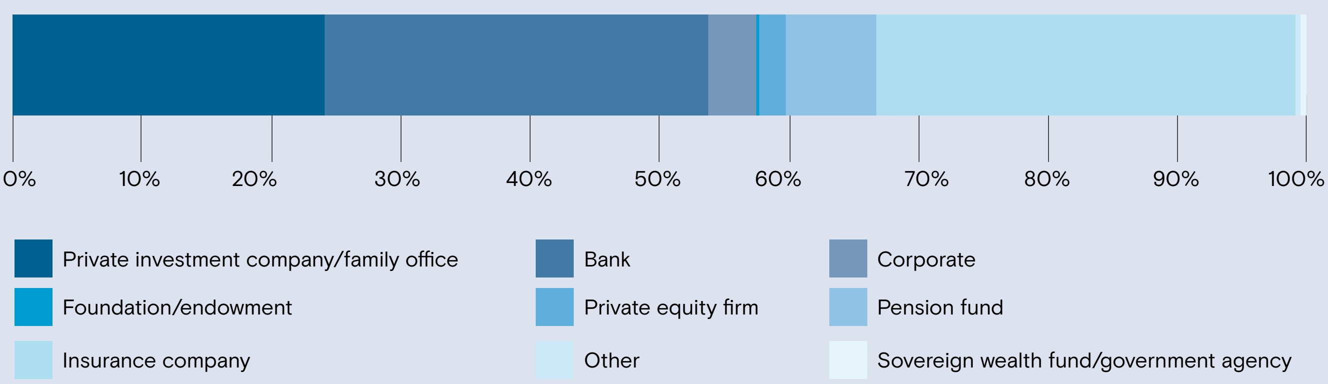
Notoriously difficult access, inconsistent performance and a lack of sophisticated domestic fund managers are hindering international LP investment in the DACH region

to get access. In this case, one solution for LPs to gain exposure to the DACH region is via a pan-European manager with a team based in the region. “It is possible to gain access to the DACH market via a pan-regional or pan-European firm, and there are some high-quality operators,” says Karl Adam, managing director at Monument Group. “However, generally speaking, this provides access to mid-cap deals rather than the traditional DACH lower-mid-market. Also, the DACH component will be only part of the portfolio, so it is less ‘pure play’ DACH exposure.” This is beginning to change, as several pan-European managers have raised lower-mid-market funds in recent years, notably EQT, Silverfleet and Investindustrial.

A point to be considered is that the DACH market is growing quickly, as evidenced by the growth in fundraising in recent years cited earlier in this report, and with it, as the industry matures, the perception of financial sponsors is softening. “As a younger generation of business owners comes through, dealflow may rise as they may be experienced with, and more open to, private equity ownership, as seems to be the case in the technology field,” says Adam. Should this trend continue to develop, deal sourcing should become more straightforward and owners who have experience in working with financial sponsors may be more understanding of working together to create value. This hypothesis is supported by data from *Unquote’s Annual Buyout Review,* which has recorded an increase in the portion of buyouts sourced from private and family vendors every year since 2013.

From the point of view of LPs looking at the DACH region, these developments would be seen in a very positive light, and the promise of seeing returns more in line with elsewhere in Europe is likely to mean continued fundraising growth for DACH-based managers. ■

The makeup of DACH LP base by AUM



Source: *Unquote Data*

League tables

League tables of the most active placement agents working in DACH, and the GPs that have raised the most capital for buyout funds in the region in the last decade

Most active placement agents in DACH

Placement Agent	Number of DACH funds raised 2013-2017
Campbell Lutyens & Co	3
Monument Group	3
Evercore Partners	2
Quest Fund Placement	2
MVision Private Equity Advisers	2
First Point Equity	2

Total funds raised by GP for buyout/generalist funds holding final close 2008-2017

GP	Total raised (€m)
Partners Group	5,830
Triton Partners	5,550
Deutsche Beteiligungs	2,027
Capvis Equity Partners	1,320
Deutsche Private Equity	925
Argos Wityu	920
Agic Capital	894
Capiton	790
Afinum Management	690
Paragon Partners	632
Ventizz Capital Partners	565
Orlando Management	551
Quadriga Capital Eigenkapitalservices	529
Genui	407

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