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# 2018 Projections for Industry Growth

If 2017 serves as a window into projections for the year ahead, then next year promises to be one of sustained growth for the private equity community. Mega deals were the order of the day in the first half of this year, and industry experts note that 2018 will likely be more of the same.

According to PitchBook Q3 2017 US PE Breakdown, US-based funds raised $62.4 billion in commitments for just 58 vehicles in the quarter. The report notes, "The stockpile of capital is accumulating across fewer funds; the median fund size for all PE strategies increased to $265.0 million through 3Q 2017." The data also indicated that private equity firms invested $163.4 billion in 959 PE deals in the US during the third quarter of the year, making year-to-date totals of $401.7 billion in deal value for 2,820 transactions. PitchBook reported that mega-funds – funds with at least $5 billion in commitments – made up 54% of the capital raised by PE funds in 2017, making it a decade high.

## A Maturing Industry

Private equity continues to defy expectations, says Johannes Nölke, Managing Director, Alternative Investments, at Vistra Germany. But increasing competition for managers, investors, and administrators has left its mark and will continue to do so on the industry in the year ahead. Nölke adds, "The cycle of increased capital inflows, growing competition, higher multiples, and accumulating dry powder will shape activities in 2017 and beyond."

Malcolm Pobjoy, Group Commercial Director, North America, at Vistra, also sees sustained growth of the PE industry with a continued flow of assets into the segment. He believes that the industry can spur growth and returns in the year ahead by increasing standardized approaches to such things as fee and performance reporting, as well as LPAC and co-investment transparency.

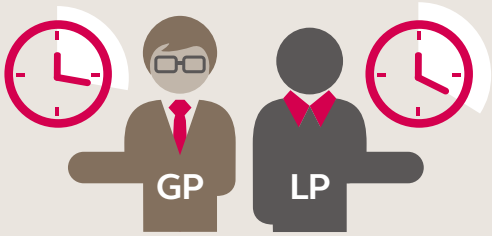
Institutional investors will certainly continue their push for additional transparency in 2018. According to Vistra's research report titled "Private Equity Fund Governance: Establishing Best Practices 2017 – The Manager & Investor Perspective", a majority of the LPs and GPs polled "expect that there will be more investor involvement in the governance structures of the private equity industry in the future."

Pobjoy adds, "We see the industry maturing under this driving force of increased institutional investment flow in 2018. The cautionary note to watch is around the ability to deploy." Not all of this new money is being deployed as quickly as desired and, as such, it may be difficult to meet investor expectations for returns, especially if appropriately priced assets become harder to find.

## The Economic & Political Headwinds?

All signs do point to continued robust fundraising and an optimistic trend reversal in M&A activities, as people finally digest the shock of last year's Brexit vote and the US elections. Julian Carey, Head of Client

### Time Spent on Governance Matters




**74%** are spending more time on governance matters than they did 3 years ago.

**73%** are spending more time on the governance matters (on private equity structures) than they did 3 years ago.

Services-Associate Director at Vistra Guernsey, does predict short-term shocks to private equity. A rapidly changing global economic situation with rising interest rates, the long forecast possible Brexit crash, potentially falling house prices in key centers, such as the UK, and taxation uncertainty, are likely to create these short-term shocks.

## A Bright Future for PE

Fortunately, says Carey, the industry will also see a better and more sustainable long-term environment, as the intervention of quantitative easing and the era of very low interest rates ends. Catherine Law, Senior Manager, Business Development, Alternative Investments, at Vistra Hong Kong, agrees, adding, "We see an active market in deals sourcing, especially in the Southeast Asian region and Greater China." She also predicts that active fundraising will continue in the region. "US and European GPs are starting to allocate more assets into Asia – not wanting to miss out on the potential for growth," Law adds.

The growth of an entrepreneurial culture across both mature and emerging markets globally will fuel demand for capital to be deployed outside of public markets. With the limitations on banks to maintain capital ratios, the opportunity for PE to fill that need should be a platform for a bright future.

## Contact us

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