Hamilton Lane

Acceleration of Trends: Part 3

Trendspotting

July 13, 2021 | Brian Gildea, Head of Investments

Have you ever had a sense that a trend is developing? I have, from time to time. And it's especially validating when I then see a report with data that confirms that view (Examples: I absolutely called that the housing market was going crazy late in the pandemic, and I knew that Crocs would come back.).

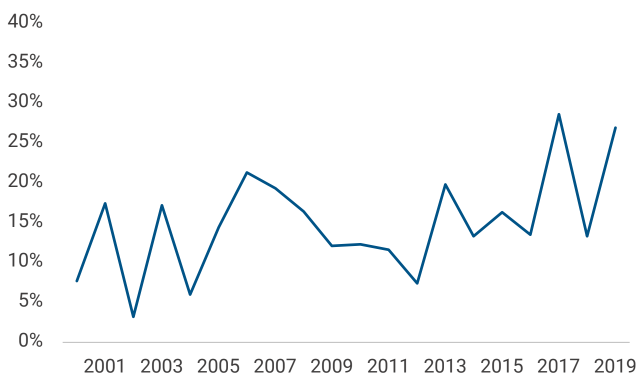
Personally, I am then even more eager to understand what's driving the trend and why. To me, the best news stories are those that provide real data and thoughtful analysis to support their views. I know, I know. Hamilton Lane is once again spouting off about data and analytics. If those topics aren't of interest, dear reader, I expect that reading on will bean unsatisfactory use of the next 2½ minutes of your life.

But for those of you who are sticking with me, consider fundraising in the private markets as one such topic that tends to be light on data, but long on anecdote; it is oft discussed and dissected, with participants and bystanders alike offering guesses and assertions around what's driving the latest trends. How much money has been raised, by whom, and for what? Quick to offer predictions or even declarative statements around the "next trend" in fundraising.

And while some are more fleeting, there is at least one fundraising trend that holds up: Fundraising has become increasingly concentrated amongst the largest managers. This is something that you may have sensed or even experienced directly. The chart below shows the amount of capital raised by the top 10 managers in each vintage year. The trendline – backed by fulsome data – is clearly up over the past several years.

Chart 1: Fundraising by Top 10 GPs

% of Fundraising by Vintage Year

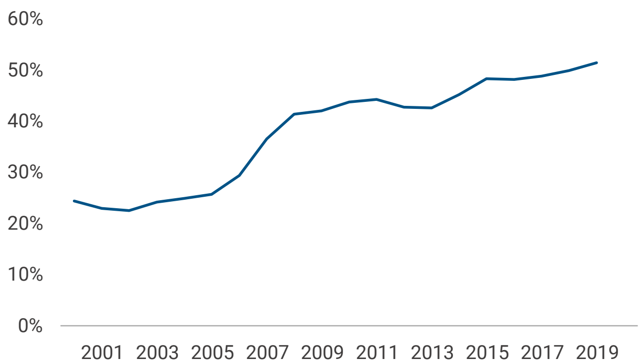


Source: Cobalt (January 2021)

The forces behind this trend, however, may not be the ones most people expect. The common refrain we hear is that the largest funds are getting larger and taking more market share. Our view is that there is something more significant at play. The data actually shows that the largest GPs have expanded their capital base by raising funds outside of their existing flagship vehicles. As illustrated in the chart below, for the top 10 GPs, more than 50% of total fundraising is now coming from non-flagship funds, which is a dramatic increase.

Chart 2: Top 10 GPs Non Flagship Fundraising

% of Fundraising by Vintage Year

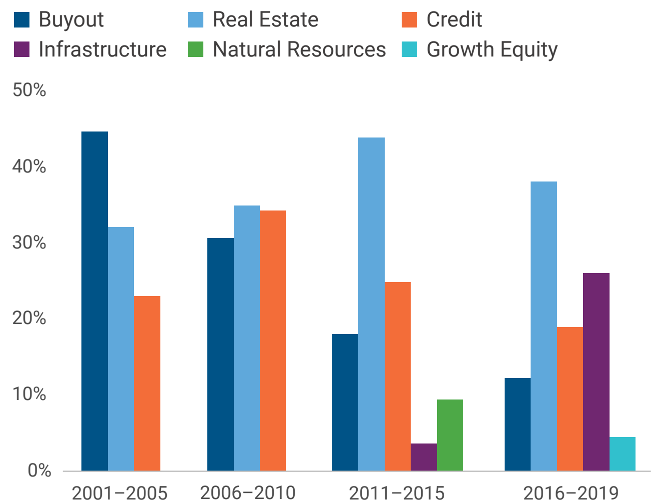


Source: Cobalt (January 2021)

In a prior [Acceleration of Trends] piece, I highlighted accelerating investor interest in infrastructure and growth. Any guesses as to where these largest GPs have expanded their fundraising? Never a group to miss out, the largest GPs have indeed taken notice of investor appetite for infrastructure and for growth. Chart 3 shows that after a focus on adding real estate and credit funds from 2000-2010, infrastructure and growth equity have emerged as priorities in recent years.

Chart 3: Top 10 GPs Non-Flagship Fundraising

% of Non-Flagship Funds Raised



Source: Cobalt (January 2021)

GPs are in fact expanding their platforms by adding strategies focused on areas that are increasingly of interest to investors. This allows GPs and LPs both to do more with their existing relationships, which has been particularly helpful in a remote environment, where building new relationships is difficult.

So, there you have it. A real live, data-backed trend. And might I say, I totally saw it coming.

We are left to wonder what comes next? Will infrastructure and growth continue to become a larger part of GP expansion strategies, or will they disappear the way that natural resource-focused efforts faded post 2015? Count me in the camp of expecting the former. And what strategies will emerge next? This is purely speculation at this point, but don't be shocked if you start seeing PPMs for impact or renewables funds.

ENDNOTES

Strategy Definitions

Corporate Finance/Buyout: Any PM fund that generally takes control position by buying a company.

Credit: This strategy focuses on providing debt capital.

Growth Equity: Any PM fund that focuses on providing growth capital through an equity investment.

Infrastructure: An investment strategy that invests in physical systems involved in the distribution of people, goods, and resources.

Natural Resources: An investment strategy that invests in companies involved in the extraction, refinement, or distribution of natural resources.

Real Estate: Any closed-end fund that primarily invests in non-core real estate, excluding separate accounts and joint ventures.

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