

FUND FINANCE FRIDAY

PEI Provides an Update on Fundraising

April 7, 2023

PEI's [Fundraising Report 2023](#), published this week, provides a timely update on the state of play in private market capital formation.

The feedback loop conundrum facing private markets emerges as one of the main themes in the report. GPs are seeking to avoid selling investments into a weak market, distributions are therefore curtailed, leading LP allocations to private funds higher as a result and fundraising lower. Some GP responses to these challenges, such as maximizing capital from existing funds through capital recycling and capital calls for follow-on investments, can reinforce the cycle. The upshot: expect 2023 fundraising totals to be challenged, fundraising periods to stretch, and terms to tilt LP-friendly at the margin.

In this context, GPs are clearly motivated to use secondaries transactions and NAV financing as liquidity solutions. Tender-offers-plus-staple deals – a process in which a sponsor offers to buy LPs stakes in a particular fund at a preset price paired with an LP commitment to invest a portion of the proceeds in a new fund – receive a dedicated article. Co-investment opportunities with stapled commitments add a variation to the theme. NAV financing also gets some press. As *FFF* readers will know, NAV loans can be particularly helpful in the current environment to help sponsors raise capital against in-place investments to facilitate distributions and fund investments while avoiding an inopportune sale.

Constraints on institutional LPs mean sponsors are now also motivated to pursue non-institutional sources of capital. On-ramps for retail, HNW, and UHNW investors, including wealth manager partnerships, aggregation vehicles, and perpetual capital sources, are becoming a more important piece of the long-term platform growth strategy.