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NEWS & ANALYSIS

Adams Street: The mega-fund is here to stay

Jeffrey Diehl, managing partner and head of investments at Adams Street Partners, sees the mega-funds raised in 2017 as a sign of things to come.

By Isobel Markham

The mega-fundraises of 2017 will continue into next year, and as dry powder grows, fund managers will need to up their investment pace, predicts Jeffrey Diehl, managing partner and head of investments at Adams Street Partners.

What has stood out for you in 2017?

The largest funds that have been in the headlines and the oversubscribed nature of some of those funds. A good example is a large public private equity firm that had an original fund size target of $17 billion to $18 billion and they ended up closing on $25 billion – just the overage amount itself would have been considered a mega-fund. I don't believe that will slow down. There are several other large, public private equity firms that I suspect will be back in market soon and will likely experience similar fundraising success, absent a major market dislocation.

Do LPs have more options today?

We've seen a lot of new managers. We have seen some strategy proliferation at firms which used to be just a straight buyout firm and now they've got other strategies, they may have launched a growth equity fund or an industry-specific fund.

We have seen more spin-outs – experienced teams that are leaving larger shops to start their own firms. Those we don't consider first-time managers, we consider those experienced people that have a first-time fund together, and those are things that we have a lot of patience for. We've seen a nice uptick in those in the last few years.

We've seen several GP stakes transactions in 2017 – will we see more firms move into this space?

We've seen these GP stakes transactions start to creep into the market. I do expect other firms to launch strategies in that space. Anytime there might be something that looks like a hot or interesting strategy, there'll be lots of competition creeping up to try to raise capital. How many succeed, how many will actually have a good product – that remains to be seen. There will be no shortage of attempts. We've seen a number of attempts, many of which have failed, to raise funds in this strategy.


Jeffrey Diehl

What's been the biggest surprise in 2017?

The biggest positive surprise has been liquidity. This will be the eighth straight year that we'll produce liquidity as a percentage of beginning NAV that's either in the high teens, low twenties, or even higher across the firm. It feels like that will pull back at some point, but managers have done a very good job of being net sellers.

On the negative side, the build-up of backlog of capital, in particular at the mega end of the market. If you

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look at the total deployment pace of the industry, it's below the capital that's been raised, which means there's more dry powder building. That money does have a clock on it, it will need to get put to work, and so it feels like there's going to be an increased investment pace over the next couple of years. At some point it's got to catch up. I'm a little more surprised that the investment pace this year wasn't higher than it's going to turn out to be.

What are your predictions for 2018?

I expect the investment pace will pick up. Fundraising will continue to be strong, and I expect several very, very large mega-funds to be back in market next year. I expect liquidity to continue to be strong; we've seen eight straight years so unless there's a major correction to public market equities, we'll continue to see very strong liquidity as a percentage of NAV. It feels like it's more of the same based on everything we see.

The interest in the asset class for fundraising will remain strong. If you look around and say 'what are my alternatives in terms of deploying capital?' public equities feel fully-priced, liquid fixed income doesn't feel terribly attractive, credit spreads aren't terribly wide, so if you look at our asset class, you can still get a premium for illiquidity, so there will continue to be shifts into our asset class relative to other asset classes.

Adams Street manages more than $31 billion in assets, invested across primary, secondaries and co-investments, venture capital and growth equity, and private credit.