Proskauer

Proskauer's Private Funds Group Looks 'Under the Microscope' at the Fundraising Terms and Trends Affecting the European Market

June 14, 2021

Proskauer held the fourth of its 2021 'Under the Microscope' seminar series, providing a comprehensive analysis of the European fundraising market.

The Private Funds team analysed 30 key LPA terms from 90 European buyout funds and 39 venture capital funds raised in the last 18 months, representing over €235 billion in capital, providing insight into how terms have changed over recent years and identifying future trends that will shape the market.

Built to serve asset managers, Proskauer's Private Funds Group will continue to monitor the evolution of the market through our data analysis, offering our clients insights to aid in charting the course ahead.

"The study covers the largest data set we've surveyed so far, and was collected at time when sponsors and their portfolio companies were facing a number of challenges as a result of the COVID-19 pandemic" said Aranpreet Randhawa, Private Funds Partner in London.

"Our analysis found that, in the buyout space, GPs are getting greater flexibility on term extensions and there is a trend towards higher borrowing limits, particularly at the largest end of the market. We also saw interesting shifts in carry percentages, distribution waterfalls and jurisdiction. This is set against the backdrop of the solutions that we saw sponsors implementing in practice to address COVID-19 related issues; such as financing solutions to support existing portfolios, requests for investor consents to expand fund recycling provisions or extend investment periods, and de-risking capital throughout the fundraise process. As we move to the second half of 2021 and beyond, we predict that there will be a continued focus on recycling, the importance of ESG factors in sponsors' businesses and investment activities, and increased transparency on the use of borrowings," added Ms. Randhawa

Sample data includes:

- An increase to 41% in the proportion of buyout funds that give the GP discretion over at least one year's extension, reflecting the desire of managers to have flexibility to hold on to investments for longer periods, without changing the headline term.
- 70% of buyout funds having a cap on borrowing between 20% and 30% of commitments, with a slight increase to the upper end of this range.
- Borrowings continue to be limited to short-term (i.e. 12 months) for most funds. However, at the largest end of the buyout market (funds larger than €3.75 billion) longer borrowing periods are more likely, with 21% these funds have no time limits on borrowings at all.
- Only a small number of buyout funds (8%) continue to charge premium economics, making use of a ratcheting carry percentage, increasing if returns exceed a particular threshold.
- 87% of venture capital funds use a form of whole-fund distribution waterfall but the European venture capital market continues to see substantial variety in the detail of the waterfall.
- The shift to Luxembourg as the jurisdiction of choice for venture capital fund structures is low in comparison to other asset classes – only 15% are Luxembourg based.

The seminar also included a panel discussion moderated by Private Funds Partner Nigel van Zyl. Mr. van Zyl was joined by the following industry leaders, for a lively discussion about their insights on the market: Cristina Forcina Westermann of Houlihan Lokey, Frida Einarson of Verdane, Marin Munte of 17Capital and Mattias de Beau of Adams Street Partners.

The Proskauer Private Funds team represents 500+ GP and 100+ LP clients globally, making them one of the leading practices in the world. The team is also recognized widely in the market having recently been voted 'Law Firm of the Year for Fund Structuring' by Unquote at the British Private Equity Awards and recognized as a 'Top Law Firm' in the Secondaries Investor 2020 Law Firm Survey,

Our cross border Private Funds Group offers a complete package of services to private investment funds and investors, with a dynamic interdisciplinary global team of 160+ lawyers. This includes lawyers based in the U.S., UK, Asia and Latin America with specialists in tax, ERISA, regulation, fund finance, employment, litigation and risk management.

Since January 2019, the team has advised on the formation of over 275+ funds and vehicles exceeding $77 billion in target commitments. The team have also advised on 800+ primary investments representing more than $20 billion in commitments and 280+ secondary transactions with total deal values of over $66 billion.

Related Professionals

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- **Christopher Elson**
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- **Warren Allan**
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- **Bruno Bertrand-Delfau**
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- **Mary B. Kuusisto**
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