

Proskauer Releases Annual Fundraising Terms and Trends in the European Market Report

October 2022

Recent macro-economic, geopolitical events and a buoyant fundraising market driving unpredictability in market

LONDON - Proskauer, a leading international law firm, released the latest edition of its annual 'Under the Microscope' report, providing a comprehensive analysis of the European buyout and venture capital fundraising market.

Representing approximately €220 billion in capital, the team analyzed 29 key LPA terms and conditions from 80+ European buyout funds and 35+ venture capital funds raised in the last 15 months. The funds were all either specifically focused on Europe or had Europe as a core geography in their investment strategy.

The target fund size of the buyout funds reviewed ranged from €90 million to €23 billion, representing in total approximately €209 billion of capital; while the target size of the venture funds reviewed ranged from €22 million to €822 million, representing in total approximately €10.9 billion of capital.

"Recent macro-economic and geopolitical events, coupled with a buoyant fundraising market have meant that there is some unpredictability within the fundraising market. Funds are coming back to market in increasingly shorter periods due to rapid deployment of existing capital in new deals and follow-on capital. GPs are also looking to raise further capital for investment and secure investor allocations as early as possible." said Aranpreet Randhawa, Private Funds Partner in London.

"Funds are increasingly seeking to de-risk capital through holding rolling closings. We've also seen an increased use of continuation funds, coupled with increasing efforts to include in LPAs a right to transfer assets into a continuation fund with LPAC consent. In a minority of cases, GPs have even sought to include in their LPA a right to bypass the LPAC provided an independent fairness opinion is provided to LPs." added Ms. Randhawa

Key insights for buyout funds include:

- **Greater flexibility in terms extensions for GPs:** we are seeing greater flexibility on term extensions through relaxation of consent thresholds and/or providing for longer extensions continues. For instance, there has been an increase in the number of funds that give the GP discretion in relation to at least one extension (54% this year, up from 41% last year). Some GPs prefer using continuation vehicles (in particular where additional capital is required or where a longer hold periods are envisaged). Also, we are seeing funds attempting to pre-bake approvals for continuation vehicles into their fund documents at the outset.
- **GP Commitment:** A significant number of GPs at all fund sizes are committing more than the 'standard' 1-2% of the fund size and seeking flexibility to increase these amounts over the investment period. Particularly at larger fund sizes, GP commitments of 4-5% are now common.
- **Higher fund-level borrowing continues while investors and managers focus on fund leverage:** we continue to see a strong trend towards higher fund-level borrowing limits at all fund sizes with the majority of funds' borrowing limits falling in the 20% to 30% range (69%). There is also a focus on fund leverage by investors and managers on the use of capital call facilities to bridge capital calls and broader potential use of leverage in light of the increased use of NAV and hybrid facilities by managers recently.

Key insights for venture capital funds include:

- **Longer extension periods and relaxation of consent requirements for term extensions:** There is increased relaxation of consent requirements for term extensions and longer extension periods are increasingly common, with 73% of funds giving GPS discretion to extend. We are also seeing venture capital fund managers starting to consider longer term or evergreen funds, allowing them to follow companies from seed through to listing, and beyond.
- **Lower proportion of European funds with preferred return:** In the past, it has been uncommon for US venture capital funds to have a preferred return and catch-up, but more common in European venture capital. This year, our data shows a lower proportion of European funds with a preferred return, bringing Europe more in line with the US.
- **Diversification Limits:** There has been a marked increase in funds with a single investment limit of 20% or more, likely reflective of venture capital managers' desire to ensure they can follow their initial capital investment in top portfolio companies. That said, we are also seeing European venture capital managers set up separate funds to pursue seed and/or early later stage funding rounds, or

opportunity funds to make additional commitments to top performing companies.

The Proskauer Private Funds Group offers a complete package of services to private investment funds and investors, with a dynamic interdisciplinary global team of 190+ lawyers. In the past 18 months, Proskauer has advised on the formation of over 210 funds and vehicles with commitments exceeding \$105 billion. In addition, over the last eighteen months, we've advised on more than 635+ secondary transactions with total deal values of approx. \$92 billion.

About Proskauer

We are 800+ lawyers serving clients from 12 offices located in the leading financial and business centers in the Americas, Europe and Asia. The world's leading organizations, companies and corporations choose us to be their representatives in their most critical situations. But more, they consider Proskauer a strategic partner to drive their business forward. We work with asset managers, major sports leagues, Fortune 500 companies, entertainment industry legends and other industry-redefining companies.

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