Are dry powder levels a concern?

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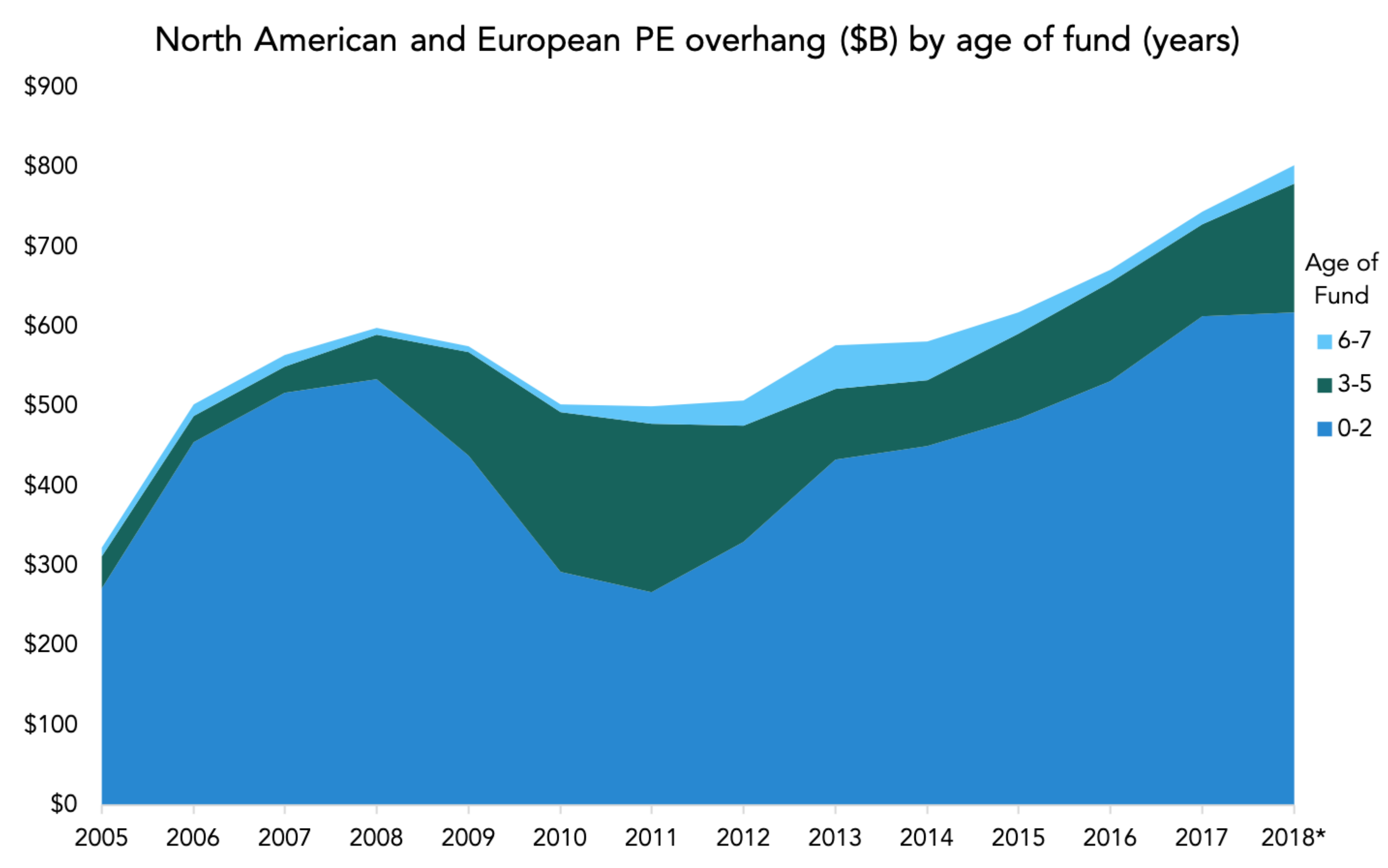

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PE capital overhang levels reached $800 billion last year between North America and Europe. For perspective, the buyout boom overhang peaked in 2008 at $599 billion. The cumulative weight of today's dry powder isn't the only difference between eras, however. The 2008 pile included almost $535 billion of very fresh capital, housed in funds that were two years old or younger and representing 89% of total overhang. While today's headline total is 34% higher, the makeup of that capital is visibly older, with only 77% of the whole made up of recent fundraises. In other words, a higher percentage of dry powder today is relatively stale.

Some have questioned the wisdom of the recent fundraising boom and whether it will create headaches down the road. Are those legitimate concerns? When paired with other fundraising trends, they are at first glance. The time between fundraises used to be about 5 years, as recently as 2014. The median difference between current fundraises has dropped to 3.8 years. When PE managers return to the well to ask for more money, LPs are curious to know how their prior fund commitments are coming along. The numbers there suggest that prior funds are humming along quite well. On a median basis, about 83% of prior funds have already been called down by the next fundraise. That percentage isn't as high as it once was—the median call-down percentage hit 95% in

2014. But by and large, investors have remained within the 80% to 90% range by the time they hit the fundraising trail again. In fact, at the current dealmaking pace, investors are actually lowering the amount of capital they have on hand, despite the fundraising frenzy. GPs collectively have about 3.6 years worth of dry powder on hand at the moment, down from 3.8 years' worth in 2016 and way down from the 5.3 years worth they had in 2006. One could argue that PEGs have more room to fundraise going forward based on that metric alone.

The pressing question, then, is less about dry powder levels and more about eventual returns. Can investors keep up this dealmaking pace, with valuations and competition as high as they are, and still beat the market? "Time is money" is turning diligence and patience are turning into competing virtues.