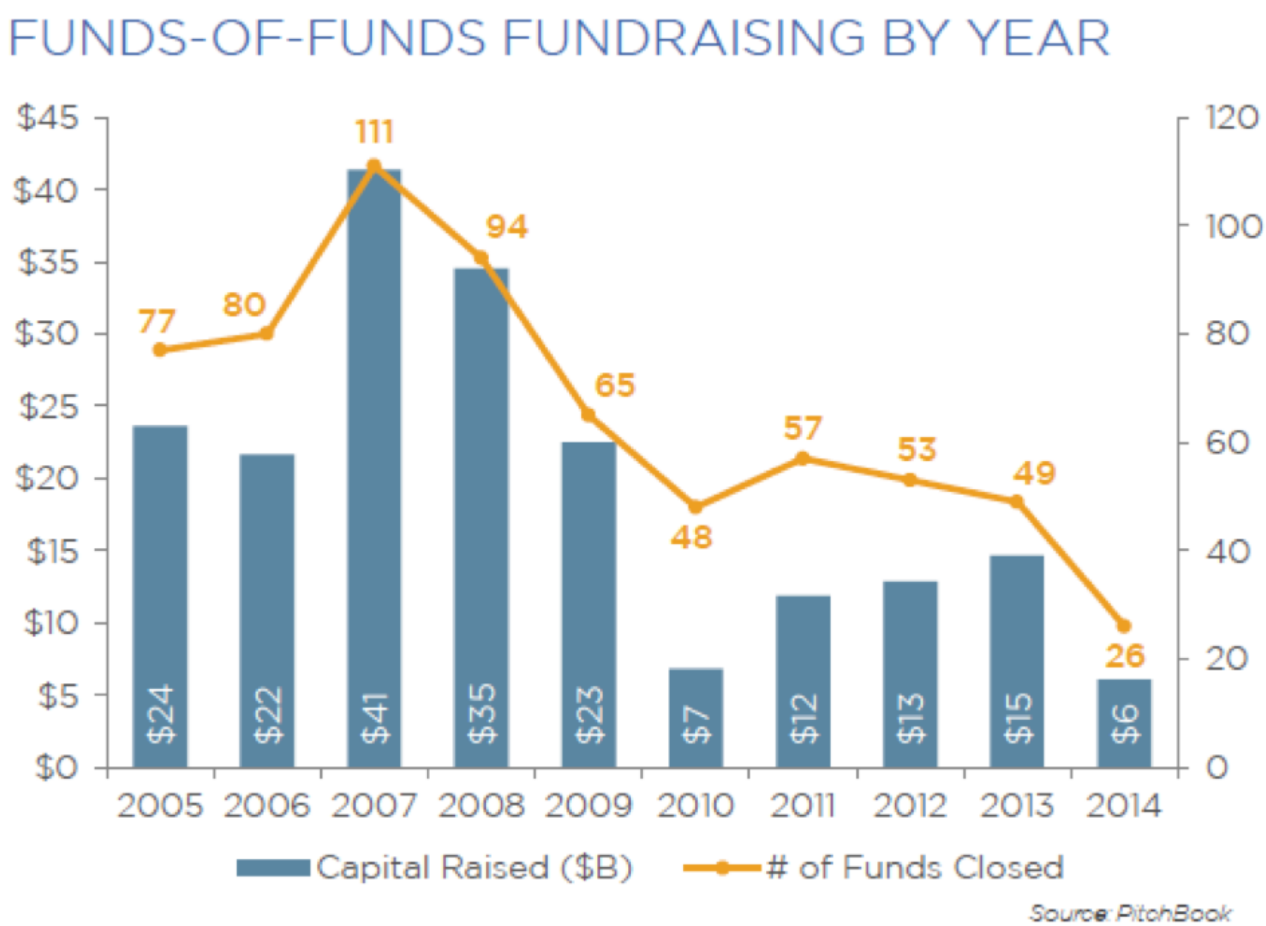
THE LEAD
https://theleadleft.com/pulse-private-equity-292015/

The Pulse of Private Equity – 2/9/2015

PitchBook | February 10, 2015

Are funds-of-funds becoming obsolete?

Funds-of-funds have been in the news lately, but not for good reasons. Some major LPs are talking about cutting their exposure to the asset class, possibly altogether. Recent returns haven't justified their investments in many cases, and some LPs trying to pare down the number of managers in their portfolios are going after FoF managers first. The migration away from the asset class is showing up in the fundraising numbers. Just $6.1 billion was raised by U.S.-focused FoF in 2014 through 26 funds, with both figures representing decade lows. The 26 funds raised last year were almost half as many as the second-lowest yearly count in the past ten years, 48 funds raised in 2010.



Why the rapid drop? Many in the industry cite the double fee layer, which has been hard to justify given their lackluster returns. But another possible factor is the rise of the secondaries market. Regulatory pressure is pushing LPs to divest their alternative asset portfolios, and other less-restricted buyers are taking advantage of the opportunity to gain exposure to a diverse basket of proven funds at a discount to NAV. Compared to funds-of-funds, secondary fund purchases often hold the promise of faster distributions, since the capital is already partially deployed. If the secondaries market continues to mature, those purchases may gradually make the diversification benefits of funds-of-funds obsolete.