The Pulse of Private Equity – 5/30/2016

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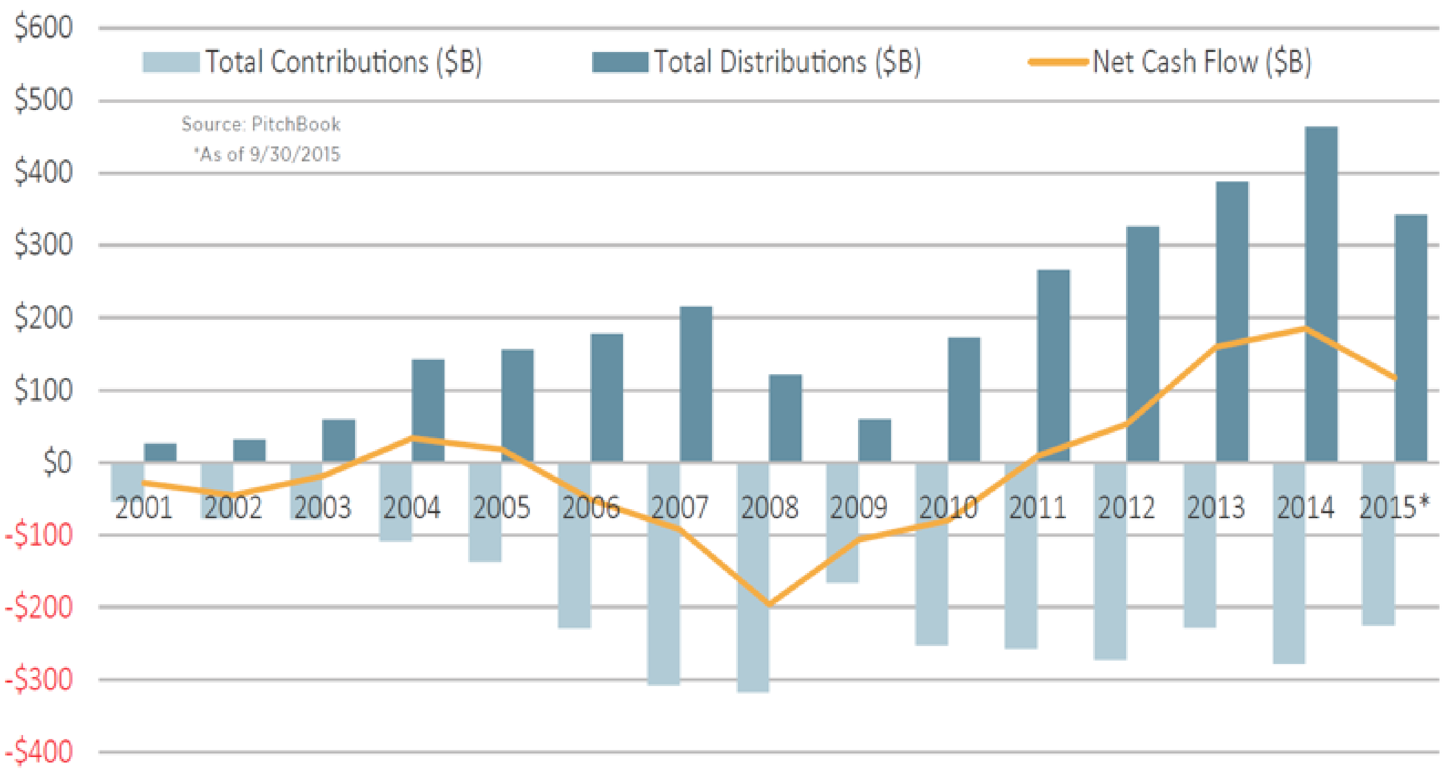
Another year of record PE distributions back to LPs?

2014 saw a mammoth $463.6 billion returned back to limited partners by private equity fund managers, capping off several years of steady increases in the annual total of distributions. But at $342.0 billion through the end of September, PE distributions in 2015 already look set to eclipse 2013's $388.0 billion; with a frenzy of selling in 4Q 2015, last year could just inch past the tally of 2014 to set an all-time record. As investments already slowed, calls on capital have declined in turn, which could boost net cash flow into high positive territory once more.

Global PE funds' annualized cash flow by year



Looking ahead to 2016, however, even if net cash flow remains positive, distributions of such magnitude are unlikely. PE-backed sales have been declining, as has the pace of investment, so it's a tossup to see which will diminish most and skew net cash flow into negative or positive territory, but investors in PE funds should anticipate a downturn in the flow of money returning to their coffers. Given back-to-back years of mammoth sums distributed back, there's little reason for complaints, which is why Q1 2016 alone saw 91 buyout and growth PE funds raised, even if there's been a slowdown in Q2 thus far, with 41 vehicles closed as of June 1. LPs are recommitting after such success, maintaining or even growing their allocations to PE, at least for now. The growing pressure exerted by sustained high levels of dry powder may contribute to a decline in future fundraising activity, as some LPs scrutinize the quantity of investment prospects and wait to see how their current allocations play out, but for now, the level of distributions remains a strong incentive to re-up.

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