Silicon Valley Bank
A Division of First Citizens Bank

Trends Impacting Private Equity and Venture Capital

Global Fund Banking Outlook Report

H1 2024

Contents

PRIVATE EQUITY INSIGHTS

Trends and best practices from SVB's experts

"In the right circumstances, NAV loans are excellent options for creating liquidity within an illiquid fund."

Mark Thylin
Head of Structured Fund Solutions,
Global Fund Banking

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Internal

The End of the Deal Doldrums

The past few years have been a roller coaster for private market investors — from the heights of activity during the 2021 boom times to the struggles experienced last year. As we enter 2024, I am heartened by conversations with clients and by an emerging trend in the data that together suggest **we may finally be seeing the end of the deal doldrums.**

There is no sugarcoating the fact that 2023 was a difficult year for many in the industry, with fundraising and investment down across the board. In some sense, this was to be expected as investors adjusted to the end of the easy money era and the emergence of higher-for-longer interest rates. While it is unlikely in the near term that the industry returns to activity levels seen during 2021, analyses in this report show **signs of normalization and perhaps even recovery.**

In the fundraising space, "slow and steady" is the mantra among our clients. New funds are being raised, but generally at a slower pace, as highlighted on pages 9 and 10. We are increasingly seeing those that have raised new funds delay their deployment while previous funds are wrapped up.

When surveyed, investors showed mixed expectations for 2024. As reported on page 9, survey respondents anticipated the status quo in terms of fundraising for 2024. However, in a bullish sign, 85% anticipated assets under management (AUM) increases this year, as discussed on page 18.

The interaction between investment and fundraising is having significant impacts on dry powder levels, particularly in the venture capital (VC) space. **VC dry powder levels decreased in 2023 for the first time in over a decade** — the result of a fundraising downturn so sharp that even modest levels of investment outpaced the capital raised by funds.

This also led to an increase in the age of VC dry powder, with 20% of capital raised more than three years ago, as discussed on page 11. As funds get older, they face increasing deployment pressure. The dry powder overhang from the cohort of older funds may indeed prove to be the **market backstop needed to bolster private markets this year.**

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Another source of optimism comes from capital call line of credit (CCLOC) data. We are seeing a **stabilization in the utilization rates of CCLOCs** and **continued strength in the levels of credit line advances,** as presented on pages 13 and 14. Further, time outstanding on CCLOCs remains in line with levels seen in the recent past, another signal of market "normalization."

Still, both private equity (PE) and VC firms continue to face challenges — one of the most frequently cited by CFOs is talent. In this report's special topics section on pages 18 and 19, we present data on how firm leaders are approaching the issue of talent, including **hiring plans this year and the relative difficulty of hiring in today's environment.**

This year has started strong, and I am encouraged by consistent themes of market normalization that permeate our conversations with colleagues and clients. **I remain optimistic that 2024 will be the start of recovery in the private markets** thanks to the resiliency and determination of investors and CEOs alike.

Jesse Hurley
Head of Global Fund Banking
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Major Themes Going Into 2024

Signs point to a year of normalization — or even recovery.

Macro: Interest Rate Relief on the Horizon

Higher interest rates do not necessarily spell disaster for public markets. Historically, longer periods of high interest rates can bring strong performance to equity markets, since too-quick cuts in rates can reflect macroeconomic deterioration. With persistently strong economic data, the market continues to expect a relatively slow and measured normalization in interest rates over time.

Capital: Light at the End of the Tunnel

"Slow and steady" remains the mantra in market, especially when it comes to fundraising. While levels of fundraising remain lower than in the past, a sizeable war chest of aging dry powder could prove to be a catalyst for industry recovery this year.

Capital call lines of credit are another area of optimism, with stabilizing utilization rates, strength in credit line advances and stable time outstanding metrics.

Spotlight: Talent and Firm Building

Firms are expecting AUM to grow significantly in 2024, leading to more demand for labor. Despite macroeconomic pressures, hiring is anticipated to be strong across firms this year, with many firms anticipating headcount increases in 2024.

Top areas for headcount growth include junior investment team members and accounting staff positions.

Exits: LPs[1] Patiently Wait for Distributions

The exit environment remains depressed. However, this could present an opportunity for some investors. Funds raised during downturns tend to return capital more quickly than those raised in other times.

The situation may soon reverse, with many VCs anticipating exit markets to improve in 2024. In the meantime, the increased focus on alternative liquidity solutions — such as NAV[2] loans — continues.

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Notes: 1) Limited partners. 2) Net asset value.

Macro

Interest Rate Relief on the Horizon

Macro PE Dashboard

The current downturn is seen across the market. Are we reaching the bottom?

Fundraising

US-based funds, by vintage ($B)[1]

	2022	2023	Change
PE: buyout	$296	$171	↓ 42%
PE: growth	$101	$21	↓ 79%
VC	$113	$41	↓ 64%

Investment

Investment by US-based funds ($B)[2]

	2022	2023	Change
PE: buyout	$645	$397	↓ 38%
PE: growth	$110	$69	↓ 37%
VC	$327	$193	↓ 41%

Performance

Rolling one-year horizon IRRs[3]

	2022	2023	Change
PE: buyout	2.1%	6.2%	↑ 4.1 pts.
PE: growth	-10.9%	0.7%	↑ 11.6 pts.
VC	-16.8%	-9.5%	↑ 7.3 pts.

Exits

Deal value of PE/VC-backed exits ($B)[4]

	2022	2023	Change
IPOs	$30	$40	↑ 33%
M&A	$280	$215	↓ 23%
Buyout	$269	$183	↓ 32%

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Notes: 1) Based on vintage years, US-HQ'd funds. 2) VC includes early- and late-stage VC. 3) Internal rate of return. As of year-end, except 2023 which is as of June 30 due to reporting delays. Global data. 4) Exits by companies backed by US investors. IPOs include secondary offerings and reverse mergers. Buyout includes secondary buyouts.

Sources: Preqin, PitchBook Data, Inc. and SVB analysis.

Interest Rates Steady for Now

Inflation continues to trickle downward, trending toward the Federal Reserve's (Fed's) long-term target. Despite this, interest rates continue to remain at heightened levels, with the Fed seeing no reason to change course due to strong employment, elevated shelter costs, healthy real wage growth and continued consumer spending. This has led many market participants to still believe that lower inflation will not be enough to push Fed board members to cut rates. The Fed increased the federal funds rate (FFR) four times in 2023 but has paused since July. As of the time of this writing, **Fed funds futures are pricing over an 80% chance of rates being lower in June 2024, and a 86% chance that the target rate will be lower in September.**

With uncertainty continuing to loom, some wonder what effect this may have on public markets. Historically speaking, high-water mark periods — defined as the period from the final rate hike to the next rate cut — do not spell doom for public markets. **While public market performance is mixed, performance tends to be strong during extended interest rate high-water mark periods.** This is often because quicker rate cuts are a sign of macroeconomic deterioration. While all cycles are unique, the current period is trending similar to the late 2000s, 2010s and 1980s, which saw strong performance during long high-water mark periods. Should the trend hold, public market performance could be poised for continued strong returns in the near term.

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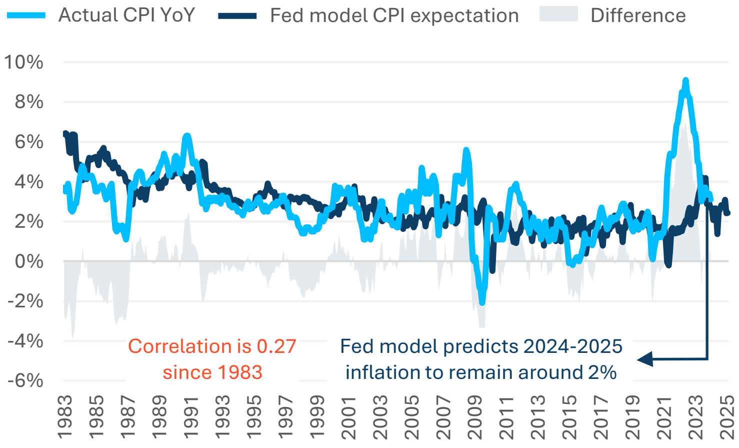
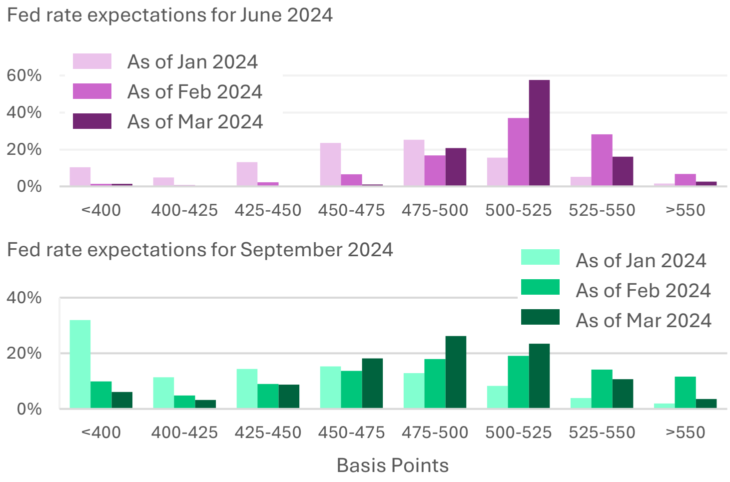
Inflation Cooling as Rates Stay High

Fed model inflation expectations and actual inflation by year[1]



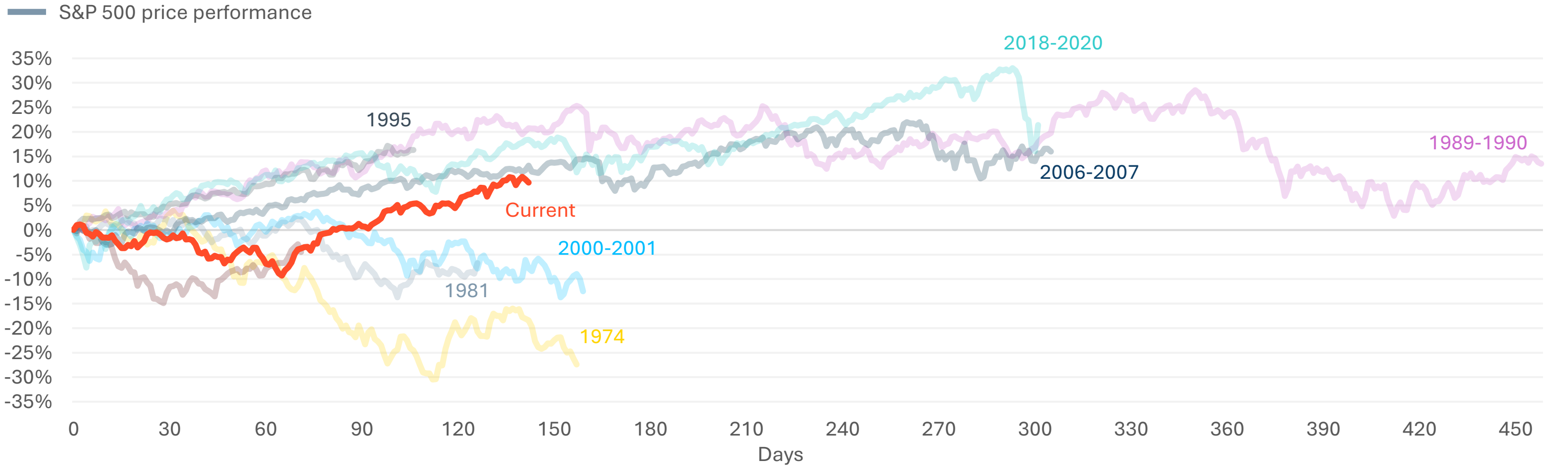
Expectations for Rate Cuts Get Pushed Out

Fed futures target range expectations as of specific dates[2]



Public Market Performance Typically Strong During High-Water Mark Periods

S&P 500 performance during periods from final rate hike to next rate cut



Notes: 1) Actual CPI is the 12-month change in "All Items in U.S. City Average, All Urban Consumers, Not Seasonally Adjusted." Fed Model CPI Expectation is the one-year expected inflation rate one year forward to align with the actual CPI figures. 2) Future fed rate distributions by date provided by the Atlanta Fed's Market Probability Tracker. March 2024 data as of 3/20/2024.

Sources: Federal Reserve Bank of Cleveland, Federal Reserve Bank of Atlanta, Bureau of Labor Statistics, S&P Capital IQ and SVB analysis.

Internal

Capital

Light at the End of the Tunnel

The Fundraising Flywheel Slows

US buyout, growth and VC fundraising ended just north of $230 billion in 2023,[1] **the lowest level since 2015, resembling the drop seen during the dot-com crash.** Fundraising continued to be dominated by bigger funds, with $1 billion+ funds accounting for 71% of total fundraising, only 4 percentage points lower than last year. Gauging investor sentiment, over half of respondents in this report's survey expect the fundraising environment to remain the same. Despite this difficult background, **67% of respondents indicated that they are planning to fundraise this year.** Interestingly, those who plan to fundraise this year were more likely to believe that this year will be more difficult than those that are not planning to fundraise.

Survey respondents also shared expectations for fundraising timelines, reporting a median expected time from start to close of 15 months — and only 12 months for VC funds. **Nearly half of respondents indicated they expected fundraising timelines to remain unchanged,** but nearly the same number (41%) expected it to take longer to close the current fund relative to their last. This aligns with recent data, which shows that the time between fundraises ticked up materially in 2023 for the first time since 2019. While this may be frustrating for general partners (GPs), LPs have generally indicated that they prefer a slower, more normalized fundraising cadence compared to the quickness seen in 2021.

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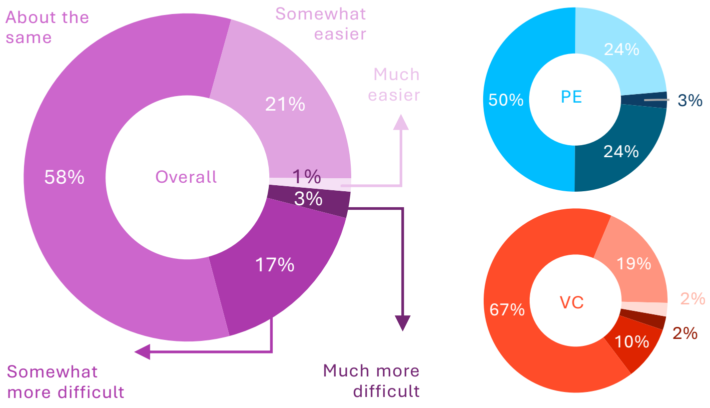
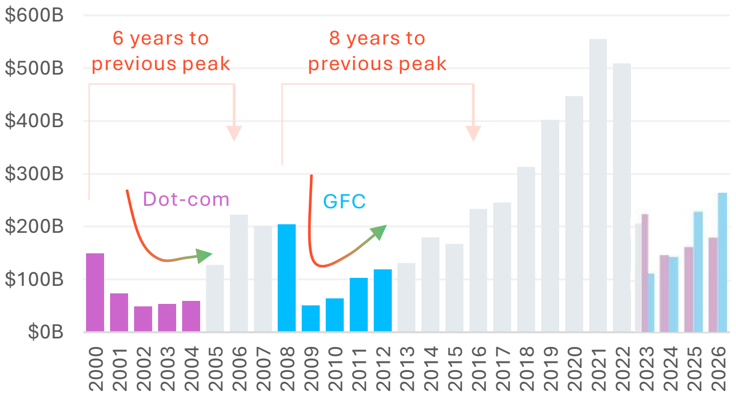
Investors Expect Status Quo for 2024

Q: In general, how do you view the fundraising environment in 2024 compared to 2023?



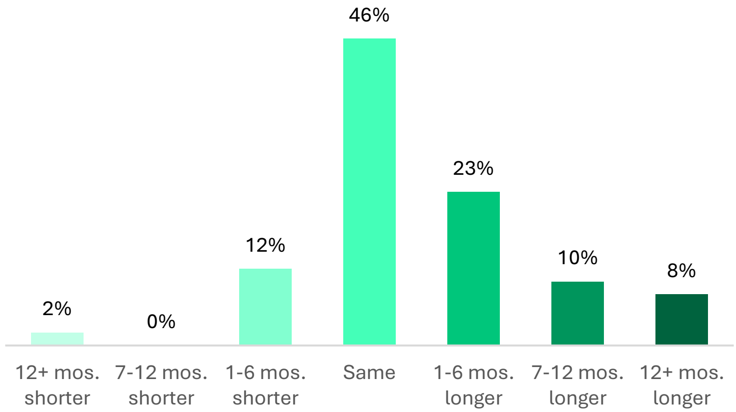
Fundraising Trending Like Past Downturns

US VC, growth & buyout fundraising by vintage year and historical recovery extrapolated by year



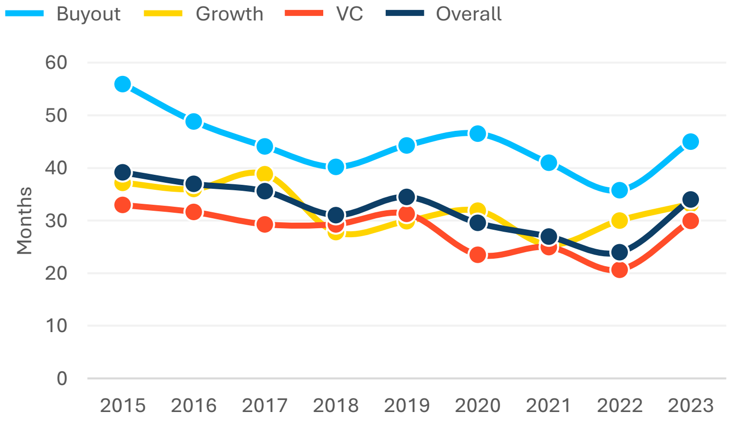
Holding Pattern for Fundraising

Q: How much longer or shorter do you anticipate the fundraising process to be compared to the last fund?



Time Between Funds Increases in 2023

US VC, growth & buyout fundraising time between funds by year fund closed[2]



Notes: 1) Data based on page 6 in this report which referenced fundraising by vintage year. 2) Time between funds calculated as length between close dates from subsequent funds in the same fund series.

Sources: Preqin, SVB survey and SVB analysis.

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Funds Off Target; Optimism in 2024

While respondents from this report's survey expected the fundraising environment to largely remain the same, many expected a jump in the amount they could raise. **Roughly 63% also expressed that they expect their next fund in 2024 to be larger than the previous fund closed, with nearly half (46%) projecting growth of 20% or more in fund size.** While the rosier outlook is somewhat comforting, it contrasts sharply with recent trends.

Last year saw a 10 percentage point increase in the share of funds that missed their initial target fund size, the highest share since 2019. Additionally, 32% of funds closed in 2023 had lowered their initial target size, the highest share since 2020. When looking at funds individually, VC funds were the primary source of the misses, particularly within the emerging manager space. This could signal an investor preference for more established funds in this environment.

Last year was also the second consecutive year in which **funds experienced a step-down[1] in fund size among funds in the same series** (on a median basis). For funds that did experience a successful step-up in fund size, the median step-up was 54%, which was 16 percentage points lower than last year and 21 percentage points lower than the heights of 2021.

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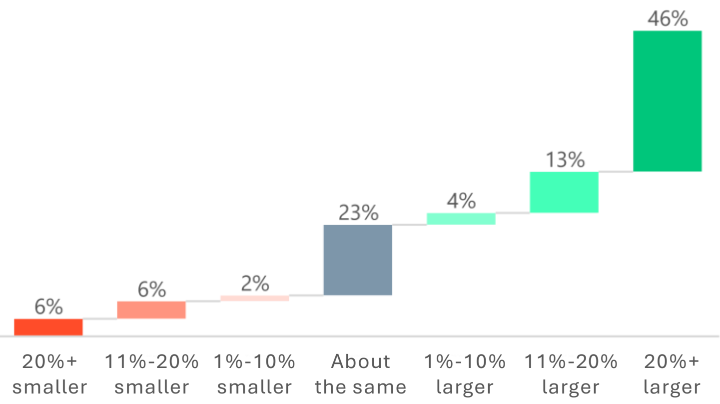
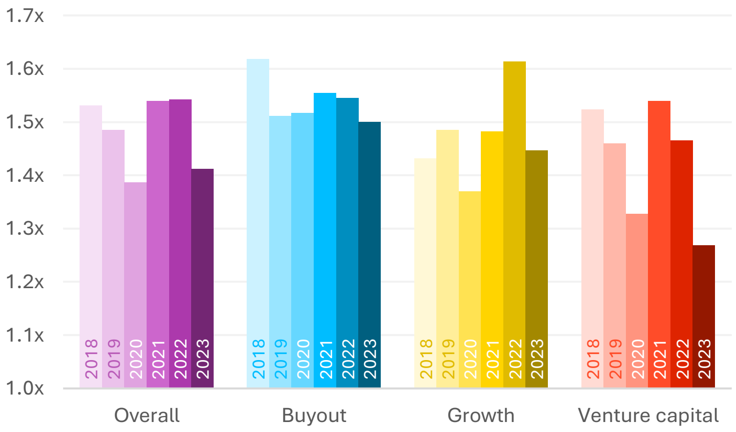
Fund Sizes Expected to Step Up in 2024

Q: How does the target fund size compare to the size of the previous fund you raised? The 2024 fund is targeted to be:



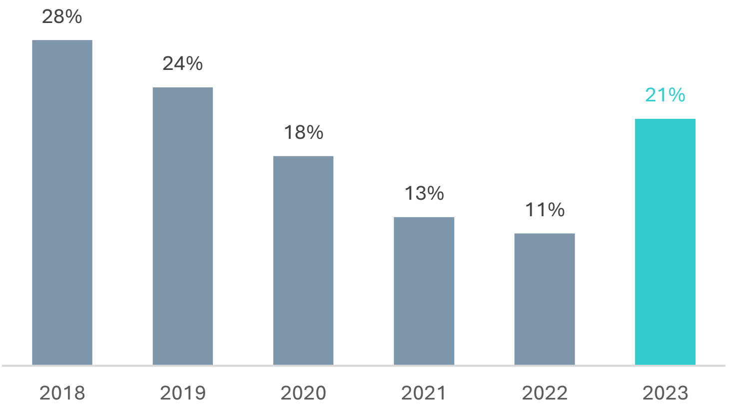
Funds Take a Step Down, VC Falls Most

US VC, Growth & buyout funds' step-up[1] by year closed



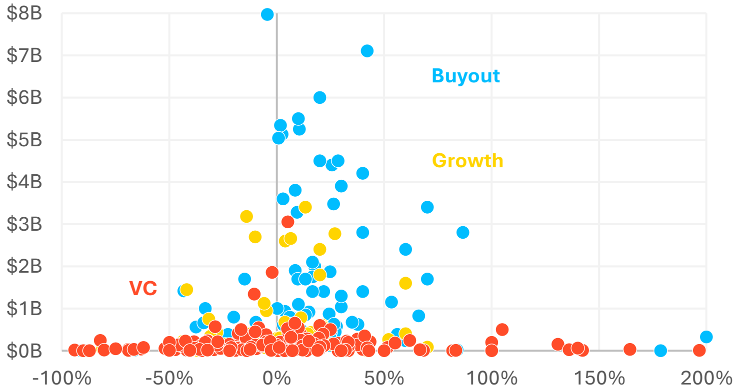
Funds Missing the Target

Share of US VC, growth & buyout funds missing their initial target fund size by year closed



Venture: The Main Source of Misses

US VC, growth & buyout funds by amount raised relative to initial target fund size and fund size[2]



Notes: 1) Step-up or step-down defined as the relative change in fund size from one fund to the next subsequent fund within the same fund series. 2) Chart is capped at $8 billion in fund size and 200% in close size relative to target size. Some results may be hidden due to this.

Sources: Preqin, SVB survey and SVB analysis.

Internal

Dry Powder: The Industry's Backstop?

Much attention has been given to the high levels of dry powder in the industry. Some commentators have likened it to a dam about to burst, unleashing a flood of capital back into private markets. This prediction did not play out in 2023, with investment down approximately 40%.[2] There are signs, however, that **the dry powder overhang may indeed be the backstop needed to bolster private investments in 2024.**

VC dry powder levels decreased in 2023 for the first time in over a decade — the result of a fundraising downturn so sharp that even modest levels of investment outpaced the capital raised by funds. As a result, the age of VC dry powder increased, with 20% of capital raised more than three years ago, as of the end of 2023. With little desire to return capital to LPs, this significant portion of **capital will need to be deployed soon,** and evidence suggests that this may indeed happen. In an informal SVB poll of approximately 60 VC professionals, **over half (57%) expected their firm's deal count to increase in 2024** compared to 2023.[3] Just 12% expected a decrease.

Buyout dry powder, however, has remained somewhat more stable, with a consistent age over the past several years. Still, with a dry powder age similar to that of VC, buyout dry powder levels may also be enough to support healthy deal activity in the industry through the next year.

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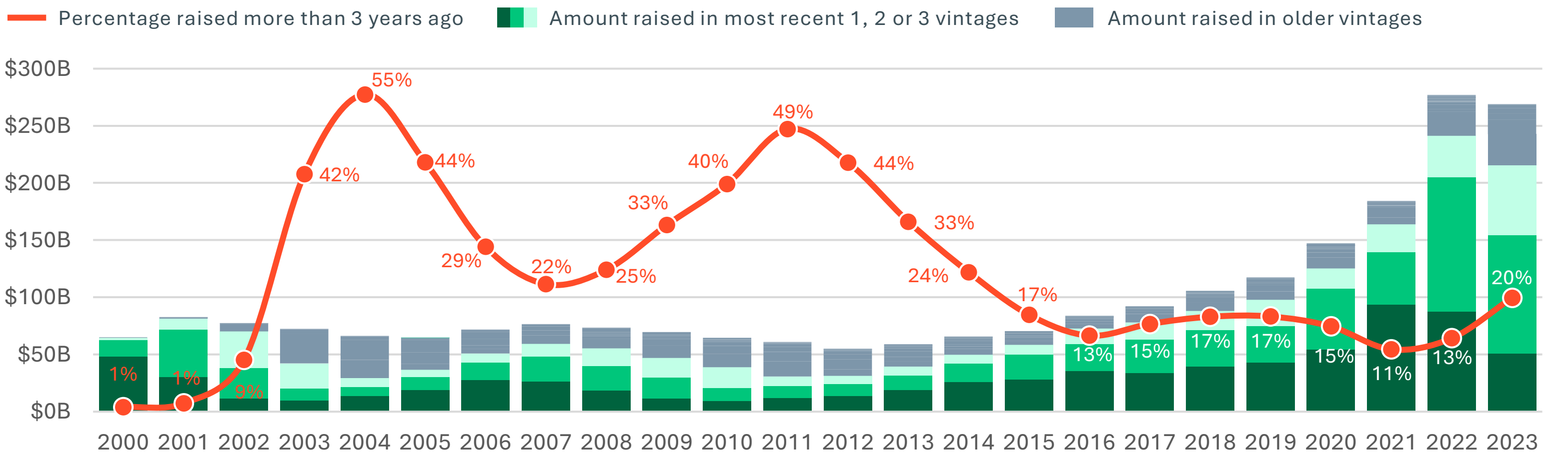
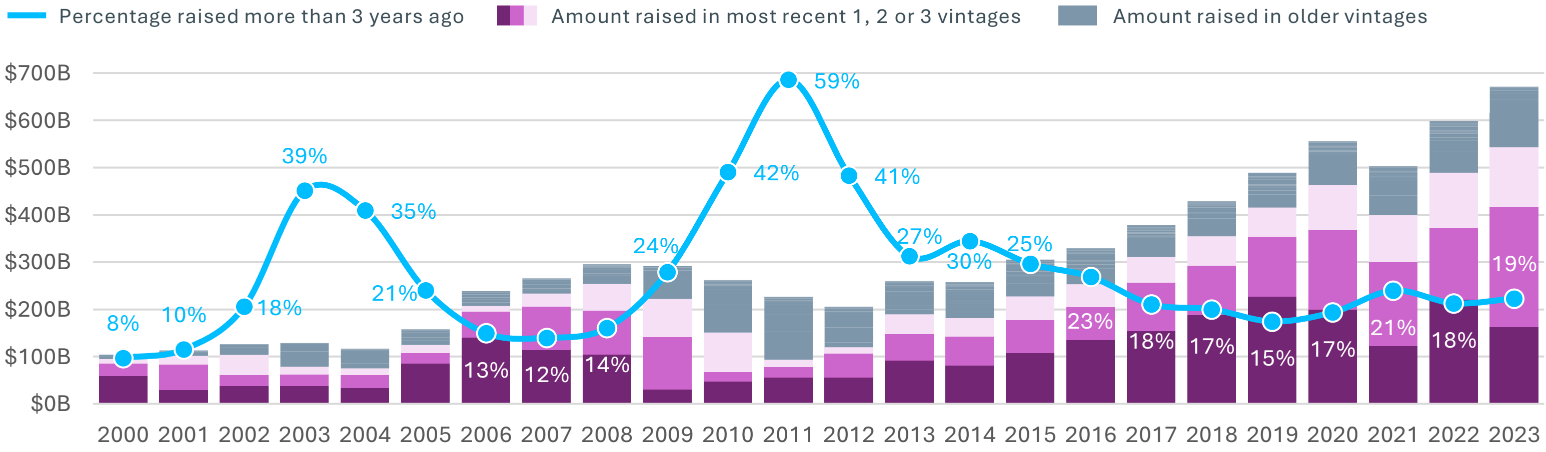
VC Dry Powder Gets Older While Levels Decrease

US VC dry powder over time, by vintage[1]



Buyout Dry Powder Age Remains Stable as Levels Increase

US buyout dry powder over time, by vintage[1]



Notes: 1) In some cases, fund vintages are reclassified by the data provider (Preqin) later in the fund's life. These charts assume the original fund vintage remains constant throughout the time frame. Data as of year-end. 2) See page 6. 3) Based on an SVB VC town hall poll of approximately 60 VC COOs and CFOs in February 2023.

Sources: Preqin, SVB survey and SVB analysis.

Internal

Expanding LP Bases

GPs may have to broaden their geographic horizons when fundraising in 2024. After a couple of seesaw years in the market, many LPs are tapped out, with allocations to alternatives at or above their targets. Data is beginning to suggest that LPs are making changes. For instance, **US endowments decreased allocations to PE and VC in 2023.** Public markets' recovery in 2023 certainly played a role in this change, as higher public equity valuations reduced the denominator effect.

Still, many LPs remain overallocated to PE. According to Preqin data, **half of LPs are above their target allocation.** Combined with low distribution levels and higher interest rates, the overallocation issue is materially changing the calculus for LPs. LPs now face a "risk-free" rate of return similar to that of the early- to mid-2000s, causing some to push the pause button on additional allocations to PE.

This in turn has led GPs to look at expanding their LP base. Based on this report's survey, **over three-quarters of respondents expected to approach a different LP base than in the past, with one-third of that group targeting LPs of different types and from different geographies.** Recent trends have continued to show an increasing presence of LPs from geographies outside the US as well as outside traditional LP types, leading to the potential for additional reporting or transparency requirements for GPs.

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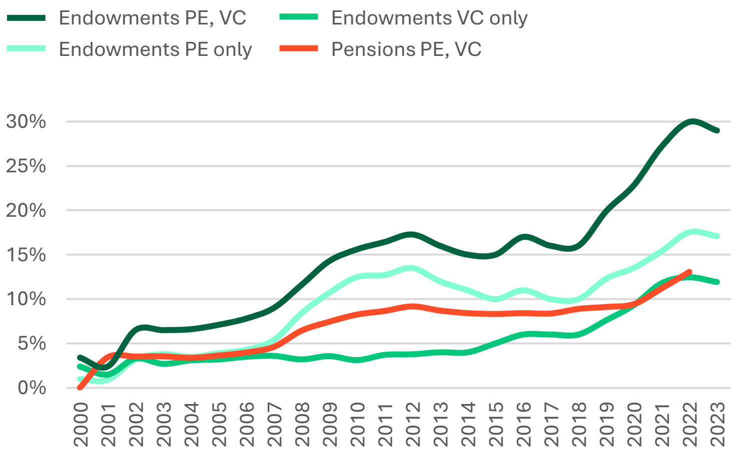
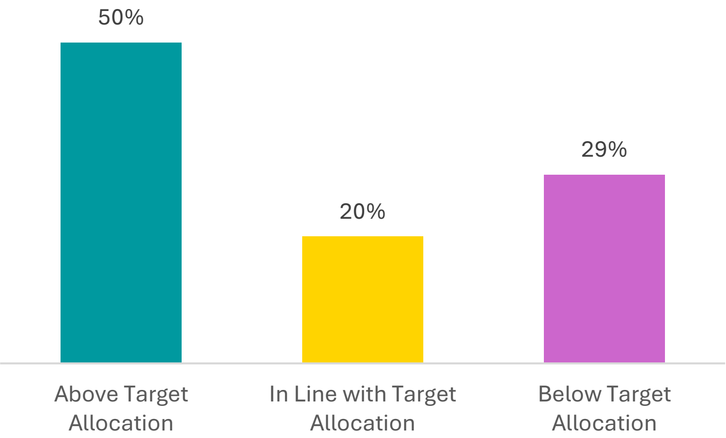
Allocations to PE Level Out

Allocation to PE for US endowments and pension funds[1]



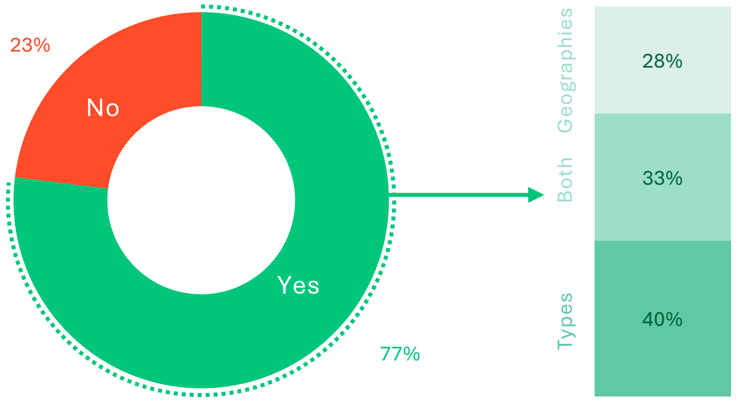
Half of US LPs Are Over Allocated[2]

Share of LP actual allocation to PE relative to target allocation



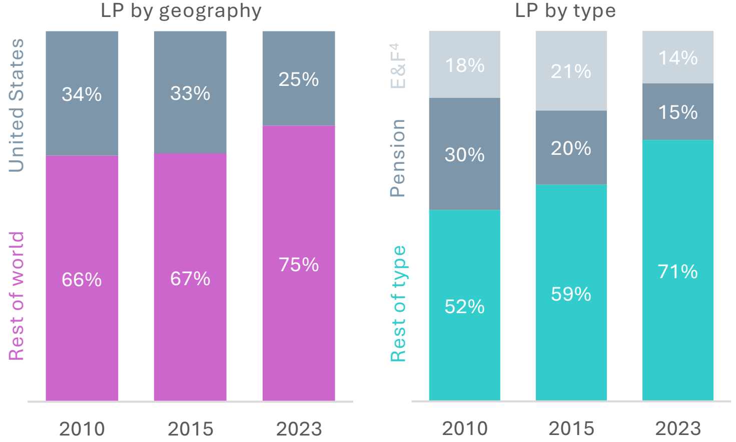
GPs Expand Their LP Base

Q: Are you or do you plan to approach a different LP base than in the past?



LP Base Continues to Broaden

Share of LP base by geography & type[3]



Notes: 1) Pensions are included only if they are US-based and participated in the Public Fund Survey (PFS); this sample covers 95% of public pension membership and assets nationwide. Data for pensions available through 2022 only. 2) Analysis based on LP records that have been updated in Preqin since January 2023. Dataset includes endowments, foundations and pensions. "In line" defined as within 1 percentage point of target allocation. Data is inclusive of VC. 3) Analysis based on count of LPs. Data from Preqin investor database. 4) Endowments and foundations.

Sources: Preqin, Publicplans.org, NACUBO, SVB survey and SVB analysis.

Internal

Deal Flow Dampens Borrowing Levels

Borrowing levels for CCLOCs have trended downward over the past couple years. **The reason is likely lower deal flow rather than higher interest rates.**

Utilization rates for VC funds trended downward in 2022, mimicking the downward trend in VC investment activity overall. As deal levels have begun to stabilize, so too have utilization levels. Among buyout and VC funds, correlations between investment levels and utilization rates remain high. Still, this decrease in deal activity coincided with interest rate hikes, raising the question of the effects of interest rates on CCLOC utilization.

According to SVB survey data, interest rates are unlikely to be the culprit of lower utilization, with the vast majority of respondents noting that they have *not* been using CCLOCs less in response to higher rates. This has been echoed in client conversations, with fund managers frequently citing soft deal pipelines as a key reason for lower borrowing levels. Further, **fund managers do not anticipate lower interest rates influencing their use of CCLOCs in the future.** In fact, when asked how much the Fed would need to lower rates to meaningfully influence their CCLOC usage, 39% chose no change.

Going forward, aging dry powder levels putting upward pressure on deal activity could bolster managers' use of these facilities.

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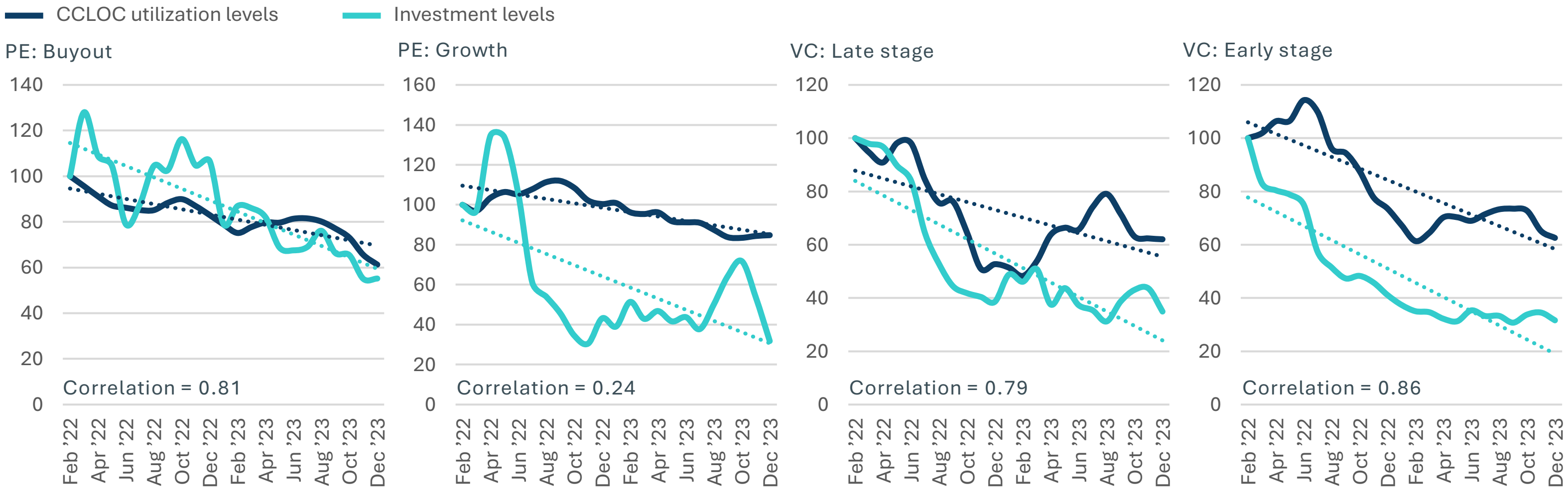
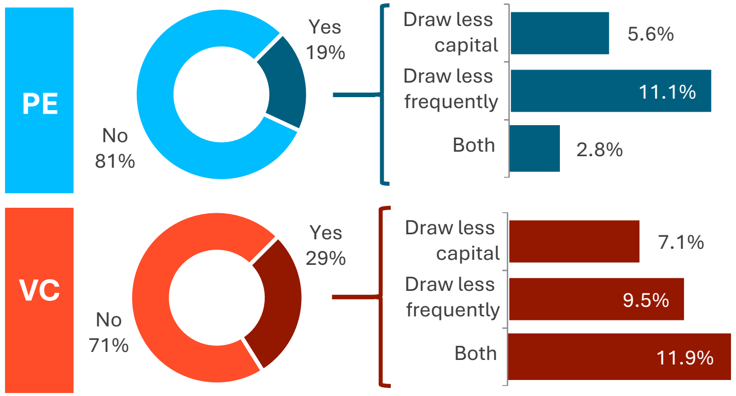
Cap Call Utilization Rates Begin to Stabilize for VC and Growth Funds

CCLOC utilization levels and US investment activity, indexed to 100 in February 2022[1]



Higher Interest Rates Don't Lead to Lower Usage

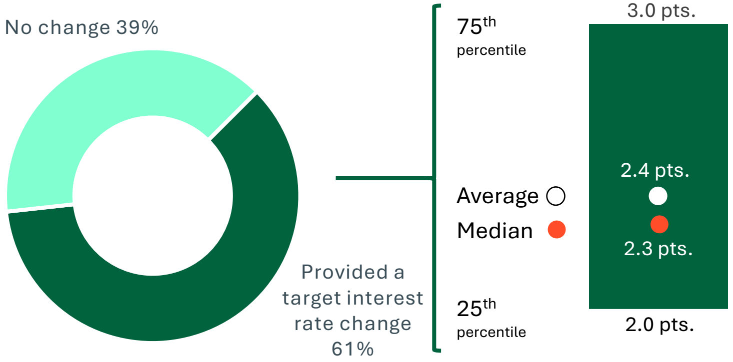
Q: Do you use capital call lines less in response to the current higher interest rate environment?



Effects of Prime Rate Changes on Borrowing

Q: How much would the prime rate need to decrease for you to meaningfully increase your use of capital call lines?

Percent who replied no change



Notes: 1) Utilization rates are indexed based on a two-month rolling average. The index is based to 100 starting in February 2022. Investment numbers are US only and are indexed based on a three-month rolling average. Buyout excludes the October 2022 X (Twitter) deal.

Sources: SVB proprietary data, SVB survey and SVB analysis.

Internal

Signs of Normalizing Borrowing Levels

As interest rates have risen, the time outstanding on CCLOCs has remained relatively unchanged, a reflection of demand for this debt despite rate changes.

Fund managers appear to be keeping balances outstanding on lines for a similar amount of time, according to lending data. This is measured as the number of days per quarter that a line has an outstanding balance. This is also reflected in survey data, in which over half of both PE and VC funds report that they are not reducing the time outstanding on CCLOCs in response to higher interest rates.

Advances data reflect further strength in the CCLOC lending environment. While the number and dollar amount of **line of credit advances**[2] have decreased from high-water marks, they **remain higher than in early 2022.**

When it comes to why investors use CCLOCs, relatively few managers — whether PE or VC — noted IRR enhancement as a key factor when choosing whether or not to use these debt facilities. Instead, **the focus is on operational factors, such as cash flow smoothing and deal execution.** These operational factors are arguably relatively insulated from interest rates. As long as managers remain focused on these operational benefits, one might expect demand for CCLOCs to remain fairly inelastic despite a changing rate environment.

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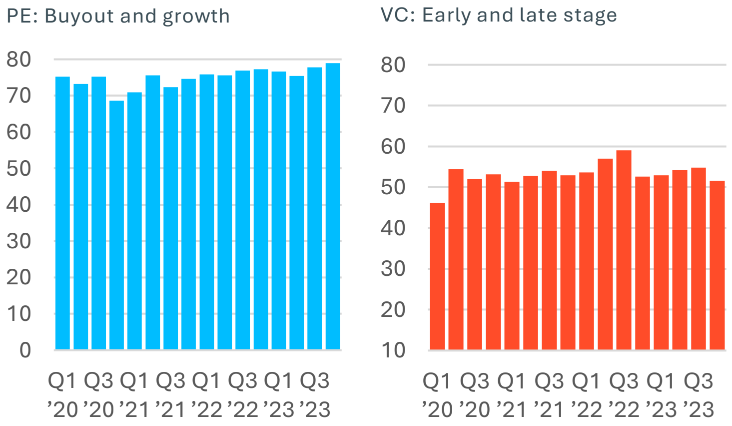
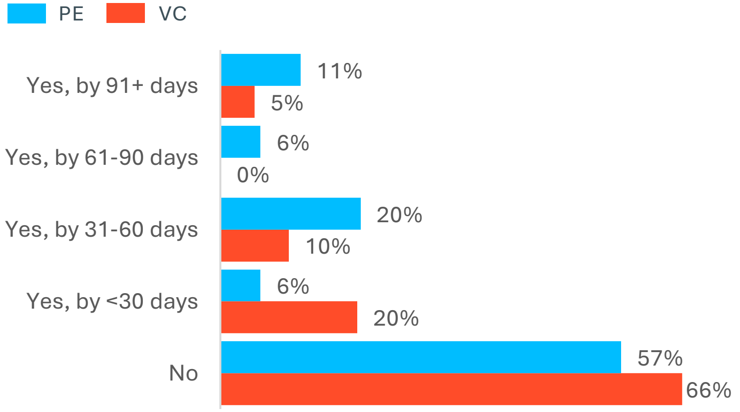
CCLOC Time Outstanding Relatively Stable

Average days per quarter with an outstanding balance on CCLOC[1]



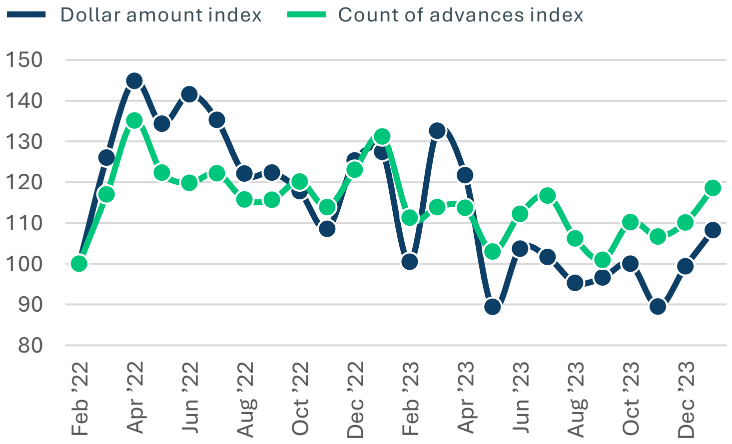
Interest Rates Not Impacting Time on CCLOCs

Q: Have you reduced the time outstanding on debt drawn from capital call lines in response to the current higher interest rate environment?



Credit Advance Levels Remain Robust

Line of credit advances, indexed to 100 in February 2022[2]



Operational Factors Are Most Important

Q: Please rank the following factors in terms of how important each is in your decision to use capital call lines.

Factor	PE rank	VC rank
Cash flow smoothing	1	2
Deal execution	2	1
Reduced administrative burden	3	3
IRR enhancement	4	4

Notes: 1) Average number of days per quarter that funds have an outstanding balance on their capital call lines. Funds are excluded if they have zero days outstanding in a given quarter. 2) Two-month trailing moving average of line of credit advances, indexed to 100 in February 2022. Includes advances on capital call and management company lines of credit. Dollar amounts of advances are winsorized at the 1% and 99% levels.

Sources: SVB proprietary data and SVB analysis.

Markdowns Coming to an End?

Markdowns have been the topic de jure among private fund managers over the past year. Reporting from the **back half of 2023 shows more markdowns, but survey data suggests that the tide may turn in 2024.**

For the last four quarters, VCs have been marking down their portfolios. **At least 60% of firms in a sample of SVB data took write-downs each quarter.** This reflects not only higher interest rates and a volatile public market, but also a weaker pipeline of deals generally.

There are signs that this trend may be changing, however. Conversations with VCs suggest that pipelines are growing stronger and valuations are becoming more favorable. This is reflected in an informal SVB survey of approximately 60 VCs. The majority (70%) report having taken markdowns in 2023, but **only 17% plan to take further markdowns in 2024.** While the future is always uncertain, this is a strong signal that the worst of the downward adjustments may be behind us.

Buyout valuations may also begin to level off. Since at least 2015, the average annual EV-to-EBITDA[3] ratio for the S&P 500 closely tracked the same entry multiple for buyouts. Should public and private buyout valuations reconverge, **buyout multiples may be expected to stabilize** and even tick up in the new year to match the movement in average S&P 500 valuations.

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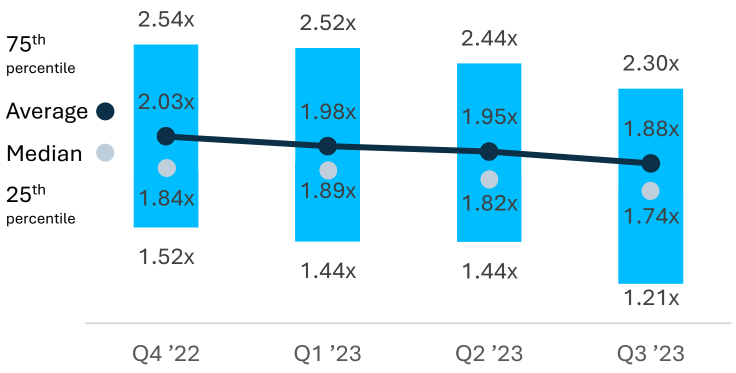
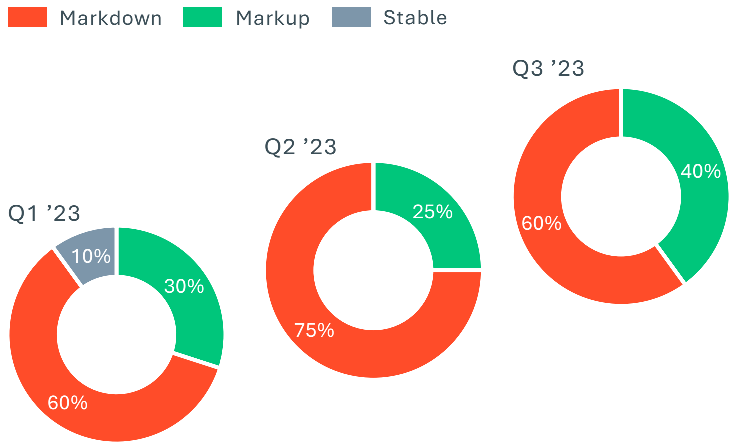
VC Funds Continued to Mark Down Their Portfolios

Fair value-to-cost basis ratio for select VC and growth investments[1]



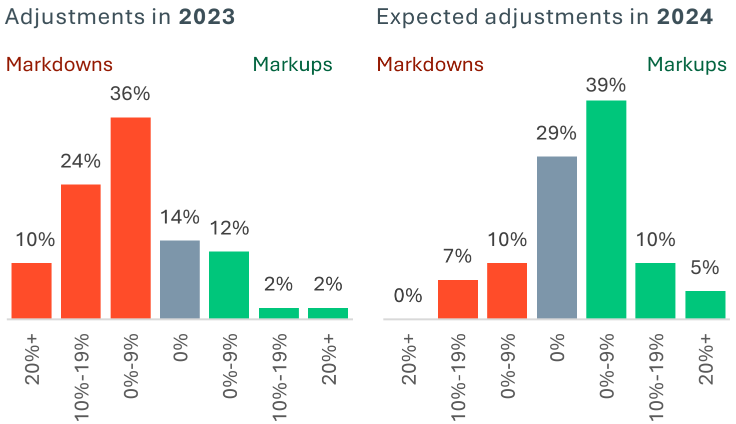
Most VC Funds Have Taken Mark Downs

Share of VC funds with valuation adjustments[1]



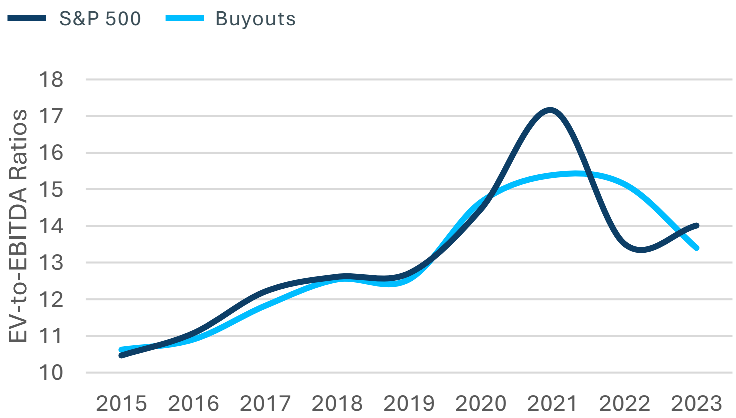
VCs Plan Fewer Markdowns in 2024[2]

Q: How did you adjust your portfolio in 2023? What do you expect for 2024?



Buyout Valuations Reset After 2021 Peaks

Annual average EV-to-EBITDA ratios for S&P 500 and buyouts[3,4]



Notes: 1) Proprietary data is based on fund-level financials from Q4 ’22, Q1 ’23, Q2 ’23 and Q3 ’23 for a select group of VC and PE growth funds with vintages 2015-2019. Fair value-to-cost basis ratio is calculated by dividing a fund’s fair value at the statement date by its cost basis at the statement date for its private investments. 2) Based on an SVB poll of approximately 60 VC COOs and CFOs in February 2023. 3) Ratio of enterprise value (EV) to earnings before interest, taxes, depreciation, and amortization (EBITDA). 4) S&P 500 represents the average total EV-to-EBITDA ratio for S&P 500 companies in a given year. Buyout multiples are average EV-to-EBITDA entry multiples for deals that occurred globally in a given year.

Sources: S&P Capital IQ, Preqin, SVB proprietary data and SVB analysis.

Debt: Yields Stabilize, Volume Stays Muted

Two years into the Fed's historic rate hike cycle, debt markets show signs of stabilization as they absorb the effects of higher-for-longer interest rates.

In July, the Fed made its last rate hike, moving the FFR to 5.25%-5.50%.[5] Since then, the prime rate has held steady at 8.5%. Despite this stabilization in pricing and a consistent outlook that rate hikes have concluded, **loan volume remains far below levels seen in recent years.** Buyout managers are feeling the brunt of this tight debt market, with average yields-to-maturity (YTMs) in the LBO[6] loan space topping 12% in Q4 2023 after briefly dipping earlier in the year. Loan volume has trended downward accordingly: while fourth quarters have seen less activity, Q4 2023 barely topped $3 billion, a four-year low.

Buyout funds must also grapple with a tougher lending environment in the banking sector. Following the increase in interest rates that led many depositors to seek higher yields, deposits in US institutions decreased over 5% from their April 2022 high, leaving banks with less lending capacity.[7] **Private credit has stepped in to fill the void, now representing the lion's share of LBO financing.** With an ever-increasing supply of private credit — fundraising grew more than four times from 2013 to 2023[8] — one might expect private credit to continue representing a large portion of the LBO financing space, especially if lower deposit levels remain sticky.

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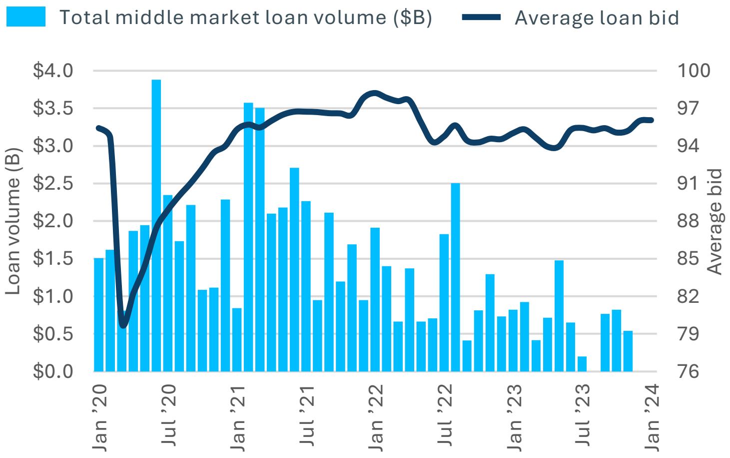
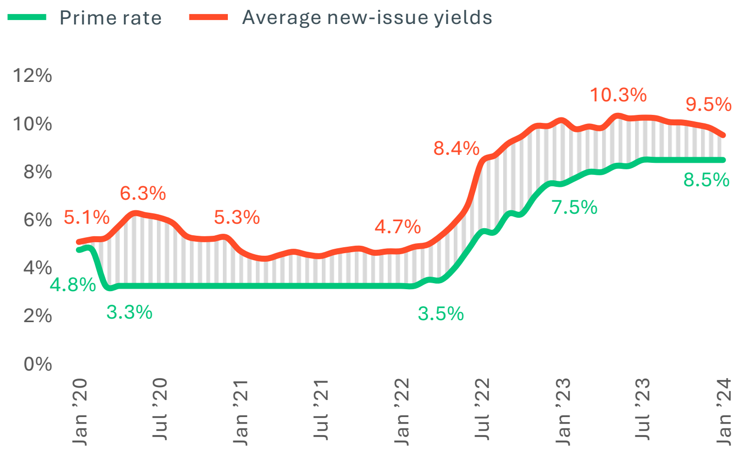
Mid Market Remains Depressed

US middle market average bid and loan volume[1]



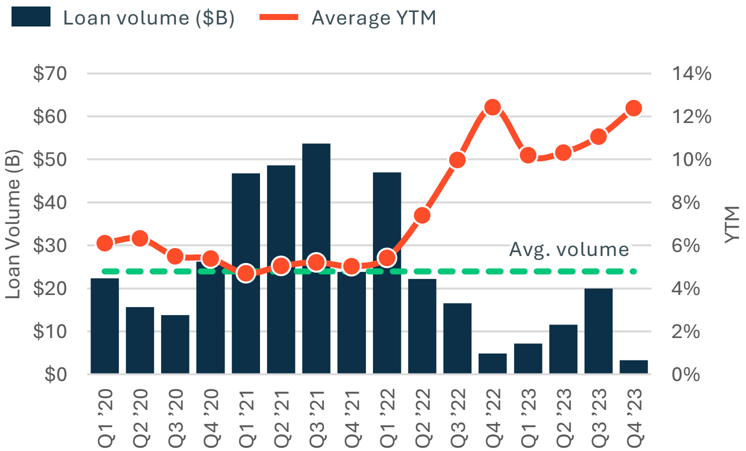
New-Issue Yields Stabilize[2]

US average new-issue yields versus prime rate



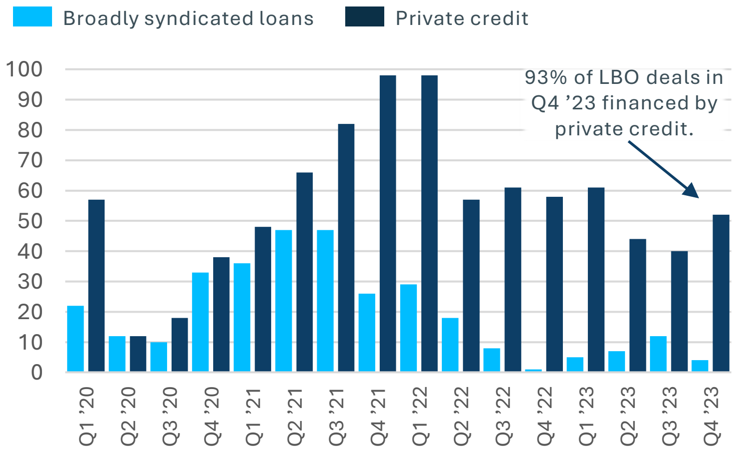
LBO Loan Volume Down, Yields Up[3]

US LBO loan volume and average YTM



Private Credit Takes Center Stage[4]

Count of US LBOs by source of financing



Notes: 1) US loans of $350 million or less. 2) For US companies with more than $50 million in EBITDA. 3) All loans with "LBO" as the listed purpose. Loan volume taken from the Interactive Volume Report; yields are sourced from the Leveraged Commentary & Data (LCD) database. 4) Count is based on transactions covered by LCD News. 5) St. Louis Fed's FRED Economic Data. 6) Leveraged buyout. 7) All US commercial bank deposits, seasonally adjusted weekly data. High of $18.2 trillion for week ending April 13, 2022, low of $17.2 trillion for week ending May 10, 2023. 8) Fundraising for US-based private direct lending funds was $69.3 billion in 2023 and $15.7 billion in 2013.

Sources: PitchBook LCD, Preqin and SVB analysis.

Internal

Spotlight

Talent and Firm Building

AUM Growth Set to Spur Hiring

Facing a more difficult fundraising environment, what are firms' expectations for future growth and hiring?

From 2015 to 2019, US buyout, growth and VC AUM grew 58%. During the next four years, however, AUM grew nearly twice as fast, increasing 104% between 2019 and 2023. This led many firms to hire ahead of the curve, gathering the human resources needed to deploy the large amounts of capital raised and expected to be raised in the future. Increased reporting and transparency requirements from LPs also contributed to growing headcount in the non-investment team. Now facing a slower fundraising and exit environment, firms may be expected to right-size. Based on survey results, however, **most expect the fundraising downturn to reverse and firm growth to continue.**

With public markets bouncing back strongly in 2023 and in the early innings of 2024, there seems to be renewed optimism — especially around AUM growth. Today, **85% of respondents expect their AUM to grow in 2024, with half of that group expecting double-digit growth.** Firms are more likely to focus on hiring more investment team members, but more than one-third also plan to increase non-investment headcount. There is no doubt that there will be some right-sizing among firms, which is healthy in any industry, but it could be specific to certain funds or investment areas rather than a broader trend.

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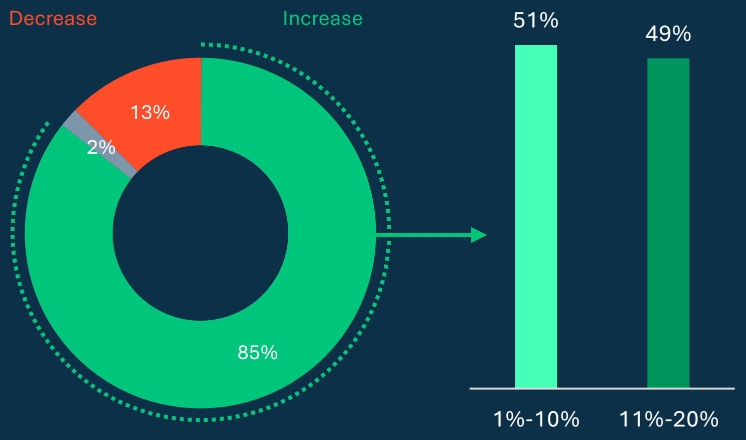
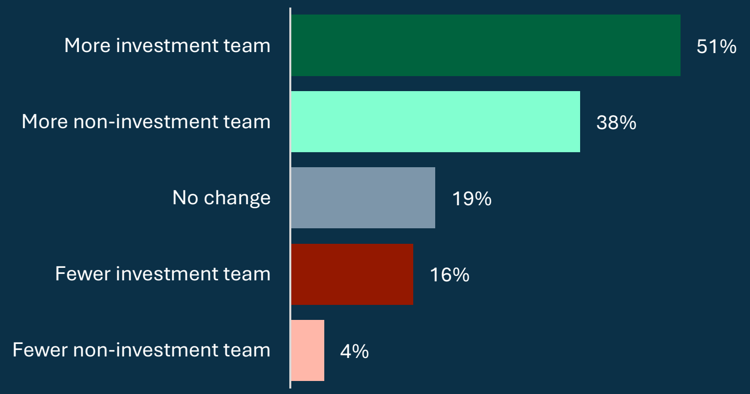
AUM Expected to Jump This Year

Q: How do you expect your firm's AUM to change in 2024?



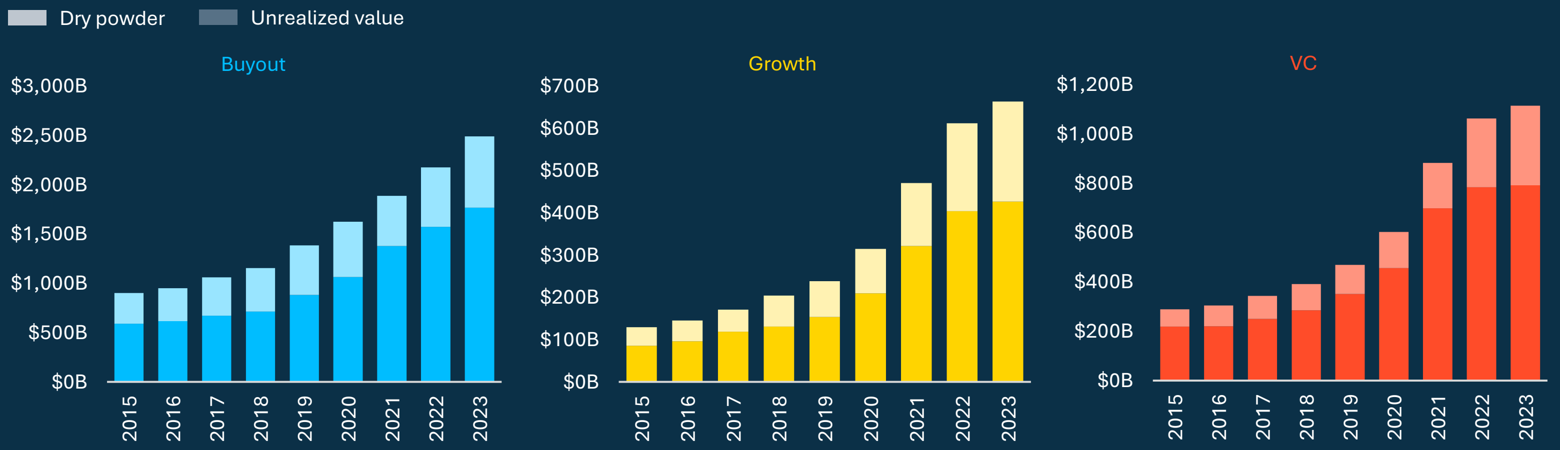
Firms Hiring Strongly in 2024

Q: How do you anticipate your forecasted change in AUM this year will impact hiring plans?[1]



Assets Under Management Have Skyrocketed Since 2020

AUM for US fund managers by fund type since 2015[2]



Notes: 1) Respondents were permitted to chose more than one response. 2) Data covers all fund vintages for US-based fund managers only.
Sources: Preqin, SVB survey and SVB analysis.

Internal

Talent Demand Back to Normal

The Great Resignation of 2021 and early 2022 grabbed headlines, and rightfully so. Job openings were at an all-time high, and employees were quitting at historic rates as worker preferences shifted. However, the tide has started to turn.

The balance of power has shifted in favor of the employer. Employers have started to require workers to return to office, and some have even begun to implement layoffs, something the PE industry is not immune to. This has stoked fears in the talent pool, contributing to less quitting among employees, as the macroeconomic environment is seen as less favorable compared to 2021. This lines up with the SVB survey conducted for this report, in which **nearly half of the respondents believed hiring top talent has been somewhat easier over the past 6 months.**

The clear position to fill in 2024 is junior investment team members, followed by accounting personnel. This was echoed in a recent SVB VC town hall survey in which **46% of respondents expected to expand their investment team in 2024, while only 17% said the same for their finance team.** After junior investment members and accounting was a mixed bag of "other" positions to fill. Among written answers, firms detailed a need for compliance, administrative and operations support.

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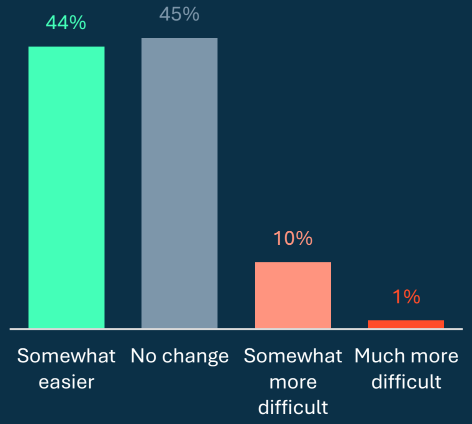
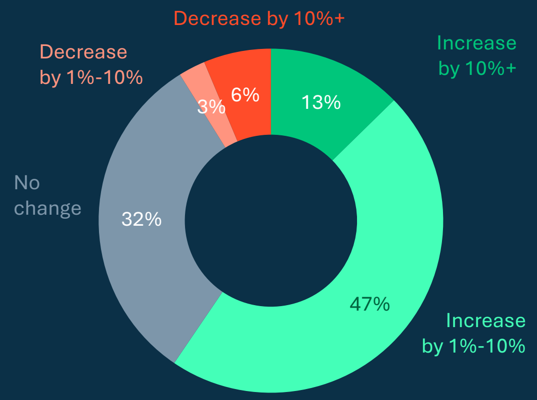
Hiring Optimism Brewing

Q: Over the past 6 months, do you believe hiring top talent is becoming:



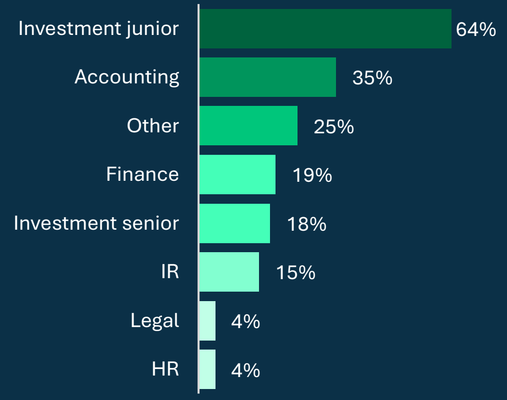
Firms Plan to Hire in 2024

Q: During 2024, how do you expect your firm's overall headcount to change?



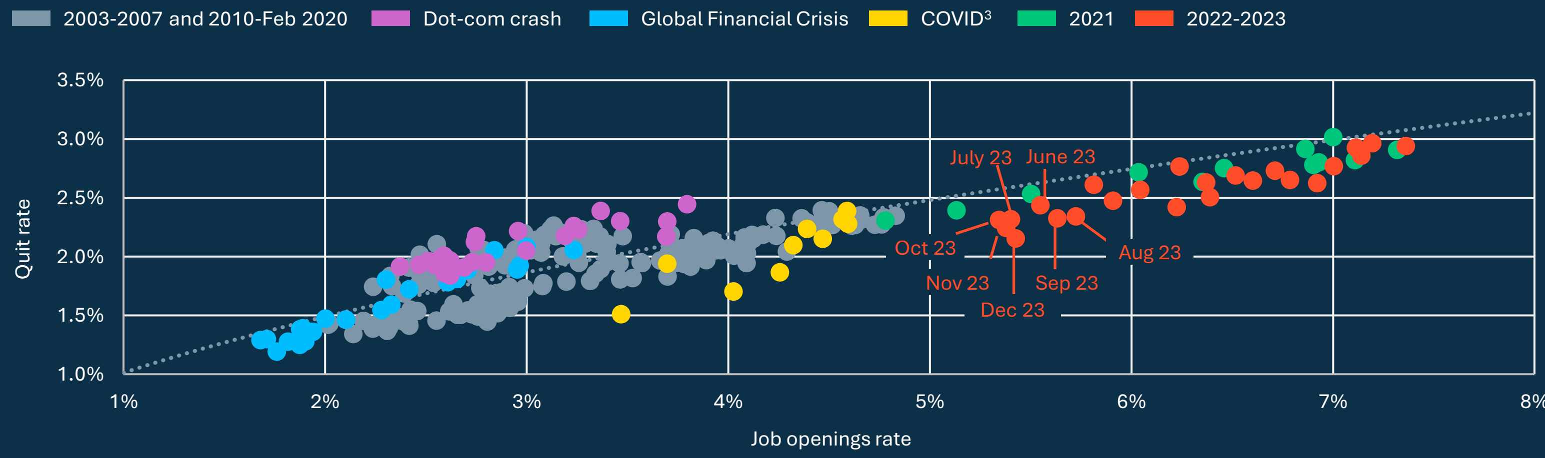
Investment Team in Demand

Q: What teams/functions do you plan to grow in terms of headcount in 2024?[1]



Quit Rates Hold Steady as Job Openings Remain Strong

Job openings and quit rates since 2000[2]



Notes: 1) Respondents were permitted to chose more than one option. 2) Quit rates and job opening rates for US nonfarm payrolls. 3) COVID period defined as March 2020 to December 2020.

Sources: Bureau of Labor Statistics, Peterson Institute for International Economics, SVB survey and SVB analysis.

Internal

Exits and Liquidity

LPs Patiently Wait for Distributions

Liquidity

Using NAV loans to generate financial flexibility at the end of a fund's life cycle

PRIVATE EQUITY INSIGHTS
Trends and best practices from SVB's experts

As funds reach the end of their lives, a lack of access to capital can make it difficult for GPs to take advantage of investment opportunities. SVB experts Mark Thylin and Dirk Engelbert explain:

- How securing financing against a fund's underlying assets with a NAV loan can support liquidity at a critical time
- Why NAV loans are especially useful when it's not practical to borrow against an individual portfolio company
- What GPs need to consider before entering into a NAV loan

Mark Thylin
Head of Structured Fund Solutions,
Global Fund Banking, SVB

Dirk Engelbert
Managing Director,
Structured Fund Solutions,
Global Fund Banking, SVB

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Opportunity May Be Ripe for Funds

Times are tough for LPs and GPs alike, and exits are hard to come by. However, taking a step back, this period could be a blessing in disguise for the right investors. Fund vintages from downturns deliver capital back to LPs at a greater clip compared to their counterparts (i.e., fund vintages from boom times). **For example, fund vintages from the dot-com crash and Global Financial Crisis distributed 1.2 times the capital called back to investors within the next 10 years.** Meanwhile, fund vintages from subsequent market expansion periods did not return the amount of capital called within that same time frame.

Why would this be? First, it has long been claimed that the best companies are founded during market downturns. Opportunity costs to start a company are low, which spurs entrepreneurship. This allows fund vintages from those periods an opportunity to get in early. Second, with market downturns come compressed valuations. This provides a ripe entry point for opportunistic investors to get in for a lower price and capitalize on their bets when the market rebounds and valuations expand. Of course, all this is predicated on companies eventually exiting — an ongoing challenge for the industry. However, investors seem to be more optimistic on this front. **Based on a recent survey from an SVB VC town hall, 46% of respondents expect the exit markets to improve in 2024 relative to 2023.**

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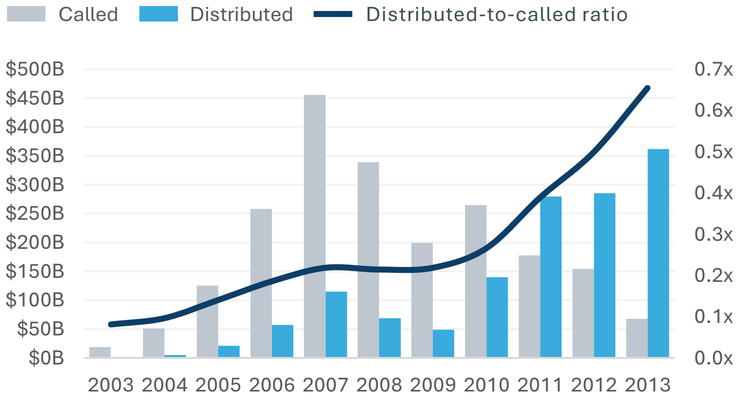
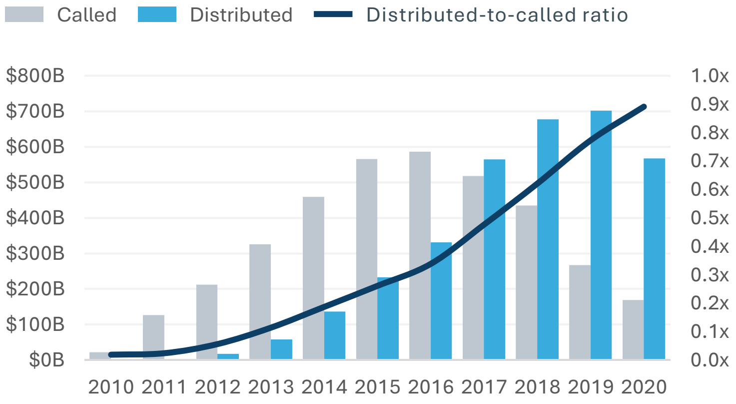
Vintages During Good Times Take Longer to Return Capital to Investors

Capital called and distributed by vintage year bucket[1]

Boom time 1: Vintages 2003-2007



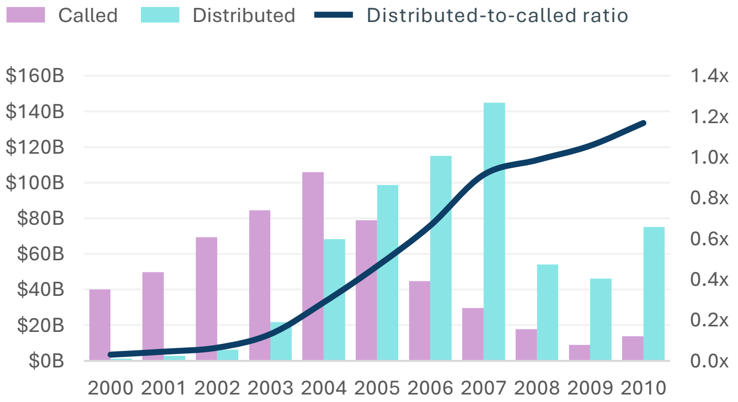
Boom time 2: Vintages 2010-2015



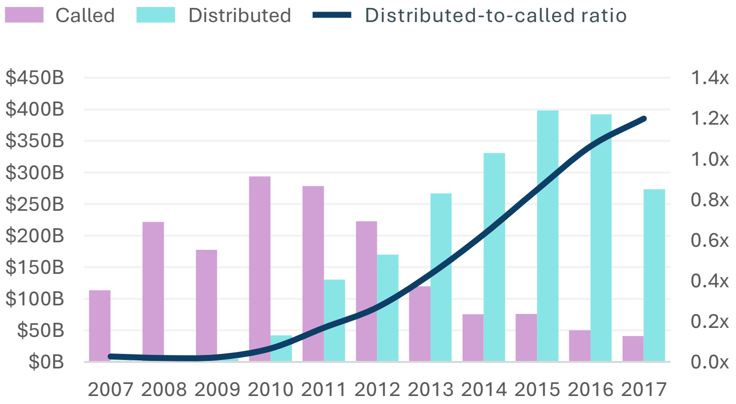
Vintages During Tough Times Historically Deliver Better Returns

Capital called and distributed by vintage year bucket[1]

Dot-com crash: Vintages 2000-2002



Global Financial Crisis: Vintages 2008-2009



Notes: 1) Data is for global buyout, growth and venture funds.
Sources: Preqin, SVB survey and SVB analysis.

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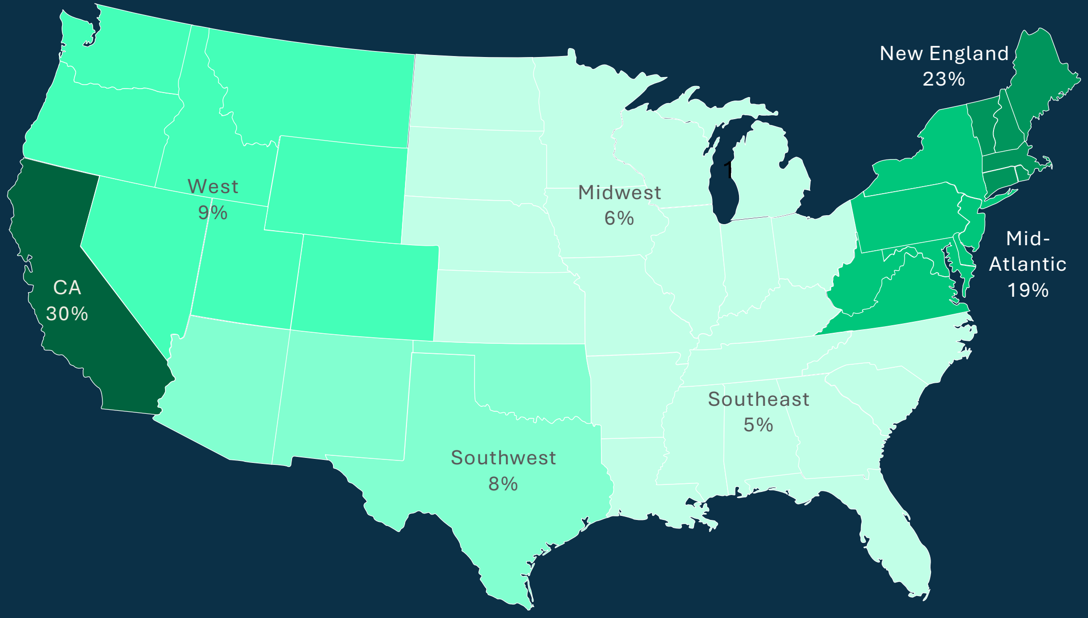
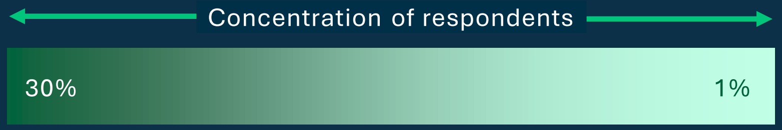
Appendix

Survey Details

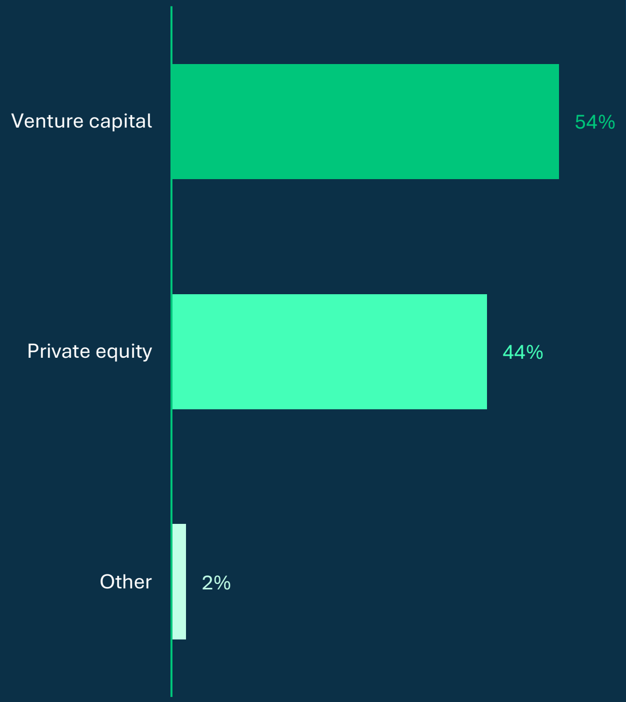
About SVB's Global Fund Banking Survey Respondents

Respondents by Organization Primary Location





Respondents by Firm Type[1]



Survey Respondents

Total firms:

79

Total AUM:[2]

$200B+

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Notes: 1) Among those firms with disclosed types. 2) Among those firms with AUM listed in Preqin or PitchBook Data, Inc. If AUM is unavailable, the dollar amount of funds raised in the last 10 years is used as a proxy.

Source: Preqin, PitchBook Data, Inc., SVB survey and SVB analysis.

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