DACH managers benefiting from fundraising tailwinds

The DACH region has enjoyed a busy first half in terms of fundraising, particularly in the venture space. But despite a positive mood on the ground, Germany and its neighbouring countries did not see a significant number of fund closings in 2015. However, judging by activity in the first months of 2016, this was probably a coincidence of timing rather than a case of DACH-based GPs failing to capitalise on global fundraising tailwinds.

This year has seen 11 fund closings so far, according to *unquote" data*, including four venture capital funds, one co-investment fund and two funds-of-funds, in addition to buyout vehicles. Swiss GP Adveq notably held final closes for two vehicles in January 2016, reaching €323m for its Adveq Specialized Investments fund and €102m for its Adveq Europe Co-Investments vehicle. Another highlight followed in August, when Deutsche Beteiligungs AG (DBAG) closed its seventh fund at €1bn, with the vehicle consisting of two sub-funds: an €800m principal fund, of which €183m came from listed entity DBAG for its co-investments, and a supplementary €200m top-up fund, which will be used for larger transactions.

Mounir Guen, CEO of MVision Private Equity Advisers, says fundraising in Germany benefits from significant tailwinds: "Germany is very much sought after by the investor community. Most investors have been underweight in Germany and are looking for more German exposure. When German funds come to market there is always a rush and a popularity."

Linklaters partner Alexander Vogt sees this as the culmination of positive developments in recent years among LPs and GPs: "The landscape in Germany has become much more receptive to alternative investments than it was 10 years ago. Post financial crisis, the institutional investor community in Germany has accelerated the reallocation of capital in their portfolios." Nina Dohr-Pawlowitz, CEO of DC Placement Advisors, adds that insurance companies, in particular, which are now focusing on infrastructure debt and private debt, are reallocating more investments to private equity.

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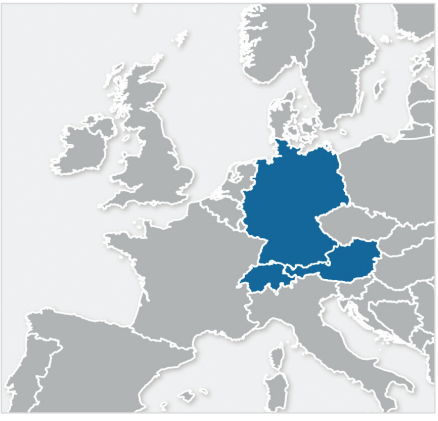


MVision's Guen has seen some groups of new investors turning their attention toward Germany and Europe in general: "There are more Americans, who are either growing their programme or diversifying more, or haven't been able to secure enough exposure. And then there are new investors in Asia, the Middle East and in Latin America, who are coming to market. They are looking to increase European exposure."

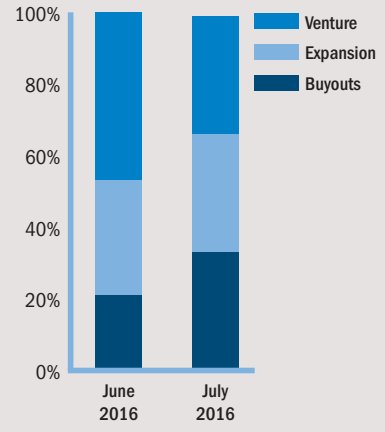
However, it is not as much the LP base as the way in which they interact with the GPs that has changed in recent months, according to market observers. The larger ones have become more sophisticated and often do not content themselves with a classic fund structure anymore – this trend has had repercussions for private equity across Europe. "The large investors are much more reluctant to go into co-mingled vehicles and accept the standard deal," says Vogt. "We are seeing large investors flex their muscles and saying they are much more interested in working on a managed account basis with particular managers, to allocate significant capital to those managed accounts."

Homegrown venture

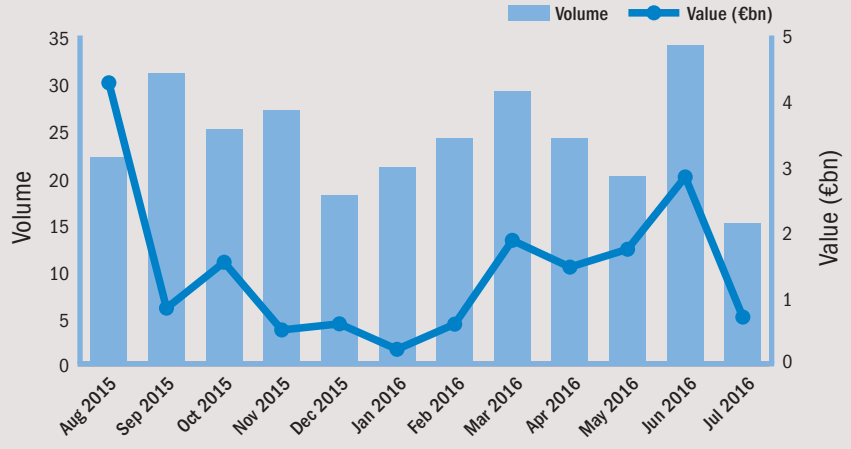
German venture capital funds were on a roll during H1 2016, with four closes of vehicles closing wholly or in part in the country. Linklaters' Vogt finds "there is a recognition outside of the country that innovation in Germany is an area in which you can make money".

However, unlike larger funds, local VCs struggle to attract money from international investors. MVision's Guen says US foundations and endowments are slow to invest in venture

Deals by type



Private equity activity

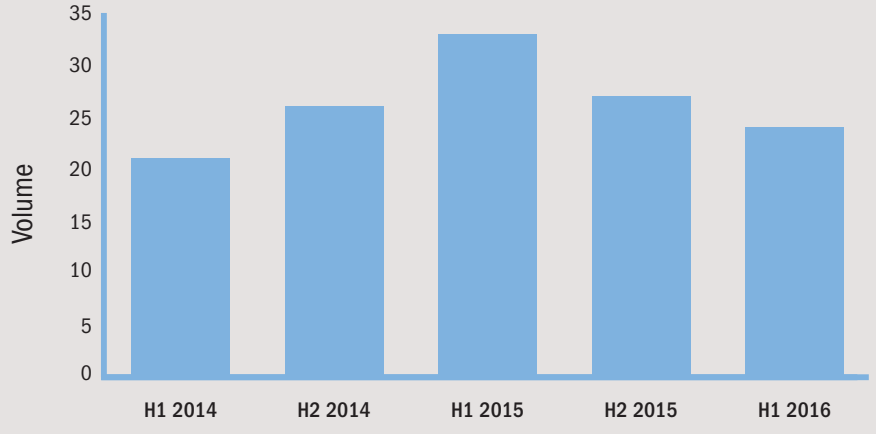


opportunities in Germany, but notes this is also true of Europe in general. "The returns they are getting from US venture capital firms are outstanding. Europe was a bit slow to start," he says.

Coparion, which closed its maiden fund on €225m in March, is largely funded by the European Investment Fund (EIF) and German government-owned development bank KfW Bankengruppe. Cherry Ventures, which closed its second vehicle this year, also received funding from EIF and states that European LPs account for the vast majority of its backers. KfW itself does not shy away from its crucial role of supporting local venture funds and plans to provide €600m for German startups in the years to come – a strategy justified by the relative lack of non-public institutional investors in the country.

Debt funds is another area where recent developments in Germany will keep managers happy, and interest from foreign investors is expected to pick up. The country has seen regulation in this market loosen in recent months, as private debt funds do not need a banking licence anymore to operate in the country. Private debt products are a rising asset class among LPs in general worldwide and German managers can now properly partake in the action. "We have seen an increasing number of funds in the market and increased investor appetite for debt-based products," says Vogt. ■

Volume of deals in the consumer sector



Volume of deals in the healthcare sector