Private equity assets hit $3tn

Boost for industry amid slow conditions

Funds seek returns to meet their obligations

By Anousha Sakoui and Dan McCrum in London

The value of assets managed by the private equity industry globally continued to rise last year, hitting a record $3tn despite financial market turmoil and sluggish economic conditions.

The results will provide a boost to the private equity industry, which has been struggling with difficult conditions for raising new funds, a slump in deal making activity and heightened public scrutiny following the US presidential campaign of Mitt Romney, the Republican candidate who ran Bain Capital before turning to politics.

Despite the increased criticism, the private equity industry has continued to attract assets from investors such as pension funds seeking investment returns to meet their obligations.

In November, the Teacher Retirement System of Texas said that it would hand $6bn to private equity group's KKR and Apollo Global to manage. The cash is to be invested in buyouts, as well as other funds run by the asset managers, such as those investing in corporate debt.

Earlier this year Blackstone proved that it was still possible to raise mega-funds, as it completed a $16bn fundraising that began in January 2011, the sixth largest fund on record, according to Prequin.

Research by Prequin published yesterday showed the industry's assets under management rose by 9.4 per cent, down slightly from the 11.9 per cent last year, but the second-highest year of growth since 2007.

"The sustained growth of industry assets highlights the fact that private equity continues to be attractive to institutional investors that are willing to forgo liquidity in return for outperformance," said Bronwyn Williams of Prequin. "Despite the uncertainty and volatility that has prevailed in recent years, faith remains that private equity fund managers can still deliver these returns."

Private equity returns annualised over 10 years to 2011 outpaced the S&P 500 and MSCI Europe indices.

The rate of growth of assets remains, however, well below the 33.6 per cent and 37.6 per cent rates registered when the private equity market was still booming in 2007 and 2006, respectively.

Other industry observers are less bullish, believing the increasing asset values simply show the time lag before private equity funds come to the end of their lives. Moreover, many funds are being forced to hold assets longer than they would normally before selling them.

The number of private equity funds still active shrank for the first time in 2011, according to private equity fund advisers Triago, who added in a report in March that the number of casualties in the private equity fund world are likely to rise dramatically from 2015 as poorly performing portfolios of investments from the height of the credit bubble come to the end of their lives.