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Carlyle, Apollo Dial Up Spending to Raise Big Bucks

By Tom Stabile August 9, 2017

Apollo Global Management and **Carlyle Group** are stepping up spending this year on capital-raising efforts for their mega funds in the market. But the mix of line items around Apollo's $24.6 billion global **buyout fund** – the largest ever – and Carlyle's biggest-ever U.S. buyout vehicle **planned for $15 billion** don't look much like the costs and approach for the rest of the private equity market.

Private equity managers are relying more than ever on third-party placement agents to sell their funds, a model built to help firms that are only in the market with a big fund every few years but face an increasingly competitive battle for new capital. Last year, 58% of private equity funds that closed used an external placement agent, the most ever, according to **Preqin** data.

The largest firms, such as Carlyle, Apollo, **Blackstone Group**, and **KKR**, have carved out a different model, building big internal fundraising teams as their product menus have exploded, which puts them in the market at virtually all times with strategies seeking capital. Even with those standing sales teams, however, they still see spikes in spending when their largest funds are raising money.

While Carlyle's new U.S. buyout fund now hitting the market is the main feature, it is only part of a four-year $100 billion **fundraising drive** across multiple funds that began last year and resulted in $8.4 billion coming in last quarter, said co-CEO **David Rubenstein** on the manager's earnings call last week. Its eighth U.S. real estate fund led the way with $3.3 billion in new capital, he said.

"We raised more in the second quarter than we have in any quarter since the 2007-2008 period, and we did so without any of the three large buyout funds yet being in the market," he said, referring to its U.S., Europe, and Asia regional vehicles.

As it ramps up fundraising, the related costs also are showing up on its books, said Carlyle CFO **Curtis Buser**, who also spoke on the call. "Fundraising costs [in the second quarter] were $15 million more than the first quarter of 2017 and the second quarter of 2016 due to the significant fundraising activity in the quarter," he said. "We expect elevated fundraising levels in the near term, and accordingly expect to see continued high levels of fundraising cost."

Carlyle's greater expenses included more for marketing materials and travel stemming from the fundraising effort, according to a source familiar with the matter. It also shows up in higher pay, Buser said. "Fundraising costs appear in the elevated indirect compensation expense," he said.

Many private equity firms with internal sales teams have models that include bonuses based on the amount of capital raised, says **Gail Guerin**, founder at **Guerin Group**, a strategic consultant on fundraising and investor relations. “That compensation often has a success component to it,” she says.

Apollo’s recent fundraising tear – it brought in nearly $36 billion last quarter, including $24 billion for private equity and $10 billion for credit – also resulted in increased fundraising costs, says a source familiar with the matter.

In addition to costs related to internal teams, both Carlyle and Apollo also are logging some expenses for external placement fees, but in a more selective manner – primarily for foreign jurisdictions that require use of local sales outfits and for feeder funds built by large wealth management firms, say the sources familiar with those affairs.

While Carlyle primarily raised its capital last quarter with its internal team, “future quarters maybe relatively more expensive as we augment our internal team with external fundraising efforts,” Buser noted last week.

And Apollo is expecting to log another $5 million in placement fees in the third quarter, said CFO **Martin Kelly** on Apollo’s second quarter earnings call last week.

Still, Apollo is spending less on placement fees now than it did for prior flagship buyout vehicles. It has spent $7.2 million so far this year, a far slower pace than in 2013, when its last big buyout fund was in the market and it logged $42.4 million in placement fees, or 2008, the prior big fund, when it spent $51.2 million. That reflects Apollo having shifted more of the sales effort to its internal team, says the source familiar with its approach.

Apollo’s gradual shift away from using placement agents appears to be a track on which other private equity firms run, according to Preqin’s data. The most active users of external sales teams tend to be firms with their fourth or fifth funds from a particular series in the market, with a significant drop off after that on future vintages, which Preqin attributes to firms building in-house operations as they grow.

That long-term shift should occur across the private equity market, says **Bill Limburg**, senior associate at **Patpatia & Associates**, as firms mature and expand their product lineups across different specialties or vehicles such as separate accounts.

“As they grow larger, they have the ability to justify a 365[-day] capital-raising effort,” he says. “It’s also an opportunity for them to be more solutions-oriented in the way they raise capital.”

There is a general move toward institutionalizing operations at private equity managers that often involves bringing on internal sales expertise, says **Sasha Jensen**, CEO at **Context Jensen Partners**, a recruiting firm. “Firms are attempting to be attractive to [investors] from that professional perspective,” she says.

That transition will likely take a while to evolve in the broader industry, Limburg says. But it isn’t a death knell for placement agents, which will still play a role as private equity managers use them in “a more opportunistic fashion,” he says.

One ongoing role for external marketers is to help with new strategies firms are launching, especially amidst a flurry of product development activity, Jensen says. “They need to cover the one-off esoteric funds,” she says. Another is relying on external marketers to help in specific jurisdictions or entire overseas regions where a manager hasn't hired a sales team, she adds.

Those trends apply even to well-established firms, such as **Bain Capital**, which tapped **Mercury Capital Advisors** on an impact investing vehicle it launched in 2016, according to a source familiar with the matter, and **TPG Capital**, which used Chilean marketer **Picton** on the $10.5 billion buyout fund it closed last year, Preqin data shows.

Another variable likely to keep placement agents on board is that many of them stay with a manager across multiple vehicles in a particular fund series, Guerin says. "If you've started a relationship with an agent, it's not the same heavy lifting to do it again," she says.