Coller Capital

Global Private Equity Barometer

WINTER 2011-12

A UNIQUE PERSPECTIVE ON THE ISSUES AND OPPORTUNITIES
FACING INVESTORS IN PRIVATE EQUITY WORLDWIDE


1020

Coller Capital's *Global Private Equity Barometer*

Coller Capital's *Global Private Equity Barometer* is a unique snapshot of worldwide trends in private equity – a twice-yearly overview of the plans and opinions of institutional investors in private equity (Limited Partners, or LPs, as they are known) based in North America, Europe and Asia-Pacific.

This 15th edition of the *Global Private Equity Barometer* captured the views of 107 private equity investors from all round the world. The *Barometer's* findings are globally representative of the LP population by:

- Investor location
- Type of investing organisation
- Total assets under management
- Length of experience of private equity investing

Contents

Key topics in this edition of the *Barometer* include:

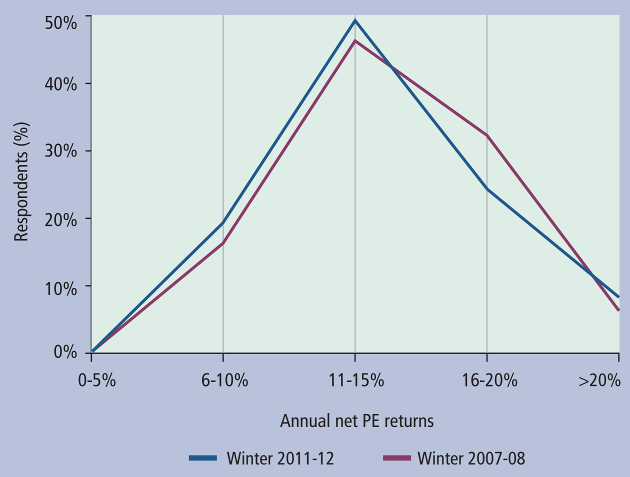
- LPs' return expectations & appetite for PE
- Attractive areas for GP investment
- Pace of GP investment
- The attractiveness of the PE model
- Fund terms & conditions
- Fundraising & fund extensions
- 'Zombie' funds
- GP consortium deals
- Debt-related challenges for PE

LPs' medium-term return expectations almost match pre-crisis levels

One third of investors expect to achieve net annual returns of 16%+ across their private equity portfolios over the next 3-5 years, and half of LPs expect to achieve net returns of 11-15%. (This compares with 38% of LPs expecting returns of 16%+, and 46% of LPs expecting returns of 11-15%, in Winter 2007-08.)

This overall picture disguises some interesting regional variations. Half (48%) of North American LPs expect to achieve annual net returns of 16%+, compared with only one third (32%) of Asia-Pacific LPs and one in six (16%) European investors.

LPs' expected net annual returns from PE over the next 3-5 years

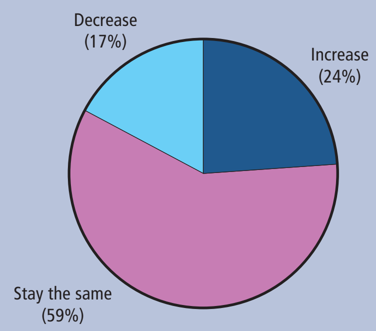


(Figure 1)

Investors retain confidence in PE

The downturn in the global economy and financial markets has not dented investors' appetite for private equity – 83% of LPs plan to maintain or increase their target allocation to private equity over the next year, which is broadly in line with their intentions in recent years.

LPs' plans for their percentage of assets targeted at PE over the next 12 months

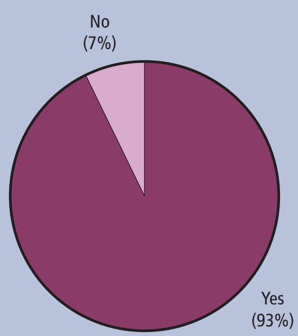


(Figure 2)

Almost all LPs believe PE investment results in healthier businesses

93% of LPs believe that private equity strengthens the businesses in which it invests.

Proportion of LPs believing private equity investment generally results in healthier businesses



(Figure 3)

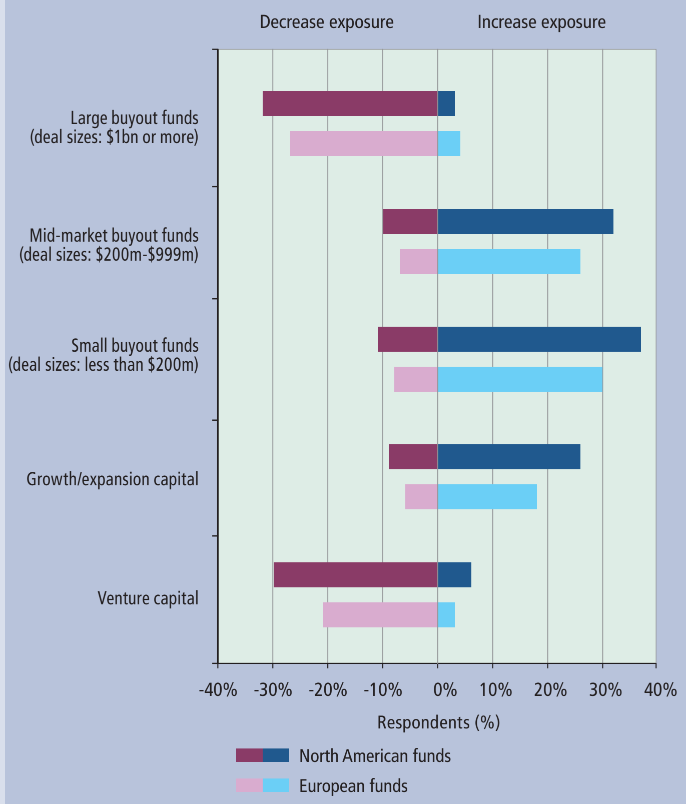
LPs to seek investment in small and mid-sized buyouts in Europe and North America

Investors believe small-to-mid-sized buyout transactions (deal sizes of less than $1bn) in Europe and North America currently offer the best opportunities. Between a quarter and a third of LPs plan to increase their exposure to these fund types over the next 2-3 years.

Investors are avoiding areas perceived as more risky: venture capital investments and large buyouts. For European PE, a quarter (27%) of LPs plan to reduce their new commitments to large buyouts (deal sizes of $1bn or more), while a fifth (21%) plan to do the same for venture capital. For North American PE, approximately one third of LPs plan to scale back both their venture and large buyout investments.

Interestingly, Asia-Pacific LPs seem far less convinced by the current attractiveness of mid-sized European buyouts than their western counterparts – just 5% plan greater investment over the next 2-3 years.

LPs' plans for European and North American fund commitments in the next 2-3 years – by fund type

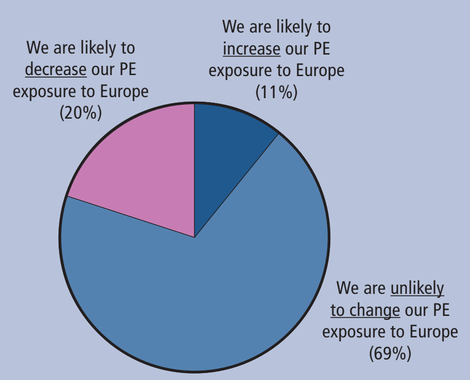


(Figure 4)

European sovereign debt crisis to deter 1 in 5 investors

One in 5 investors say they will reduce their private equity exposure to Europe because of the sovereign debt crisis. This proportion is common to LPs from all regions.

Impact of the sovereign debt crisis on LPs' PE investment strategies in Europe



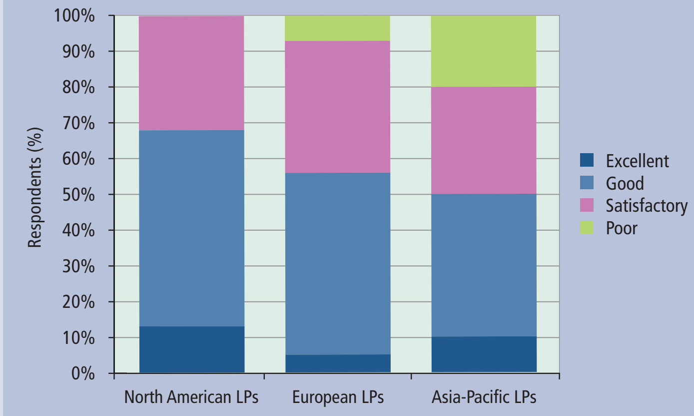
(Figure 5)

LPs optimistic about 2012 vintage year – especially North Americans

Over two-thirds (68%) of North American investors, 56% of European LPs and half of Asia-Pacific LPs believe 2012 will be a *good* or *excellent* vintage year for private equity.

Nearly all those LPs who are less optimistic still believe the vintage will be *satisfactory*. Just 7% of European LPs and 20% of Asia-Pacific LPs (and no North American LPs) think 2012 will be a *poor* vintage.

LP expectations for 2012 as a PE vintage year



(Figure 6)

Best deals to come from corporations and families/ entrepreneurs, LPs think

Investors expect the best investment opportunities for GPs in the next couple of years to come from corporate disposals and sales by families/entrepreneurs.

In the dark days of the Winter 2009-10 *Barometer*, buying from bankruptcy was thought to be the best source of attractive transactions.

Sources of attractive PE transactions in the next 2 years – LP views

	Overall ranking		
	Winter 2011-12	Winter 2009-10	Change
Corporate disposals/ spin-offs	1	2	+1
Sales by families/ entrepreneurs	2	4	+2
Secondary buyouts	3	3	-
Buying from bankruptcy/ Chapter 11	4	1	-3
Quoted markets (P-to-P deals)	5	5	-

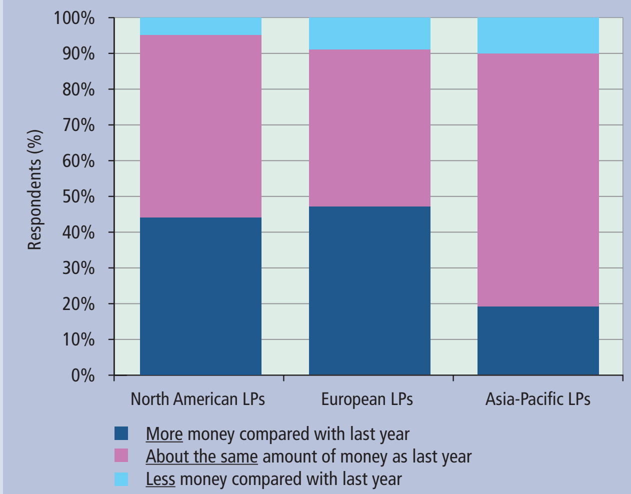
(Figure 7)

LPs expect GPs to maintain or increase their investment pace in 2012

Investors expect the pace of GP investment to remain the same or increase over the next 12 months.

While 47% of European LPs and 44% of North American LPs believe GPs will draw down more money than in 2011, just one fifth (19%) of Asia-Pacific investors expect an increase.

LP expectations for GP drawdowns over the next 12 months

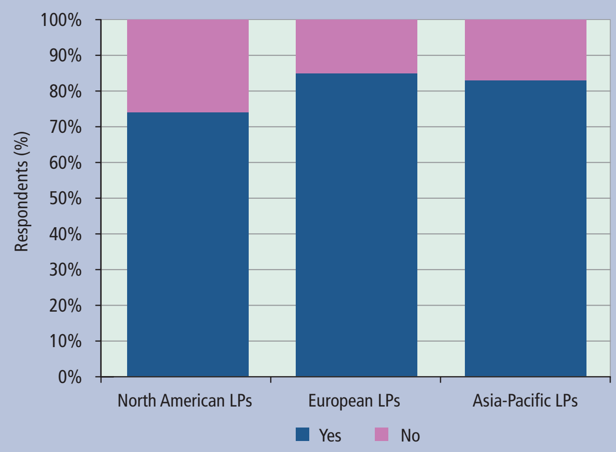


(Figure 8)

Four-fifths of LPs expect fund terms and conditions to become *more favourable*

Investors around the world believe the global downturn is still increasing their bargaining power on fund terms and conditions. Four-fifths of LPs expect the terms and conditions of private equity funds to continue improving in their favour.

LPs expecting fund terms and conditions to continue improving in their favour

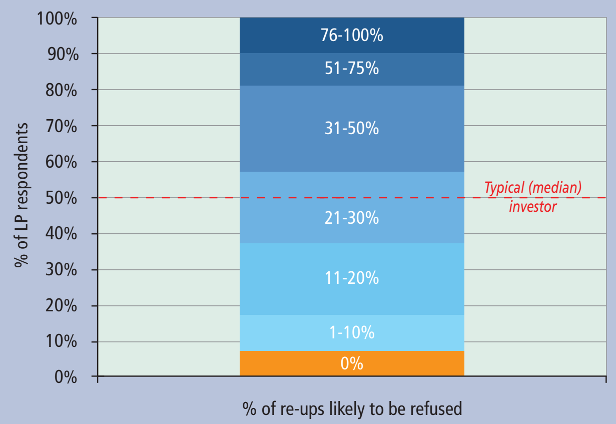


(Figure 9)

'Typical' LP will reject a quarter of re-ups in next 18 months

93% of the world's PE investors will reject at least some re-up requests in the next 18 months. A 'typical' (median) LP will refuse around one quarter of such requests, but there is considerable variation across the investor world. One in five LPs expects to reject half-to-all of re-up requests they receive in the next 18 months.

Proportion of re-up requests LPs expect to refuse in the next 18 months – by % of LP respondents

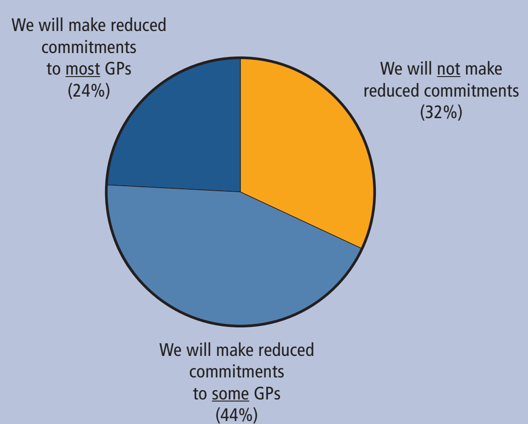


(Figure 10)

Many LPs will reduce commitment sizes in re-upping

The majority of re-upping LPs will reduce some commitments in the next 18 months, but the extent of these reductions will vary considerably from LP to LP. Only one third of LPs expect to maintain their commitment levels to *all* the GPs with whom they re-up.

Proportion of LPs making reduced commitments in re-ups in the next 18 months

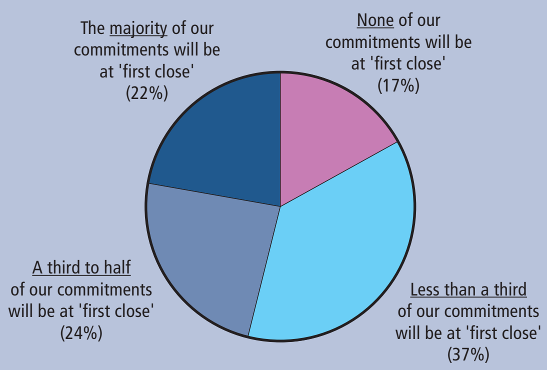


(Figure 11)

Many LPs will rarely or never make 'first closes'

Only 1 in 5 LPs (22%) expects to be in the first close of most of its chosen funds in the next 18 months. 17% of LPs say they will never make the first close.

Proportion of LPs committing at 'first close' in the next 18 months

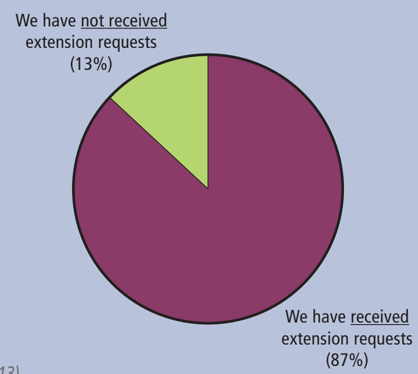


(Figure 12)

87% of LPs have had requests to extend investment periods

The great majority of LPs have already received requests to extend the investment periods of funds in their portfolios.

LPs that have received 'investment period' extension requests for their GPs' current fund

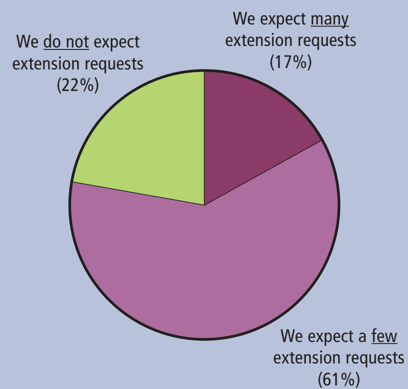


(Figure 13)

Four fifths of LPs expect more 'investment period' extension requests from GPs

Four-fifths of investors (78%) expect fund extension requests from their GPs over the next 2-3 years.

The likelihood of receiving 'investment period' fund extension requests over the next 2-3 years – LP views

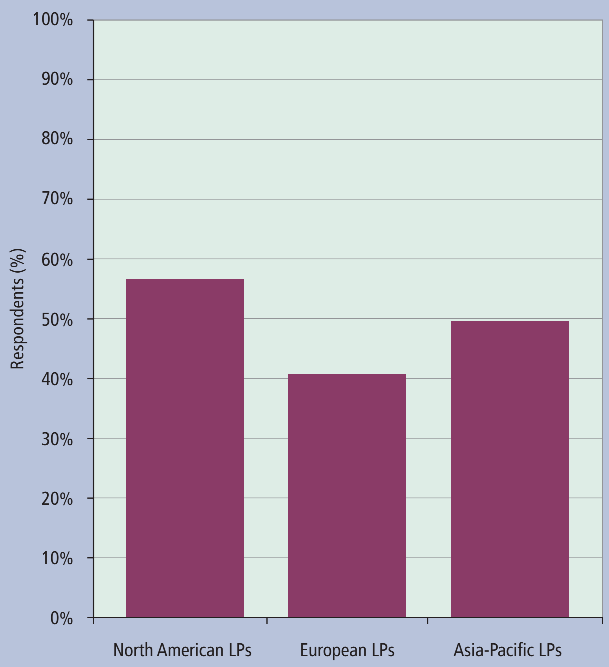


(Figure 14)

Half of LPs have 'zombie' funds in their portfolios

Approximately half of PE investors believe they have 'zombie' funds in their portfolios, ie, situations where GPs with no prospect of carried interest are motivated to keep funds going for their management fees. This feeling is particularly prevalent amongst North American LPs – 57% of whom claim to be invested in 'zombie' funds.

Proportion of LPs with 'zombie' funds in their portfolios

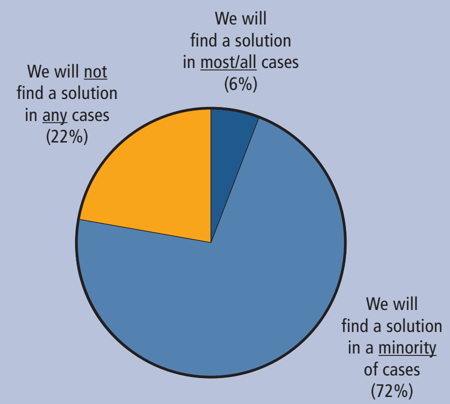


(Figure 15)

Investors will be unable to remedy most 'zombie' fund situations

LPs do not believe they will find practicable remedies to 'zombie' fund situations in most cases. Only 6% of LPs think they will manage to do something about most or all of the 'zombie' funds in their portfolios.

LPs' views on the remediability of 'zombie' funds in their portfolios

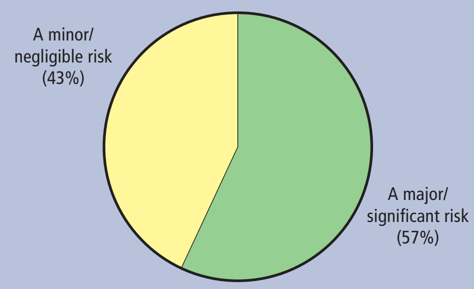


(Figure 16)

The refinancing of existing buyout debt is a significant risk to PE, LPs say

The majority of LPs (57%) believe that the need to refinance the 'wall' of buyout debt falling due in 2013-15 is a major risk to the PE industry.

The risk to PE of buyout debt maturing in 2013-15 – LP views

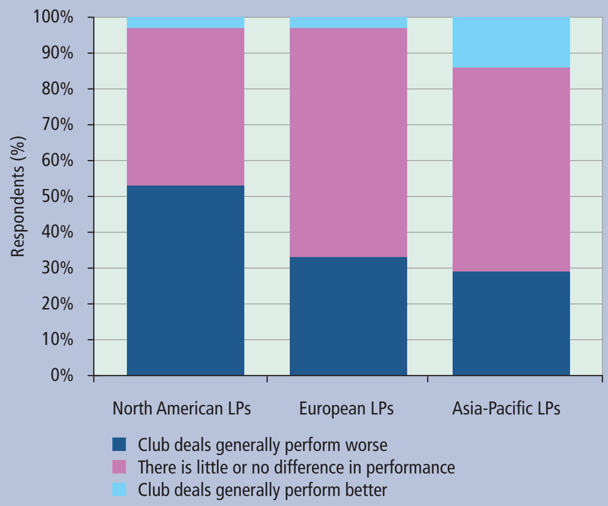


(Figure 17)

North American LPs have a worse view of 'club' deals

Just over half of North American investors believe GP consortium deals perform worse than deals done by a single GP. European and Asian LPs seem to have had a better experience – only one third of European LPs and 29% of Asia-Pacific LPs share that view.

The performance of club deals (ie, consortium deals) versus single GP deals – LP views



(Figure 18)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Winter 2011-12

The *Barometer* researched the plans and opinions of 107 investors in private equity funds. These investors, based in North America, Europe and Asia-Pacific, form a representative sample of the LP population worldwide.

About Coller Capital

Coller Capital, the creator of the *Barometer*, is the leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds and portfolios of direct investments in companies.

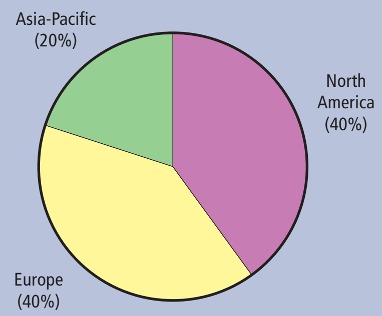
Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in August-September 2011 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for over 20 years.

Notes:

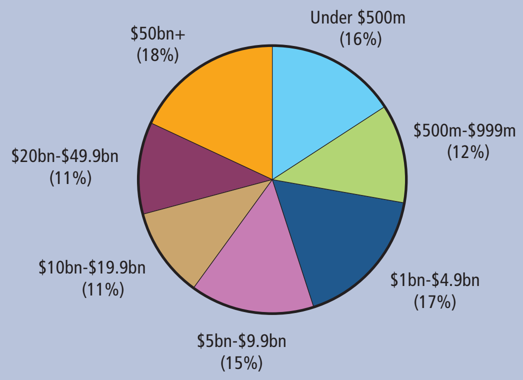
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



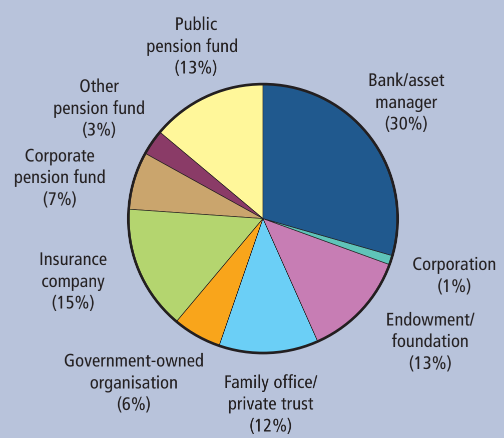
(Figure 19)

Respondents by total assets under management



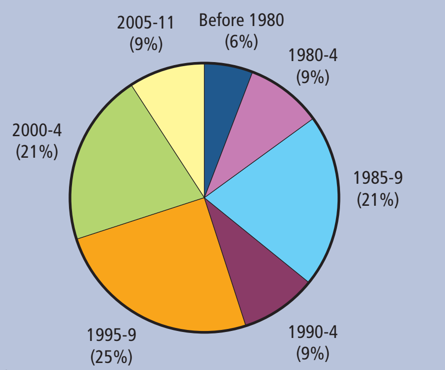
(Figure 20)

Respondents by type of organisation



(Figure 21)

Respondents by year in which they started to invest in private equity



(Figure 22)

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