Coller Capital

Global Private Equity Barometer

WINTER 2015-16

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

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 (including the Middle East).

This 23rd edition of the Global Private Equity Barometer captured the views of 114 private equity investors from around 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

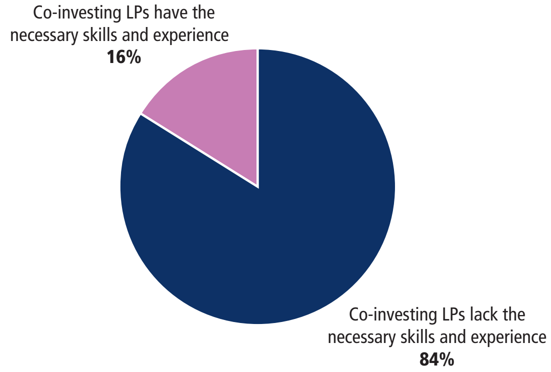
Topics in this edition of the Barometer include investors' views and plans regarding:

- Returns from, and appetite for, PE
- Challenges faced when making co-investments
- Direct investments
- Risks to PE performance
- Impact of a possible Brexit on the performance of European PE
- The rise of special accounts
- The importance of corporate brand for PE firms
- Factors influencing LP decisions to commit to debut funds
- Emerging market PE exposure
- The outlook for PE in China
- Appetite for private debt

LPs lack the skills and resources to co-invest successfully

Five out of six LPs believe that the LP community lacks the necessary investment skills, experience and processes to make successful co-investments.

LP views on whether LPs have the skills, resources and processes to make successful co-investments

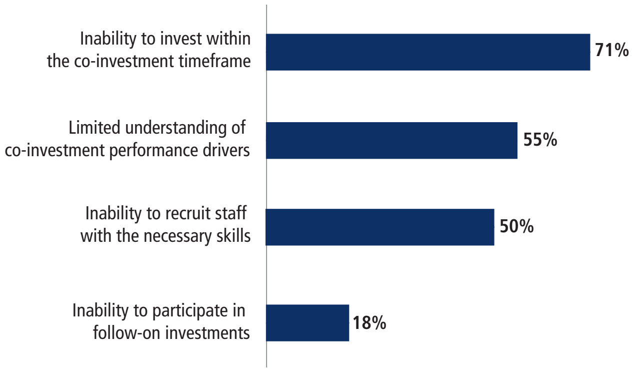


(Figure 1)

Tight deadlines and a poor understanding of performance drivers hamper LP co-investments

LPs cited time constraints, having a limited understanding of co-investment performance drivers, and the inability to recruit staff with the requisite skills as the main challenges preventing LPs from making successful co-investments.

The main challenges LPs face in co-investing – LP views

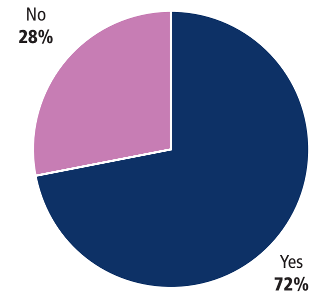


(Figure 2)

An LP's degree of operational freedom impacts its PE returns, LPs believe

Three quarters of North American and Asia-Pacific PE investors – and two thirds of European PE investors – believe the degree of operational freedom that an LP has (e.g. to embrace direct investing, open overseas offices, or set its own staff compensation) makes a material difference to its private equity returns.

LP views on whether the degree of operational freedom an LP has makes a material difference to its PE returns

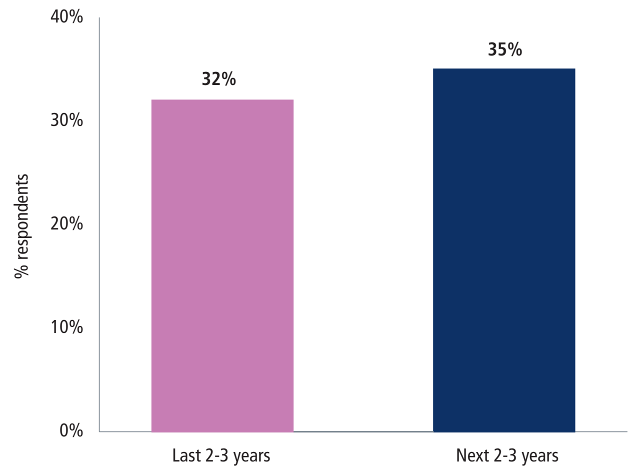


(Figure 3)

A third of LPs plan to recruit staff with direct investment skills

One third (35%) of LPs plan to recruit investment professionals with skills in direct investments in the next 2-3 years. A similar proportion of LPs have done so in the last 2-3 years.

LPs recruiting investment professionals with specific experience in direct investment

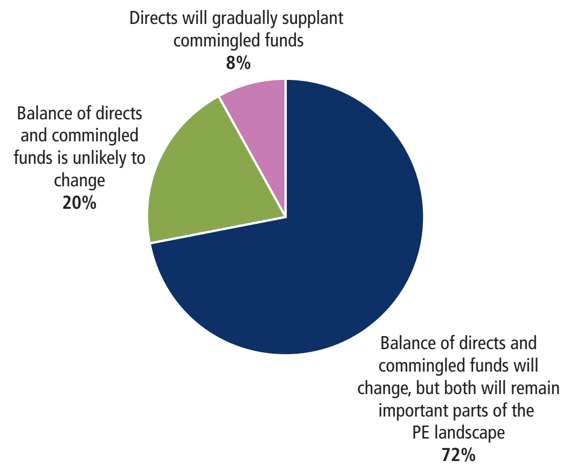


(Figure 4)

Direct investing unlikely ever to supplant fund investing, LPs say

The mix of directs and commingled funds in LPs' portfolios will change in the future, but both will remain important parts of the private equity landscape, LPs say. Only 8% of LPs expect directs eventually to supplant commingled funds.

LP views on the future relationship between direct investments and commingled funds in their PE portfolios

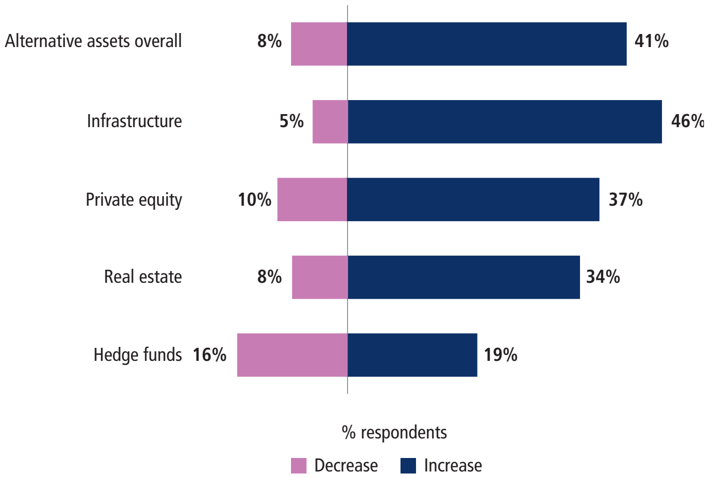


(Figure 5)

Almost half of LPs plan a higher asset allocation to infrastructure

46% of LPs will boost the proportion of their assets targeted at infrastructure investing in the next 12 months. Just over a third of LPs plan to increase their target asset allocations to private equity and real estate.

Changes in LPs' planned target allocations to alternative assets over the next 12 months

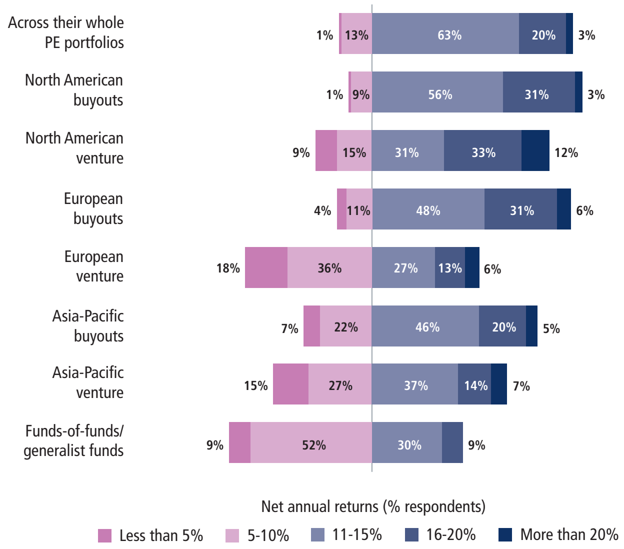


(Figure 6)

86% of LPs foresee net annual PE returns greater than 11%

LPs' medium-term return expectations remain strong – with 86% of them forecasting net annual returns of 11%+ from their private equity portfolios – a slight reduction from 93% of LPs in the Winter Barometer 2014- 15. Slightly fewer LPs expect this level of returns from European and Asia-Pacific buyouts than in Winter 2014-15.

LPs' forecast net annual returns from PE in the next 3-5 years

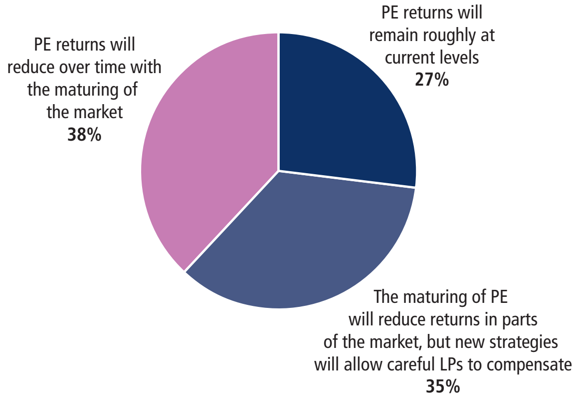


(Figure 7)

LPs believe PE returns can be sustained in the long term

62% of LPs believe that it will be possible for PE returns to be sustained at their current levels over the long term. 27% of LPs believe that PE return profiles will not change, and another 35% believe that careful LPs will be able to find new PE opportunities to compensate for the maturing of parts of the market.

LPs' views on the long term outlook for PE returns

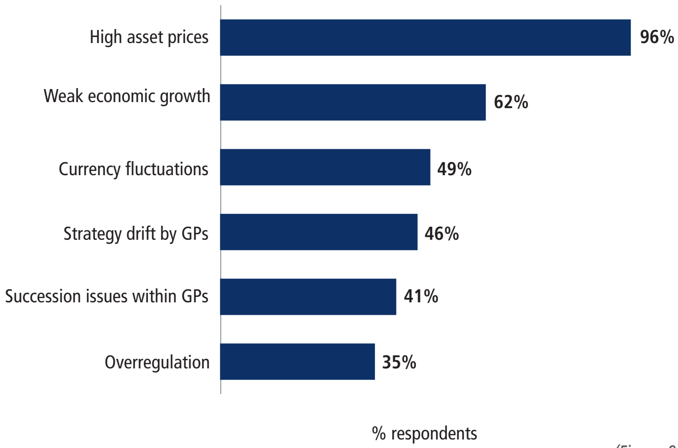


(Figure 8)

High asset prices are the biggest risk to PE performance, say LPs

Almost all (96% of) LPs believe that high asset prices are the main risk to private equity performance over the next 3-5 years. Weak economic growth was cited by 62% of LPs.

LPs' views on the biggest risks to PE performance in the next 3-5 years

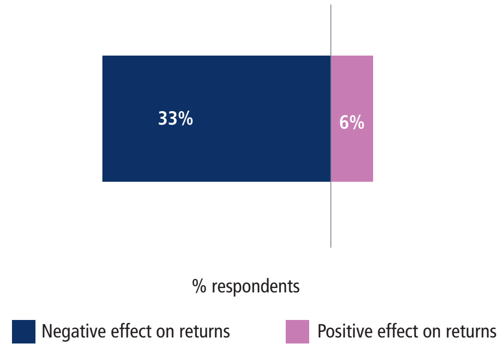


(Figure 9)

A third of LPs believe a Brexit would damage the overall performance of European PE

33% of LPs believe that a decision by the UK to leave the EU would have a negative impact on the long-term performance of European private equity as a whole. Only 6% believe it would have a positive effect.

LPs' views on the effect on European PE returns if the UK decided to leave the EU

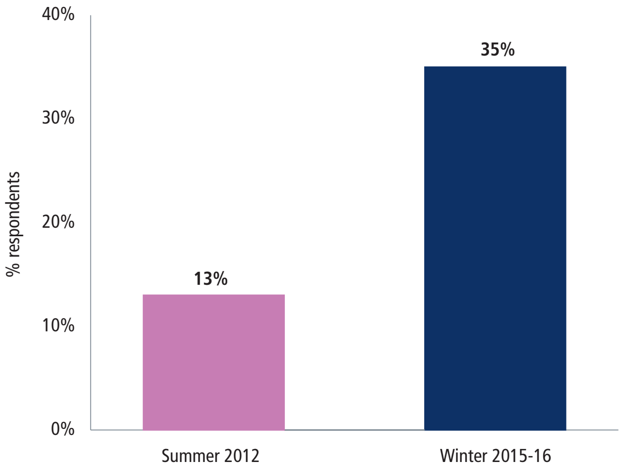


(Figure 10)

Dramatic jump in the number of special accounts

Over one third of LPs report that their institution's private equity portfolios now include special (or managed) accounts (i.e., proprietary investment vehicles attached to commingled private equity funds). This proportion has risen from 13% of LPs in the Barometer of Summer 2012.

LPs with special (or managed) PE accounts

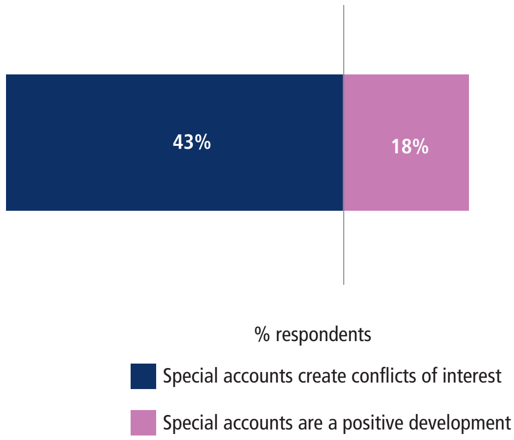


(Figure 11)

Two in five LPs believe special accounts create conflicts of interest

43% of LPs believe that the increasing number of special accounts attached to private equity funds creates conflicts of interest, compared with 18% of LPs who view the increase as a positive development.

LPs' views on the increasing number of special accounts attached to PE funds

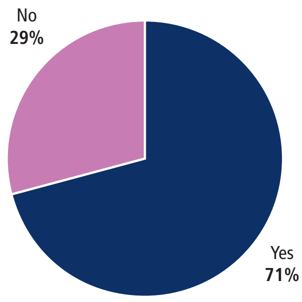


(Figure 12)

Most LPs believe smaller LPs are being disadvantaged by the scale of large investors' commitments

71% of LPs believe that smaller LPs are being disadvantaged by the volume of money now being committed by large investors to individual private equity funds.

LPs' views on whether smaller LPs are being disadvantaged by the bigger commitments of large PE investors

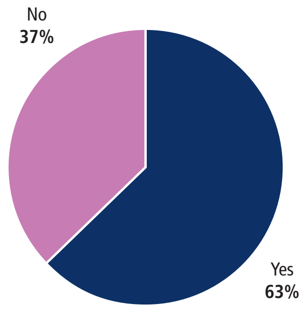


(Figure 13)

Two thirds of LPs who see an 'LP size advantage' believe the returns of large LPs and small LPs will diverge

Among LPs that believe smaller LPs are being disadvantaged by large investors, almost two thirds (63%) believe that there will be a gradual divergence in total private equity returns between larger and smaller LPs.

LPs perceiving an 'LP size advantage' – views on whether there will be a divergence in PE returns between larger and smaller LPs

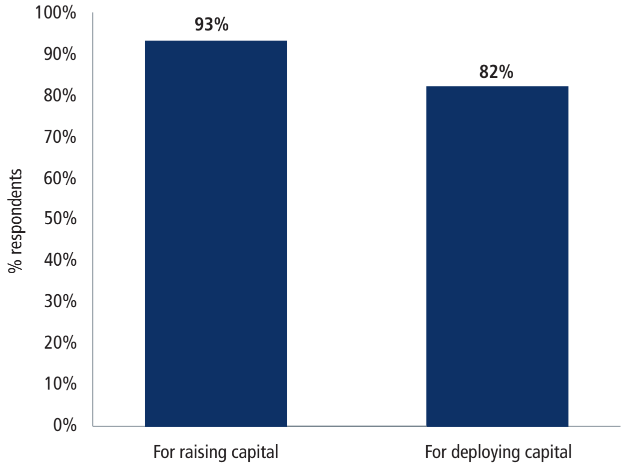


(Figure 14)

LPs believe that corporate brand is increasingly important for GPs

LPs believe that corporate brand is very or quite important for raising capital (93% of LPs), and for deploying capital (82% of LPs). It is seen as particularly important for capital raising, with over half of LPs saying it is already very important and will become more so in the future.

LPs' views on the importance of corporate brand to GPs

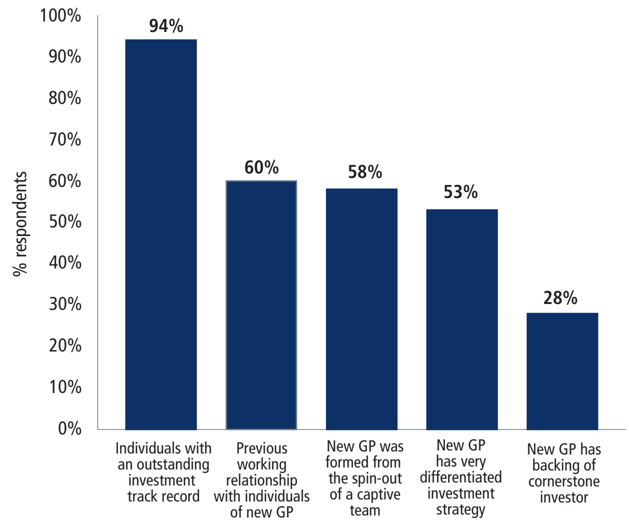


(Figure 15)

LPs look for outstanding individuals in assessing debut funds from new GPs

Almost all (94% of) LPs who have invested in debut funds from new GPs since the financial crisis believe that individuals with an outstanding investment track record are the key to success.

Factors influencing an LP's decision to invest in a debut fund from a newly-formed GP

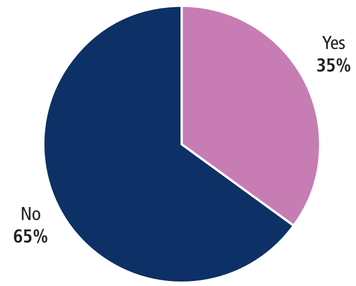


(Figure 16)

Two thirds of LPs say ILPA's 'Fee Transparency Initiative' will not change LPs' investment decisions

65% of LPs believe that while ILPA's new 'Fee Transparency Initiative' may improve GP transparency, it will not result in significantly different LP investment decisions.

LPs' views on whether ILPA's 'Fee Transparency Initiative' will result in significantly different investment decisions by LPs

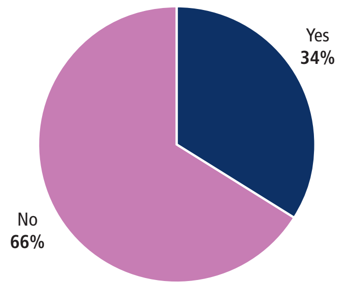


(Figure 17)

A third of LPs believe treating carried interest as ordinary income would put upward pressure on fees

34% of LPs think that tax authorities treating carried interest as ordinary income would create upward pressure on fee levels at private equity funds.

LPs' views on whether the treatment of carried interest by tax authorities as income would create upward pressure on fee levels at PE funds

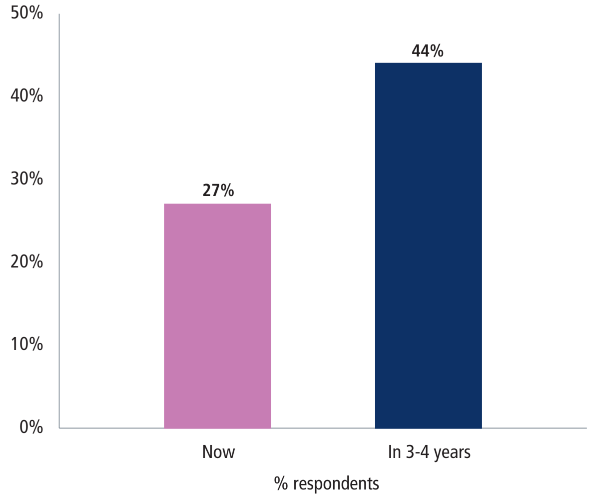


(Figure 18)

LPs are still increasing their emerging market PE exposure

44% of LPs will have more than a tenth of their private equity portfolios in emerging markets within the next 3-4 years. Only 27% of LPs currently have exposure of 11% plus.

Proportion of LPs with 11%+ of their PE exposure in emerging markets

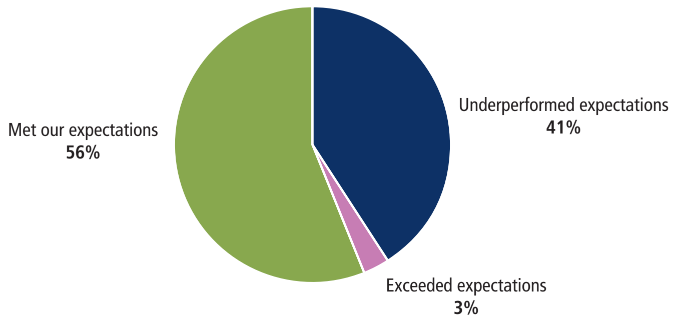


(Figure 19)

Two in five LPs are disappointed with their emerging markets PE performance

41% of LPs reported that their returns from private equity in emerging markets to date have underperformed their expectations. Only 3% of LPs said that emerging market private equity returns had outperformed their expectations.

LPs' views on the returns from their emerging market PE investments to date

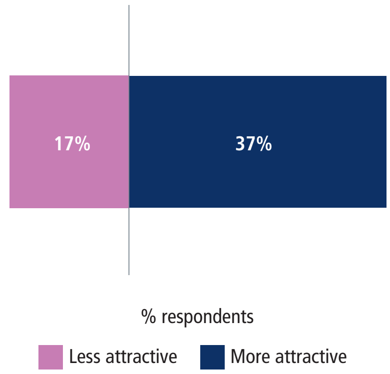


(Figure 20)

Over a third of LPs believe Chinese PE will be more attractive in 5 years

37% of LPs believe that China will be a more attractive destination for private equity investment in 5 years' time. Only 17% of LPs believe the country will become less attractive. Asian-Pacific LPs were the most positive, with 50% believing that China will become more attractive as a destination for private equity investment.

LPs' views on the attractiveness of China as a destination for PE investment in 5 years' time

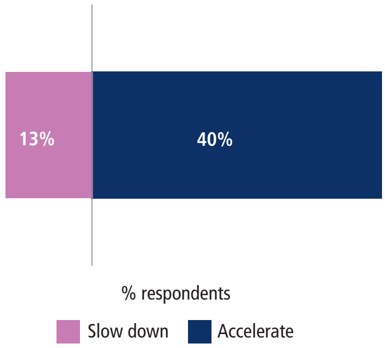


(Figure 21)

Two fifths of private debt investors will accelerate their commitments over the next 2 years

Two fifths of LPs invested in private debt expect to increase their pace of commitments over the next 2 years. Only 13% of LPs expect to slow their pace of commitments. Around two thirds of private equity investors also invest in private debt.

LPs invested in private debt funds – planned changes to pace of commitments over the next 2 years

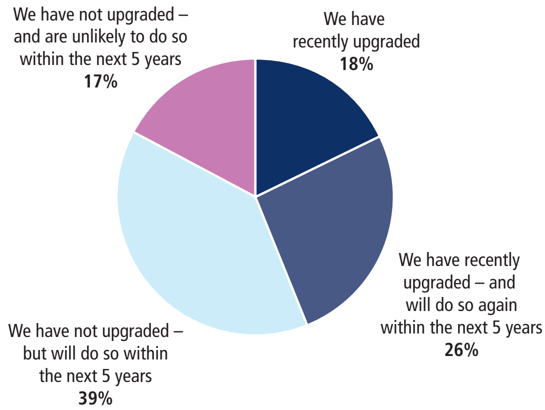


(Figure 22)

Over four fifths of LPs are upgrading their back office technology

83% of LPs have either recently upgraded, or are planning to upgrade, their back office/monitoring technology. Only 17% of LPs are making no effort to do so.

LPs' plans for back office/monitoring technology

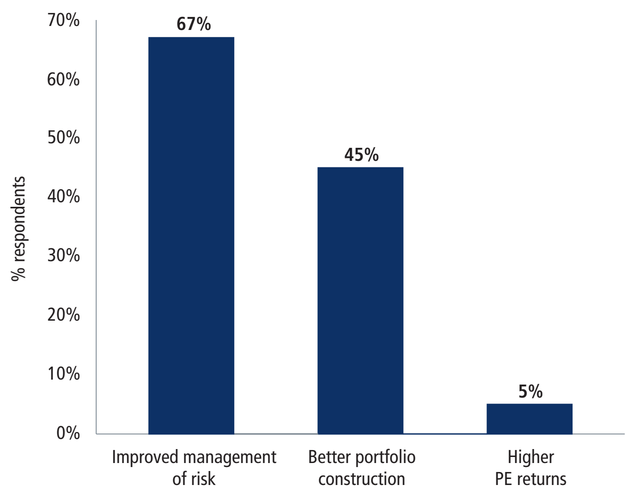


(Figure 23)

Upgraded IT will improve risk management, LPs say

Two thirds of LPs upgrading their back office technology believe it will improve their management of risk. Just under half (45%) believe there will be benefits for portfolio construction.

Benefits expected by LPs upgrading their back office technology



(Figure 24)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Winter 2015-16

The Barometer researched the plans and opinions of 114 investors in private equity funds. These investors, based in North America, Europe and Asia-Pacific (including the Middle East), form a representative sample of the LP population worldwide.

About Coller Capital

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

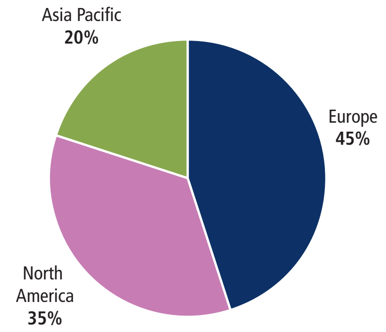
Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital in September-October 2015 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Notes:

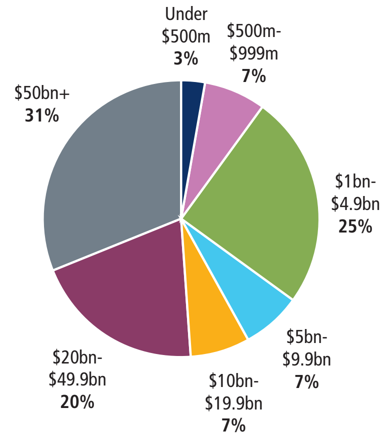
- Limited Partners (or LPs) are investors in private equity funds.
- General Partners (or GPs) are private equity fund managers.
- In this Barometer report, the term private equity (PE) is a generic term covering venture capital, growth, buyout and mezzanine investments.

Respondents by region



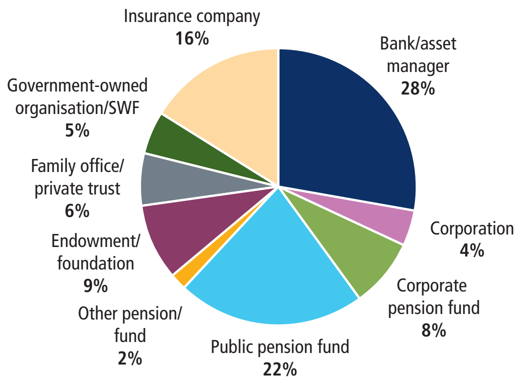
(Figure 25)

Respondents by total assets under management



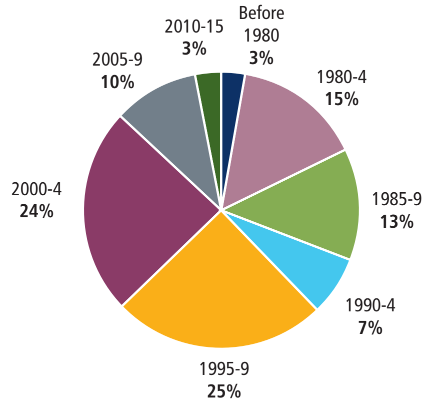
(Figure 26)

Respondents by type of organisation



(Figure 27)

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



(Figure 28)