

Global Private Equity Barometer

❖ WINTER 2016-17

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 25th edition of the Global Private Equity Barometer captured the views of 110 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
- Likely impact of Brexit on Europe and European PE
- Long-term outlook for hedge funds
- LP investments in GP management companies
- Plans for new GP relationships
- Fund restructurings
- The secondary market
- Recruitment within LPs' PE teams
- Co-investing economics
- ESG as a determinant of new fund commitments
- Social impact investing
- Attractiveness of emerging PE markets
- PE real assets
- Corporate venturing
- PE distributions

One third of public pension funds and insurance companies to miss their overall return targets

36% of insurance company LPs and 31% of public pension fund LPs believe their organisations will miss their overall (rather than private equity) investment return targets in the next 3-5 years, unless there is significant change in their economic environment and/or operating model.

Three quarters of LPs foresee net annual PE returns of over 11%

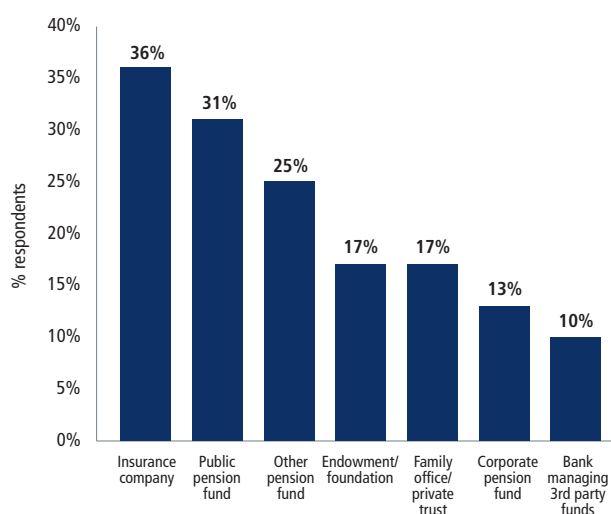
Investors are optimistic about the medium-term outlook for their private equity portfolios, with 77% of LPs forecasting net annual returns of over 11%, and around a fifth of LPs forecasting net annual returns of over 16%.

Their expectations for *venture capital* returns from North America, Europe and Asia-Pacific have all improved.

Over a third of LPs foresee lower European PE returns in the event of a 'hard' Brexit

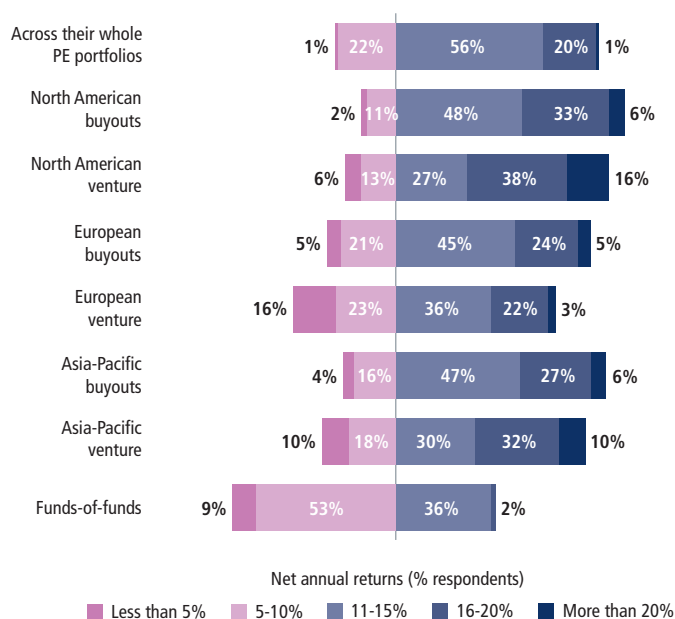
37% of LPs believe their European private equity returns would suffer as a result of a 'hard' Brexit (a decisive separation of the UK from the EU, involving significant restrictions on the UK's access to the EU single market and strong immigration curbs).

LPs unlikely to meet their overall (rather than PE) investment return targets in the next 3-5 years



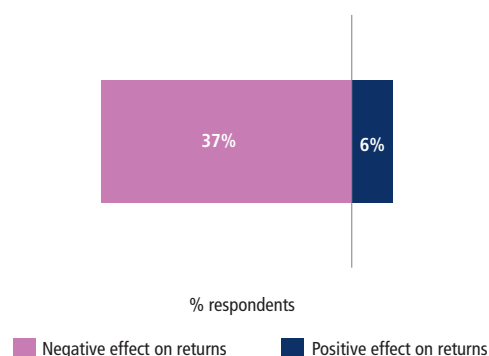
(Figure 1)

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



(Figure 2)

LPs' views on the impact of a 'hard' Brexit on European PE returns



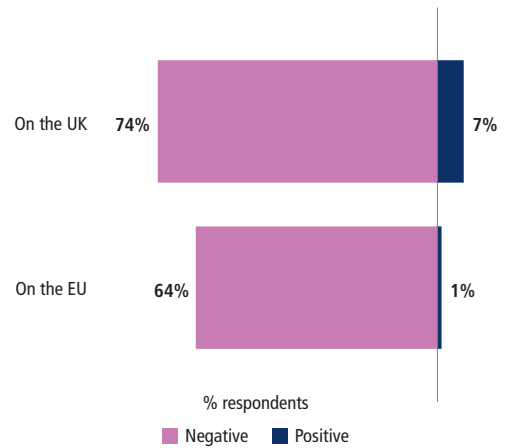
(Figure 3)

Most LPs think a 'hard' Brexit would damage both the UK and the EU

Three quarters of the world's institutional investors in private equity think the overall impact of a 'hard' Brexit would be negative for the UK.

Two thirds of LPs think the overall impact would be negative for the EU.

LPs' views on the impact of a 'hard' Brexit on the UK and EU



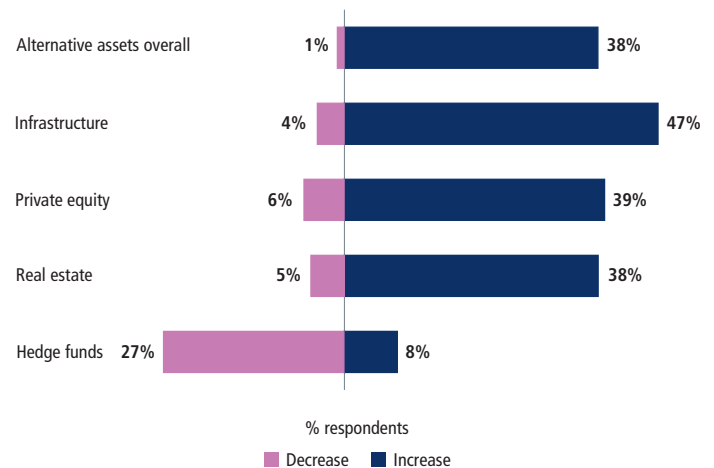
(Figure 4)

Almost half of PE investors are planning a higher target allocation to infrastructure

Nearly half of investors invested in private equity and alternative assets expect their institution's target allocation to infrastructure to rise over the next 12 months. Two fifths expect to see a higher allocation to private equity and real estate.

27% of LPs expect a reduction in their organisation's allocation to hedge funds in the next 12 months (compared with 16% of LPs in the Barometer of Winter 2015-16).

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

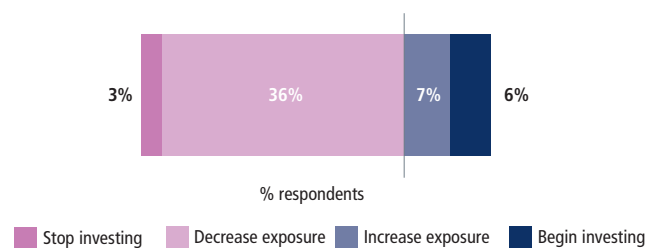


(Figure 5)

LPs' hedge fund exposure will decline further over time

Two fifths of LPs expect to reduce or cease their exposure to hedge funds over the next 3-5 years, compared with 13% of LPs that expect their institutions to start or increase investing.

LPs' expected exposure to hedge funds in 3-5 years



(Figure 6)

LP stakes in GP management companies create potential for conflicts of interest, LPs say

Two thirds of PE investors believe that the trend towards LPs buying stakes in GPs risks creating conflicts of interest and misalignment. 82% of European LPs hold this view.

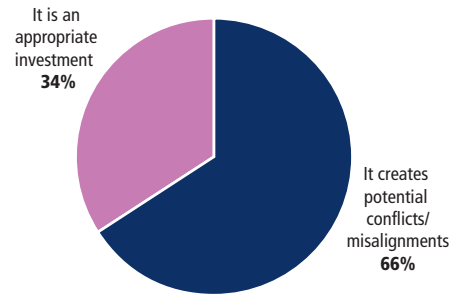
79% of LPs will form five or more new GP relationships in the next three years

The typical LP will form 5-10 new GP relationships over the next three years. Only a fifth of LPs expect to form new GP relationships at a slower rate than this in the next three years; while a quarter of LPs expect to form 11 or more new GP relationships within the same period.

LPs believe they have mostly made the right decisions in fund restructuring situations

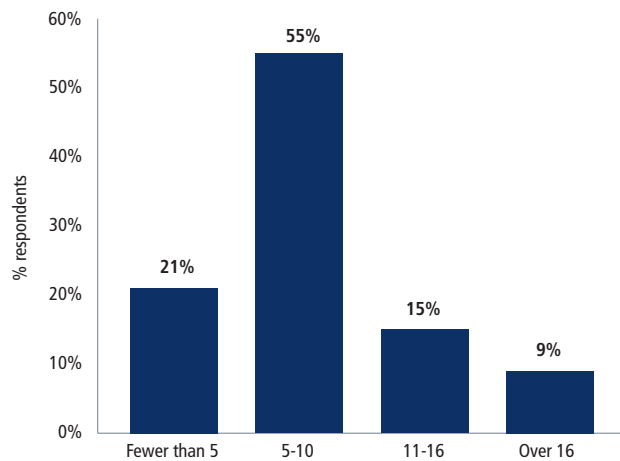
78% of LPs invested in funds restructured by their GPs believe, with hindsight, that they generally made the right decision about whether to exit or remain invested. Only one in twenty LPs think they generally made the wrong choice.

Investors' views on LPs taking stakes in GP management companies



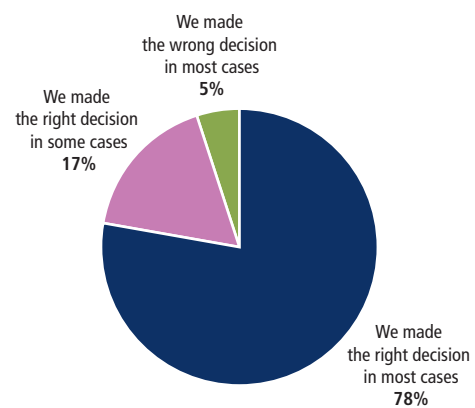
(Figure 7)

LPs' expected number of new GP relationships over the next 3 years



(Figure 8)

LPs' views, with hindsight, on their investment decisions in fund restructuring situations



(Figure 9)

Almost two thirds of LPs will buy or sell in the secondary market in the next two years

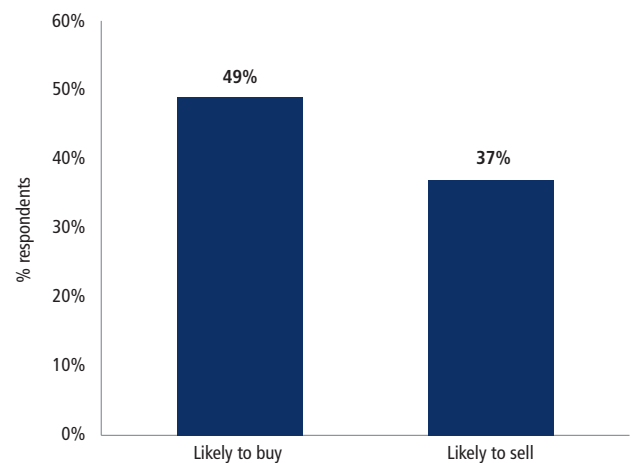
Half of LPs plan to buy assets in the secondary market in the next 24 months. And well over a third of LPs (37%) intend to sell assets.

70% of SWFs and bank-based asset managers will hire PE staff in the next two years

Almost 40% of LPs plan to increase the size of their private equity teams over the next 24 months. The proportion is highest among sovereign wealth funds/government-owned institutions and banks managing third-party money, where around 70% of LPs plan to add to their teams.

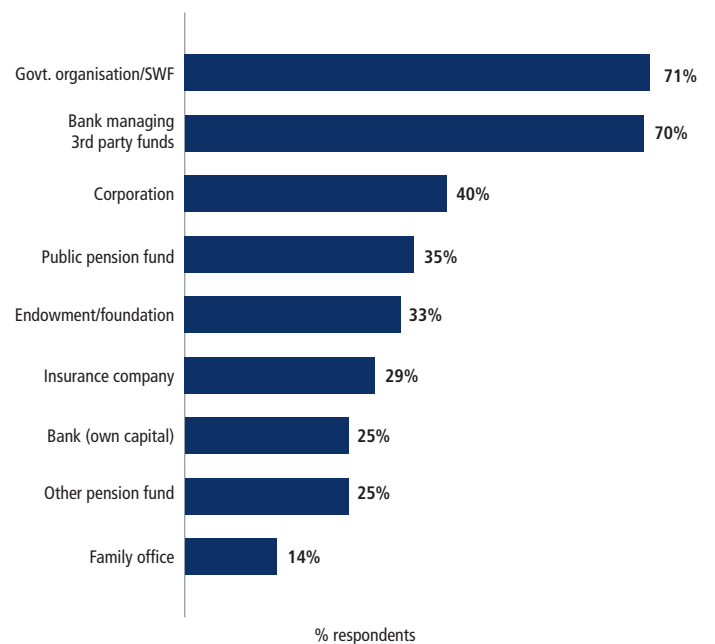
Only two LPs of all those surveyed said they would reduce the size of their teams in the same period.

LPs planning to buy or sell in the secondary market in the next 24 months



(Figure 10)

LPs expecting their PE team size to expand over the next 24 months



(Figure 11)

LPs are hiring for direct/co-investment programmes

Almost all the LPs adding staff to their private equity teams will ask their new hires to focus on direct investments and co-investments. Three quarters of North American LPs, and two thirds of Asian-Pacific LPs, will ask their new hires to focus on commingled funds – compared with less than half (43%) of European LPs.

Economics of co-investing will change, according to LPs

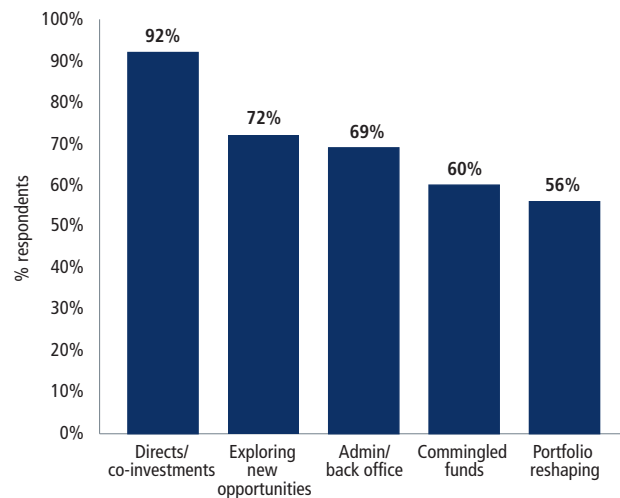
Almost two thirds of LPs expect more co-investment opportunities to attract fees and carried interest in the future.

Over a third of European and Asian-Pacific LPs have refused to commit to PE funds on ESG grounds

For over a third of LPs based in Europe and Asia-Pacific, ESG considerations have played a major or primary role in refusing to commit to a private equity fund. The same is true for only a fifth of North American LPs.

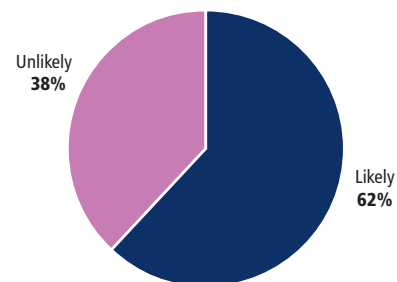
A large majority (86%) of government-owned organisations and sovereign wealth funds have refused to commit to private equity funds on ESG grounds.

Areas of focus for LPs' new staff



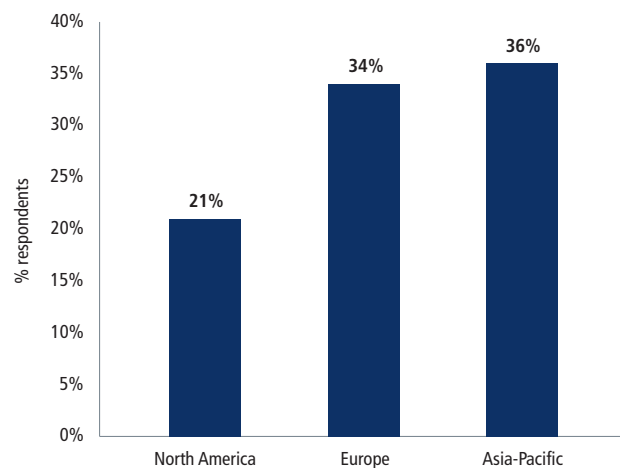
(Figure 12)

LP views on the likelihood of more co-investment opportunities coming with fees and carried interest in the future



(Figure 13)

LPs that have refused potential fund commitments largely for ESG reasons

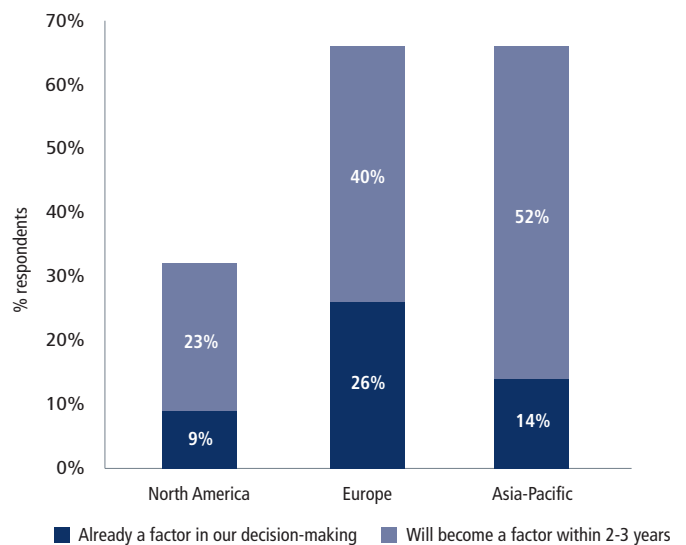


(Figure 14)

Two thirds of European and Asian-Pacific LPs will have acted on climate change within three years

Two thirds of European and Asian-Pacific LPs are either taking climate change into account in their private equity decision-making or will be doing so within 2-3 years. Only a third of North American LPs are doing so, or plan to do so, in the same timeframe.

LPs taking climate change into account in their PE decision-making – now and in 2-3 years' time

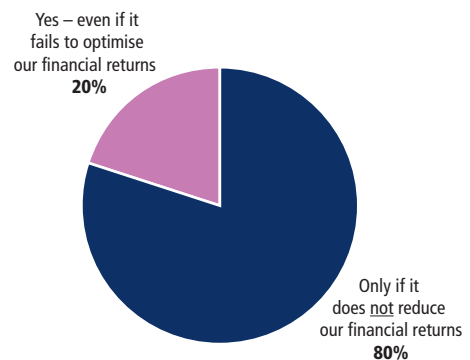


(Figure 15)

Social impact investing viewed cautiously by LPs

80% of LPs personally believe that social impact investing is appropriate as a use of their institutions' capital only if it does not reduce financial returns.

LPs' personal views on the appropriateness of social impact investing as a use of their organisation's funds

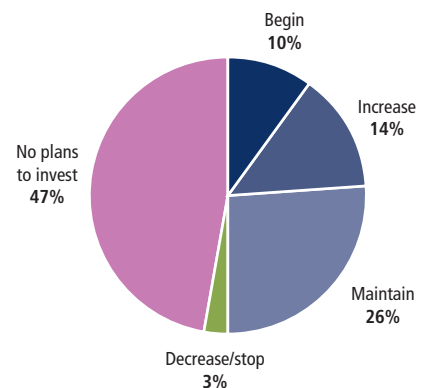


(Figure 16)

Half of LP institutions are implementing a social impact investment strategy

Half of LP institutions either have social impact investments or plan to do so within the next two years. 24% of LP institutions plan to begin or increase social impact investing in this period.

LP organisations' policy on social impact investing over the next 24 months



(Figure 17)

Investors prioritising growth in unquoted (vs quoted) equities exposure

Two fifths of LPs are planning to increase their unquoted (private equity) exposure in developed markets, and one quarter plan to grow their private equity exposure in emerging markets. Only a tenth of LPs plan to increase their exposure to quoted equities – this is true for both developed and emerging markets.

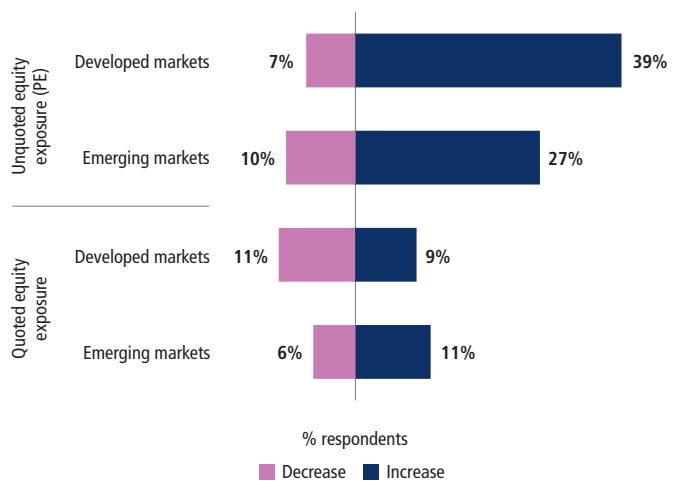
India and South East Asia 'offer most attractive PE opportunities' in the Asia-Pacific region, LPs say

A third of LPs say India and South East Asia will be particularly attractive markets for private equity in the next three years. Fewer LPs think China and Australasia will provide very attractive private equity opportunities.

Brazil and Mexico 'offer most attractive PE opportunities' in Latin America, LPs say

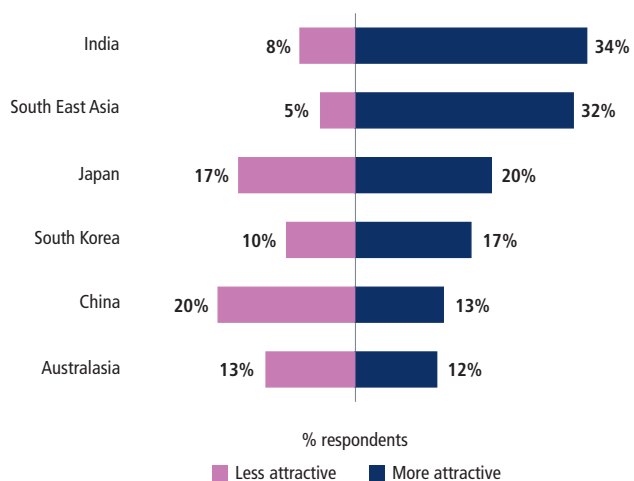
A third of LPs think Brazil and Mexico will be particularly attractive markets for private equity in the next three years. However, attitudes to Brazil are mixed. Brazil and Argentina are named as the two least attractive Latin American private equity markets by around a quarter of LPs.

LPs' plans for exposure to quoted/private equity in developed and emerging markets in the next 3 years



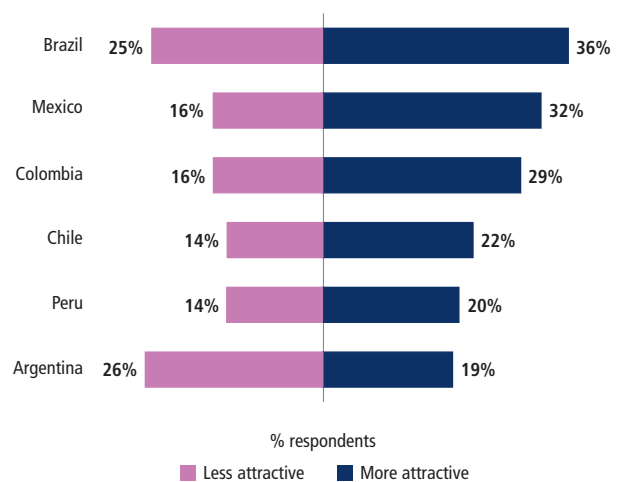
(Figure 18)

LPs' views on the attractiveness of PE opportunities in the Asia-Pacific region in the next 3 years



(Figure 19)

LPs' views on the attractiveness of Latin American PE opportunities in the next 3 years

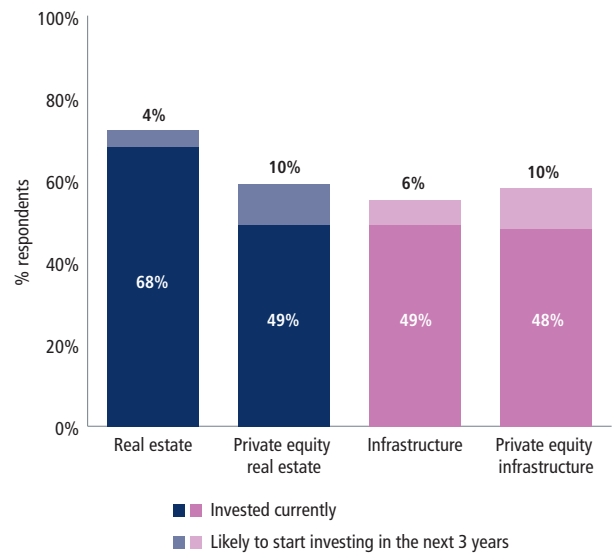


(Figure 20)

Half of LPs are invested in PE real estate and PE infrastructure

49% of LPs are invested in private equity real estate, and 48% in private equity infrastructure. In addition, one in ten LPs plans to start investing in these strategies in the next three years.

LPs' current and planned future exposure to real estate and infrastructure

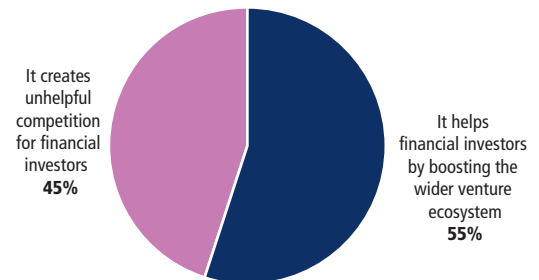


(Figure 21)

Corporate venturing is a mixed blessing, LPs say

Just over half of LPs believe the rapid growth of corporate venturing is a positive development for the venture capital sector, as it boosts the wider venture ecosystem – whereas 45% of LPs believe it is negative for the sector, creating unhelpful competition for purely financial investors.

LP views on the rapid growth of corporate venturing

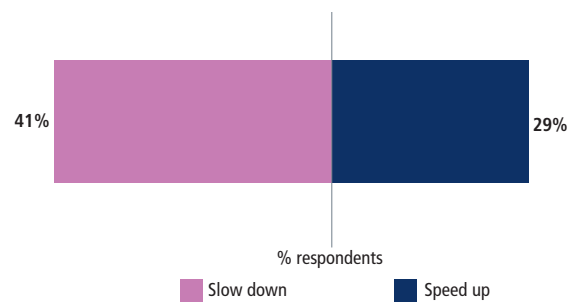


(Figure 22)

Two in five LPs expect PE distributions to slow

41% of LPs expect distributions from their private equity portfolios to slow over the next 24 months, compared with 29% of LPs that expect an improvement (and a similar proportion that do not foresee a change in distributions pace).

LP expectations for the pace of PE distributions over the next 24 months



(Figure 23)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Winter 2016-17

The Barometer researched the plans and opinions of 110 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.

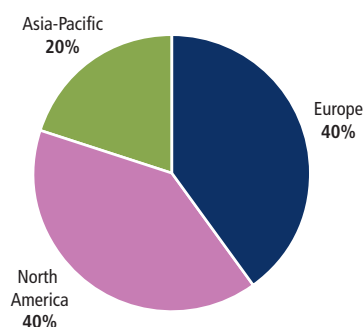
Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital in September-October 2016 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Notes

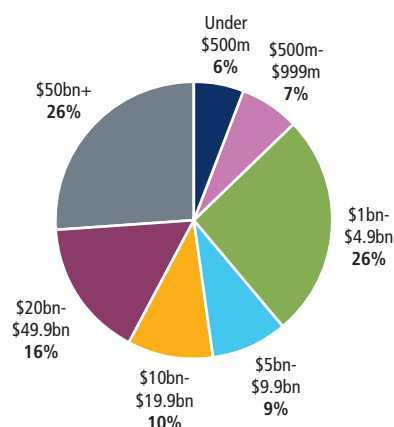
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this Barometer report, the term private equity (PE) is a generic term covering venture capital, growth, buyout and mezzanine investments

Respondents by region



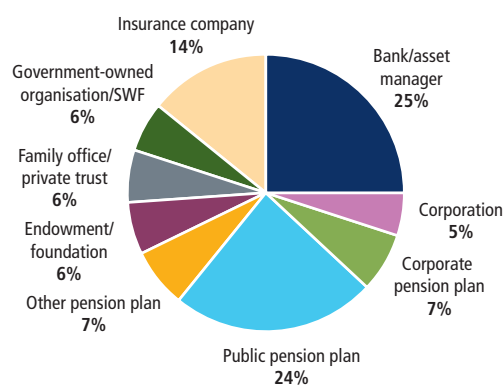
(Figure 24)

Respondents by total assets under management



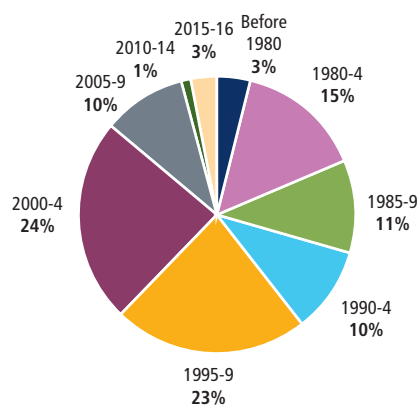
(Figure 25)

Respondents by type of organisation



(Figure 26)

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



(Figure 27)

