

# Global Private Equity Barometer

❖ WINTER 2017-18

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 27th 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

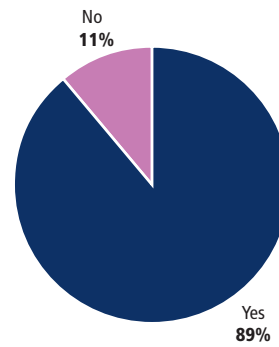
Topics in this edition of the Barometer include:

- Returns from, and appetite for, PE
- Specialist GPs vs multi-product platforms
- Use of artificial intelligence in PE
- Women in PE
- Attractiveness of different PE strategies
- Likely future sources of GP dealflow
- Venture capital markets
- Marijuana as a PE investment opportunity
- Debt financing in buyout markets
- Co-investments and direct investing
- PE in China
- PE vis-à-vis systemic risks to the financial system

## Too many weak GPs are being funded, LPs say

LPs are almost unanimous that the increase in investor commitments to private equity is resulting in too many weak GPs being funded.

LP views on whether too many weak GPs are being funded



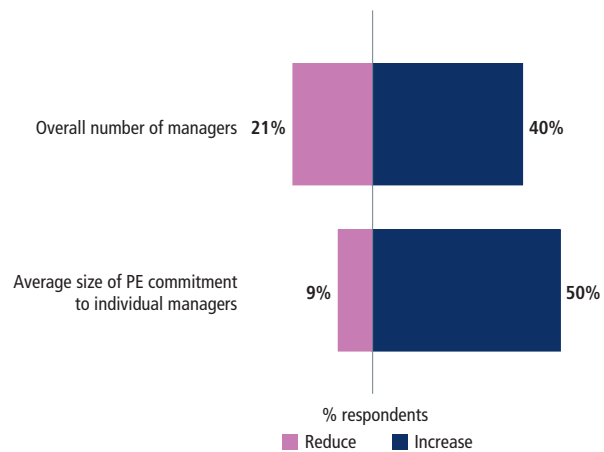
(Figure 1)

## LPs to support more managers – with bigger commitments

Two fifths of LPs plan to increase the number of managers in their private equity portfolios in the next three years, compared with one fifth who plan to reduce it.

Moreover, half of investors plan to increase the average size of their private equity commitment to individual managers, compared with just one in ten LPs that plan to reduce it.

LP expectations for their PE portfolios over the next 3 years



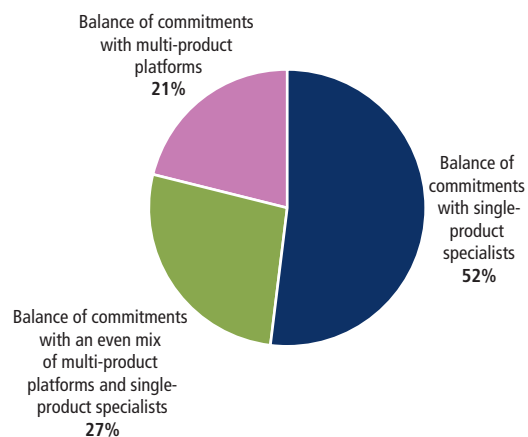
(Figure 2)

## Single-product specialists predominate in LP portfolios

Investors' private equity portfolios (measured by value) are skewed towards single-product specialists. This is true for just over half of LPs – while another quarter have an even mix of single-product specialists and multi-product platforms. Just one in five LPs say the majority of their commitments are with multi-product platforms.

The preference for single-product specialists is even more pronounced among North American investors, two thirds of whom report such a skew.

Balance of LP commitments to single-product specialists vs multi-product platforms – by number of LPs

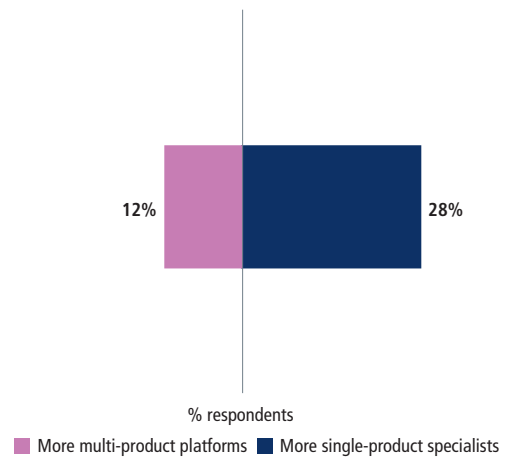


(Figure 3)

## The LP preference for specialists is getting stronger

Over a quarter of LPs plan to shift the balance of their private equity commitments further towards single-product specialists going forward.

LPs' plans for the future balance of their PE commitments

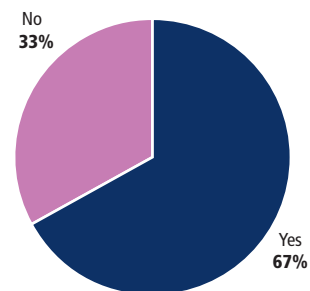


(Figure 4)

## Artificial Intelligence is coming to PE, LPs say

Two thirds of LPs expect to see artificial intelligence tools in use in private equity within the next 5 years.

LPs expecting AI to be used in PE in the next 5 years

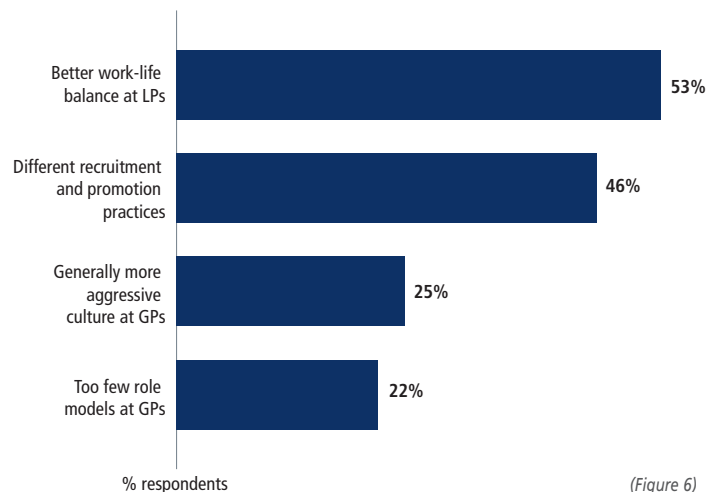


(Figure 5)

## A good work-life balance is the key to more senior women at LPs, LPs say

The most important reason for there being more senior women at LPs than at GPs is work-life balance, LPs believe. A different approach to recruitment and promotion is the second most important reason. Only a quarter of LPs believe that a more aggressive culture or the absence of role models at GP firms are deciding factors.

LP views on why there are more senior women at LPs than GPs



(Figure 6)

## Whole PE industry will soon employ more women, LPs say

Almost three quarters of LPs expect the ratio of women to men at GP firms to increase over the next three years. And over half of private equity investors think the same will be true for LP organisations.

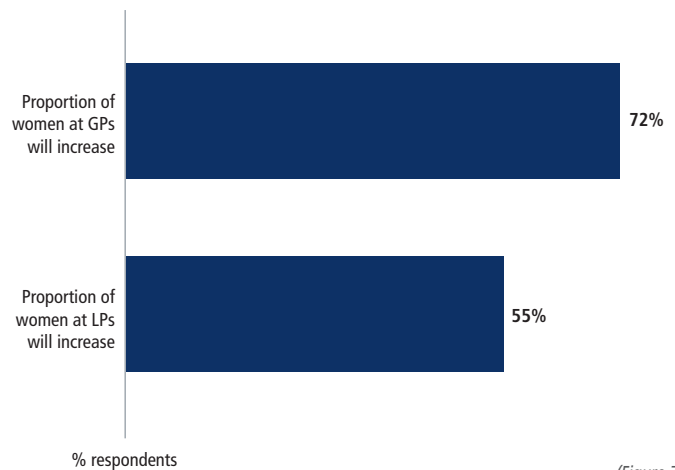
## LPs favour targets, but not quotas, to boost the hiring of women in PE

Three quarters of LPs believe that General Partners should adopt aspirational targets to increase the hiring of women in PE – but only 1 in 20 LPs would support quotas as a tool to achieve this.

## LPs favour targets, but not quotas, to boost the number of women on investment committees

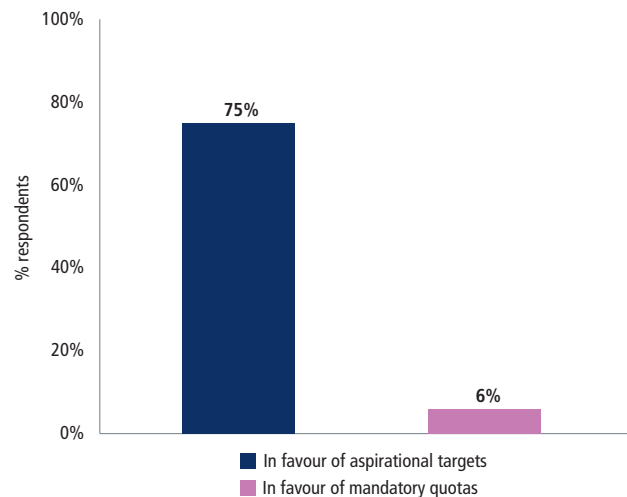
Three quarters of LPs also believe that General Partners should adopt aspirational targets to secure more women on investment committees – but only 1 in 10 LPs think quotas would be appropriate.

LPs expecting the ratio of women to men in PE to increase in the next 3 years



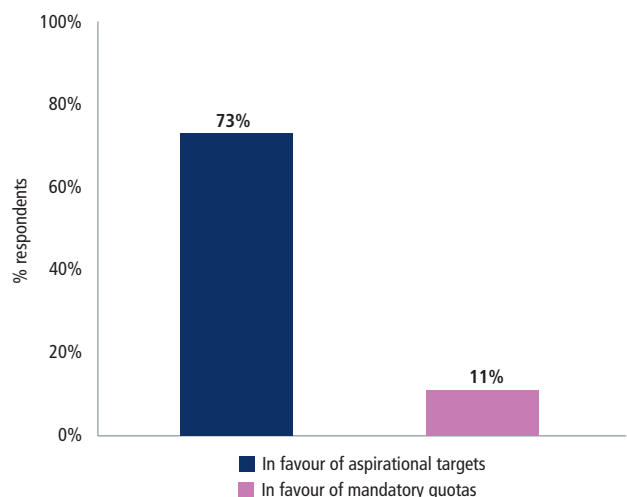
(Figure 7)

LPs' views on policies to boost the hiring of women in PE



(Figure 8)

LPs' views on policies to boost the number of women on investment committees



(Figure 9)

## Small is beautiful for buyouts, LPs say

Smaller buyouts and growth capital remain the priority for investors targeting private equity's developed markets.

Investors see little difference in the attractiveness of the North American and European markets for these strategies in the short term.

## UK viewed as less attractive market for PE buyouts

Two fifths of European LPs believe that the UK is becoming a less attractive market for buyouts.

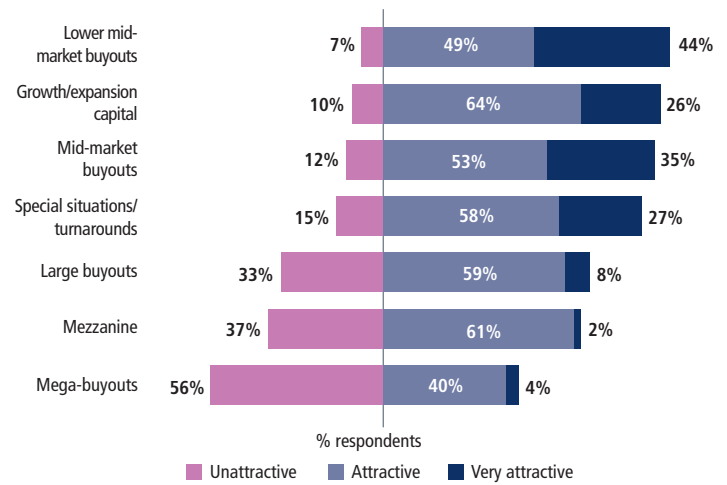
A similar proportion of LPs believe France is becoming a more attractive market for buyouts.

## Most attractive PE opportunities to come from corporates and entrepreneurs/families, LPs say

Three quarters of investors expect corporate disposals and spin-offs to be the most fertile source of good GP investment opportunities in North America in the next couple of years. By contrast, the best source of opportunities in Europe and Asia-Pacific is expected to be entrepreneurs/families.

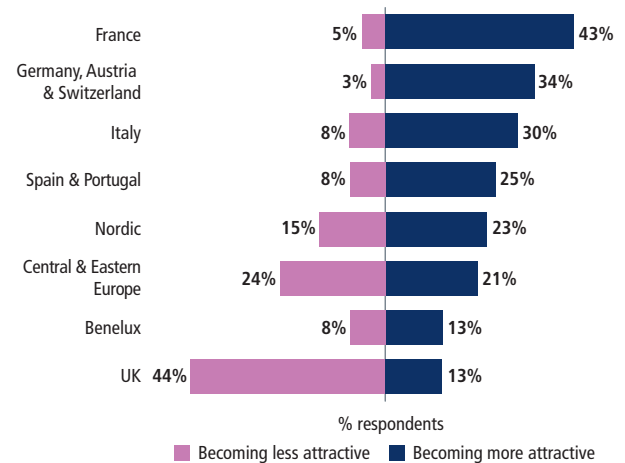
A third of private equity investors think 'take privates' will provide good opportunities in North America (though only half this proportion of LPs think 'take privates' will be a good source in the European and Asia-Pacific markets).

Where LPs expect to see good investment opportunities for GPs in the next 3 years – by investment stage/strategy



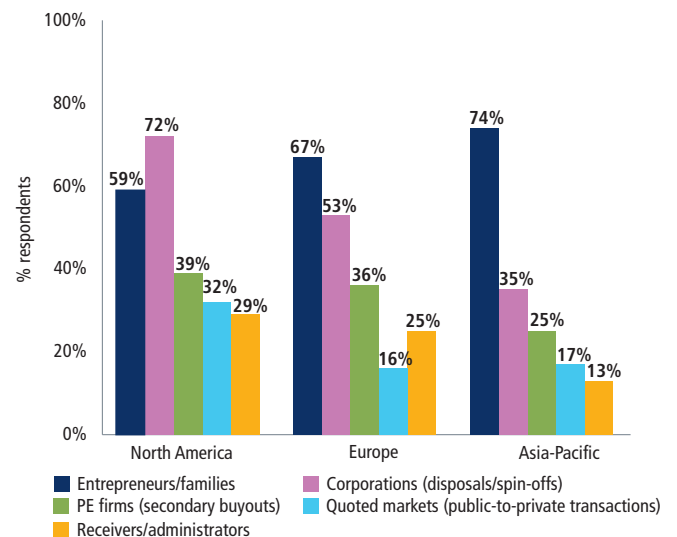
(Figure 10)

The changing attractiveness of Europe's regional buyout markets – European LPs' views



(Figure 11)

Where the most attractive investment opportunities for PE will come from in the next two years – LP views



(Figure 12)

## LPs think Europe will be attractive for VC investments over the next five years

Three quarters of Europe-based and Asia-Pacific-based LPs think Europe will be an attractive market for VC investments in the next five years. Their American counterparts are slightly more wary, but even in North America a majority of Limited Partners think Europe will be attractive for VC in the next few years.

By way of contrast, 86% of investors think North America will be attractive for VC, and 79% think Asia-Pacific will be attractive, over the same period.

## Recreational marijuana businesses not suitable for PE, investors say

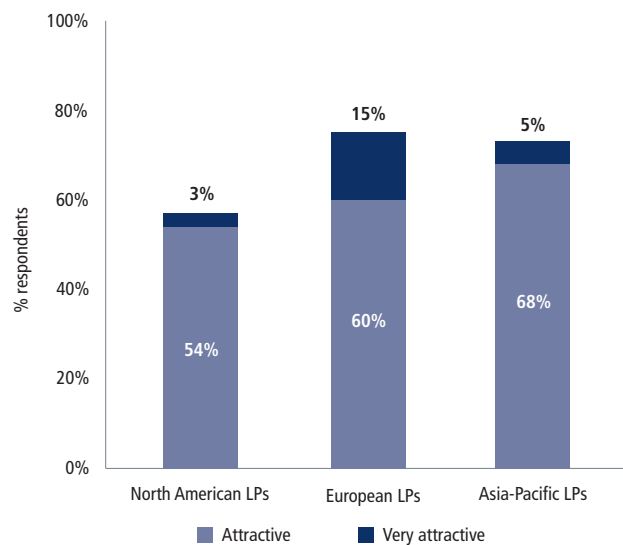
Most LPs would frown on their GPs investing in a business focused on the recreational use of marijuana – but a majority of investors would now accept a business focused purely on medicinal uses of the drug.

That is not to say that all LPs are against investment in recreationally-focused marijuana businesses – 30% of North American investors say they would countenance GPs making such investments.

## Western LPs see negative effects of 'debt over-supply' in their home markets

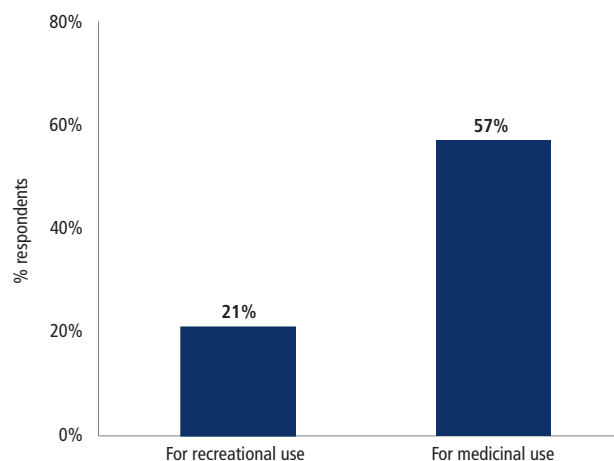
Half of North American LPs and two thirds of European LPs believe that an over-supply of debt is leading to the financing of poor buyout deals and the over-leveraging of higher quality deals in their own regions.

Attractiveness of the European VC market over the next five years – LP views



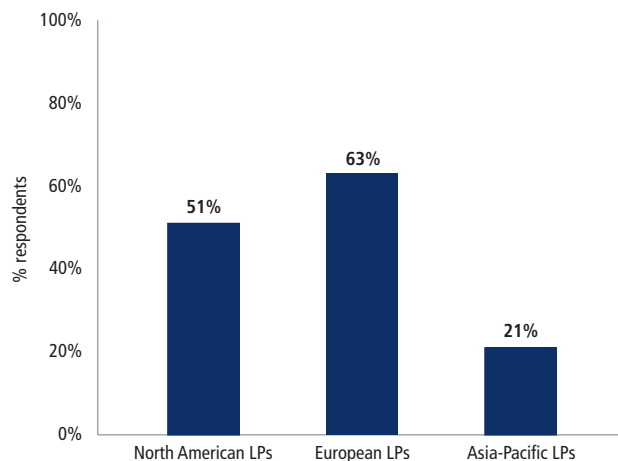
(Figure 13)

LP acceptance of marijuana businesses as PE investments



(Figure 14)

LPs convinced an over-supply of debt is financing poor buyouts and over-leveraging good ones in their domestic market



(Figure 15)

## A majority of LPs now have co-investment programmes

The proportion of investors that make private equity co-investments has doubled in the last decade. In the Barometer of Summer 2006, only a quarter of Limited Partners made co-investments, compared with over half of LPs today.

## Proportion of LPs investing in 'directs' reaches a peak – at one third of LPs

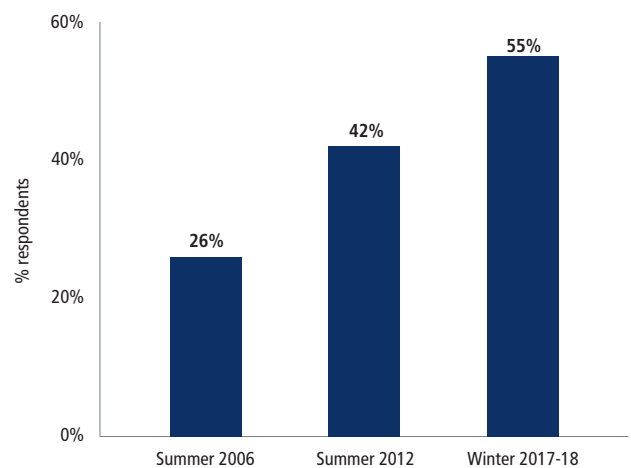
Whereas the proportion of investors that co-invest with GPs has risen consistently over the last decade, the proportion of LPs making investments directly into private companies (ie, without a GP sponsor) has not changed much in recent years. The Barometer shows that in the last five years the proportion of LPs with direct investing programmes plateaued at just under a third of investors.

## Half of LPs now have investments in China-only PE funds

Overall, four in five LPs have some kind of private equity exposure to China. Three quarters have exposure through pan-Asian funds; half through China-only funds and global funds respectively.

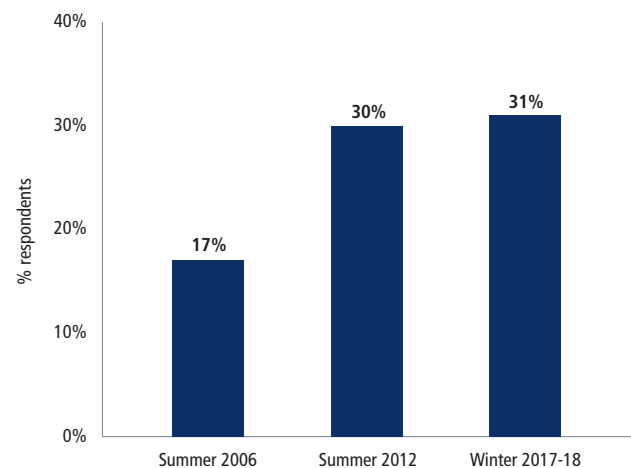
Interestingly, while fewer investors plan to have exposure to China through pan-Asian and global funds in the future, the proportion committing to China-specific funds will hold steady.

Proportion of LPs making co-investments alongside GPs



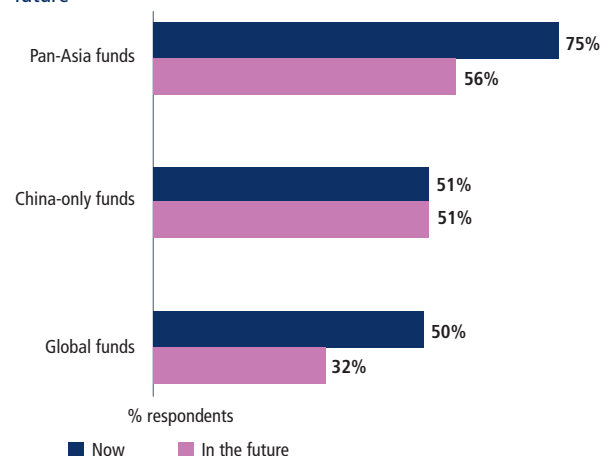
(Figure 16)

Proportion of LPs making investments directly into private companies



(Figure 17)

Routes through which LPs have exposure to Chinese PE – now and in the future



(Figure 18)



## China to attract significant near-term PE commitments

Demand for additional Chinese private equity exposure remains robust. Four out of five Asia-Pacific-based LPs are planning new commitments to the country in the next three years – as are over half of North American and European LPs.

## International LPs are increasingly comfortable with domestic Chinese GPs

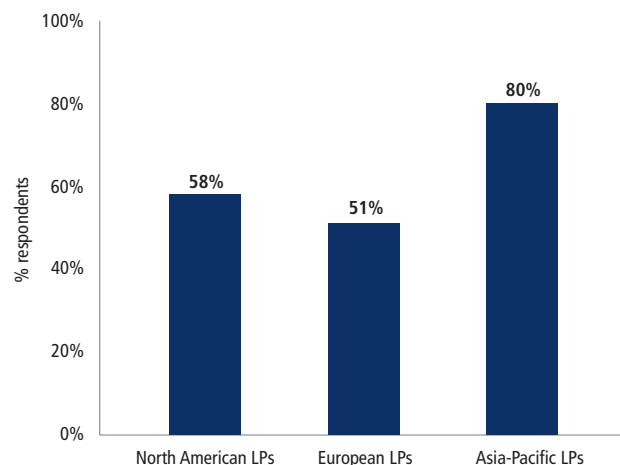
International investors are gaining confidence in domestic Chinese GPs for their exposure to the country: 43% of North American LPs say they are now more likely to choose domestic Chinese GPs than they were three years ago, and almost a quarter of European LPs say the same.

## European LPs show real hunger for alternatives

The proportion of European LPs planning to increase their target allocation to alternative assets over the next 12 months is far higher than that of North American LPs.

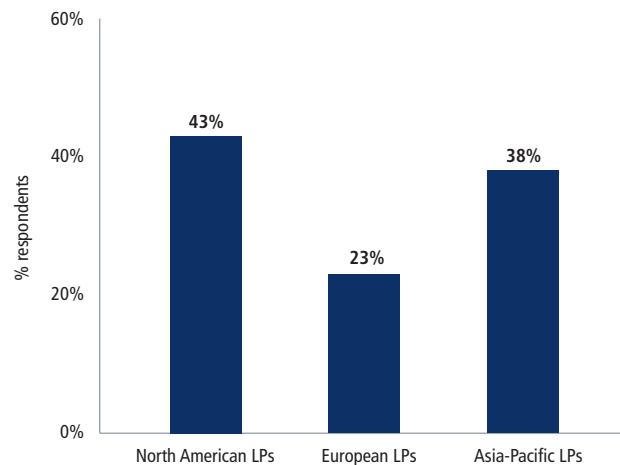
Three-fifths of European LPs plan to increase their allocation to infrastructure, and around half will increase it for private equity and real estate.

LP plans for new commitments to Chinese PE in the next 3 years



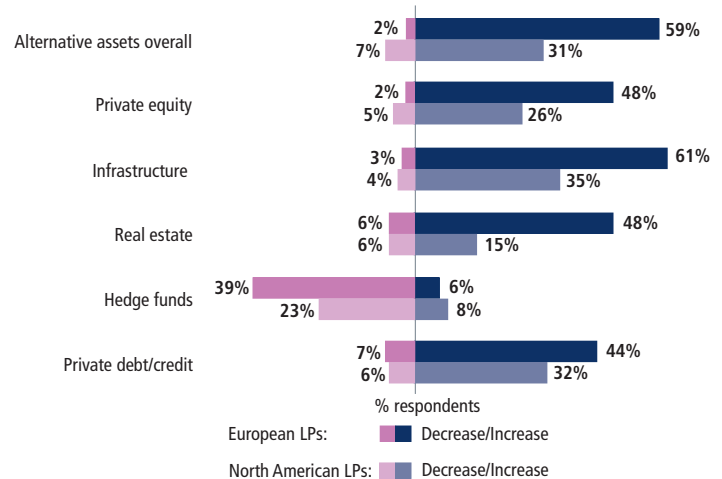
(Figure 19)

Proportion of LPs more likely to choose domestic GPs for their Chinese PE exposure than they were three years ago



(Figure 20)

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



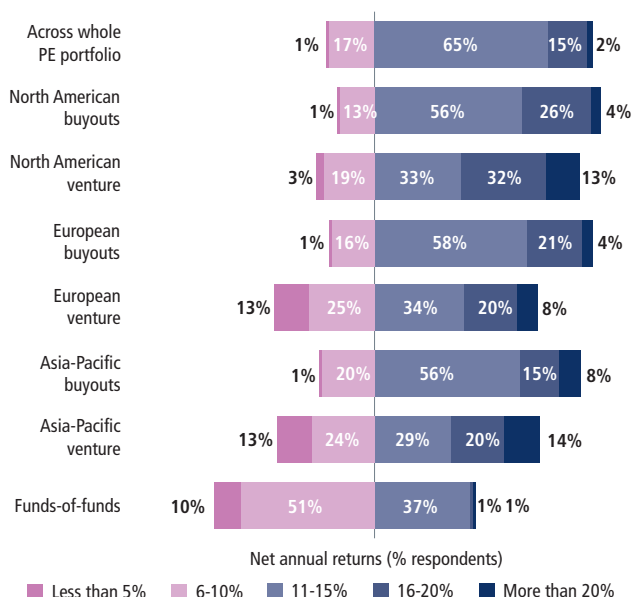
(Figure 21)

## Four fifths of LPs expect to achieve annual net returns from PE of over 11%

82% of LPs expect to achieve annual net returns of more than 11% across their private equity portfolios over the next 3-5 years. 17% of LPs are forecasting returns of over 16%.

In terms of individual strategies, 86% of LPs expect to achieve annual net returns of over 11% from North American buyouts, and 83% of LPs expect the same from European buyouts.

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

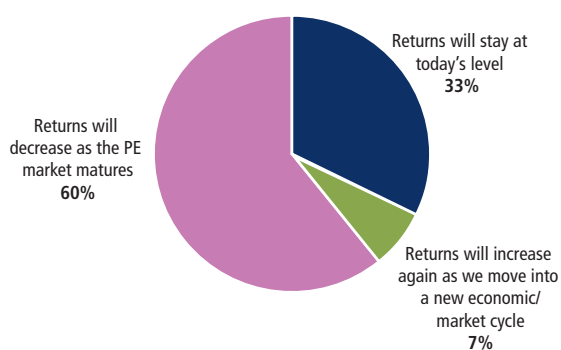


(Figure 22)

## A majority of LPs believe PE returns will reduce over 5-10 years

Three in five private equity investors believe returns from the asset class will reduce as the market matures over the next 5-10 years. By contrast, one third of investors think today's strong returns can be maintained, and an optimistic 7% of LPs believe returns will increase as we move into a new economic/market cycle.

LPs' views on PE returns in 5-10 years' time

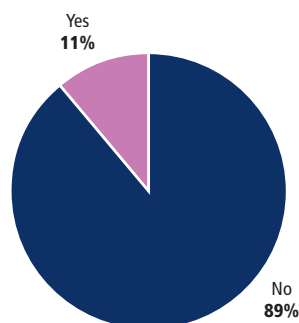


(Figure 23)

## PE is not a systemic risk to the financial system, LPs say

Despite occasional comments by regulators, nine out of ten LPs believe that private equity does not pose a systemic threat to the world's financial system.

LP views on whether PE poses a systemic threat to the financial system



(Figure 24)

# Coller Capital's Global Private Equity Barometer

## Respondent breakdown – Winter 2017-18

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.

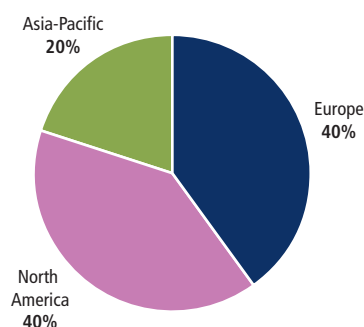
## Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital in September-October 2017 by Arbor Square Associates, a specialist alternative assets research team with over 50 years of collective experience in the PE arena.

## Notes

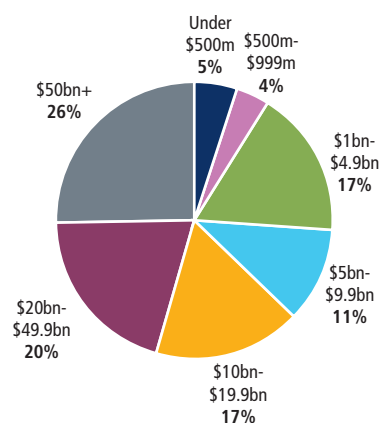
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this Barometer report, the term private equity (PE) is a generic term covering venture capital, growth, buyout and mezzanine investments

Respondents by region



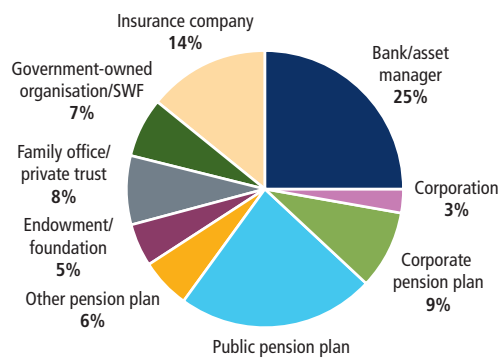
(Figure 25)

Respondents by total assets under management



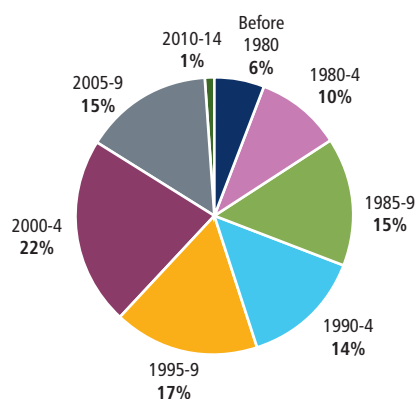
(Figure 26)

Respondents by type of organisation



(Figure 27)

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



(Figure 28)

