Coller Capital

Global Private Equity Barometer

SUMMER 2018

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 28th edition of the Global Private Equity Barometer captured the views of 112 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:

- GP selection and fundraising dynamics
- LP performance and remuneration
- The pace of innovation in private equity
- LP investments in GP management companies
- GP-led secondary transactions
- Public-to-private transactions
- Attractiveness of funds-of-funds
- LP appetite for types of alternative assets
- Pace and strategy for planned new commitments
- Priority areas for diversification in LPs' portfolios
- Attractiveness of global buyout and venture markets
- Attractiveness of national Asia-Pacific buyout and venture markets
- Performance of LPs' private credit investments
- ESG considerations as investment criteria
- Overall private equity returns

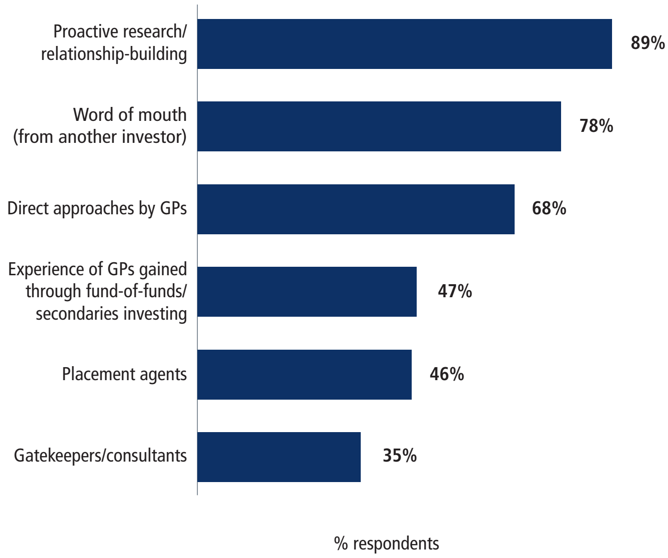
Proactive research and relationship-building is LPs' favoured way of selecting GPs

LPs have found their own research and relationship-building activities to be the best way of establishing new GP relationships. Nine out of ten LPs reported that proactive research and outreach had resulted in new GP relationships recently. Over three quarters of investors had also sourced new GP relationships via recommendations from their peers.

Encouragingly for GPs, two thirds of LPs also say that they have recently made first commitments to managers after being approached directly by them.

Investors find insights on GPs gained from secondary funds and funds-of-funds as valuable as recommendations from placement agents.

Channels that LPs have recently found valuable in selecting GPs



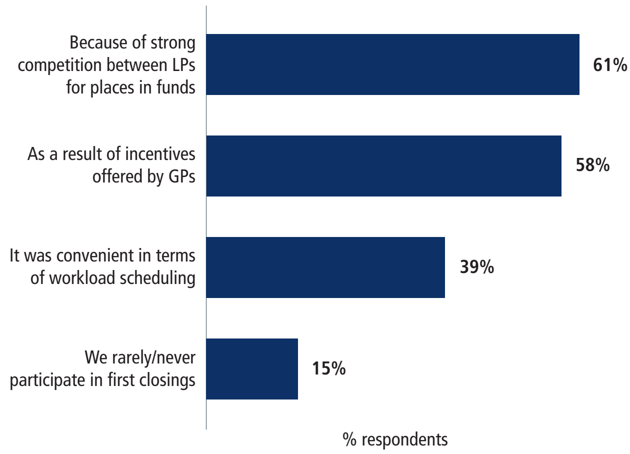
(Figure 1)

Strong competition from other investors is spurring LPs to commit at first close

Fear of missing out on their desired size of commitment has recently spurred well over half of LPs to commit to new funds at first closing. Over half of LPs (55%) say this is more true in today's market than it was a few years ago.

GP incentives (such as 'early bird discounts') have also encouraged many LPs to commit at first close.

Reasons why LPs have committed to PE fund first closings in the last two years

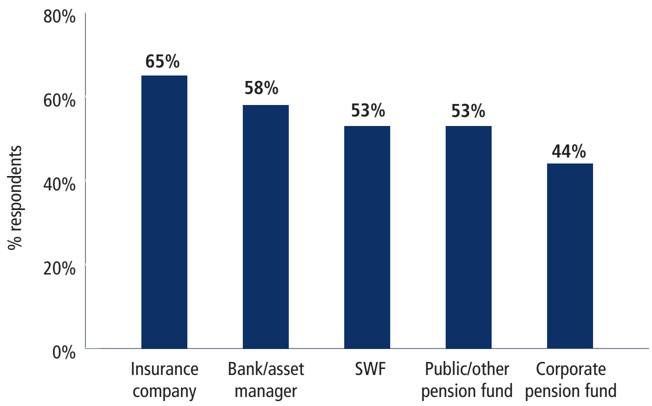


(Figure 2)

Large institutions most likely to commit at first closing

Investors committing to first closes are predominantly those making the biggest fund commitments. (See also Figure 6 and its accompanying text.)

Likelihood of committing to a PE fund's first closing – by investor type

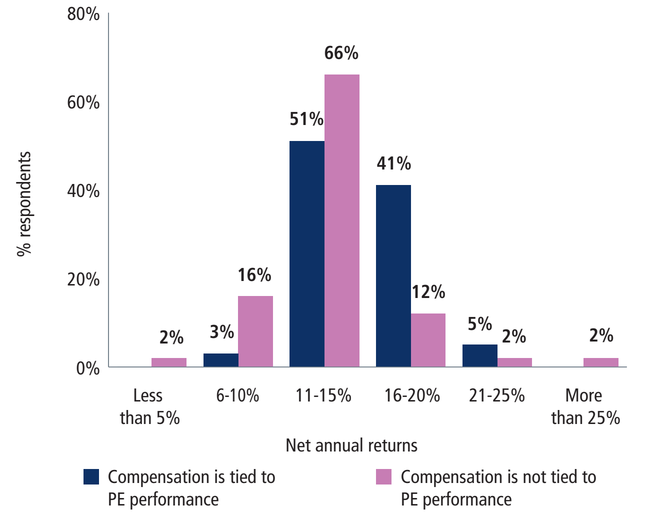


(Figure 3)

LPs with performance-related pay achieve higher PE returns

LPs whose remuneration is tied to the performance of their private equity portfolios are almost three times more likely to deliver returns in excess of 16% than other LPs.

LPs' 5-year net PE portfolio performance correlated with incidence of performance-related pay

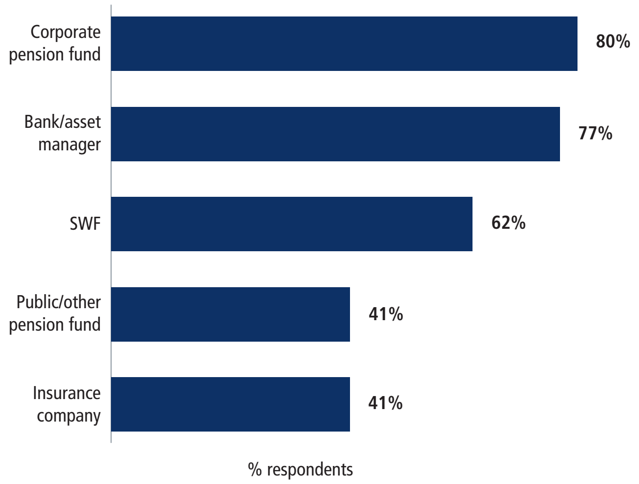


(Figure 4)

Incidence of performance-related pay varies significantly by LP type

Of the large investor groups committing to the private equity asset class, institutions managing third-party money and corporate pension plans are the most likely to have a performance-related element to their remuneration.

LPs with an element of their compensation tied to the performance of their institutions' PE portfolios



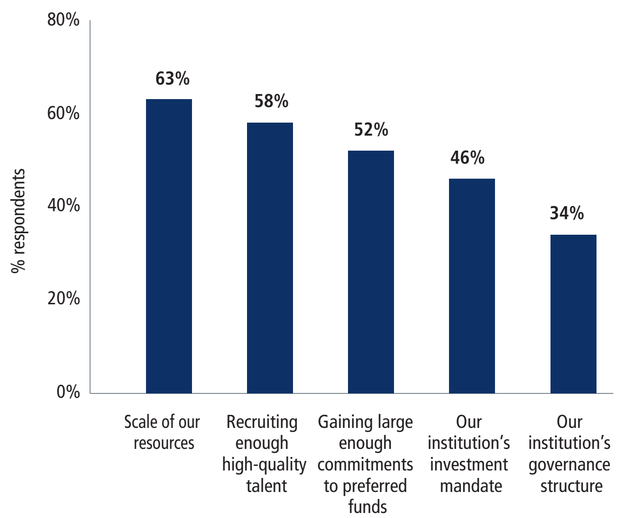
(Figure 5)

Scarcity of talent and limited resources are the biggest drags on LPs' PE returns

For around three in five investors, recruiting enough high-quality talent and other internal resource constraints are significant barriers to improving returns from their private equity portfolios.

For the largest investors – those with $50bn+ of private equity assets under management – the biggest drag on returns is an inability to commit enough capital to their preferred managers.

Factors LPs regard as significant restraints on improving their PE returns

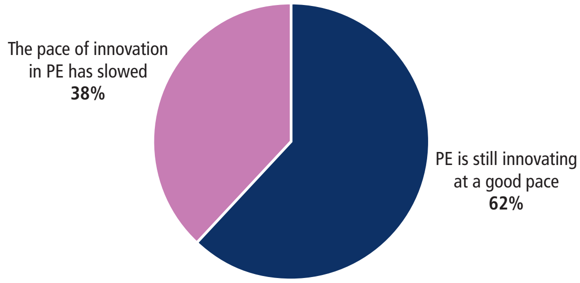


(Figure 6)

Innovation in PE is still strong, most LPs think

Approaching two-thirds of Limited Partners believe the pace of innovation in the private equity industry remains as strong as ever.

Proportion of Limited Partners who believe the PE industry is still innovating at a good pace

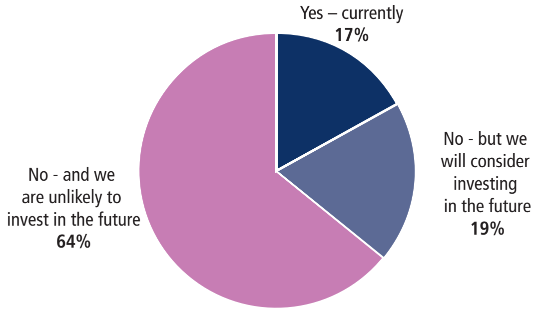


(Figure 7)

A third of LPs are already – or will consider – investing in management companies

One in six LPs has invested in funds that acquire minority interests in GP management companies – and another one in five investors will consider doing so in the future.

Limited Partners investing in funds that acquire minority interests in GP management companies

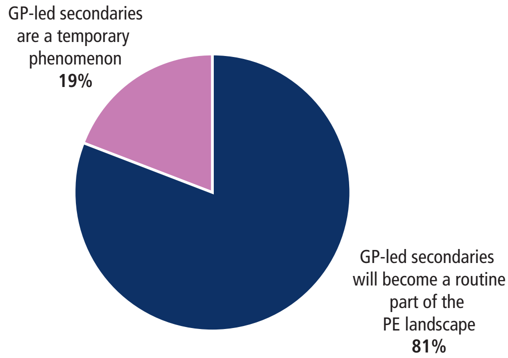


(Figure 8)

GP-led secondaries are becoming mainstream

Four in five LPs believe that GP-led secondary transactions are set to become a routine part of the private equity landscape.

LP views on GP-led secondary transactions



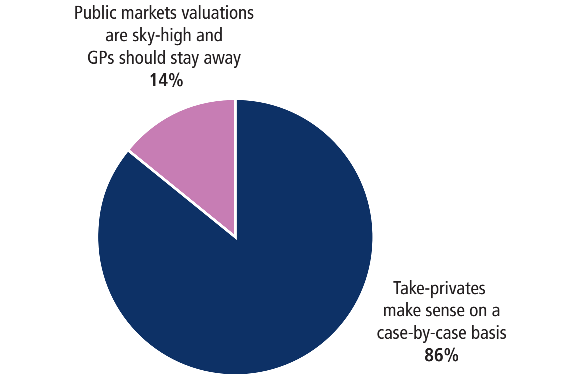
(Figure 9)

Almost all LPs think take-privates can make sense in today's market

Despite generally high public market valuations, 86% of LPs believe that private equity can make good returns from carefully chosen public-to-private transactions.

Almost all North American LPs hold this view – with 98% of LPs supporting take-privates in the right circumstances.

LP views on public-to-private transactions in today's market

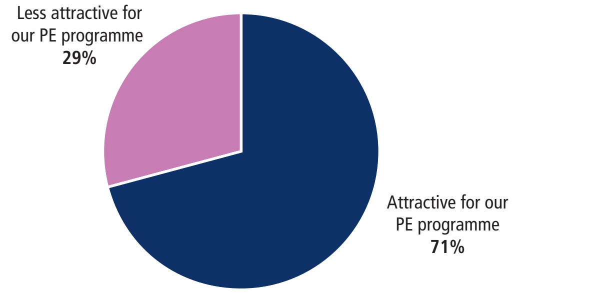


(Figure 10)

Funds-of-funds remain attractive for the majority of PE programmes

Overall, 71% of LPs believe that funds-of-funds still offer an attractive option for their own private equity programmes.

LP views on the value of PE funds-of-funds

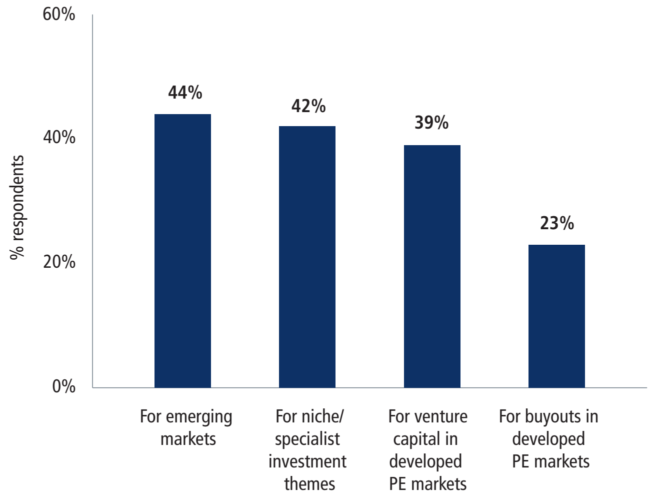


(Figure 11)

LPs see the value of funds-of-funds in specialist strategies

LPs believe the value of funds-of-funds lies in addressing more specialist areas of the market. Only a quarter of LPs see funds-of-funds as an attractive vehicle for investing in buyout funds in North America and Europe.

Proportion of LPs finding funds-of-funds attractive for their programmes – by type of PE exposure sought

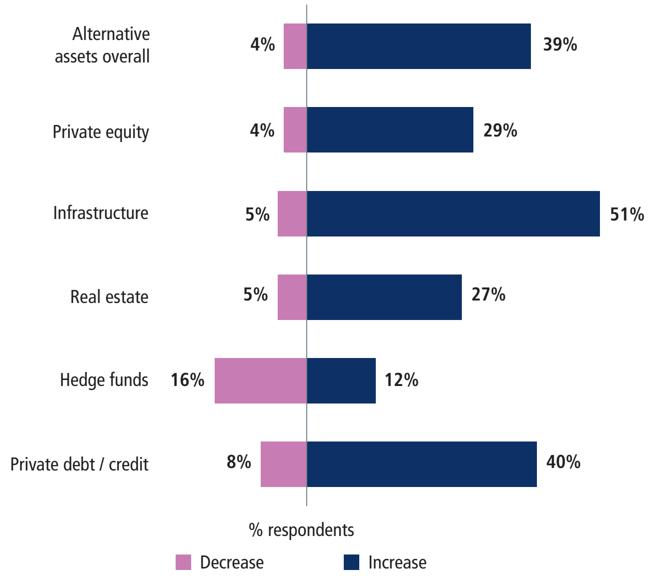


(Figure 12)

Infrastructure and private debt are favoured by LPs

Two in five LPs plan to increase their target allocation to alternative assets overall. A similar proportion plan to increase their target allocation to private credit funds. Half of LPs are planning higher infrastructure allocations. 29% of LPs are planning to increase their target asset allocation to private equity.

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

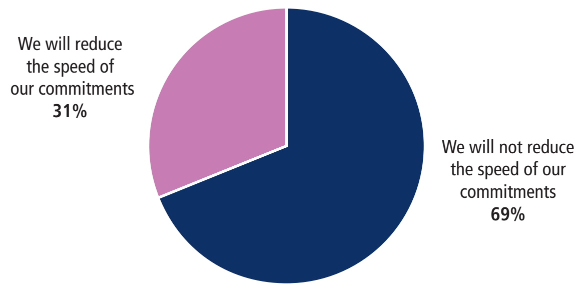


(Figure 13)

Most LPs will maintain pace of new PE commitments

Almost 70% of LPs plan to maintain their current pace of new private equity commitments, in the belief that private equity is a long-term asset class to which it makes sense to commit capital through market cycles.

LPs' plans for new PE commitments



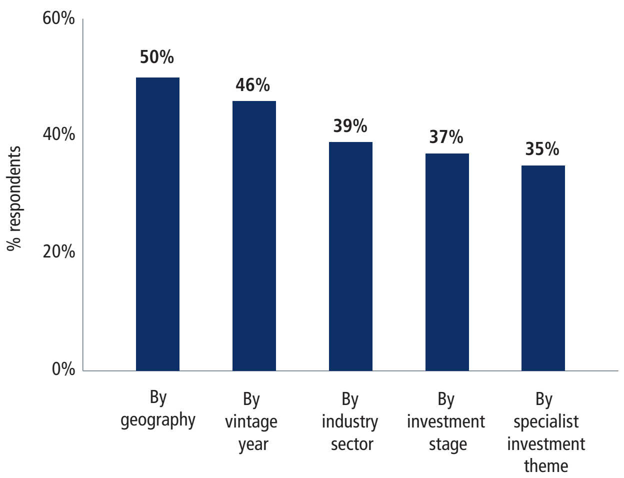
(Figure 14)

Investors are still diversifying their PE exposure

Private equity's long-term and increasingly global nature is reflected in LPs' diversification plans. Around half of investors are seeking to diversify their exposure by vintage year and geography.

At the same time, over a third of LPs are looking to diversify further by industry sector, by investment stage, and by specialist area of the asset class (such as private equity investment in real assets and infrastructure).

Areas where LPs are actively increasing the diversification of their PE portfolios



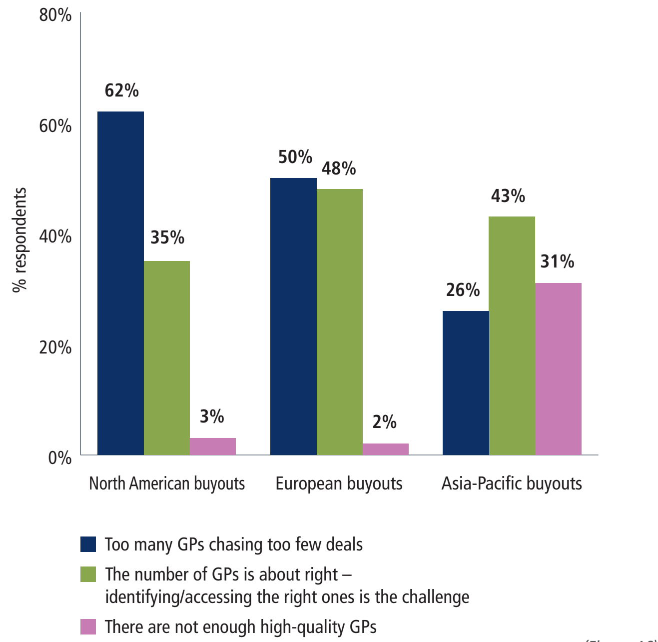
(Figure 15)

Majority of LPs think the North American buyout market is overheating

Over 60% of LPs believe that too many GPs are chasing too few deals in the North American buyout market. 48% of LPs think the same about the European market.

By contrast, just a quarter of LPs have that view of the Asia-Pacific market. In fact, a third of LPs believe the region has a different problem: not enough high-quality buyout GPs.

LP views of the world's buyout markets

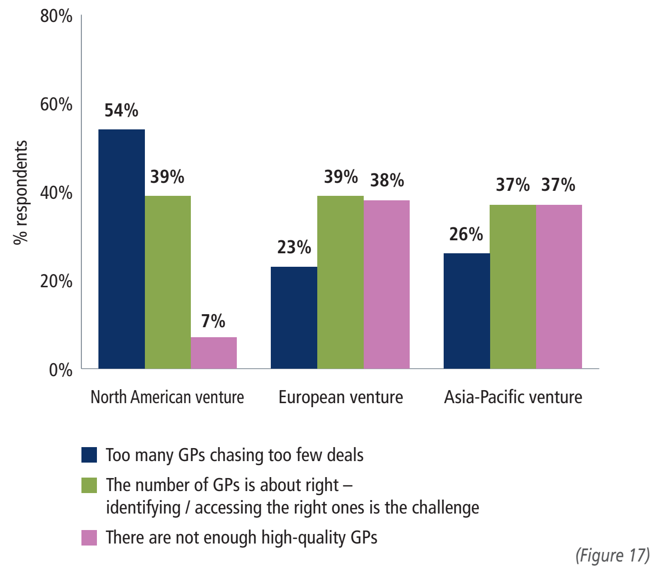


(Figure 16)

Over a third of LPs see a shortage of good venture GPs outside North America

Well over a third of LPs believe that there are not enough high-quality venture GPs in Europe and Asia-Pacific. Only 7% of LPs hold this view of the North American market.

LP views of the world's venture capital markets



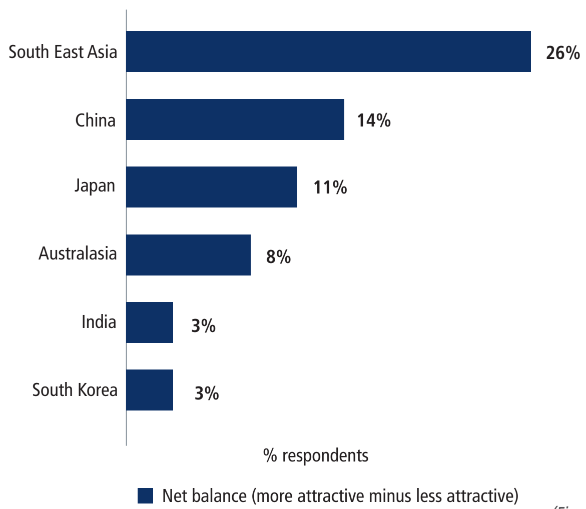
(Figure 17)

Attractiveness of SE Asia buyouts is growing fast

A net balance of a quarter of LPs think that South East Asia will be more attractive for buyouts in the next three years. Elsewhere in the Asia-Pacific region, China shows a net positive balance of 14% of LPs, and Japan a net positive balance of 11%.

For no Asia-Pacific area do LPs, on balance, think the outlook is deteriorating, but for several national markets positive and negative investor views are finely balanced.

The changing attractiveness of Asia-Pacific buyout markets in the next 3 years

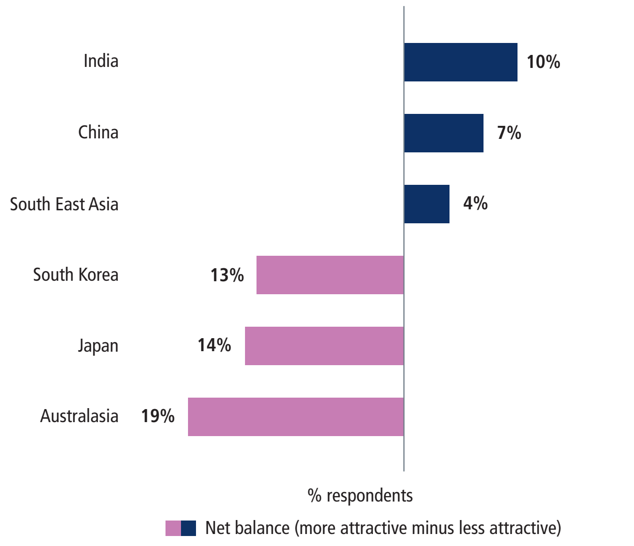


(Figure 18)

Several Asia-Pacific countries becoming less attractive for venture

The picture for venture capital is more varied, with the attractiveness of developed markets such as South Korea, Japan and Australasia seen as deteriorating by a net balance of investors. Venture in the emerging markets of the region is, on balance, seen as becoming a little more attractive.

LPs' views of Asia-Pacific venture markets in the next 3 years

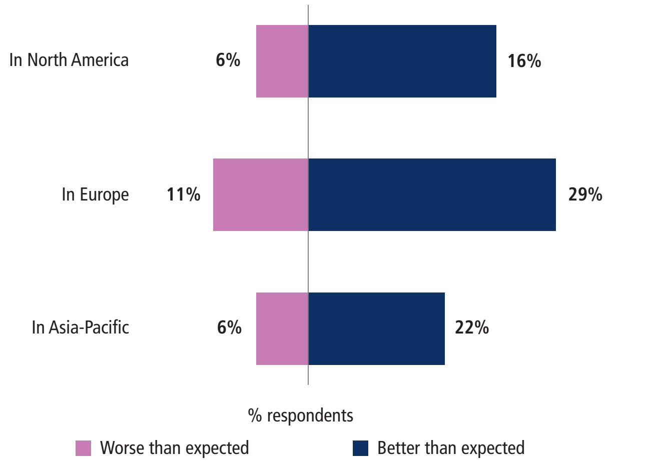


(Figure 19)

Private credit fund returns are exceeding expectations

For a good number of LPs, returns from private credit funds are proving pleasantly surprising. Almost 30% of LPs say that their European private credit funds are performing better than they expected. Beyond Europe, 22% and 16% of LPs say the same for Asia-Pacific and North American credit funds respectively.

Private credit fund investments – performance vs LP expectations



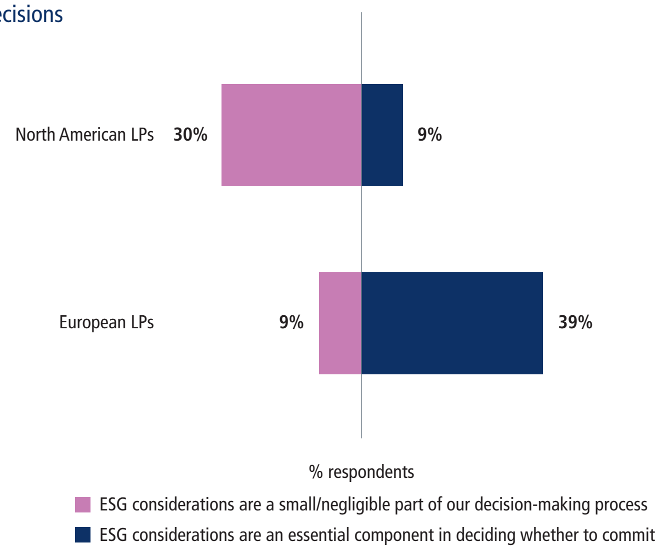
(Figure 20)

Incorporation of ESG into PE investment criteria remains regionally varied

A significant minority of North American investors continues to regard ESG-related investment criteria as irrelevant or inappropriate for their private equity funds.

By contrast, two in five European investors now regard a positive ESG report as an essential component of a decision to commit capital.

The importance of GPs' ESG policies for LPs' new fund commitment decisions

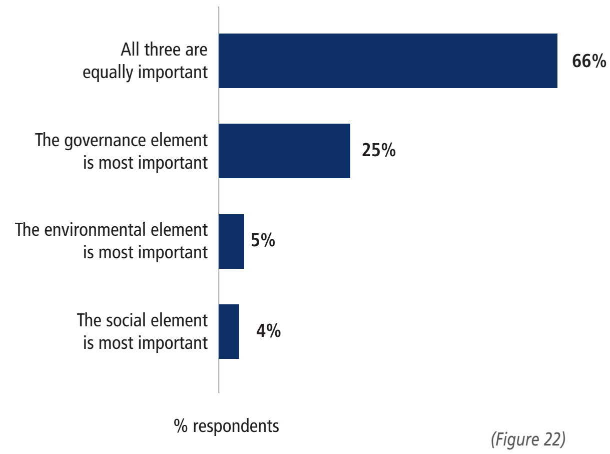


(Figure 21)

Most LPs see the three ESG elements as equally important

Two thirds of LPs believe that the three ESG elements are of equal importance – although a quarter of investors see the governance element as the most important for private equity.

LPs' views on the relative importance of the three ESG elements



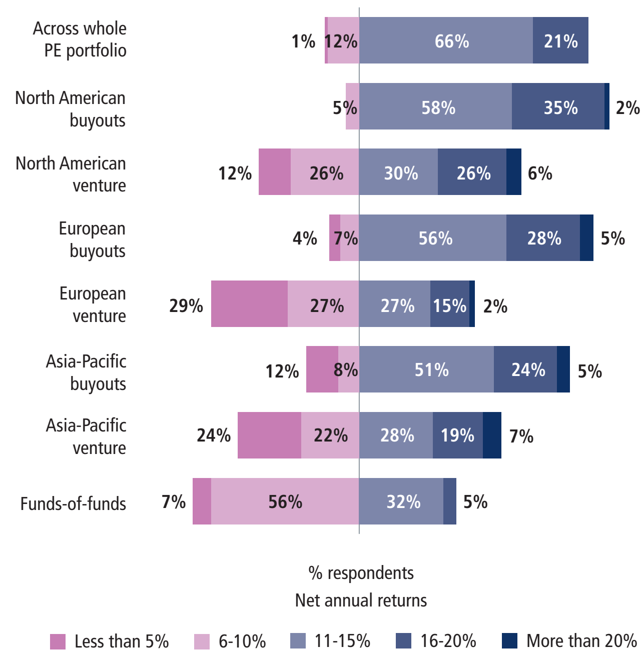
(Figure 22)

Almost all LPs have lifetime annual returns from PE of over 11% net

An impressive 87% of LPs have achieved annual returns of over 11% – net of fees and carried interest – over the lifetime of their private equity portfolios. One fifth of private equity investors have done even better – achieving net annual returns of 16%+ since the inception of their private equity portfolios.

In terms of individual strategies, 95% of Limited Partners have achieved net returns of 11%+ from North American buyouts – and 89% of LPs have achieved this level of returns from European buyouts.

Net annual returns across LPs' PE portfolios since their inception



(Figure 23)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Summer 2018

The Barometer researched the plans and opinions of 112 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.

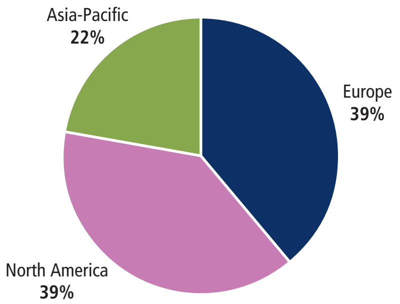
Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital in March-April 2018 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Notes

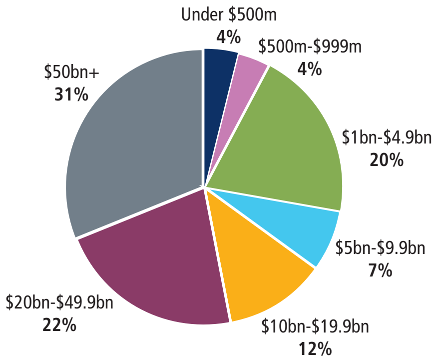
- Limited Partners (or LPs) are investors in private equity funds.
- General Partners (or GPs) are private equity fund managers.
- In this Barometer report, the term private equity (PE) is a generic term covering venture capital, growth, buyout and mezzanine investments.

Respondents by region



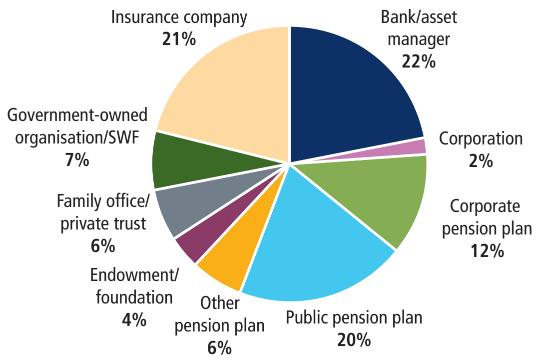
(Figure 24)

Respondents by total assets under management



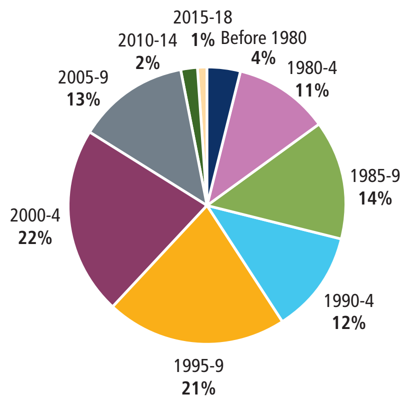
(Figure 25)

Respondents by type of organisation



(Figure 26)

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



(Figure 27)

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