Coller Capital

Global Private Equity Barometer

WINTER 2018-19

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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 29th 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

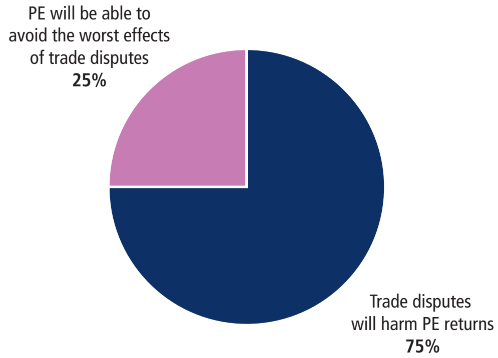
Topics in this edition of the Barometer include investors' views and plans regarding:

- Returns from, and appetite for, PE
- Brexit and European PE returns
- Performance of PE in an economic downturn
- Venture capital investments
- Minority / non-control PE funds
- Attractiveness of PE in emerging markets
- The PE industry's reputation
- Diversity within the PE industry
- PE special accounts
- Attractiveness of PE real assets
- Investments in specific industries
- Turnaround and distressed debt funds

Continuing trade disputes damaging for PE returns

Three quarters of LPs believe that private equity returns will be harmed if international trade disputes continue.

LPs' views on the impact of international trade disputes on PE returns



(Figure 1)

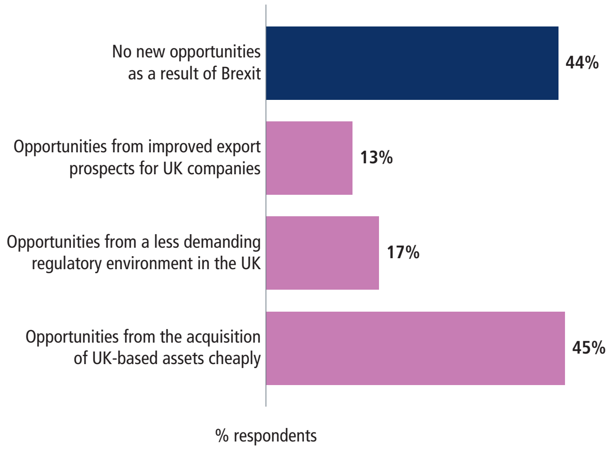
LPs see few positive PE opportunities for the UK post-Brexit

44% of investors expect there to be no new opportunities for private equity when the UK leaves the European Union.

Just 13% of LPs expect private equity investment opportunities to arise from improved prospects for UK exporters after Brexit.

However, approaching half (45%) of investors see opportunities in buying UK-based assets cheaply.

Likelihood of new PE investment opportunities when the UK leaves the European Union – LP views

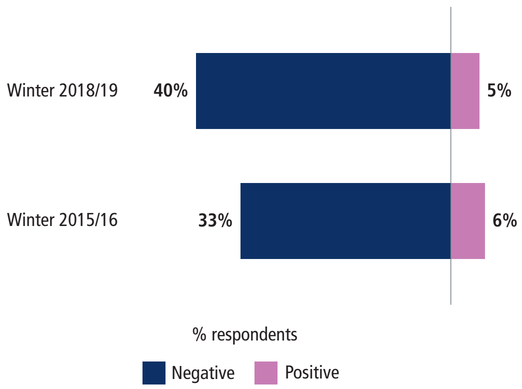


(Figure 2)

More LPs now think Brexit will harm European PE

Two fifths of LPs now believe Brexit will be harmful to European private equity returns – an increase on the one third of investors who held this view three years ago. Just one in 20 LPs believes that Brexit's overall impact on European private equity will be positive.

LP views on the impact of Brexit on European PE overall



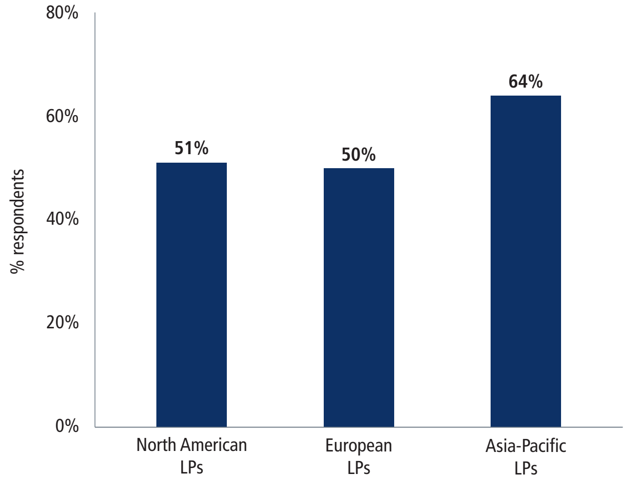
(Figure 3)

Half of LPs are preparing for the next economic downturn

53% of LPs are adjusting their investment strategies or asset allocations as a precaution against the next economic downturn.

This is true for almost two thirds of Asia-Pacific LPs.

LPs modifying strategies/asset allocations as a precaution against economic downturn – by region

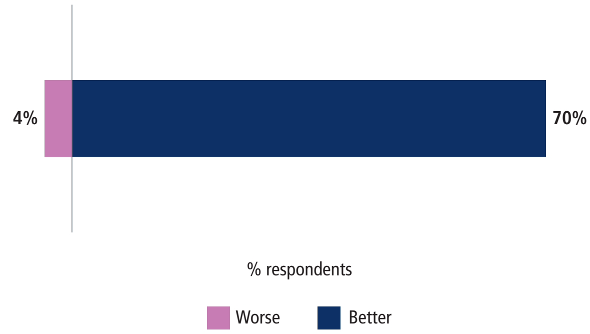


(Figure 4)

PE-backed companies will prove more resilient in a downturn, LPs say

During the next economic downturn, 70% of Limited Partners expect private equity-backed companies to outperform businesses without private equity backing. Very few LPs believe PE-backed companies will perform worse when the next downturn comes.

Expected performance of PE-backed companies vs non-PE-backed companies in the next downturn – LP views



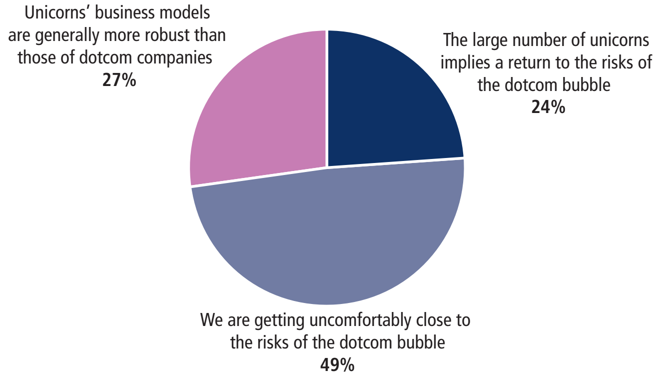
(Figure 5)

Unicorn valuations are reminiscent of the dotcom bubble, LPs say

Three quarters of private equity investors believe that today's large number of 'unicorns' (early-stage tech companies valued at more than US$1 billion) suggests we are approaching – or have already returned to – the era of the dotcom bubble.

One quarter of LPs are more sanguine – on the grounds that the high valuations of today's unicorns are justified by more robust business models than those of dotcom-era companies.

LP views on the riskiness of 'unicorns'



(Figure 6)

LPs favour internet/software, healthcare, and fintech for VC investing

Three quarters of LPs who invest in venture capital plan new commitments to funds focused on internet and software businesses in the next three years. Around two thirds of LPs plan to back venture funds focused on healthcare and fintech.

At the other end of the scale, venture investment in clean energy is a priority for only 13% of LPs.

LPs foresee improving returns from VC

LPs' return expectations for venture capital have improved significantly in the five years since the Barometer of Winter 2013-14.

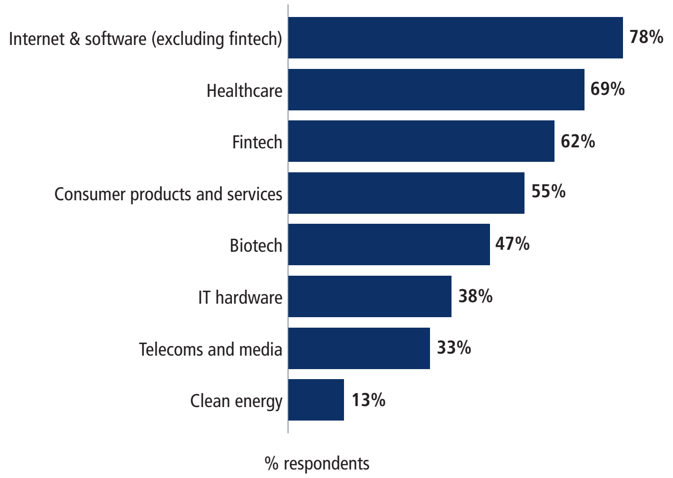
By region, the proportions of LPs expecting annual returns of more than 11% net from venture capital over the next 3-5 years are now: 84% for North American venture; 65% for European venture; and 78% for Asia-Pacific venture.

The improvement in overall returns is particularly striking in the lowest band, ie, LPs expecting a net return of 5% or less. In the Winter of 2013-14, over a third of investors in European venture expected returns at this level. Today the proportion is just 8%.

Most LPs do, or will, invest in developed-market funds taking minority positions

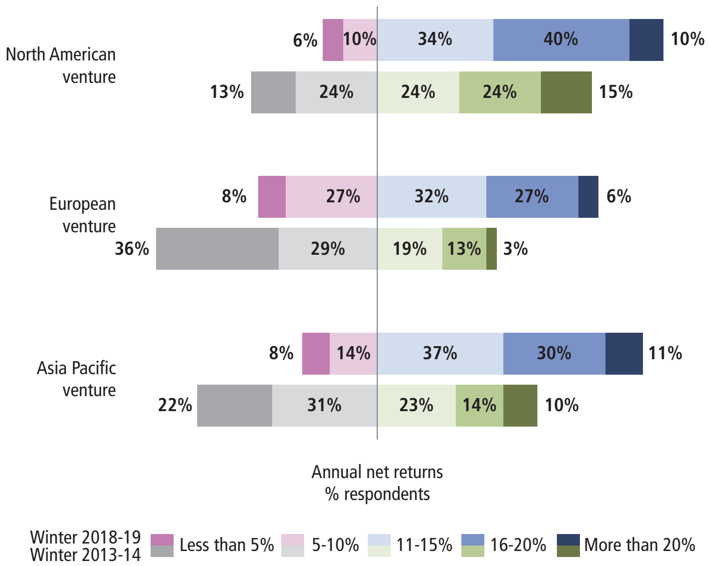
Half of LPs have already invested in private equity funds focused on minority/non-control positions in private companies in Europe and North America – and an additional 14% of LPs are likely to do so in the future. Almost three-quarters of LPs in North America will or already do have such investments.

LP plans for venture fund commitments in the next 3 years – by sector focus



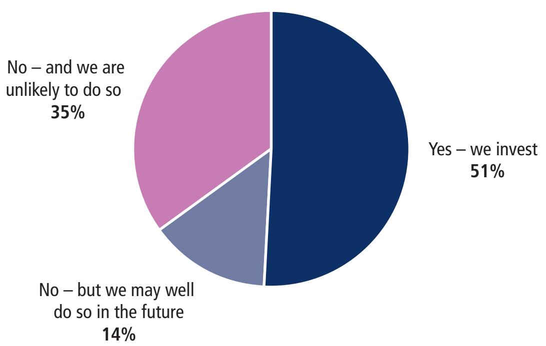
(Figure 7)

Annual net returns from VC over the next 3-5 years – LP forecasts



(Figure 8)

LPs investing in developed-market PE funds focused on minority positions

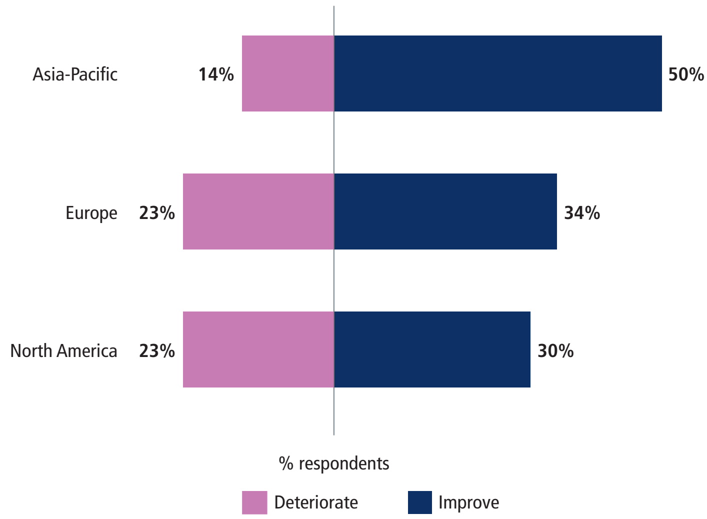


(Figure 9)

Asia-Pacific LPs most positive on prospects for emerging markets PE

Asia-Pacific investors are generally positive on the prospects for private equity in emerging markets over the next three years – more so than their colleagues in North America and Europe. In the latter regions, substantial minorities of LPs expect a deterioration in conditions.

LP views on the prospects for emerging PE markets over the next 3 years – by investor location



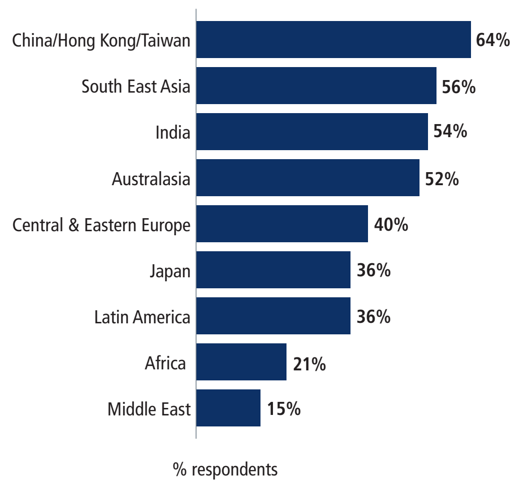
(Figure 10)

Most LPs invest in the fast-growing markets of Asia

Almost two thirds of the world's LPs are invested in Chinese private equity, and over half of LPs have exposure to South East Asia and India.

Private equity investors have a lower exposure to the Middle East than to any other region.

Proportions of LPs invested in PE markets outside North America and Western Europe

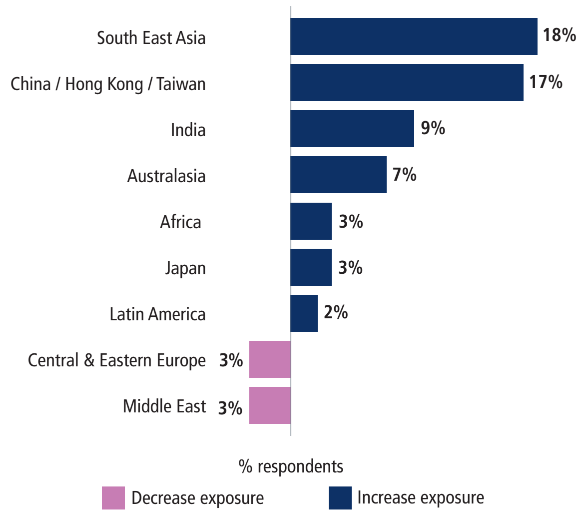


(Figure 11)

LPs most positive towards SE Asia and China

South East Asia and China are Limited Partners' preferred destinations outside North America and Western Europe to target for greater exposure in the next three years.

Investors planning changes to PE market exposure outside North America and Western Europe in the next 3 years – net balance of LPs by target region



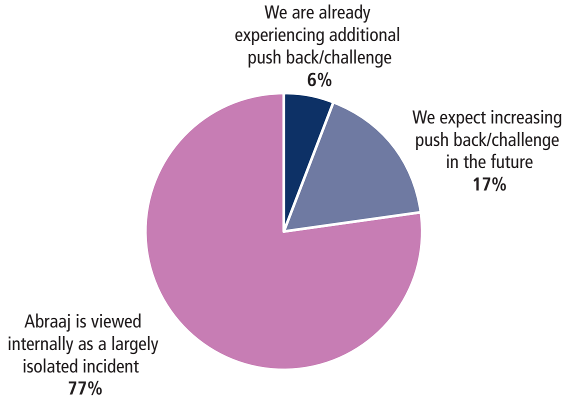
(Figure 12)

A quarter of LPs expect more challenge for EM PE commitments after Abraaj

6% of LPs have already experienced greater push-back against emerging market private equity investments as a result of the problems at Abraaj – and another 17% of LPs expect to experience more challenge in the future.

However, most investors are more sanguine – three quarters of LPs say that Abraaj is viewed internally as an isolated incident.

LP views on their organisation's attitude to emerging markets private equity following the problems at Abraaj

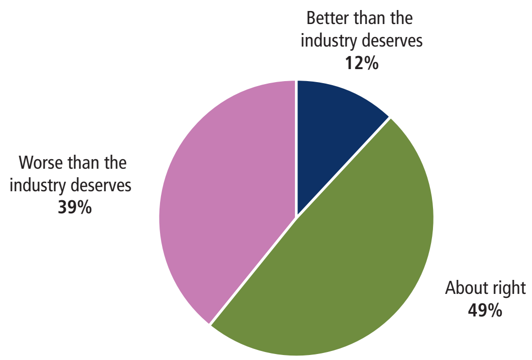


(Figure 13)

Two in five LPs think PE deserves a better reputation

Half of LPs think private equity's reputation is on balance an accurate reflection of the industry, but a significant two fifths of investors believe the public perception of private equity is less positive than the industry deserves.

LP views on PE's current reputation

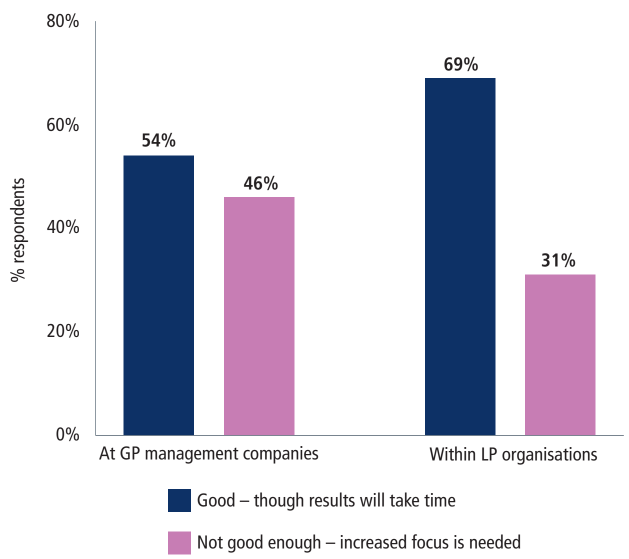


(Figure 14)

More time and work needed on PE industry diversity, LPs say

A majority of investors believe that appropriate progress is being made on staff diversity in private equity – at both GP management companies and in their own organisations. However, significant minorities of investors say that an increase in focus is still needed at both types of organisation.

Progress on staff diversity within GP management companies and LP organisations – LP views

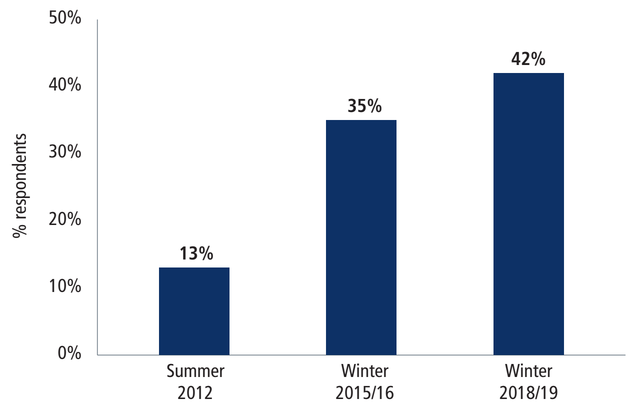


(Figure 15)

Growth in PE special accounts is slowing

The proportion of LPs with special (or managed) private equity accounts has risen to 42%, although the pace of increase has slowed markedly since the *Barometer* of Winter 2015-16.

LPs with special (or managed) GP accounts



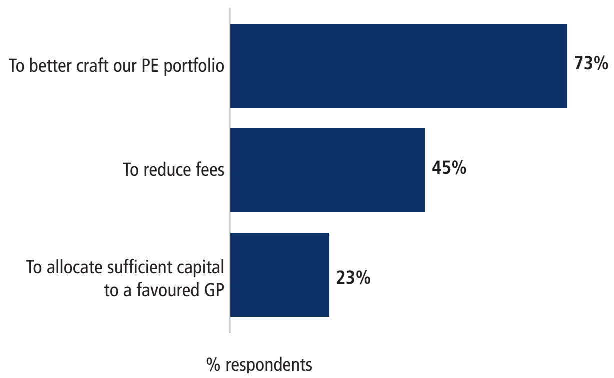
(Figure 16)

Main investor rationale for special accounts is to customise PE portfolios

The main motivation for LPs in embracing special accounts is the ability to better craft their own private equity portfolios.

Some 45% of LPs hope to reduce average fees through the use of special accounts. However, only one third of private equity investors report that their special accounts actually outperform their overall private equity portfolios.

Main LP aims in establishing special/managed PE accounts



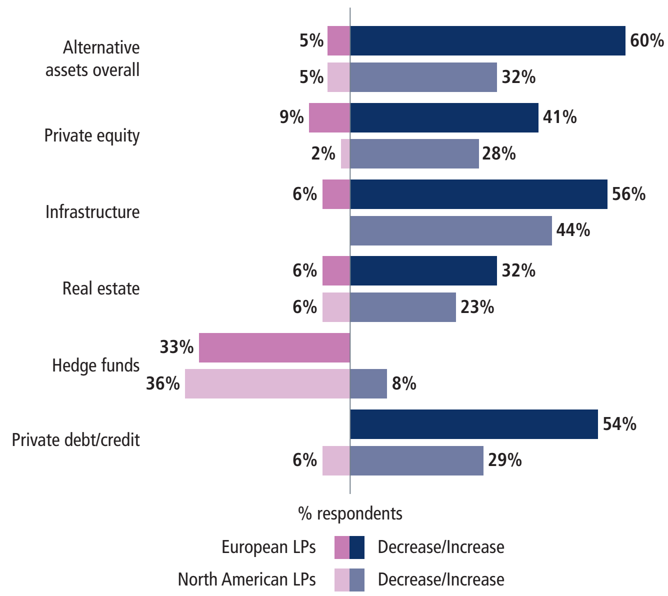
(Figure 17)

European LPs especially hungry for higher alt assets exposure

Some 60% of European LPs are planning to increase their target allocations to alternative assets in the next 12 months – especially to infrastructure and private credit funds.

The decline in LPs' appetite for hedge funds is continuing – with around a third of both North American and European LPs planning reduced target allocations in the next 12 months.

Planned changes to LPs' target allocations to alternative assets in the next 12 months – European and North American LPs



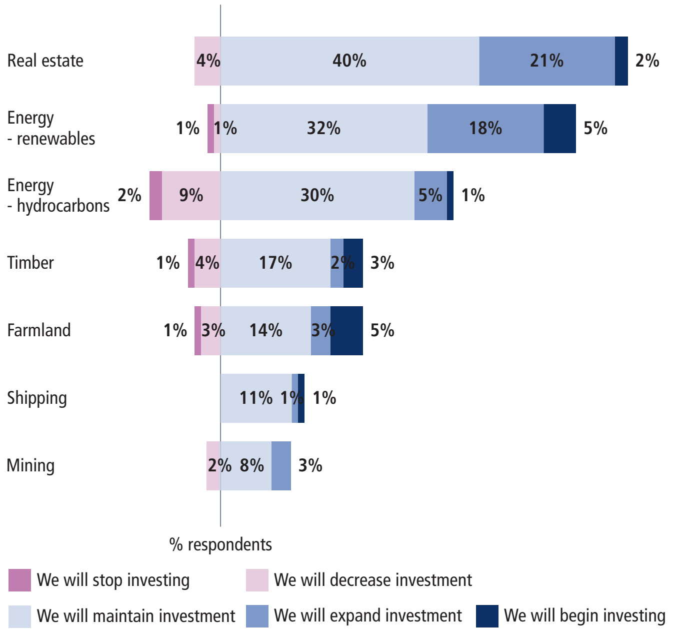
(Figure 18)

LPs favour real assets investment in real estate and renewable energy

In terms of private equity investment in real assets, Limited Partners particularly favour increased exposure to the renewable energy and real estate sectors.

Just over half of LPs currently have private equity exposure to the hydrocarbons sector – and almost one in four of these investors plans to reduce their exposure.

LP plans for exposure to PE real assets in the next 3 years

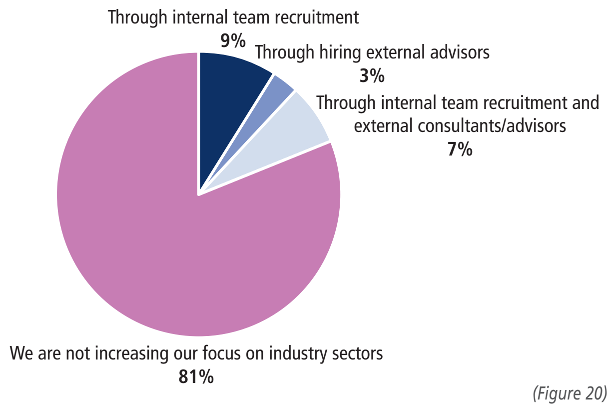


(Figure 19)

One in five LPs planning increased focus on specific industry sectors

Some 19% of LPs are increasing their focus on specific industry sectors – by recruiting additional members of staff for their teams and/or by hiring external advisors.

LPs' plans for achieving an increased focus on specific industry sectors



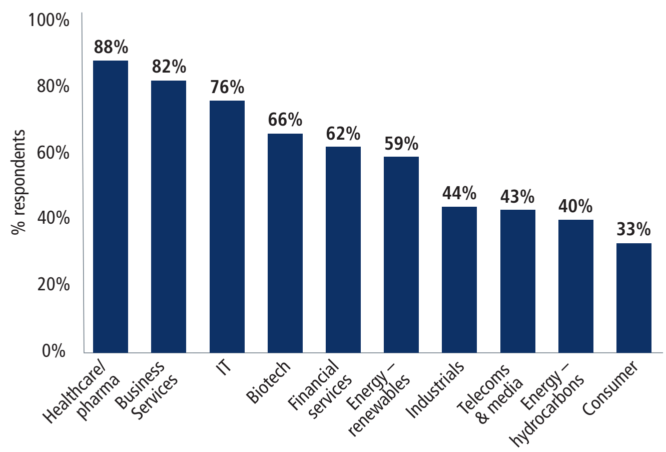
(Figure 20)

Almost all LPs see good PE opportunities in healthcare and pharma

Healthcare/pharma, business services, and IT will provide the most attractive opportunities for private equity in developed markets in the next three years, LPs believe.

Only one in three investors sees attractive opportunities for private equity in the consumer sector in the next three years.

Attractive sectors for PE investment in North America and Europe in the next 3 years – LP views

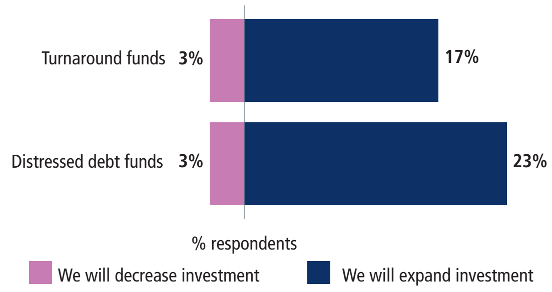


(Figure 21)

Turnaround funds and distressed debt attract increased investor interest

Some 17% of investors are planning to increase their exposure to private equity turnaround funds in the next three years, and 23% of Limited Partners will seek a higher exposure to distressed debt funds over the same period.

LP plans for exposure to turnaround and distressed debt funds in the next 3 years



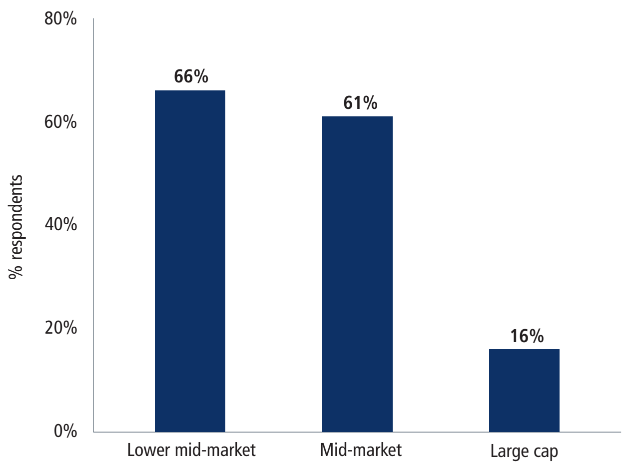
(Figure 22)

Lower mid-market is the most attractive segment of private debt

The majority of LPs view the lower mid-market and mid-market segments of the private debt markets in North America and Europe as attractive.

By contrast, only 16% of LPs view the large cap segment as attractive.

Attractive private debt segments in developed PE markets – LP views



(Figure 23)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Winter 2018

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.

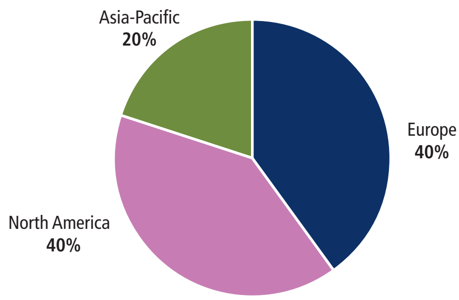
Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital in September-October 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



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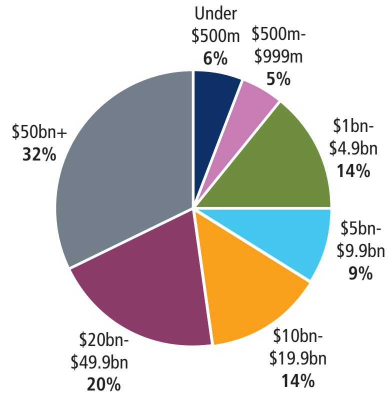
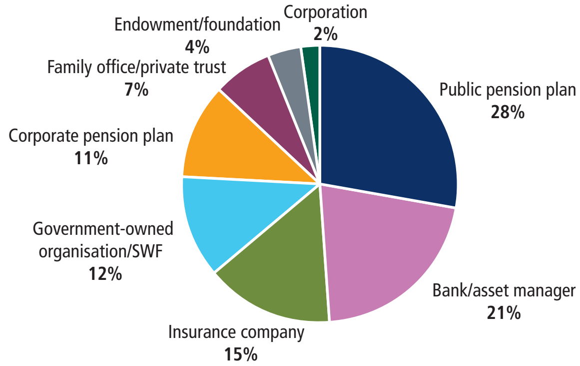
Respondents by total assets under management



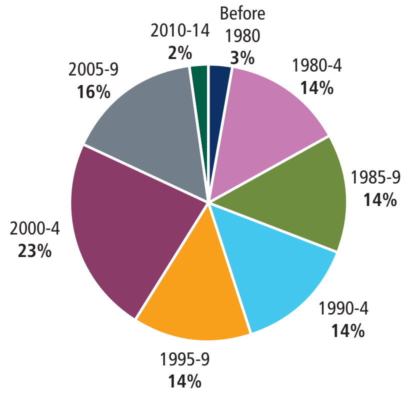
(Figure 25)

Respondents by type of organisation



(Figure 26)

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



(Figure 27)