

Global Private Equity Barometer

Summer 2019

30th
Edition

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Coller Capital

Coller Research Institute

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 based in North America, Europe and Asia-Pacific (including the Middle East).

This 30th 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

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Topics

This edition of the Barometer includes investors' views and plans regarding:

- Returns from, and appetite for, PE and alternative assets
- Sales of management company interests by GPs
- LPs' appetite for new products from their portfolio GPs
- Attractiveness of additional, 'non-contractual' services offered by GPs
- GP-led secondary transactions
- LPs' workload and activities
- Deal-by-deal carry vs whole-fund carry
- LPs' and GPs' ESG initiatives
- Views of ILPA and its future direction
- PE exits to public vs private markets
- Prospects for venture capital in China compared with the USA
- Attractiveness of space technology
- Consolidation and regulation in PE debt markets

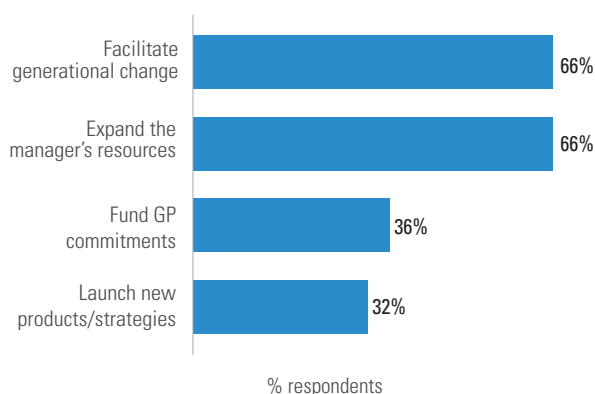
Enhancing team stability / resources are best reasons for ManCo stake sales

Facilitating generational change, and strengthening the resources GPs can bring to bear on the market, are the best reasons for them to sell interests in their management companies to outside investors, LPs say.

By contrast, only one-third of LPs believe it is appropriate for GPs to sell management company stakes to launch new products or fund GP commitments.

Fig 1

Appropriate reasons for GPs to sell minority stakes in management companies – LP views



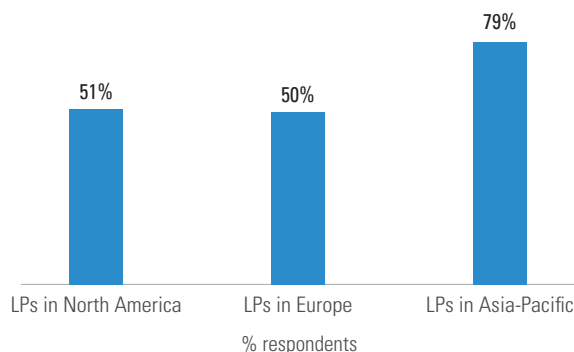
LPs are increasingly willing to back new products from their portfolio GPs

Limited Partners are much more willing to invest in new private equity products and strategies from their portfolio GPs than they were five years ago.

Half of investors in North America and Europe are now more likely to do this – as are almost four-fifths of Asia-Pacific LPs.

Fig 2

Proportion of LPs more likely to back new products/strategies from their portfolio GPs than they were 5 years ago

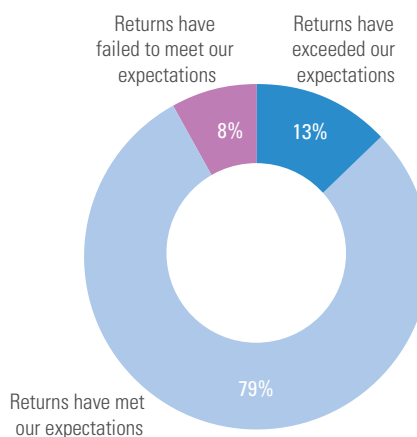


New products/strategies from portfolio GPs generally deliver on expectations

92% of LPs say that when they have invested in new products or strategies offered by GPs with whom they are already invested, their returns have generally met or exceeded expectations.

Fig 3

Investment performance of new products from LPs' portfolio GPs



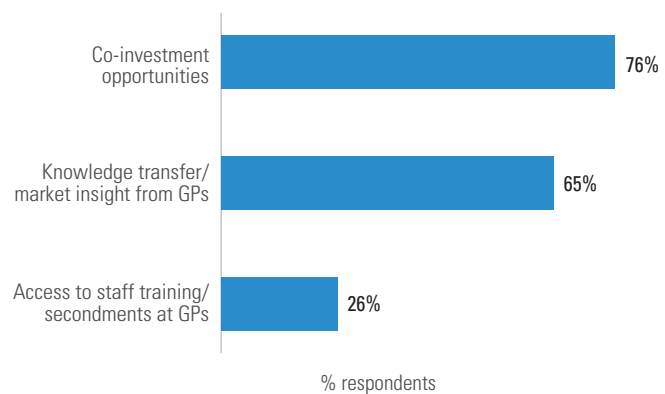
Co-investments and market insights are GPs' most valuable 'non-contractual' offerings

Three-quarters of LPs say their organisations have benefited from co-investment opportunities offered by their portfolio GPs.

Two-thirds of LPs say they have derived additional value from market insights or knowledge transfer from GPs.

Fig 4

Sources of 'non-contractual' value provided by GPs, according to LPs



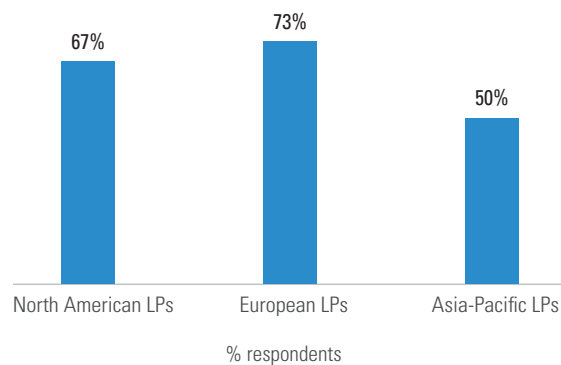
Most of the world's LPs have now experienced GP-led secondary transactions

Two-thirds of North American LPs and almost three quarters of European LPs have had GP-led secondary transactions within their private equity portfolios.

Half of Asia-Pacific investors have so far experienced a GP-led secondary transaction.

Fig 5

Proportion of LPs with direct experience of GP-led secondary transactions



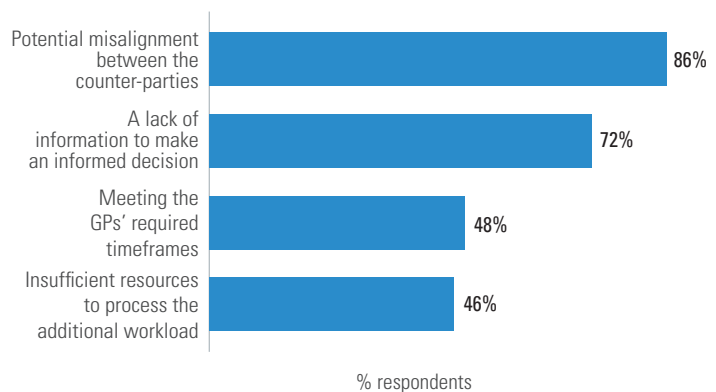
Misalignment and lack of information are LPs' main GP-led secondaries concerns

Investors cite the risk of counterparty misalignment and having too little information to make an informed decision as the issues most likely to concern them in future GP-led secondary transactions.

Almost half of LPs also expect time pressures and resource constraints to be causes of concern in future GP-led secondary transactions.

Fig 6

LPs' potential concerns with future GP-led secondary transactions

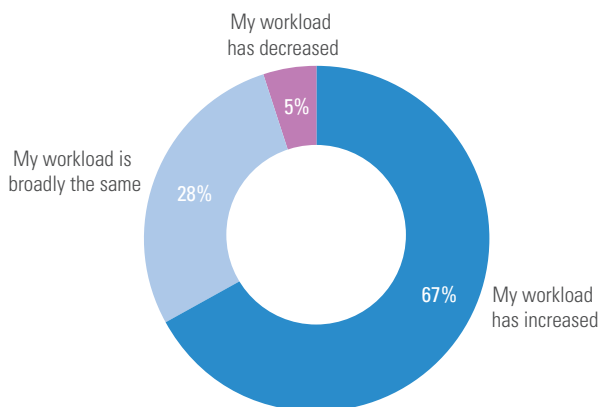


Limited Partners are having to work harder

A majority of LPs in all regions of the world say their workload has increased in the last five years. This is especially true of North American investors, almost three quarters (73%) of whom say their workload has gone up in recent years.

Fig 7

Current LP workloads, compared with 5 years ago



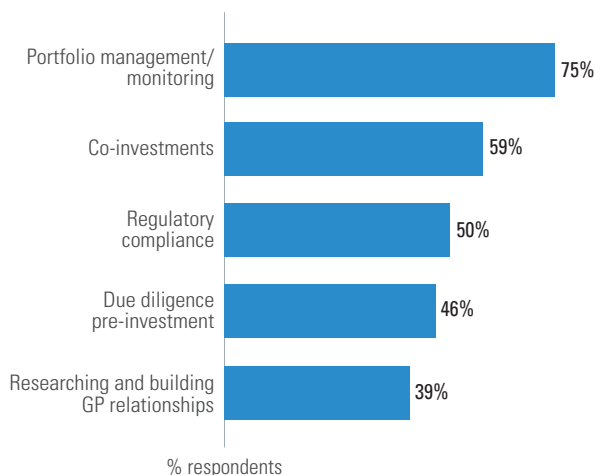
Many aspects of LPs' work have become more time-consuming

Monitoring and managing their private equity portfolios has become more time-consuming for three-quarters of private equity investors.

Many other aspects of Limited Partners' work are also more demanding than five years ago. Three in five LPs are spending more time on co-investments, and around half of investors now allocate more time to compliance and due diligence.

Fig 8

Activities on which LPs are spending more time than they did 5 years ago

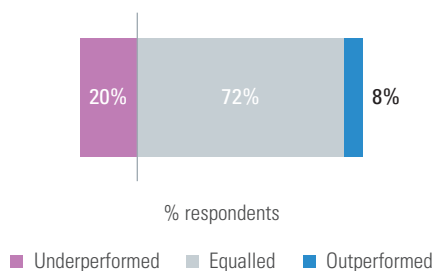


Carry waterfall type is not a primary driver of LBO fund returns, most LPs say

While investors' experiences differ slightly according to their location, almost three-quarters (72%) of LPs reported that the performance of buyout funds with deal-by-deal carry waterfalls was, on balance, no better or worse than that of funds with whole-fund carry waterfalls.

Fig 9

Performance of buyout funds with deal-by-deal carry waterfalls (compared with funds with whole-fund carry waterfalls) – LPs' experience

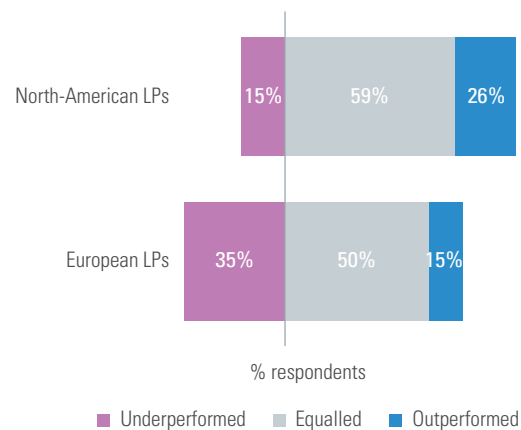


North American LPs have fared better with deal-by-deal carry in VC

North American LPs' experience of deal-by-deal carry waterfalls in venture funds is markedly more positive than that of their European counterparts.

Fig 10

North American and European LPs' experience of VC funds with deal-by-deal carry waterfall (compared with whole-fund waterfall funds)



Improving their employee diversity is a key focus for LPs and GPs alike

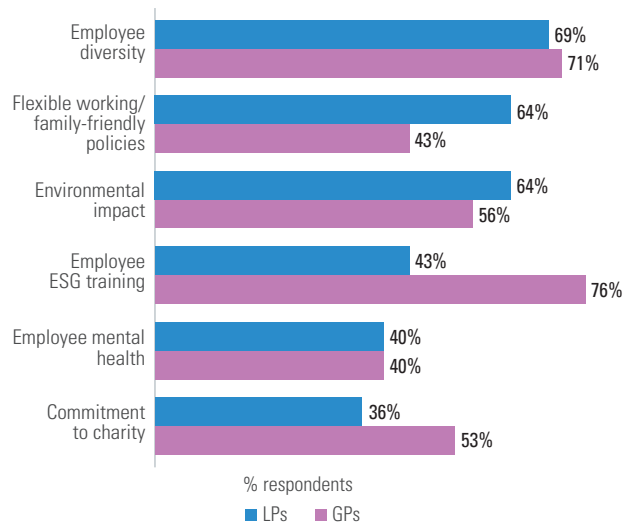
Improving their employee diversity is an important priority for LPs and GPs alike.

However, there are differences in prioritisation between investors and fund managers in other areas of ESG. Some two-thirds of LPs are introducing more flexible working and family-friendly employment conditions (vs 43% of GPs) – while three quarters of GPs are focused on employees' ESG training and coaching (vs 43% of LPs).

Just over half of GPs are trying to boost their organisation's engagement with charity – versus just over a third of LPs.

Fig 11

Areas where LPs and GPs⁽¹⁾ are attempting to improve their internal ESG performance



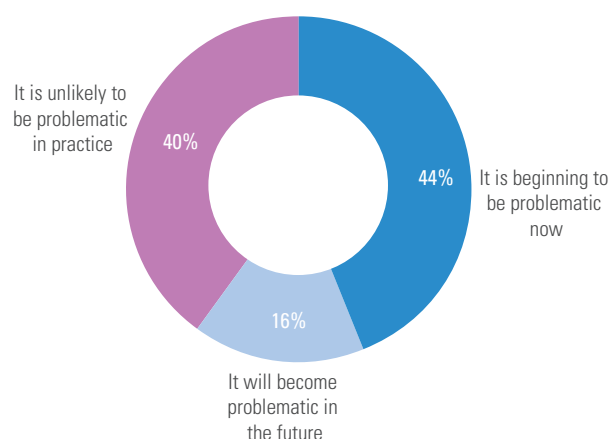
Note:⁽¹⁾ GP responses from Collier Capital's 2019 ESG survey of portfolio GPs in Collier International Partners V, VI, and VII.

Lack of clarity around the term 'ESG' will be increasingly problematic for LPs

The majority of LPs believe that the vagueness of the term 'ESG' is creating problems for the investment community or is likely to do so in the future.

Fig 12

Consequences of definitional problems with the term 'ESG' – LP views

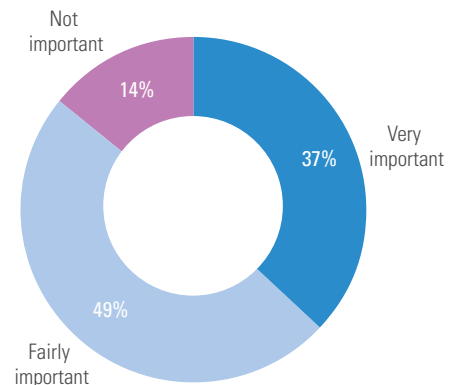


LPs believe ILPA has been an important influence on the evolution of PE

Fully 86% of LPs believe that the Institutional Limited Partners Association (ILPA) has played an important role in the development of the private equity industry over the last ten years. (Around half of the LPs responding to the Summer 2019 *Barometer* are currently ILPA members.)

Fig 13

Importance of ILPA for the development of the PE industry in the last 10 years



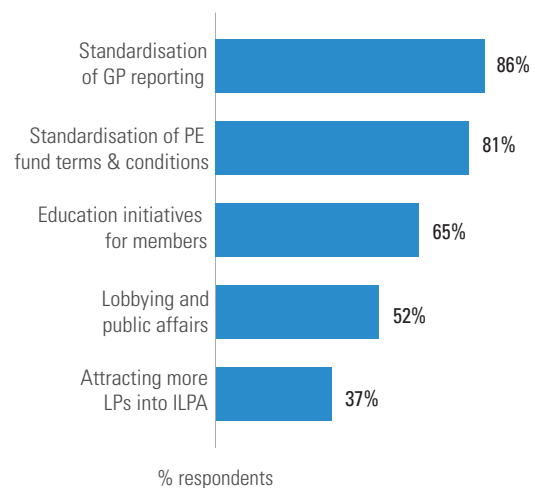
ILPA should prioritise standardisation of fund reporting and terms

Over 80% of LPs see the creation of standardised reporting templates for private equity funds and the standardisation of fund terms and conditions as important areas of future focus for ILPA.

Two-thirds of private equity investors would also like to see a strong focus on education initiatives for ILPA members.

Fig 14

Areas that LPs think ILPA should prioritise in the future



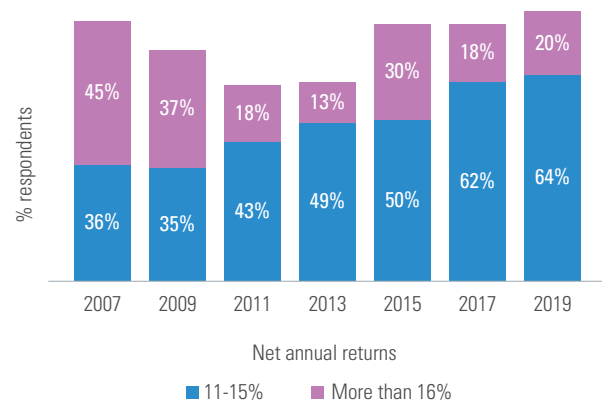
Fewer LPs outperform post-GFC, but PE returns are strong and consistent

The proportion of LPs reporting net annual returns of 16% or higher since the inception of their private equity portfolios has reduced significantly since the Global Financial Crisis – from around 45% of LPs in 2007 to around 20% of LPs since 2016.

However, the overall consistency of what the asset class delivers seems to have improved in recent years. The proportions of Limited Partners reporting net private equity returns of 11% or higher over the lives of their portfolios has ranged from 80% to 87% since 2015.

Fig 15

Net annual returns across LPs' PE portfolios since inception

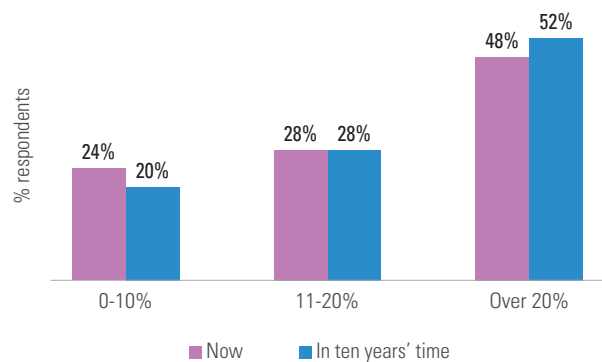


LPs confirm long-term alternatives allocation plans

More than half of LPs expect to have over 20% of their total assets allocated to alternative investment strategies of various kinds in ten years' time.

Fig 16

Share of LPs' total assets allocated to alternatives – now and in 10 years' time

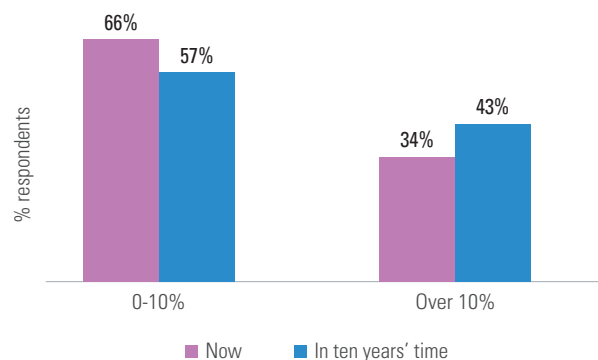


Private equity's share of total asset allocation to increase further

43% of Limited Partners expect their organisation to have more than a tenth of its total assets in private equity within ten years – up from 34% of LPs today.

Fig 17

PE as a proportion of LPs' total assets – now and in 10 years' time



Hedge funds defy trend to higher alternatives allocations

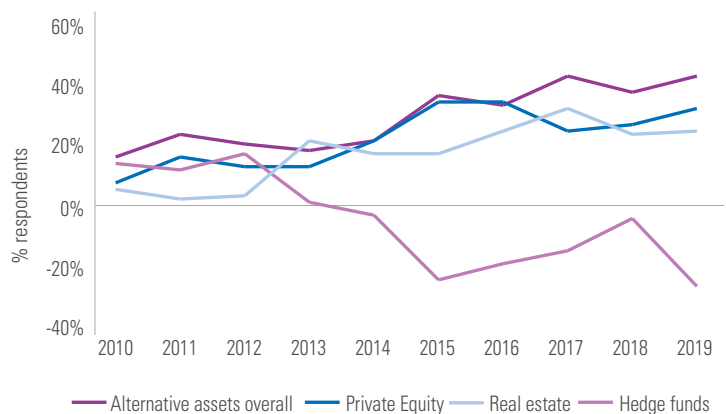
LP appetite for private equity and alternative assets remains high – with 37% and 46% of LPs respectively reporting plans to increase allocations in the Summer 2019 *Barometer*.

On average, around a third of LPs annually have reported plans to increase target allocations to private equity since 2010, compared with one tenth of LPs planning a reduced exposure.

However, a balance of LPs has reported plans to reduce target allocations to hedge funds in each year since 2014.

Fig 18

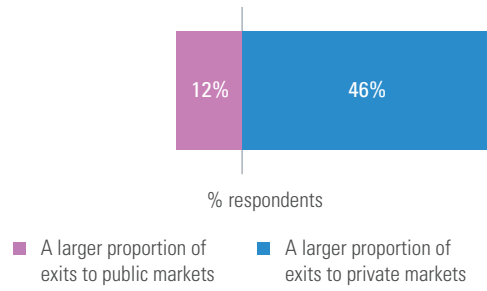
Net change in LPs' planned target allocations to alternative assets in the next 12 months (LPs increasing minus LPs reducing allocations)



More PE portfolio companies to remain in private hands, LPs say

Nearly half of LPs expect the proportion of private equity exits to private (rather than public) market acquirers to grow steadily over time.

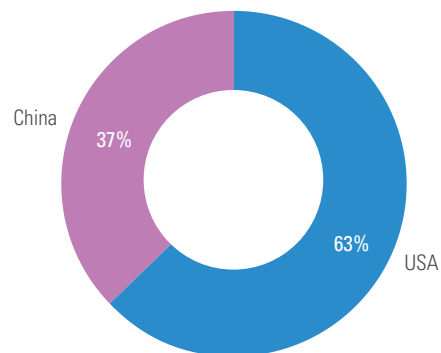
Fig 19 PE portfolio company exits in the future – LP expectations



US will be more attractive than China for venture investors, LPs say

Almost two-thirds of LPs believe the US will provide more attractive opportunities for venture fund investors than China over the next five years. Even among Asia-Pacific investors, well over half of Limited Partners hold this view.

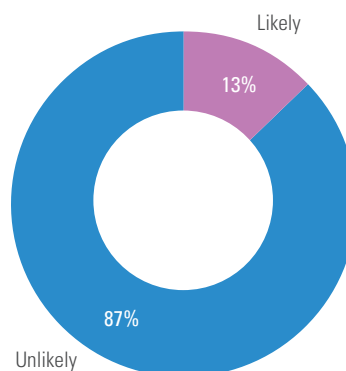
Fig 20 More attractive market for venture fund investors in the next 5 years – LP views



Space tech starting to attract some institutional investors

One in eight LPs thinks their institution is likely to commit to a venture capital fund focused on space technology within the next five years.

Fig 21 Likelihood of an LP investing in a space tech venture fund in the next 5 years

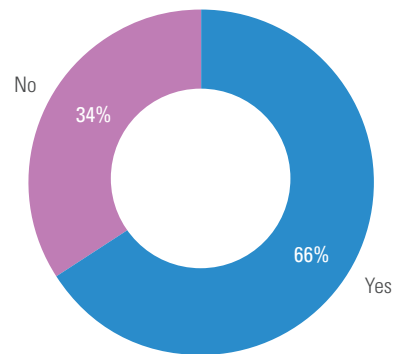


Consolidation likely among PE debt providers, LPs say

Two-thirds of LPs expect to see consolidation among the providers of debt to private equity transactions in North America and Europe.

Fig
22

Proportion of LPs expecting a consolidation in the number of debt providers to PE transactions in developed markets in the next few years

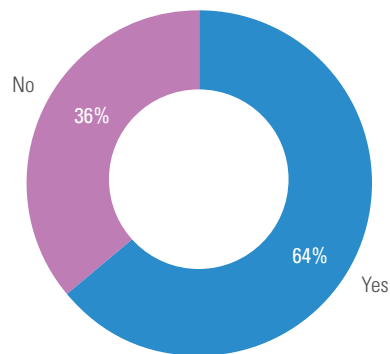


Increased regulation of private debt markets on its way, LPs say

Two-thirds of LPs expect to see an increase in the regulation of private debt markets in the next few years.

Fig
23

Proportion of LPs expecting increased regulation of private debt markets in the next few years



Coller Capital's Global Private Equity Barometer

Respondent breakdown – Summer 2019

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), from a representative sample of the LP population worldwide.

Fig 24 Respondents by region

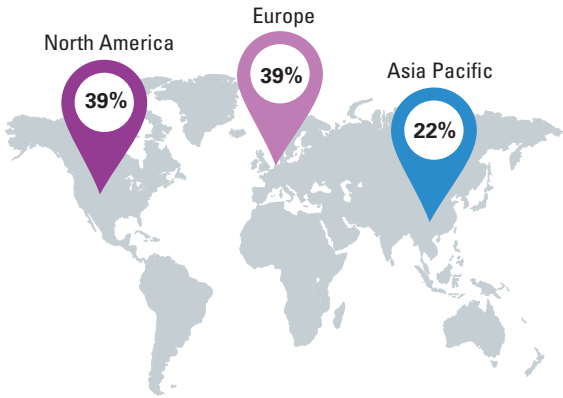


Fig 25 Respondents by total assets under management

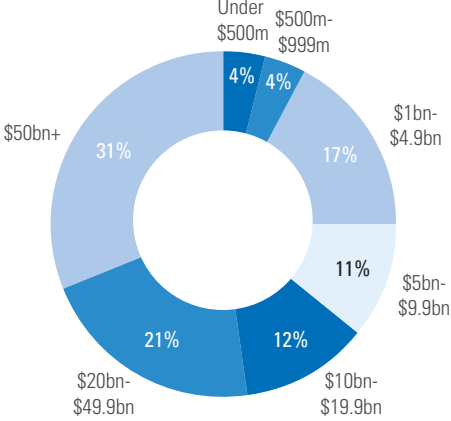


Fig 26 Respondents by year in which they started to invest in private equity

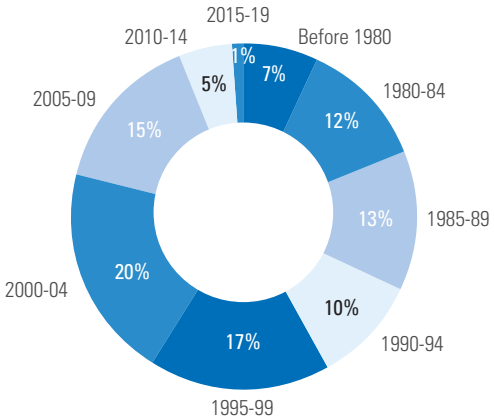
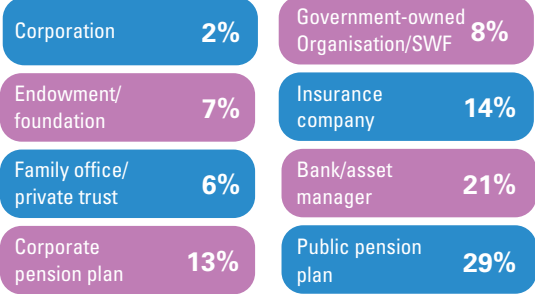


Fig 27 Respondents by type of organisation



About Collier Capital

Collier Capital is one of the world's leading investors in private equity's secondary market – widely acknowledged as an innovator and stand-out player at the complex end of secondaries.

The firm provides liquidity solutions to private equity investors worldwide, acquiring interests in private equity funds, portfolios of private companies, and other private equity-related assets. Headquartered in London, and with offices in New York and Hong Kong, Collier Capital's multinational investment team has a truly global reach.

In December 2015, the firm closed Collier International Partners VII, with capital commitments of \$7.15 billion and backing from approximately 170 of the world's leading institutional investors.

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.

Research methodology

Fieldwork for the Barometer was undertaken for Collier Capital in February-March 2019 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.





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