Global Private Equity Barometer

Winter 2019-20

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 31st edition of the *Barometer* captured the views of 113 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:

- PE's likely performance in an economic downturn
- Changes to PE fund terms and conditions
- Risks to future PE returns
- LPs' planned responses to climate change
- Criticisms of PE by politicians and the media
- Investors' co-investment strategies
- Likelihood and desirability of 'retail' investment in PE
- Private debt funds – commitments and challenges
- LPs' level of access to their preferred GPs and funds
- Emerging PE markets
- Returns from – and appetite for – PE

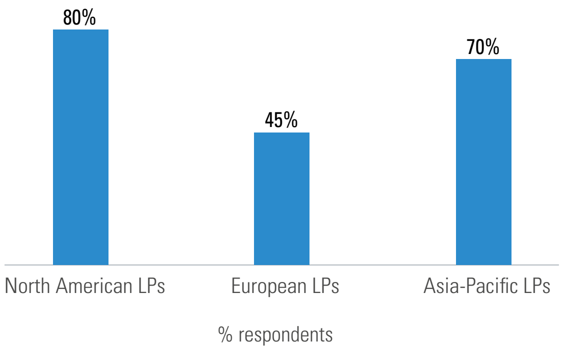
Most LP portfolios are not ready for an economic downturn

Most Limited Partners in North America and Asia-Pacific think modifications are needed to prepare their private equity portfolios for the next downturn.

However, the picture varies hugely according to an LP's home geography. Less than half of European LPs think their portfolios need modification.

Fig 1

LPs who believe their portfolios need modification against the next economic downturn



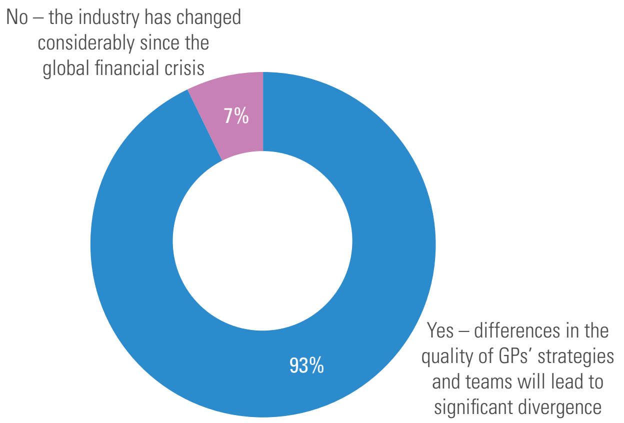
Significant divergence in GP returns 'inevitable' in the next economic downturn

An overwhelming proportion of LPs expect to see a significant divergence in GPs' private equity returns in the next economic downturn.

Only 7% of investors think the industry has changed sufficiently since the global financial crisis to avoid this.

Fig 2

Likelihood of a significant divergence in GPs' returns in the next economic downturn – LPs' views



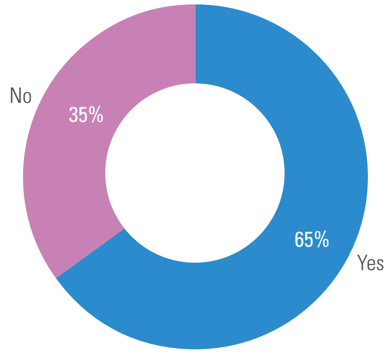
LPs expect further divergence in fund terms and conditions between GPs

Overall, around two thirds of LPs expect to see a further divergence in the fund terms offered to investors by different GPs in the next five years.

Almost three quarters of Limited Partners from the Asia-Pacific region expect to see such a divergence.

Fig 3

LPs expecting further divergence in individual GPs' fund T&Cs – in the next 5 years

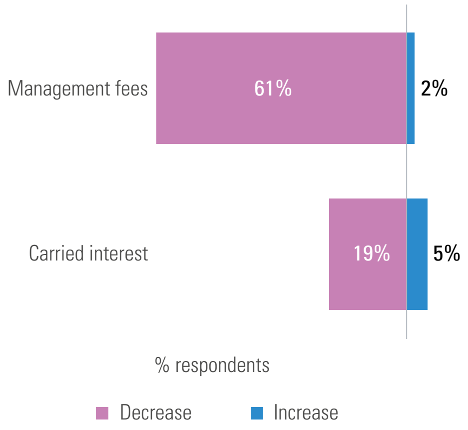


Management fees to come under pressure

A majority of LPs expect the overall rate of private equity fund management fees to reduce over the next five years.

One in five LPs expects to see a reduction in overall carried interest percentages in the same period.

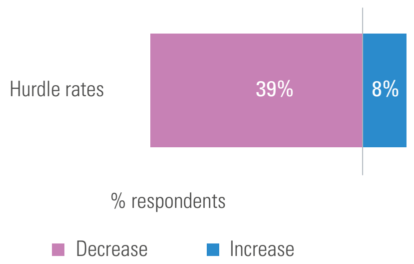
Fig 4 Likely change in PE management fee and carry rates in the next 5 years – LP views



Two in five LPs think hurdle rates will decline

Two fifths of investors expect to see an overall reduction in fund hurdle rates over the next five years.

Fig 5 Likely change in PE hurdle rates in the next 5 years – LP views

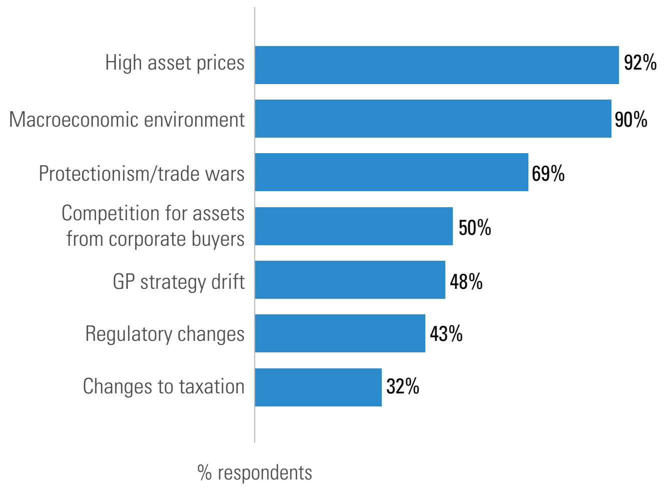


High asset prices in a weak macro environment are a significant risk, LPs say

Almost all LPs believe that today's high asset prices and weakening macro environment are significant risks to their PE returns in the next few years.

Almost 70% of investors believe that protectionism and trade wars are a significant risk to returns.

Fig 6 Significant risks to PE returns in the next few years – LP views

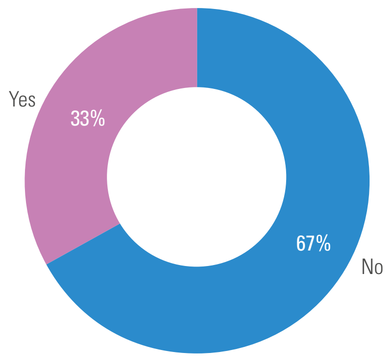


Volcker Rule should not be softened further, LPs say

Most investors would not support further softening of the Volcker Rule in the US to allow more proprietary trading by banks.

Fig 7

Acceptability of any further softening of the Volcker Rule – LP views



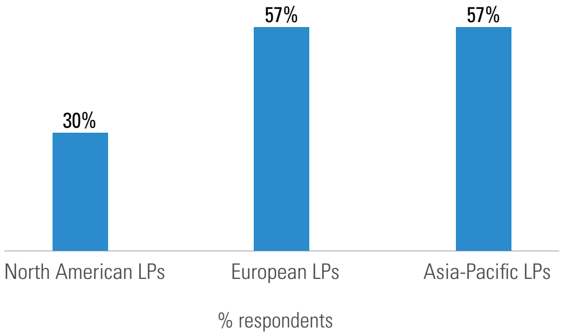
Location determines an LP's responsiveness to climate change

Where investors are based affects how likely they will be to modify their investment strategy in response to climate change. Well over half of LPs based in Europe and the Asia-Pacific expect to modify their PE investment strategies in the next five years. However, the same is true for less than a third of North American LPs.

Even fewer North American Limited Partners – just 16% – see a need to modify their own operating processes in the next five years.

Fig 8

LPs likely to modify their PE investment strategy as a result of climate change – in the next 5 years



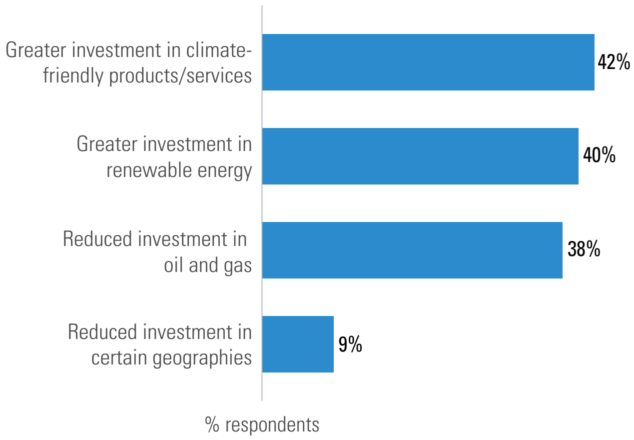
Reduced LP investment in oil and gas will be matched by more green investment

Around 40% of LPs are planning to reduce their investment in oil and gas over the next five years.

Around the same proportion will ramp up investment in renewable energy and climate-friendly products/services.

Fig 9

Likely modifications in LP investment strategies in response to climate change



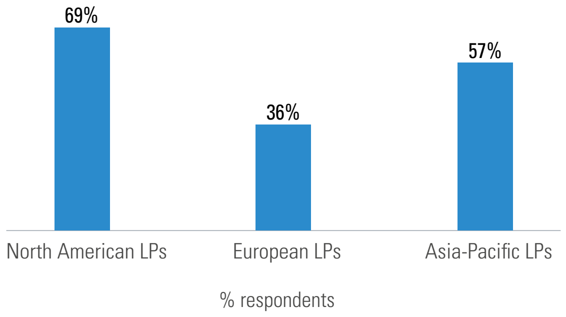
Public criticism of PE has grown louder, LPs say

Many private equity investors believe that criticism of the asset class by politicians and the media has grown more strident in recent times.

This perception is particularly strong among North American LPs, and weakest among European LPs.

Fig 10

LPs who believe political and media criticisms of PE have grown louder

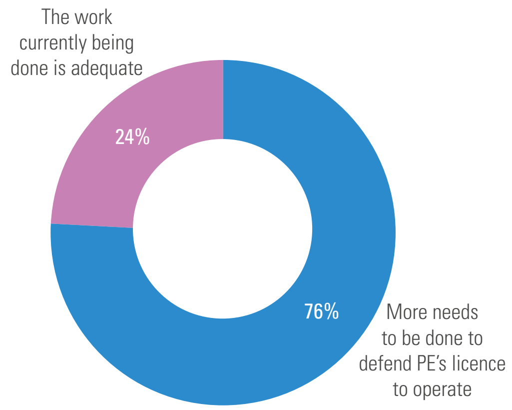


PE/VC associations should do more to explain and defend the industry, LPs say

Around three quarters of Limited Partners – across all regions of the world – think that private equity and venture capital industry associations should be doing more to explain the industry and defend its licence to operate.

Fig 11

The need for PE/VC industry associations to explain and defend the industry better – LP views



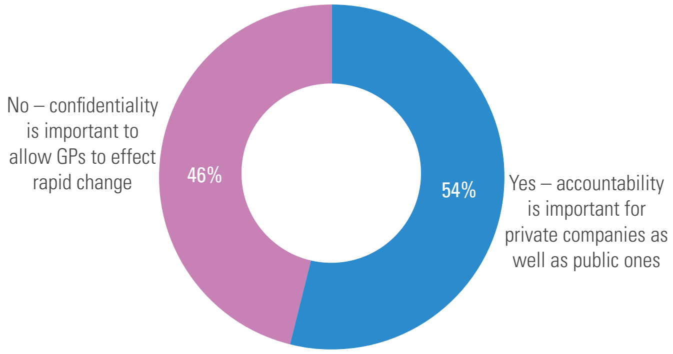
LPs differ on the public transparency of GPs' portfolio company decisions

LPs have split views on whether GPs should be required to release information to a wider group of stakeholders on the decisions and actions they take with regard to portfolio companies.

North American investors are equally split between the need for confidentiality and a wish for greater transparency. A small majority of both European and Asia-Pacific LPs take the view that the balance needs to tilt towards greater transparency (56% and 61% of LPs respectively).

Fig 12

LP views on whether GPs should release information on portfolio companies to a wider group of stakeholders



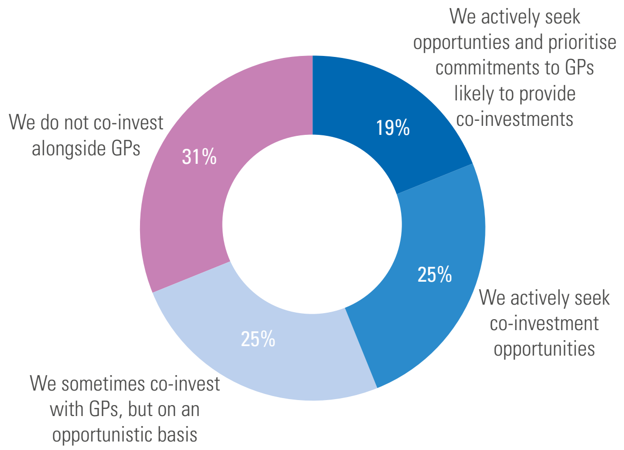
The proportion of LPs proactively seeking co-investments has grown

Almost 70% of private equity investors co-invest alongside their GPs – and 44% of LPs are proactive in seeking out co-investment opportunities. One third of LPs were similarly proactive in the *Barometer* of summer 2012.

Among the *largest* investors ($50bn+ of AUM), 84% are proactive in seeking out co-investment opportunities. Indeed, 36% of these large LPs prioritise GPs likely to provide co-investments.

Fig 13

LP community's policies on co-investments



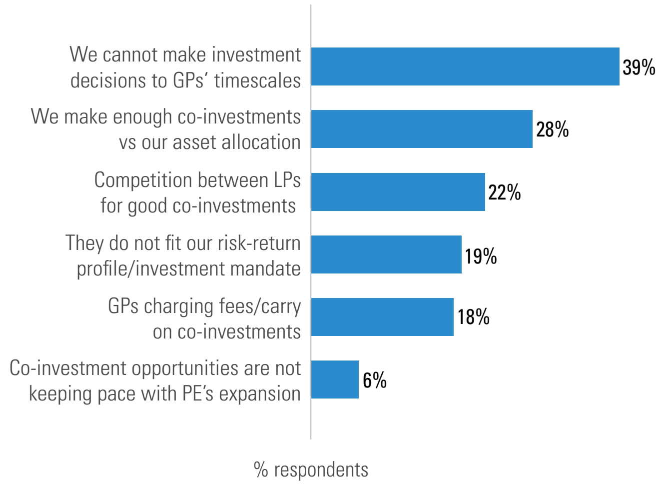
A lack of internal resources is the biggest restraint on LP co-investment

Two fifths of LPs say they lack the resources to meet their managers' deadlines for co-investments.

Around a fifth of LPs cite competition between investors as a drag on their co-investment programmes, and almost the same proportion say they are being deterred by GPs charging fees and carry on good co-investment opportunities.

Fig 14

LPs' reasons for not making more co-investments



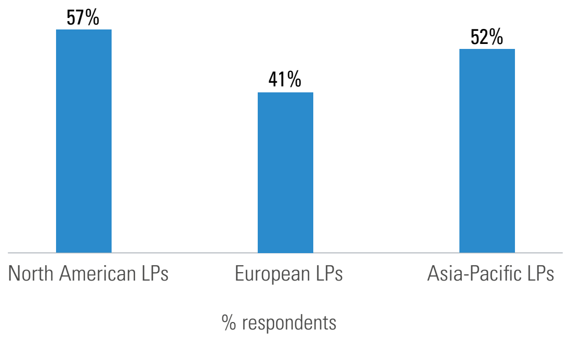
Many LPs expect more retail money to come into PE

Over half of North American and Asia-Pacific investors believe significantly more retail money (401K or equivalent) will be invested in private equity in the next five years.

Two in five European Limited Partners expect such a development.

Fig 15

Likelihood of significantly more retail money being invested in PE in the next 5 years – LP views

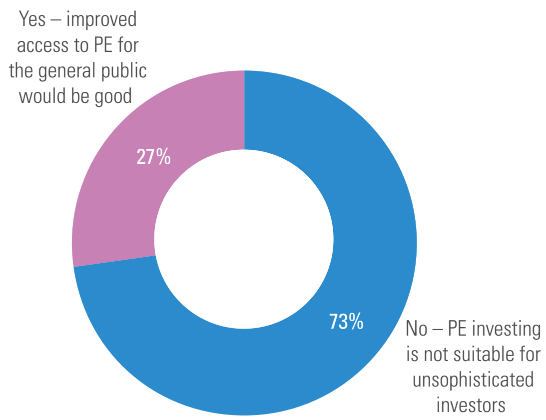


However, direct PE investment by retail investors is not sensible, LPs say

Three quarters of LPs believe that the risks of private equity make it unsuitable for direct investment by less sophisticated retail investors.

Fig 16

Desirability of more retail money being invested in PE – LP views

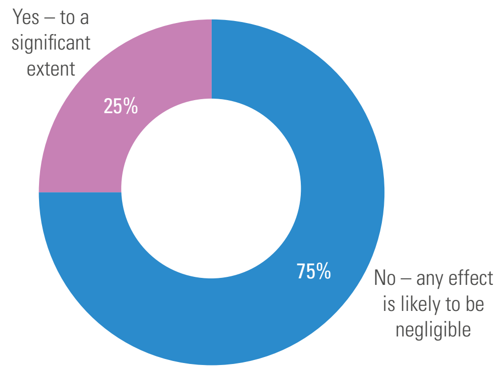


Broad-based asset managers are unlikely to disrupt PE's model, LPs say

Three quarters of LPs think it unlikely that the entry of large, broad-based asset managers to private equity investing will disrupt the asset class's business model over the next five years.

Fig 17

Likelihood of large asset managers disrupting PE's operating model in the next 5 years – LPs' views



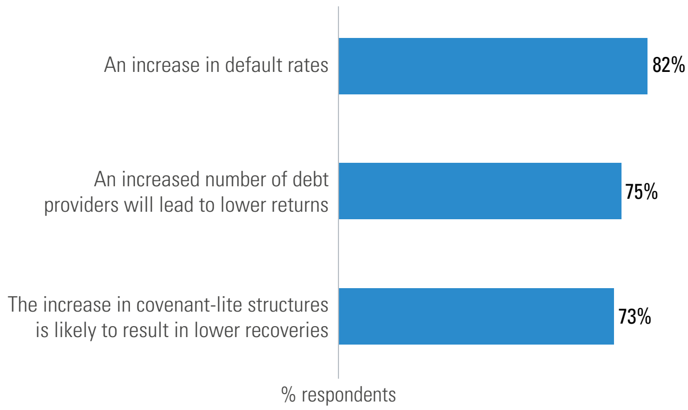
Private debt investors see many challenges ahead

Four in five LPs believe an increase in default rates will pose a significant challenge to investment in private debt funds in the next three years.

Three quarters of LPs think an increased number of debt providers will lead to lower returns. And a similar proportion believe that the increased prevalence of 'covenant-lite' structures is likely to reduce recovery rates.

Fig 18

Significant challenges to investment in private debt funds in the next 3 years – LP views



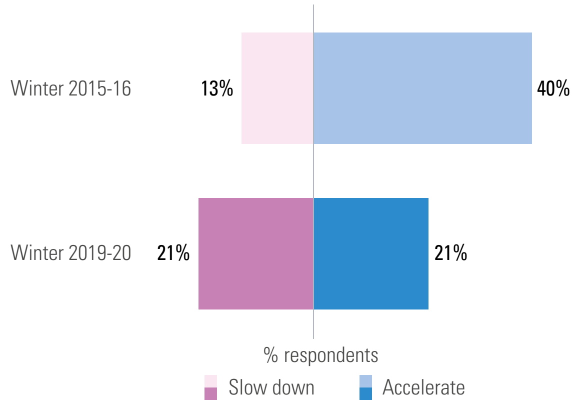
LP commitments to private debt funds are plateauing

Equal proportions of private debt investors will accelerate and slow their pace of commitment to private debt funds over the next two years.

This is in noticeable contrast to the *Barometer* of winter 2015-16, when a significant balance of LPs were speeding up their commitment pace.

Fig 19

LPs' planned commitments to private debt funds in the next 2 years – 2015-16 vs 2019-20

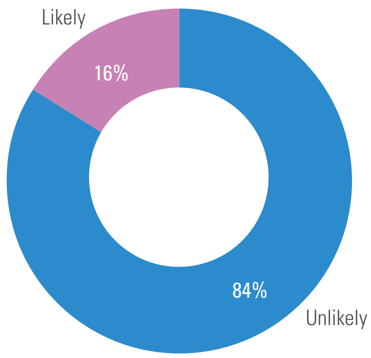


Debut private debt funds from new managers are out of favour

Few Limited Partners will invest in the debut fund of a new private debt fund-manager in the near term.

Fig 20

Likelihood of LPs investing in the debut fund of a new private debt manager in the next 2 years



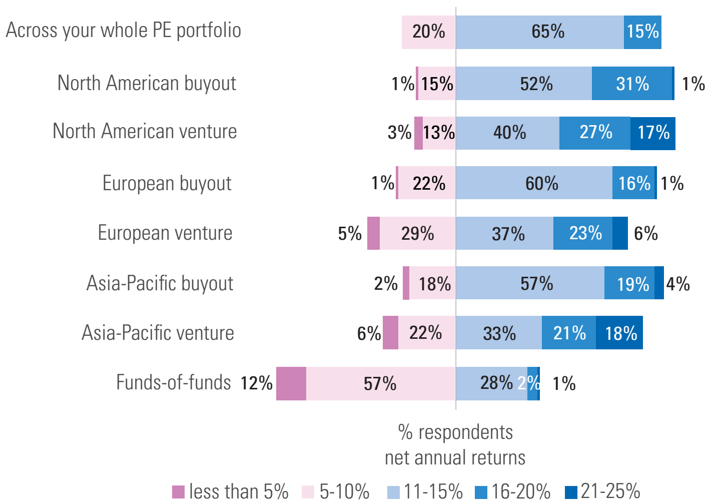
Four-fifths of LPs expect annual net PE returns of over 11%

80% of Limited Partners expect to achieve annual net returns of more than 11% from across their private equity portfolios in the next 3-5 years.

15% of private equity investors are forecasting net returns of over 16%.

Fig 21

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



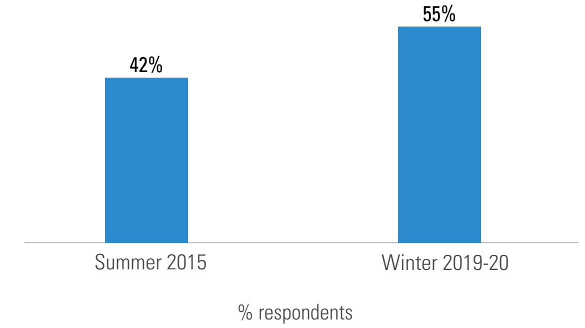
LPs' requested fund commitments being are 'scaled back' more often

Competition between investors means that Limited Partners are more frequently having to settle for smaller commitments to their chosen private equity funds than they did in the past.

In the *Barometer* of summer 2015, 42% of investors had had their requested commitment to new private equity funds scaled back on multiple occasions in the previous 12 months. In the current *Barometer*, it is well over half of LPs.

Fig 22

LPs forced to settle for smaller-than-desired commitments to PE funds on multiple occasions in the previous 12 months – 2015 vs 2019-20



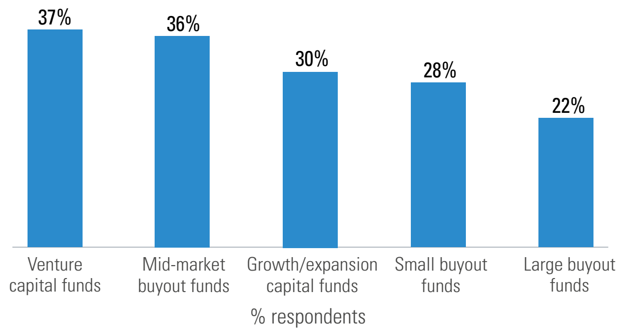
LPs are being scaled back most often in venture and mid-market buyouts

Over one third of Limited Partners have failed to obtain their full requested commitment to venture capital and mid-market buyout funds on multiple occasions in the last 12 months.

For mid-market buyouts and LPs with AUM of greater than $50 bn, the proportion rises to two thirds of LPs.

Fig 23

Types of PE fund to which LPs have been refused their full requested commitment on multiple occasions in the last 12 months



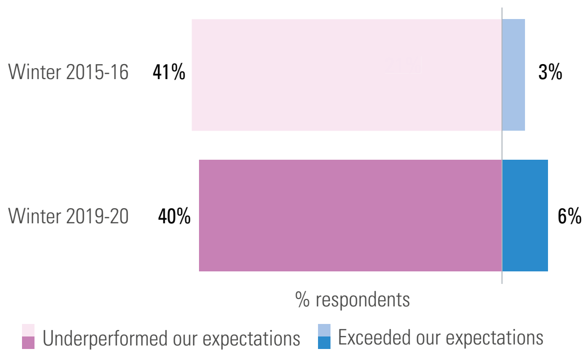
Emerging market PE performance continues to disappoint many LPs

Two fifths of LPs say that the performance of their private equity investments in emerging markets has disappointed so far.

This picture has not improved since the *Barometer* of 2015-16.

Fig 24

LPs' views on the performance of their emerging market PE investments to date – 2015-16 vs 2019-20



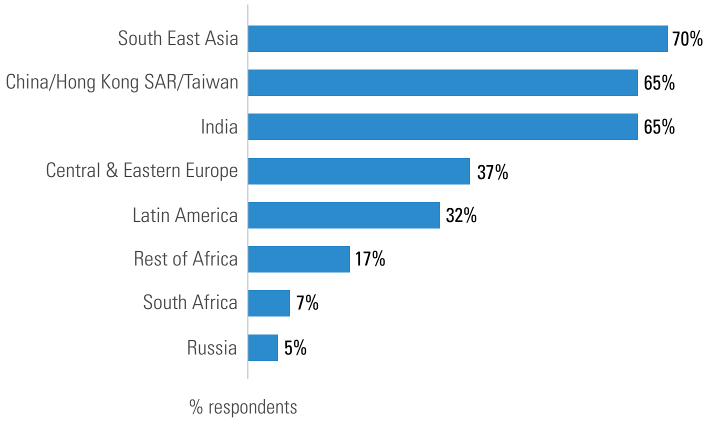
Emerging PE markets in Asia are by far the most attractive

Two thirds or more of LPs see the less developed private equity markets of South East Asia, China/Hong Kong SAR/ Taiwan, and India as offering attractive opportunities for General Partners over the next three years.

Russia and South Africa are viewed as the least attractive emerging private equity markets.

Fig 25

Attractiveness of emerging markets for PE investment in the next 3 years – LP views



Coller Capital's Global Private Equity Barometer

Respondent breakdown – Winter 2019-20

The *Barometer* researched the plans and opinions of 113 investors in private equity funds. These investors, based in North America, Europe and the Asia-Pacific region (including the Middle East), form a representative sample of the LP population worldwide.

Fig 26

Respondents by region

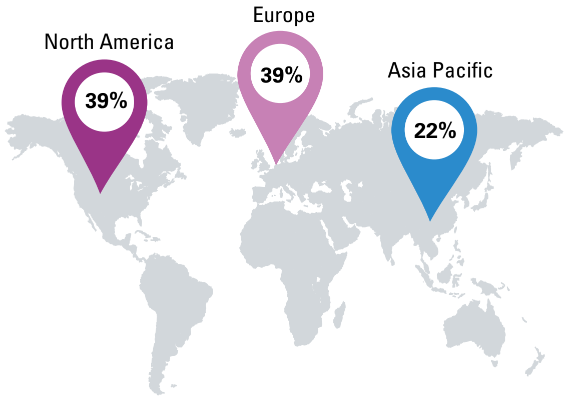


Fig 27

Respondents by total assets under management

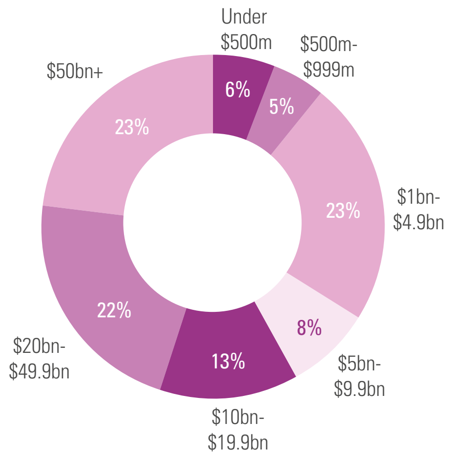


Fig 28

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

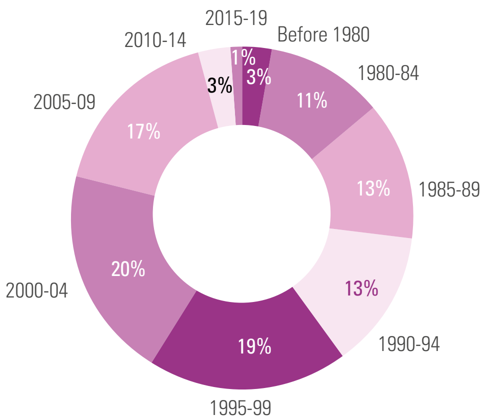


Fig 29

Respondents by type of organisation

Corporation	2%	SWF/govt-owned entity	8%
Endowment/ foundation	7%	Insurance company	14%
Family office/ private trust	6%	Bank/asset manager	21%
Corporate pension plan	13%	Public pension plan	29%

About Coller Capital

Coller 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, Coller Capital's multinational investment team has a truly global reach.

In December 2015, the firm closed Coller International Partners VII, with capital commitments of $7.15bn 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 Coller Capital in September-October 2019 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the private equity arena.

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