

Coller Capital

# Global Private Equity Barometer

◆◆◆ SUMMER 2005

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.

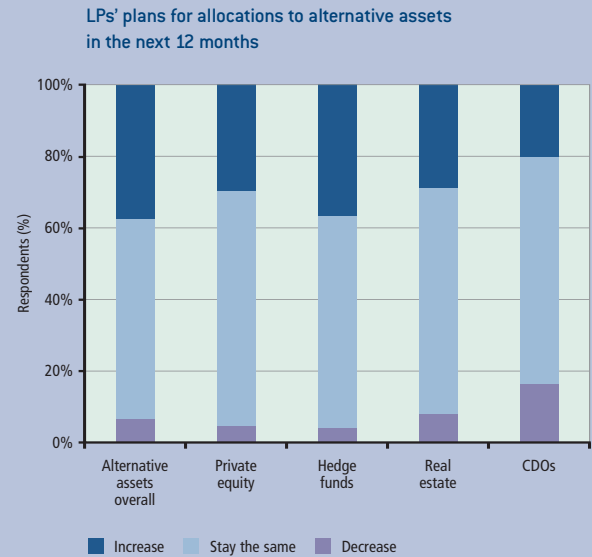
This edition of the *Global Private Equity Barometer* captured the views of 104 private equity investors from around the world during February-April 2005. The *Barometer's* findings are globally representative by:

- Investor location
- Type of investing organisation
- Total assets under management
- Length of experience of private equity investing

## LPs' planned allocations to private equity and alternative assets generally

The vast majority of LPs intend *either to maintain or increase* their exposure to *alternative assets* in the next 12 months. Over one third (37%) of investors expect to *increase* their allocations.

This optimism about alternative assets extends to private equity, real estate and hedge funds, with around 30% of LPs planning to increase their allocations to private equity and real estate, and 37% planning to increase their exposure to hedge funds.

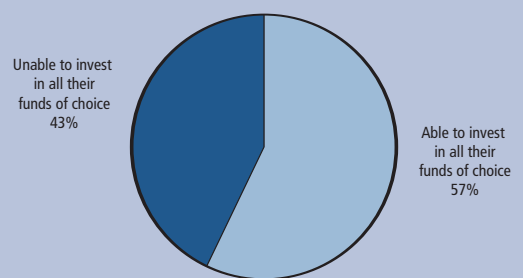


(Figure 1)

## LPs' access to private equity funds

43% of LPs have not been able to access all the funds in which they wanted to invest over the last 12 months.

### LPs' ability to access their funds of choice in the past year



(Figure 2)

## Factors limiting LP access to private equity funds

The factors limiting investors' access to private equity funds vary around the world.

In North America, the problem is overwhelmingly that funds are closed to new investors – 88% of LPs cited this as a factor.

While access is also a problem for European and Asia-Pacific LPs (for 46% and 56% respectively), internal resource constraints are a bigger issue – with 54% of European investors and 78% of Asia-Pacific investors citing this as a problem. (It should be remembered that European and Asia-Pacific LPs are also proportionately more internationally focused than their American counterparts).

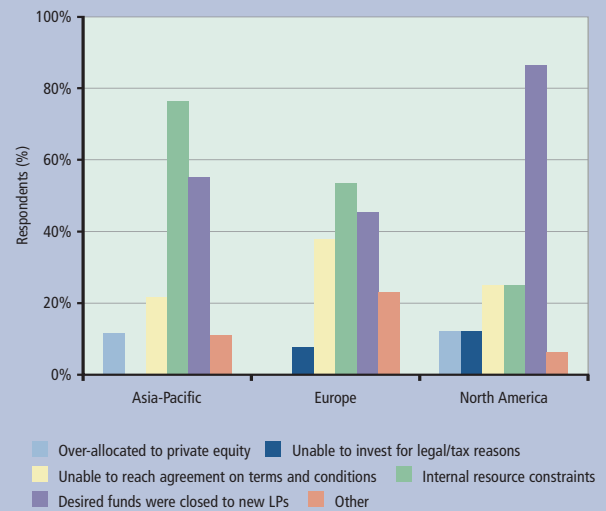
Interestingly, terms and conditions were a critical factor for well over one third (38%) of European LPs.

## LPs' plans for the number of their GP relationships

Over half of LPs (52%) are planning a *net increase* in their number of GP relationships over the next 12 months.

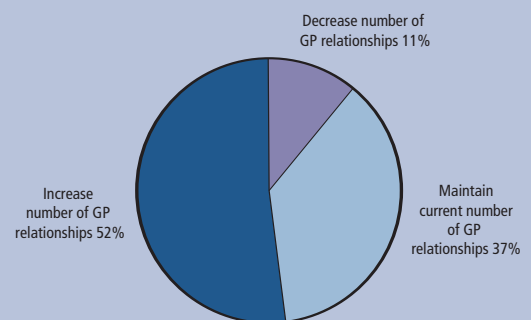
This appetite is most pronounced in the Asia-Pacific region, where almost three quarters (73%) of LPs are planning to increase the number of GPs with whom they are invested.

Factors limiting LP access to private equity funds – by location of LP



(Figure 3)

LPs' plans for their number of active GP relationships in the next 12 months



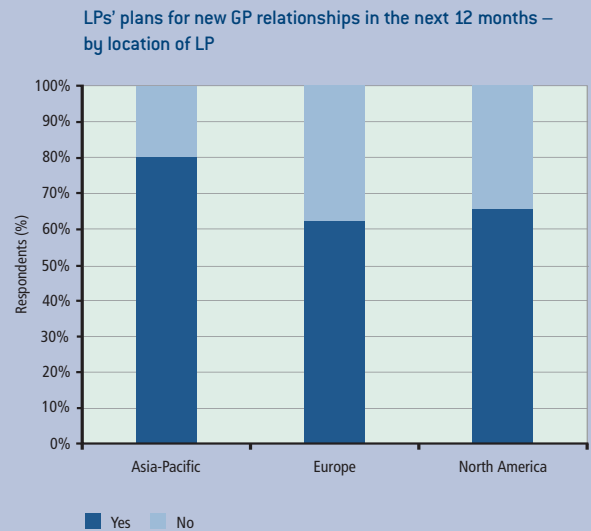
(Figure 4)

## LPs' plans for new GP relationships

Two thirds of LPs are planning to commit to *new* GP relationships over the next year.

This is especially true of LPs from the Asia-Pacific region, 80% of whom are planning to commit to new GP relationships.

94% of LPs with committed capital of \$800m or more are planning new GP relationships in the next 12 months.



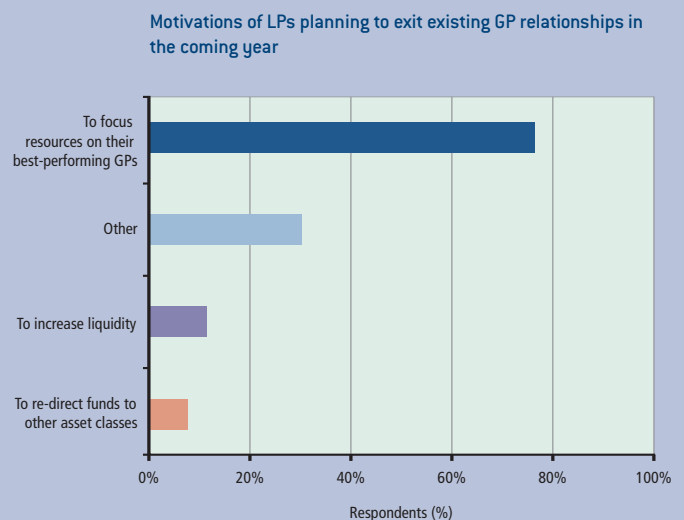
(Figure 5)

## LPs' willingness to reinvest with their current GPs

LPs are increasingly intolerant of poor GP performance. Nearly half of respondents worldwide (45%) indicated that they have declined to 're-up' (re-invest) with one or more of their current GPs in the last 12 months.

In North America, over half of LPs (51%) said they had refused to re-up in the last year.

The explanation for these refusals is that LPs are actively restructuring their portfolios (rather than reducing their exposure to private equity). 41% of LPs are planning to exit GP relationships *in the coming year* – three quarters of them because they plan to focus more resources on their best-performing GPs.



(Figure 6)

## Terms and conditions of private equity funds

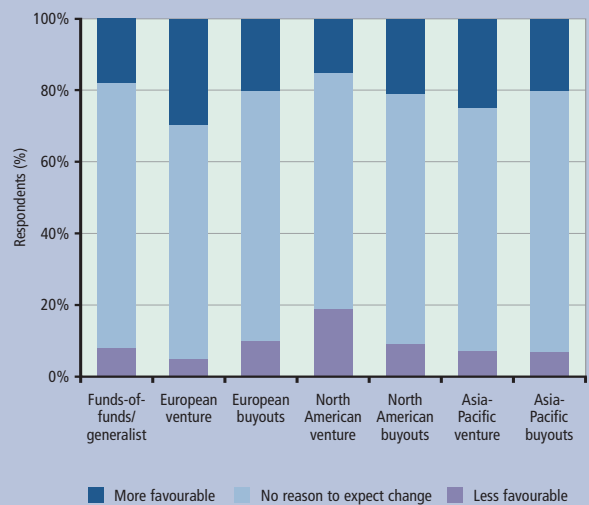
For every region and type of private equity, between two thirds and three quarters of LPs expect the terms and conditions of funds raised in the next 12 months to be similar to those of existing funds.

However, those LPs who are anticipating change expect the change, on balance, to be in their favour.

Only for North American venture capital funds do a significant proportion of LPs (19%) expect investor terms and conditions to deteriorate.

Around the world, LPs committing to funds in their own regions are more bullish about their ability to extract better terms and conditions from GPs.

LPs' views on the terms and conditions of new private equity fund in the next 12 months



(Figure 7)

## Private equity returns

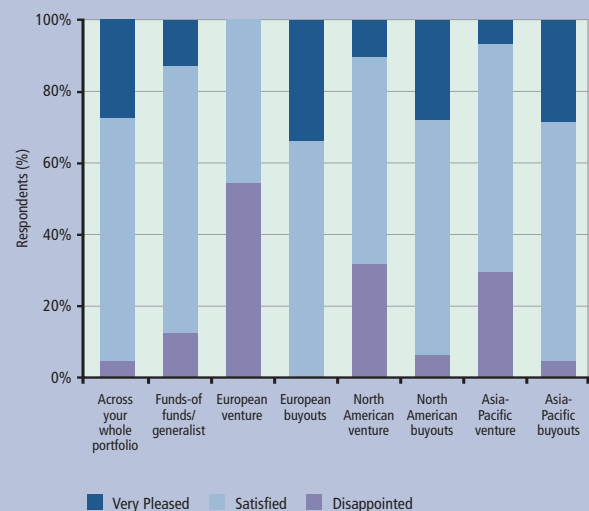
In general, LPs around the world were more satisfied with their buyout returns over the last year than with their venture returns (just as they were in the Autumn 2004 *Barometer*).

Satisfaction levels are more or less unchanged for Asia-Pacific venture and both types of North American private equity.

However, LPs are significantly more pleased with their Asia-Pacific and European buyout returns than they were 6 months ago – the proportion of LPs who report themselves either satisfied or very pleased with their returns is 95% and 100% respectively.

Dissatisfaction with European venture capital returns has risen – with over half (54%) of LPs now disappointed.

LP satisfaction with returns from private equity funds over the last 12 months

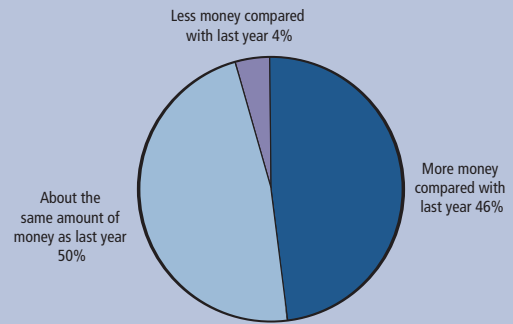


(Figure 8)

## Expected pace of GP investment

Almost half of the LPs (46%) expect their GPs' pace of investment to increase over the next 12 months. This is true for LPs all round the world.

LPs' expectations for GP draw-downs in the next 12 months



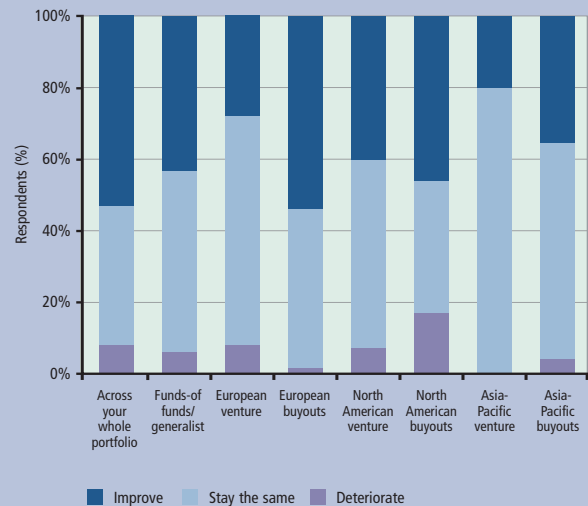
(Figure 9)

## Distributions

Over their whole portfolios, LPs expect distributions to continue to improve over the next 12 months.

This is largely because they are optimistic about distributions from buyouts – though 40% of LPs also expect North American venture funds (to which two thirds of all investors are committed) to return cash faster in the next 12 months.

The pace of distributions expected by LPs in the next 12 months



(Figure 10)

## The relative attractiveness of private equity markets worldwide

LPs believe that European and Asia-Pacific buyouts will provide the most attractive investment opportunities for GPs in the next 12 months.

The ranking has changed since Collier Capital's last *Barometer* in Autumn 2004: North American venture has leapfrogged North American buyouts to take the third spot.

Although LPs in different regions of the world vary somewhat in their views, they are unanimous that European buyouts will offer the most attractive investment opportunities for GPs, and that European venture will offer the least attractive.

## The relative attractiveness of Europe's national buyout markets

Overall, LPs think Central & Eastern Europe will offer the most attractive investment opportunities for GPs in the coming year.

Germany and Spain are LPs' second and third choices.

The views of North American and European LPs on individual European buyout markets are broadly aligned, whereas those of LPs from the Asia-Pacific region differ significantly. (For example, Central & Eastern Europe is ranked the most attractive market by North American and European LPs, but the least attractive by Asia-Pacific investors; and Italy, the least attractive market to North American and European LPs, is number four in the ranking of Asia-Pacific investors).

Types of private equity ranked by attractiveness for GP investment in the next 12 months

Overall Ranking	
1	European buyouts
2	Asia-Pacific buyouts
3	North American venture
4	North American buyouts
5	Asia-Pacific venture
6	European venture

(Figure 11)

European buyout markets ranked by attractiveness for GP investment in the next 12 months

Overall Ranking	
1	Central & Eastern Europe
2	Germany
3	Spain
4	France
5	UK & Ireland
6	Nordic (Denmark, Finland, Norway & Sweden)
7	Benelux (Belgium, Netherlands & Luxembourg)
8	Italy

(Figure 12)

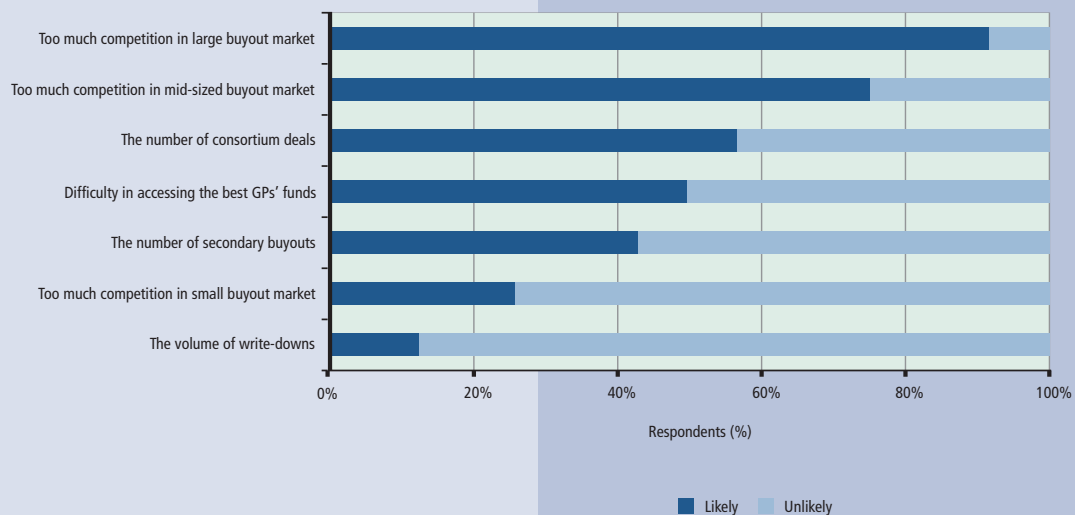


## Factors likely to impact the attractiveness of the European buyout market

LPs' undoubted optimism about the European buyout market is tempered by a number of concerns.

Too much competition for large and mid-sized transactions is a concern for most LPs, though relatively few see this as an issue at the smaller end of the market.

Factors likely to impact the attractiveness of the European buyout market in the next 12 months



(Figure 13)

The growing number of large 'club' deals (acquisitions by a consortium) is another significant issue. Anecdotally, LPs seem to have a number of specific concerns in this area:

- Potential concentration of their exposure
- Multiple sets of fees for the same transaction
- Potential conflicts of interest arising from GPs' differing exit imperatives

Limited access to the funds of the best-performing GPs is an issue for half of investors.

Secondary buyouts are a concern to just over 40% of LPs.

# Coller Capital's Global Private Equity Barometer

## Respondent breakdown – Summer 2005

The Summer 2005 *Barometer* researched the plans and opinions of 104 investors in private equity funds. These investors, based in North America, Europe and the Asia-Pacific, form a representative sample of the LP population worldwide.

## About Coller Capital

Coller Capital, the creator of the *Barometer*, is the leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds or the acquisition of portfolios of companies from corporate owners/backers.

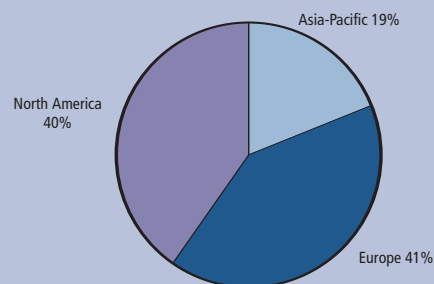
## Research methodology

Research for the *Barometer* was undertaken for Coller Capital in February/April 2005 by IE Consulting, a division of Initiative Europe (recently acquired by Incisive Media), which has been conducting private equity research for 15 years.

## Notes:

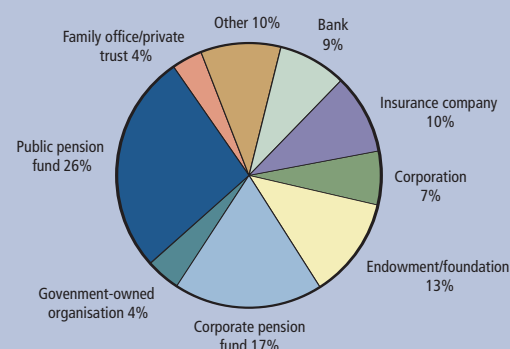
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers

Respondents by region



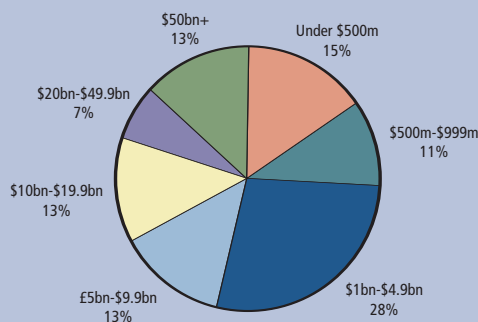
(Figure 14)

Respondents by type of organisation



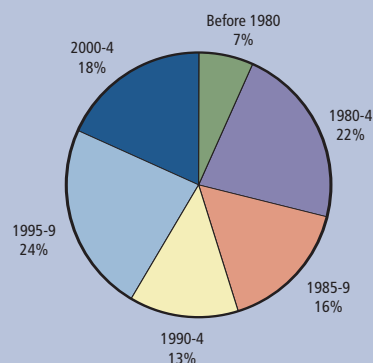
(Figure 15)

Respondents by total assets under management



(Figure 16)

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



(Figure 17)



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