

Coller Capital

Global Private Equity Barometer

••• SUMMER 2006

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 108 private equity investors from all round the world. The *Barometer's* findings are globally representative by:

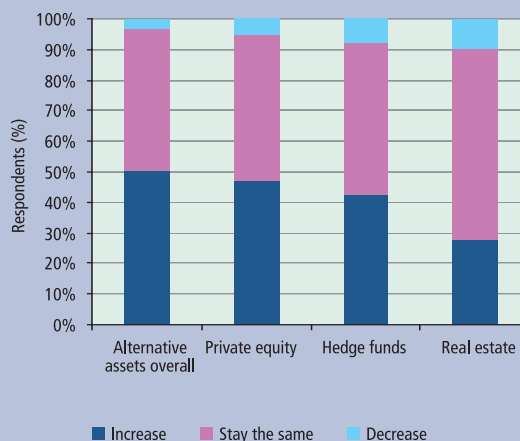
- Investor location
- Type of investing organisation
- Total assets under management
- Length of experience of private equity investing

LP appetite for private equity and alternative assets

Investor demand for private equity shows no sign of slowing, despite record fundraising in 2005. Nearly half of LPs (48%) plan to increase their allocations to the asset class in the next 12 months (compared with 44% who were planning an increase six months ago).

Neither is there any sign of a slowdown in investors' appetite for alternative assets generally, confirming that private equity is benefiting in part from a broad structural shift towards alternative asset classes.

LPs' plans for allocations to alternative assets in the next 12 months



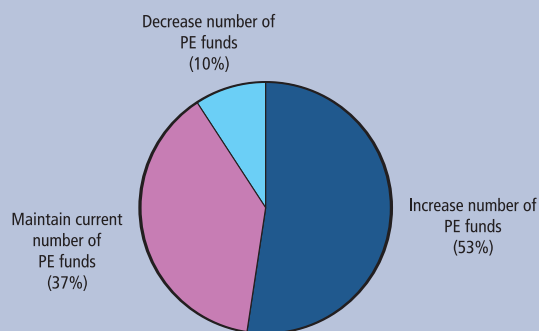
(Figure 1)

Number of private equity funds in LPs' portfolios

The average number of funds in which LPs are invested is rising. Over half of LPs (53%) plan to increase their number of private equity funds in the next year, with most of the rest expecting to maintain their current number of funds.

The number of funds in which LPs are currently invested varies greatly depending on their size and experience, and whether they invest in both venture capital and buyouts. Larger investors, with \$1bn or more in private equity, might have 100-150 fund commitments. Medium-sized LPs, with up to \$500m in private equity, probably have 30-50 commitments. But there are, too, numerous investors with \$50m or less in the asset class and commitments to just a handful of funds.

LPs' plans for the number of private equity funds in their portfolios



(Figure 2)

Returns from private equity

LPs' total historic returns from private equity have improved in the last 18 months (since the *Barometer* in Winter 2004-05). Nearly three-quarters of investors (73%) reported returns of at least 11% in this *Barometer*, compared with just over half of LPs (52%) previously.

This improvement in performance is attributable in large part to the strong performance of buyout funds throughout the world over the last couple of years.

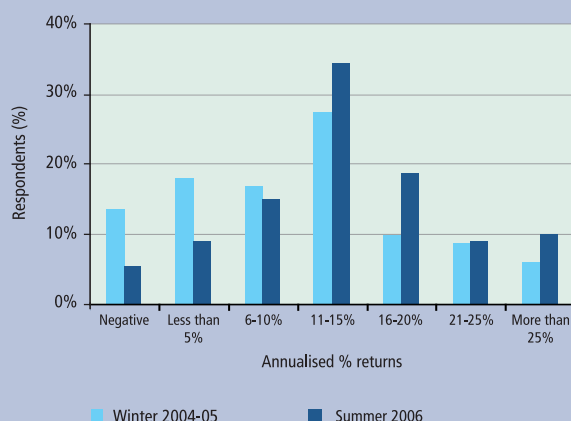
Satisfaction with private equity performance

Unsurprisingly, satisfaction with *buyout* returns from Europe and North America is high – 63% and 58% of LPs respectively declare themselves *very pleased* with their returns from these areas.

LP satisfaction with venture fund returns has also improved somewhat, with investors in Asia-Pacific venture especially reporting increased satisfaction.

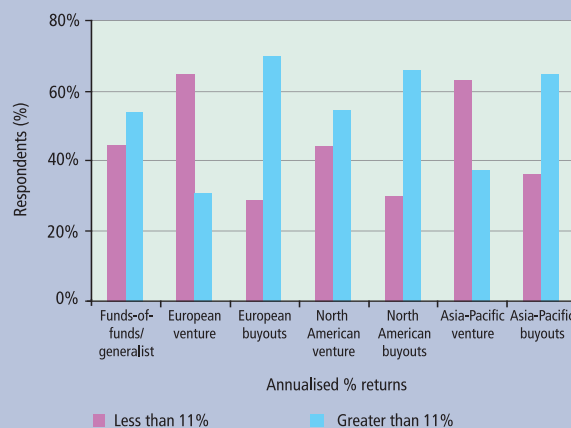
Figure 5 shows the proportion of investors in each type of private equity who declared themselves "very pleased" with their returns over the last year.

Net returns to LPs' private equity portfolios since inception



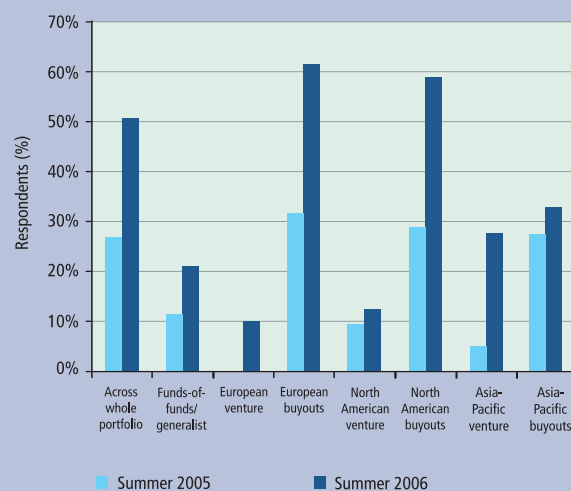
(Figure 3)

Net returns to LPs' portfolios since inception – by private equity type



(Figure 4)

LPs very pleased with their private equity returns over the last 12 months



(Figure 5)

Attractive areas for GP investment

LPs think Asia-Pacific buyouts will provide the most attractive opportunities for GP investment in the next 12 months. Asia-Pacific buyouts have knocked European buyouts into second place in the league table for the first time since the *Barometer* was launched in Winter 2004-05.

This enthusiasm for Asia-Pacific buyouts is shared by LPs worldwide, with around 40%-50% of investors from each region declaring the opportunity to be *very attractive*.

Overall, investment opportunities are expected to remain plentiful for GPs – 93% of LPs expect the pace of GP investment to increase or remain unchanged over the next 12 months.

Buyout leverage multiples

LPs believe their returns will be negatively impacted by the leverage multiples currently being applied to buyouts in Europe and North America.

However, they differ in their interpretation of how wide the effects will be. Almost half of investors think North American and European buyout returns will be reduced across the board, whereas an almost equal number believe the effect will be felt much more in some funds than in others.

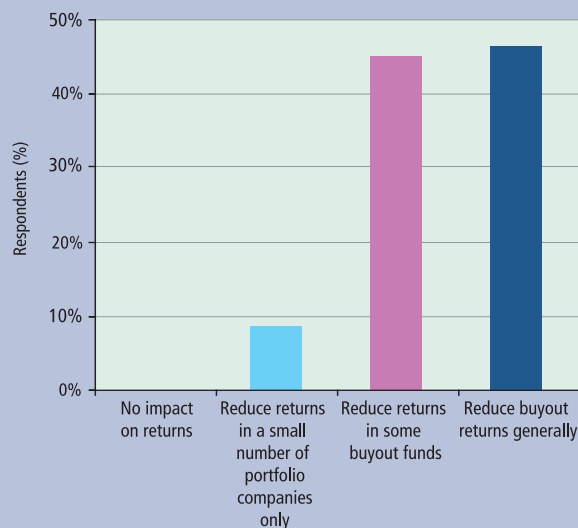
A small proportion of LPs (9%) think that the effect will be narrower, with returns being reduced in only a scattering of portfolio companies.

The best areas for investment by GPs in the next 12 months – LP views

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

(Figure 6)

The future impact on investor returns of leverage multiples in European and North American buyouts

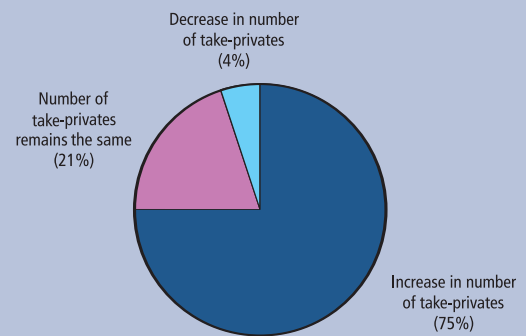


(Figure 7)

'Take-privates' of quoted companies

Three quarters of investors expect an increase in the numbers of 'take-privates' (the purchase of quoted companies by private equity funds) over the next three years. This is true for LPs based in all regions of the world.

LP expectations for 'take-privates' over the next three years

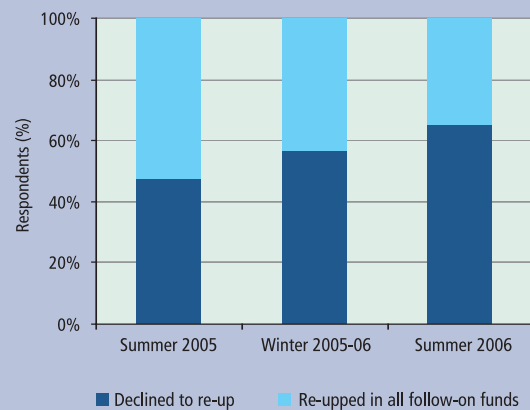


(Figure 8)

LPs' willingness to 're-up' with their current GPs

Investors are becoming less and less tolerant of poorly performing GPs. Within the last year, the proportion of LPs who have declined to re-invest with some of their existing GPs has increased from 45% in Summer 2005, to 56% six months ago, to almost two thirds (64%) in this *Barometer*.

LPs declining to 're-up' in the last 12 months



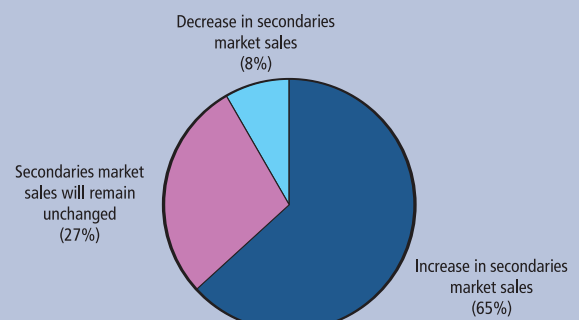
(Figure 9)

Secondaries market

A quarter of current investors (24%) have used the secondaries market to restructure their private equity portfolios. Unsurprisingly, perhaps, this trend is strongest among the most experienced investors.

Investors confirm that the secondaries market has become an enduring feature of the private equity landscape – two thirds of LPs expect to see an increase in the number of secondaries transactions over the next 3 years.

LP expectations for secondaries market sales in the next three years



(Figure 10)

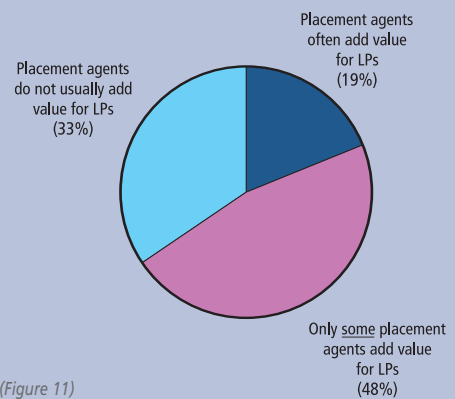
The value of placement agents

Three quarters of investors think placement agents add value for the GPs that use them, and two thirds of investors believe placement agents can add value for them, too. However, half (48%) think that whether placement agents add value for LPs *in practice* depends on the placement agent in question.

The reason for this is clear – LPs believe the quality of placement agents varies widely. In fact, investors have a warning for private equity firms: be careful which agent you choose! For 60% of LPs, a GP's choice of placement agent strongly affects its credibility.

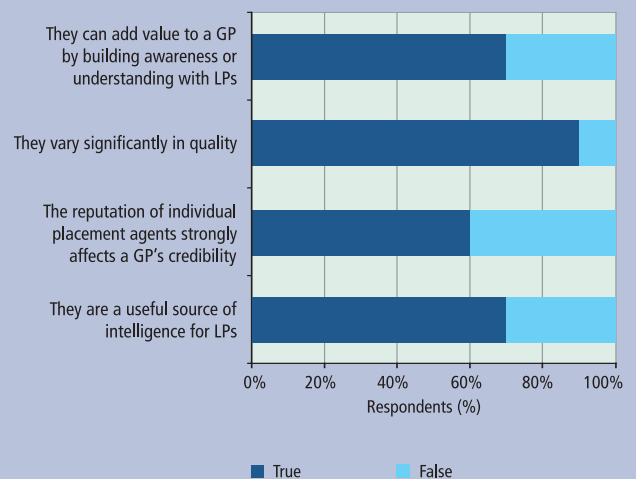
Almost three quarters of investors (70%) value their relationships with placement agents as a useful source of intelligence about the private equity marketplace.

The value of placement agents to LPs – LPs' own views



(Figure 11)

Placement agents in private equity – LP views



(Figure 12)

LPs' willingness to invest in first-time funds

Investors are keen to develop relationships with the private equity managers of the future – half of LPs (51%) will invest directly in funds from newly-formed GPs over the next two years – if the right opportunity presents itself.

A combination of two factors explains this willingness to experiment among LPs:

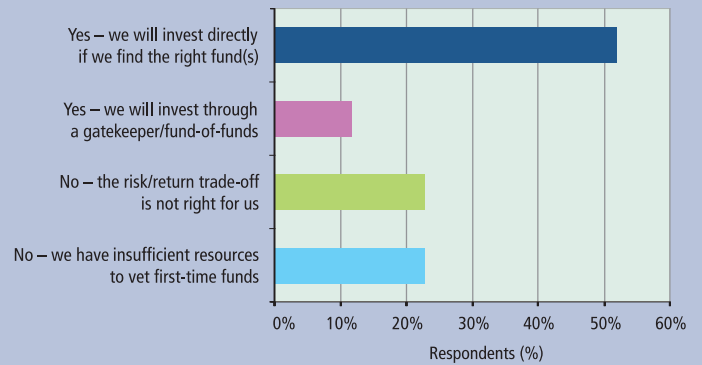
- a still-accelerating appetite for private equity, and
- a recognition that the top performers among established private equity managers are increasingly oversubscribed.

Direct investment by LPs into private companies

Investors do not invest in unquoted companies solely through private equity funds; a third of LPs (35%) – especially those with longer experience of the asset class – make investments directly into private companies. Some LPs co-invest alongside GPs; some invest on a proprietary basis; and some do both.

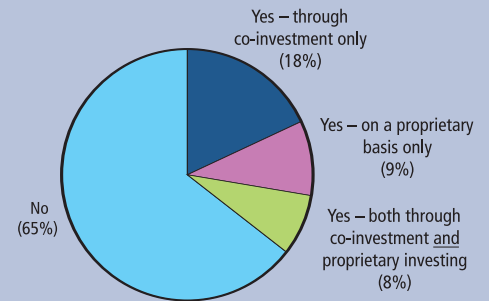
This will be another growth area for private equity – a quarter of LPs plan to increase their direct investment activity in the course of the next 3 years.

LP plans for investment in first-time funds over the next two years



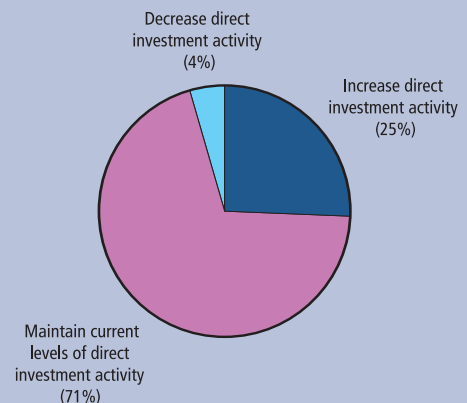
(Figure 13)

LPs making direct investments into private companies



(Figure 14)

LP plans for direct investments over the next three years



(Figure 15)

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Respondent breakdown – Summer 2006

The *Barometer* researched the plans and opinions of 108 investors in private equity funds. These investors, based in North America, Europe and 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 and portfolios of direct investments in companies.

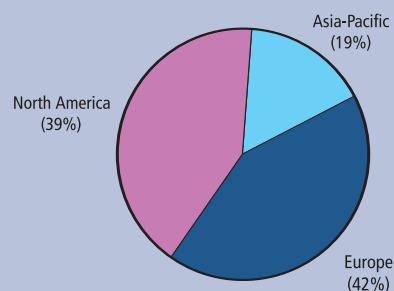
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in February-March 2006 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for 18 years.

Notes:

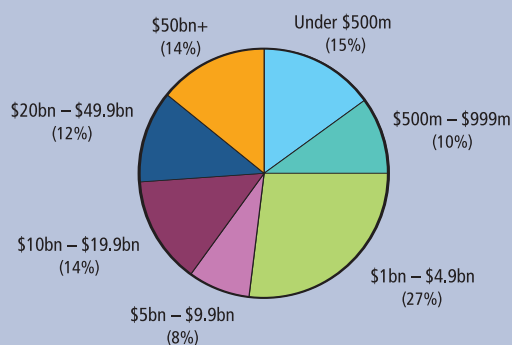
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers

Respondents by region



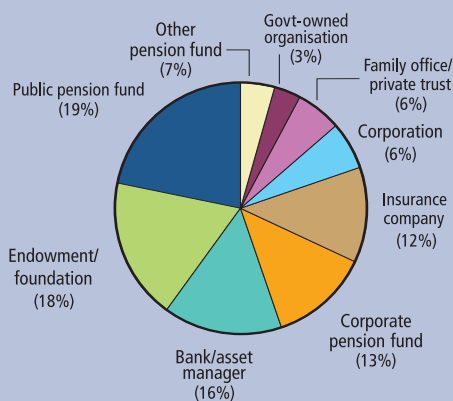
(Figure 16)

Respondents by total assets under management



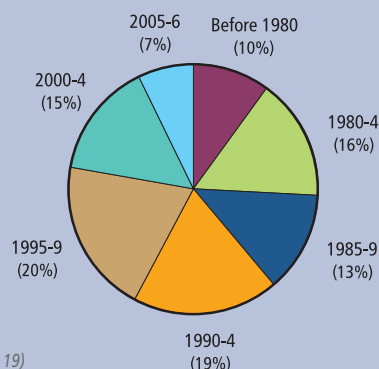
(Figure 17)

Respondents by type of organisation



(Figure 18)

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



(Figure 19)

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