Coller Capital

Global Private Equity Barometer

SUMMER 2008

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 103 private equity investors from all round 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

Key topics in this edition of the Barometer include:

- LPs' returns & appetite for PE
- Pace of GP investment
- Attractive areas for GP investment
- Distressed debt and mezzanine
- First-time PE investors in the future
- The market for LP talent
- The secondaries market
- Sovereign wealth funds

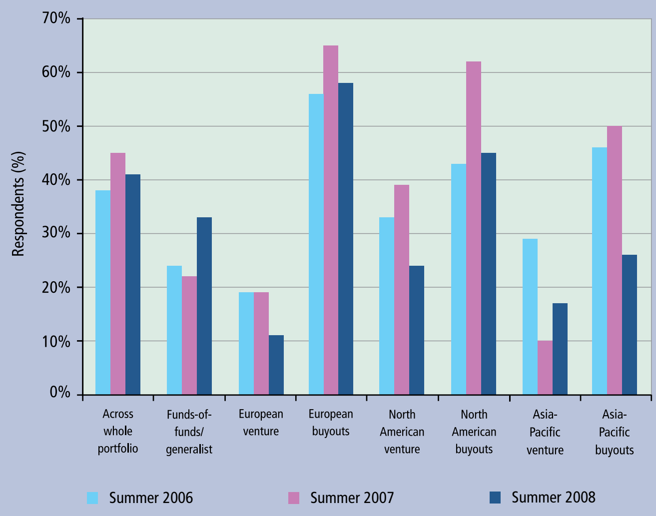
The credit crunch has affected LPs' 'lifetime' PE returns

The Summer 2007 *Barometer* saw a 'spike' in the number of LPs reporting net returns of 16%+ from their whole private equity portfolio since they began investing, but this has largely disappeared.

This effect is particularly evident in North American and Asia-Pacific buyouts:

- for North American buyouts, just under half (45%) of LPs now report 'lifetime' returns of 16%+, whereas nearly two-thirds did so in Summer 2007.
- for Asia-Pacific buyouts, only a quarter (26%) of investors now report 'lifetime' returns of 16%+, compared with half of investors in Summer 2007.

LPs achieving net returns of 16%+ from their portfolios since they began investing

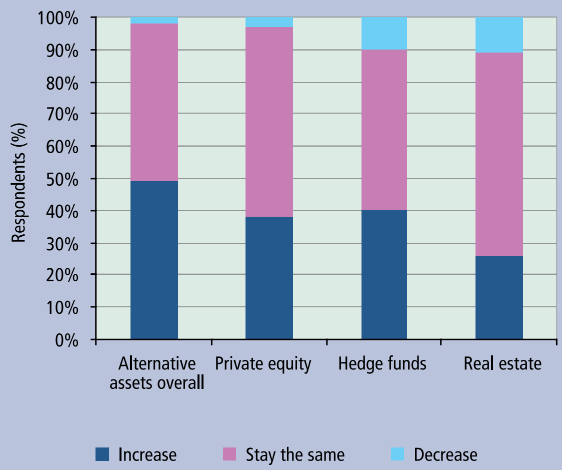


(Figure 1)

Despite the downturn, appetite for alternative assets remains strong

Despite the downturn, half (49%) of private equity investors plan to increase their allocation to *alternative assets* in the coming year – and well over one third (38%) plan a higher allocation to *private equity*.

LPs' planned changes to alternative asset allocations in the next 12 months



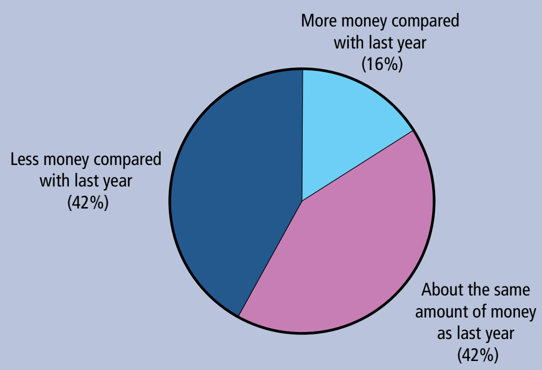
(Figure 2)

GP investment will reduce to a 'steady stream', not a 'trickle'

The tougher economic and credit environment is expected to reduce the pace of GP investment – but to a 'steady stream' rather than a 'trickle': 42% of LPs expect less of their cash to be called in the next 12 months. (Just 7% thought the same at this time last year.)

However, this 'steady stream' of GP investment in the coming year will create problems for some LPs – especially those wishing to expand their programmes. Drastically reduced distributions mean LPs' cash outflows will significantly exceed their inflows.

LP expectations for GP draw-downs in the next 12 months

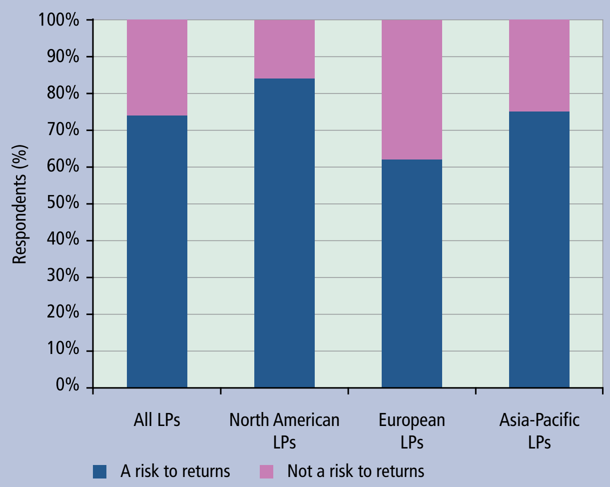


(Figure 3)

Investors are worried about GP 'strategy drift'

Three quarters (74%) of LPs perceive a threat to their future returns from GP 'strategy drift' – whether this is into new strategies or new geographies. The danger is seen as greatest by North American LPs.

The level of risk from GPs diversifying into new strategies/ geographies – LP views



(Figure 4)

LPs favour European buyouts and the mid-market

LPs believe European buyouts will offer the most attractive opportunities for GP investment over the coming year. For the first time since Summer 2006 European buyouts have overtaken Asia-Pacific buyouts at the top of the 'league table'.

The best areas for GP investment over the next 12 months – LP views

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

(Figure 5)

The *Barometer* also confirms the attraction of smaller buyouts and growth capital investments to investors since the credit crunch.

The best types of private equity investment for GPs over the next 12 months – LP views

	Overall ranking
Lower mid-market buyouts (less than $200m)	1
Mid-market buyouts ($200m-$1bn)	2
Growth/expansion capital	3
Mezzanine	4
Large buyouts ($1bn-$5bn)	5
Mega-buyouts (more than $5bn)	6

(Figure 6)

LPs see opportunities in healthcare, technology and financial services

Private equity investors are clearly alive to the risk of a prolonged recession. They are shying away from the sectors likely to be most affected by the economic downturn (such as real estate and consumer industries) and favouring instead those with medium-to-long-term growth potential (such as healthcare and technology). The financial services sector is seen as offering a range of specific investment opportunities.

The best sectors for GP investment over the next 12 months – LP views

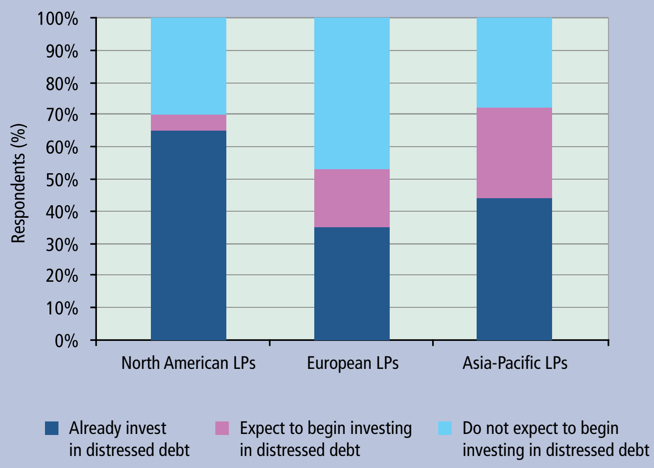
	Overall ranking
Healthcare and biotechnology	1
Financial services	2
Technology	3
Industrial manufacturing/services	4
Cleantech	5
Construction and transportation	6
Real estate	7
Consumer, retail and leisure	8

(Figure 7)

Distressed debt attracts more European and Asia-Pacific LPs

Two-thirds of North American LPs already invest in distressed debt, but the proportions are much lower for European and Asia-Pacific investors. However, this is set to change. Half of Asia-Pacific LPs that do not already invest in distressed debt – and a third of their European counterparts – plan to start investing within the next 12 months.

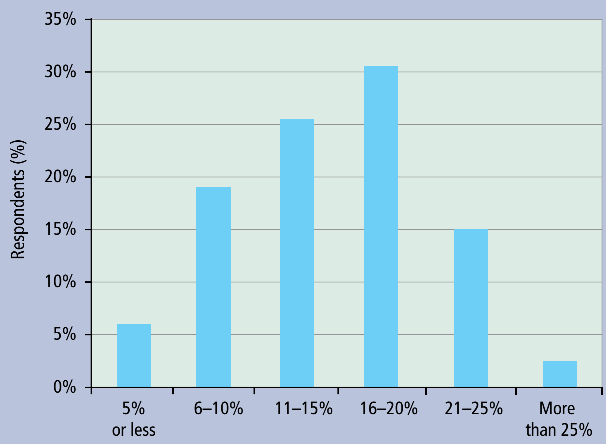
LPs expecting to begin investing in distressed debt over the next 12 months



(Figure 8)

Investors' return expectations explain this big leap in appetite: three-quarters of LPs expect returns of 11%+ from distressed debt over the next 3-5 years – and almost half (49%) are forecasting returns of 16%+.

Net returns expected by LPs from distressed debt over the next 3-5 years

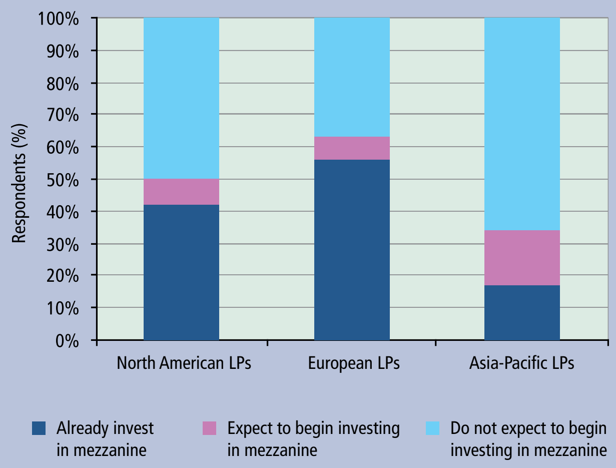


(Figure 9)

Mezzanine attracts new investors, especially from Asia

Mezzanine is also proving more popular, especially among Asia-Pacific LPs – fewer of whom have hitherto invested in the sub-asset class. Over half (56%) of European LPs and 42% of North American LPs currently have commitments to mezzanine funds, compared with only 17% of Asia-Pacific LPs – but the proportion of the latter investing in mezzanine is expected to double over the next 12 months.

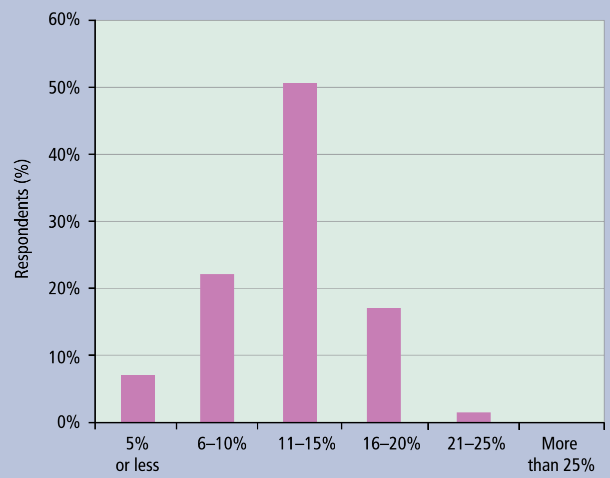
LPs expecting to begin investing in mezzanine over the next 12 months



(Figure 10)

70% of LPs expect net returns of 11%+ from mezzanine over the next 3-5 years.

Net returns expected by LPs from mezzanine over the next 3-5 years



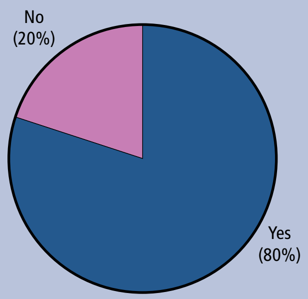
(Figure 11)

New investors will continue to flock to private equity

LPs believe the private equity asset class will continue to attract significant numbers of new investors for the foreseeable future. 80% of existing private equity investors believe they will be joined by a significant number of their peers over the next 3 years.

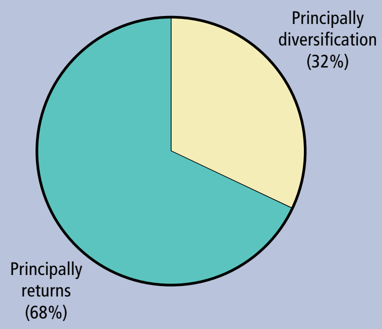
LPs believe that good private equity firms will continue to outperform the public equity markets over the next 3 years, and it is this, rather than a desire for diversification, that they believe will be the principal attraction for new investors.

LPs expecting a significant number of their peers to begin investing in private equity over the next 3 years



(Figure 12)

Investors' principal motivation for beginning to invest in PE over the next 3 years – LP views



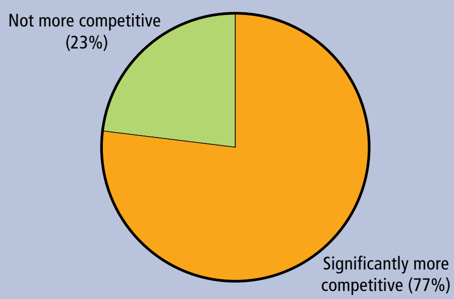
(Figure 13)

The competition for LP talent is expected to grow

Economic downturn is likely to increase the premium on LP skill since the dispersion of returns between stronger and weaker GPs will undoubtedly increase. Three-quarters (77%) of investors believe this will mean a more competitive market for LP talent over the next 3 years.

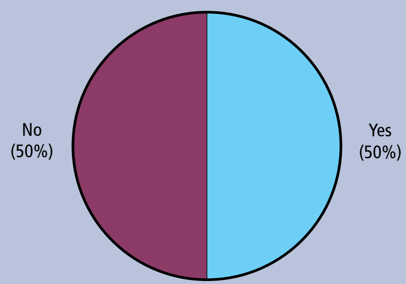
Half of investors expect to see LPs increasing their recruitment from GP firms over the next 3 years.

The market for LP talent over the next 3 years – LP views



(Figure 14)

Investors expecting an increase in LP recruitment from GPs over the next 3 years



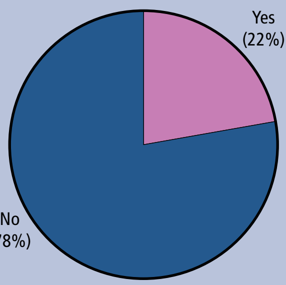
(Figure 15)

LPs buy as well as sell in the secondaries market

LPs worldwide are increasingly using the private equity secondaries market – both to sell and to buy assets:

- almost a quarter of LPs (22%) have sold assets in the secondaries market
- just over a third (35%) of LPs have bought assets in the secondaries market

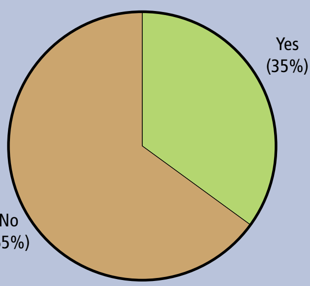
LPs that have sold assets in the secondaries market *



(Figure 16)

* excludes funds-of-funds

LPs that have bought assets in the secondaries market *



(Figure 17)

* excludes funds-of-funds

The primary motivation for LPs to sell assets in the secondaries market over the next couple of years will be to re-focus resources on their best-performing GPs.

LPs' primary motivation for selling in the secondaries market over the next 2 years

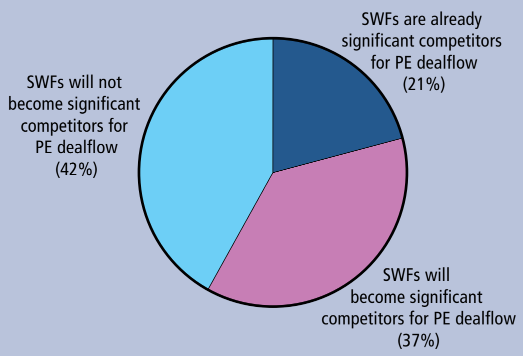
	Overall ranking
Re-focus resources on best-performing GPs	1
Increase liquidity	2
Re-balance portfolio between types of PE (e.g. between venture and buyouts)	3
Re-direct resources to other asset classes	4
'Lock in' returns	5
Reduce volatility of portfolio returns	6

(Figure 18)

SWFs are both a threat and an opportunity for private equity

Over half (58%) of LPs think that sovereign wealth funds (SWFs) are, or will become, a significant threat to buyout houses over the next couple of years.

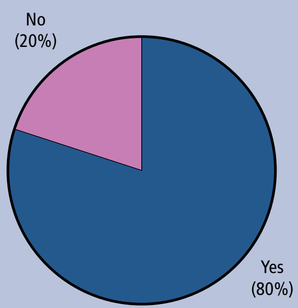
The competitive threat to buyout firms from sovereign wealth funds in the next 2 years – LP views



(Figure 19)

On the other hand, investors think sovereign wealth funds will also provide many opportunities for private equity – 80% of LPs expect significantly more strategic partnerships to be formed between sovereign wealth funds and buyout firms over the next couple of years.

LPs expecting significantly more strategic partnerships between sovereign wealth funds and PE firms over the next 2 years



(Figure 20)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Summer 2008

The *Barometer* researched the plans and opinions of 103 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.

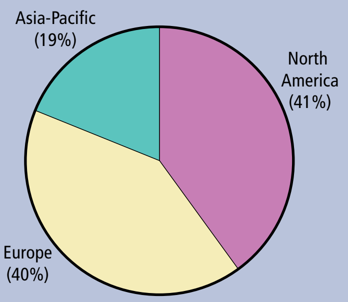
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in February-April 2008 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for 20 years.

Notes:

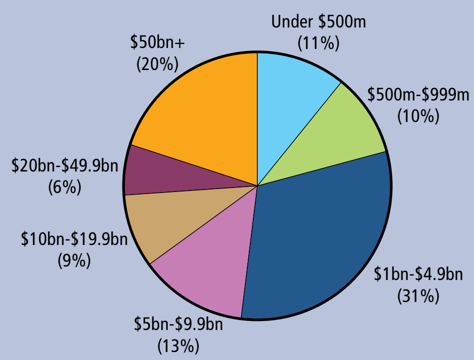
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



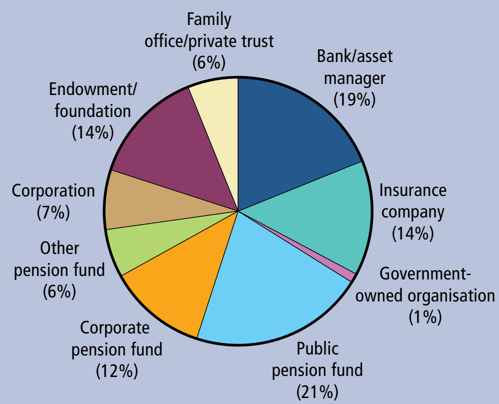
(Figure 21)

Respondents by total assets under management



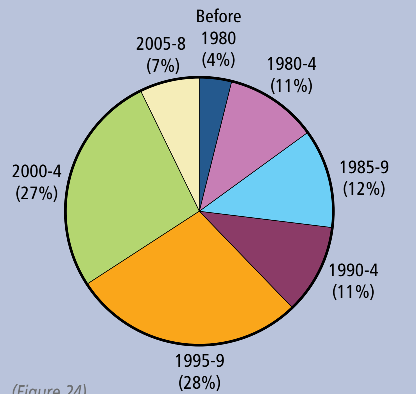
(Figure 22)

Respondents by type of organisation



(Figure 23)

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



(Figure 24)

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