Coller Capital

Global Private Equity Barometer

SUMMER 2009

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 10th edition of the *Global Private Equity Barometer* captured the views of 120 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

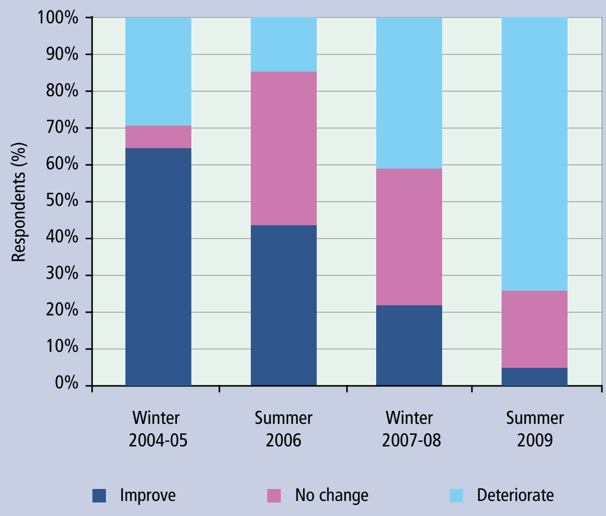
Key topics in this edition of the *Barometer* include:

- GP survival
- LPs' returns & appetite for PE
- Distributions to LPs
- Fund terms & conditions
- GPs' transparency & risk management
- Exit environment
- PE valuations

Distributions drought expected to worsen

Three quarters (74%) of private equity investors expect distributions from their portfolios to deteriorate over the next year. This is the most gloomy LPs have been since the *Barometer* began in 2004.

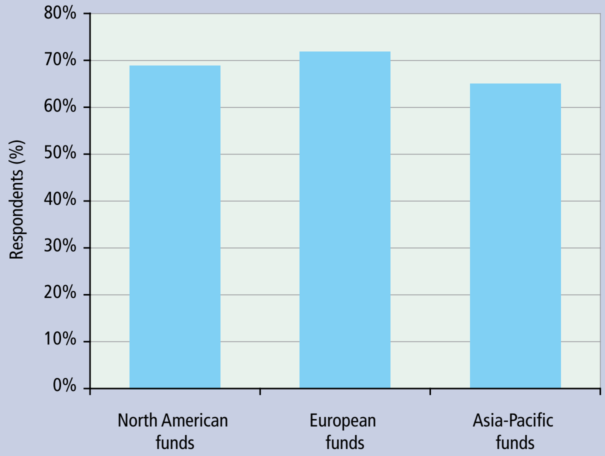
Likely changes in GP distributions over the next 12 months – LP views



(Figure 1)

For the time being at least, investors are almost equally pessimistic about distributions from funds focussed on different regions.

LPs expecting GP distributions to *deteriorate* over the next 12 months (Summer 2009)

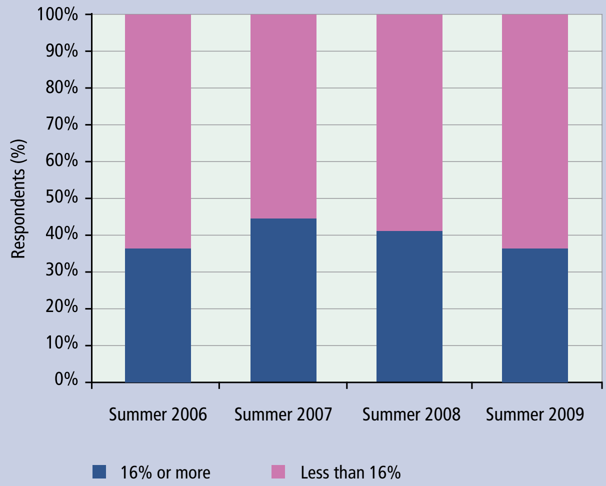


(Figure 2)

Global downturn impacts LPs' returns

The global downturn has reduced investors' overall private equity returns. 37% of LPs now report overall net returns of 16% or more from the asset class, compared with a high of 45% of LPs in Summer 2007.

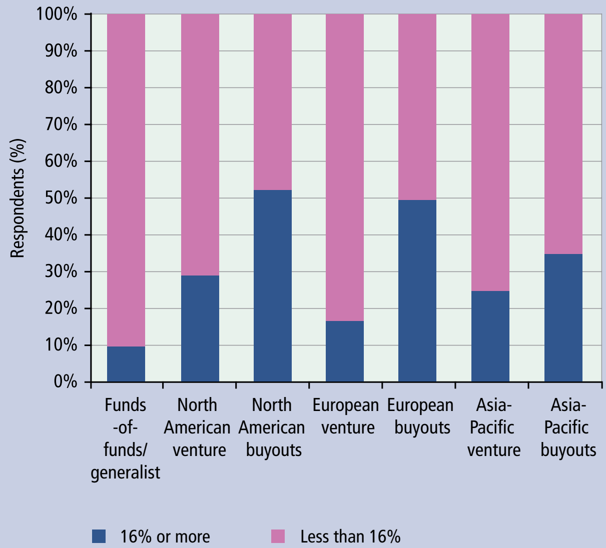
LPs achieving net returns of 16% or more from their PE portfolios since they began investing



(Figure 3)

Buyout funds across the globe have made the most significant contribution to LPs' returns.

LPs achieving net PE returns of 16% or more since they began investing – by fund type (Summer 2009)



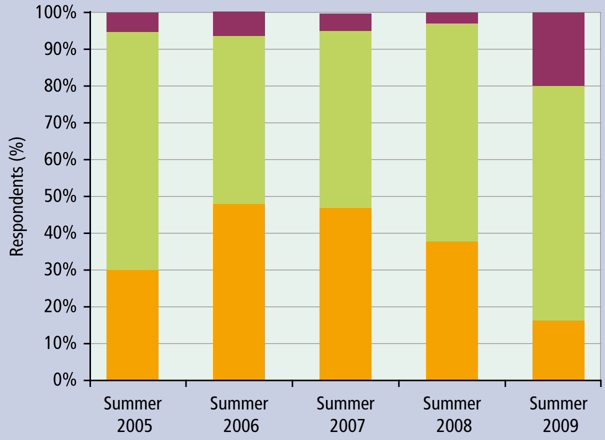
(Figure 4)

One fifth of LPs to reduce their target PE allocations

For the first time in years, a significant number of private equity investors are planning to decrease their target allocation to private equity – 20% of LPs plan a reduced allocation in the coming year. (This compares with just 3-6% planning a decrease in previous *Barometers*.)

However, in general, LPs remain strongly committed to the asset class – 80% plan to maintain or increase their target allocation over the next 12 months.

LPs' planned changes to their target private equity allocation over the next 12 months

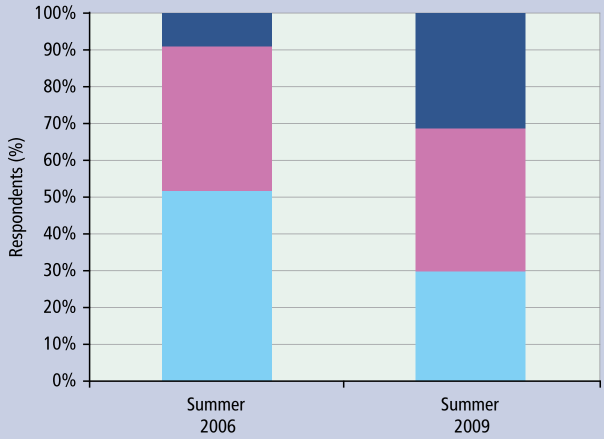


(Figure 5)

One third of LPs plan fewer GP relationships

Almost a third (31%) of private equity investors intend to reduce their number of GP relationships over the next two years. By way of comparison, in previous *Barometers* the proportion of LPs with this intention has been about 10%.

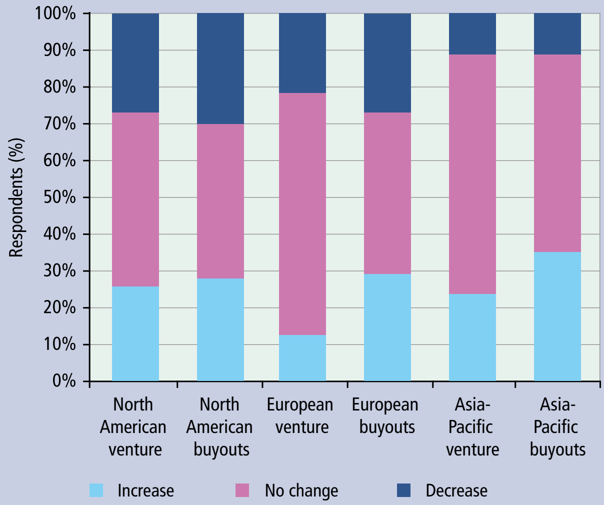
LPs' plans for their number of active GP relationships in 2 years' time



(Figure 6)

GPs in Asia-Pacific will, overall, fare better in this respect than their counterparts in more developed private equity markets. Fewer investors (just 11%) are planning to reduce their number of GP relationships in the Asia-Pacific region than in other regions.

LPs' plans for their number of active GP relationships in 2 years' time – by fund type/region (Summer 2009)



(Figure 7)

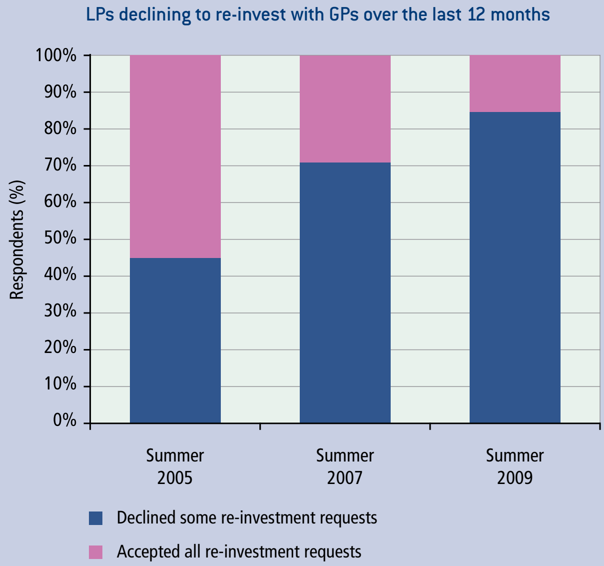
More LPs refuse to re-up

A large majority (84%) of LPs have declined to re-invest with one or more of their existing GPs over the last 12 months. Just 45% of LPs had refused re-ups in the Summer 2005 *Barometer*.

Almost all (92%) North American LPs have declined to re-invest with some of their GPs over the last 12 months, compared with 82% of European and 70% of Asia-Pacific LPs.

Half of LPs expect changes to regulation or tax to damage PE in developed markets

Around half of LPs believe that changes to regulation and/or taxation are likely to damage private equity's wealth-creating potential in developed markets over the next two years. Just over half (55%) of LPs expect a negative impact in North America and almost half (48%) expect the same in Europe. Fewer investors (just 17%) anticipate a negative impact in Asia-Pacific.



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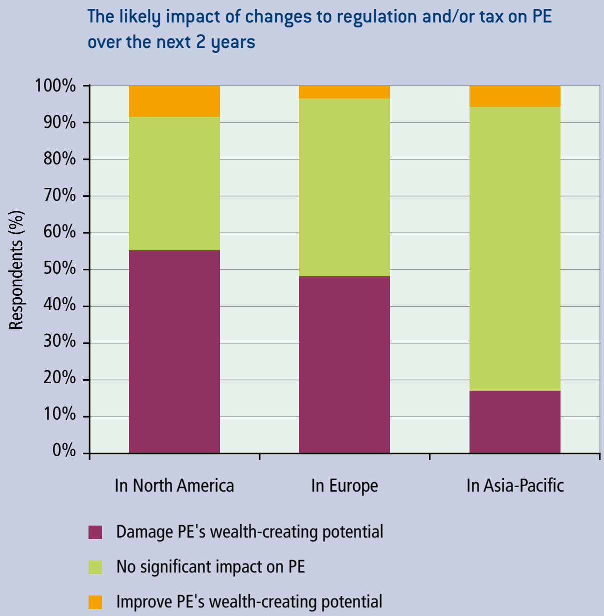
(Figure 9)



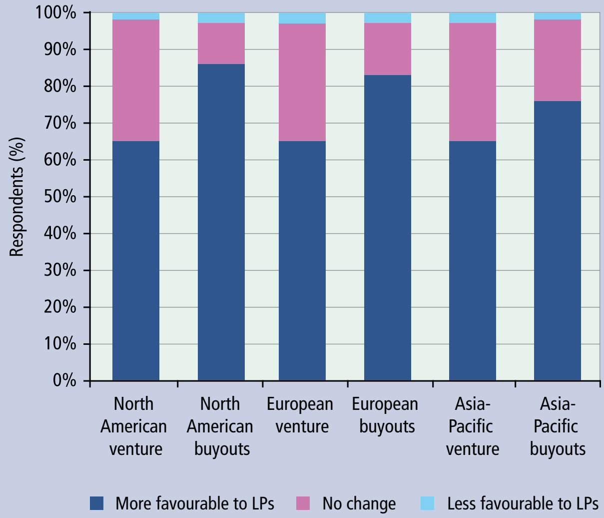
(Figure 10)

Balance of LP/GP power is shifting, LPs say

LPs believe the global downturn is increasing their bargaining power on terms and conditions – especially with buyout firms. Around four fifths of LPs believe the terms and conditions of buyout funds worldwide will become more favourable to them over the next two years. Two thirds (65%) of LPs foresee more favourable fund terms for venture funds.

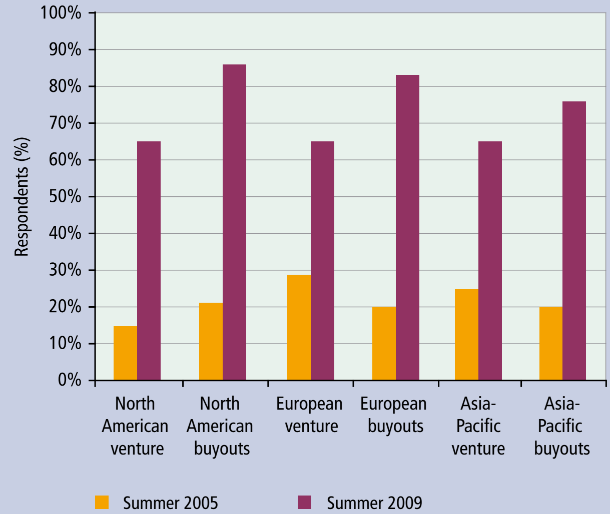
This picture has changed radically since the start of the buyout boom – as a comparison with the Summer 2005 *Barometer* shows.

LP expectations for terms and conditions of private equity funds raised in the next 2 years (Summer 2009)



(Figure 11)

LPs expecting *more favourable* terms and conditions from private equity funds raised within 2 years

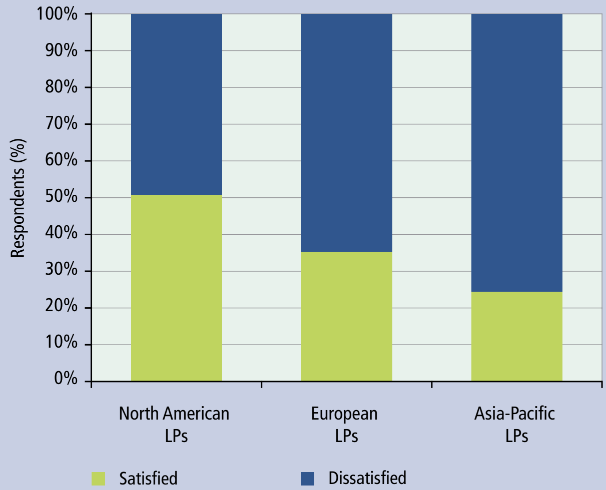


(Figure 12)

GPs need to improve transparency and risk management

Between a half and three quarters of LPs in different regions of the world think the transparency and risk management of 'quite a few' or 'most' GPs need to improve. Dissatisfaction with GPs' current level of transparency and risk management was expressed by approximately half (49%) of North American LPs, two thirds (65%) of European LPs, and three quarters (75%) of Asia-Pacific LPs.

LPs satisfied/dissatisfied with GPs' transparency and risk management

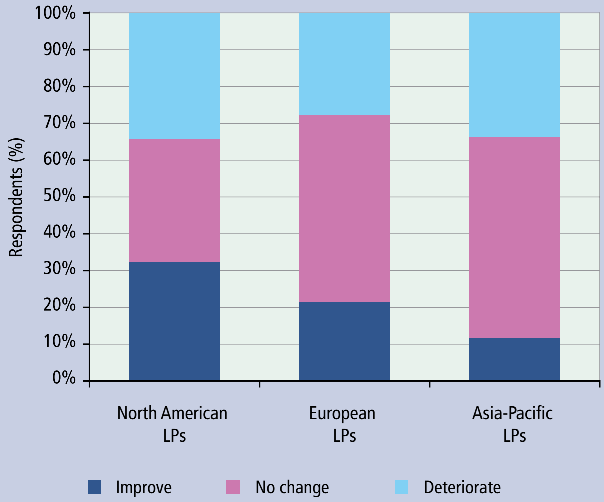


(Figure 13)

Exit environment unlikely to improve in the coming year

Only around one quarter of private equity investors expect any improvement in the exit environment in the coming year – indeed, between a quarter and third of investors expect it to deteriorate. LPs' views also illustrate the sheer uncertainty of the outlook: while over half of European and Asia-Pacific investors expect no change in the exit environment, North American LPs are equally divided between those who see it improving, deteriorating and staying the same.

LPs' views on the global exit environment over the next 12 months

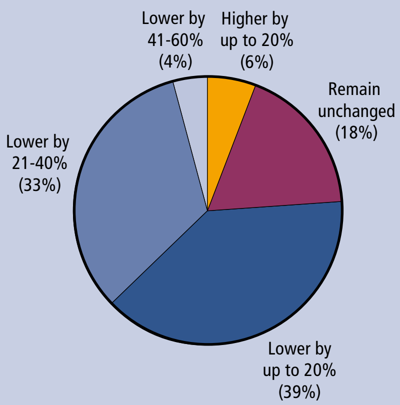


(Figure 14)

Three quarters of LPs expect further falls in valuations

Three quarters (76%) of LPs believe GP fund valuations at the end of this year will be significantly lower than those reported in December 2008's audited accounts.

Likely PE valuations in December 2009 versus December 2008 – LP views



(Figure 15)

A tenth of LPs to default on PE commitments

Around a tenth of LPs are likely to default on private equity commitments at some time in the next two years, investors believe. North American investors generally expect higher default rates from the global LP community than their counterparts in other regions. They foresee an average default rate of 13%, compared with the 7-8% default rate expected by European and Asia-Pacific investors.

Expected default rate of LPs globally in the next 2 years – LP expectations by location of LP

Global LP default rate forecasted by:	North American LPs	13%
	European LPs	8%
	Asia-Pacific LPs	7%

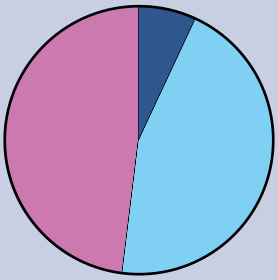
(NB: The table above shows the expectations of investors based in different regions, not the proportion of LPs likely to default in those regions.)

(Figure 16)

Resource constraints will impact LPs' capacity to make and manage PE investment

Over half (52%) of LPs expect resource constraints to reduce their ability to make and manage private equity investments over the next two years.

The effect of resource constraints on LPs' ability to find and manage GP relationships over the next 2 years

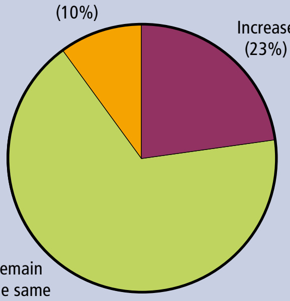


(Figure 17)

One quarter of LPs to grow their PE teams

One quarter (23%) of LPs plan to increase the size of their PE teams in the coming year. One in 10 investors plan to reduce their headcounts.

LP plans for the size of their PE teams over the next 12 months



(Figure 18)

A quarter of GPs expected to fail in the fallout from the downturn

LPs believe 28% of venture capital firms and 23% of buyout firms will not be able to raise a new fund in the next 7 years – in other words, they will go out of business.

Proportion of venture and buyout GPs that will not be able to raise a new fund within 7 years – average LP expectations

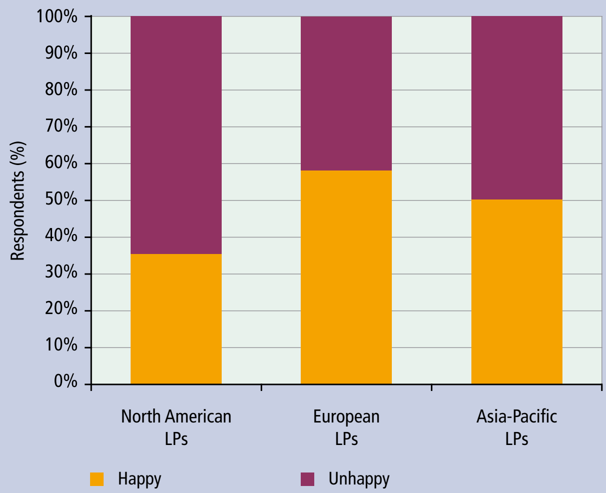
Venture capital firms	28%
Buyout firms	23%

(Figure 19)

LPs differ on GPs buying portfolio company debt

Well over half (58%) of European LPs and exactly half of Asia-Pacific LPs are happy in principle for GPs to buy the debt in their own portfolio companies. North American LPs, however, take a different view – only one third (35%) are happy for GPs to do this.

Proportion of LPs happy/unhappy for GPs to buy their own portfolio company debt

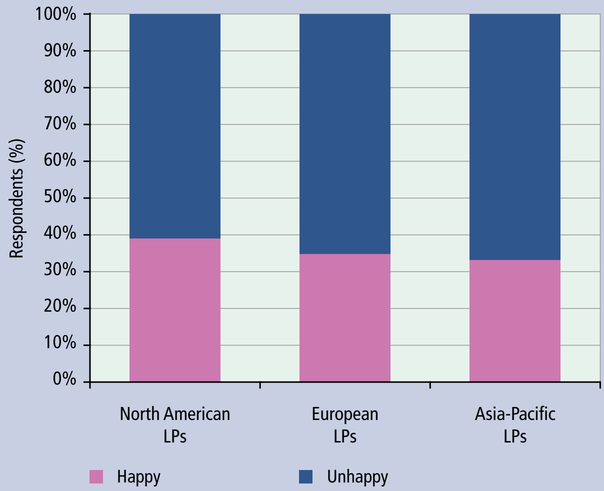


(Figure 20)

Two thirds of LPs unhappy with PIPEs

Almost two thirds of private equity investors are unhappy with GPs making private investments in public equity (PIPEs). The picture is almost identical for LPs around the world.

Proportion of LPs happy/unhappy for GPs to invest in PIPEs



(Figure 21)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Summer 2009

The *Barometer* researched the plans and opinions of 120 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.

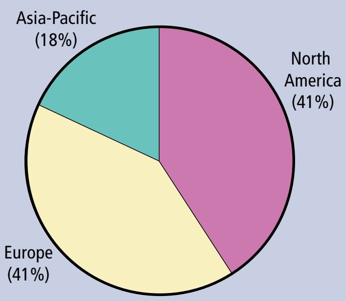
Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in March-May 2009 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for 20 years.

Notes:

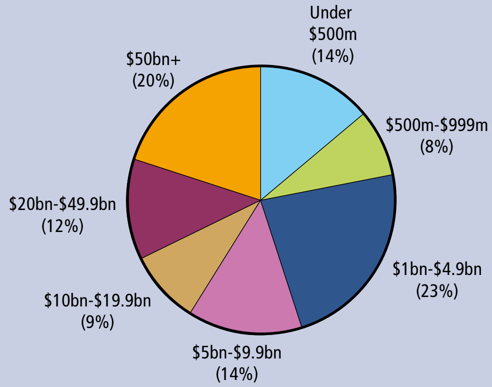
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



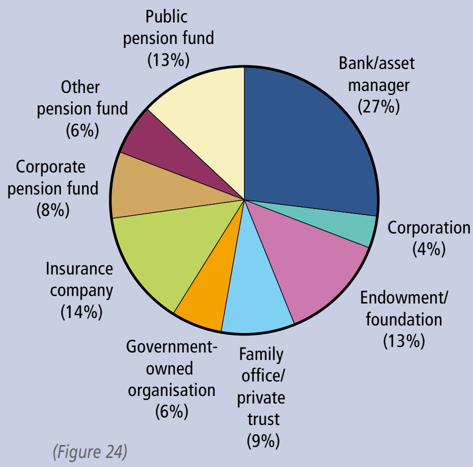
(Figure 22)

Respondents by total assets under management



(Figure 23)

Respondents by type of organisation



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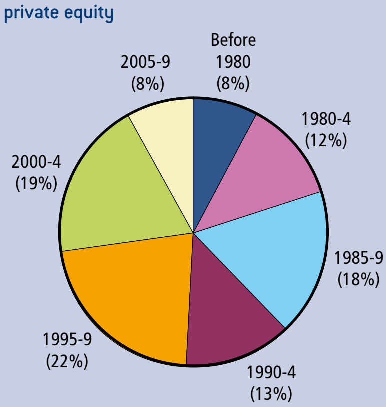
Respondents by year in which they started to invest in private equity



(Figure 25)

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