Coller Capital

Global Private Equity Barometer

SUMMER 2010

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 12th edition of the *Global Private Equity Barometer* captured the views of 110 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

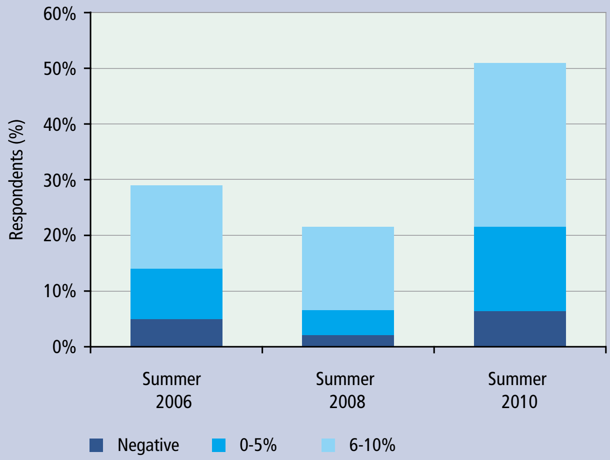
Key topics in this edition of the *Barometer* include:

- LPs' returns & appetite for PE
- Anticipated impact of tax/regulatory changes on returns
- Debt-related challenges for PE
- LP-GP alignment
- Planned number of GP relationships
- Direct investments by LPs
- Asia-Pacific PE market
- Size/robustness of the PE industry

LPs' lifetime PE returns fall dramatically

For LPs, the chickens have come home to roost! The effects of the economic crash on investors' overall PE returns are visible now, in a way in which they were not even 12 months ago. The proportion of LPs that have made lifetime portfolio returns of 10% *or less* from private equity has jumped to 51% (from 22% of LPs in 2008, and 29% in 2009).

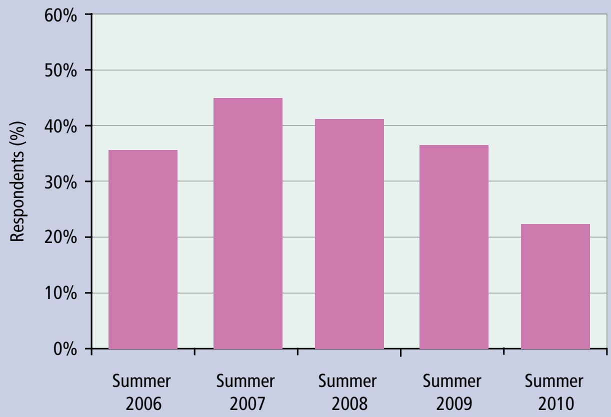
LPs with net returns of 10% *or less* from their PE portfolios since they began investing



(Figure 1)

Only around one in five LPs (22%) now has overall net PE returns of 16% or more – compared with well over a third (37%) of LPs at this time last year. The peak was reached in Summer 2007, when almost half (45%) of LPs had overall net PE returns of 16% plus.

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

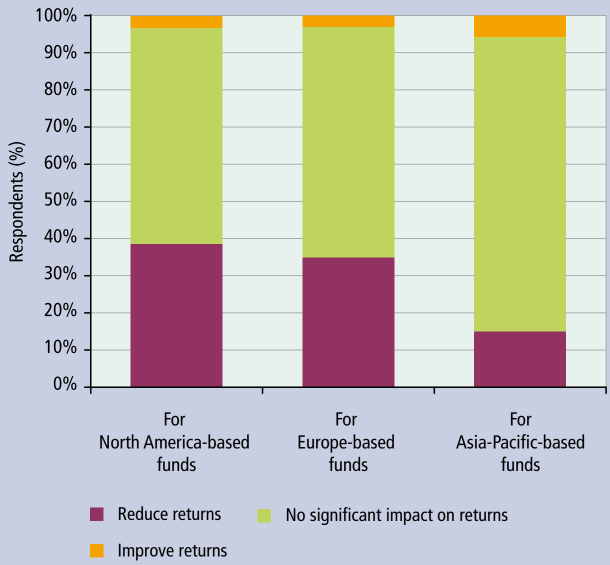


(Figure 2)

Over a third of LPs expect regulatory/tax changes to reduce their returns in developed PE markets

Over a third of investors expect regulatory and/or tax changes to reduce their PE returns in the next few years. The danger is greatest for North America-based funds (39% of LPs) and Europe-based funds (35% of LPs). Only 15% of LPs expect a similar impact on funds based in the Asia-Pacific region.

The likely impact of regulatory/tax changes on LPs' returns over the next 2-3 years – LP views

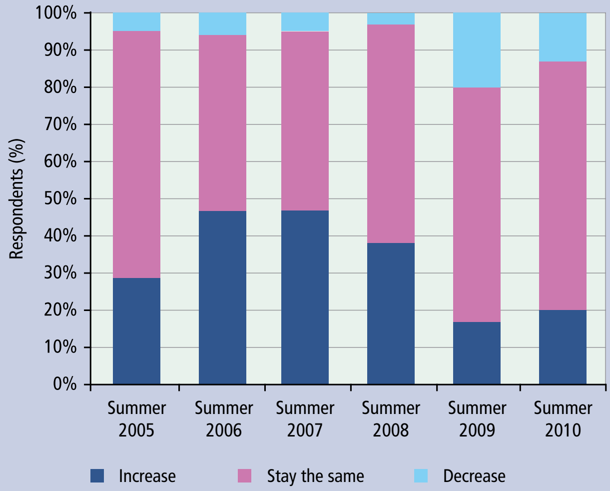


(Figure 3)

Positive news on target PE allocations

LPs' target allocations have stabilised in the last year, following the Summer 2009 *Barometer*, when for the first time there were more LPs planning to reduce PE allocations than to increase them. In this Summer 2010 *Barometer*, 20% of LPs plan to increase their allocations, as opposed to 13% that plan to reduce them.

LPs' plans for their percentage of assets allocated to PE over the next 12 months

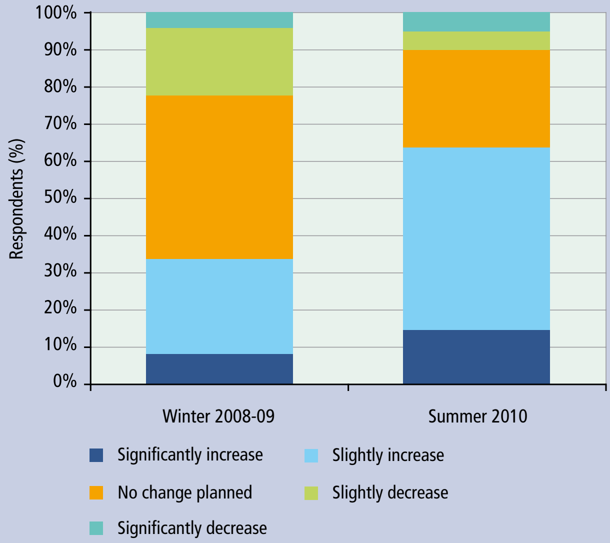


(Figure 4)

New commitments to PE funds to accelerate

Nearly two thirds (64%) of LPs expect to speed up their new commitments to PE funds in the remainder of 2010 and 2011.

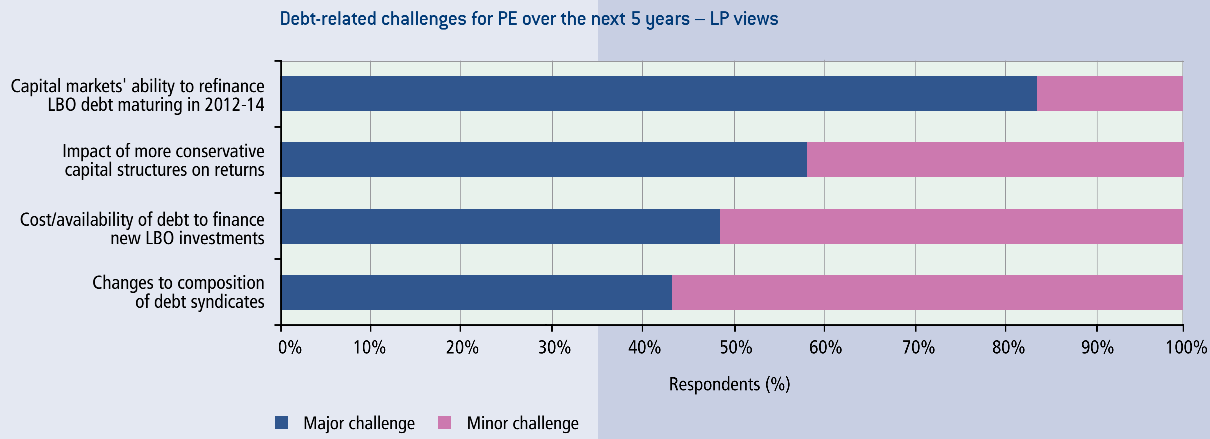
Pace of new commitments to PE funds – LP plans



(Figure 5)

Refinancing debt from the buyout boom is a significant challenge for PE

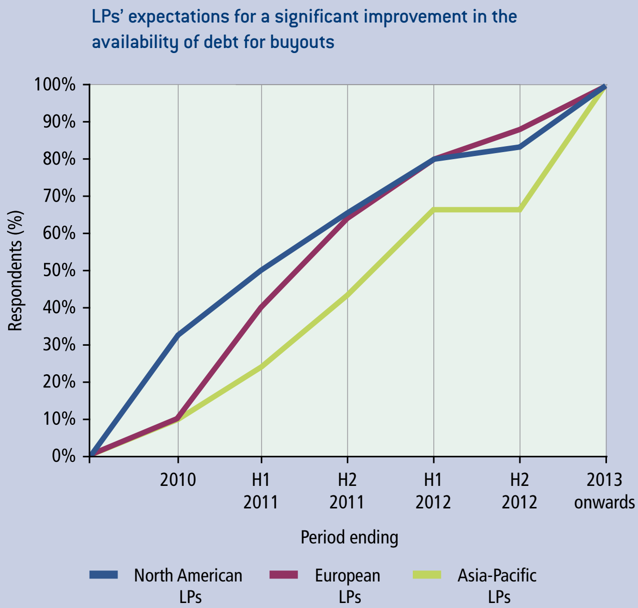
PE will face several debt-related challenges in the next few years, according to investors. The biggest of these will be re-financing the wall of buyout debt due for repayment in 2012-14 – 84% of LPs see this as a major challenge for the industry. However, significant numbers of investors see a big challenge from other debt-related factors: more conservative capital structures (58% of LPs); debt for new LBO investments (48%); and changes to debt syndicates (43%).



(Figure 6)

Availability of debt for buyouts is expected to improve significantly by end of 2011

Two thirds of North American and European investors expect the availability of debt to have improved significantly by the end of 2011 – and four fifths of them by mid-2012. North American investors are most optimistic – a third (32%) of them see a significant improvement even by the end of 2010, compared with just a tenth of Asia-Pacific and European LPs.

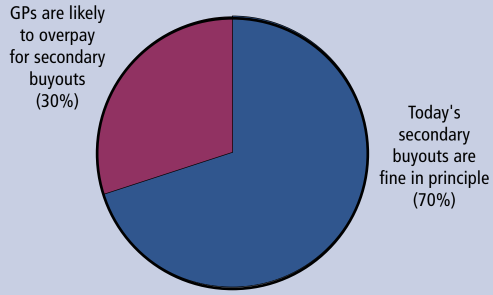


(Figure 7)

LPs relaxed about secondary buyouts

There has been speculation that a shortage of other investment opportunities would lead to GPs overpaying for secondary buyouts (the purchase of a portfolio company by a GP from another GP). However, most investors (70%) believe secondary buyouts are in principle no better or worse than other buyout opportunities in the current climate.

LPs' views of secondary buyouts in the current environment

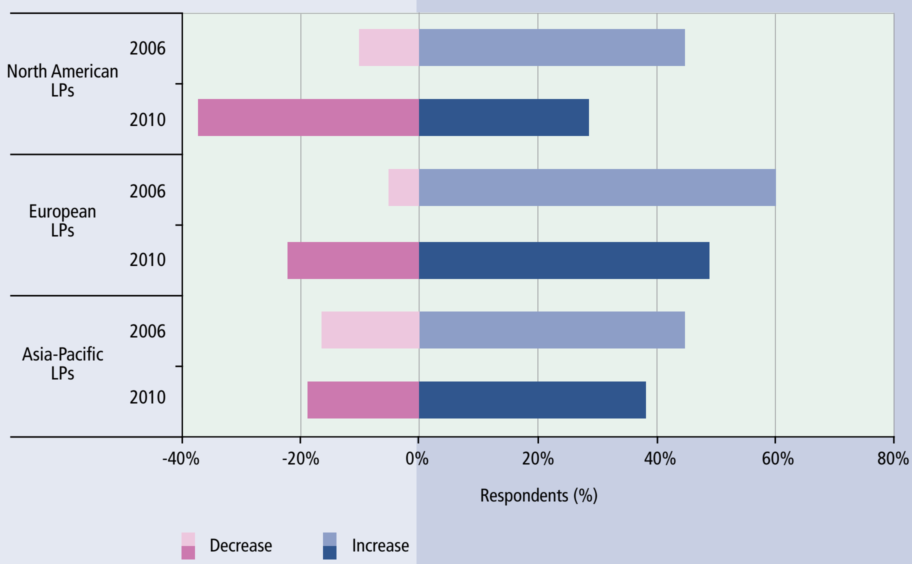


(Figure 8)

Two fifths of North American investors to cut GP relationships

Two in five (38%) North American private equity investors intend to reduce the number of their GP relationships over the next two years. A fifth of European (22%) and Asia-Pacific (19%) LPs have the same intention. In Summer 2006, just 10% of North American LPs and 5% of European LPs planned to cull their GPs.

LPs' plans for their number of active GP relationships in 2 years' time – by location of LP

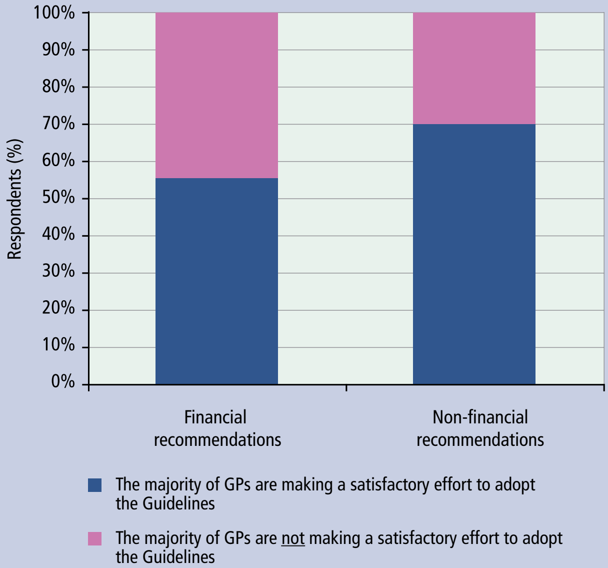


(Figure 9)

Majority of LPs believe GPs are reacting satisfactorily to the ILPA Guidelines

The majority of private equity investors believe GPs are making a satisfactory effort to adopt the ILPA Guidelines. 70% of LPs think the majority of GPs are addressing the non-financial (ie. governance and transparency) recommendations, while 56% of LPs feel the same about GPs' approach to the financial recommendations (ie. alignment of financial interests).

GPs' response to the ILPA Guidelines – LP views

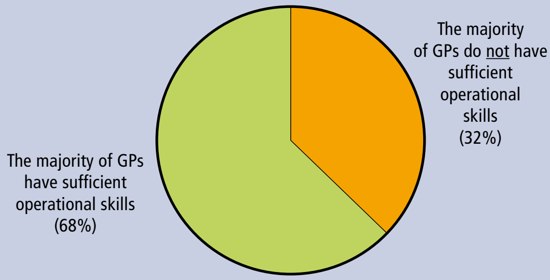


(Figure 10)

One third of LPs think GPs' operational skills are inadequate

One third (32%) of LPs believe that most GPs lack the operational skills required to turn round struggling portfolio companies. The remainder of investors believe the *majority* of GPs has the requisite operational know-how.

GPs' ability to turn round struggling portfolio companies – LP views

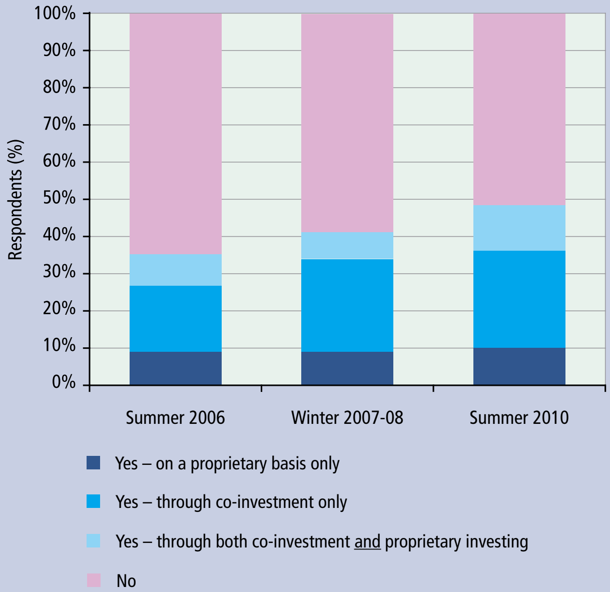


(Figure 11)

More LPs are investing directly into private companies …

The proportion of LPs investing directly into private companies has risen steadily over the past few years. Half (49%) of LPs currently make direct investments in one form or another, up from just 35% in Summer 2006. Almost a quarter (23%) of all LPs now make *proprietary* investments into private companies.

LPs making direct investments into private companies

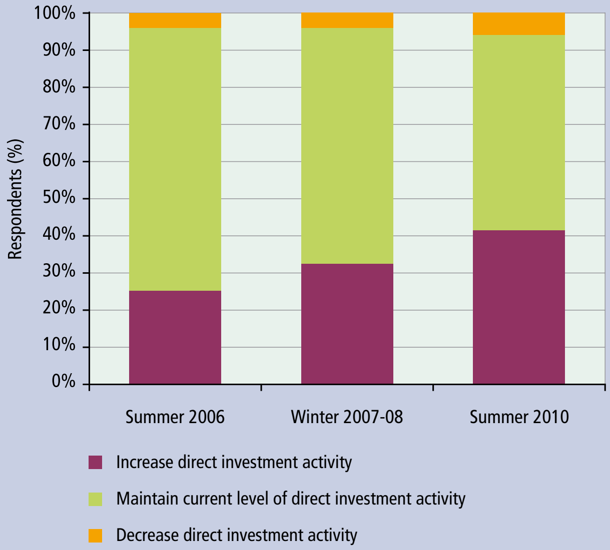


(Figure 12)

… and their *level* of direct investment is rising

41% of investors plan to increase their level of direct investment over the next three years, compared with a quarter of LPs planning an increase in Summer 2006 and third in Winter 2007-08.

LP plans for direct investment over the next 3 years

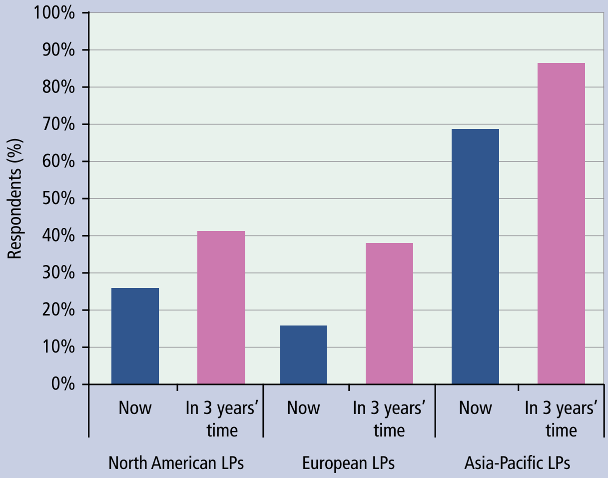


(Figure 13)

Investors plan a major increase in PE exposure to the Asia-Pacific region

LPs plan to boost their exposure to Asia-Pacific PE significantly over the next three years. This applies to investors throughout the world, but perhaps most dramatically to European LPs. The proportion of those with more than a tenth of their PE exposure in the Asia-Pacific will more than double – from 16% today to 38% within three years. 41% of North American investors will have a similarly high exposure in three years (vs 26% today) and 87% of Asia-Pacific LPs (vs 69% today).

LPs with more than a tenth of their PE investment in the Asia-Pacific region – now and in 3 years' time



(Figure 14)

Australia is most attractive destination for buyouts; China for VC/growth capital

Private equity investors see Australia as the most attractive destination for buyout investments in the Asia-Pacific region over the next two years (though it ranks only fifth for venture/growth capital investment). China tops the league for venture/growth capital attractiveness. Japan languishes at the bottom of the league table for both buyouts and venture/growth capital.

The attractiveness of Asia-Pacific countries for GP investment over the next 2 years – LP views

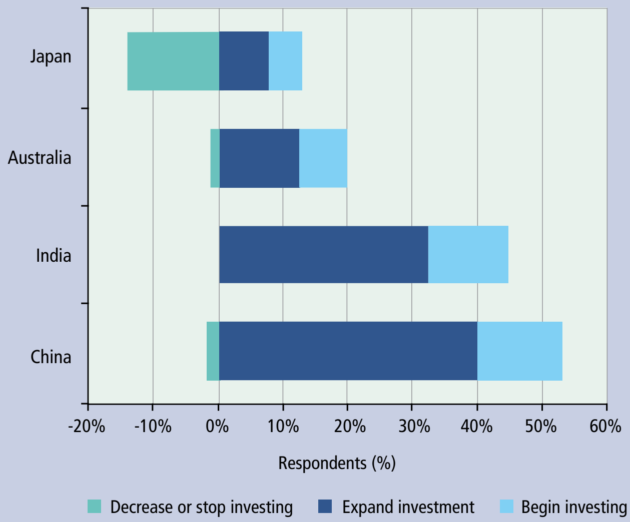
Rank	Buyouts	Rank	Venture/growth capital
1	Australia	1	China
2	China	2	India
3=	India	3	Taiwan
3=	Taiwan	4	Korea
3=	Korea	5	Australia
6	Japan	6	Japan

(Figure 15)

China and India to dominate flows of new investor money

China and India will see by far the largest increase in PE investment from new and existing investors over the next two years – 53% of LPs plan to expand or start investment in China, and 44% plan to do the same in India. This compares with just 20% of LPs for Australia. Japan will be the only large Asia-Pacific PE market to see a net outflow of LP capital – 14% of investors plan to decrease or stop investing in the country, compared with 12% who plan to start or expand investment.

LPs' planned *changes* to national PE investment strategies over the next 2 years*



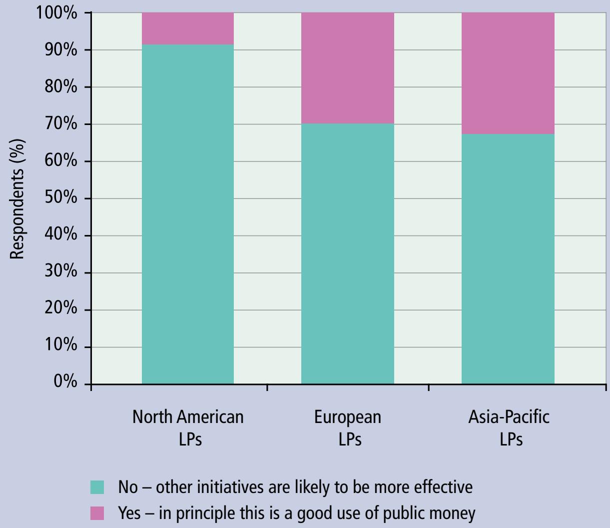
* Excludes existing investors planning no change and LPs with no interest in these countries

(Figure 16)

Governments should stay out of venture investing, say LPs

A large majority of investors believe national and state governments looking to support early-stage companies should not use public money to establish or invest in venture capital funds. They think other initiatives, such as tax breaks, are likely to be more effective. This view was expressed by 70% of European investors, 68% of Asia-Pacific investors, and a huge 91% of North American investors.

Appropriateness of national/state governments establishing or investing in VC funds – LP views

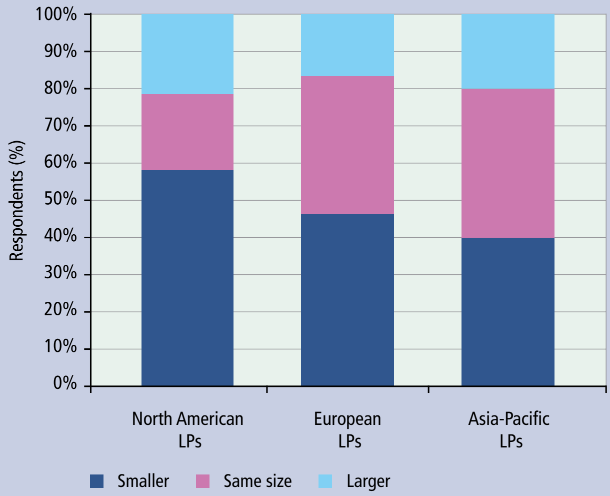


(Figure 17)

LPs believe the PE industry may shrink …

58% of North American LPs believe the PE industry will be smaller in size in five years' time than before the credit crunch; 46% of European LPs and 40% of Asia-Pacific LPs share this view.

Size of the PE industry in 5 years' time compared with its pre-credit crunch size – LP views

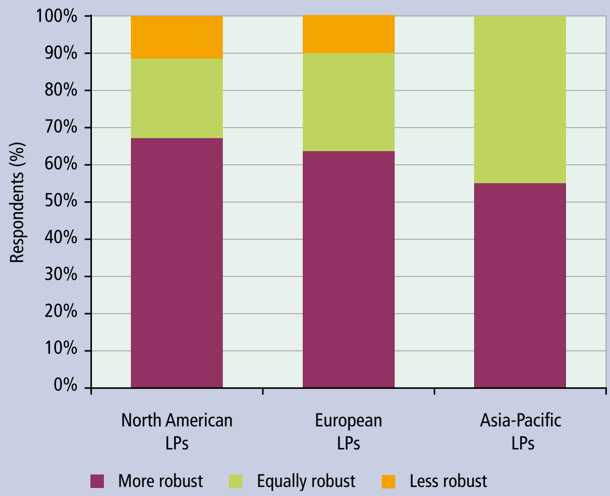


(Figure 18)

… but PE will become more robust

The majority of LPs believe that the quality and efficiency of PE as an industry will be higher in five years' time than it was before the economic crash. Around two thirds of North American and European investors (68% and 63% respectively) and more than half of Asian investors (55%) expect this to be the case.

Robustness of the PE industry in 5 years' time – LP views



(Figure 19)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Summer 2010

The *Barometer* researched the plans and opinions of 110 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.

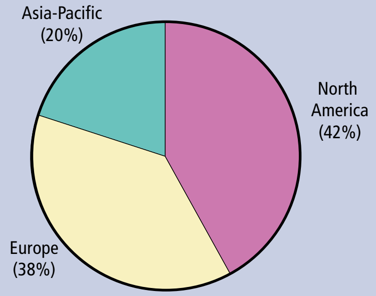
Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in March-April 2010 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for more than 20 years.

Notes:

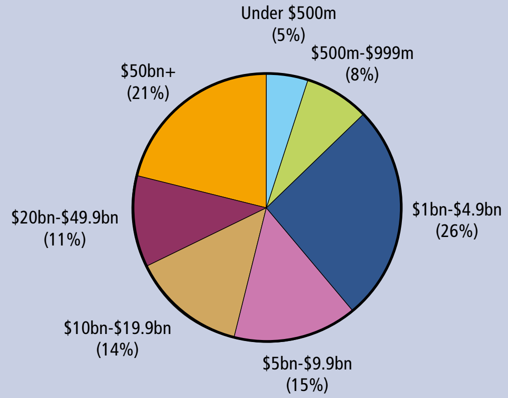
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



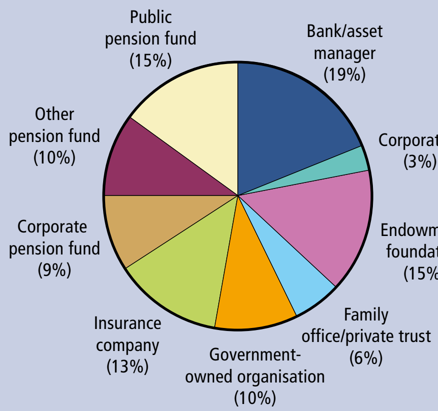
(Figure 20)

Respondents by total assets under management



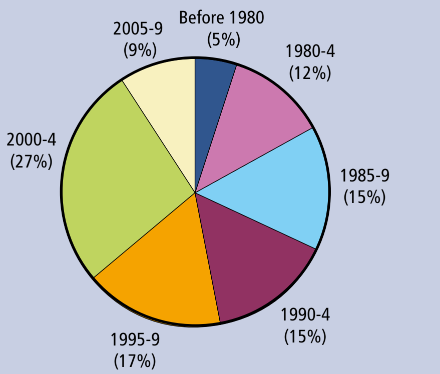
(Figure 21)

Respondents by type of organisation



(Figure 22)

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



(Figure 23)

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