Coller Capital

Global Private Equity Barometer

SUMMER 2012

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 16th edition of the *Global Private Equity Barometer* captured the views of 101 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

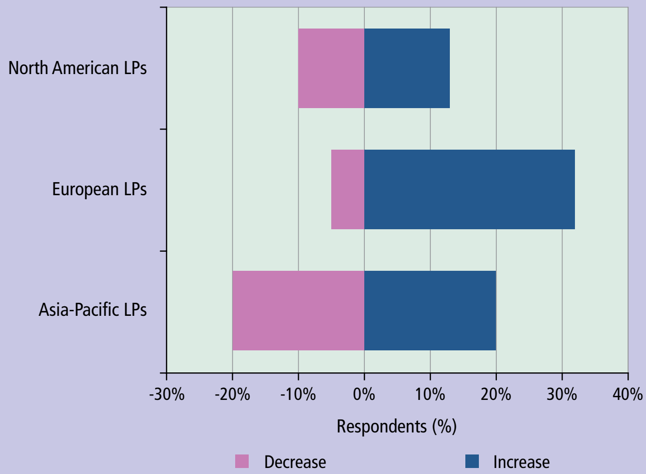
Key topics in this edition of the *Barometer* include:

- LP appetite for PE
- LPs' VC returns from different regions
- The PE industry's public reputation
- Separate accounts for individual LPs
- The exit environment
- Direct investments and co-investing by LPs
- Corporate venturing
- The secondaries market
- Impact of ESG principles on LP investment decisions
- Distressed debt
- Asia-Pacific PE market
- GPs' transparency & risk management
- The global economic outlook

European LPs plan big boost to PE exposure

One third (32%) of European LPs plan to increase their target allocation to PE, compared with just 5% expecting to reduce it. Among North American and Asia-Pacific LPs, fairly similar proportions of investors plan to increase their target allocation and to reduce it.

LPs' plans for their percentage of assets targeted at PE over the next 12 months

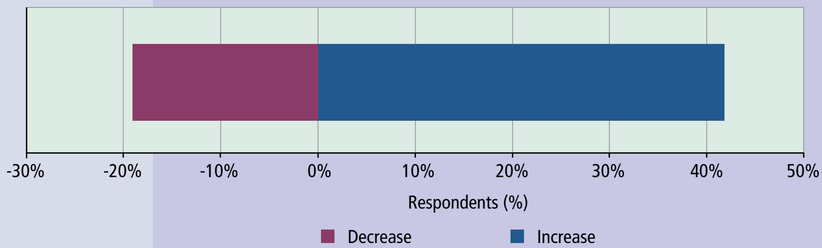


(Figure 1)

PE is expected to win a greater share of balanced investment portfolios

Over the next 3-5 years, 42% of investors expect PE to increase its share of balanced investment portfolios, compared with only 19% that expect it to decrease.

LP expectations for PE's share of balanced investment portfolios in the next 3-5 years

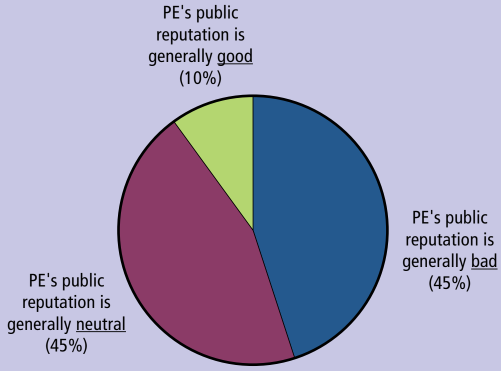


(Figure 2)

Half of investors think PE's public reputation is bad …

Almost half of LPs (45%) think that PE's general reputation is bad. The same proportion thinks it is neutral. Only 1 in 10 LPs think PE is generally seen as a good thing – and this proportion falls to just 1 in 20 among European LPs.

PE's public reputation – LP views

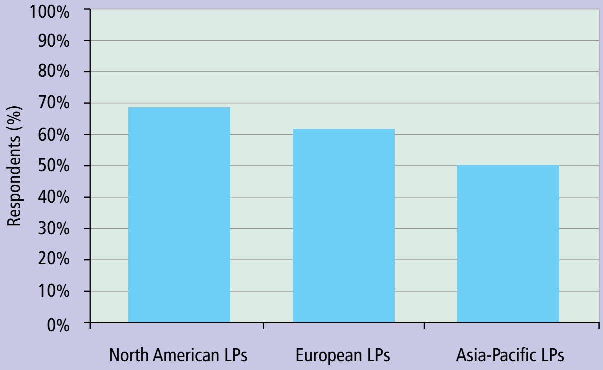


(Figure 3)

… however, two thirds of LPs believe the industry's reputation is worse than it deserves

Encouragingly, 68% of North American PE investors and 62% of European investors believe that the public perception of the PE industry is worse than it deserves. Almost no LPs think PE's reputation is better than it deserves.

Proportion of LPs believing PE's reputation is worse than it deserves

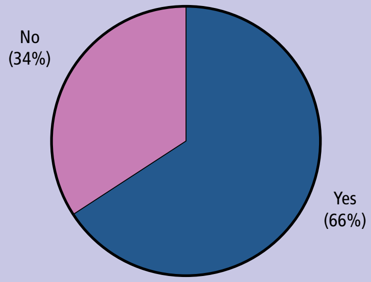


(Figure 4)

Limited Partners / ILPA should defend PE more, LPs say

Two-thirds of investors think the LP community and its representative bodies such as ILPA should speak out more robustly in defence of private equity.

Proportion of investors believing LPs should speak out in defence of PE

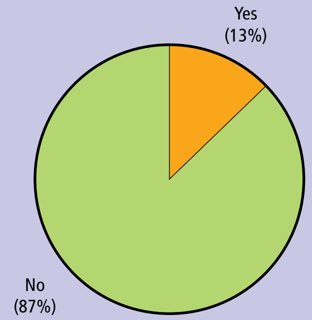


(Figure 5)

One in eight LPs have special accounts with GPs …

One in eight (13%) PE investors have special accounts (ie, separate investment vehicles specific to them) attached to PE funds. Unsurprisingly, special accounts are more common among large investors – almost a quarter of LPs with total assets under management of more than $20bn have special accounts with GPs.

LPs having special (or separate) accounts with GPs

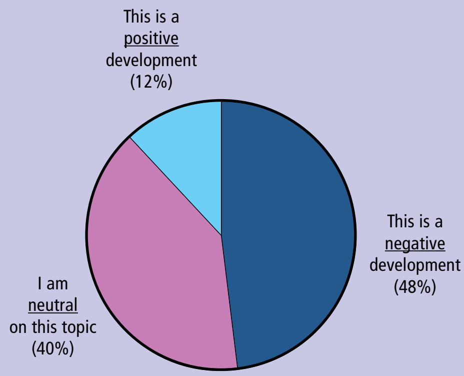


(Figure 6)

… but half of LPs think the growing number of special accounts is a negative development for PE

Half (48%) of investors see the increasing number of LP special accounts as a negative development for private equity. They believe it has the potential to create conflicts of interest between a fund's Limited Partners.

LP views on the increasing number of special accounts



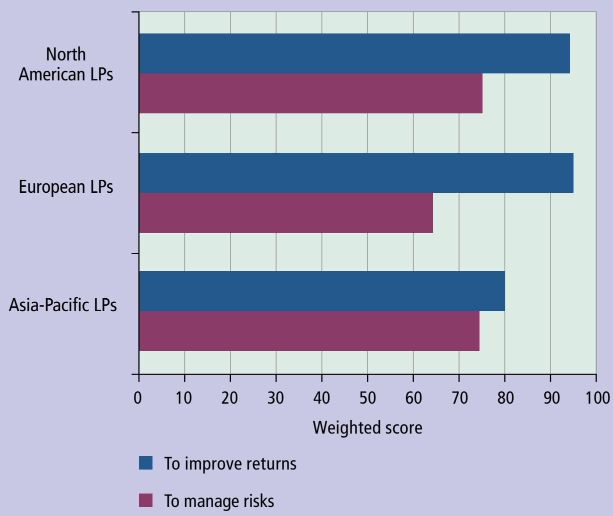
(Figure 7)

Boosting overall portfolio returns is the principal motivation for PE investing

Although managing risk (via increased diversification or reduced volatility) is a motivation for PE investment for most LPs, it is the opportunity to generate higher returns that is the most important incentive for investing in the asset class.

For Asia-Pacific LPs, the balance between these motivations is closer than it is for their colleagues in Europe and North America.

LPs' reasons for investing in PE



(Figure 8)

Over one third of LPs with commitments to European VC have lost money

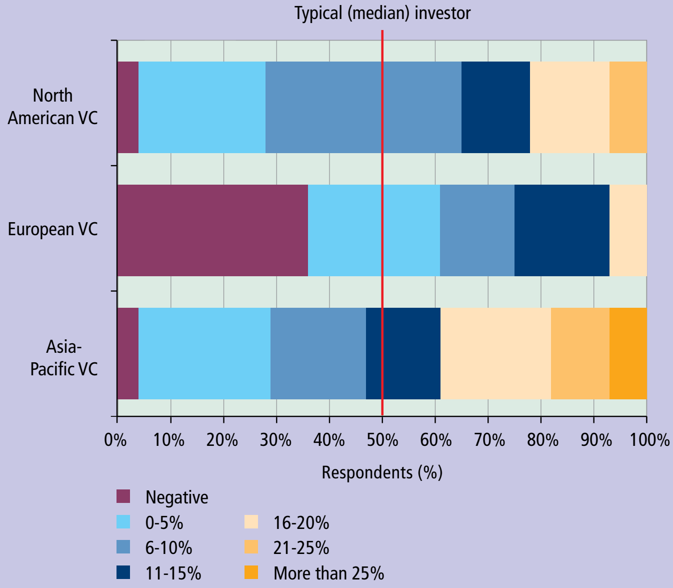
Venture capital funds in different geographies have produced markedly different returns for their investors.

Asia-Pacific VC funds (to which two-fifths of investors have commitments) have done best. The 'typical' (median) LP in Asia-Pacific venture has achieved a lifetime net return of 11-15%.

North American VC funds (to which three-fifths of investors have commitments) are next overall – with the typical LP having achieved a lifetime net return of 6-10%.

Last come European venture funds (to which a third of investors are committed). The typical LP in a European VC fund has achieved a lifetime net return of *less than* 5% – and over one third of investors in European VC have actually lost money.

LPs' annual net returns from their VC portfolios since they began investing



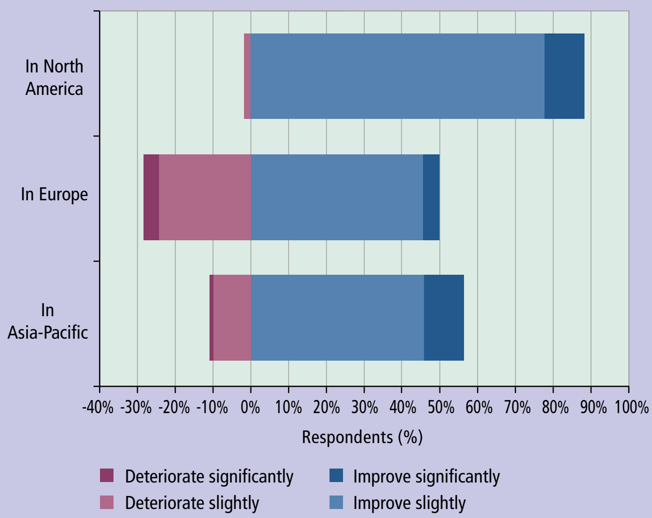
(Figure 9)

LPs expect a slight improvement in exit markets – especially in North America

88% of investors expect an improvement in North America's exit environment over the next 12-18 months. Half of LPs expect an improvement in Europe, and 57% in the Asia-Pacific region.

North American LPs are very bullish about their own exit environment (with 92% expecting an improvement) and negative about Europe's exit environment (with 43% expecting a deterioration).

LPs' views on the global exit environment in the next 12-18 months

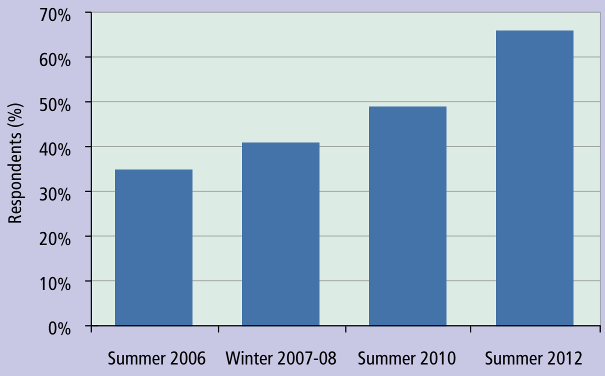


(Figure 10)

Two thirds of LPs now invest directly into private companies …

The proportion of LPs investing directly into private companies (either on a stand-alone basis or by co-investing with a GP) has almost doubled in the six years since the Summer 2006 *Barometer*. Two-thirds of investors currently make direct investments in one form or another – up from just 35% in Summer 2006.

LPs making direct investments into private companies

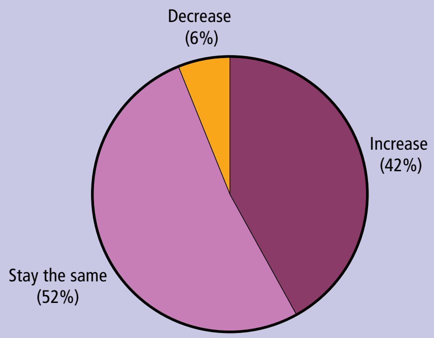


(Figure 11)

… and many LPs expect to increase their level of direct investing

The trend toward direct investing will continue – 42% of LPs plan to increase their level of direct investment over the next three years. Only 6% of LPs expect to decrease their current level of direct investment.

LP plans for direct investment over the next 3 years

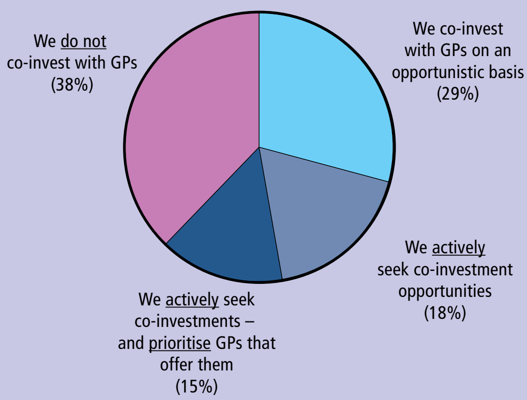


(Figure 12)

Two thirds of LPs *co-invest* with GPs

Two thirds (62%) of LPs co-invest directly into companies alongside GPs. About half of this group do so opportunistically, making co-investments occasionally when a GP approaches them with a good opportunity. The other half are proactive in seeking co-investment opportunities and some even prioritise GPs that offer co-investments.

LPs' policies towards co-investments

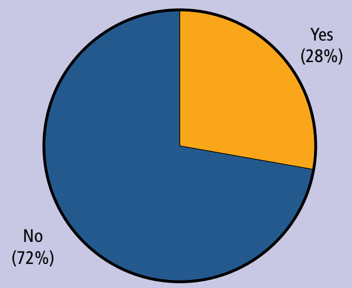


(Figure 13)

Three quarters of LPs believe European VC will *not* revive *without* significant government support ...

Three quarters (72%) of the world's LPs think that the European venture capital industry has no hope of reviving without significant government support: tax incentives; regulatory changes; or both.

Likelihood of the European VC industry reviving on its own – without significant government support

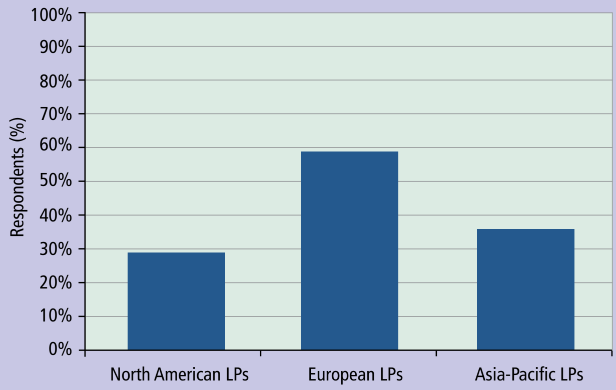


(Figure 14)

European LPs think European VC could revive if it *did have* government support – but other LPs are sceptical

59% of European investors think that the European venture capital industry could revive if there were significant government support. North American and Asia-Pacific LPs are more sceptical – only around a third of them see this as plausible.

LPs believing the European VC industry could revive *with* significant government support

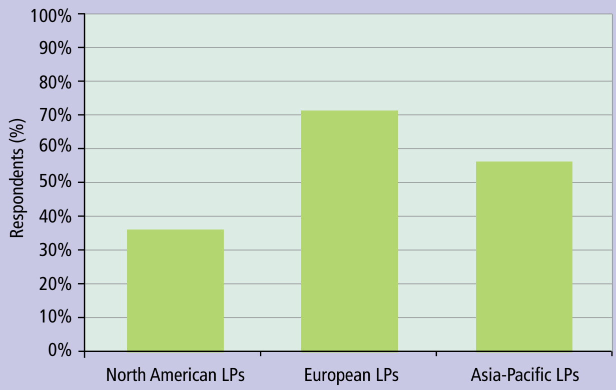


(Figure 15)

Many LPs think corporate venturers could fill more of the funding gap in early-stage VC

Almost three quarters (71%) of European and over half (56%) of Asia-Pacific LPs believe that corporate venturers could sensibly fill more of the early-stage venture capital funding gap. Just over a third (36%) of North American investors agree.

LPs believing corporate venturers could sensibly fill more of the early-stage VC funding gap

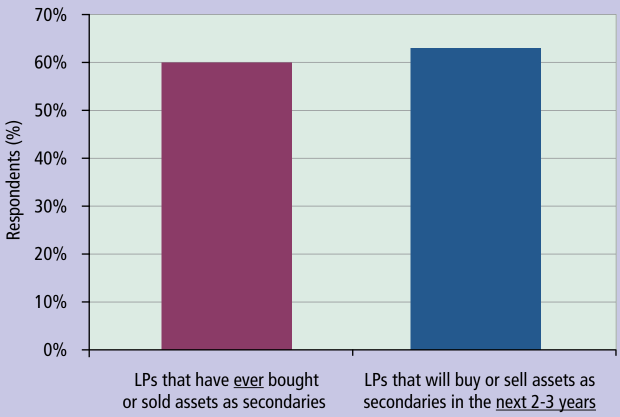


(Figure 16)

More LPs will use the secondaries market over the next 2-3 years than in its entire history

Slightly more investors plan to access the PE secondaries market (as buyers or sellers) in the next 2-3 years than have accessed the market in its entire history to date.

LPs' usage of the secondaries market

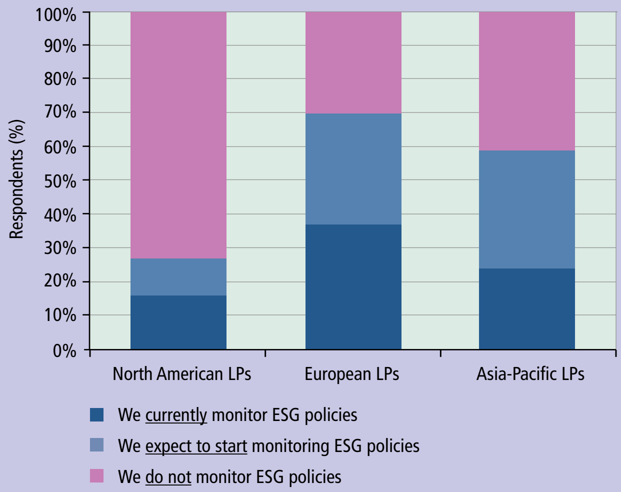


(Figure 17)

Big disparity in ESG monitoring between North American LPs and other investors

The majority of European (70%) and Asia-Pacific (59%) LPs monitor, or expect to start monitoring, GPs' environmental, social and governance (ESG) policies. Only one quarter (27%) of North American LPs do so or expect to start doing so.

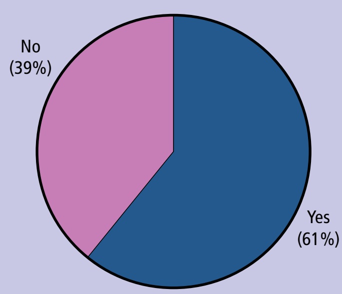
LP monitoring of GPs' ESG policies



(Figure 18)

Over 60% of LPs expect ESG considerations to play an increasing role in investors' fund selection processes over the next 2-3 years.

LPs expecting ESG considerations to play an increasing role in investors' fund selection processes over the next 2-3 years



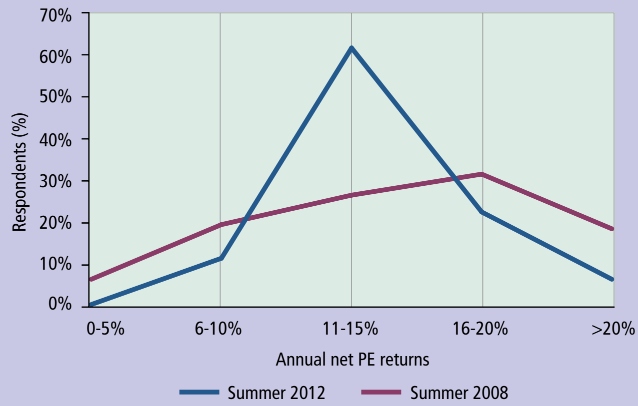
(Figure 19)

Almost all LPs expect 3-5 year net returns of 11%+ from distressed debt

Current economic conditions have produced a strong consensus around the returns expected from distressed debt. Almost all LPs (89%) expect medium-term net returns of over 11% from distressed debt, with 61% of LPs expecting returns to be in the 11-15% band.

As a strategy, around two thirds of North American and Asia-Pacific LPs now invest in distressed debt, while just over a third (38%) of European LPs do so. The proportions of North American and European LPs invested in this sub-asset class have barely changed since 2008, whereas Asia-Pacific LPs have substantially increased their exposure.

Annual net returns from distressed debt over the next 3-5 years – LP expectations



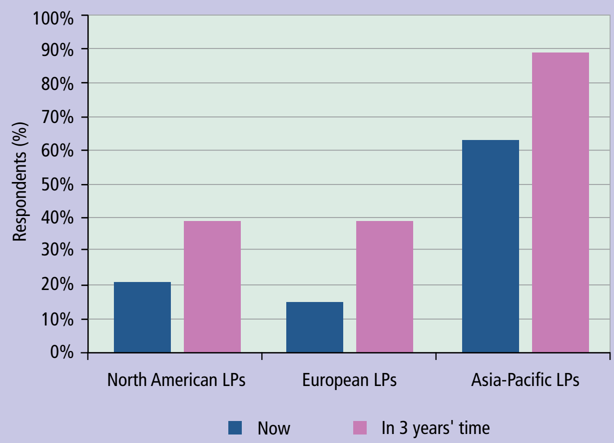
(Figure 20)

Investors' exposure to Asia-Pacific PE will continue to grow rapidly

The proportion of North American LPs with more than a tenth of their PE commitments focused on the Asia-Pacific region will almost double in the next three years (from 21% to 39% of LPs). European LPs will catch up with their North American peers, with the proportion having more than a tenth of commitments focused on Asia-Pacific rising from 15% to 39%.

Almost all (89%) Asia-Pacific investors expect to have more than a tenth of their PE exposure to the Asia-Pacific region within three years – compared with 63% of Asia-Pacific LPs today.

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



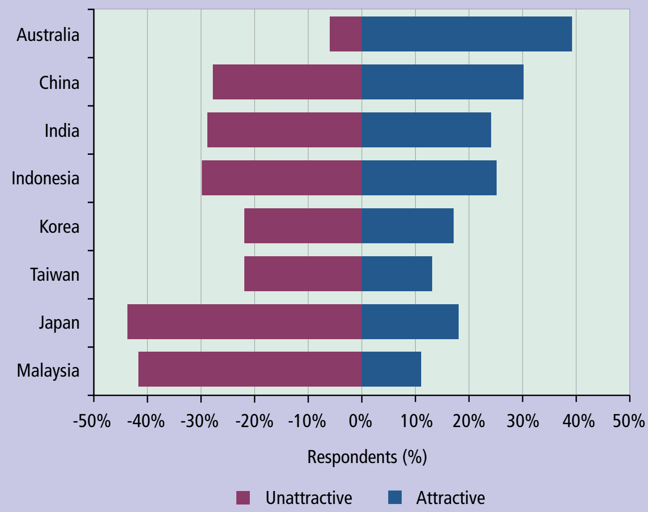
(Figure 21)

Australia is by far the most attractive place for buyouts in Asia-Pacific

LPs see Australia as by far the most attractive place for buyout investments in the Asia-Pacific region over the next two years – six times as many investors find Australia an attractive destination for buyouts as those who find it unattractive.

Japan and Malaysia are seen as very *unattractive* by LPs looking for buyout opportunities in the region.

The attractiveness of various Asia-Pacific markets for buyout investments over the next 2 years – LP views



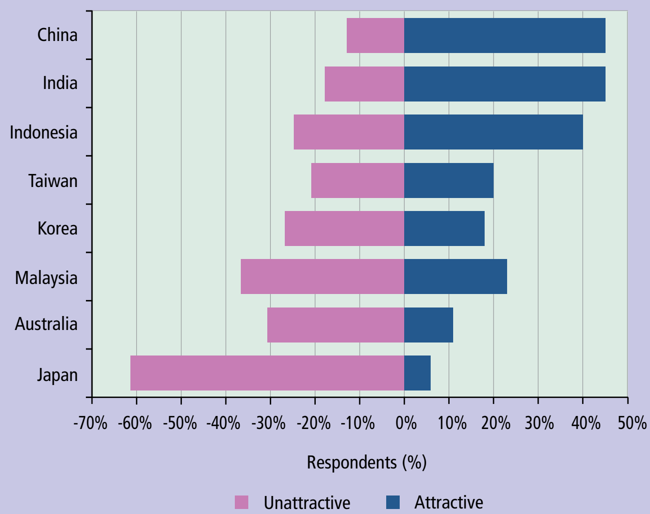
(Figure 22)

China, India and Indonesia are the most attractive destinations for venture/growth investments in the region

China, India and Indonesia are the only countries in the Asia-Pacific region that more LPs regard as attractive than unattractive for venture and growth investments.

The least attractive country in the region by far for VC investment is Japan, according to LPs – 62% see it as unattractive, compared with 6% who see it as attractive.

The attractiveness of various Asia-Pacific markets for venture/growth investments over the next 2 years – LP views

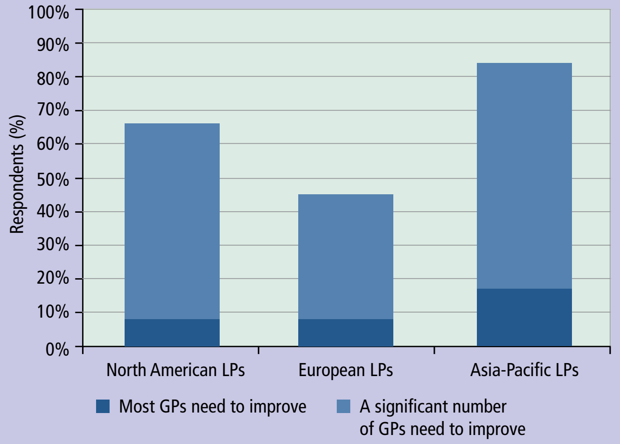


(Figure 23)

GPs' transparency and risk management still need improving, say North American and Asia-Pacific LPs

The majority of PE investors in North America and the Asia-Pacific think a significant number of GPs need to improve their levels of transparency and risk management. A significant *minority* of European LPs thinks the same.

LPs dissatisfied with GPs' transparency and risk management

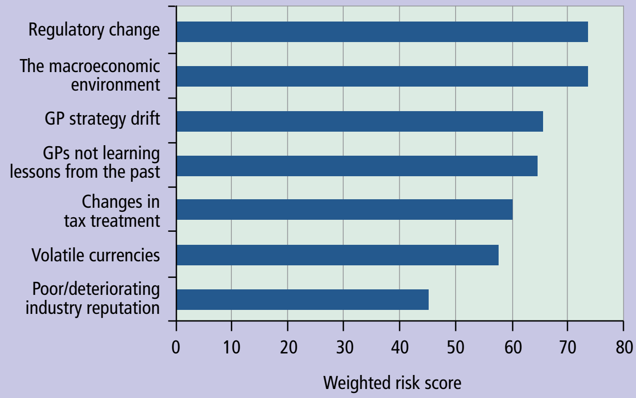


(Figure 24)

New regulations and weakness in the global economy are the greatest risks facing PE

Regulatory change and the weak macroeconomic environment pose the greatest risks to private equity, but GPs failing to learn from past mistakes or succumbing to strategy drift are also seen as major risks by LPs.

The significance of various risk factors for PE – LP views

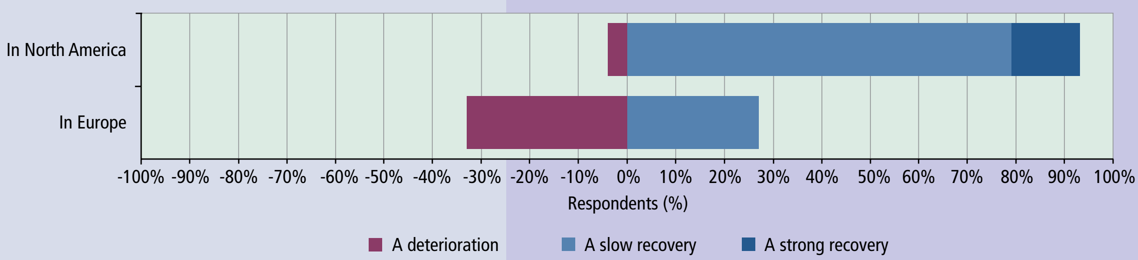


(Figure 25)

Investors expect North America's economy to continue diverging from Europe's

Nearly all LPs expect to see a slow economic recovery in North America over the next 12-18 months. In Europe, however, investors expect on balance to see a stagnant or even slightly deteriorating economic climate.

The economic outlook in North America and Europe over the next 12-18 months – LP expectations



(Figure 26)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Summer 2012

The *Barometer* researched the plans and opinions of 101 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.

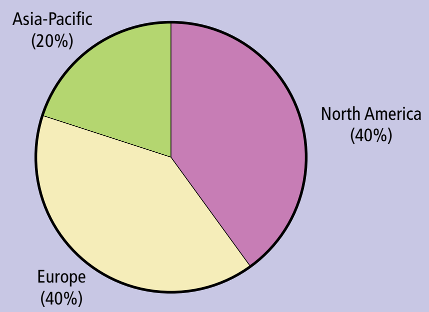
Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in March-April 2012 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for over 20 years.

Notes:

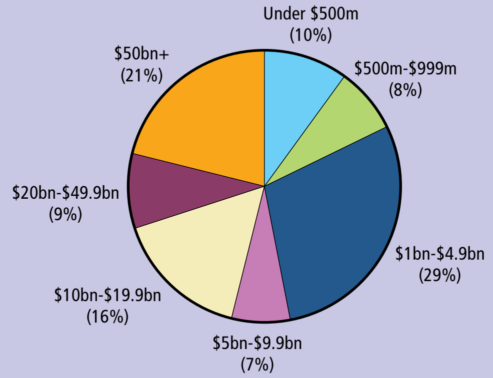
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



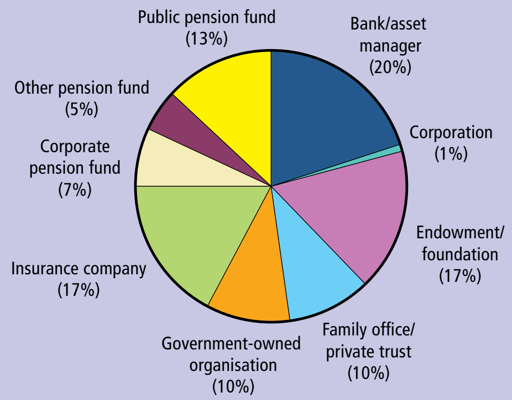
(Figure 27)

Respondents by total assets under management



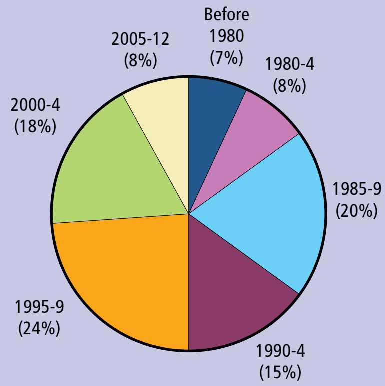
(Figure 28)

Respondents by type of organisation



(Figure 29)

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



(Figure 30)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