Coller Capital

Global Private Equity Barometer

SUMMER 2013

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 (including the Middle East).

This 18th edition of the *Global Private Equity Barometer* captured the views of 140 private equity investors from 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

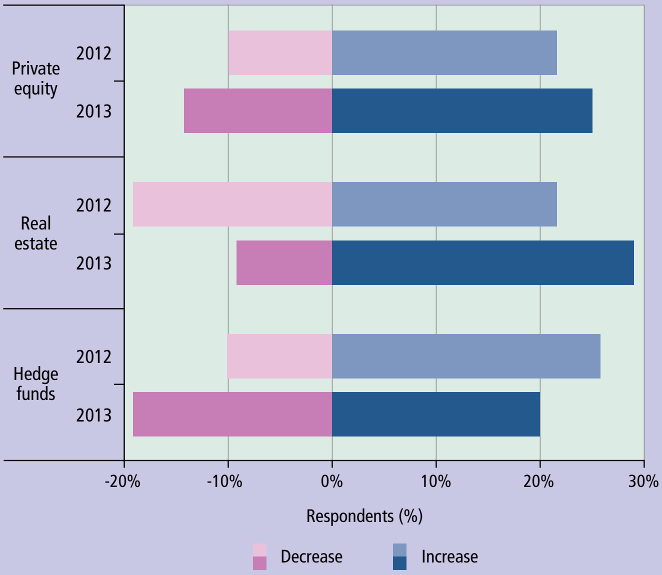
Key topics in this edition of the *Barometer* include:

- LPs' returns & appetite for PE
- Overhang of PE commitments & the effects of ageing dry powder
- Carried interest
- Operational improvement by GPs
- Deployment of cash on corporate balance sheets
- Attractive areas for GP investment
- Publicly quoted GPs
- Appetite for large buyouts
- Covenant-lite LBO debt
- Appetite for debt funds
- PE markets in Asia-Pacific, Europe and the MENA region

Target allocations to PE and RE rising; hedge fund appetite mixed

LPs' overall target allocations to private equity and real estate will rise over the next year. However, their appetite for hedge funds remains mixed, with the same proportion of LPs planning to decrease their target allocation to the asset class as increase it.

LPs' plans for their percentage of assets targeted at alternative assets in 12 months' time

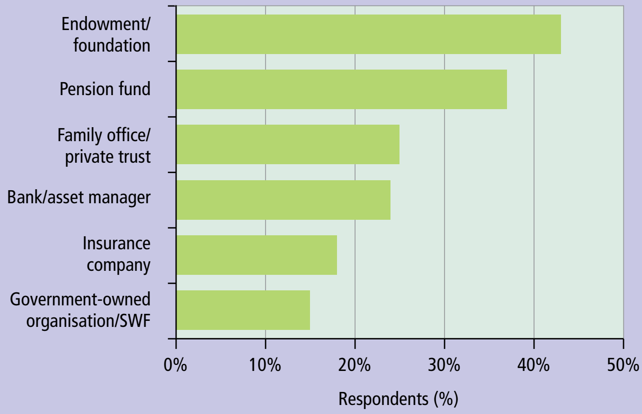


(Figure 1)

PE investors at pension plans and endowments/foundations face challenges from influential colleagues

Influential individuals at many pension plans, endowments and foundations believe their organisation's allocation to private equity should be reduced or removed entirely – 43% of endowment/foundation LPs and 37% of pension plan LPs face such challenges.

LPs with influential colleagues who think their organisation's allocation to PE should be reduced or removed entirely



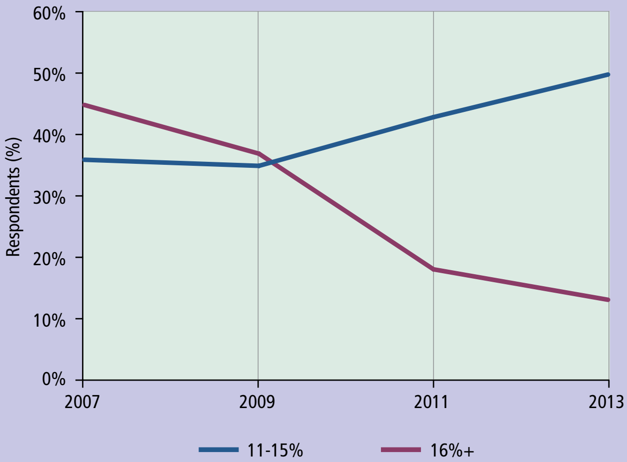
(Figure 2)

LPs' total historical net returns lower since crisis – but remain strong

A 2013 snapshot of LPs' net returns over the lifetime of their PE portfolios shows a decline since the onset of the financial crisis, but returns remain at a healthy level for most investors.

In 2007, almost half (45%) of LPs had net lifetime returns of 16%+, whereas only 13% of investors had achieved this level of return in the first half of 2013.

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



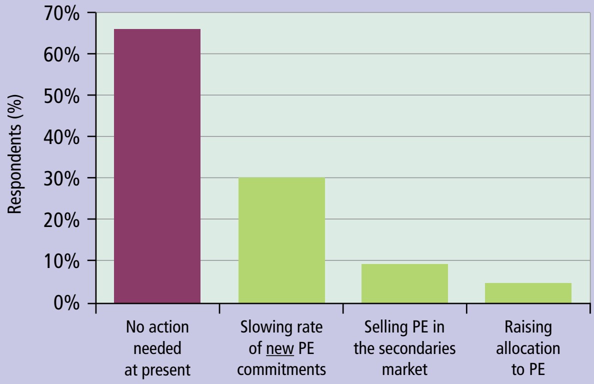
(Figure 3)

One in three LPs slows rate of *new* PE commitments in response to overhang of committed capital

Almost one third (30%) of LPs are responding to the record volume of unrealised commitments by slowing the rate of their *new* PE commitments. One in ten are selling PE interests in the secondaries market.

However, two thirds (66%) of PE investors maintain that they do not need to take corrective action at present.

How LPs are responding/likely to respond to the record volume of unrealised portfolio company value in PE funds

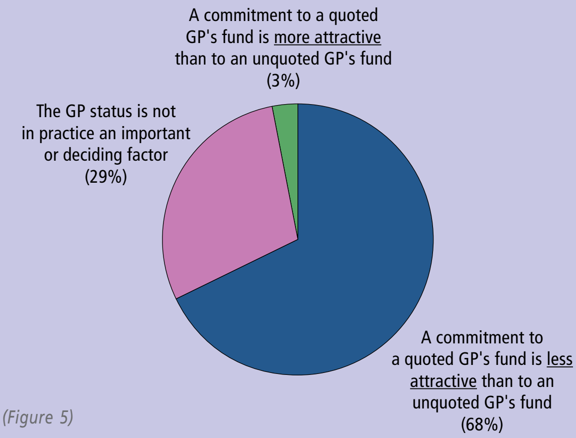


(Figure 4)

Funds of quoted GPs are *less* attractive to most LPs

Two thirds (68%) of investors say that a GP being a quoted entity makes its funds *less* attractive. A mere 3% of LPs say that being quoted makes a GP's funds *more* attractive.

LPs' views on committing to a quoted GP's fund



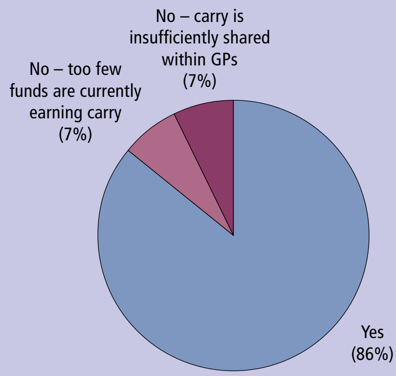
(Figure 5)

'Whole fund' carry is still an effective way to incentivise PE teams, LPs believe

Almost all (86%) PE investors think the traditional 'whole fund' carried interest structure remains an effective way to incentivise GPs.

14% of LPs doubt the effectiveness of 'whole fund' carried interest as a GP incentive either because they think carry is insufficiently well-shared within firms or because it is currently being earned by too few GPs. However, there is no consensus among these LPs about what might be a more effective incentive mechanism.

The traditional 'whole fund' carried interest structure remains an effective way to incentivise PE teams – LP views

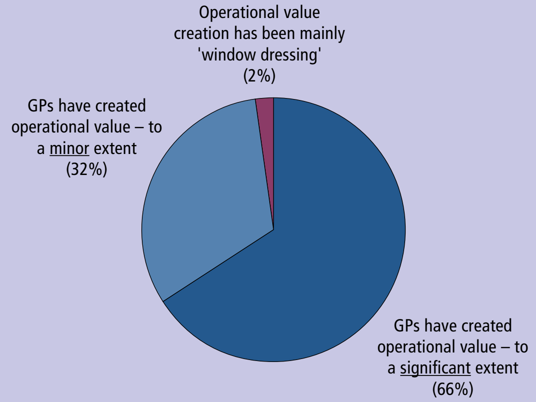


(Figure 6)

GPs *do* create significant value through operational improvement

Almost all (98%) PE investors believe their GPs have created genuine value through operational improvement since the onset of the crisis – and two thirds of them say the operational value creation at portfolio companies has been significant.

Value creation at portfolio companies through operational improvement since the crisis – LP views

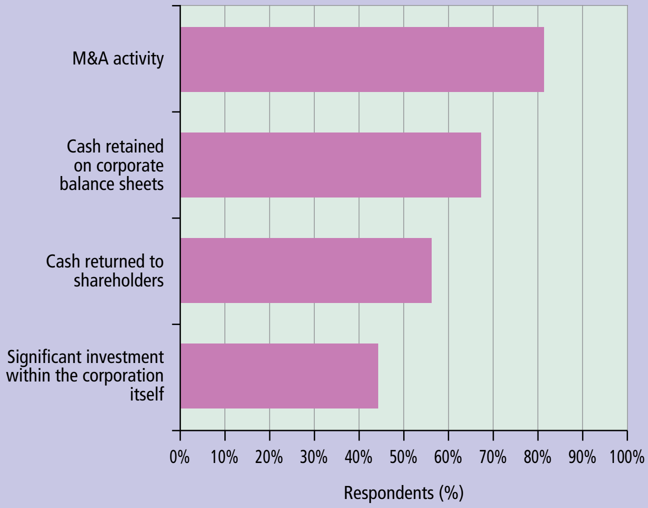


(Figure 7)

M&A will be the main focus for 'excess' corporate cash, LPs say

81% of investors expect mergers and acquisition activities to be a major focus for the large volume of cash on corporate balance sheets in the next 2-3 years. Retention of balance sheet cash and its return to shareholders are the next most likely options, LPs believe. Only 44% of LPs expect significant investment within corporations.

Main ways in which the cash on corporate balance sheets will be deployed in the next 2-3 years – LP views



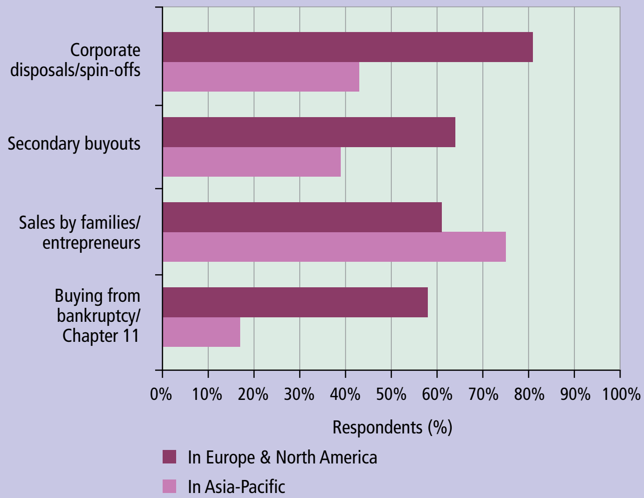
(Figure 8)

Majority of LPs continue to expect good PE opportunities from bankruptcy/Chapter 11 in North America and Europe

Corporate disposals will provide the best investment opportunities for PE funds in Europe and North America, LPs say. And well over half of LPs (58%) also expect good investments from bankruptcy/Chapter 11.

Unsurprisingly, three quarters of investors expect good investment opportunities to arise from families and entrepreneurs in the Asia-Pacific region.

Sources of attractive PE transactions in the next 2 years – LP views

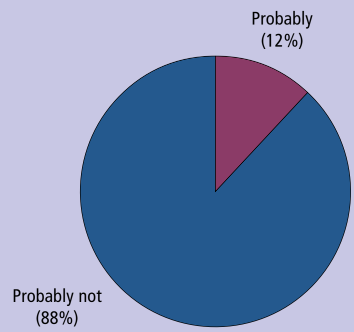


(Figure 9)

Large buyouts have limited appeal for investors

Few LPs (12%) expect to increase the pace at which they make commitments to large buyouts (deal sizes of $1bn or more) over the next 2-3 years.

LPs expecting to accelerate the rate of their commitments to large buyout funds (deal sizes of $1bn or more) in the next 2-3 years



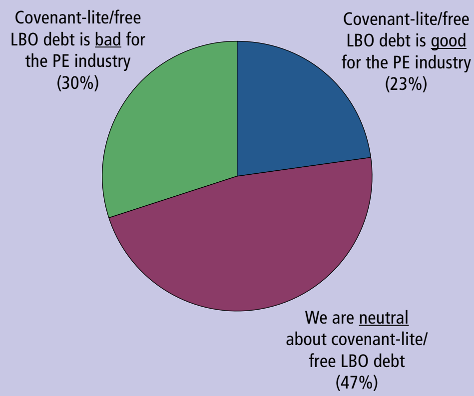
(Figure 10)

Mixed views on the return of covenant-lite/covenant-free LBO debt

Investors are undecided about the re-emergence of covenant-lite/covenant-free debt for large buyouts: 30% of LPs think it is *bad* for the industry; 23% say it is a *good* thing for PE; with the remainder maintaining a *neutral* stance.

Covenant-lite/covenant-free loans were very much a pre-crisis phenomenon which almost disappeared in the years following the crash. They have recently had a revival, especially in North America.

The return of covenant-lite/covenant-free LBO debt – LP views

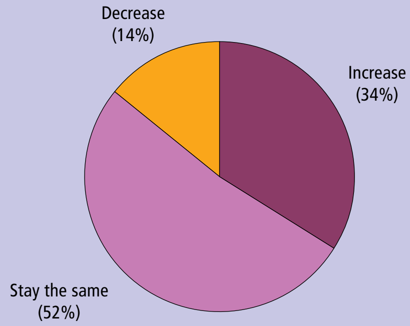


(Figure 11)

Credit investments to attract more LP capital

One third (34%) of LPs plan to increase their target allocation to credit investments over the next year – while only one in seven LPs plan a decrease in their target allocation.

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



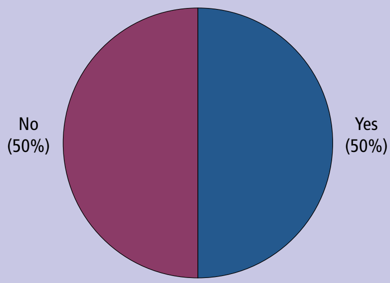
(Figure 12)

Private debt funds very popular with LPs

Half of LPs have either invested in private debt funds or are considering such investments. (By way of comparison, between a third and a half of LPs have commitments to funds-of-funds and venture capital).

The number of private debt funds has grown exponentially since the crisis began – just 10 existed in 2009; by 2012, there were over 100 – with many more in the pipeline.

LPs that recently invested or are considering investing in a private debt fund



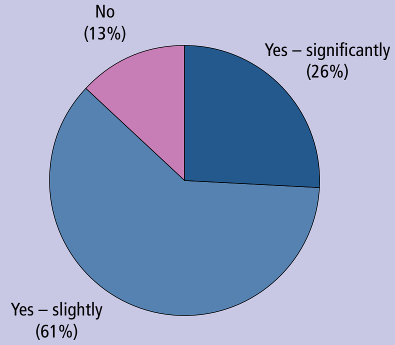
(Figure 13)

Soon-to-expire dry powder is inflating PE pricing slightly, LPs think

87% of PE investors think the large volume of uninvested commitments approaching the end of their investment periods is inflating prices in the PE market – but most LPs (61%) think the effect is modest.

Only 13% of investors believe the large volume of dry powder is having no effect at all on pricing.

Proportion of LPs who think that ageing dry powder is inflating PE pricing

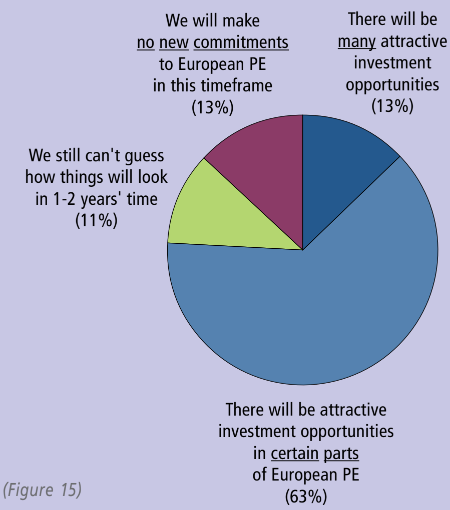


(Figure 14)

LPs cautiously optimistic about *new* PE investments in Europe

Three quarters (76%) of LPs think European PE will offer attractive investment opportunities in the next 1-2 years – though the majority of these LPs believe the opportunity will be limited to specific geographies and sectors.

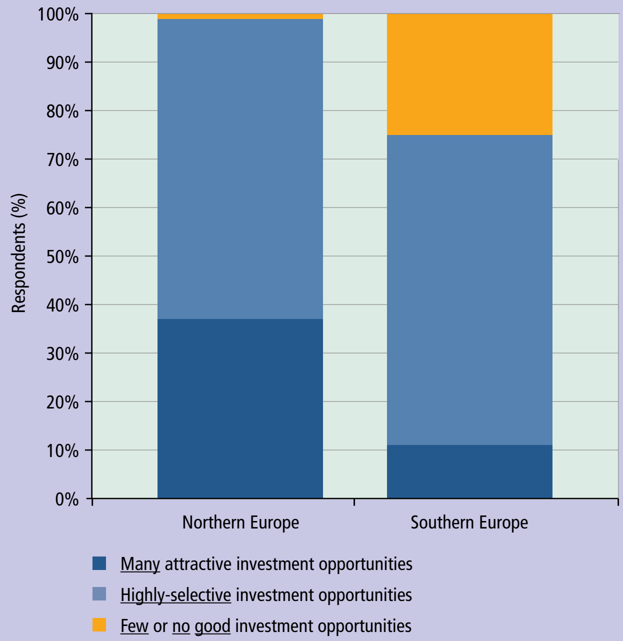
LPs' attitudes towards European PE in the next 1-2 years



(Figure 15)

LPs expecting European PE to offer attractive investment opportunities have a clear preference for Northern Europe. Over one third (37%) of LPs expect PE firms to find *many* good investment opportunities in Northern Europe in the next 1-2 years (compared with 11% of LPs who expect the same from Southern Europe).

Location of attractive PE investment opportunities in Europe in the next 1-2 years – LP views



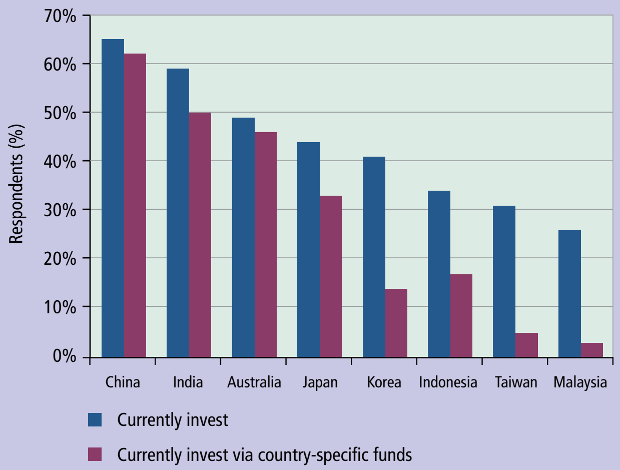
(Figure 16)

China, India and Australia are main focus for LPs' country-specific PE investments in Asia

Over half of LPs have PE interests in China and India, and 40-50% of LPs have exposure to Australia, Japan and Korea.

One quarter to a third of LPs have PE exposure to the emerging markets of Indonesia, Taiwan and Malaysia, but mainly through PE funds with a wider Asian focus.

Asia-Pacific countries in which LPs currently have PE exposure

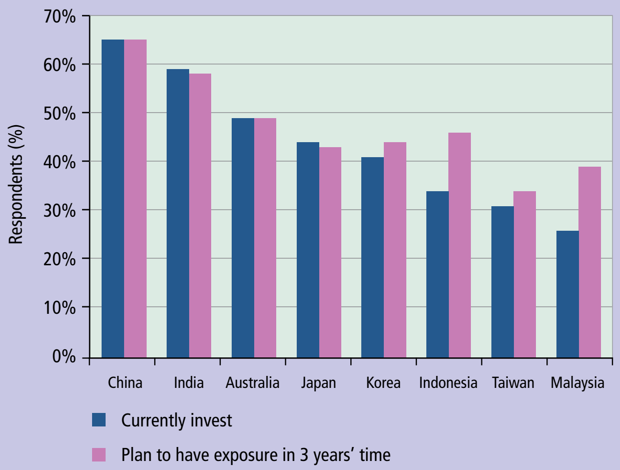


(Figure 17)

LPs plan increased exposure to Indonesia and Malaysia

PE investors plan to boost their exposure to Indonesia and Malaysia over the next 3 years – while investment in the more developed Asian markets will remain stable.

Asia-Pacific countries in which LPs currently invest and plan to have exposure in 3 years' time



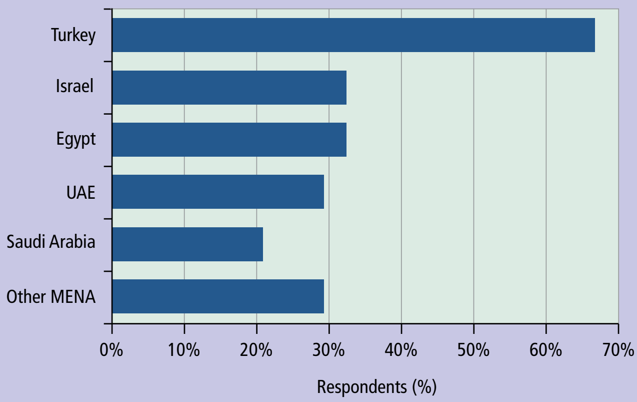
(Figure 18)

One in five LPs see attractive PE opportunities in MENA

One in five (19%) of the world's LPs believe the MENA region will provide attractive investment opportunities over the next few years.

For investors who favour the MENA region, Turkey is the destination of choice – with two thirds citing it as attractive. Next most attractive for this group are Israel and Egypt.

Favoured destinations for LPs attracted to PE in the MENA region in the next 1-2 years



(Figure 19)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Summer 2013

The *Barometer* researched the plans and opinions of 140 investors in private equity funds. These investors, based in North America, Europe and Asia-Pacific (including the Middle East), 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.

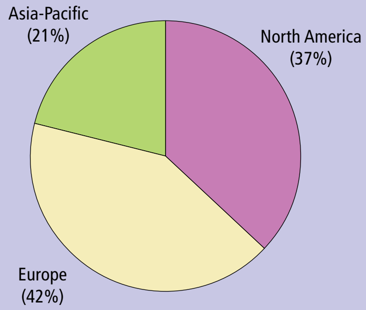
Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in February-March 2013 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Notes:

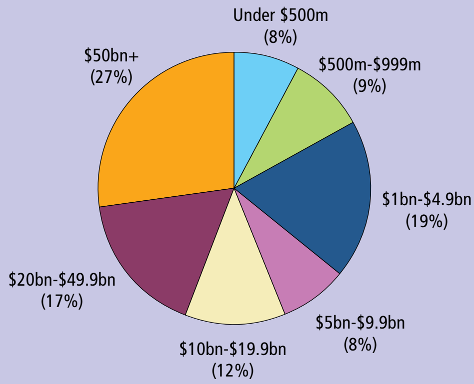
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



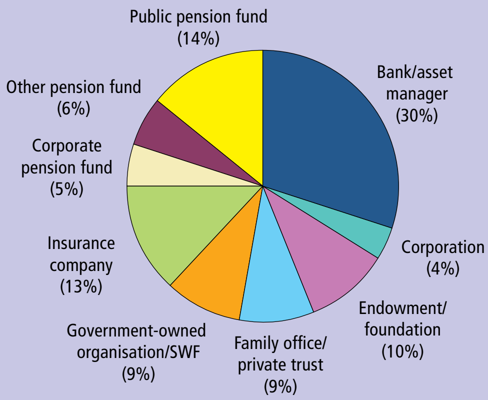
(Figure 20)

Respondents by total assets under management



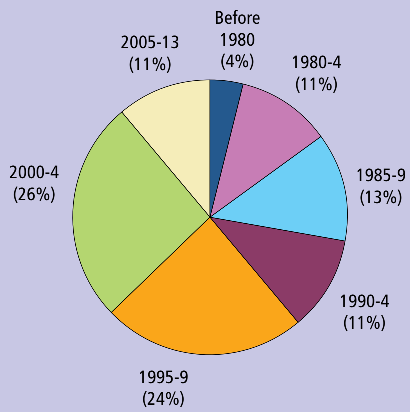
(Figure 21)

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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