Coller Capital

Global Private Equity Barometer

SUMMER 2007

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 110 private equity investors from all round the world. The *Barometer's* findings are globally representative 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:

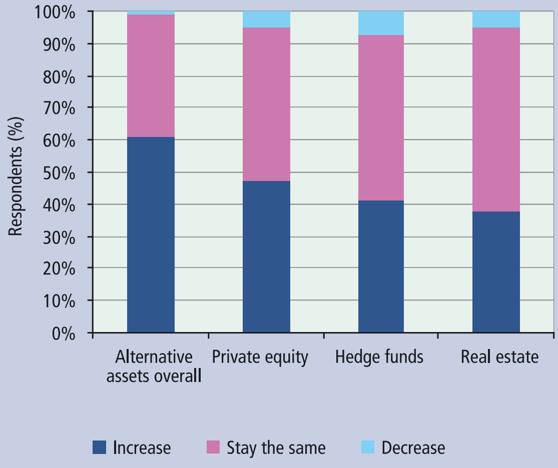
- LPs' appetite for private equity and alternative assets
- Gatekeepers/funds-of-funds
- Investing in particular funds – key considerations for LPs
- LPs' returns
- Non-financial restrictions on investment mandates
- Secondaries market
- Risks to the performance of large buyout funds
- Distributions to LPs

LP appetite for private equity and alternative assets

Private equity investors plan to increase their exposure to alternative assets still further, despite the huge sums they have invested in the asset class in recent years.

Three fifths of LPs (61%) plan to increase their allocations to alternative assets in the next 12 months – up from 57% of LPs six months ago (*Barometer,* Winter 2006-07).

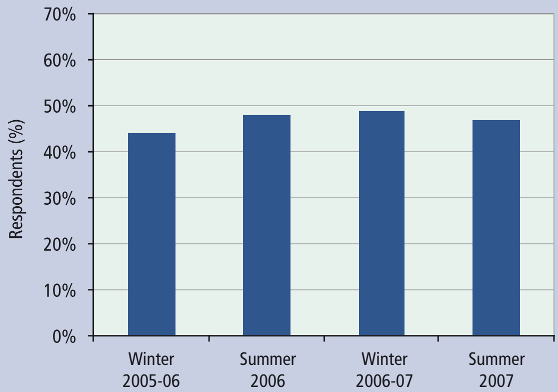
LPs' planned changes to alternative asset allocations in the next 12 months



(Figure 1)

Neither is there any sign that the fundraising bonanza for private equity specifically is coming to an end. Although record sums were raised by GPs in 2005 and 2006, almost half of LPs (47%) are nevertheless planning increased allocations in the coming year – a proportion that has remained stable over the last couple of years. Only 1 in 20 LPs in this *Barometer* is planning a decreased allocation.

LPs' planning to *increase* their private equity allocations – Winter 2005-06 to Summer 2007



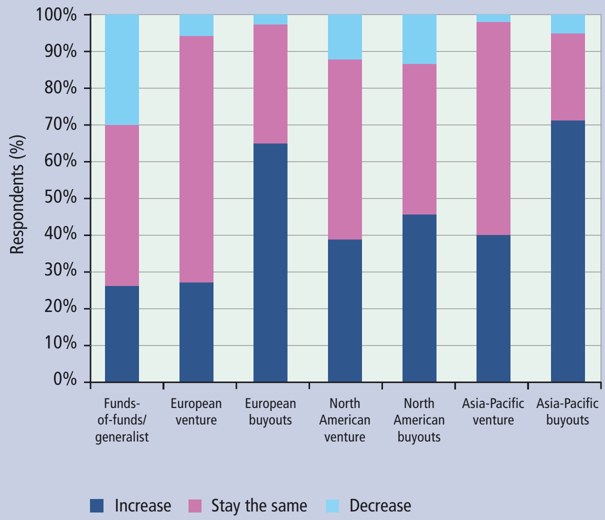
(Figure 2)

Planned commitments to private equity

European and Asian buyout funds will be the greatest beneficiaries of the strong investor appetite for private equity. Over the next three years, 65% of LPs are planning increased commitments to European buyouts, and 71% to Asia-Pacific buyouts.

There is only one area of private equity to which a significant proportion of investors expects to direct less money: one third of LPs (31%) say they will decrease their commitments to funds-of-funds and generalist funds.

LPs' planned commitments to private equity over the next 3 years



(Figure 3)

Gatekeepers and funds-of-funds

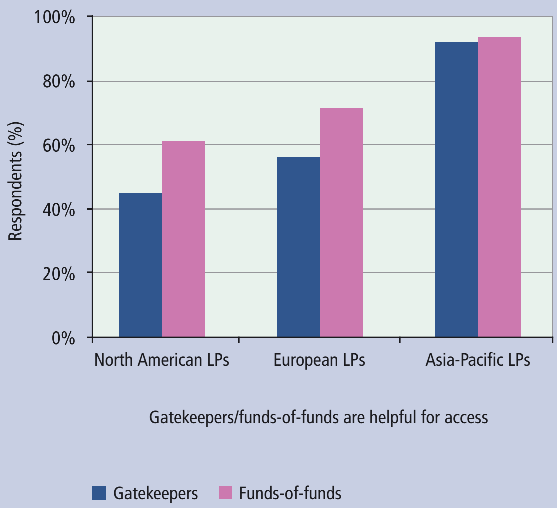
Gatekeepers and funds-of-funds both claim to help investors access top-performing funds.

In the case of funds-of-funds, the *Barometer* shows LPs are broadly supportive of this claim – with at least three fifths of LPs in each region in agreement.

The proportion subscribing to this view for gatekeepers is somewhat lower – at 45% for North American LPs and 57% for European investors.

Investors based in the Asia-Pacific region, however, are almost unanimous that gatekeepers and funds-of-funds are helpful in accessing top-performing funds.

Helpfulness of gatekeepers and funds-of-funds in gaining access to top-performing funds – LP views



(Figure 4)

The decision to invest with a GP – key considerations

In private equity, talent and experience make a difference, at least in the medium and long term. In deciding whether to invest or re-invest with a GP, LPs identify two factors as being of paramount importance:

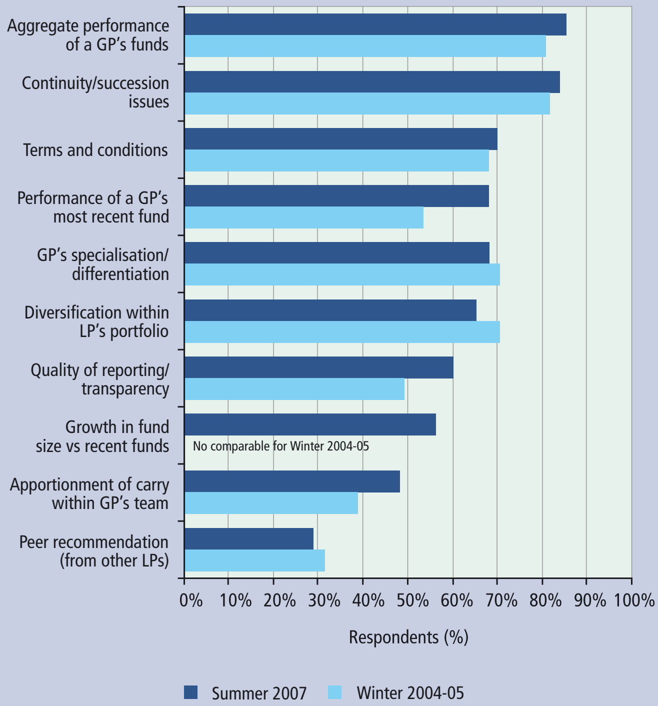
- The aggregate performance of a GP's funds (cited by 85% of LPs).
- Continuity and succession within a GP's team (cited by 84%).

LPs' investment criteria have changed (since the *Barometer*, Winter 2004-05) in three areas:

- The performance of a GP's *most recent* fund has become more important – perhaps because LPs believe GPs should have made impressive returns in the benign environment of the last few years.
- Quality and transparency of reporting has also become more important, especially to Asia-Pacific investors.
- Apportionment of carried interest within a GP's team is now rated a key consideration by 48% of LPs.

Over half of LPs (56%) are strongly influenced by the target size of a fund when considering re-investment – though this has not deterred the LP community as a whole from investing in their 'wish list' GPs, of course – as the large buyout market demonstrates.

Factors influencing LPs' decisions to (re-)invest with a GP in the next 12 months – Summer 2007 and Winter 2004-05



(Figure 5)

Returns

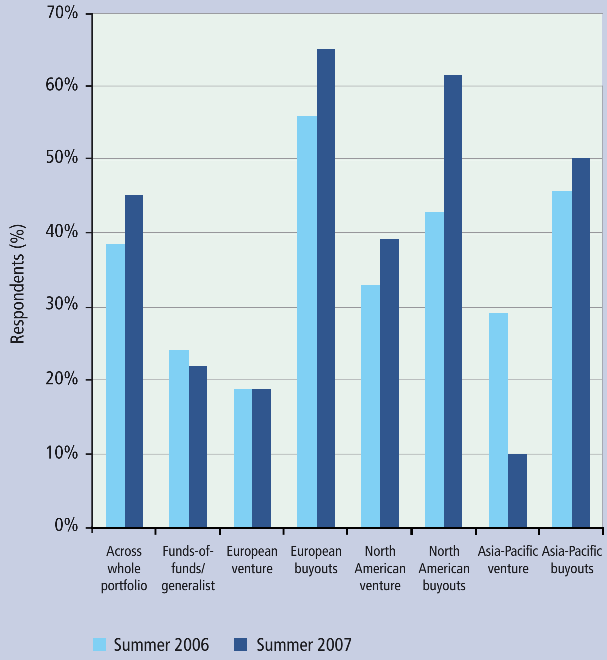
Almost half of LPs (45%) have now achieved net returns of 16%+ over the lifetime of their private equity portfolios (compared with 38% of LPs a year ago). These impressive results are driven especially by European and North American buyouts – from which over three fifths of investors have had returns of 16% or more.

Returns – European LPs versus LPs elsewhere

LPs based in North America and the Asia-Pacific region have achieved higher overall returns than European investors.

The reason for this disparity appears to be that European investors have been *over-exposed* to European venture (a poorly performing area) and perhaps also *under-exposed* to Asian buyouts (a very strongly performing area) compared with their peers in North America and the Asia-Pacific.

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



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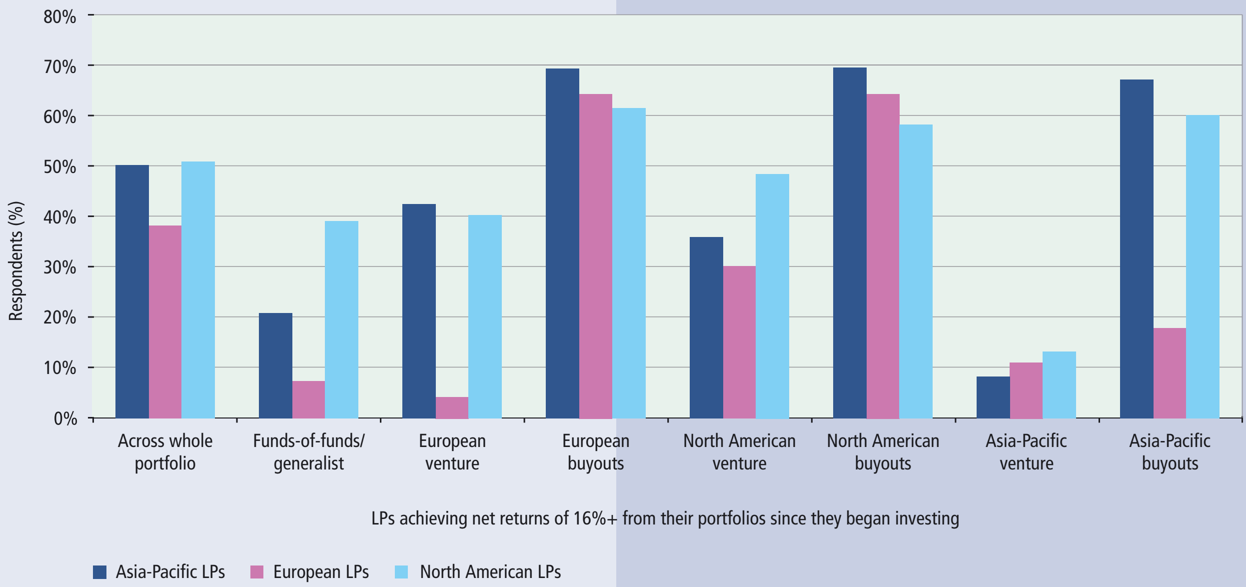
LPs achieving net returns of 16%+ from their portfolios since they began investing – by private equity type



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Non-financial restrictions in investment mandates

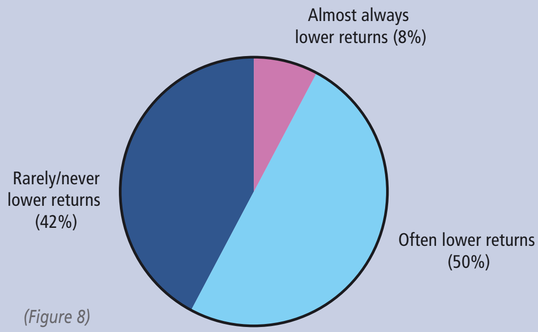
The majority of LPs believe non-financial restrictions in investment mandates (eg, geographical or 'ethical' constraints) usually lead to lower returns.

Interestingly, LPs who *actually have* non-financial restrictions in their investment mandates – around one quarter of LPs – are less pessimistic about the impact this has on returns. Three quarters of this group (72%) believe these restrictions do *not* generally lead to lower returns.

However, this optimistic view is shared by only one quarter (29%) of LPs with no restrictions on their own investment mandates.

It is difficult to be sure which group of LPs is right. The *Barometer* seems to indicate that the performance of private equity portfolios with non-financial investment restrictions is slightly weaker than that of unconstrained portfolios, but a more in-depth study of this issue would be needed to be sure. What is clear is that the nature and extent of these restrictions is a key factor.

Impact of non-financial investment restrictions on private equity returns – LP views



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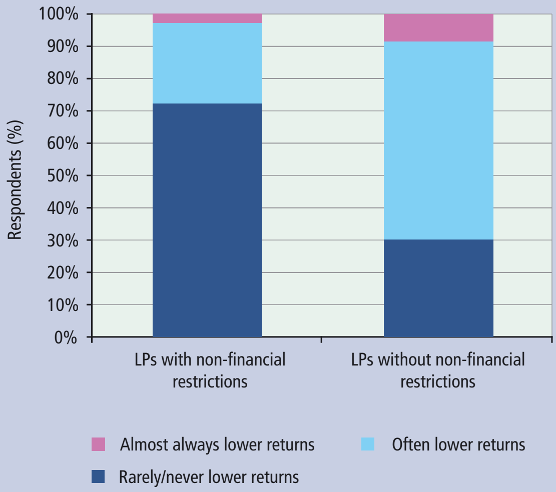
Impact of non-financial investment restrictions on private equity returns



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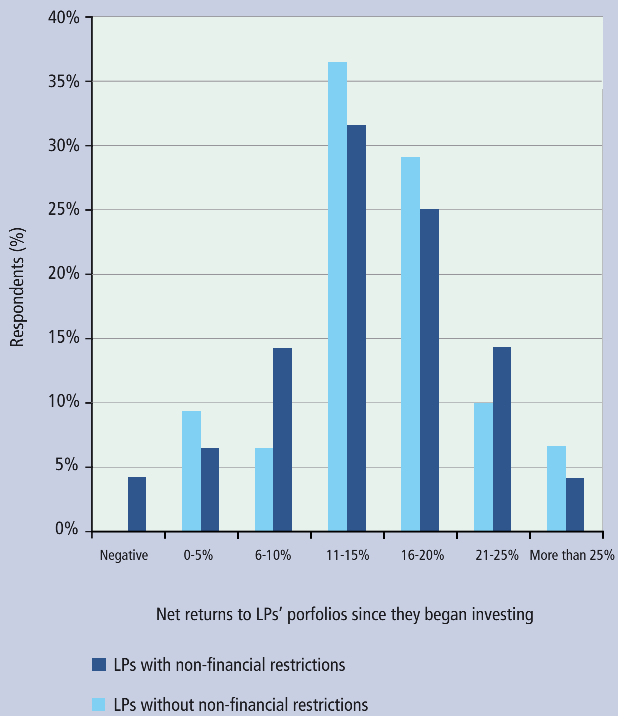
Impact of non-financial investment restrictions – net returns to LPs' portfolios



(Figure 10)

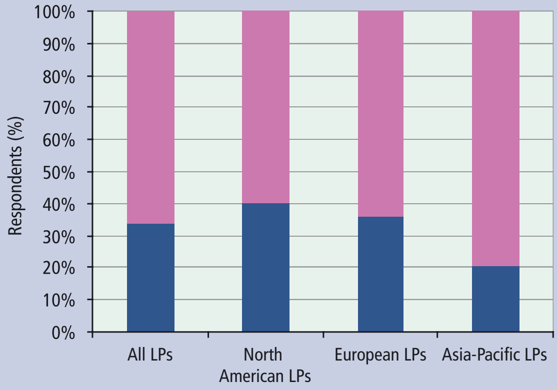
Secondaries market

LPs are now trading actively in the secondaries market – as both buyers and sellers.

Buyers of secondaries

Over one third of LPs worldwide have *bought* assets in the secondaries market in the last three years – though only one in five Asian LPs have done so. (NB These figures largely exclude funds-of-funds, a significant proportion of which buy and sell secondaries.)

LPs that have bought assets in the secondaries market in the last 3 years



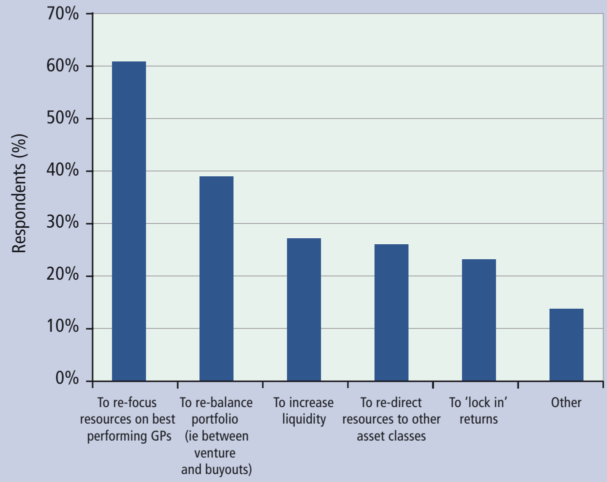
(Figure 11)

Sellers of assets as secondaries

Familiarity with, and use of, the secondaries market among LPs is continuing to grow worldwide – 1 in 5 North American LPs, 1 in 7 European LPs, and 1 in 10 Asia-Pacific LPs have *sold* assets as secondaries in the last three years.

LPs regard the secondaries market primarily as a portfolio management tool – by far the most common reason for them to sell is to re-allocate resources *within* the asset class – to re-allocate funds between GPs in their portfolios (61% of sellers) or between different areas of private equity (39% of sellers).

LPs' motivations for selling in the secondaries market



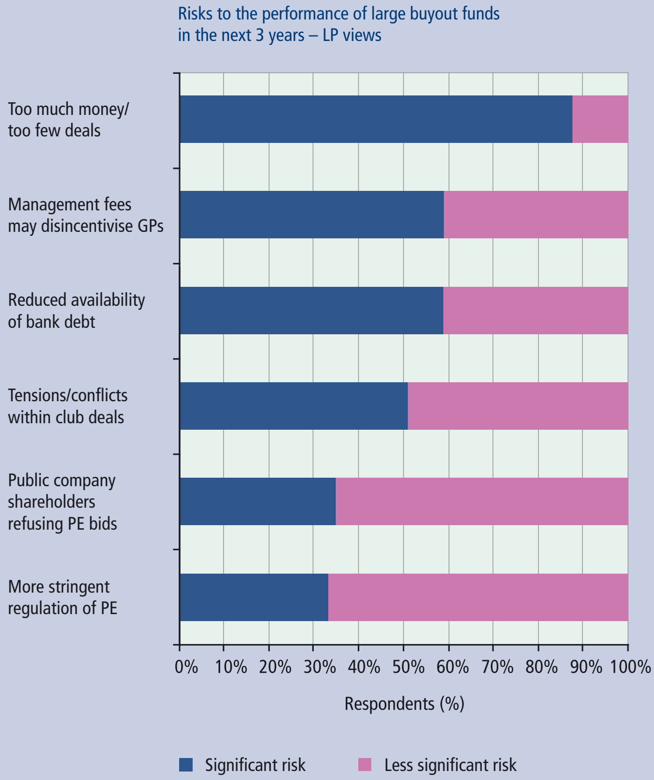
(Figure 12)

Risks facing large buyout funds

Investors believe the biggest risk to the impressive performance of large buyout funds is tough competition – 88% of LPs are concerned that too much money will be chasing too few deals over the next 3 years.

Over half of LPs (59%) think there is some risk that the management fees earned by the largest buyout funds will disincentivise their GPs.

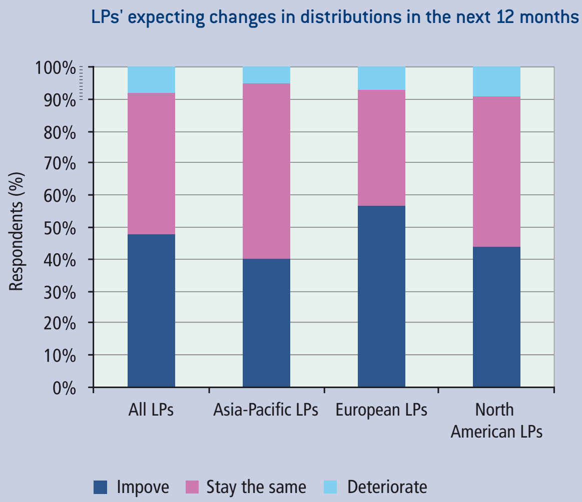
The same proportion of investors is concerned that the performance of these funds could be affected by a reduction in the availability of bank debt over the next three years.



(Figure 13)

Distributions to LPs

Half of LPs (48%) expect fund distributions to increase over the next year – compared with one third of investors six months ago (*Barometer,* Winter 2006-07). In Europe in particular, an overall majority of LPs expect distributions to improve over the next 12 months.



(Figure 14)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Summer 2007

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.

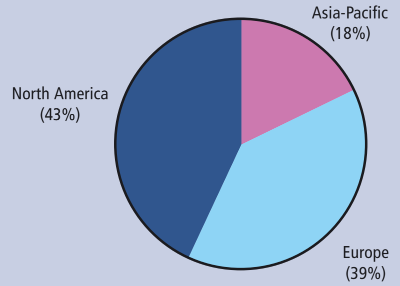
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in February-April 2007 by IE Consulting, a division of Incisive Media, which has been conducting private equity research for 18 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



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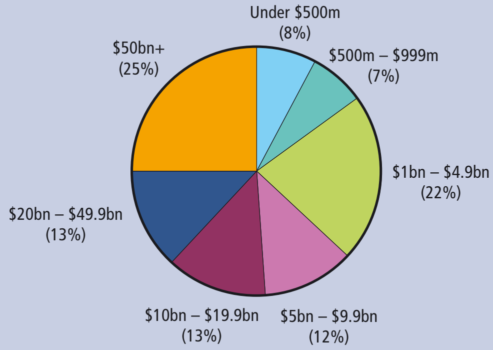
Respondents by total assets under management



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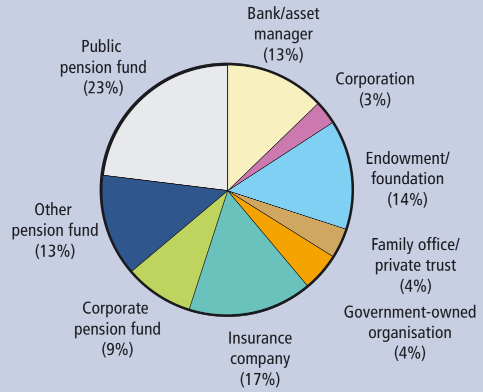
Respondents by type of organisation



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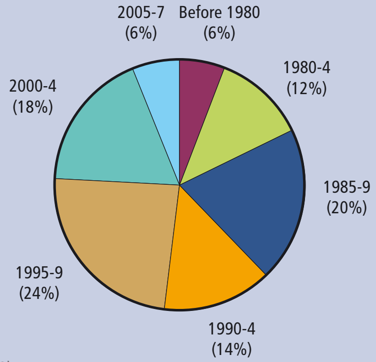
Respondents by year in which they started to invest in private equity



(Figure 18)

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