Coller Capital

Global Private Equity Barometer

AUTUMN 2004

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.

The first *Global Private Equity Barometer* captured the views of 105 private equity investors from around the world during August-September 2004. 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

42% of investors are currently under their target allocations to private equity

Only 2% of investors are over-committed to private equity.

For the remainder:

- 32% are currently up to 5% below their target allocations
- 10% are from 6-10% below their target allocations
  (These organisation are: Endowments, Foundations or Family Offices, which often have large allocations to private equity.)
- 56% are approximately at their target allocations

Regionally, though, there are striking differences. While 75% of European LPs and 80% of Asian LPs are approximately at their target allocations, this is true of only 35% of North American investors: 45% of North American LPs are 1-5% under-committed, with another 15% being 6-10% under-committed.

Investors' current commitments to private equity (compared with their target allocations)

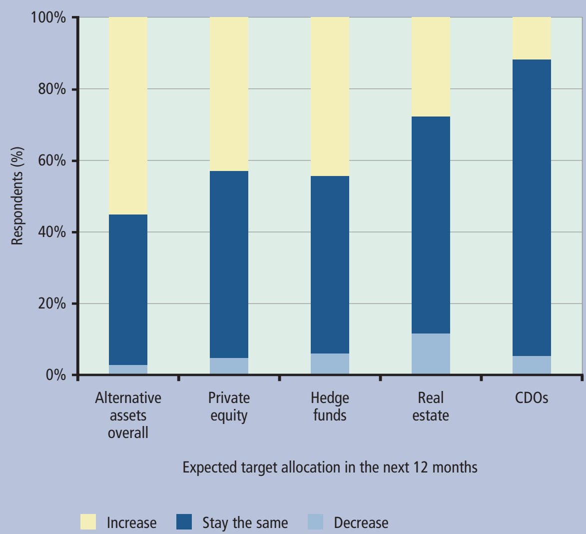
(Figure 1)

Investor appetite for *alternative assets* is strong

The appetite for alternative assets is strong all round the world – 56% of investors expect to increase their allocation to the asset class over the coming year, with almost none expecting to reduce it.

Private equity and hedge funds will be the main beneficiaries of these plans, with more than 43% of investors expecting to increase their allocation to private equity and 45% planning to do the same with hedge funds. This picture is consistent all around the world.

Investors' intentions concerning their allocations to alternative assets in the next 12 months – by investment type



(Figure 2)

Almost half of investors expect to speed up their commitments to private equity

Again, the picture is consistent around the world. Overall:

- 47% of investors expect to increase their rate of commitments to private equity
- 48% of investors expect to maintain their current rate of commitments to private equity

One fifth of investors plan to grow their private equity teams in the next year

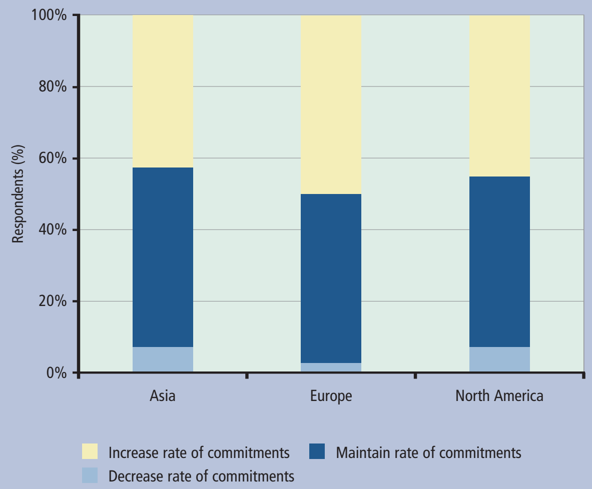
Three quarters of investors (74%) intend to maintain the size of their private equity teams over the next 12 months, while 21% of LPs plan to add investment professionals to their teams. LPs planning increases are predominantly:

- the larger institutions (more than $20bn of assets)
- those who began investing in private equity after 1990
- corporate venturers, insurance companies and banks
- investors based in the Asia-Pacific

Over half of investors expect to increase the number of their GP relationships over the next year

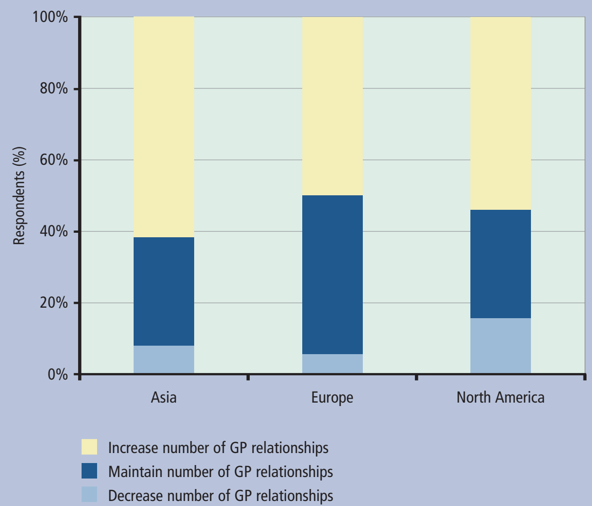
53% of investors expect to increase the overall number of their GP relationships in the coming year – with this proportion rising to 62% of LPs based in Asia-Pacific. About one third of European and North American LPs plan no change in their overall number of GP relationships.

Expected changes to LPs' rate of commitments to private equity over the next 12 months



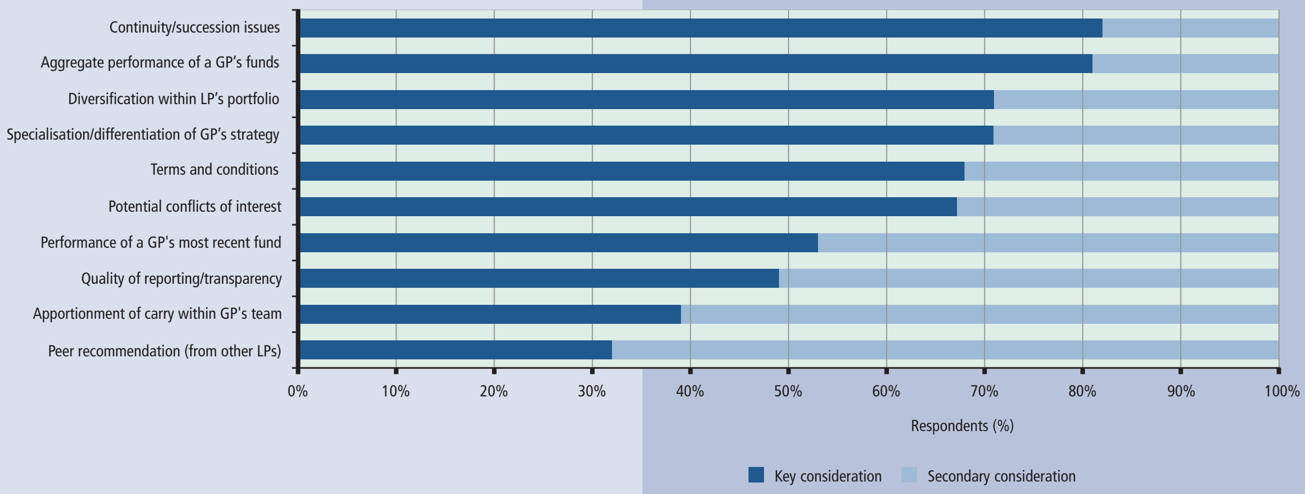
(Figure 3)

LPs' plans for their number of GP relationships over the next year – by region



(Figure 4)

Factors influencing LPs' decisions to (re-)invest with a GP in the coming year



(Figure 5)

LPs regard private equity as a skill-based investment activity with long-term horizons

In deciding whether to invest or reinvest with a GP in the coming year, LPs claim *(Figure 5)* that the following will be key considerations:

- 81% maintain that the aggregate performance of a GP's funds is critical – compared with 53% who state that the performance of a GP's last fund is key. (The proportion emphasising aggregate performance rises to 94% in private equity's most established market: North America.)
- Continuity and succession within GP firms is the single most important factor for LPs, with 82% of investors citing it as a key consideration
- The specialisation/differentiation of a GP's strategy is identified as crucial by 68% of investors

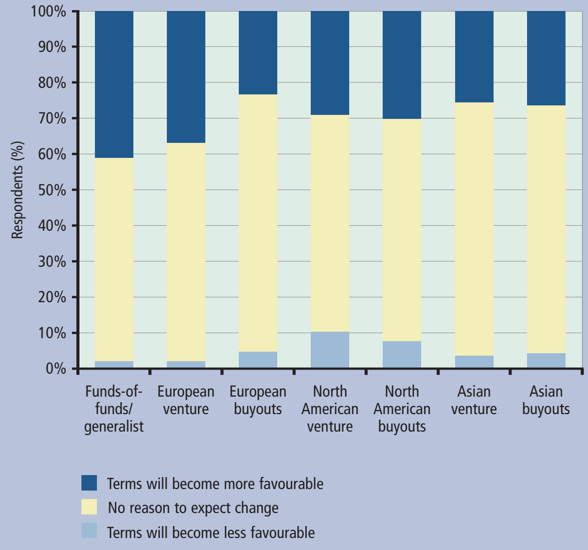
Mixed news for GPs on terms and conditions

The findings of the *Benchmark* are generally good news for GPs hoping to raise funds in 2005. However, when it comes to terms and conditions – which 68% of LPs say is an area of primary importance – the news is more mixed. The overwhelming majority of investors (between 90% and 98%) expect GPs' terms and conditions *either* to remain the same or to change in their favour. This is true for both venture and buyout across all three regions of the world.

At least one quarter of investors in every category of private equity expect to secure improved terms and conditions in their negotiations over the next year – especially in European venture, where 37% of LPs expect terms and conditions to improve, and funds-of-funds/generalist funds, where 41% expect to secure better deals.

European investors in funds-of-funds – and local investors in European venture, Asian venture and Asian buyouts – seem particularly determined to secure improved terms, with around half expecting a better deal.

The favourability to LPs of private equity terms and conditions - investor expectations for the coming year



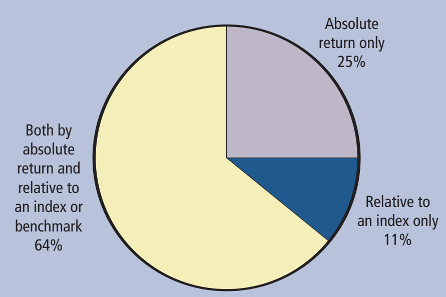
(Figure 6)

Most LPs measure performance both by absolute return and relative to a benchmark

Whereas a quarter of investors use 'absolute return' alone to evaluate the performance of their portfolios, almost two thirds (64%) look both at absolute return and at performance relative to a chosen index or benchmark.

Where investors measure private equity's performance against quoted equities, they target an average 4% out-performance of their chosen public index.

Private equity performance measures used by LPs



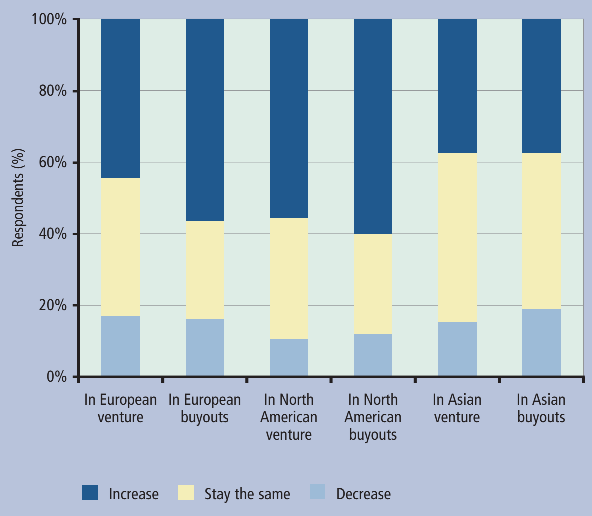
(Figure 7)

On balance, LPs expect European and North American private equity valuations to rise and those in Asia to remain unchanged

Between 45% and 60% of investors expect *European* and *North American* private equity valuations to increase (with about one third of LPs believing that they will remain unchanged).

For *Asian* private equity, the largest group of investors think valuations will remain unchanged – 47% believe this for Asian venture and 44% for Asian buyout.

LPs' views of GP valuations over the next 12 months – by fund type



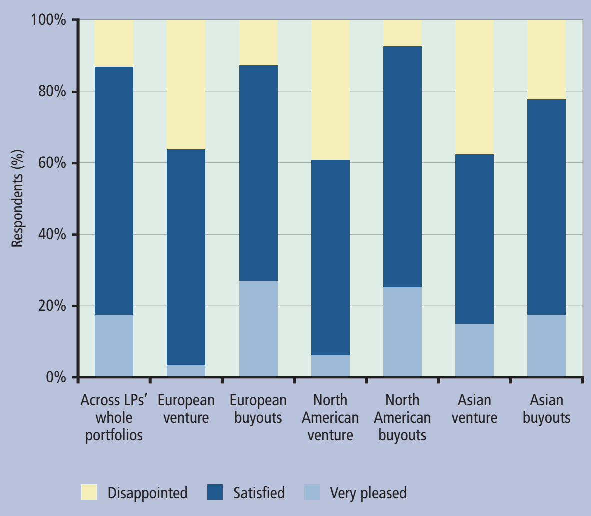
(Figure 8)

70% of investors are satisfied with the returns from their private equity portfolios over the last year

Venture funds produced the most disappointing returns – with 36% of investors reporting dissatisfaction with their European venture returns; 40% with their North American returns; and 38% with their Asian returns.

Buyout returns were more welcome. For European buyouts, 87% of investors were either *satisfied* or *very pleased* with their 12 monthly returns. For North American buyouts, this proportion was 93%.

LPs' satisfaction with their returns over the last 12 months



(Figure 9)

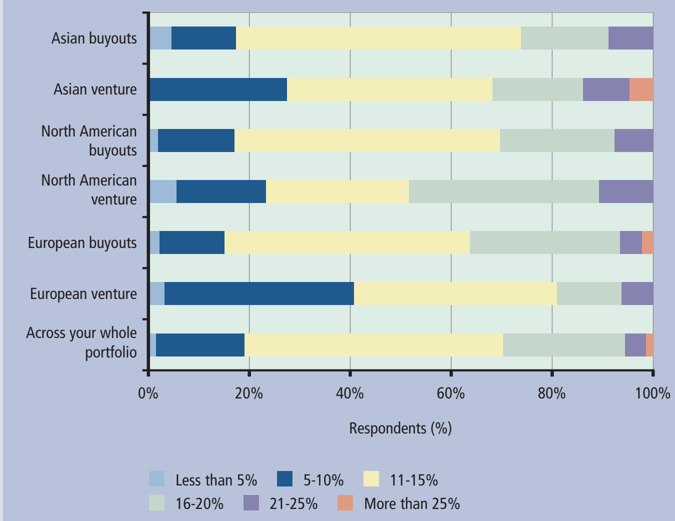
Three quarters of investors expect net returns of 11-20% from private equity over the next 3-5 years

Overall, three quarters of investors expect to achieve net returns across their portfolios of 11-20% over the next 3-5 years (with half of LPs expecting returns of 11-15% and a further quarter expecting returns in the 16-20% range).

Net returns in the 11-20% range are expected for European buyouts by 79% of LPs; for North American buyouts by 76% of LPs; and for Asian buyouts by 74%. North American venture funds are also expected to make returns of this order – by two thirds of investors.

The picture for European and Asian venture is rather less rosy. Only 60% of investors expect European venture capital funds to return more than 10%, with the remaining two fifths expecting returns below this level. For Asian venture funds, the figures are 73% expecting above 10%, with 27% expecting below.

Net returns from private equity expected by LPs for the next 3-5 years

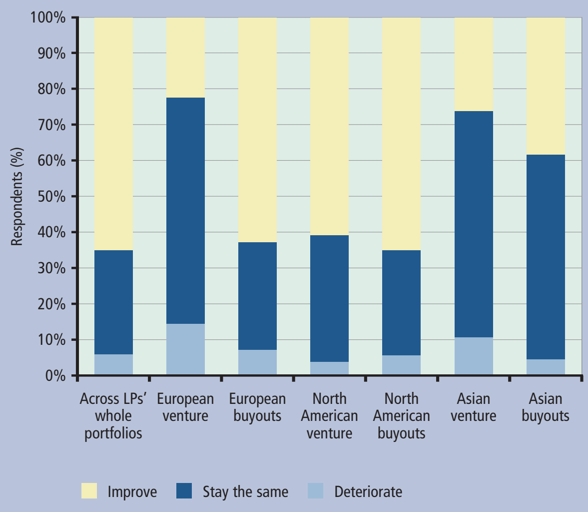


(Figure 10)

Two thirds of LPs expect improved distributions over the next year

65% of investors expect improved distributions across their portfolios over the next year.

Distributions expected by LPs in the next 12 months



(Figure 11)

LPs think buyouts offer the best bet for GP investment over the next year

LPs ranked the investment opportunities for GPs over the next 12 months in the following order of attractiveness:

1. European buyouts
2. Asian buyouts
3. North American buyouts
4. North American venture
5. Asian venture
6. European venture

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Respondent breakdown – Autumn 2004

The Autumn 2004 *Barometer* researched the plans and opinions of 105 investors in private equity funds. These investors, based in North America, Europe and the 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 or the acquisition of portfolios of companies from corporate owners/backers.

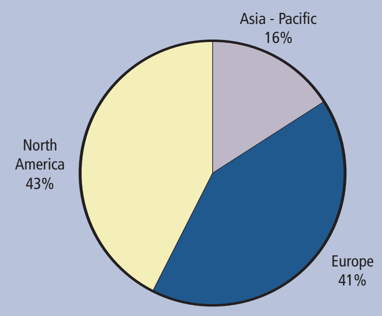
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in August/September 2004 by IE Consulting, a division of Initiative Europe, which has been conducting private equity research for 15 years.

Notes:

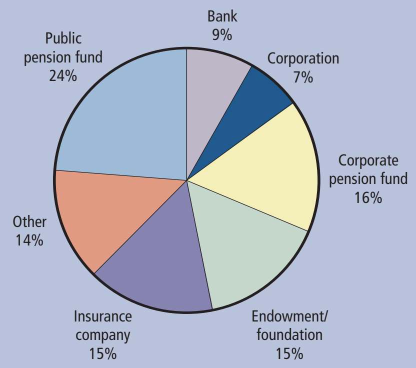
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- 'Asia' is used throughout this document as an abbreviation for Asia-Pacific (which includes Australasia)

Respondents by region



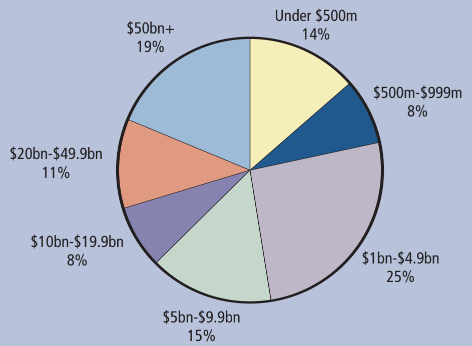
(Figure 12)

Respondents by type of organisation



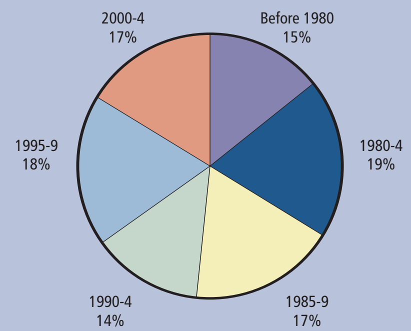
(Figure 13)

Respondents by total assets under management



(Figure 14)

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



(Figure 15)

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