

Coller Capital

Global Private Equity Barometer

❖ WINTER 2005-06

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.

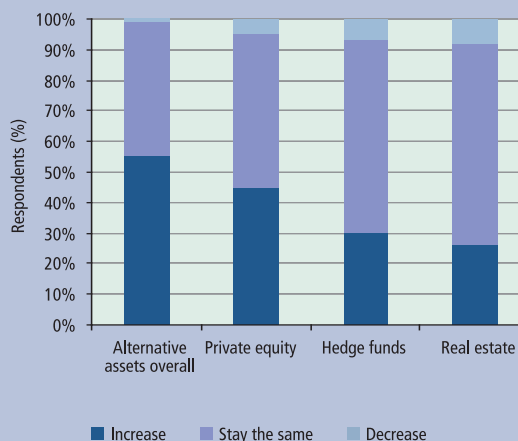
This edition of the *Global Private Equity Barometer* captured the views of 109 private equity investors from all round the world. The *Barometer's* findings are globally representative by:

- Investor location
- Type of investing organisation
- Total assets under management
- Length of experience of private equity investing

Investor appetite for alternative assets overall

The growth in investor appetite for alternative assets continues unabated. Over half of investors (55%) plan to increase their allocations to alternative assets in the next year – compared with 37% of investors six months ago. Almost no investors plan to reduce their current allocations.

LPs' plans for allocations to alternative assets in the next 12 months



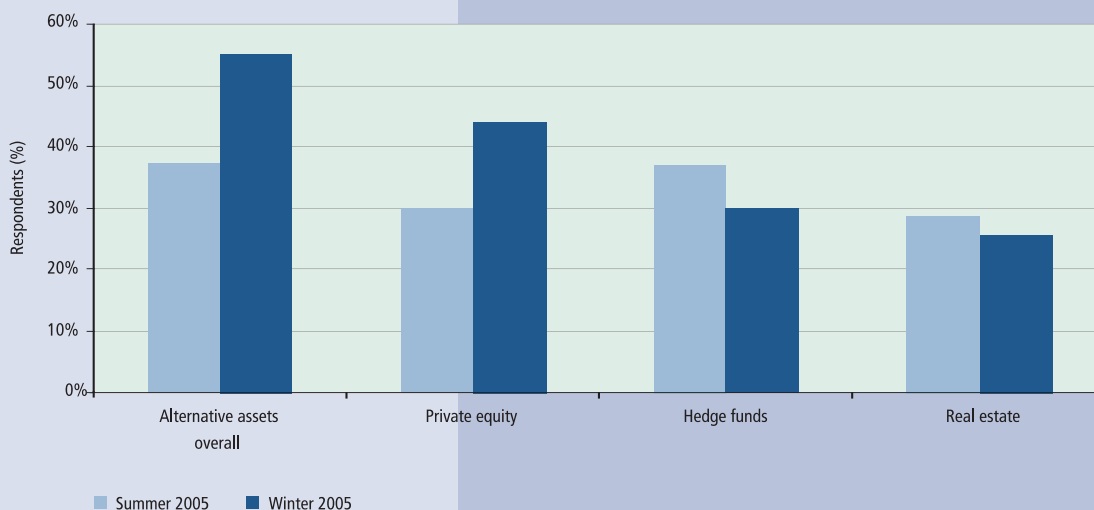
(Figure 1)

Appetite for private equity and hedge funds

Investor appetite for *private equity* is significantly stronger than it was six months ago, with 44% of LPs planning to increase their allocations (compared with 30% in the Summer). This intention is most marked among investors from Europe and Asia-Pacific, around half of whom are planning increased private equity allocations. (Only one third of North American institutions are planning an increase – though on average they have higher allocations currently.)

Compared with their still-growing appetite for private equity, investors' appetite for hedge funds has declined somewhat, with 30% planning increased allocations (down from 37% six months ago).

LPs planning *increases* to their alternative asset allocations – Summer 2005 and Winter 2005



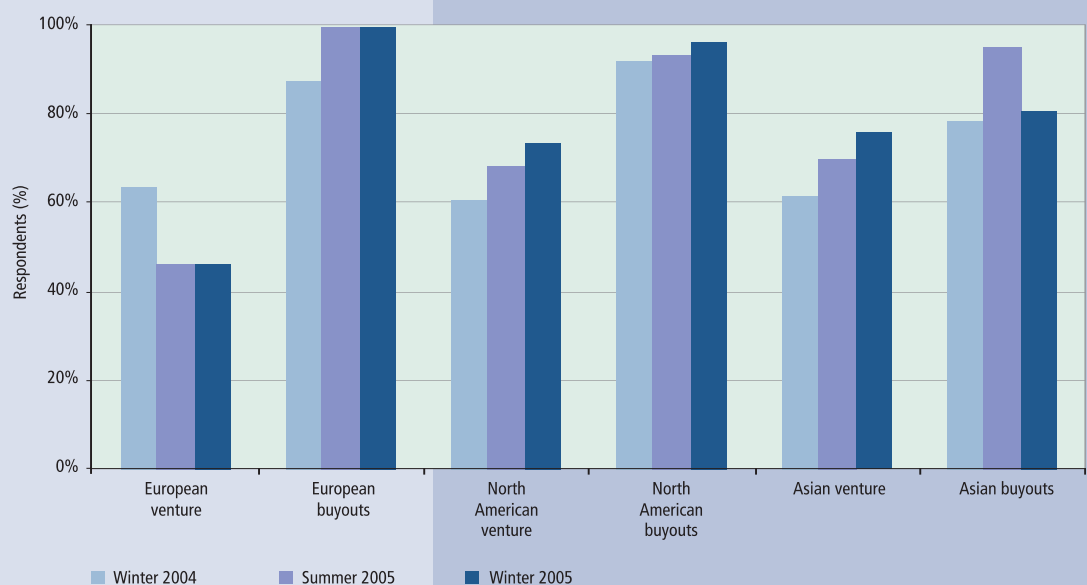
(Figure 2)

Satisfaction with private equity performance

LPs' satisfaction with their returns remains high. At least three quarters of investors are satisfied or very pleased with their returns over the last year. This holds true for each category of private equity – with the sole exception of European venture capital, with which over half of LPs are disappointed. The picture over the last three *Barometers* is consistent, showing:

- Gradually increasing levels of satisfaction with buyout returns from Europe and North America, and with venture returns from Asia and North America.
- Disappointment with European venture standing at exactly the same level as six months ago.
- A sudden and short-lived peak in satisfaction with Asian buyout returns occurring six months ago (probably as a result of a number of well-publicised realisations in the region).
- More variable levels of satisfaction *between LPs* for venture than for buyouts.

LPs satisfied/very pleased with their private equity returns over the last 12 months



(Figure 3)

Distributions

Looking across their whole portfolios, LPs expect distributions to continue to improve over the next 12 months. For all areas of private equity, significantly more investors expect an improvement in the rate of distributions than a slow-down.

Optimism is particularly strong in the case of funds-of-funds and broadly-targeted funds, and also for North American venture funds, with 50% or more of investors expecting an improvement in distributions.

The *Barometer* reveals one positive sign for European venture – almost 40% of LPs expect to receive money back faster from GPs over the next year (compared with 27% of LPs six months ago).

GP investment pace

The buoyant climate for private equity investment is expected to continue – with 43% of LPs expecting the pace of GP investment to increase over the next 12 months and fewer than one in 10 expecting it to decrease.

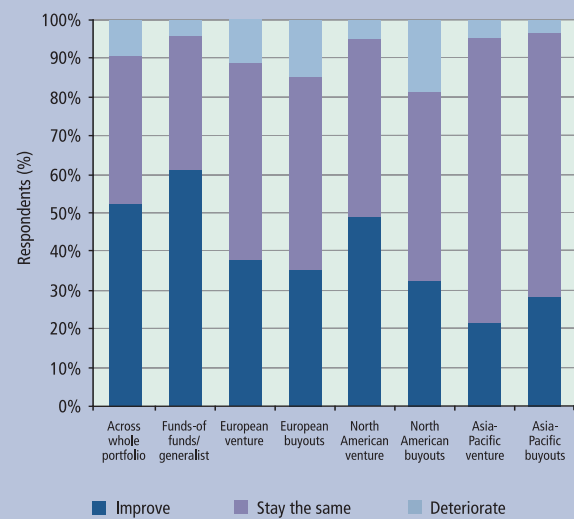
Attractive areas for GP investment

LPs do not seem to believe the European buyout market has yet peaked. They see it as offering the best investment opportunities for GPs over the next 12 months – just as they did a year ago.

Perceptions of North American venture have changed most: over the last three *Barometers* it has worked its way up the 'league table' from fourth place to second.

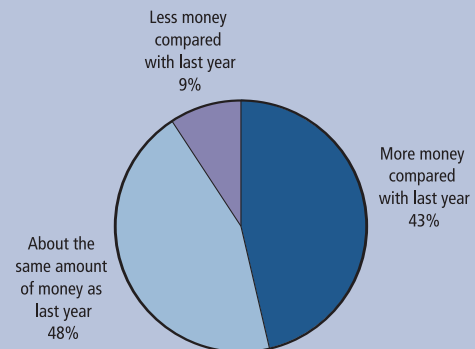
A potentially hopeful sign for European LPs is that *European LPs* as a group rated it in fifth place in this *Barometer*, ahead of Asia-Pacific venture.

LPs expecting changes in the rate of distributions



(Figure 4)

LP expectations for GP draw-downs in the next 12 months



(Figure 5)

The best areas for investment by GPs in the next 12 months – LP views

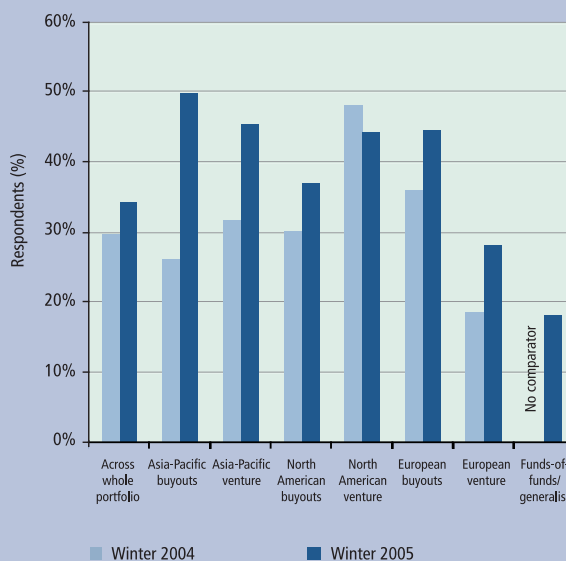
Area	Overall ranking
European buyouts	1
North American venture	2
Asia-Pacific buyouts	3
North American buyouts	4
Asia-Pacific venture	5
European venture	6

(Figure 6)

LPs' 3-5 year return expectations

The medium-term return expectations of investors are buoyant and have improved significantly since this time last year, with a greater proportion of LPs expecting returns of 16%+ in every category of private equity except North American venture.

LPs expecting private equity returns of 16%+ over the next 3-5 years

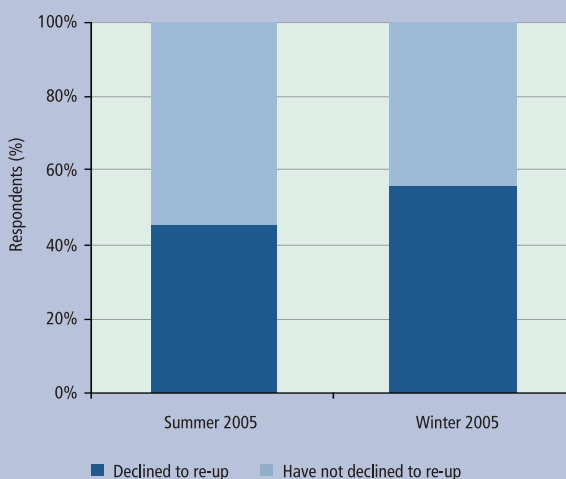


(Figure 7)

LPs' willingness to re-invest with their current GPs

Although their appetite for private equity is continuing to grow, investors are less and less tolerant of poor GP performance. In this *Barometer*, 56% of LPs said that they had declined to 're-up' with GPs in the last year, compared with 45% six months ago. This is particularly noticeable among North American LPs, almost two thirds (65%) of whom have declined to re-invest.

LPs declining to 're-up' in the last 12 months

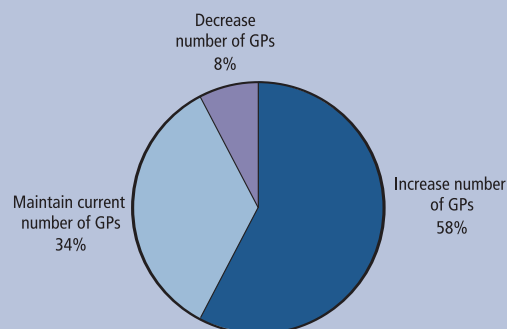


(Figure 8)

LP plans for new GP relationships

Some 58% of LPs plan to increase their overall number of GP relationships in the next 12 months, up from 52% in the last two *Barometers*.

LPs' plans for their number of active GP relationships in the next 12 months



(Figure 9)

Access to GP funds

Access to private equity funds is an issue for investors, with nearly half of LPs (44%) having been unable to obtain their planned allocation to particular GP funds in the last 12 months. This problem is especially acute in the long-established North American market – two thirds of investors around the world have been unable to access their preferred North American venture funds, and almost half of LPs have been unable to access their North American buyout funds of choice.

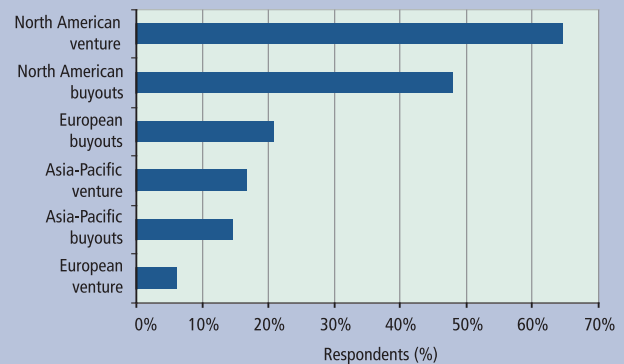
LP concerns in the current fundraising environment

Heightened competition in specific private equity markets, and its potential knock-on effect on returns, emerged as LPs' greatest concern in the current fundraising environment. Unsurprisingly, this was particularly true for investors based in the long-established North American market (92% of LPs).

Other factors likely to affect GP performance – the growth in the size of GPs' funds; continuity and succession within private equity firms; and strategy drift – were also of significant concern.

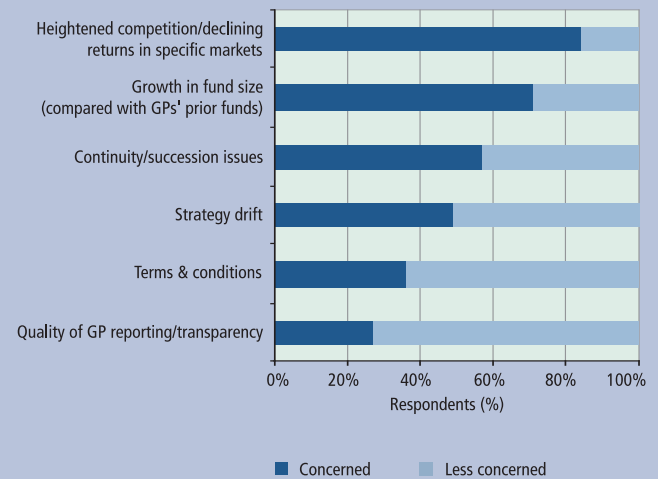
The terms and conditions of new funds are far less of a worry to European investors (just 19%) than to North Americans (51%) and to LPs from Asia-Pacific (44%). This probably reflects the domestic bias of North American LPs (strongly performing managers in North America, especially US venture firms, have wielded significant power in negotiations) and the more limited influence of Asia-Pacific LPs on GPs outside their regions. European LPs, who unsurprisingly have the greatest exposure to European private equity, have faced relatively little pressure on terms and conditions from domestic GPs, because the managers of European *venture funds* have had little bargaining power, and European *buyout GPs* have not tried to improve their terms and conditions at the same time as growing the size of their funds.

LPs unable to obtain their planned allocations to types of private equity fund in the last 12 months



(Figure 10)

LPs' concerns in the current fundraising environment



(Figure 11)

Obstacles to LP investment in European venture capital

LPs consider the scarcity of reliable exit routes as the biggest problem for European venture capital – two thirds of LPs reported this as an issue. Other factors identified by over half of investors were a lack of GPs with the necessary skills and track record, and the fragmented nature of the European marketplace.

In general, LPs that invest in European venture have a more positive view of it than those that do not. Indeed, current investors in European venture ranked it as the fourth most attractive area for GP investment, and this is again a positive sign for the sector – a year ago, this group ranked it as the least attractive area, just as other investors did.

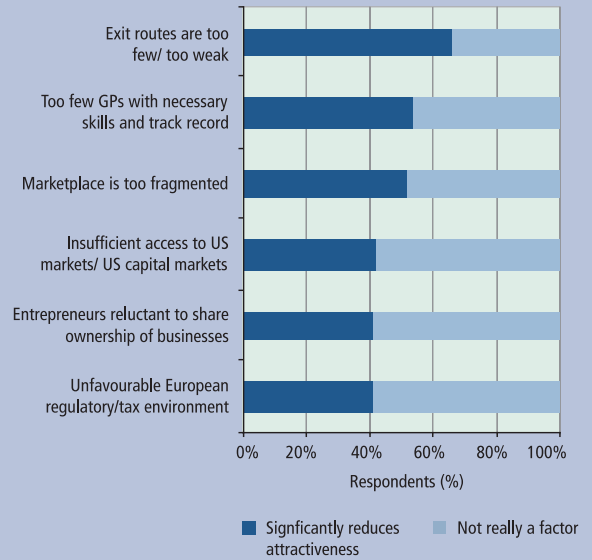
Private equity in emerging markets

Just over a quarter of LPs (26%) currently invest in private equity funds targeted at emerging markets. The pattern at a regional level is varied, with Asia-Pacific LPs being most likely to invest in funds targeted at emerging markets and North Americans being least likely.

A shortage of ‘credible’ GPs and the lack of a proven track record for emerging markets private equity – which are perhaps two sides of the same coin – are the main stumbling-blocks to LP investment.

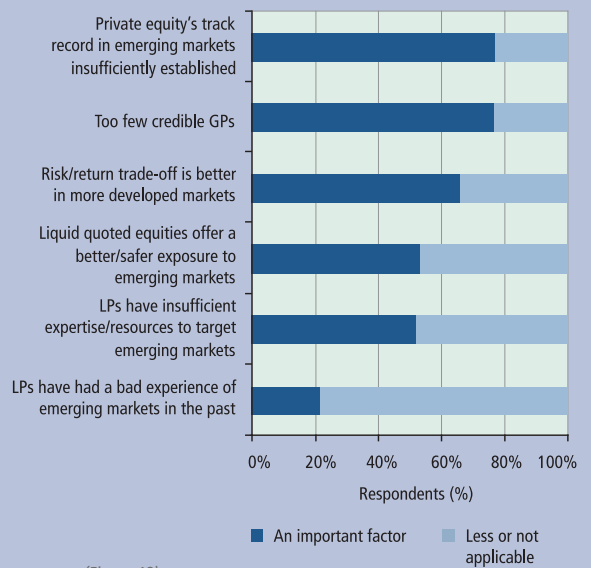
However, the current picture will change rapidly. Although only a quarter of LPs now invest in emerging market funds, over half of investors are planning to increase their exposure over the next 3 years.

Factors reducing the attractiveness of European venture capital



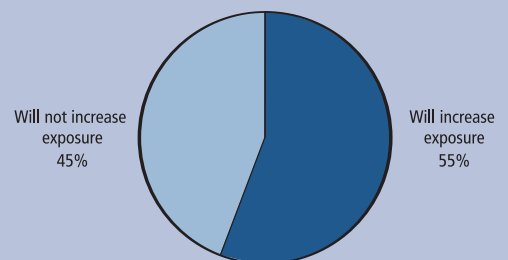
(Figure 12)

Factors limiting or preventing LP investment in emerging markets



(Figure 13)

LPs planning to increase their exposure to emerging markets private equity over the next 3 years

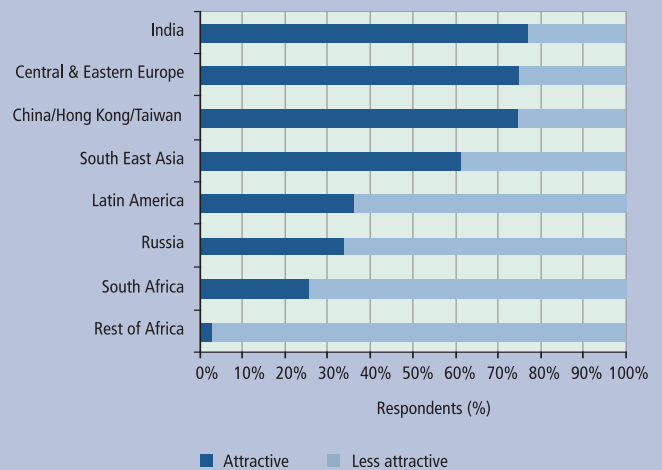


(Figure 14)

The attractiveness of specific emerging markets

LPs view India, Central and Eastern Europe, and China/Hong Kong/Taiwan as the most attractive areas for GP investment over the next 3 years.

The most attractive emerging markets for GP investment over the next 3 years



(Figure 15)

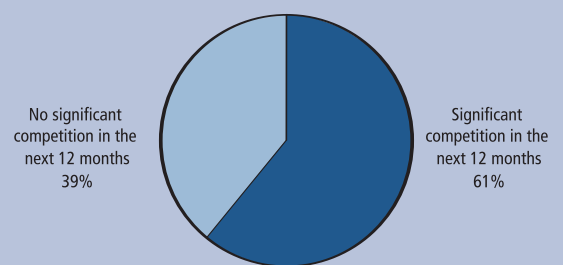
Hedge funds investing in the private equity arena

LPs view hedge funds as a relatively short-term threat to private equity returns.

61% of LPs expect GPs to face significant competition from hedge funds in the next 12 months. (This pattern varies somewhat at a regional level, with nearly three quarters of North American and Asia-Pacific LPs having this expectation, compared with just half of European LPs.)

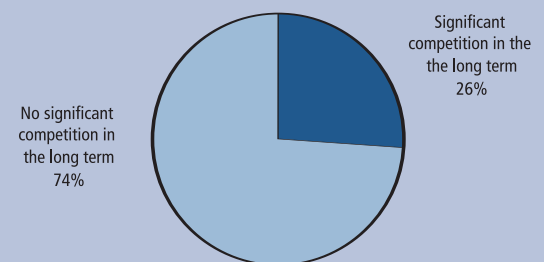
However, over the longer term, three quarters of LPs think it unlikely that hedge funds could compete successfully in the mainstream of private equity. (And this picture is fairly consistent across the three regions.)

The probability of competition for GPs from hedge funds in the next 12 months



(Figure 16)

The probability of competition for GPs from hedge funds in the long term



(Figure 17)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Winter 2005-06

The *Barometer* researched the plans and opinions of 109 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.

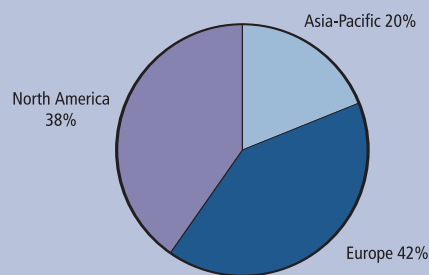
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in August-October 2005 by IE Consulting, a division of Initiative Europe (recently acquired by Incisive Media), which has been conducting private equity research for 15 years.

Notes:

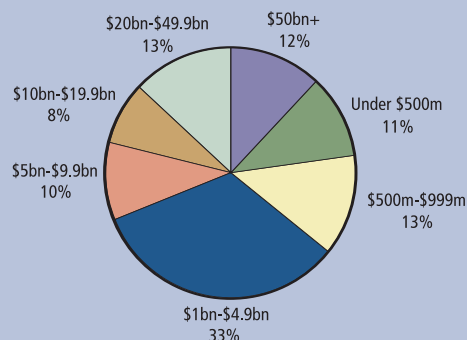
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers

Respondents by region



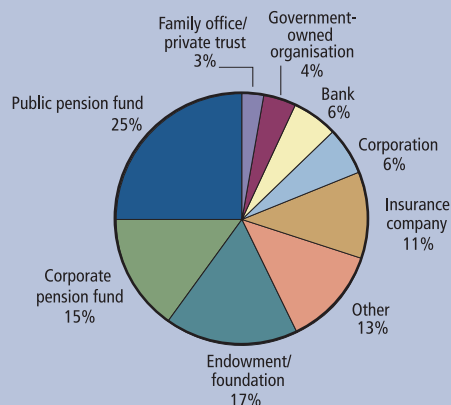
(Figure 18)

Respondents by total assets under management



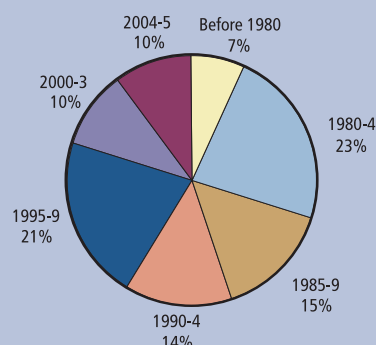
(Figure 19)

Respondents by type of organisation



(Figure 20)

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



(Figure 21)

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