Coller Capital

Global Private Equity Barometer

WINTER 2006-07

A UNIQUE PERSPECTIVE ON THE ISSUES AND OPPORTUNITIES
FACING INVESTORS IN PRIVATE EQUITY WORLDWIDE

Coller Capital's *Global Private Equity Barometer*

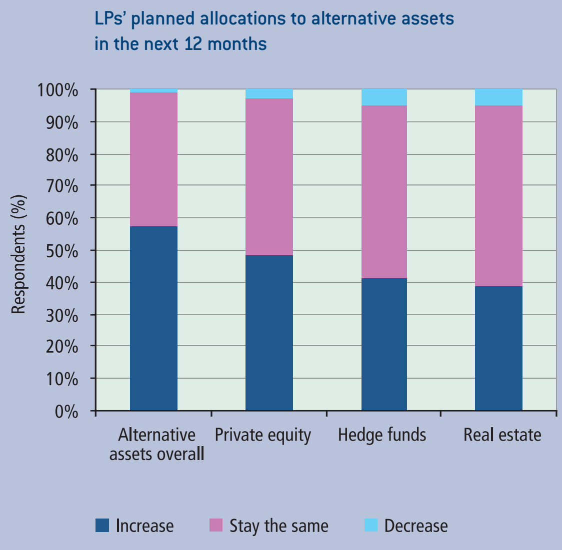
Coller Capital's *Global Private Equity Barometer* is a unique snapshot of worldwide trends in private equity – a twice-yearly overview of the plans and opinions of institutional investors in private equity (Limited Partners, or LPs, as they are known) based in North America, Europe and Asia-Pacific.

This edition of the *Global Private Equity Barometer* captured the views of 145 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

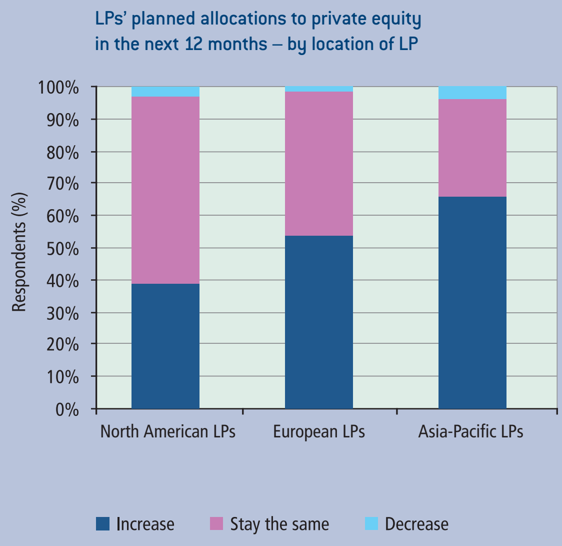
LP appetite for private equity and alternative assets

The flood of institutional money into alternative assets shows no sign of abating – 57% of LPs plan to increase their allocations to alternative assets over the next 12 months, and half (49%) plan to increase their allocations to private equity specifically (up from 43% of LPs in Winter 2004-05).



(Figure 1)

Investor appetite for private equity is especially strong in the Asia-Pacific region – two thirds of LPs plan to increase their allocations over the coming year, compared with half (53%) of European LPs and just over a third (39%) of North American investors.



(Figure 2)

Returns from private equity

The increasing investor appetite for private equity is being driven not only by recent returns from the asset class, but also by LPs' return expectations over the medium term.

■ Recent returns

Investor satisfaction with *short-term* returns is almost universal – an astonishing 97% of LPs have been *satisfied* or *very pleased* with their returns over the last 12 months.

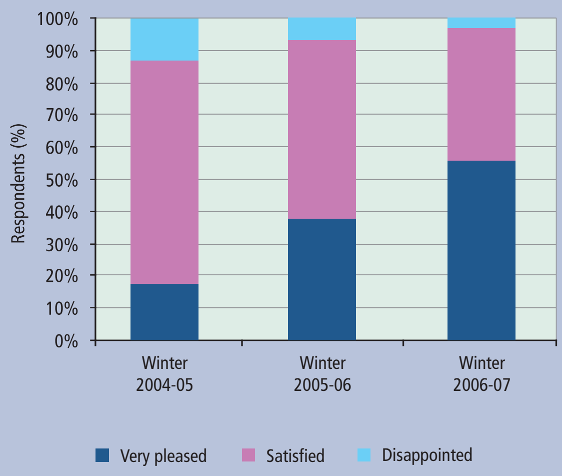
Indeed, over the last two years, there has been a trebling in the number of LPs *very pleased* with their 12-month returns from private equity – 56% of LPs now, compared with 17% in the Winter 2004-05 *Barometer* – largely as a result of the strong performance of buyout funds worldwide.

■ Expections for the medium term

Almost half (47%) of private equity investors are expecting net 3-5 year returns of 16%+ from private equity – up from one third of investors in Winter 2005-06.

It is buyout funds that investors expect to drive these returns, especially in Europe and Asia-Pacific – almost two thirds of LPs expect net returns of *at least* 16% from these areas over the next 3-5 years (up from half of LPs in Winter 2005-06).

LPs' satisfaction with their 12-month returns



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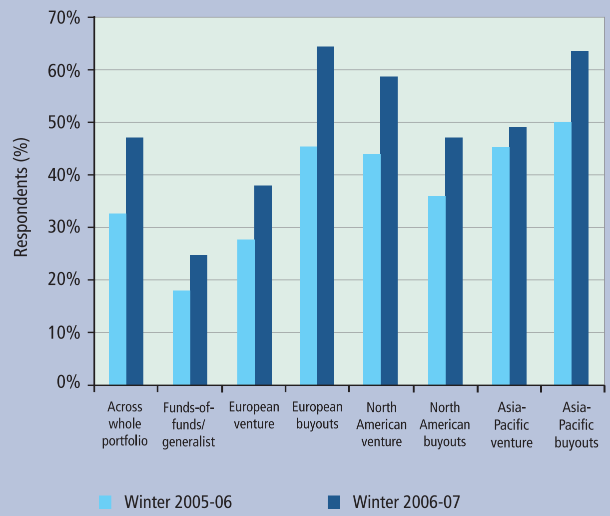
LPs expecting net returns of 16%+ in the next 3-5 years – Winter 2005-06 and Winter 2006-07



(Figure 4)

Factors important to LP success

GP performance varies enormously, and manager selection is therefore key to success for private equity investors. However, getting this right is far from straightforward, especially when LPs include many types of institution and vary enormously in size, resources and experience. LPs believe the following factors are most crucial to their ability to select top-performing GPs:

- **Length of experience/stability of an LP's team**

  Investors believe that the *length* of *experience* and *stability* of an LP's team are the most important factors in achieving top-notch returns (cited by 98% and 95% of LPs respectively).

- **Incentives**

  Providing the right incentive package for LP team members is seen as crucial by 87% of LPs.

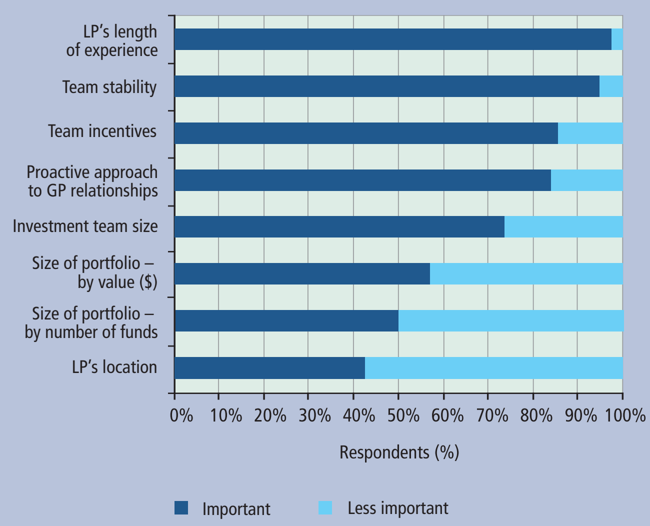
- **Proactive approach to GP relationships**

  A proactive approach to GP relationships is seen to be important by 85% of LPs. Interestingly, the most experienced LPs tend to see this as being *less* important – no doubt because they already have relationships with many high-quality GPs and are well known within the GP community.

- **Critical mass**

  LPs feel that critical mass matters to private equity programmes. This is reflected in the importance LPs attach to size of investment team (cited by 74% of investors) and size of private equity portfolio – by value or number of funds (cited by 58% and 50% of LPs respectively).

Relative importance of LP characteristics for optimising returns



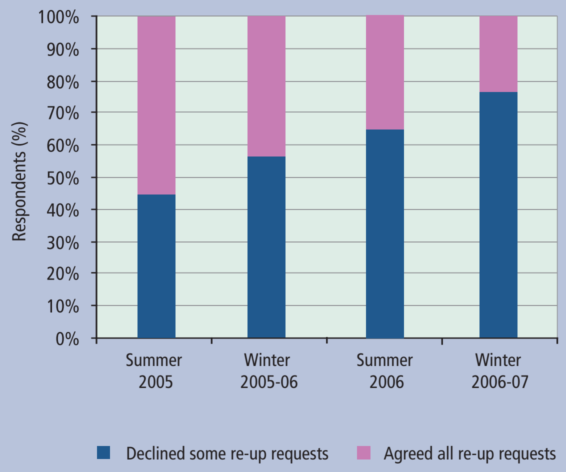
(Figure 5)

LPs' willingness to 're-up'

Investors continue to become more active in restructuring their private equity portfolios. The proportion of LPs who have declined to re-invest with one or more of their GPs has grown steadily over the last couple of years – from less than half (45%) of LPs in Summer 2005, to over three quarters (76%) now.

This trend is especially noticeable among North American investors, 84% of whom did not re-up with some of their GPs in the last 12 months (compared with three quarters of European LPs and just over half (57%) of Asia-Pacific LPs).

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



(Figure 6)

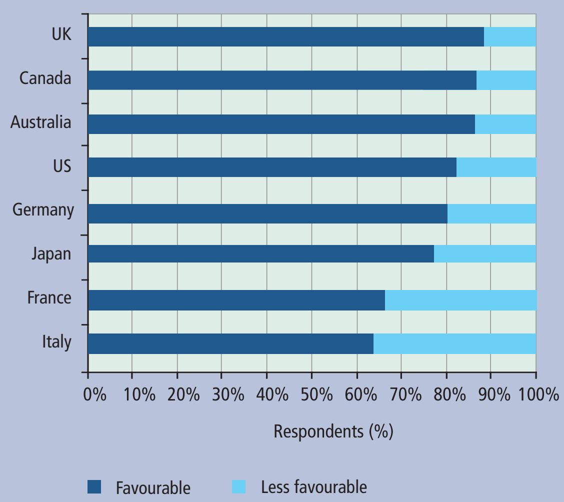
Environment for private equity

In an increasingly borderless world, individual nations are in a very real sense competing for both LP and GP investment.

Whereas the US would undoubtedly have topped a similar list a few years ago, the UK is now viewed, overall, as the most favourable environment for private equity, followed closely by Canada & Australia – with the US in fourth place.

There are interesting regional variations, however. European LPs view Canada as having a more favourable private equity environment than the UK; North American LPs think the reverse. LPs from the Asia-Pacific region, on the other hand, believe Australia and Japan offer the most favourable environments for private equity investment.

The most favourable environment for private equity – LP views



(Figure 7)

Attractive areas for GP investment

Institutional investors worldwide think Asia-Pacific buyouts will offer the most attractive investment opportunities for GPs over the next year. European buyouts and North American venture also rank high on LPs' lists.

Although European venture was again ranked overall as the least attractive area, European LPs had slightly more faith in it, ranking it above North American buyouts and Asia-Pacific venture.

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

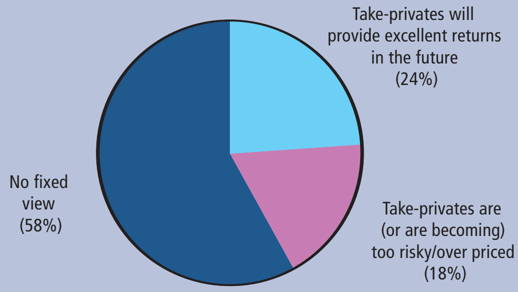
	Overall ranking
Asia-Pacific buyouts	1
European buyouts	2
North American venture	3
North American buyouts	4
Asia-Pacific venture	5
European venture	6

(Figure 8)

Take-privates

Although three quarters of investors expect the number of quoted companies taken private by private equity funds to increase *(Barometer,* Summer 2006*)*, most LPs (58%) have not yet decided how inherently attractive these investments are.

LP views on the risk/return profile of 'take-privates'



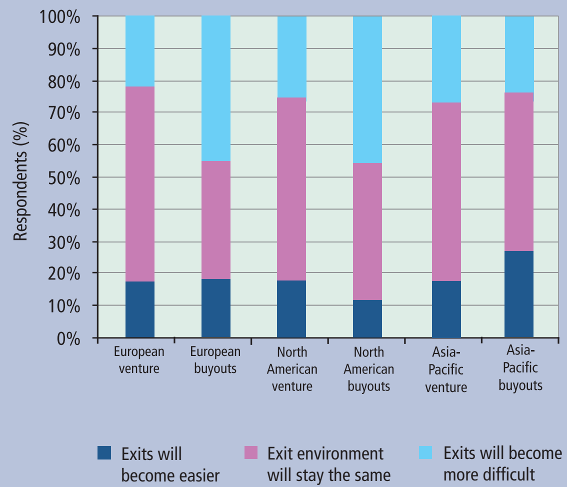
(Figure 9)

Exit environment for GPs

A significant proportion of investors expect exits for the two biggest categories of private equity to become more difficult over the next couple of years – 43% and 44% of LPs believe this about European and North American buyouts respectively.

However, this should not be taken to imply a wholesale closure of exit routes, since over half of LPs believe the currently attractive exit environment will improve or remain stable over the next 1-2 years across all areas of private equity.

Exit environment for GPs over the next 1-2 years – LP views

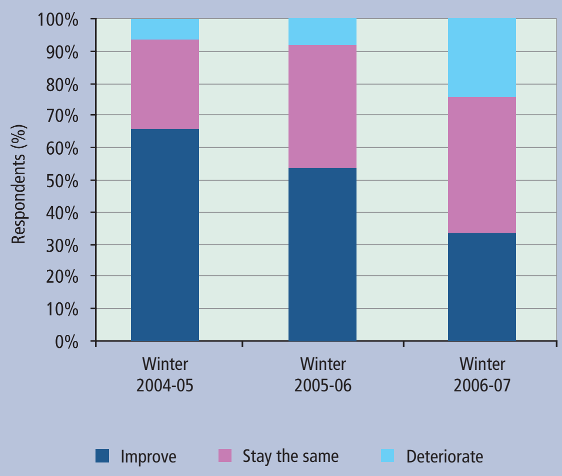


(Figure 10)

Distributions

Although investors remain optimistic about the cash they will receive over the next year, there are signs that distributions may be reaching a plateau – one quarter of LPs expect cash back to slow down, compared with one third who believe the rate will speed up. This slightly more cautious note probably reflects investors' less upbeat views on the exit environment for US and European buyouts over the next couple of years.

LPs expecting changes in distributions in the next 12 months – Winter 2004-05 to Winter 2006-07



(Figure 11)

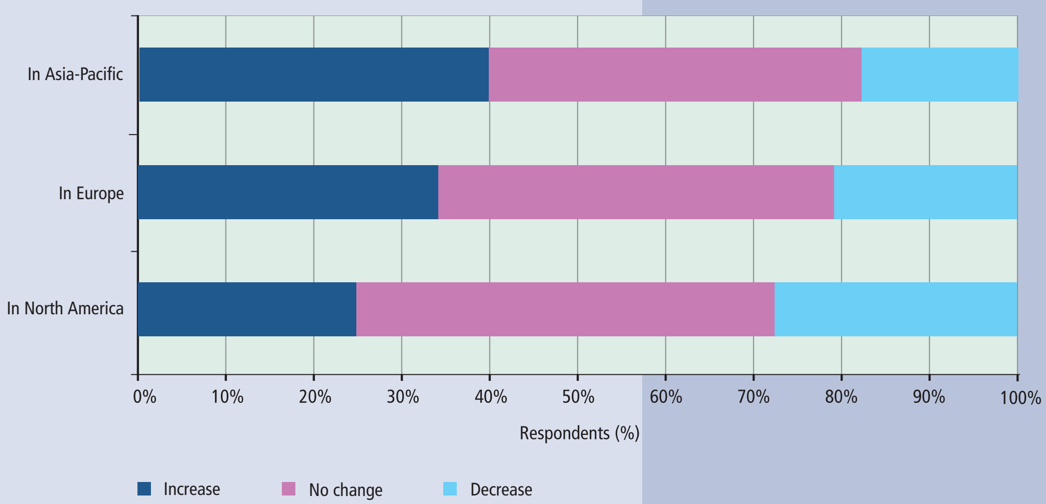
Initial Public Offerings (IPOs)

LPs have very different views about the prospects for IPOs in the next couple of years – even *within* regional markets.

Optimism about IPOs is strongest for the Asia-Pacific region – 40% of LPs think flotations here will increase in significance as an exit route in the next 1-2 years.

Conversely, doubts about the share of GPs' exits that will come from IPOs are strongest for the North American market, doubtless because of the regulatory burden on US quoted companies (the pain of which is felt disproportionately by smaller businesses).

Proportion of exits via IPO in the next 1-2 years – LP views



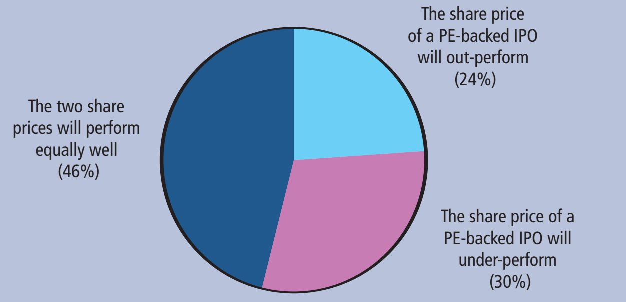
(Figure 12)

Share price performance of private equity-sponsored IPOs

Some commentators have recently queried the post-flotation performance of private equity-sponsored IPOs on the grounds that GPs leave less value 'on the table' for public market investors than other IPO sponsors do.

Although almost a third of LPs *do* have such doubts, most investors seem unconcerned. One quarter of LPs even expect the share price of a private equity-sponsored listing to *outperform* that of other newly-floated businesses in the 2-3 years following IPO.

Share price performance of PE-backed and non-PE-backed companies in the 2-3 years post-IPO – LP views

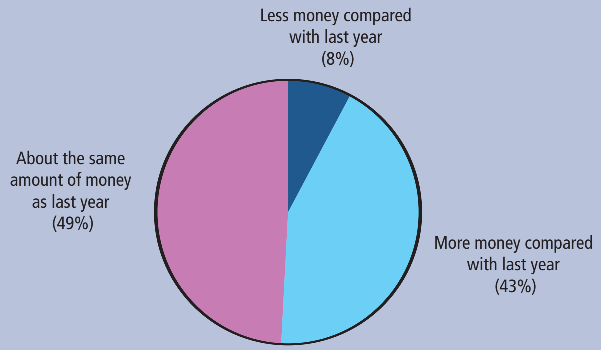


(Figure 13)

GP investment pace

LPs see no shortage of dealflow for GPs in the immediate future – 43% expect the pace of GP investment to increase over the coming year, and just 8% expect to see a slowdown.

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



(Figure 14)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Winter 2006-07

The *Barometer* researched the plans and opinions of 145 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.

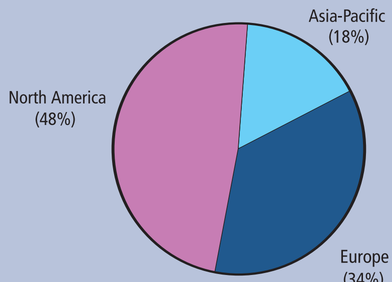
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in August-October 2006 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for 18 years.

Notes:

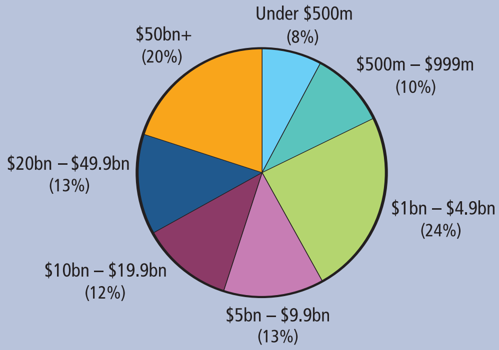
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers

Respondents by region



(Figure 15)

Respondents by total assets under management



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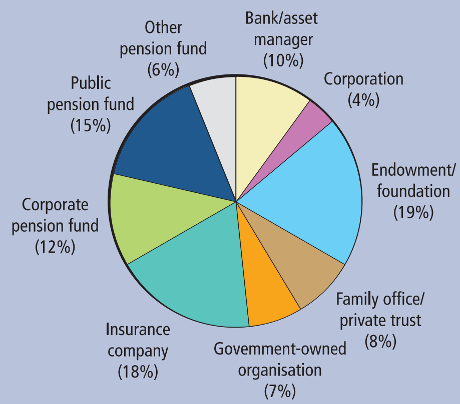
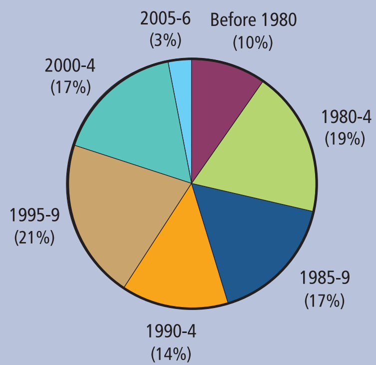
Respondents by type of organisation



(Figure 17)

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



(Figure 18)

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