

Coller Capital

Global Private Equity Barometer

❖ WINTER 2007-08

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 102 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

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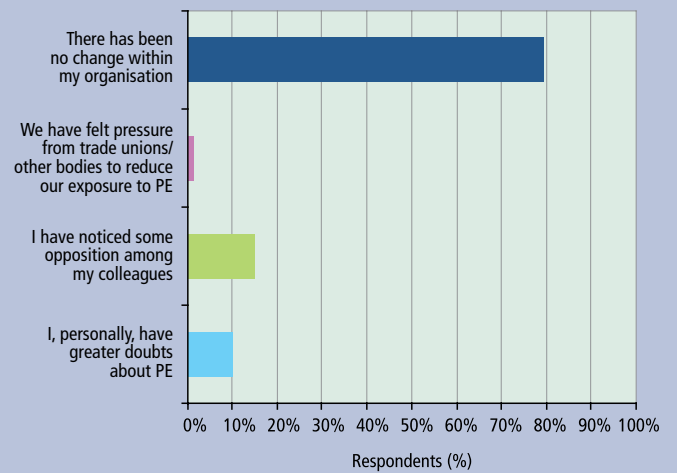
Key topics in this edition of the Barometer include:

- Investors' reactions to the recent PE controversy
- LPs' returns expectations & appetite for PE
- Pace of GP investment in the short-term
- Emerging PE markets
- Direct investment by LPs
- First-time GPs
- Fund terms & conditions
- Obstacles facing European venture capital
- Attractive areas for GP investment globally

Limited impact of private equity controversy on LPs

One in ten private equity investors, and a slightly higher proportion of their colleagues, have changed their views of the asset class in the light of the controversies of the last few months. Most investors, however, report no change in sentiment within their organisations.

Changes in investor perceptions of PE as a result of recent controversy/negative commentary

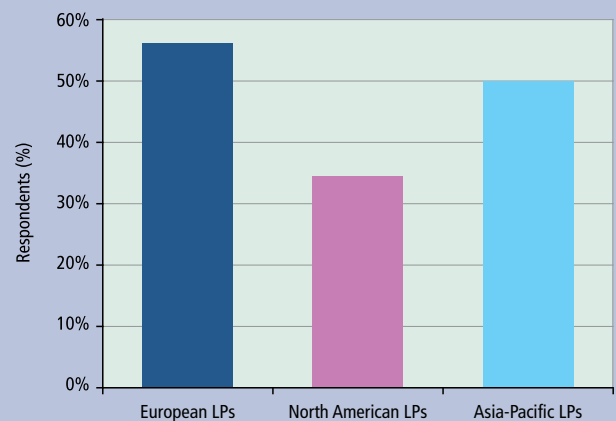


(Figure 1)

European and American LPs divided on GP transparency

Over half of *European* LPs (56%) believe GPs should account to a wider group of stakeholders on their large portfolio companies. Only one in three *North American* LPs agree.

LPs believing GPs should report to a wider group of stakeholders on their large portfolio companies



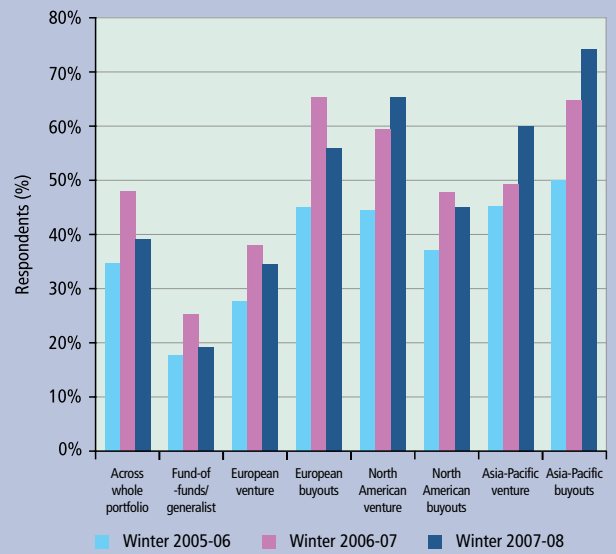
(Figure 2)

Return expectations for Asia-Pacific PE increase, and decrease for European buyouts

Investors are increasingly confident about their returns from Asia-Pacific private equity – three quarters of LPs (73%) expect Asia-Pacific buyouts to yield net returns of 16%+ over the next 3-5 years, while 60% of LPs expect returns of this level from Asia-Pacific venture.

Fewer LPs expect returns of 16%+ from European buyouts than they did a year ago.

LPs expecting net returns of 16%+ over the next 3-5 years – Winter 2005-06 to Winter 2007-08

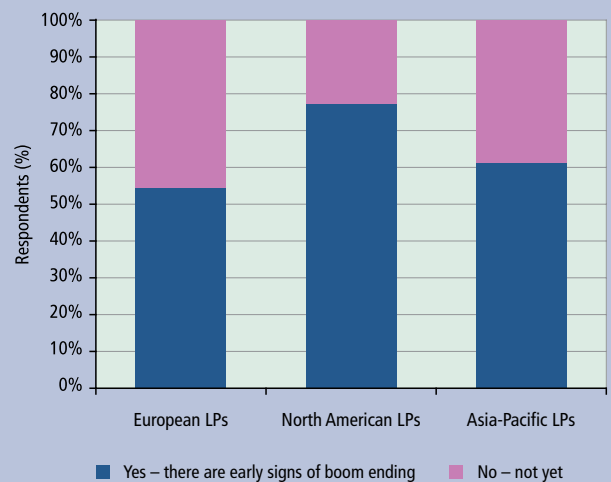


(Figure 3)

Investors see signs that the global buyout boom is ending

The majority of LPs suspect the good times are over for buyouts – especially North American LPs.

LPs seeing early signs of an end to the buyout boom

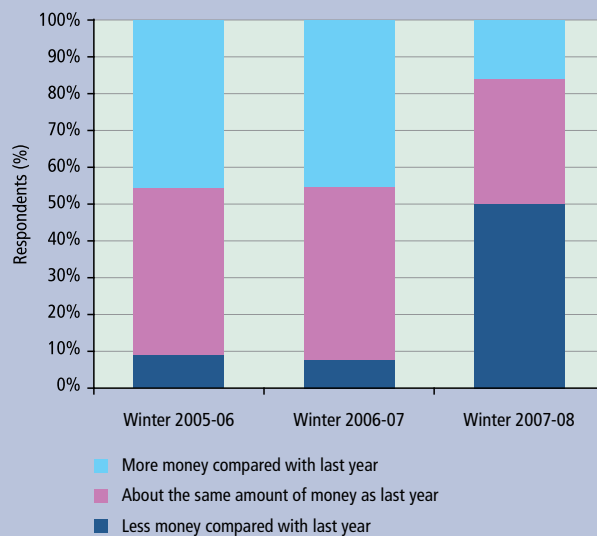


(Figure 4)

LPs think GPs will deploy less cash in the coming year

Half of investors expect the pace of GP investment to slow over the next 12 months, compared with just 8-9% of LPs in the last two years.

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

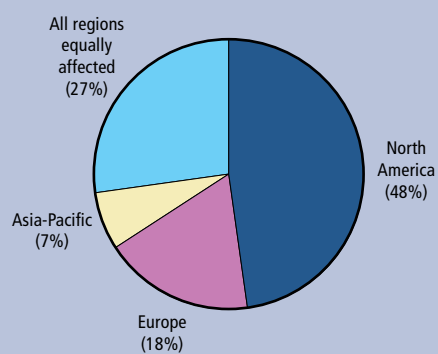


(Figure 5)

North America to be hardest hit by the next PE downturn

Half of investors (48%) said the impact of the next private equity downturn would be felt most strongly in North America. Only 7% of LPs thought the Asia-Pacific region would be hardest hit.

Regions likely to be hardest hit by the next PE downturn – LP views

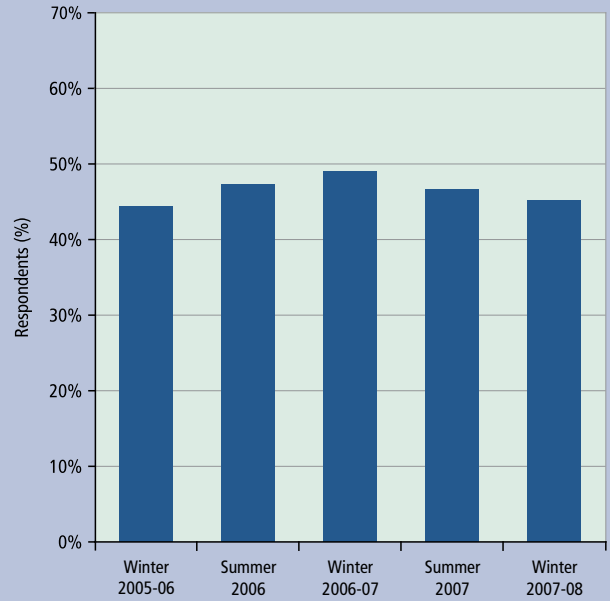


(Figure 6)

No reduction in investor demand for PE

There has been no diminution of investors' growing appetite for private equity as a result of recent market conditions. The proportion of LPs planning *increased* allocations to the asset class over the next 12 months has remained virtually unchanged over the last five global *Barometers*.

LPs planning to increase their private equity allocations over the next 12 months – Winter 2005-06 to Winter 2007-08

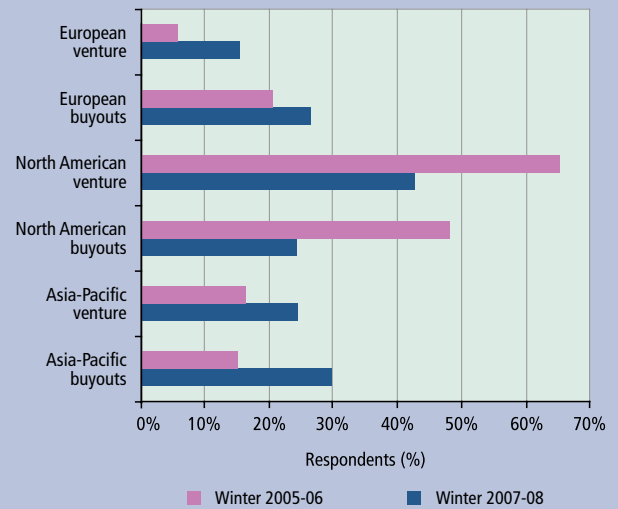


(Figure 7)

Investor access problems grow in less developed markets

Fewer investors report problems accessing private equity funds in North America, compared with two years ago. However, they are encountering more problems than two years ago in Europe and the Asia-Pacific region.

LPs unable to obtain their planned allocations to types of PE over the last 12 months



(Figure 8)

LPs plan wider – as well as greater – PE exposure

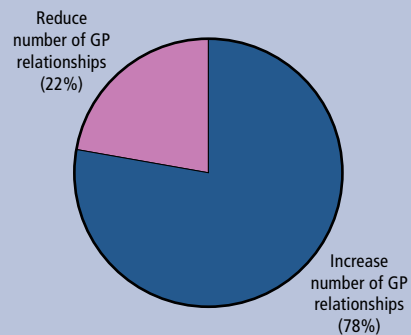
LPs remain firmly committed to the private equity asset class.

Over the next 3 years:

- three quarters of LPs (78%) plan to increase the number of their GP relationships.
- almost all LPs (96%) intend to increase the total value of their PE commitments.

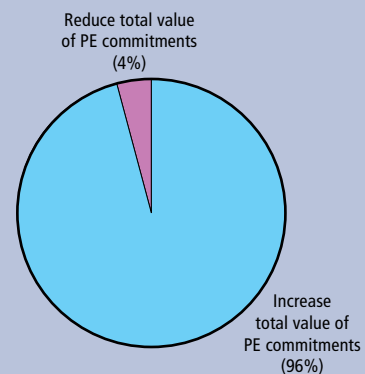
- almost two thirds of investors plan to re-balance their portfolios towards buyouts, and just over one third towards venture.

LPs' planned changes to the number of their GP relationships over the next 3 years



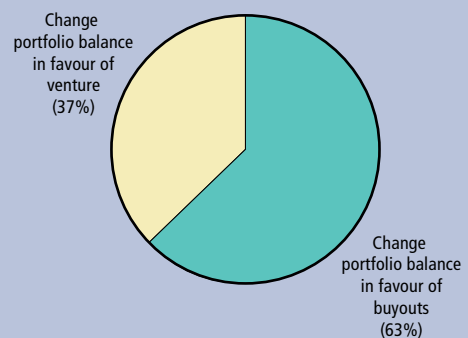
(Figure 9)

LPs' planned changes to the total value of their PE commitments over the next 3 years



(Figure 10)

LPs' planned changes to the balance of their PE portfolios over the next 3 years

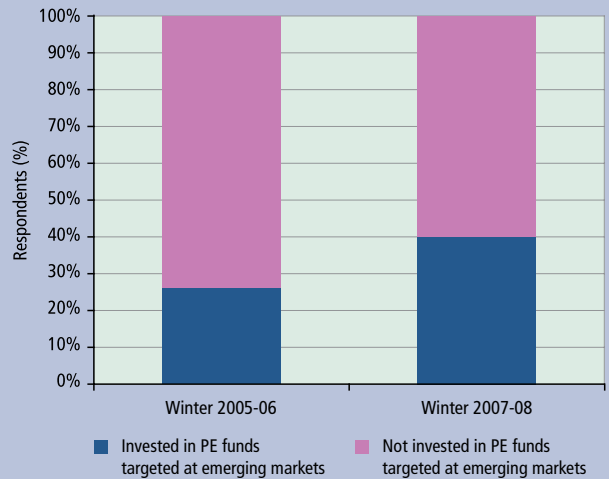


(Figure 11)

More LPs are investing in emerging PE markets

LPs are increasing their exposure to private equity's emerging markets – 40% of investors invest in such funds, compared with 26% two years ago.

LPs investing in PE funds targeted at emerging markets

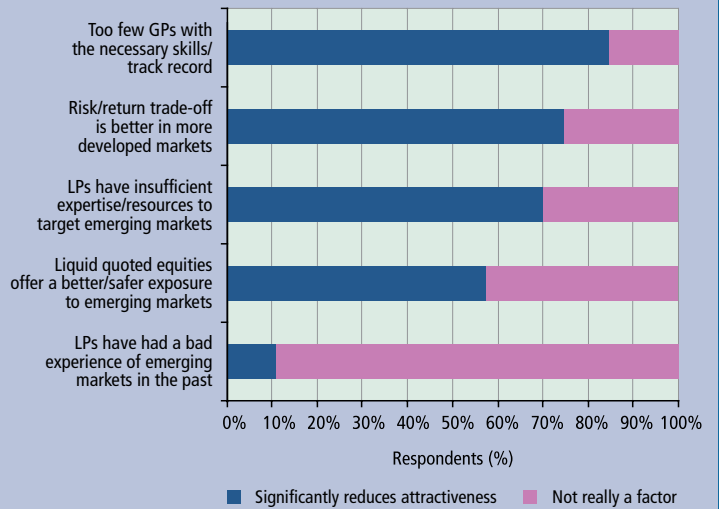


(Figure 12)

Shortage of proven GPs deters emerging markets investment

LPs cite the lack of 'credible' GPs and a less attractive risk/return profile as the main factors limiting their investment in emerging markets. However, over two thirds of investors (70%) also say that they themselves lack the necessary expertise and resources to manage an exposure to emerging PE markets.

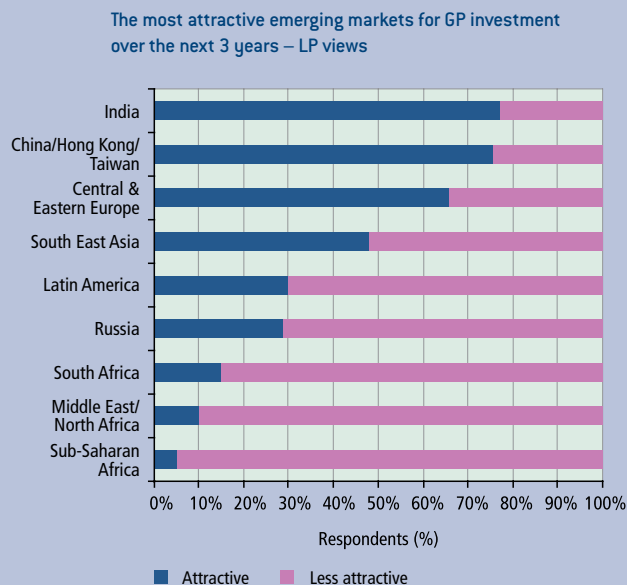
Factors limiting/preventing LPs' investment in emerging PE markets



(Figure 13)

India and China top LPs' ranking of emerging PE markets

LPs think India, China/Hong Kong/Taiwan and Central & Eastern Europe will offer the most attractive investment opportunities for GPs over the next 3 years.



(Figure 14)

Asia-Pacific offers the most attractive opportunities for GP investment over the next year

LPs see Asia-Pacific buyouts as the most attractive area for GP investment over the next year. Asia-Pacific venture is also seen as providing increasingly attractive opportunities for GPs – in the last three global *Barometers* it has risen up the 'league table' from 5th place to 3rd.

The best areas for GP investment over the next 12 months – LP views

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

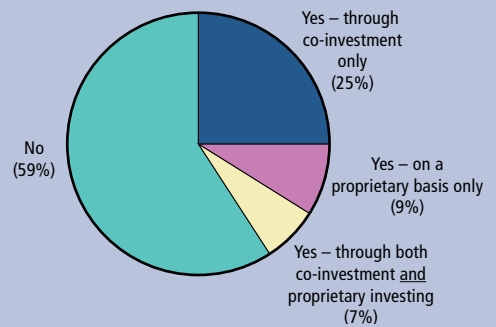
(Figure 15)

More LPs are investing directly in private companies

The proportion of LPs investing directly in private companies is rising. 41% of LPs currently undertake direct investments, up from 35% in Summer 2006.

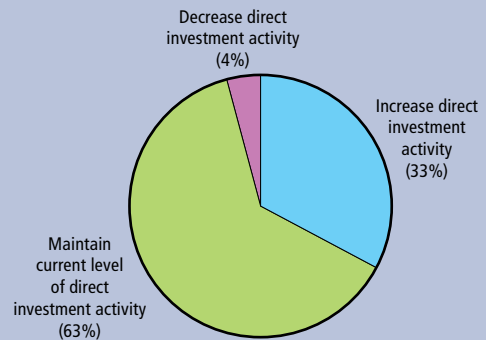
One third of investors plan to increase their level of direct investment over the next 3 years.

LPs making direct investments into private companies



(Figure 16)

LP plans for direct investments over the next 3 years

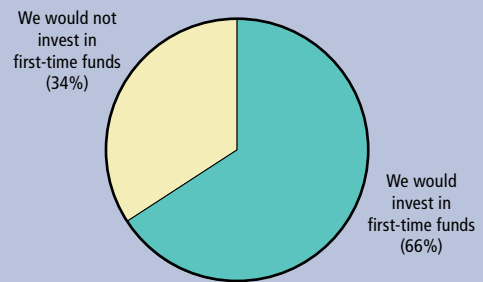


(Figure 17)

LPs are actively seeking the GPs of tomorrow

LPs remain open to investing with less-established GPs who nevertheless have a good story to tell. Two thirds (66%) of investors say they will invest in first-time funds over the next 2-3 years if the right opportunity presents itself.

LPs who would invest in first-time funds over the next 2-3 years

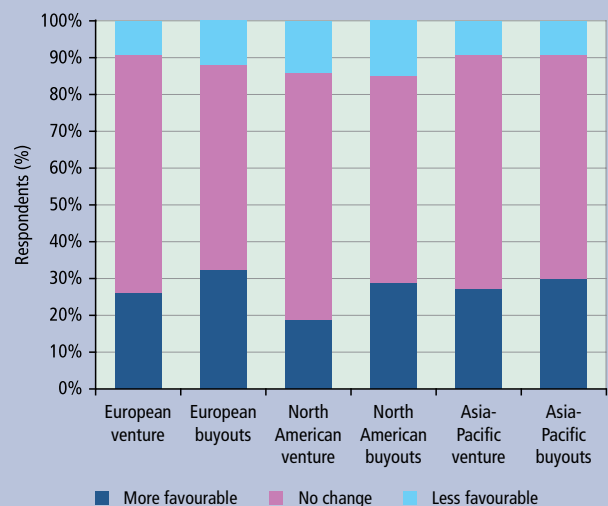


(Figure 18)

LPs to exert moderate pressure on buyout fund terms and conditions

Almost a third of investors believe they will extract better terms and conditions from buyout funds raised over the next 2-3 years – though the majority of LPs expects the status quo to continue.

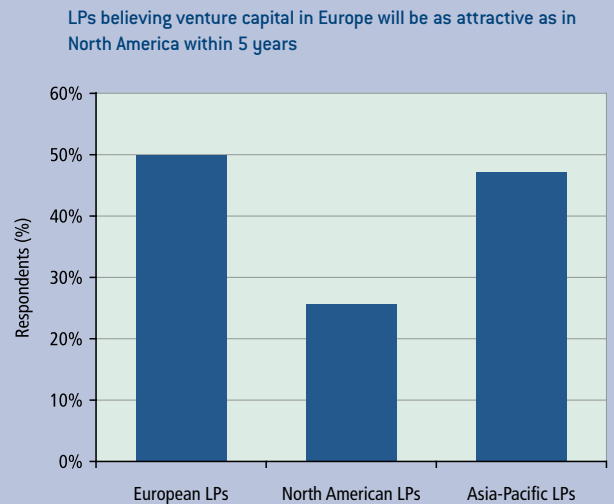
LPs' views on the terms and conditions of private equity funds raised over the next 2-3 years



(Figure 19)

Half of European LPs think European VC can rival North American venture

Half of *European* investors believe venture capital in Europe will be as attractive as in North America within the next 5 years. Just a quarter of *North American* LPs agree.

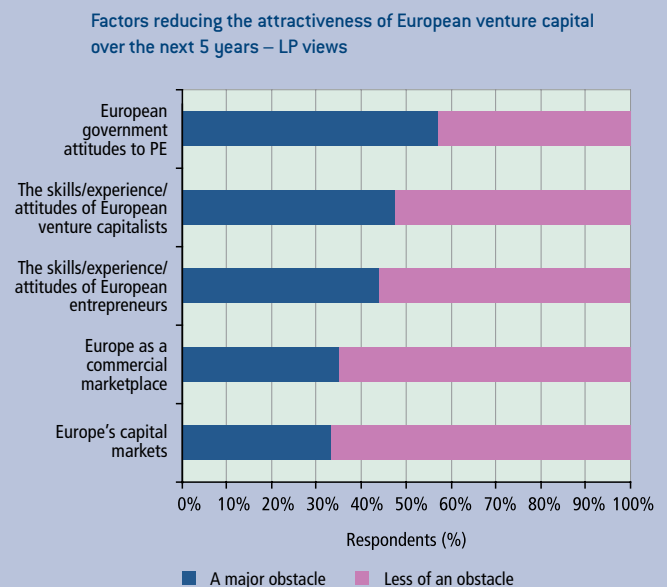


(Figure 20)

Government attitudes are the biggest block to the success of European VC

LPs believe European government attitudes to private equity are the greatest obstacle to the success of venture capital in Europe – over half of LPs (57%) hold this view.

'Structural' factors, such as Europe's capital markets, or Europe's ability to function as an integrated commercial market, are seen as less of an obstacle.



(Figure 21)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Winter 2007-08

The *Barometer* researched the plans and opinions of 102 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.

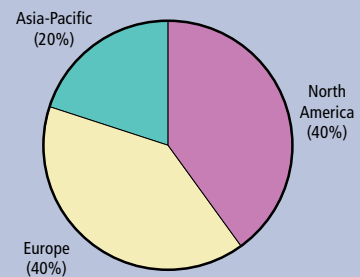
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in September-October 2007 by IE Consulting, a division of Incisive Media, which has been conducting private equity research for nearly 20 years.

Notes:

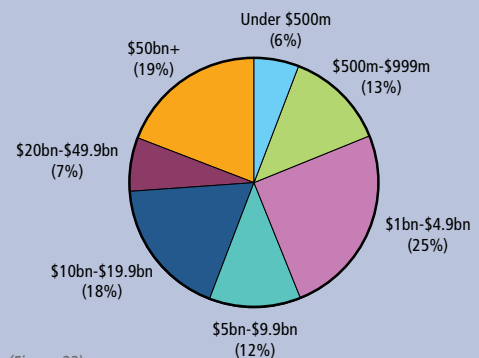
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



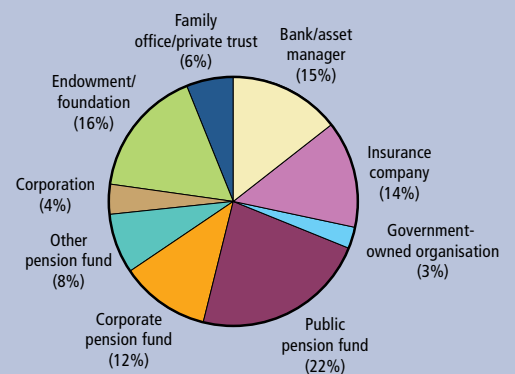
(Figure 22)

Respondents by total assets under management



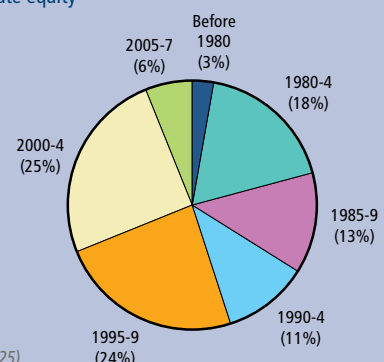
(Figure 23)

Respondents by type of organisation



(Figure 24)

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



(Figure 25)

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