Coller Capital

Global Private Equity Barometer

WINTER 2008-09

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 107 private equity investors from all round the world. The *Barometer*'s findings are globally representative of the LP population by:

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

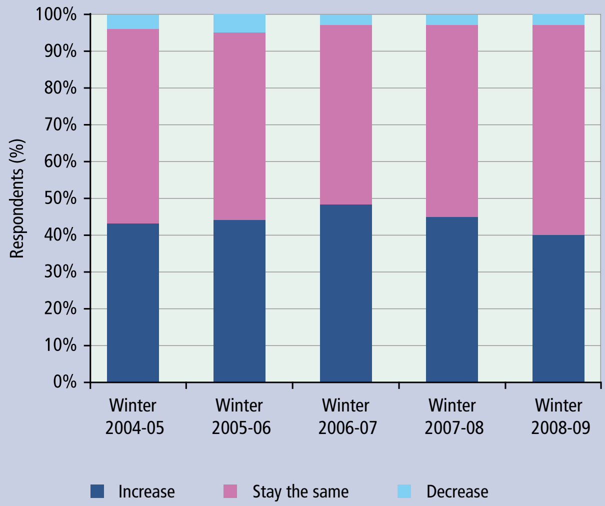
Contents

Key topics in this edition of the *Barometer* include:

Investors' appetite for private equity remains strong

The recent downturn in the global economy and financial markets has not dented investors' appetite for private equity – 97% plan to maintain or increase their target allocation to private equity over the next year, which is broadly in line with their intentions in recent years.

LPs' planned changes to their private equity allocation in the next 12 months



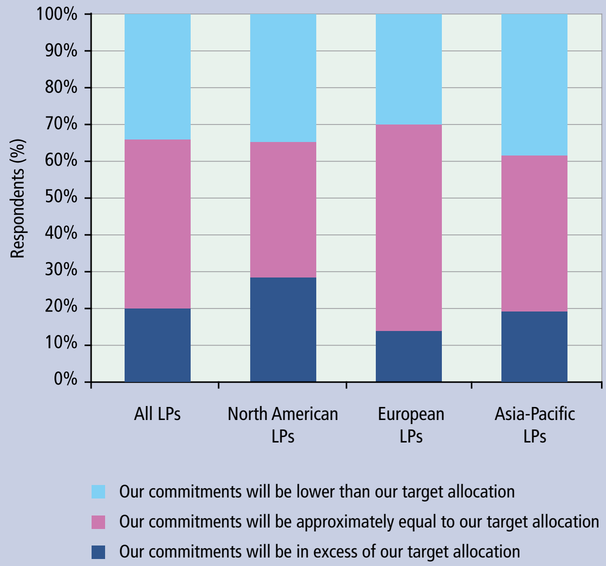
(Figure 1)

Two thirds of LPs to reach or exceed target PE allocation in 2009

By the end of 2009 two thirds of LPs (66%) are likely to be at, or above, their target private equity allocations.

GPs planning new funds in 2009 should take note: North American LPs (28%) are more likely to have exceeded their target allocation than European LPs (14%) or Asia-Pacific LPs (19%).

LPs' anticipated level of PE commitments compared with their target PE allocations – at end 2009



(Figure 2)

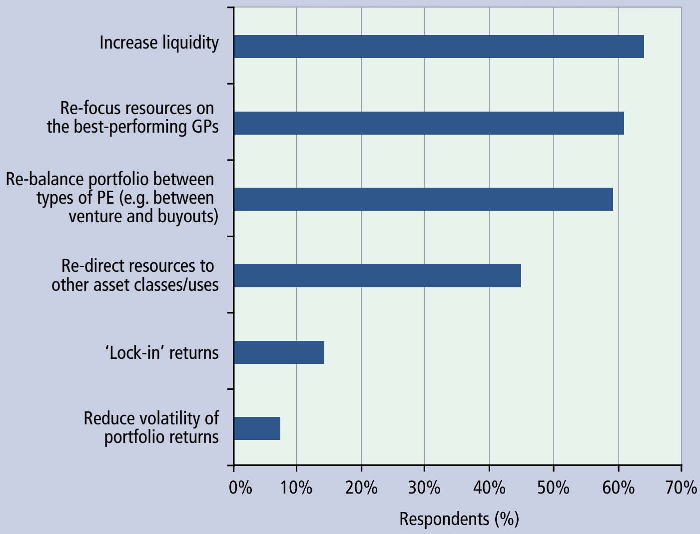
Secondaries market will play a variety of roles for LPs

The secondaries market will be a valuable tool for private equity investors in the months and years ahead. They will use it not only to boost liquidity, but also to change the shape of private equity portfolios.

Unsurprisingly, two thirds of LPs (64%) cite a requirement for increased liquidity as a driver of the secondaries market in the next two years. But almost equal proportions point to the need to re-focus resources on the best-performing GPs (61%) and to re-balance portfolios between different types of private equity (59%).

Nearly half of LPs (45%) say re-directing resources to other asset classes or uses will also be important – especially to investors who find themselves over-allocated as a result of falling stock markets.

Main reasons why LPs might sell assets in the secondaries market over the next 2 years*



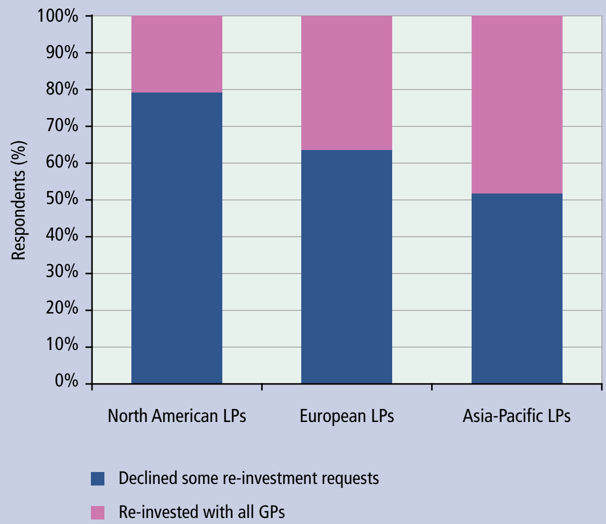
* Excludes funds-of-funds

(Figure 3)

North American LPs have been readiest to refuse re-ups

The proportion of investors that has refused to re-invest with one or more of their existing GPs varies widely around the world: 4 out of 5 North American LPs (79%) have done so in the last year, compared with only half of Asian LPs (52%).

LPs that have declined to re-invest with some of their GPs over the last 12 months



(Figure 4)

Poor GP performance and style drift will prompt the most re-up refusals

Two thirds of LPs expect to refuse re-up requests in the coming year. Poor performance of a GP's most recent fund and GP investment style drift are their biggest concerns.

Factors likely to deter re-ups in the next 12 months

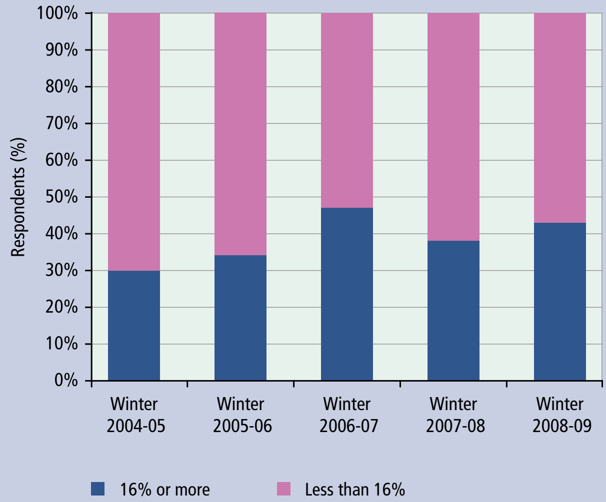
	Overall ranking
Poor performance of a GP's most recent fund	1
Style drift at a GP	2
Staff turnover within a GP	3
Continuity/succession issues at a GP	4
Terms & conditions of a GP's fund	5
GP conflicts of interest	6
Changes to an LP's PE strategy	7
Capital constraints at an LP	8
Poor reporting/transparency from a GP	9
Apportionment of carry within a GP's team	10

(Figure 5)

LPs remain optimistic about medium-term PE returns

43% of investors expect to achieve returns of at least 16% across their private equity portfolios over the next 3-5 years. Clearly, their estimate takes into account both the difficulties that the downturn spells for their existing private equity investments *and* the buying opportunities GPs will have over the next year or two.

LPs expecting net annual returns of 16%+ to their private equity portfolios over the next 3-5 years

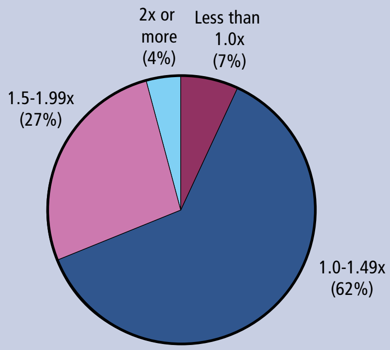


(Figure 6)

LPs expect less than a 1.5x return from today's mega-buyout funds

The majority of investors (69%) expect the current crop of mega-buyout funds to yield a median net return of less than 1.5 times.

LPs' median net returns expectations for mega-buyout funds still in their investment phase

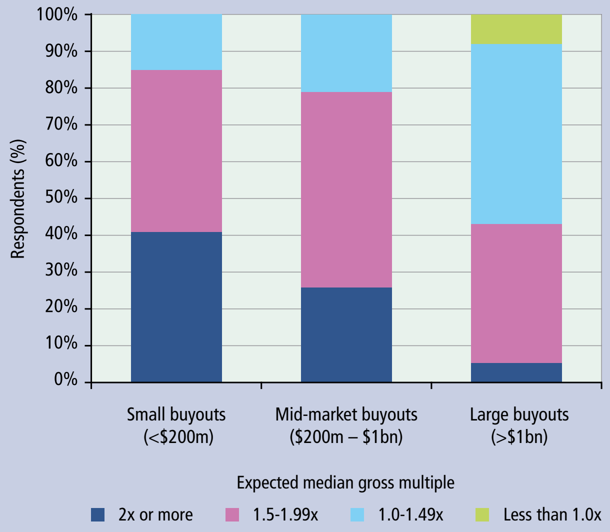


(Figure 7)

Small buyouts to outperform other buyouts

Investors believe that small (lower mid-market) buyout investments completed since the start of the credit crunch will outperform other buyouts. 41% of LPs expect small buyouts to achieve a median multiple of at least two times – compared with just 26% and 5% of investors expecting such returns from mid-market and large buyouts respectively.

LPs' expectations for the median gross multiple of buyouts completed since the start of the credit crunch

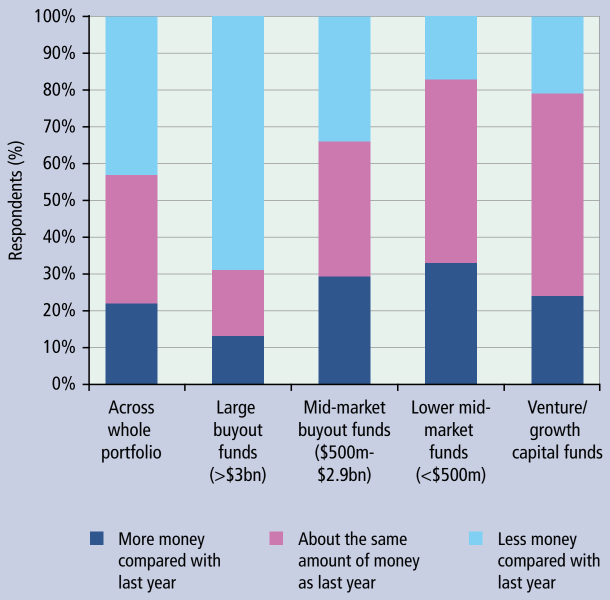


(Figure 8)

Lower mid-market to be more buoyant for dealflow than other areas

LPs believe large buyout funds [i.e. funds in excess of $3bn] will find it more challenging to find good investment opportunities over the coming year than other fund types. 83% of investors expect lower mid-market buyout funds to call the same amount or more money in the coming year – compared with just 31% of LPs who feel the same for large buyout funds.

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



(Figure 9)

Buyouts offer best GP investment opportunities in the coming year

Investors believe (small) buyouts will provide the best opportunities for GP investment in all areas of the world during the year to come – with buyouts in the Asia-Pacific region being the most attractive.

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

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

(Figure 10)

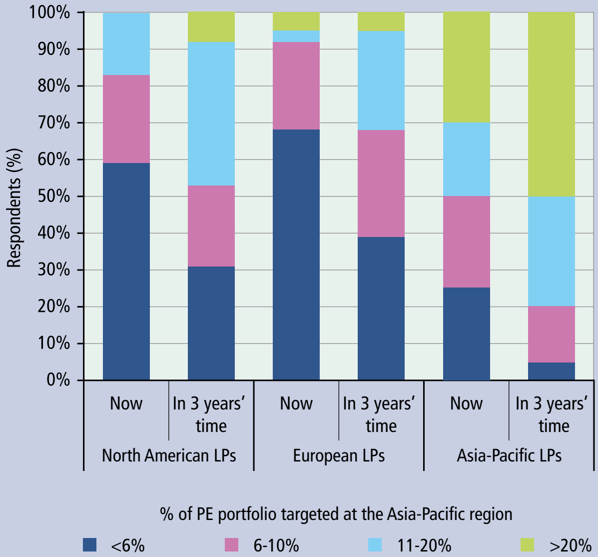
Investors plan increased exposure to Asia-Pacific region

Less than half of North American LPs (41%) have 6% or more of their private equity investment targeted at the Asia-Pacific region. Within three years this proportion will have risen to almost 70%.

For European LPs the picture is similar – with a third of investors (32%) having 6% or more of their private equity investment in Asia-Pacific now and almost two thirds (61%) expecting the region to account for 6%+ in three years.

Asia-Pacific LPs, already the most active investors in their own region, will continue increasing their exposure. Almost a third of investors (30%) currently have an Asia-Pacific exposure of more than 20%. This will increase significantly, to a half of Asia-Pacific LPs, in three years.

LPs' private equity investment in the Asia-Pacific region as a percentage of their overall PE portfolios



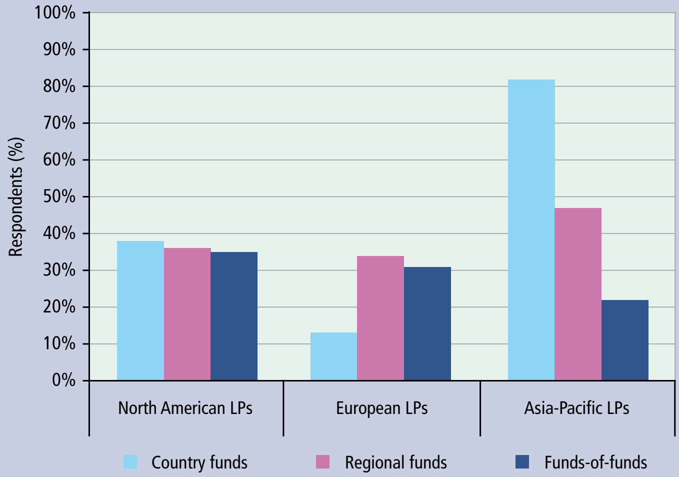
(Figure 11)

European LPs less focused on Asia-Pacific region

European investors are less focused on Asia-Pacific private equity than investors from North America or Asia. While around a third of both European and North American LPs are invested in pan-Asian funds and funds-of-funds, 38% of North American investors invest in country-specific Asian funds compared with just 13% of European LPs.

LPs located in Asia-Pacific invest heavily in their own region, as you might expect: 82% are invested in country-focused funds and almost half (47%) invest in pan-regional funds.

The ways LPs around the world currently access Asia-Pacific PE



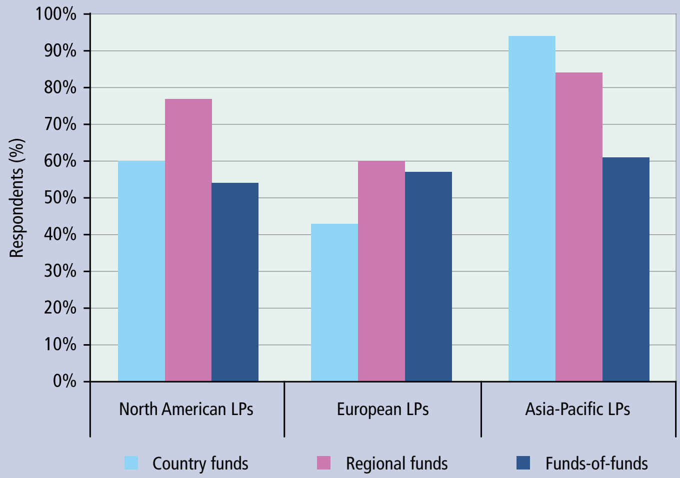
(Figure 12)

LPs will expand their usage of all routes to market

The greater exposure of Asian and North American investors to Asia-Pacific private equity is set to continue – although LPs from all over the world plan to increase their exposure to the region over the next three years.

Within this period the proportion of North American LPs invested in country-specific Asian funds will have grown to 60% (compared with 43% of European and 94% of Asian investors). Over three quarters of North American LPs (77%) expect to invest in pan-regional funds (compared with 60% of European and 84% of Asian LPs).

The ways LPs around the world will access Asia-Pacific PE – in 3 years' time

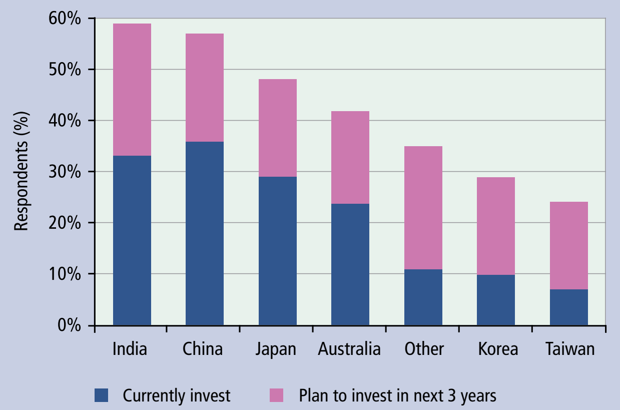


(Figure 13)

India and China are LPs most favoured investment destinations

The high-growth markets of India and China offer the best private equity investment opportunity in the Asia-Pacific region according to LPs. These markets are followed by the developed economies of Japan and Australia.

Asia-Pacific countries in which LPs invest and plan to invest in the next 3 years



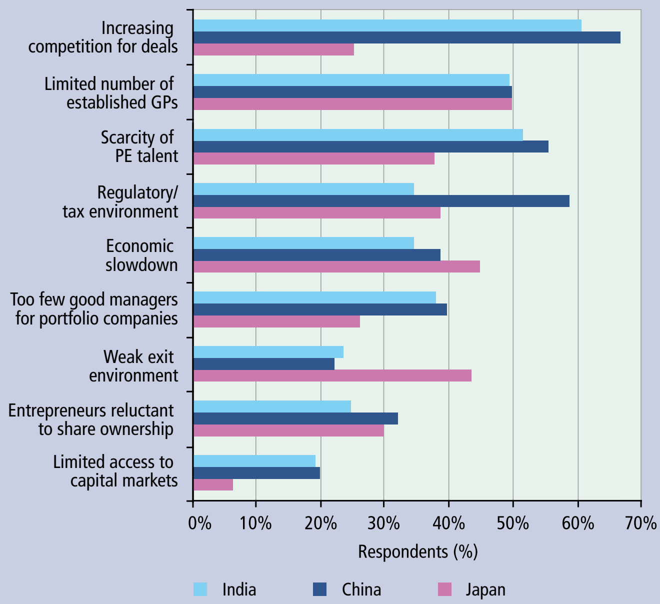
(Figure 14)

Obstacles facing PE investment in India, China and Japan

Investors believe increasing competition between GPs and a scarcity of private equity talent will be significant barriers to private equity investment in India and China in the next three years. The regulatory and tax environment is seen as a particular obstacle to investing in China (59% of LPs).

A shortage of established GPs, economic slowdown, and a weak exit environment are seen as the greatest obstacles to Japanese private equity.

Obstacles facing PE investment in India, China and Japan over the next 3 years – LP views

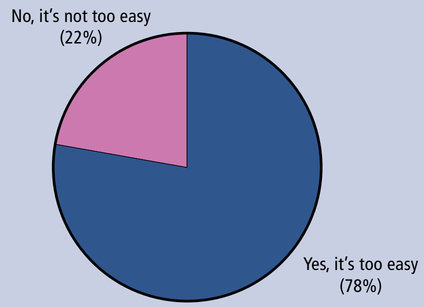


(Figure 15)

Weak GPs find it too easy to raise funds in Asia-Pacific, LPs say

The increasing attractiveness of the Asia-Pacific region as a destination for LP investment may be a double-edged sword. Over three quarters of investors (78%) think the ready availability of capital is making it too easy for weak GPs to raise funds in the region.

LPs believing it is too easy for weak GPs to raise funds in the Asia-Pacific region



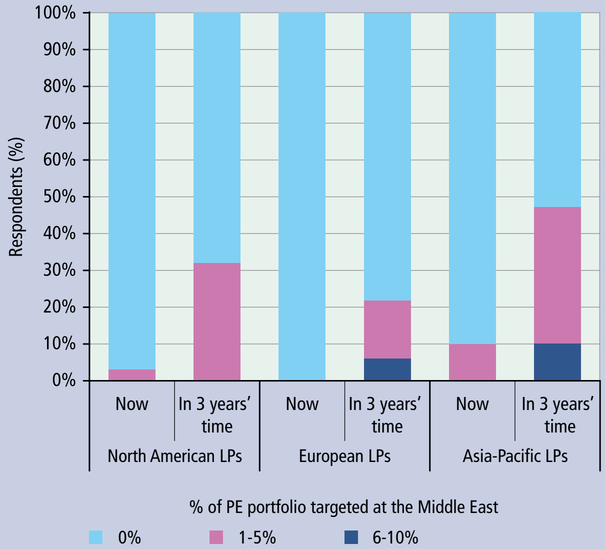
(Figure 16)

LP exposure to Middle East to grow over the next 3 years

The Middle East attracts a tiny fraction of LPs' private equity investments – just 3% of North American investors and 10% of Asia-Pacific investors currently invest in the region.

This is set to change over the next three years, as 48% of Asia-Pacific LPs, 32% of North American LPs and 21% of European investors plan to target some of their private equity investment specifically at the region. For most investors, investment in the Middle East in three years' time will still not represent more than 5% of their total private equity exposure – though 1 in 10 Asian LPs plans an exposure of between 6-10%.

LPs' private equity investment in the Middle East as a percentage of their overall PE portfolios



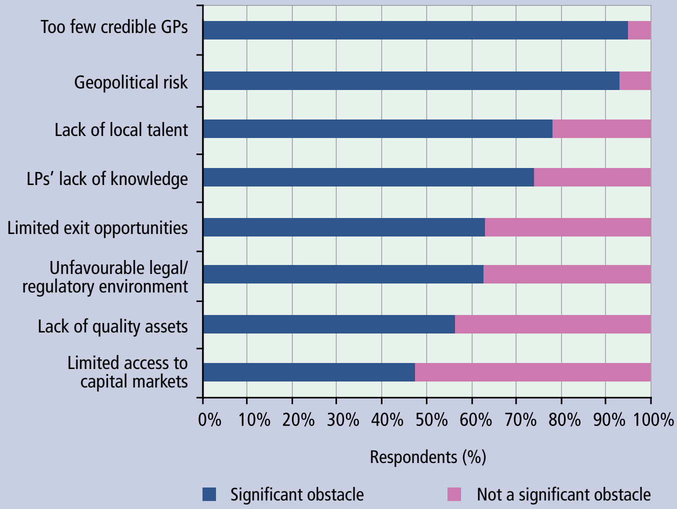
(Figure 17)

Significant barriers exist

Investors identify a lack of credible GPs (95% of LPs) and geopolitical risk (93% of LPs) as the most significant obstacles to the growth of private equity in the Middle East.

Three quarters of investors (74%) claim their own lack of knowledge of the region is also a major obstacle.

Obstacles to the growth of private equity investment in the Middle East – LP views

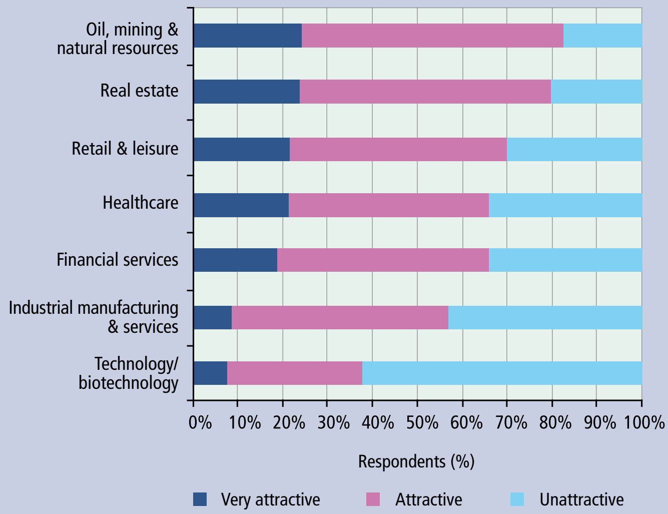


(Figure 18)

Natural resources tops list of LP target sectors

LPs believe the sectors offering the most attractive investment opportunities for GPs in the Middle East over the next three years are natural resource extraction, real estate, and retail and leisure.

The most attractive sectors for GP investment in the Middle East over the next 3 years – LP views



(Figure 19)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Winter 2008-09

The *Barometer* researched the plans and opinions of 107 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.

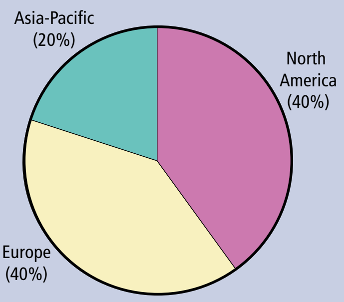
Research methodology

Research for the *Barometer* was undertaken for Coller Capital in August-October 2008 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for 20 years.

Notes:

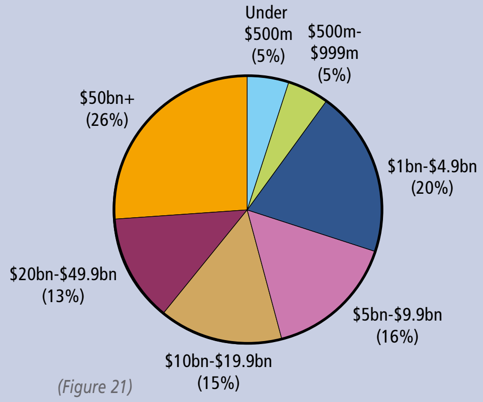
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



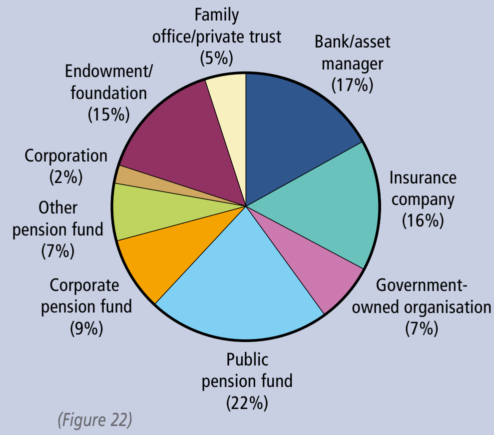
(Figure 20)

Respondents by total assets under management



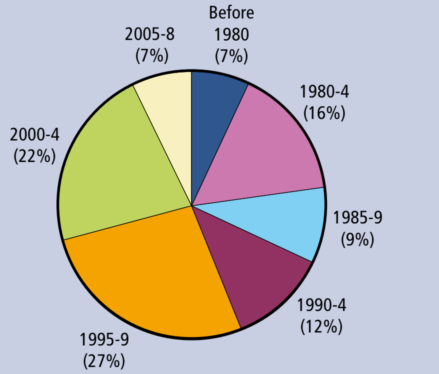
(Figure 21)

Respondents by type of organisation



(Figure 22)

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



(Figure 23)

Coller Capital

www.collercapital.com