Coller Capital

Global Private Equity Barometer

WINTER 2009-10

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 11th edition of the *Global Private Equity Barometer* captured the views of 108 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

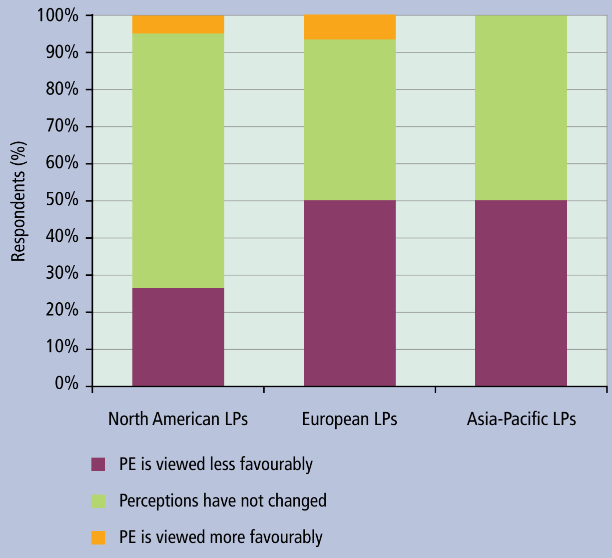
Key topics in this edition of the *Barometer* include:

- LPs' returns expectations & appetite for PE
- The global economy and its impact on PE
- The secondaries market
- Pace of GP investment
- Attractive areas for GP investment
- Exit environment
- Distributions to LPs
- Placement agents

PE viewed less favourably by investing institutions since downturn

Perceptions of private equity have been damaged within LPs' own organisations – even if individuals within those organisations remain committed to the asset class. This is especially true of Asian and European institutions, where half of LPs report less favourable attitudes within their organisations since the credit crunch. (The equivalent percentage of North American institutions is 28%).

The impact of the economic downturn on perceptions of private equity within institutional investors' (LPs') own organisations

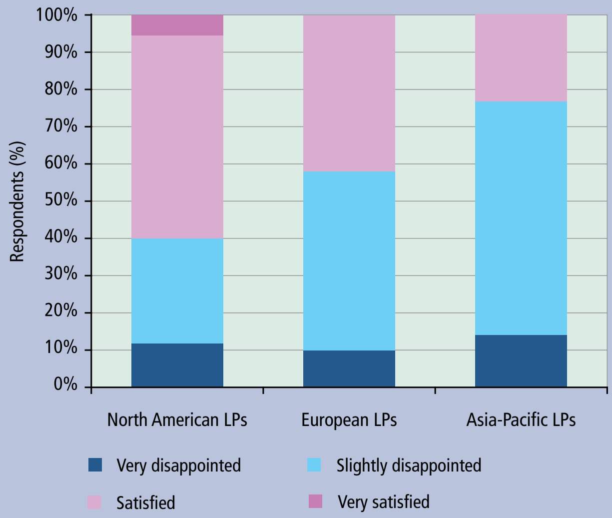


(Figure 1)

European and Asian LPs dissatisfied with recent PE performance

Around three fifths of European LPs and an even greater proportion of Asian LPs are *disappointed* with the recent performance of their PE portfolios. By contrast, 60% of North American investors declare themselves *satisfied*.

LPs' satisfaction with the recent performance of their private equity portfolios

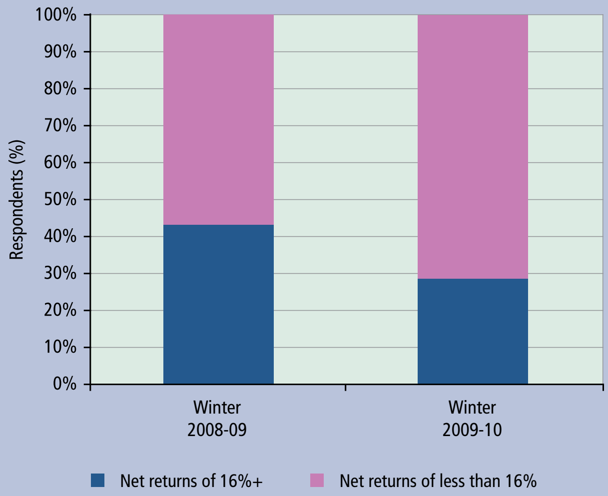


(Figure 2)

Sharp fall in LPs' return expectations

The proportion of LPs expecting annual net private equity returns of 16%+ in the medium term has fallen from 43% to 29% in the last year. It now stands at the same level as it did in the Winter 2004-05 *Barometer*.

LPs' annual net PE return expectations over the next 3-5 years

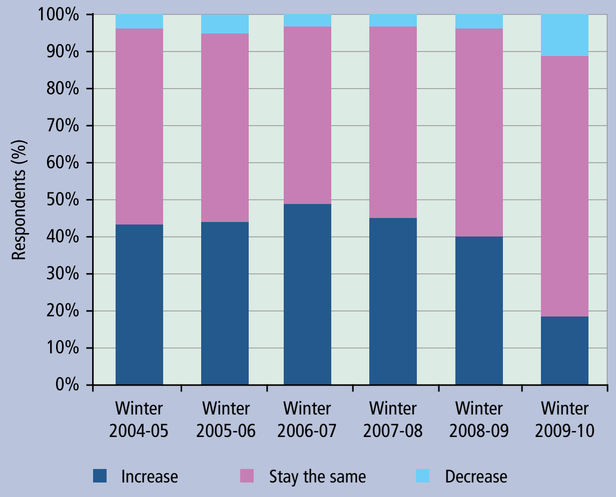


(Figure 3)

Investors to maintain PE asset allocation targets

Private equity investors generally plan to maintain their target allocation to the asset class at its current level (following several years' continuous growth in target allocations). 70% of LPs plan to maintain their target allocation for the next 12 months.

LPs' anticipated changes to their target percentage of assets allocated to private equity over the next 12 months

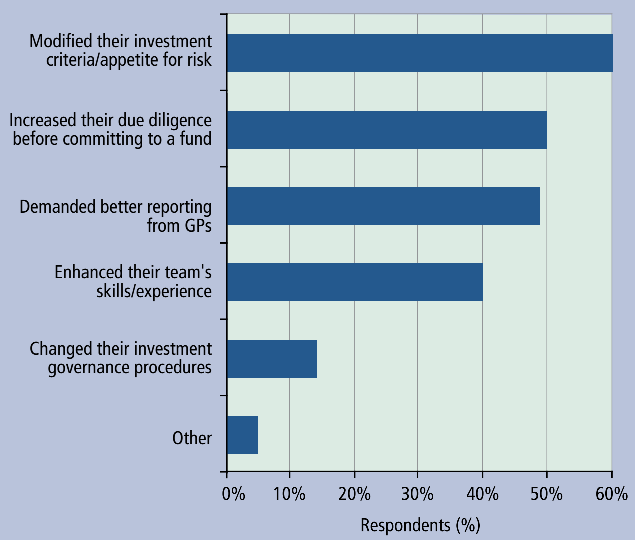


(Figure 4)

LPs have changed how they manage their PE portfolios since the credit crunch

Two thirds (67%) of LPs have changed the way they manage their private equity portfolios since the start of the credit crunch. Of LPs that have instituted changes: 60% have modified their investment criteria and appetite for risk; half have tightened their due diligence before committing to a fund; and half (49%) have demanded improved reporting from GPs. A further 40% of investors have taken steps to strengthen the overall skills and experience of their internal teams.

How LPs have changed their portfolio management since summer 2007

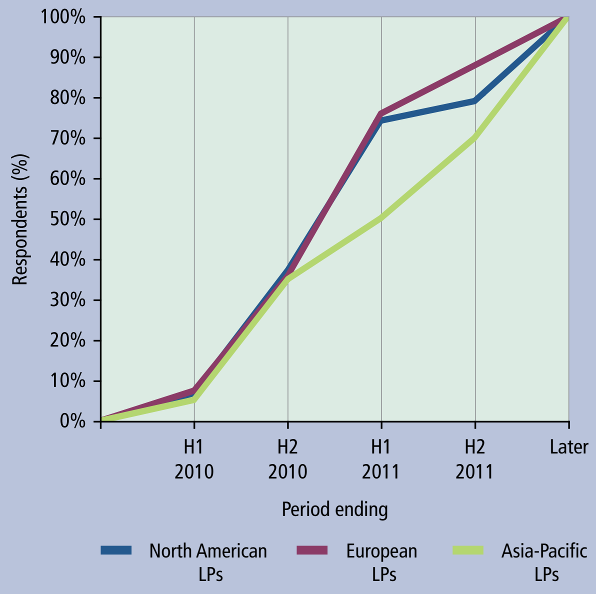


(Figure 5)

Global economy expected to return to steady growth by mid-2011

Three quarters of North American and European investors expect the global economy to return to sustained growth by the first half of 2011. Asia-Pacific investors are more pessimistic – almost one third (30%) believe the economy will not return to steady growth until at least 2012.

LPs' expectations of when the global economy will return to sustained growth

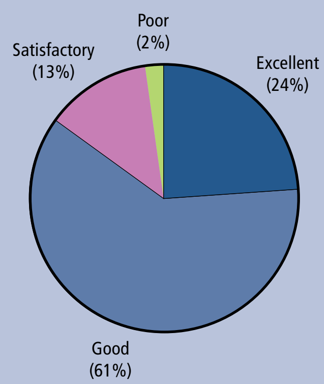


(Figure 6)

LPs expect 2010 to be a good or great vintage year

85% of LPs believe 2010 will be a good or excellent vintage year for private equity. North American investors are the most enthusiastic – 94% believe 2010 will be a good or excellent year.

LP expectations for 2010 as a PE vintage year



(Figure 7)

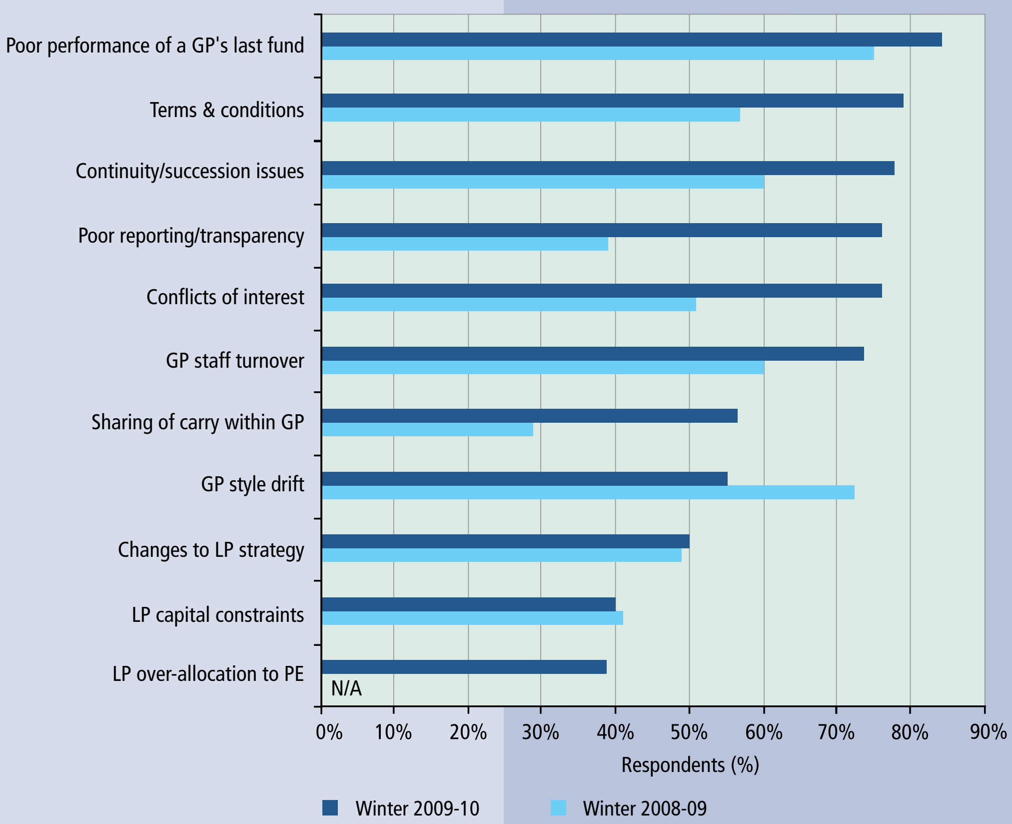
Factors deterring re-ups have changed dramatically

Alignment of interest and transparency of reporting have dramatically increased in importance when investors are considering re-investing with GPs.

In considering the factors likely to deter them from re-upping, 79% of LPs cited fund terms and conditions (vs. 57% in the Winter 2008-09 *Barometer*); 76% cited poor reporting/transparency (vs. 39% in Winter 2008-09); and 76% cited conflicts of interests (vs. 51% in Winter 2008-09).

Generally, the absolute increases in the proportions of LPs citing different factors reflect more stringent requirements and a flight to quality among LPs considering new fund commitments.

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

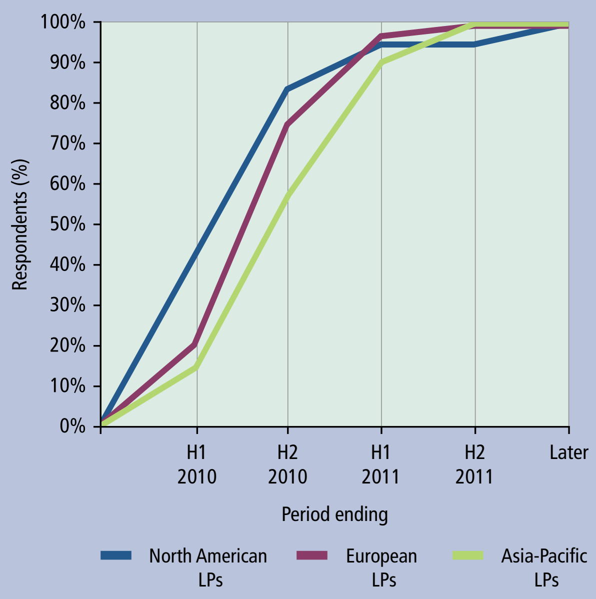


(Figure 8)

Large growth in capital calls expected in 2010

Investors expect a significant increase in capital calls during 2010. North American LPs are most confident about a major uptick in calls during 2010 (84% of them expect this, compared with 75% of European and 57% of Asian LPs).

Timing of a significant increase in capital calls – LP views



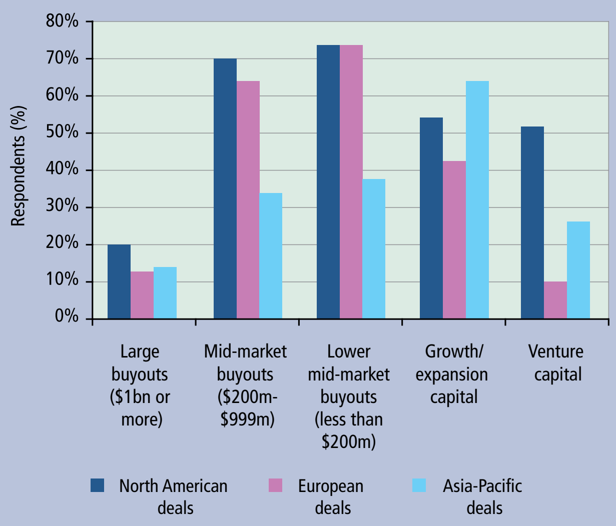
(Figure 9)

Mid-sized buyouts offer best GP investment opportunities

North American and European buyout transactions of less than $1bn in size are seen as offering the best opportunities for GPs – with around 70% of investors citing this type of deal as attractive. Growth/expansion capital is seen as the next most fertile ground – with opportunities in Asia seen as good by two thirds of LPs.

Investors are far more positive about the opportunities for North American venture capitalists (52% of LPs rate them as good) compared with those available to venture capitalists elsewhere (10% and 27% for European and Asian GPs respectively).

The best areas for GP investment over the next 2 years – LP views



(Figure 10)

LPs see receivers/administrators and large corporations as the most fertile source of deals

Investors expect the best investment opportunities for GPs to come from businesses being bought out of bankruptcy or Chapter 11, and from disposals and spin-offs by corporations.

Sources of attractive PE transactions in the next 2 years – LP views

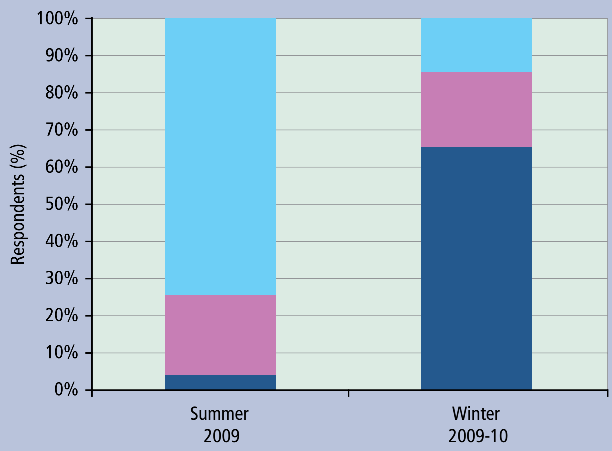
	Overall ranking
Buying from bankruptcy/Chapter 11	1
Corporate disposals/spin-offs	2
Secondary buyouts	3
Sales by families/entrepreneurs	4
Quoted markets (P-to-P deals)	5

(Figure 11)

LPs expect the exit environment to improve in 2010 …

Two thirds (65%) of private equity investors expect distributions from their portfolios to improve over the next year, compared with just 4% in the Summer 2009 *Barometer*.

Likely changes to GP distributions over the next 12 months – LP views

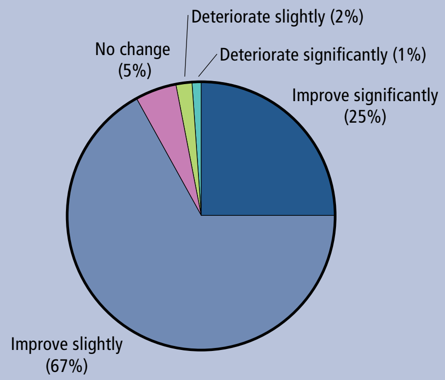


(Figure 12)

… but they think overall improvement will be slow

Two thirds of investors expect a *slight* improvement in the exit environment in the next two years, while a quarter think a *significant* improvement is likely.

LPs' views on the global exit environment in the next 2 years

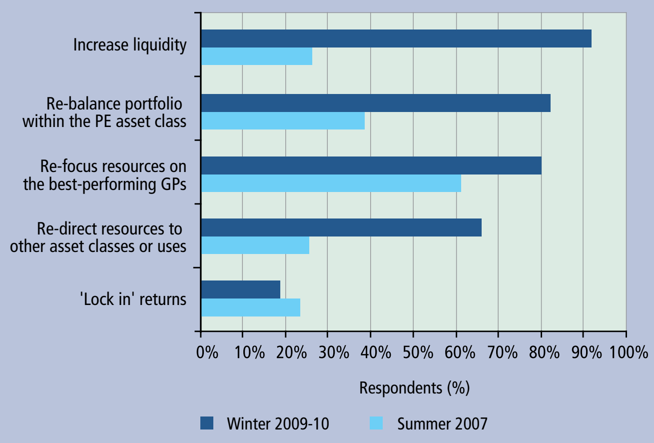


(Figure 13)

Big shift in secondaries market dynamics

Investors' views of the secondaries market have changed significantly in the last couple of years. LPs now see secondaries as an important tool for changing the overall composition and liquidity profile of their portfolios. For example, 92% of LPs now cite the need for liquidity as a reason for selling in the secondaries market, compared with 27% in 2007; and 82% now cite the need to re-balance private equity portfolios, compared with just 39% in 2007.

Reasons for selling in the secondaries market in the next 2 years – LP views*



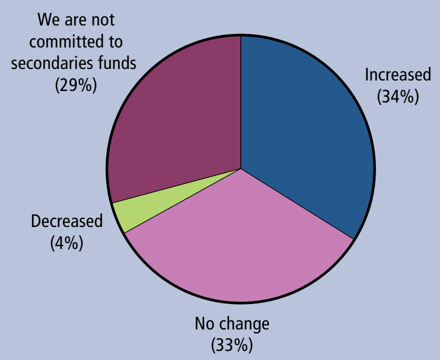
*Excludes funds-of-funds

(Figure 14)

LPs' exposure to secondaries has grown steadily …

A third (34%) of private equity investors have increased their exposure to secondaries funds over the last two years. 29% of LPs currently have no exposure to secondaries funds.

Changes to LPs' exposure to secondaries funds over the last 2 years

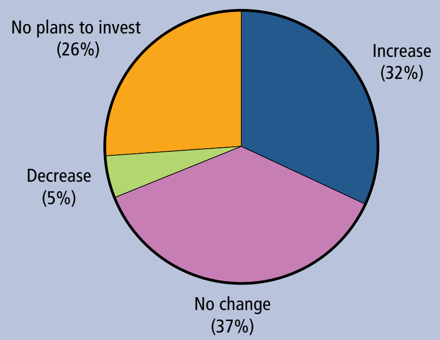


(Figure 15)

… and this will continue over the next two years

This picture of measured growth in investors' exposure to secondaries is likely to hold over the next two years.

Anticipated changes to LPs' exposure to secondaries funds over the next 2 years

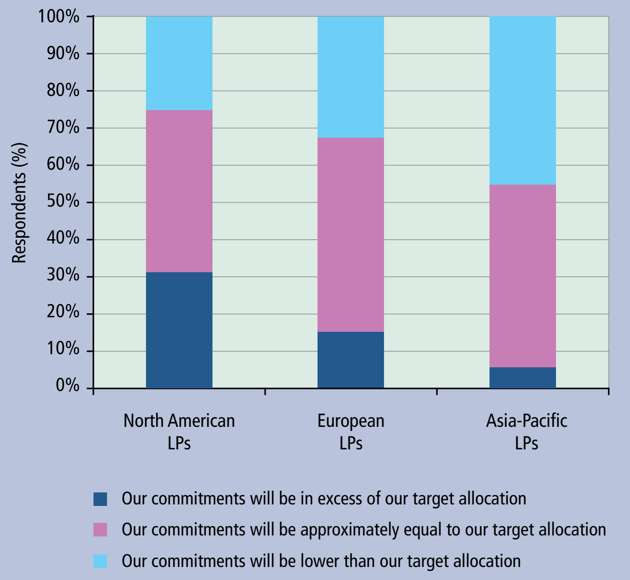


(Figure 16)

One third of North American LPs to exceed their target PE allocation in 2010

By the end of 2010 one third (31%) of North American LPs are likely to have total commitments in excess of their target private equity allocations. Only one quarter of North American investors and one third of European investors expect their actual percentage of total assets invested in private equity to be lower than their target by the end of 2010. The fundraising environment will remain tough!

LPs' anticipated level of PE commitments at the end of 2010

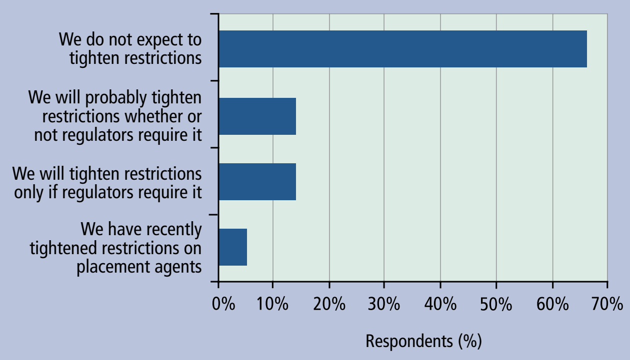


(Figure 17)

Placement agents to avoid restrictions by investors

Two thirds (67%) of private equity investors do not expect to tighten restrictions on placement agents in the wake of recent scandals in the industry – suggesting that LPs generally believe they have adequate protections in place. However, some 14% of LPs expect to increase their controls on placement agents even in the absence of new regulatory requirements.

LPs' planned policy toward placement agents



(Figure 18)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Winter 2009-10

The *Barometer* researched the plans and opinions of 108 investors in private equity funds. These investors, based in North America, Europe and Asia-Pacific, form a representative sample of the LP population worldwide.

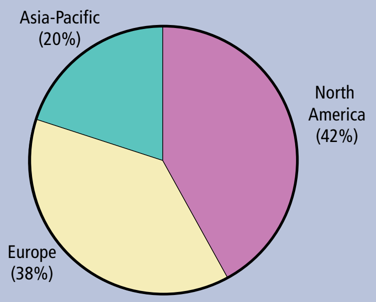
About Coller Capital

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

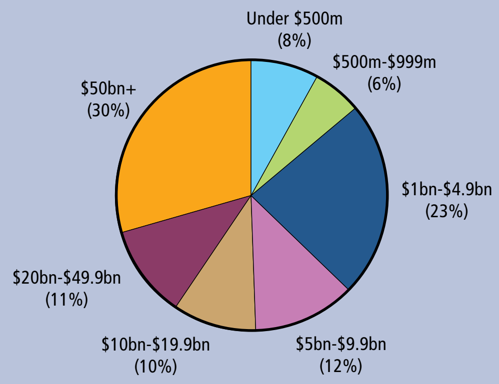
Fieldwork for the *Barometer* was undertaken for Coller Capital in September-October 2009 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for 20 years.

Respondents by region



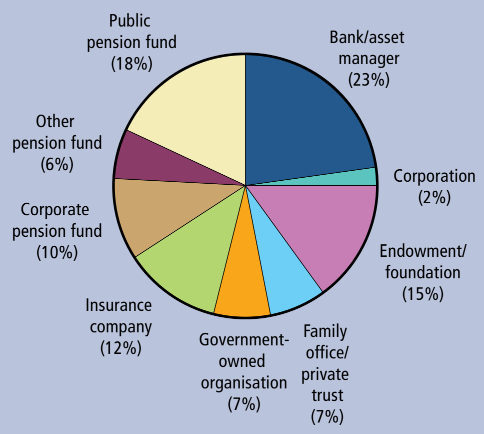
(Figure 19)

Respondents by total assets under management



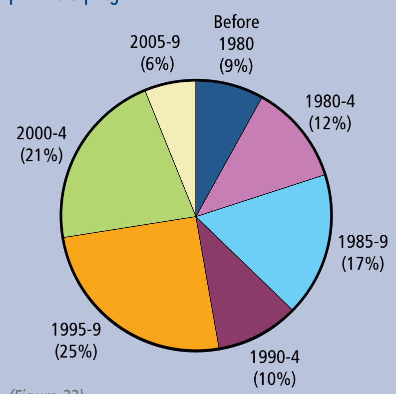
(Figure 20)

Respondents by type of organisation



(Figure 21)

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



(Figure 22)

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

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