Coller Capital

Global Private Equity Barometer

WINTER 2010-11

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 13th edition of the *Global Private Equity Barometer* captured the views of 120 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:

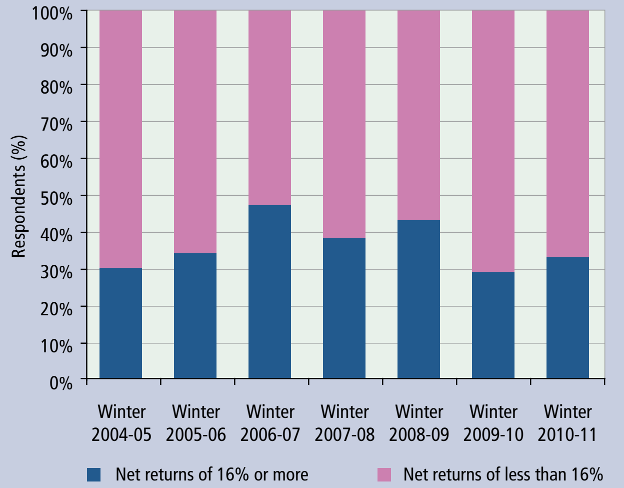
- LPs' return expectations & appetite for PE
- Attractive areas for GP investment
- Distributions to LPs
- The PE market cycle
- PE funds-of-funds
- Venture capital
- Asia-Pacific PE market
- Impact of ESG principles on LP investment decisions

LPs' confidence in medium-term PE returns is improving

One third of investors expect to achieve annual net returns of 16% or more across their private equity portfolios over the next 3-5 years. (This compares with a low of 29% of LPs in the Winter 2009-10 *Barometer*).

87% of LPs expect net returns of 11% or more.

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

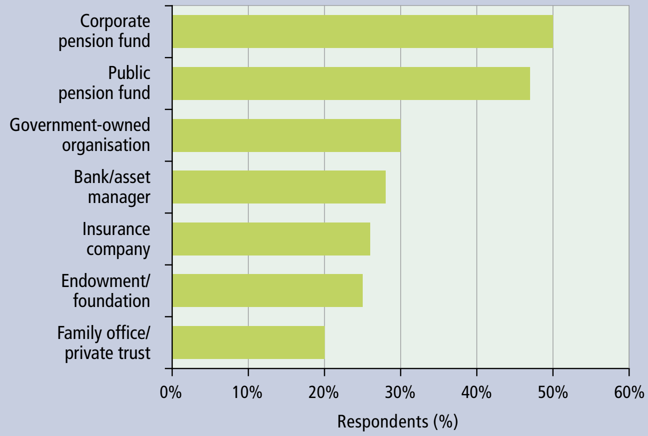


(Figure 1)

Half of pension funds could improve PE returns by hiring more staff

Half of corporate and public pension funds (50% and 47% respectively) believe they could improve their returns from private equity if they were allowed to take on more investment staff.

LPs convinced that hiring additional investment staff would improve their PE returns

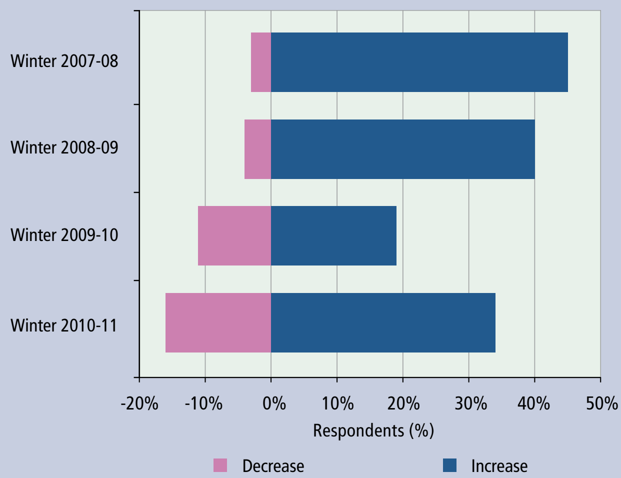


(Figure 2)

Asset allocation intentions signal investor confidence in PE

Investors are re-affirming their confidence in the private equity asset class as the global economy gradually returns to growth. Twice as many LPs (34%) are intending to increase their target allocation to private equity as reduce their target allocation (16% of LPs).

LPs' plans for their percentage of assets targeted at PE over the next 12 months

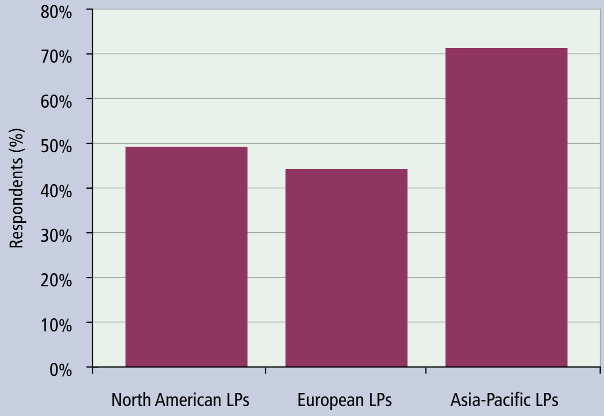


(Figure 3)

Asia-Pacific LPs foresee continuous stream of new PE investors

71% of Asia-Pacific LPs expect to be joined by institutions not currently investing in PE over the next three years.

LPs expecting to see a significant number of first-time institutional investors in PE over the next 3 years



(Figure 4)

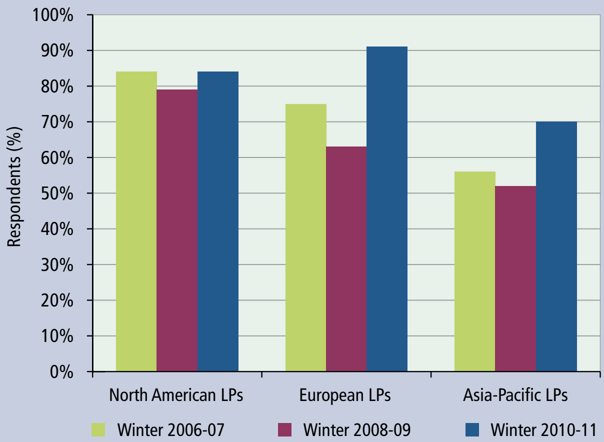
'Re-up' refusals reach new high

For the first time, European investors have rejected more GP requests for re-investment than North American investors. Almost all (91%) European LPs have declined to 're-up' over the last 12 months, compared with 63% who had refused 're-ups' in the Winter 2008-09 *Barometer*.

Asia-Pacific investors have also refused more 're-up' requests, with 70% declining to re-invest in the past year, compared with only half (52%) in Winter 2008-09.

The proportion of North American investors (84%) refusing 're-ups' has remained consistently high.

LPs declining to re-invest with GPs over the last 12 months



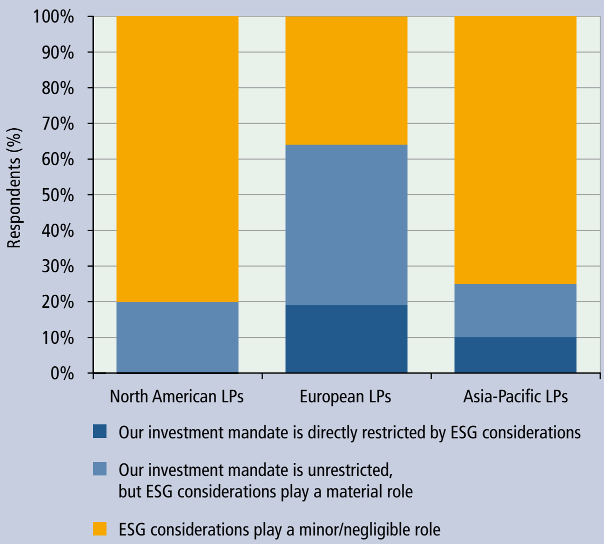
(Figure 5)

Only European LPs see ESG issues as important investment criteria

Two thirds (64%) of European LPs say environmental, social and governance (ESG) considerations materially impact their fund selection process (with 19% of them having investment mandates directly restricted by ESG issues), compared with only one fifth of North American LPs and one quarter of Asia-Pacific LPs.

Interestingly, pension funds everywhere are relatively unfocussed on ESG issues – for 71% of these LPs ESG considerations play little or no role in fund selection.

Impact of environmental, social and governance (ESG) considerations on LPs' fund selection processes



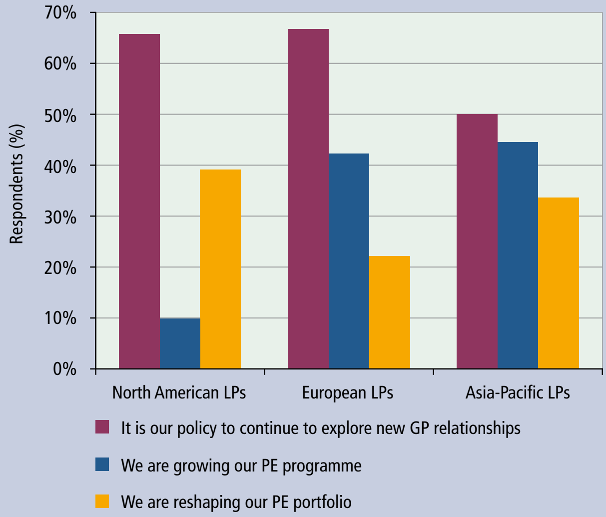
(Figure 6)

81% of LPs will add new GP relationships within 2-3 years

The *Barometer* shows that a large majority of LPs (81%) intend to make commitments within the next 2-3 years to GPs with whom they have not previously invested.

For many LPs in the less mature PE markets of Europe and Asia-Pacific, this will be because they are still growing their PE portfolios (see *figure 7*). For 30%-40% of North American and Asia-Pacific LPs these new relationships will be a function of portfolio re-shaping. But for around half to two thirds of LPs in all regions of the world it is simply their institution's policy to continue exploring new GP relationships.

LPs' reasons for committing to new GP relationships over the next 2-3 years

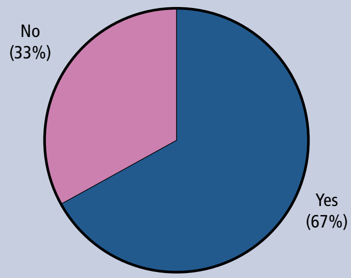


(Figure 7)

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

Two thirds of LPs believe investor appetite for the Asia-Pacific region has made it too easy for weak GPs to raise funds.

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

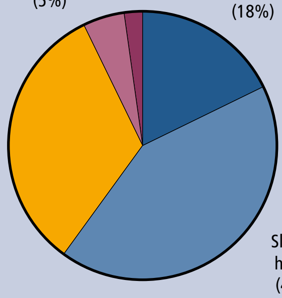


(Figure 8)

Most LPs to increase rate of new commitments in 2011

60% of LPs plan to increase their rate of new PE commitments in 2011 – though the increase will be modest in most cases. Only 7% of investors expect to slow their rate of new fund commitments in 2011.

LPs' anticipated level of new PE commitments in 2011 compared with their actual commitments in 2010

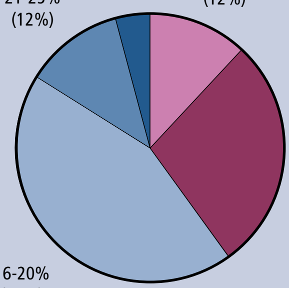


(Figure 9)

Most LPs expect 16%+ returns from 2010 & 2011 vintage deals

60% of LPs expect returns of 16% or more from the investments their GPs make in 2010 and 2011, and almost all (88% of LPs) expect returns from these deals to top 11%.

Performance of 2010 & 2011 vintage deals – LP expectations



(Figure 10)

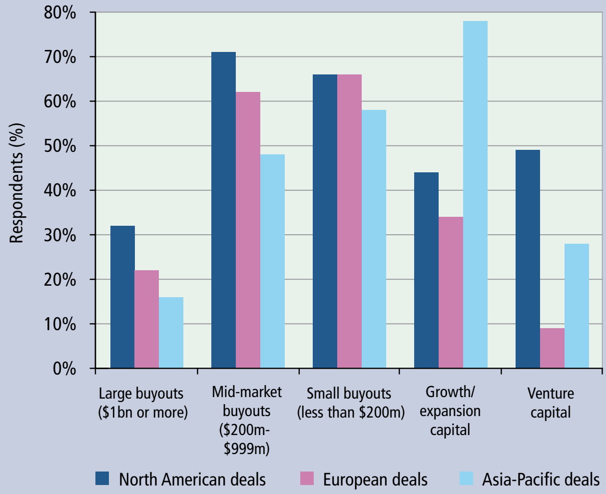
Small and mid-sized buyouts remain best overall bet in LPs' eyes

Two thirds of investors believe the best areas for GP investment in the next two years will be buyouts of less than $1bn in size in North America and Europe.

The main changes since last year's Winter *Barometer* are:

- an improvement in the perception of large buyouts – one third of LPs now see $1bn+ buyouts in North America as attractive (compared with one fifth of LPs in Winter 2009-10).
- an improvement in the perceived attractiveness of mid-market Asia-Pacific deals of all sizes (from growth capital to mid-sized buyouts).

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



(Figure 11)

Best deals to come from corporations and families/ entrepreneurs, LPs think

LPs see corporate disposals and sales by families/entrepreneurs as providing the most attractive investment opportunities for GP investment over the next two years.

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

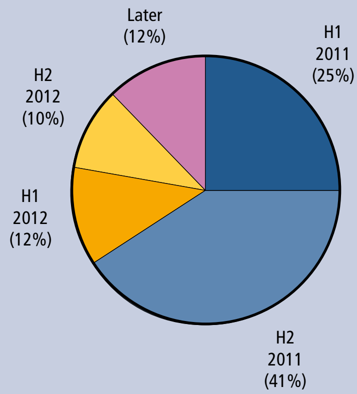
	Overall ranking		
	Winter 2010-11	Winter 2009-10	Change
Corporate disposals/ spin-offs	1	2	+1
Sales by families/ entrepreneurs	2	4	+2
Secondary buyouts	3	3	-
Buying from bankruptcy/ Chapter 11	4	1	-3
Quoted markets (P-to-P deals)	5	5	-

(Figure 12)

Large growth in distributions expected in 2011

Two thirds of private equity investors expect a significant increase in distributions from their portfolios during 2011.

Timing of a significant increase in GP distributions – LP views



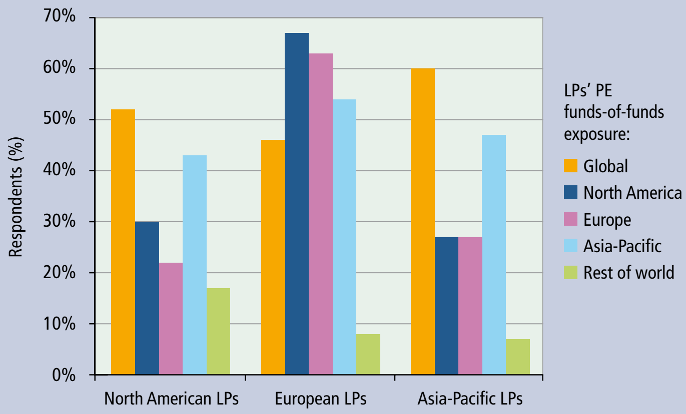
(Figure 13)

Asia-Pacific LPs make most use of funds-of-funds

Overall, three quarters of Asia-Pacific LPs invest in funds-of-funds, compared with half of North American and European LPs.

Of investors that *do* use funds-of-funds (*figure 14*), European LPs are most likely to use them across all three regions of the world.

LPs investing in PE funds-of-funds – by region



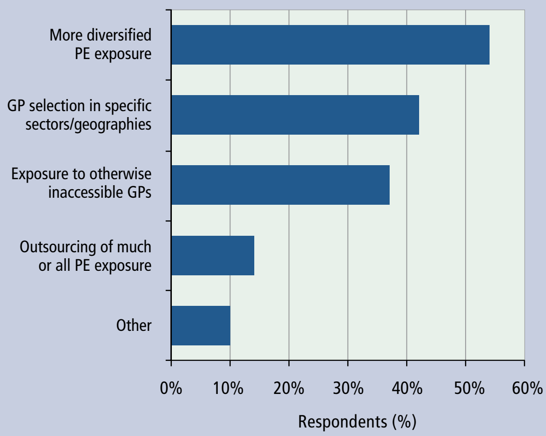
(Figure 14)

Diversification is the principal reason for funds-of-funds investments

Achieving broad diversification and GP selection in specific geographies/sectors are the most important reasons for LPs to invest in funds-of-funds.

This overall picture hides some interesting regional variations however. One quarter (26%) of European LPs use funds-of-funds to outsource much or all of their private equity exposure and over half (55%) of North American investors use funds-of-funds to gain access to otherwise inaccessible GPs.

LPs' reasons for investing in PE funds-of-funds

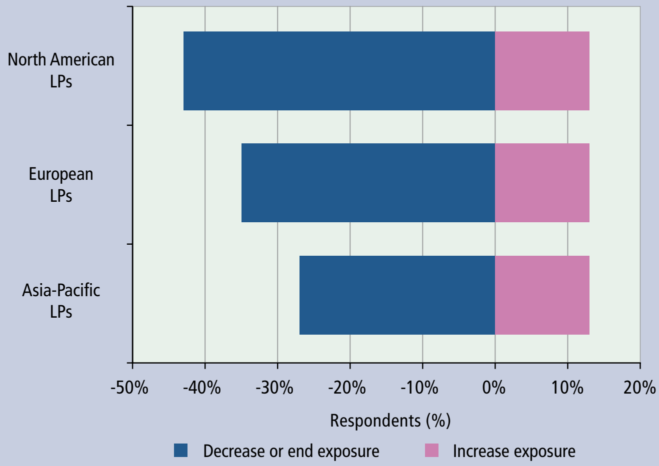


(Figure 15)

Existing funds-of-funds investors plan net reduction in exposure

43% of North American, 35% of European and 27% of Asia-Pacific funds-of-funds investors plan to reduce or end their exposure to funds-of-funds within the next three years – compared with only 13% of existing investors in each region who plan to increase their exposure.

Funds-of-funds investors' planned changes to their exposure over the next 3 years

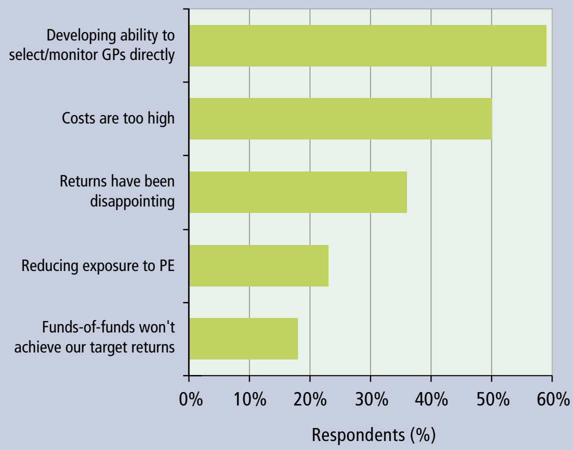


(Figure 16)

Cost is a major factor for investors planning reduced exposure to funds-of-funds

Half of investors reducing their funds-of-funds exposure cite high costs as a reason. One third (36%) of investors cite disappointing returns.

LPs' reasons for reducing their exposure to PE funds-of-funds

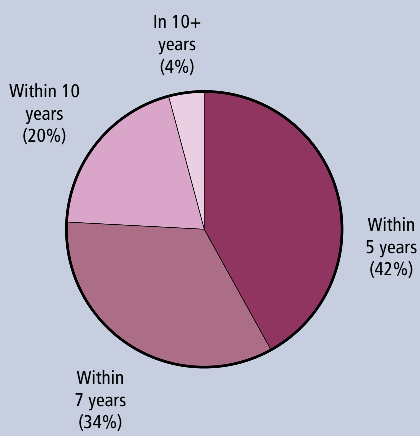


(Figure 17)

Three quarters of LPs expect another downturn within seven years

Three quarters (76%) of LPs expect another significant downturn in the private equity market within seven years. 42% of LPs expect the next downturn within five years.

Timing of the next significant downturn in the PE market – LP views



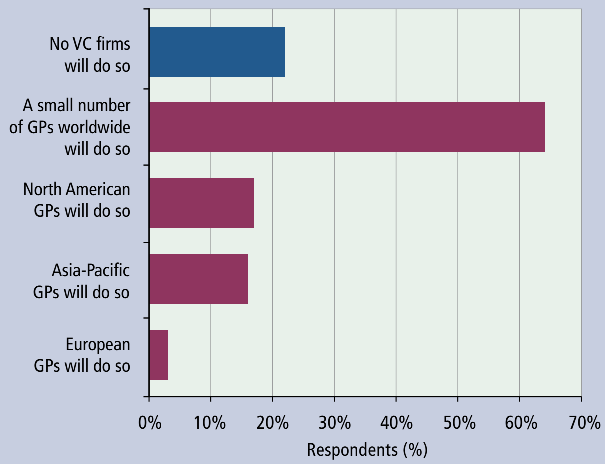
(Figure 18)

Few VC firms will deliver consistently strong returns over next decade, LPs think

Two thirds (64%) of LPs believe that only a small number of VC firms worldwide will generate consistently strong returns over the next decade.

One fifth (22%) of LPs believe that *no* venture capital firms will be able to deliver consistently strong returns.

Ability of VC firms to generate consistently strong returns over the next decade – LP views



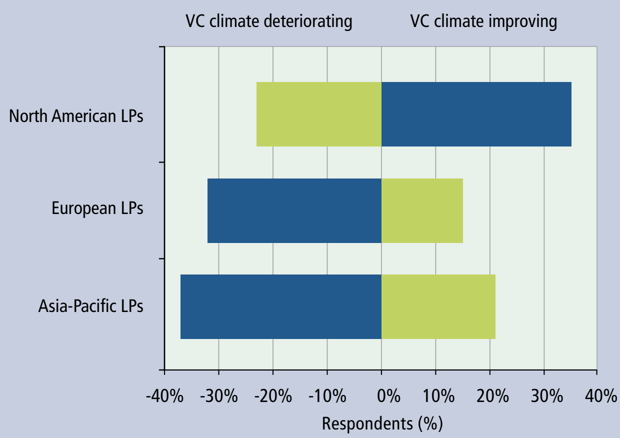
(Figure 19)

Only North American investors positive on VC environment

Around half of investors believe the environment for venture capital in their own region is changing significantly.

Of these LPs, North American investors are on balance positive, and European and Asia-Pacific investors negative (*figure 20*).

LPs' views of the environment for VC investment in their own regions

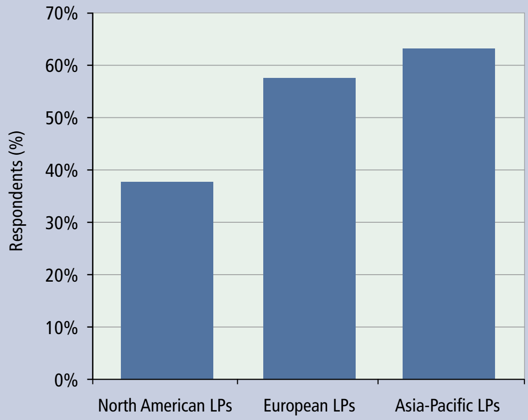


(Figure 20)

Majority of European and Asia-Pacific investors see early-stage VC funding shortfall in their region

57% of European LPs and 63% of Asia-Pacific LPs perceive such a shortfall. North American LPs are more optimistic, with just 37% seeing a shortfall in their region.

LPs who perceive an early-stage VC funding shortfall in their region



(Figure 21)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Winter 2010-11

The *Barometer* researched the plans and opinions of 120 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.

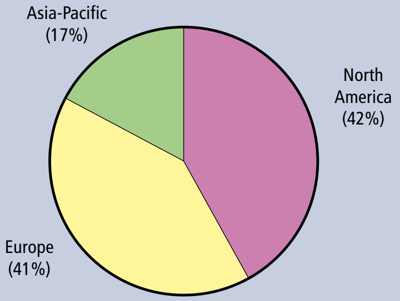
Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in October-November 2010 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for over 20 years.

Notes:

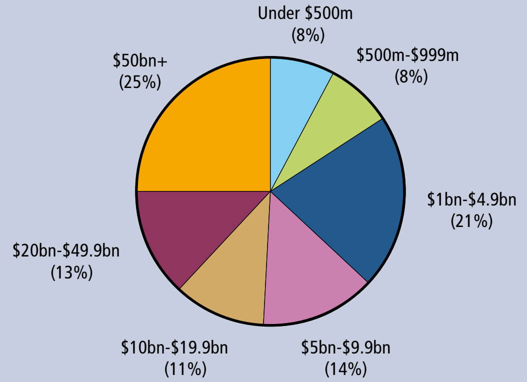
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



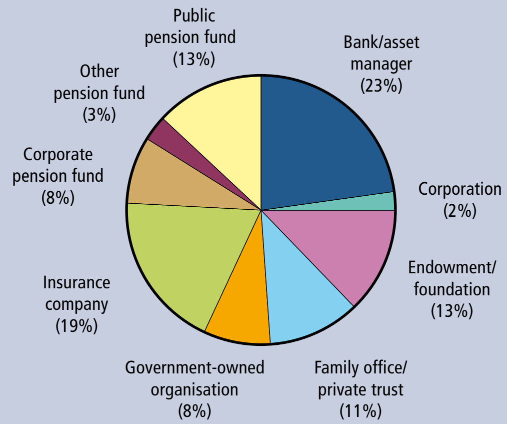
(Figure 22)

Respondents by total assets under management



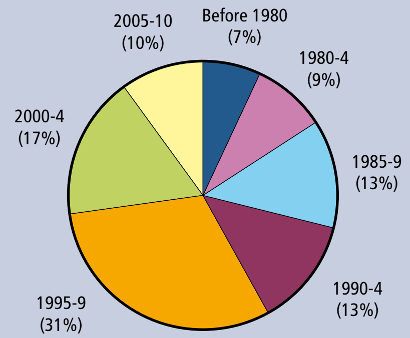
(Figure 23)

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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