

Coller Capital

Global Private Equity Barometer

❖ WINTER 2012-13

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 (including the Middle East).

This 17th edition of the *Global Private Equity Barometer* captured the views of 131 private equity investors from 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

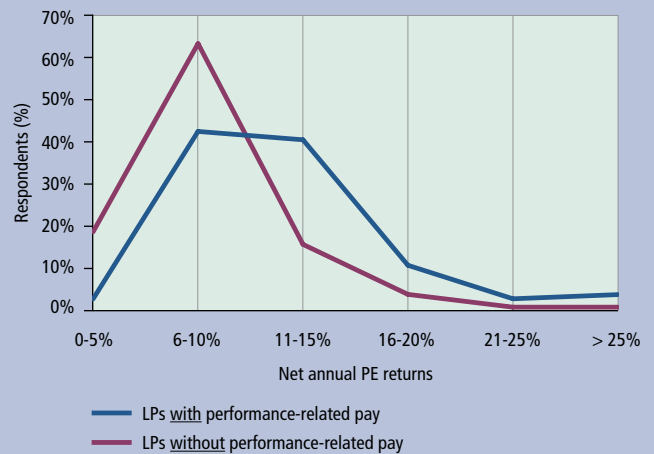
Key topics in this edition of the *Barometer* include:

- The effect of performance-related pay on LPs' portfolio returns
- LPs' willingness to back GPs on a deal-by-deal basis
- LPs' return expectations & appetite for PE
- Demand and supply in global PE markets
- LPs' plans for their number of GPs
- Fundraising & due diligence since the crash
- Most attractive areas for GP investment
- LPs' expectations on distributions
- The IPO market
- The debt markets
- Asia-Pacific PE market

LPs with performance-related pay outperform other LPs

55% of LPs with performance-related pay have achieved net annual returns of 11%+ from private equity over the past five years, compared with fewer than one in five (19%) LPs without performance-related pay.

LPs' 5-year PE portfolio performance correlated with their remuneration

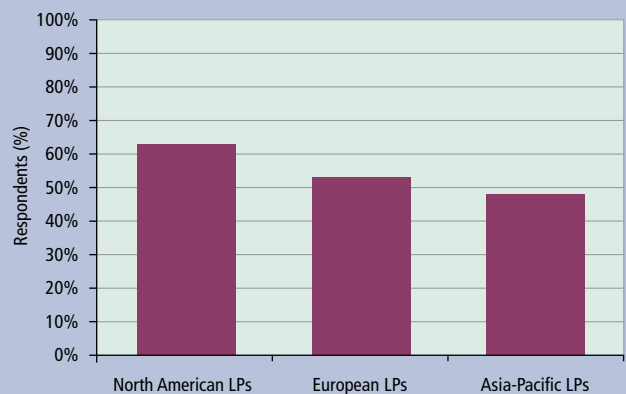


(Figure 1)

Performance-related pay for LPs is more common in North America

63% of North American LPs have performance-related pay, compared with about half of European and Asia-Pacific LPs (53% and 48% respectively).

Proportion of LPs with performance-related pay

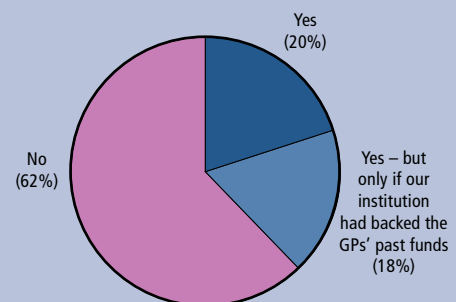


(Figure 2)

38% of LPs would back a GP on a deal-by-deal basis

38% of PE investors would back GPs on a deal-by-deal basis (though 18% said they would only do this if they had previously committed to the GPs' funds).

LPs' willingness to back GPs on a deal-by-deal basis



(Figure 3)

LPs' target PE allocations rising

Investors are re-affirming their confidence in the private equity asset class in the wake of the global financial crisis.

More than three times as many LPs (30%) plan to increase their target allocation to private equity over the next 12 months as to reduce it (9% of LPs).

One third of investors are accelerating their commitments to PE

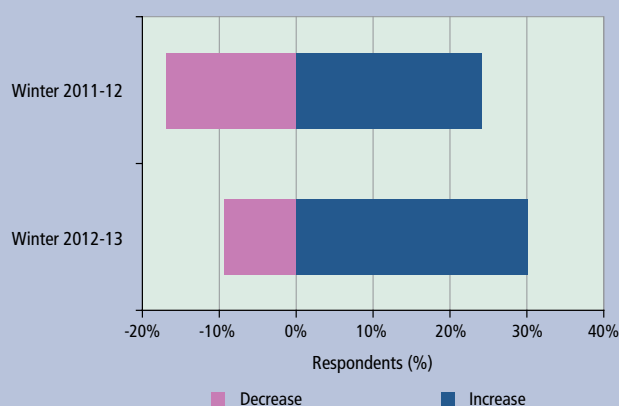
One third of LPs expect the pace at which they make commitments to PE funds to accelerate in the next 12 months – though most expect the increase in pace to be modest.

80% of investors expect net PE returns of 11%+ over the next 3-5 years

Looking across their PE portfolios, four out of five investors are forecasting net annual returns of 11%+ over the next 3-5 years. Over a quarter (28%) of LPs expect net returns of 16%+ in the same period.

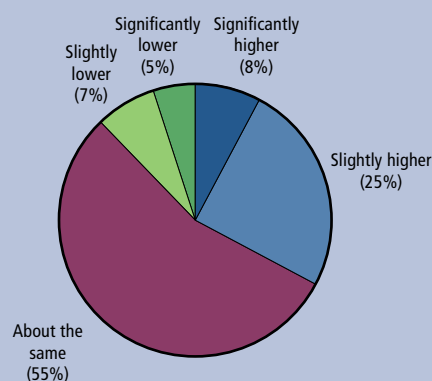
Buyouts in all regions of the world are regarded as the safest bet – with 84% of LPs predicting returns of 11%+ from North American buyouts; 77% of LPs predicting the same return from European buyouts; and 82% of LPs from buyouts in the Asia-Pacific region. Approaching two thirds (62%) of investors expect net returns of 11%+ from North American venture.

LPs' plans for their percentage of assets targeted at PE in 12 months' time



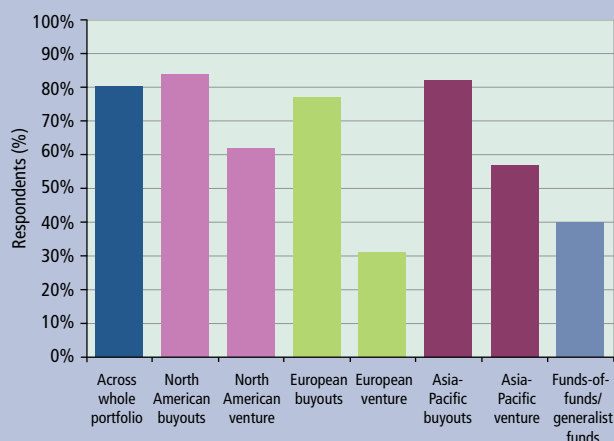
(Figure 4)

LPs' anticipated level of new commitments to PE in the next 12 months vs last 12 months



(Figure 5)

LPs expecting net annual returns of 11%+ from their PE portfolios over the next 3-5 years



(Figure 6)

North American and European LPs differ sharply on supply and demand in North American PE

North American LPs are significantly more concerned that the North American PE market is overheating than European LPs are. Two thirds of North American LPs believe there are too many GPs chasing too few buyout deals in North America (compared with just one third of European LPs who think the same). And 61% of North American LPs also see overheating in the North American venture market (compared with just one quarter of European LPs).

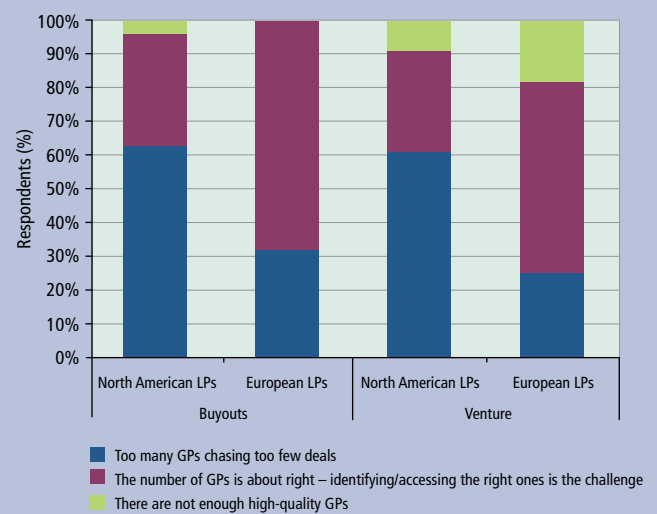
By contrast, North American and European PE investors share a similar view on supply and demand in the European PE market: 40% of LPs believe there are too many GPs chasing too few buyout deals in Europe; and two thirds of LPs believe there are not enough high-quality venture firms in Europe.

Half of North American LPs will cut GP relationships

Almost half (47%) of North American private equity investors intend to reduce the number of their GP relationships over the next two years. 18% of European LPs and 35% of Asia-Pacific LPs have the same intention. (In Summer 2006, the equivalent percentages were 10%, 5% and 17% respectively).

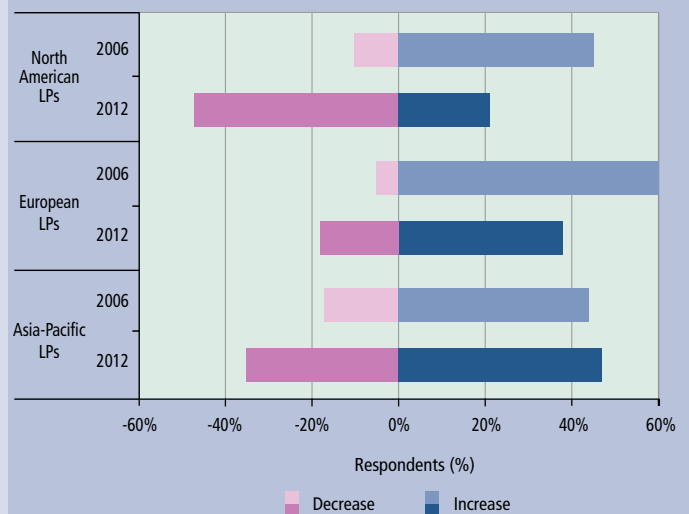
Investor attitudes towards GPs in different regions vary considerably. On balance: North American LPs are most likely to be reducing exposure to North American GPs; European LPs are the only ones planning to cut their European GP numbers; and LPs from all regions plan more GP relationships in the Asia-Pacific region.

Demand and supply in the North American PE market – LP views



(Figure 7)

LPs' plans for their number of active GP relationships in 2 years' time – by location of LP (with 2006 comparator)

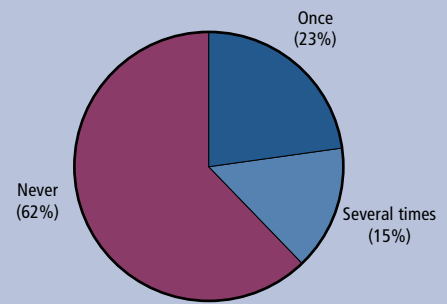


(Figure 8)

Almost 2 in 5 LPs have taken advantage of 'early bird' discounts

In the last two years, 38% of LPs have committed early to a private equity fund to take advantage of an 'early bird' discount on fees – and 15% of LPs have done so several times.

Proportion of LPs committing early to a fund to secure an 'early bird' discount in the last 2 years



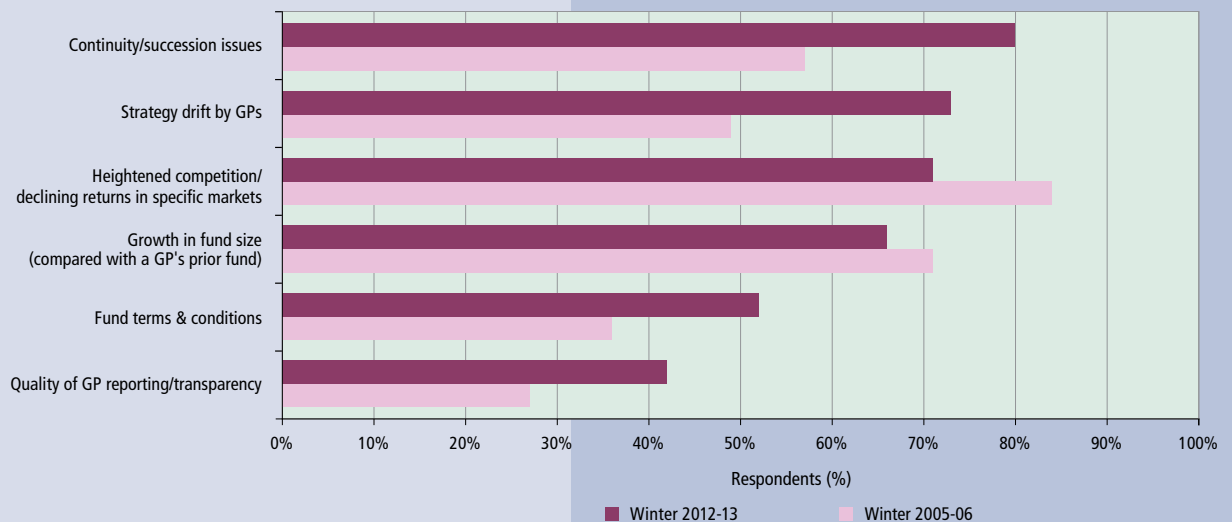
(Figure 9)

GP staffing issues and strategy drift are LPs' greatest concerns

Continuity and succession issues within private equity firms and strategy drift by GPs are the greatest concerns for LPs in today's fundraising environment. These issues were cited by 80% and 73% of LPs respectively.

Heightened competition in individual private equity markets and growth in the size of GPs' funds – which were LPs' greatest worries in the pre-crash period – also remain significant concerns today.

LPs' concerns in the current fundraising environment

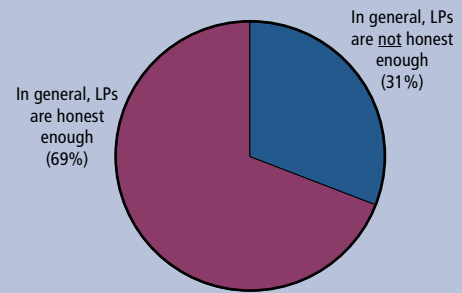


(Figure 10)

One third of LPs are not honest enough about their reasons for refusing commitments

One third of PE investors believe their peers are not open and honest enough with GPs about their reasons for refusing fund commitments or re-ups.

LPs' honesty with GPs about reasons not to commit/re-up to a GP's fund

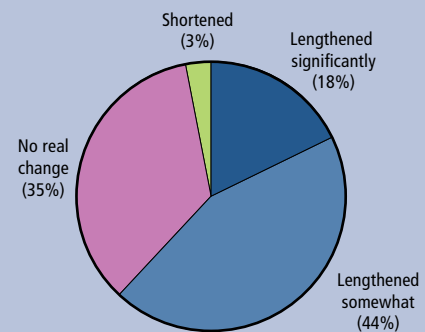


(Figure 11)

Most LPs have increased due diligence since the crash

Almost two thirds (62%) of LPs have increased the length of their due diligence for potential fund commitments since the onset of the global financial crisis.

LP time spent on active due diligence for fund commitments since the global financial crisis

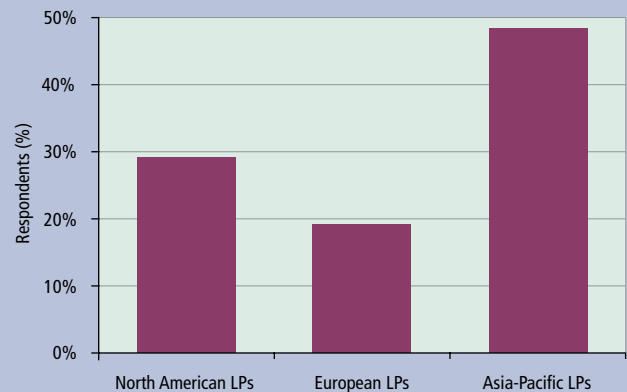


(Figure 12)

More intensive due diligence has reduced LPs' number of fund commitments

Half (48%) of Asia-Pacific LPs have reduced their number of GP commitments since the global financial crisis as a result of more intensive due diligence. This compares with almost a third (29%) of North American LPs and one fifth (19%) of European LPs.

LPs reducing their number of fund commitments as a result of more intensive due diligence



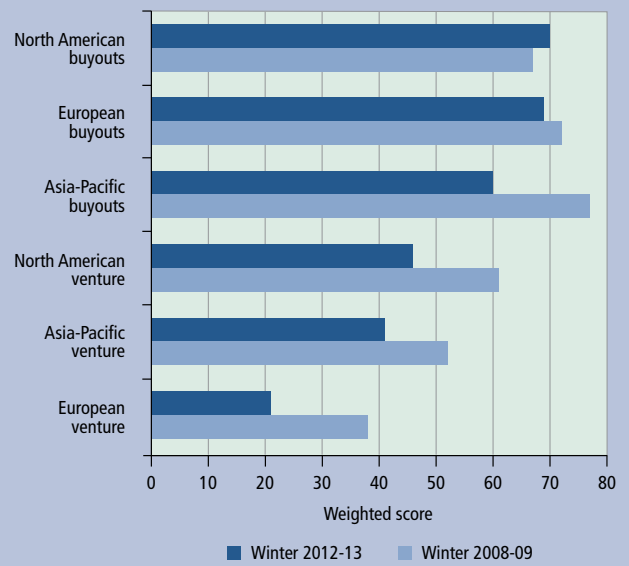
(Figure 13)

LPs now less attracted by Asia-Pacific buyouts and by venture capital

Investor views of North American and European buyouts have changed little since the fall of Lehman Brothers, but buyouts in the Asia-Pacific are now viewed less favourably than they were in Winter 2008-09.

Venture capital has declined significantly in popularity in all regions of the world over the same period.

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

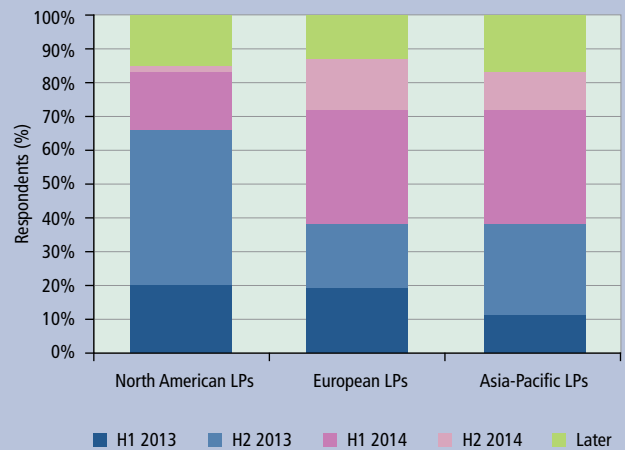


(Figure 14)

North American LPs expect significant growth in distributions in 2013

Two thirds (67%) of North American private equity investors expect a significant increase in distributions from their portfolios during 2013, compared with just 38% of European and Asia-Pacific LPs.

Timing of a significant increase in GP distributions – LP views

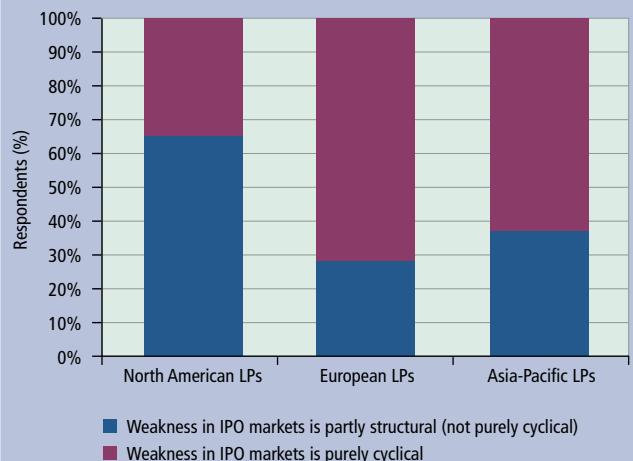


(Figure 15)

Structural issues have damaged IPO markets, North American LPs believe

Two thirds of North American PE investors believe the current weakness in IPO markets is partly a structural phenomenon. This compares with one quarter (28%) of European LPs and one third (37%) of Asia-Pacific LPs.

Factors behind the weakness in IPO markets



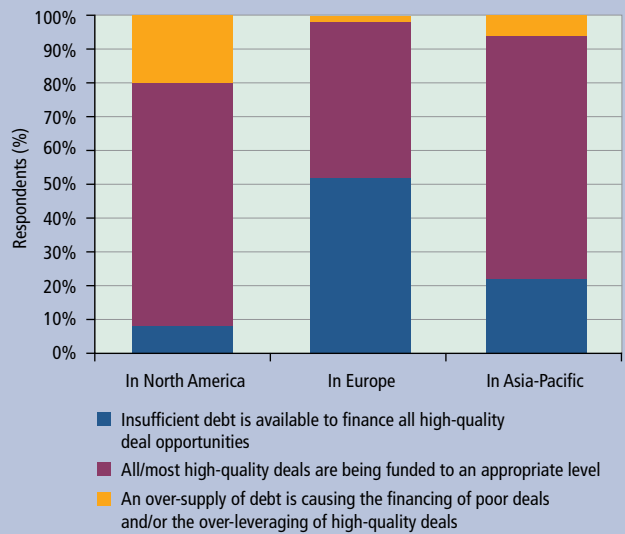
(Figure 16)

European PE hampered by debt shortage

Just over half of LPs (52%) think a shortage of debt in Europe means some high-quality deal opportunities will not be financed to the appropriate level.

However, three quarters (72%) of investors believe the debt component in good PE deals in North America and Asia-Pacific is being funded to an appropriate level.

The state of the PE debt markets – LP views

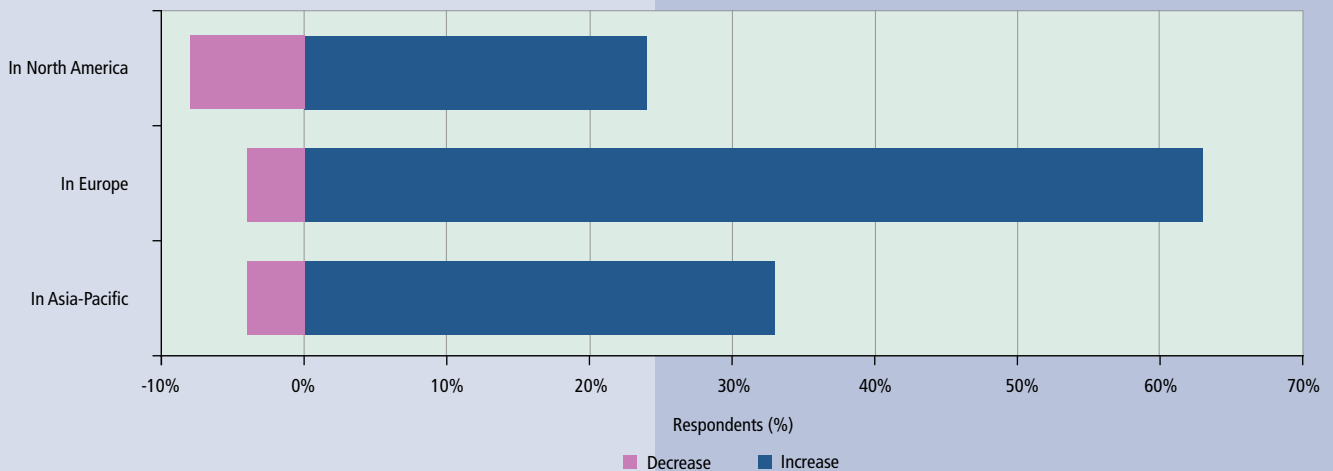


(Figure 17)

Majority of LPs expect an increase in buyout defaults in Europe in the near term

Two thirds (63%) of investors expect an increase in the number of European buyouts defaulting over the next 2-3 years. By comparison, one quarter of LPs expect an increase in defaults in North America, and one third in the Asia-Pacific region.

Expected change in buyout default rates over the next 2-3 years – LP views



(Figure 18)

Early PE investors underestimated the risks in India and China, LPs say

LPs believe early PE investors in India and China underestimated the risks of investing in these countries. Two thirds (69%) of LPs think investors were too optimistic about India, and over half (54%) say the same about China. Political and regulatory risks are believed to have been the most frequently underestimated risk in both countries.

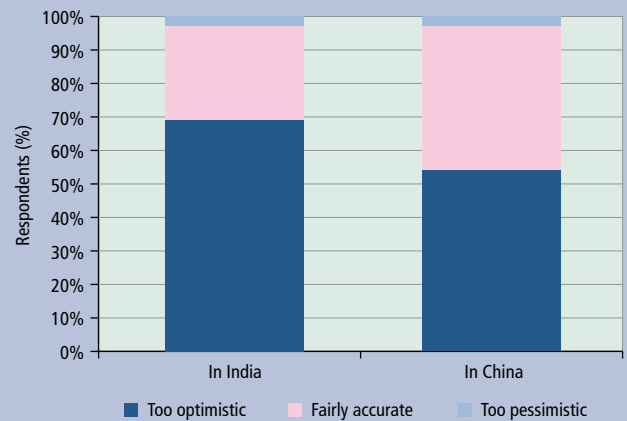
The risk/reward equation for PE investment in China is worsening, many LPs think

Three times as many LPs see the risk/reward equation getting worse in China as those who see it improving. The picture for India is more balanced.

Nascent Asian PE markets gain importance in LPs' eyes

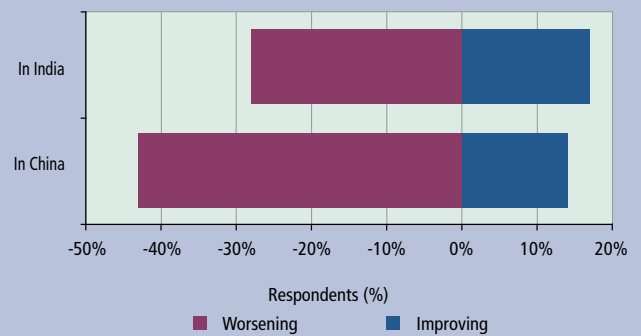
One fifth of LPs are now focusing more attention on nascent Asian PE markets such as Indonesia and Vietnam, compared with the more developed markets of Australasia, Japan, Korea, India and China.

Early investors' assessments of investment risk in India and China – LP views



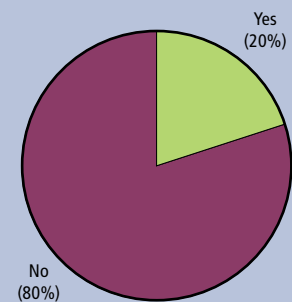
(Figure 19)

The risk/reward equation in India and China – LP views



(Figure 20)

Proportion of LPs focusing more attention on nascent Asian PE markets compared with more developed Asian PE markets



(Figure 21)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Winter 2012-13

The *Barometer* researched the plans and opinions of 131 investors in private equity funds. These investors, based in North America, Europe and Asia-Pacific (including the Middle East), 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.

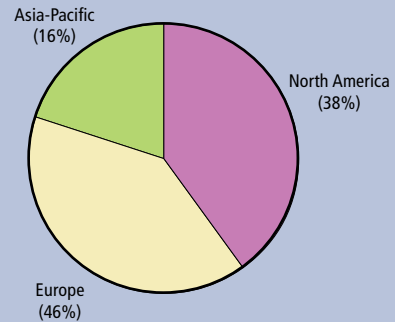
Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in September-October 2012 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Notes:

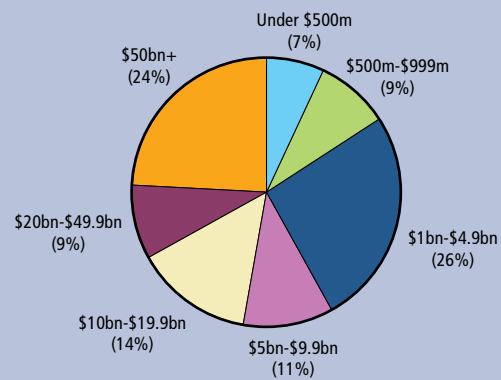
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



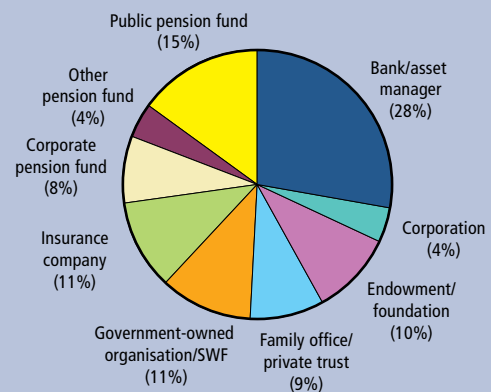
(Figure 22)

Respondents by total assets under management



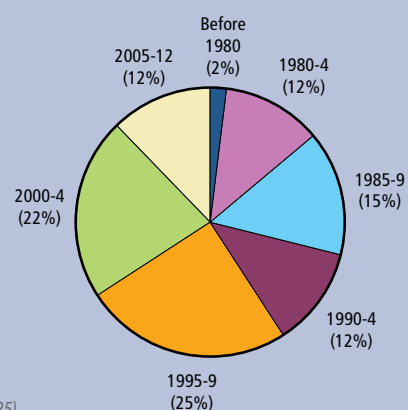
(Figure 23)

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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