

Global Private Equity Barometer

❖ WINTER 2014-15

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 21st edition of the Global Private Equity Barometer captured the views of 114 private equity investors from around 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

Topics in this edition of the Barometer include investors' views and plans regarding:

- Returns from, and appetite for, PE
- Hedge fund commitments
- Investments in real assets
- The impact of new regulation on financial markets
- Direct investments
- DC pension schemes as a source of funding
- Gender diversity and PE returns
- Venture capital
- The debt markets
- The European economy
- The exit environment

Almost 40% of LPs to raise target allocations to PE

Almost two in five PE investors plan increased target allocations to private equity in the next 12 months. Many PE investors also intend to increase their allocations to real estate. However, a third of LPs plan to reduce their allocation to hedge funds. European LPs have the most positive view of all about private equity, with over half (53%) expecting to increase their allocation to the asset class.

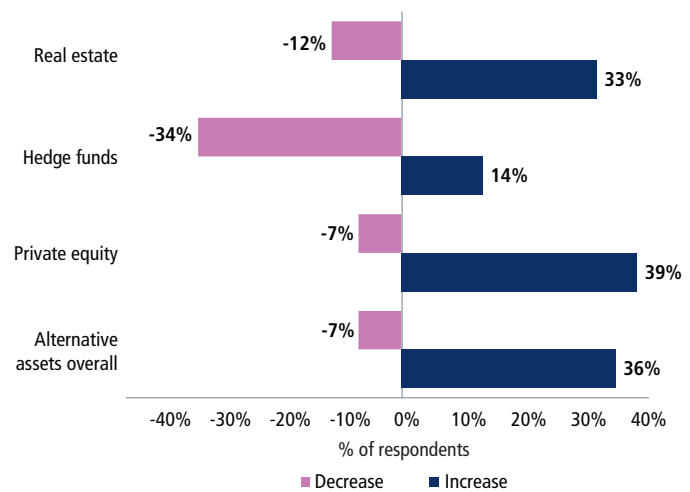
Large investors expected to reconsider their hedge fund commitments

Nearly two thirds of LPs expect other large investors to look again at their hedge fund commitments following CalPERS' decision to stop investing in the asset class.

Asia (ex-Japan) is most popular target for increased PE commitments

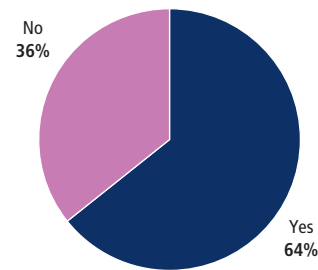
Almost a fifth of LPs plan to begin investing, or to increase investment, in China, Hong Kong, Taiwan and South East Asia. Latin America is also viewed positively, with 14% of LPs planning to start or increase investment there. 8% of LPs plan to decrease investment in India.

Change in LPs' target allocations to alternative assets over the next 12 months



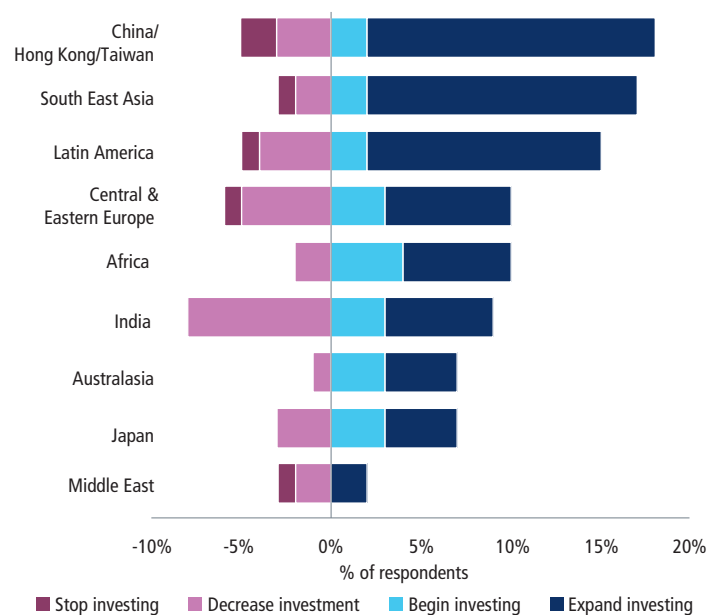
(Figure 1)

Likelihood of large investors reconsidering their hedge fund commitments after the CalPERS decision – LP views



(Figure 2)

LPs' planned changes to PE commitments – by region



(Figure 3)

Energy and real estate most popular 'real asset' PE funds

80% of LPs invest, or plan to invest, in energy-focused private equity. Energy is followed by real estate PE, where the proportion of LPs with exposure or planned exposure is 58%. But other forms of 'real assets' private equity are also popular – with between a quarter and a third of LPs having current or planned private equity exposure to mining, shipping, timber and farmland.

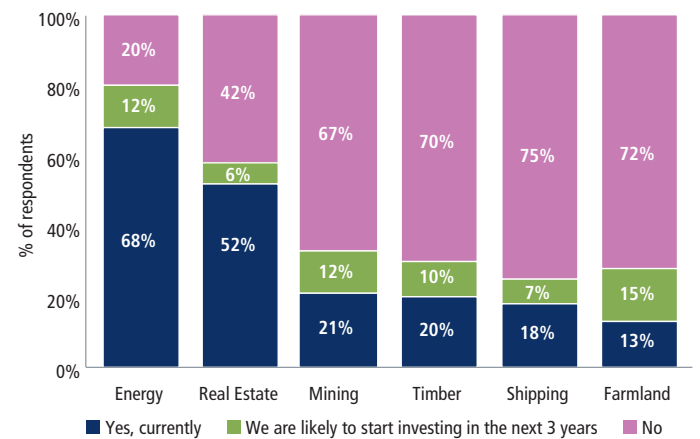
LPs' direct investments to continue rising

45% of LPs currently have less than a tenth of their PE exposure in proprietary investments and co-investments. Only one in five LPs will still be in this position in five years' time, they say. The expected increase in direct investments is most marked for US LPs.

Net returns of 11%+ forecast by almost all PE investors

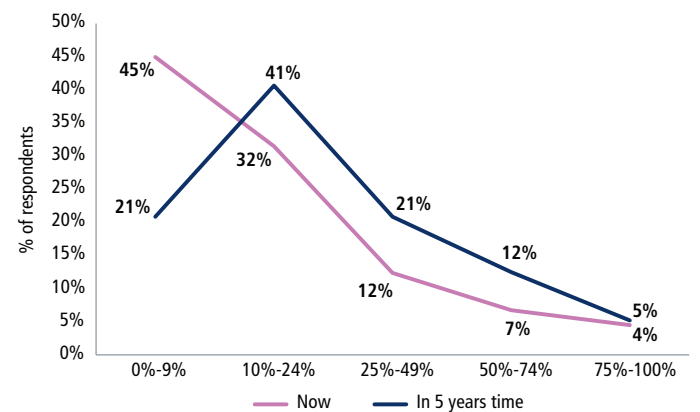
Almost all (93% of) LPs anticipate annual net returns of 11%+ from across their PE portfolio over the next 3-5 years. This compares with 81% of LPs expecting the same two years ago. Improved return expectations are driven especially by European and North American buyouts – though improved returns are expected across all types of private equity except Asia-Pacific buyouts.

LPs with current or planned PE exposure to real assets



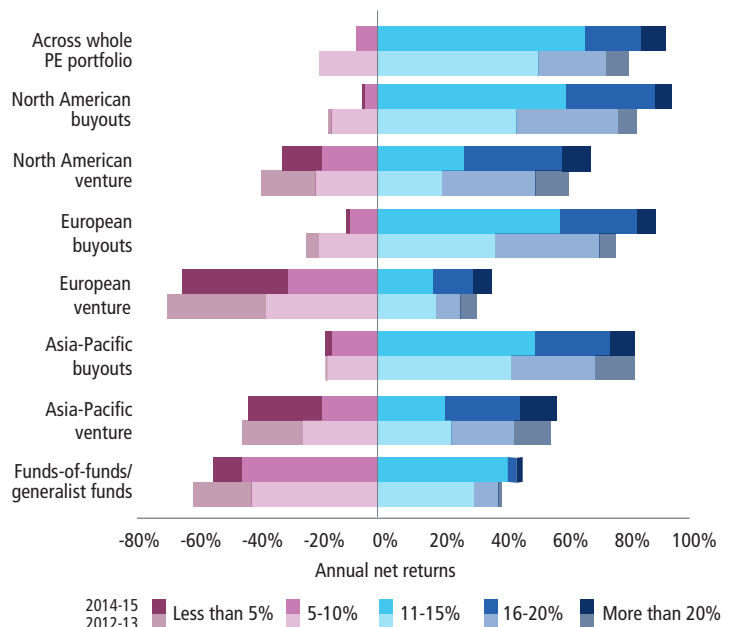
(Figure 4)

Proportion of LPs' PE exposure that is/will be direct – now and in 5 years' time



(Figure 5)

LPs' forecast annual net returns from PE in the next 3-5 years

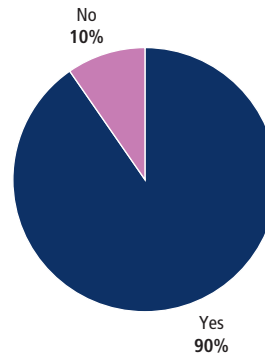


(Figure 6)

LPs have learned big lessons from the financial crisis

90% of LPs believe that their institutions have a deeper understanding of the asset class as a result of the global financial crisis.

LPs believing their institutions have a deeper understanding of PE since the global financial crisis

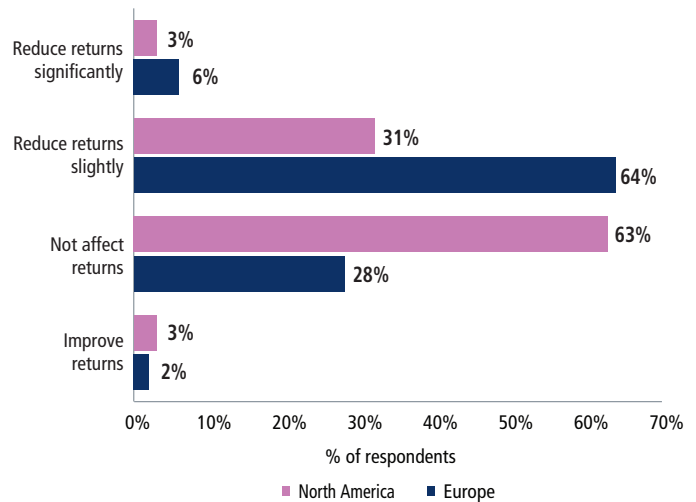


(Figure 7)

Regulation will slightly reduce PE returns, LPs say

Two thirds of European LPs think new financial services regulations will produce a small reduction in PE returns. Only one third of North American LPs are similarly pessimistic.

LP views on what new regulatory restrictions on financial services will mean for PE's overall returns

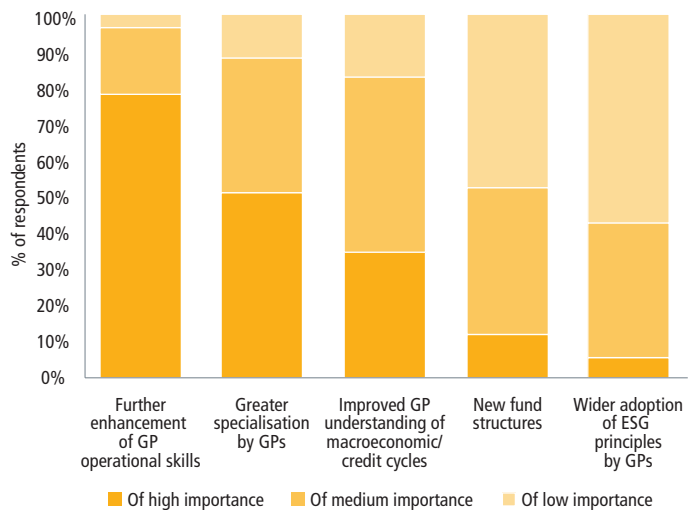


(Figure 8)

Further improvements to GPs' operational skills are most important factor for PE returns, LPs say

Four out of five LPs think further improvements to GPs' operational skills would have a significant positive impact on private equity fund returns. Half of LPs feel the same about more specialisation by GPs.

Factors with the potential to boost PE returns – LP views

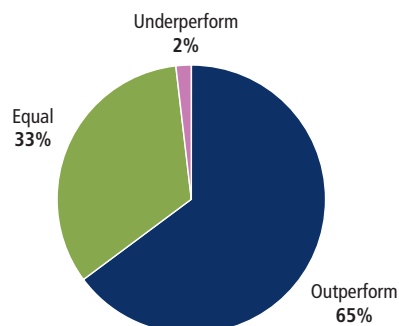


(Figure 9)

Buy-and-build investments will outperform, LPs say

Two thirds of LPs expect buy-and-build investments to outperform other buyout investments in the next 3-5 years.

LP expectations for buy-and-build investment performance relative to buyouts generally in the next 3-5 years

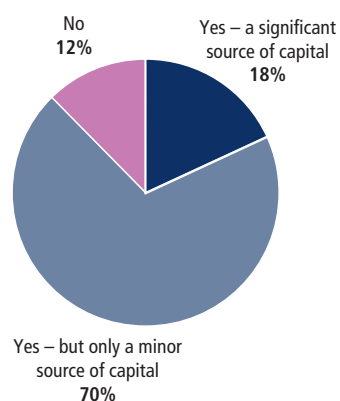


(Figure 10)

Almost all LPs think DC pensions will invest in PE in the next 5 years

88% of private equity investors believe that defined contribution pension schemes will become a source of private equity capital in the next 5 years – though most (70%) believe DC schemes will be only a minor source of funding. European LPs are particularly positive – with over a quarter (27%) believing DC schemes will provide significant capital to the asset class.

LP views on whether defined contribution pension schemes will be a source of funding for PE in the next 5 years

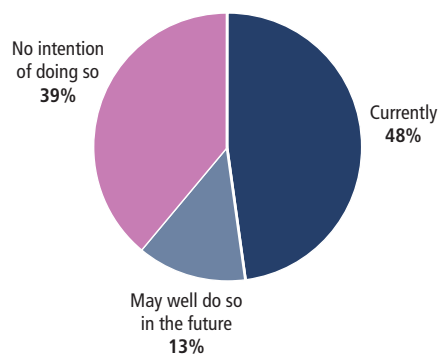


(Figure 11)

Minority position investing likely to rise

Almost half of LPs currently invest in funds that focus on taking minority positions in European or North American companies. An additional 13% of LPs expect to do so in the future.

LPs investing in funds that take minority positions in portfolio companies in Europe / North America



(Figure 12)

Most LPs say that having more senior women in GPs would not affect PE returns

88% of private equity investors (who are predominantly male) believe that a higher proportion of women in senior positions within GPs would have little direct impact on private equity investment returns. Those LPs who did think it would make a difference (12% of them) thought the impact would be positive.

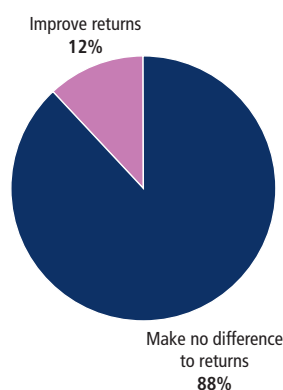
But PE firms benefit more broadly from gender diversity, LPs say

Three in five LPs believe that private equity firms benefit in a general sense from having a gender-diverse team.

Team quality and team dynamics benefit most from gender diversity, LPs say

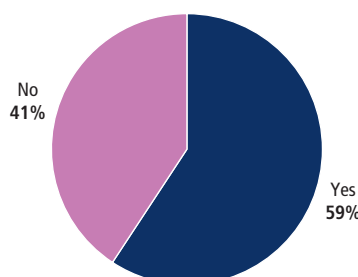
Among investors who believe gender diversity is beneficial to GPs, it is team quality (73% of LPs) and team dynamics (68% of LPs) that they see as being most likely to benefit. Around 40% of these LPs believe that GPs' governance, investor relations and risk management are also positively impacted.

LP views on how returns would change if there were more women in senior positions at GPs



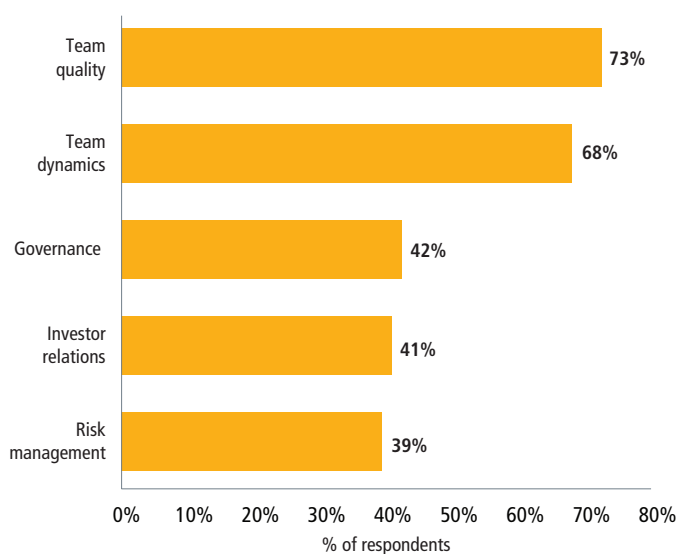
(Figure 13)

LP views on whether PE firms benefit generally from more gender-diverse teams



(Figure 14)

LP views on the areas within a GP benefiting from gender diversity



(Figure 15)

LP recruits most likely to come from other LPs

Over half (53%) of LPs say new recruits are likely to come from other LPs, and almost as many (46% of LPs) say non-PE alternative asset managers are a likely source of new hires over the next three years. A third of LPs (36%) said investment banks would provide recruits, whereas only a quarter of LPs expected to recruit from private equity firms.

Almost half of North American LPs are having to adjust pay scales to recruit

Almost half (47%) of North American LPs are having to boost their pay scales to attract new recruits. Only 30% of European and 19% of Asia-Pacific LPs say the same.

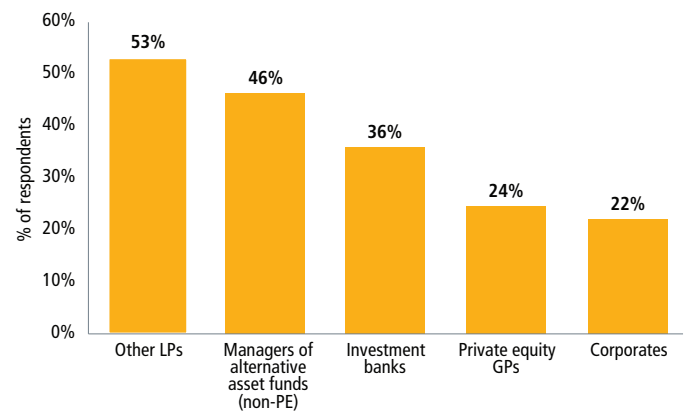
Over two in five LPs say VC is now irrelevant to early-stage innovation

42% of LPs believe the venture capital industry is now largely irrelevant to the funding of early-stage innovation.

Only one in five LPs expects a Europe- or US-focused fund from a major Chinese GP in the near future

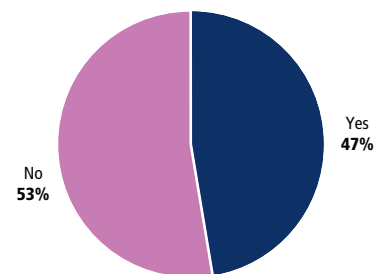
Few LPs (22%) foresee a major Chinese GP launching a dedicated Europe or US-focused PE fund within the next 3 years.

Where new LP recruits are likely to come from in the next 3 years



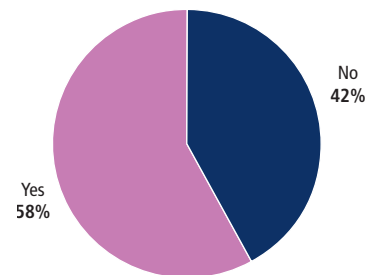
(Figure 16)

North American LPs having to increase pay to attract recruits



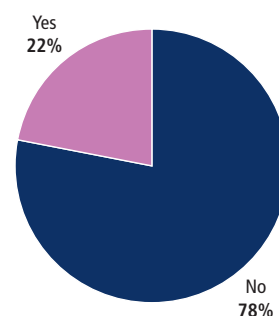
(Figure 17)

Venture capital's relevance to the funding of early-stage innovation – LP views



(Figure 18)

LPs expecting a major Chinese GP to launch a dedicated Europe- or US-focused PE fund in the next 3 years

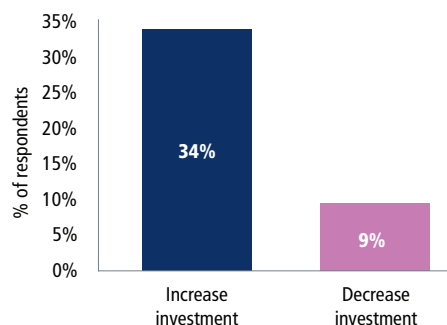


(Figure 19)

One third of LPs to boost credit investment in the coming year

34% of LPs expect to increase their capital allocation to credit investments in the next 12 months. Only one in ten LPs expects to reduce its allocation to credit.

Volume of LP capital to be allocated to credit investments in the next 12 months

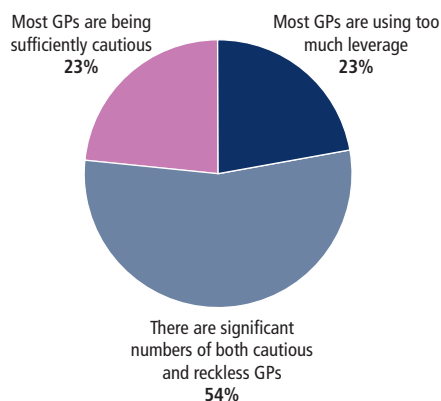


(Figure 20)

Significant proportion of GPs overusing leverage, LPs say

Almost a quarter of LPs believe GPs are exploiting today's easy credit conditions to use too much leverage in their buyouts. Just over half (54% of) LPs see significant numbers of both cautious and reckless GPs.

GPs' use of leverage – LP views

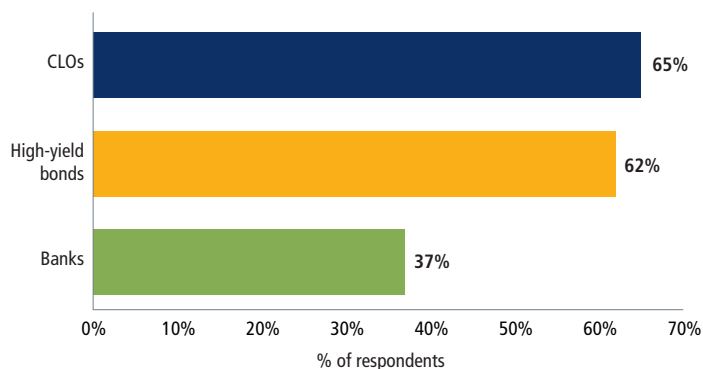


(Figure 21)

CLOs and high-yield bonds likely to grow their share of LBO financing

Almost two thirds of LPs think collateralised loan obligations (CLOs) and high-yield bonds will provide a larger share of LBO debt financing in the next 3 years. European and Asia-Pacific LPs in particular see a greater role for high-yield bonds.

Credit sources likely to provide a greater share of LBO debt in the next 3 years – LP views

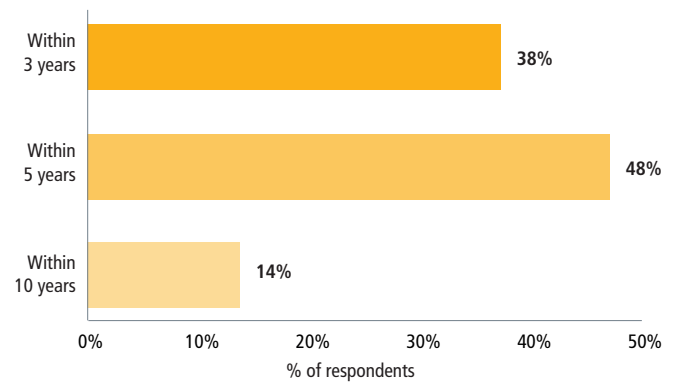


(Figure 22)

Two in five LPs see a major economic downturn within three years

Almost 40% of LPs expect the next major economic downturn to happen within the next 3 years, with another half of LPs expecting it within 5 years. Asia-Pacific LPs are most pessimistic, with half (48%) expecting the next downturn within 3 years.

LPs' views on the timing of the next major economic downturn

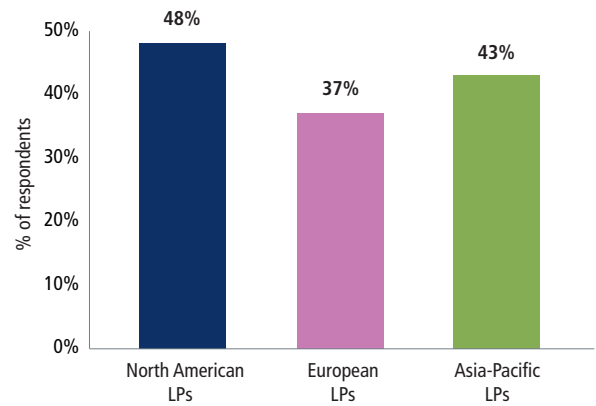


(Figure 23)

Half of North American LPs expect deflation in Europe

Almost half (48% of) North American LPs believe there will be deflation in the Eurozone. Over a third (37%) of European LPs share this view.

Likelihood of deflation in the Eurozone – LP views

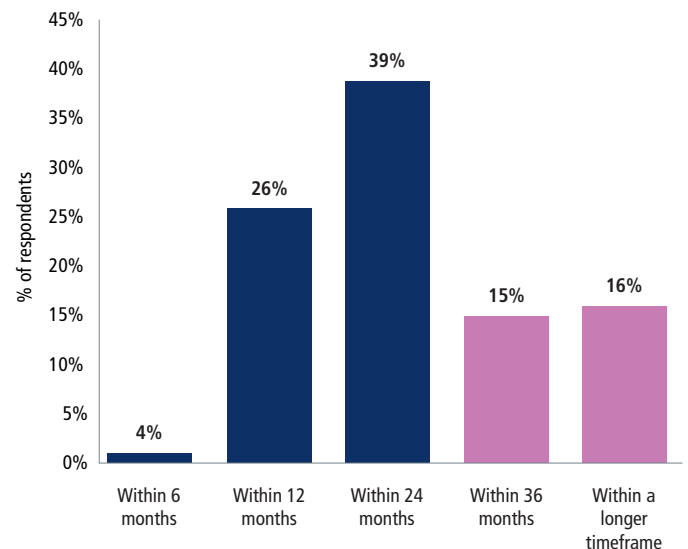


(Figure 24)

Most LPs expect the exit environment to deteriorate within two years

69% of LPs believe the exit environment will deteriorate significantly within the next 24 months, with another 15% believing this will happen within 36 months.

LP expectations for the closing of today's window



(Figure 25)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Winter 2014

The Barometer researched the plans and opinions of 114 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 a leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds and portfolios of direct investments in companies.

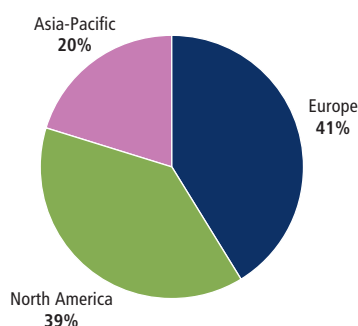
Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital in September-October 2014 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Notes

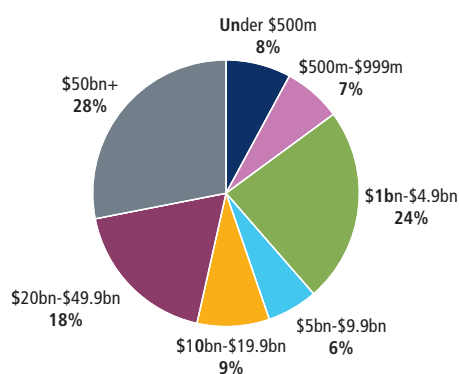
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this Barometer report, the term private equity (PE) is a generic term covering venture capital, growth, buyout and mezzanine investments

Respondents by region



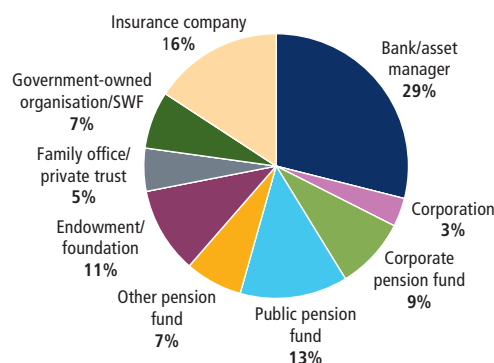
(Figure 26)

Respondents by total assets under management



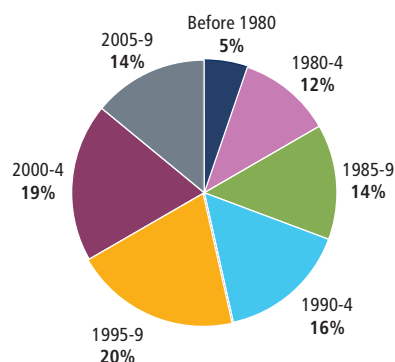
(Figure 27)

Respondents by type of organisation



(Figure 28)

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



(Figure 29)

