Global Private Equity Barometer

Winter 2022-23

Coller Capital

Coller Research Institute

Coller Capital's
Global Private Equity Barometer

Since 2004, Coller Capital's *Global Private Equity Barometer* has provided a unique snapshot of worldwide trends in private equity – a twice-yearly overview of the plans and opinions of institutional investors in private equity based in North America, Europe, and Asia-Pacific (including the Middle East).

This 37th edition of the *Barometer* captured the views of 112 private equity investors from around the world. Its 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

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Topics

This edition of the Barometer includes investors' views and plans regarding:

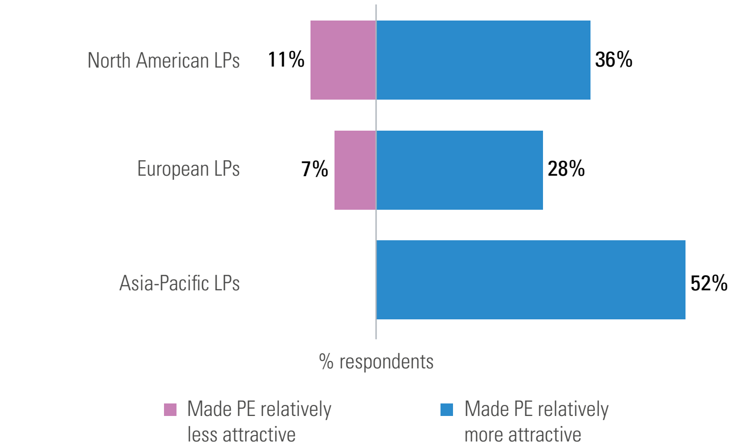
- Attractiveness of private equity/private credit versus public equity/public credit
- Significant risks to private equity returns
- LPs' views on potential modifications to their private equity portfolios
- Private market asset allocation and returns
- Attractive areas within private credit
- Factors likely to cause a slowdown in private equity commitment pace
- LPs' planned activity in the private capital secondary market
- LPs' views on private equity and venture capital technology investments
- Attractiveness of European private equity markets
- LPs' views on GPs' ESG disclosures
- Performance of LPs' separately managed accounts
- LPs' views on investing in multiple products across a GP's platform
- Performance of LPs' investments in funds invested in GP stakes
- Impact of US regulatory change on US private equity returns
- Investment routes for LPs' Asian private equity commitments

One third of North American LPs believe current market volatility has made private equity more attractive than public equity

36% of North American LPs think that private equity's attractiveness has improved versus public equity in today's volatile environment. More Asia-Pacific LPs are positive, with over half saying private equity has become more attractive versus public equity.

Fig 1

LPs' views on the attractiveness of private equity versus public equity in the current volatile environment

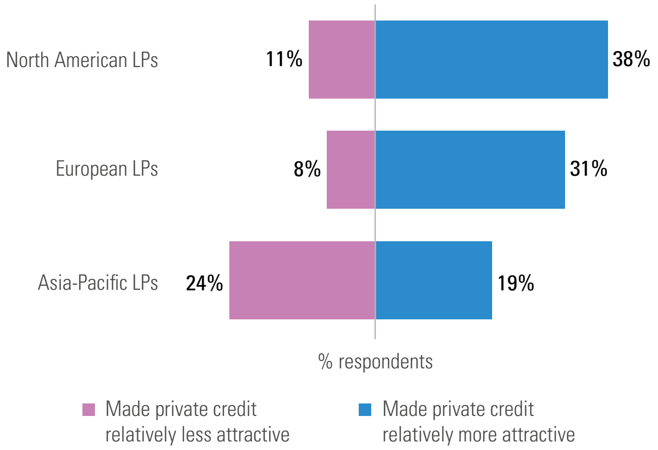


Private credit viewed as more attractive than public credit in current markets by over one third of North American LPs

31% of European LPs believe that private credit has become more attractive than public credit due to volatility in the current environment. This rises to 38% of North American LPs who think the balance has shifted in private credit's favour. Asia-Pacific LPs' views are more balanced, with 19% of LPs saying private credit has become more attractive versus 24% that believe it has become less attractive relative to public credit.

Fig 2

LPs' views on the attractiveness of private credit versus public credit in the current volatile environment

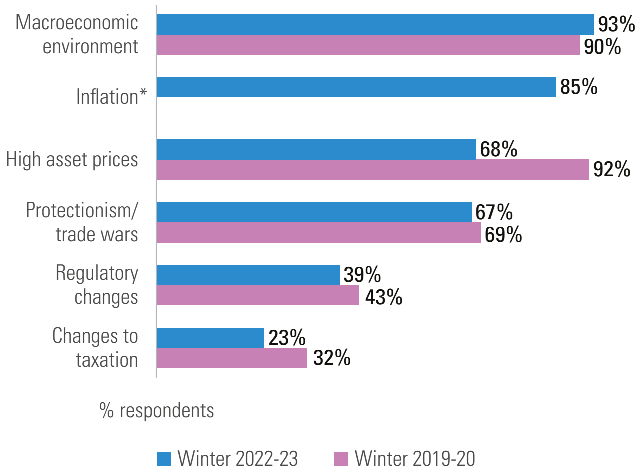


Almost all LPs view the macro environment and inflation as significant risks to private equity returns

Most LPs have concerns over the macro environment, believing it is a risk to private equity returns over the next two to three years. 85% of LPs have the same concerns over inflation. When compared to investor concerns three years ago, fewer LPs are worried about the impact of high asset prices on PE returns (68% of LPs today versus 92% of LPs in the Winter Barometer 2019-20).

Fig 3

Significant risks to private equity returns in the next 2-3 years – LPs' views



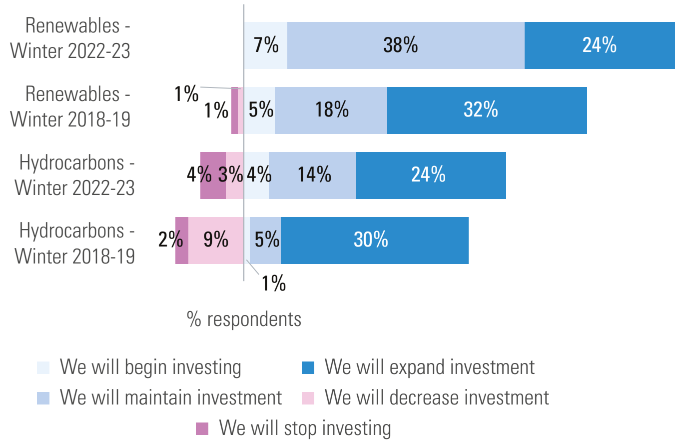
* Winter 2019-20 comparison data not available

More LPs are investing in PE energy assets, both renewables and hydrocarbons, than four years ago

The number of LPs investing in private equity energy assets has risen since the *Winter Barometer 2018-19*. 69% of LPs are either starting, maintaining, or increasing investment in renewable energy compared to 55% of LPs four years ago. Hydrocarbon private equity investing has also attracted more investors with 42% of LPs starting, maintaining, or increasing investment compared to 36% of LPs in 2018.

Fig 4

LPs' plans for exposure to PE energy assets in the next 3 years

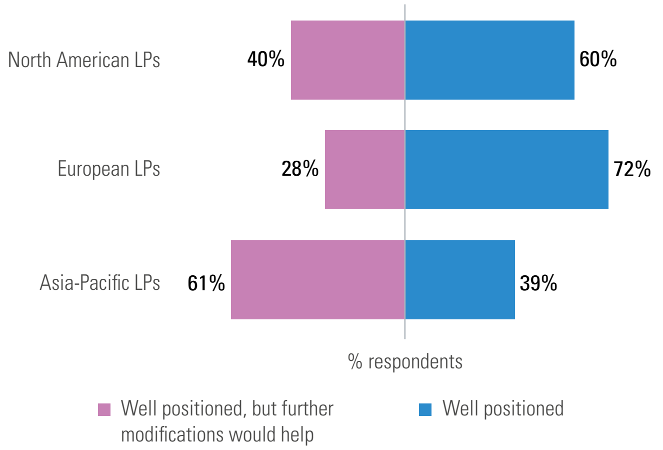


Three quarters of European LPs believe their portfolios are well positioned for current market conditions

60% of North American LPs believe that their current private market portfolios are well positioned in the context of today's market conditions. Two fifths of North American LPs think that while their portfolios are well positioned in the main, some further modifications would be helpful. While the majority of European LPs felt well positioned, two thirds of Asia-Pacific LPs believe their portfolios would benefit from further modifications.

Fig 5

LPs' views on the positioning of their private market portfolios in current market conditions

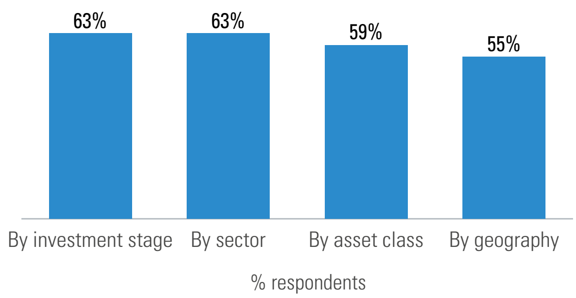


LPs seeking modification to their portfolios narrowly favour adjusting investment stage and sector over asset class or geography

Of those LPs who believe that their private market portfolios require some modification, two thirds would do this by making changes to the investment stage and/or sector exposure of the portfolio. Over half of LPs would make changes to the asset classes and/or the geographies in which their portfolios are invested.

Fig 6

How LPs are considering modifying their portfolios

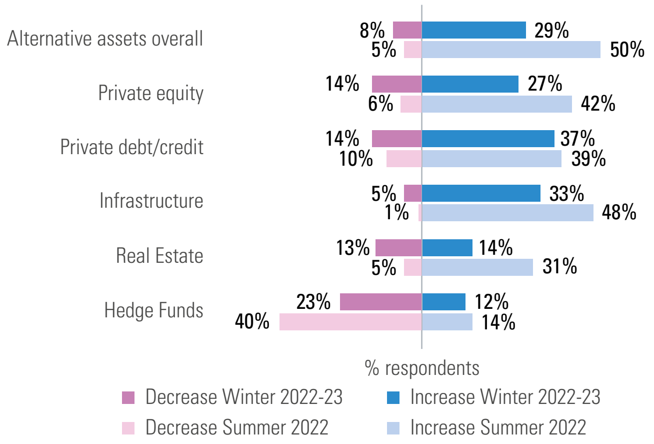


Fewer LPs will increase their target alternatives allocation over the next 12 months

One third of LPs plan to increase their target allocation to alternative assets over the next 12 months compared to half of LPs that were planning this six months ago. Fewer LPs are planning increases in their allocations to private equity, infrastructure, and real estate. LPs plans for private credit are holding steady compared to the *Barometer Summer 2022* and fewer LPs are planning to decrease their allocations to hedge funds since our last report.

Fig 7

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

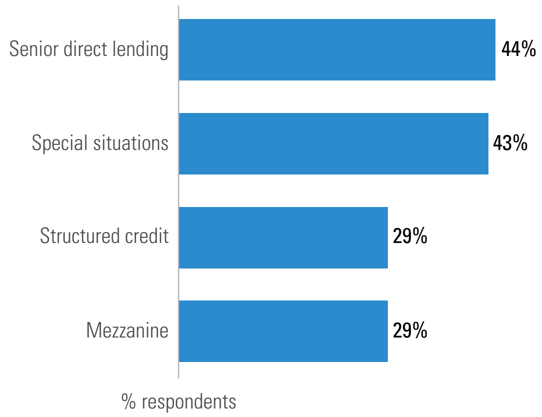


Two fifths of LPs view senior direct lending and special situations as attractive areas of private credit

In the current environment two fifths of LPs view senior direct lending and special situations as attractive areas of private credit. Around one third of LPs viewed structured credit and mezzanine debt as attractive areas for investment.

Fig 8

Areas of private credit viewed as attractive by LPs

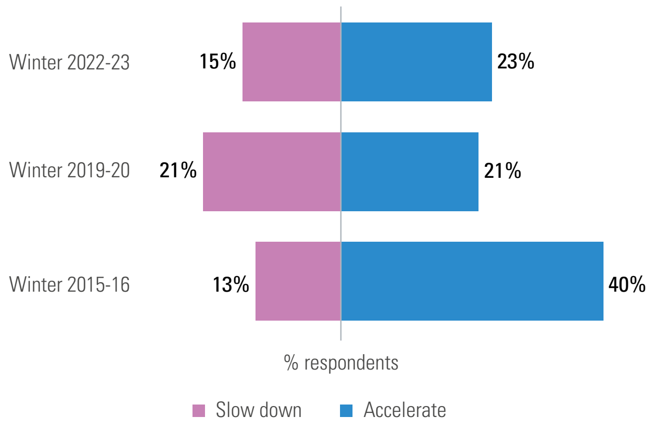


One fifth of LPs plan to accelerate their commitments to private debt funds in the next 12 months

23% of LPs plan to increase their private debt fund commitments in the next 12 months, slightly higher than three years ago.

Fig 9

LPs' planned commitments to private debt funds in the next 2 years

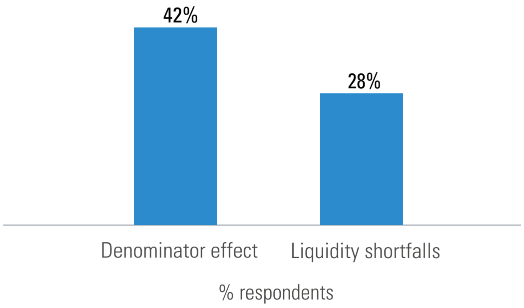


Two fifths of LPs say the denominator effect is likely to reduce the pace of their PE commitments

42% of LPs reported that the denominator effect is likely to cause a reduction in the pace of their private equity fund commitments over the next one to two years. 28% of LPs said that liquidity shortfalls will lead to a reduction in commitment pace. Two thirds of large LPs (AUM >$20bn) and public pension funds reported the denominator effect as being a factor in the slowdown in their commitment pace.

Fig 10

Factors likely to cause LPs to reduce the pace of their PE commitments

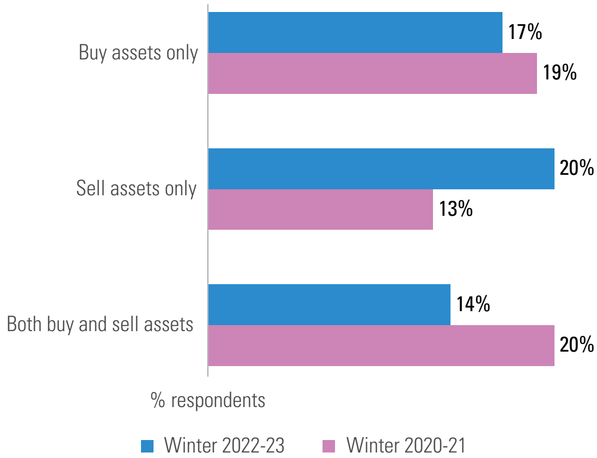


Half of LPs plan to access the secondary market in the next two years

Just over half of LPs plan to utilise the secondary market in the next two years, either as a buyer or a seller – or both. One in five LPs plan to both buy and to sell assets.

Fig 11

Planned LP activity in the secondary market in the next 2 years (excluding GP-led secondaries)

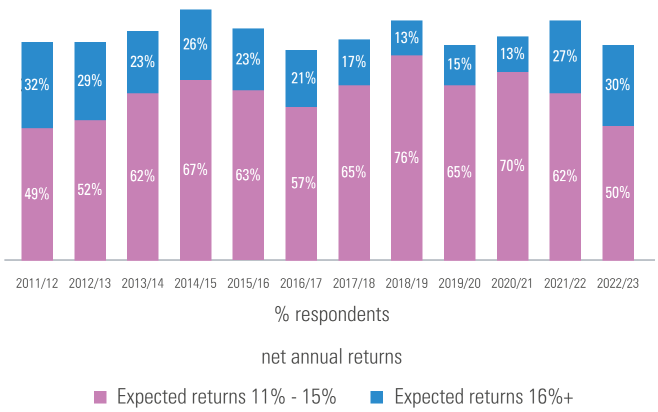


One third of LPs forecast net annual returns from their private equity portfolios of over 16% in the next 3-5 years

The number of LPs forecasting that their private equity portfolios will achieve returns greater than 16% is at the highest level since the *Winter Barometer 2011-12*.

Fig 12

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

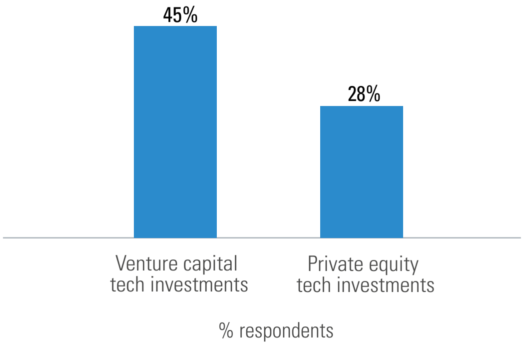


Almost half of LPs view venture capital technology investments as less attractive due to current volatility

45% of LPs say that volatility in the current environment has reduced the attractiveness of venture capital investments in technology. 28% of LPs believe the same is true for private equity technology investments.

Fig 13

LPs that believe that current volatility has reduced the attractiveness of VC tech and/or PE tech investments in the medium term

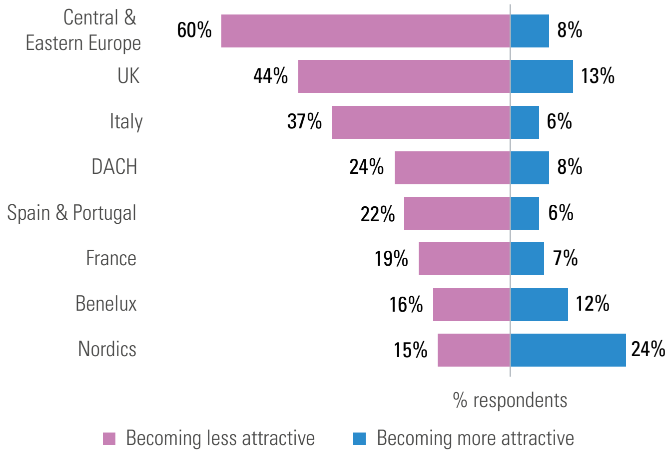


PE markets in the CEE, UK and Italy viewed as less attractive by LPs compared to two to three years ago

Central and Eastern Europe is viewed as a less attractive market for private equity compared to two to three years ago by three fifths of LPs. 44% of LPs view the UK private equity market as less attractive and 37% of LPs share this view about Italian private equity. 24% of LPs view the Nordics as becoming a more favourable destination for private equity.

Fig 14

Attractiveness of European PE markets compared to 2-3 years ago – LPs' views

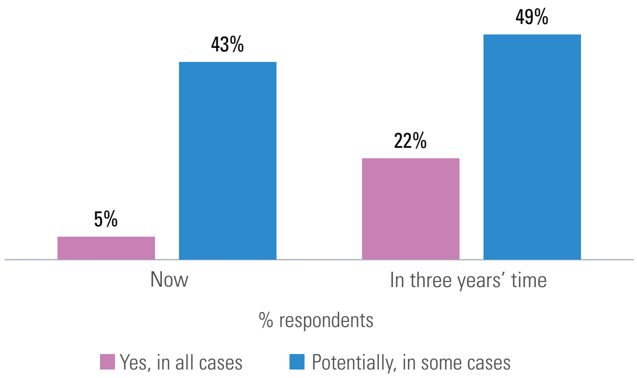


Three quarters of LPs would consider stopping investing in a fund if the GP did not reach certain standards of ESG-related disclosure within three years

One fifth of investors would stop investing in a GP's fund if the GP failed to reach certain standards and levels of disclosure (i.e. adhering to the Sustainable Finance Disclosure Regulation (SFDR) and the proposed SEC ESG Disclosures in the US) in the next three years.

Fig 15

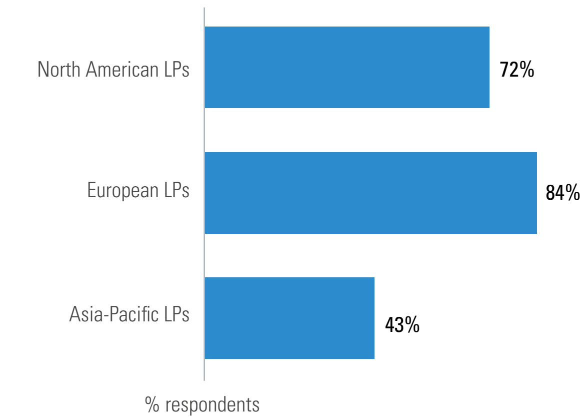
Proportion of LPs who will stop investing in a fund if the GP does not reach certain standards of ESG-related disclosure



European LPs are well placed to assess whether a GP's ESG measurement systems are fit for purpose, in contrast to Asia-Pacific LPs

84% of European LPs believe that their institutions are broadly fit for purpose in their ability to assess a GP's ESG measurement systems. 57% of Asia-Pacific LPs thought their institutions were unfit for this purpose.

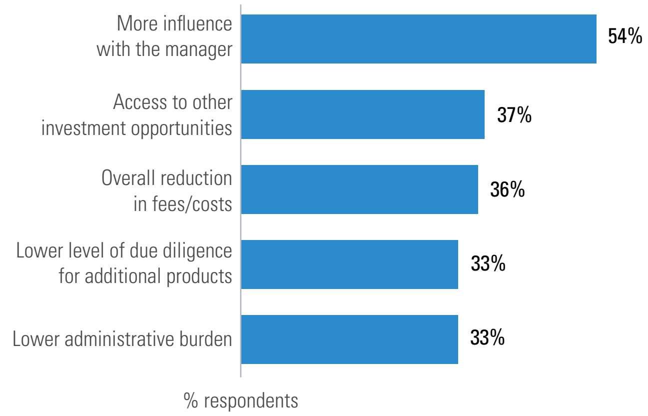
Fig 16 LPs who believe that their institution's ability to assess a GP's ESG measurement systems is fit for purpose



Gaining more influence with a GP is seen as a major advantage by half of LPs that invest in multiple products from the same manager

54% of LPs reported that having more influence with a GP is a major advantage of investing in multiple products from the same manager. Other advantages cited by LPs include access to investment opportunities, reduced fees, lower levels of due diligence for additional products and a lower administrative burden.

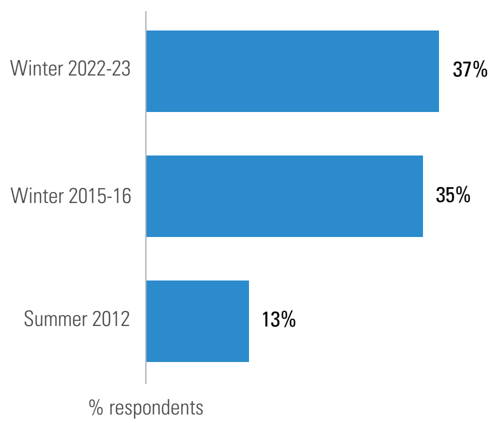
Fig 17 Major advantages of investing in multiple products from individual private markets managers – LPs' views



The number of LPs with separately managed accounts has peaked

37% of LPs have separately managed accounts (SMAs), in line with the number reported in the *Winter Barometer 2015-16*. LPs at corporate pension funds and public pension funds utilise SMAs considerably more at 67% and 54% of LPs respectively.

Fig 18 LPs' instititions which have (SMAs)

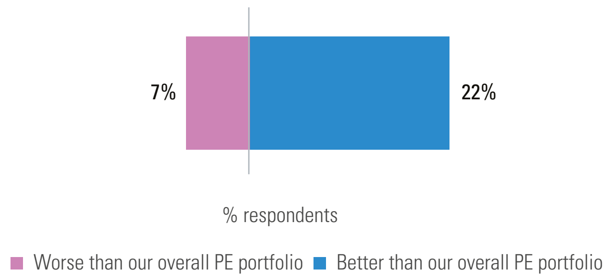


One quarter of LPs with SMAs say they are outperforming their private equity portfolios

22% of LPs which have SMAs report that these accounts are outperforming their overall private equity portfolios. Only 7% of LPs said these accounts were underperforming their main portfolio.

Fig 19

Performance of LPs' SMAs relative to their overall PE portfolio

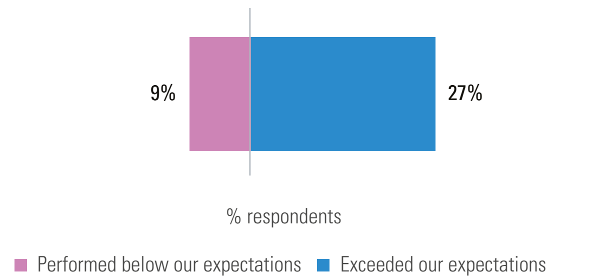


Majority of LPs invested in funds that acquire stakes in GP management companies say these investments have met or exceeded their expectations

Although 70% of LPs have yet to invest in a fund that acquires stakes in GP management companies, those that have are reporting positive results for the strategy. 27% of LPs stated that these investments have exceeded their expectations and another 64% said the investments have performed in line with expectations.

Fig 20

Performance of LPs' investments in funds that acquire stakes in GP management companies

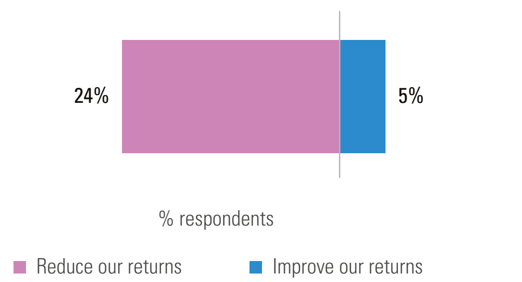


One quarter of LPs believe that change in US regulation will have a negative impact on their US private market returns

Just over half of LPs believe there is likely to be a tightening in the regulatory environment for private markets in the US in the next few years and one quarter of LPs think that this will have a negative impact on their US private market returns. Only 5% of LPs believe any impact will be positive for their private market returns.

Fig 21

LPs' views on the impact of regulation changes in the US will have on their US private market returns – next 2-3 years

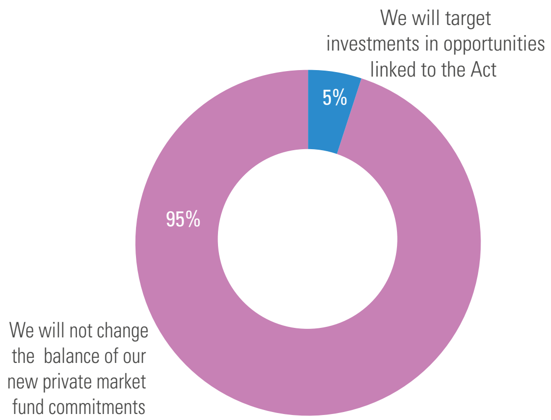


Very few LPs plan to target new private market fund commitments in opportunities created by the Biden Administration's Inflation Reduction Act

Only 5% of LPs say they are likely to change the balance of their new private market fund commitments in response to opportunities created by the Biden Administration's recent Inflation Reduction Act.

Fig 22

LPs' plans for their new private market fund commitments in response to the Biden's Administration Inflation Reduction Act

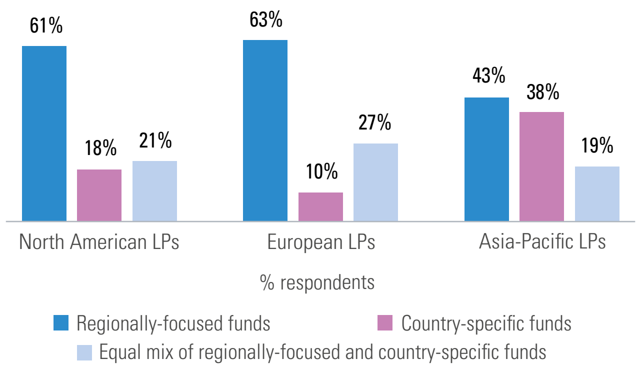


Asia regional-focused funds are the preferred investment route for two thirds of European and North American LPs

63% of European LPs and 61% of North American LPs make most of their Asian private equity fund commitments via regionally focused funds. In contrast, two fifths of Asia-Pacific LPs favour a country specific approach.

Fig 23

Routes via which LPs have made Asian PE fund commitments in recent years

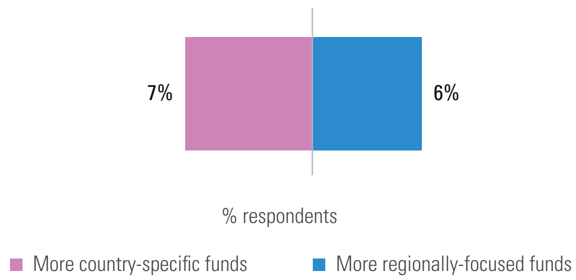


Majority of LPs are unlikely to change how they invest in Asian private equity fund commitments

87% of LPs do not plan to change how they invest in Asian private equity funds in the next few years. LPs that do plan to change their investment route are equally split between those that plan to invest in more regionally-focused funds and those that plan to make more country-specific fund investments.

Fig 24

How LPs will make Asian PE fund commitments – next few years



Coller Capital's Global Private Equity Barometer

Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital from 20 September to 4 November 2022 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Respondent breakdown – Winter 2022-23

The *Barometer* researched the plans and opinions of 112 investors in private equity funds. These investors, based in North America, Europe, and the Asia-Pacific region (including the Middle East), comprise a representative sample of the LP population worldwide.

Fig 25 Respondents by region

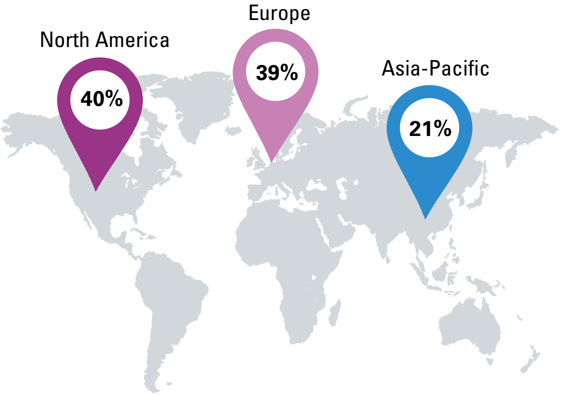


Fig 26 Respondents by total assets under management

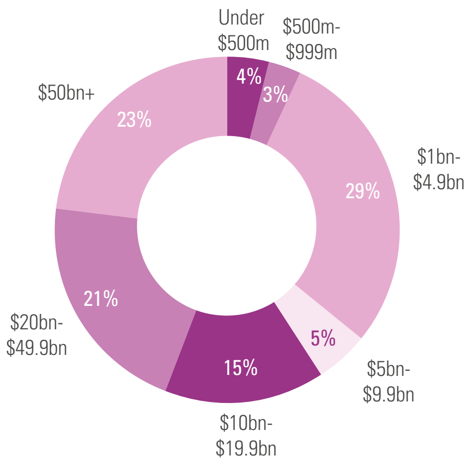


Fig 27 Respondents by year in which they started to invest in private equity

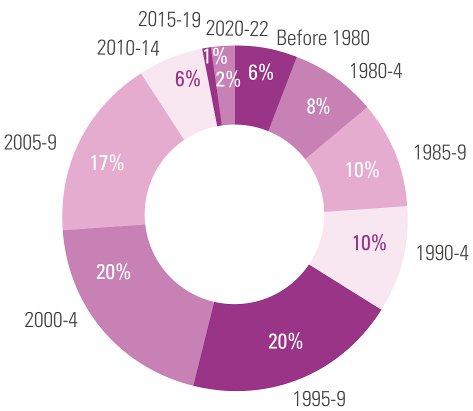


Fig 28 Respondents by type of organisation

Bank/asset manager	16%	Endowment/foundation	10%
Corporation	1%	Family office/private trust	10%
Corporate pension fund	10%	SWF/Government-owned organisation	11%
Public pension fund	25%	Insurance company	17%

About Coller Capital

Coller Capital, founded in 1990, is one of the world's leading investors in the secondary market for private assets – and widely acknowledged as an innovator at the complex end of secondaries.

The firm provides liquidity solutions to private markets investors worldwide, acquiring interests in private equity, private credit, and other private markets assets. With headquarters in London, and offices in New York, Hong Kong and Seoul, Coller's multinational investment team has a truly global reach.

In January 2021, the firm closed Coller International Partners VIII, with committed capital (including co-investment vehicles) of just over $9 billion and backing from over 200 of the world's leading institutional investors.

In February 2022, the firm closed Coller Credit Opportunities I, with committed capital (including co-investment vehicles) of $1.45 billion and backing from 40 institutional investors.

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.

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