Coller Capital

Global Private Equity Barometer

SUMMER 2017

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 26th edition of the Global Private Equity Barometer captured the views of 110 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

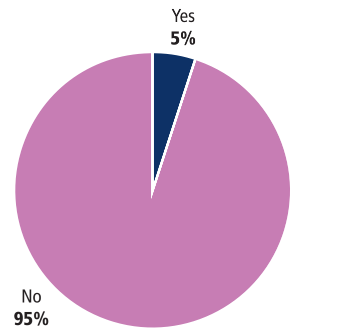
Topics in this edition of the Barometer include investors' views and plans regarding:

- Cybersecurity
- Returns from, and appetite for, PE
- Risks to future PE returns
- Likely effects of tax/regulatory changes on PE
- Organisational change within LPs' institutions
- Opportunities for LPs in the better use of third-party data
- Investment opportunities in fintech and blockchain
- Outlook for PE energy investments
- Attractiveness of PE credit investments
- Platform deals
- Hurdle rates
- Future pace of GP drawdowns
- Asia-Pacific PE investing

Most LPs have escaped cybersecurity attacks so far …

Just one in twenty LP institutions has suffered a significant cybersecurity incident in the last five years.

Incidence of significant cybersecurity attacks at LP institutions in the last 5 years – proportion of LPs

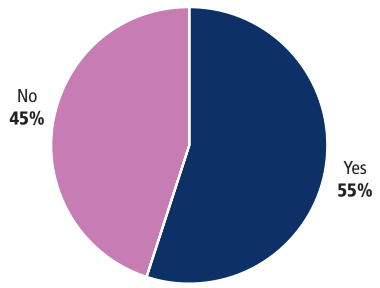


(Figure 1)

... but over half of LPs expect to suffer serious attacks in the next few years

LPs expect the cybersecurity threat to increase dramatically, with over half of LPs foreseeing serious cybersecurity attacks on their institutions within the next five years.

Expected incidence of significant cybersecurity attacks at LP institutions in the next 5 years – proportion of LPs



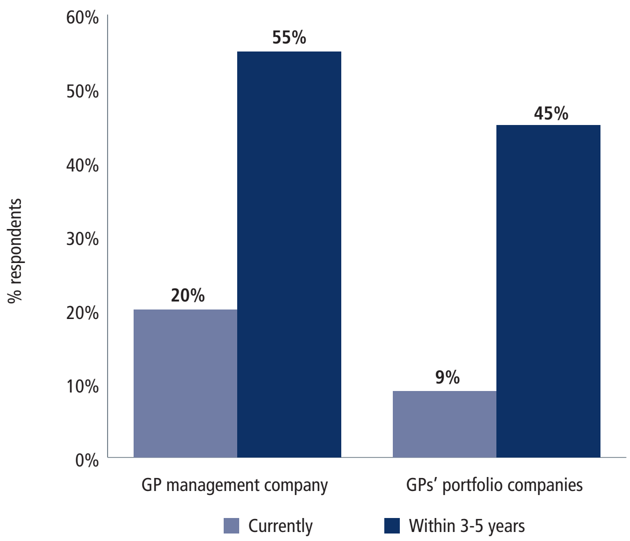
(Figure 2)

Most LPs will demand cybersecurity risk assessments from their GPs

Only one in five investors today requires GPs to undertake cybersecurity risk assessments for their management companies, but over half of LPs say they will do so within 3-5 years.

The picture is even starker for portfolio companies. Barely one in ten LPs currently requires GPs to undertake cybersecurity risk assessments for their portfolio companies, but 45% of LPs say they will do so within 3-5 years.

LP demands for cybersecurity risk assessment by GPs – now and in 3-5 years' time



(Figure 3)

Protectionism is a real risk to PE returns, say LPs

Unsurprisingly, almost all LPs see high asset prices as a significant risk to private equity returns over the next few years – and almost as many LPs are wary of the potential for economic volatility and currency fluctuations to damage returns.

Interestingly, investors believe protectionism is a genuine threat to private equity returns – with three in five LPs citing it as a significant risk.

Prospects for PE will continue to improve, LPs say

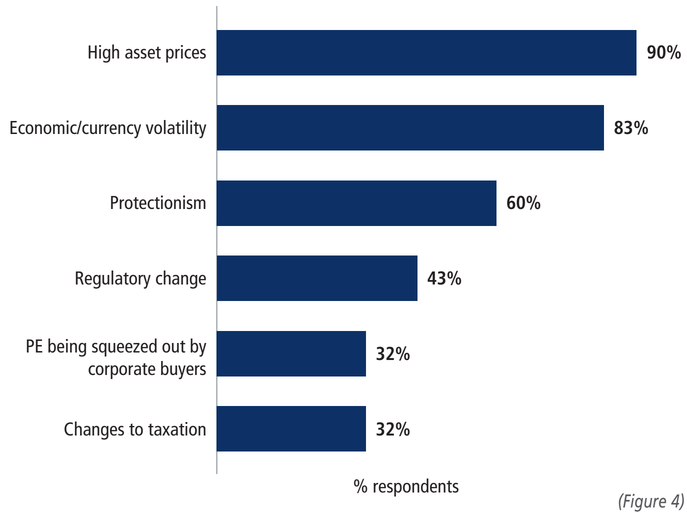
More of the world's LPs expect private equity's prospects to improve rather than worsen – across all the major investment geographies, and in both the short and medium term. They are, on balance, even more confident about prospects for the medium term than the short term.

North America is the region about which the world's investors are most uncertain in the short term (the next 2-3 years) – though they are more positive over a 5-6 year horizon. And Asia-Pacific is the region where investors are most convinced of private equity's improving prospects – in both the short and medium term.

Half of LPs expect tax/ regulatory change in North America to have a significant impact on PE

Half of the world's private equity investors think tax and regulatory change will impact private equity's wealth-creating potential in North America – but there is no consensus as to whether this impact will be positive or negative!

Factors LPs see as significant risks to PE returns in the next few years



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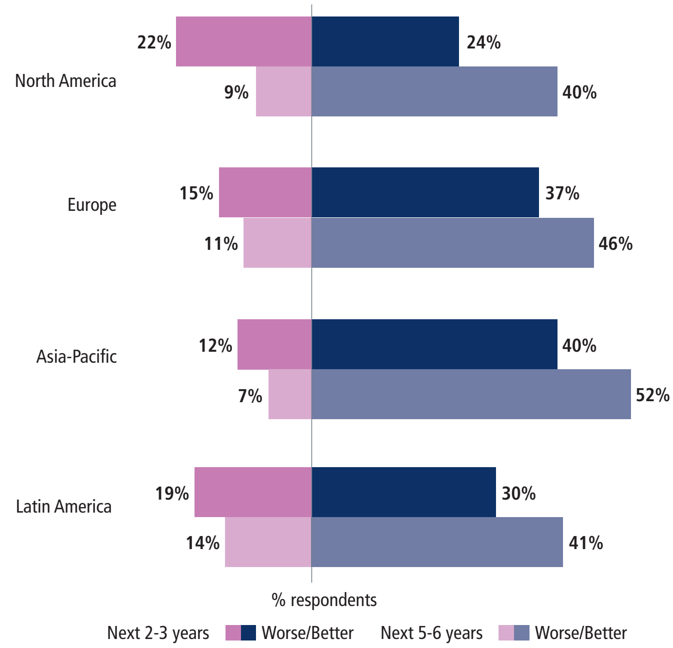
LPs expecting better/worse opportunities for PE – by region, and time horizon



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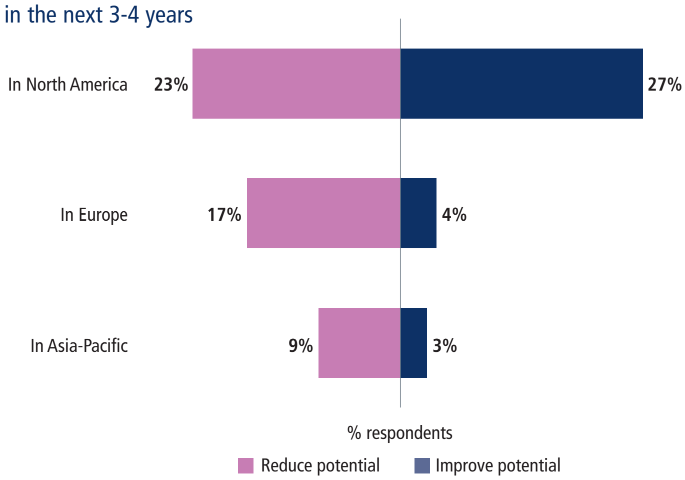
Likely impact of tax/regulatory change on PE's wealth creation potential in the next 3-4 years

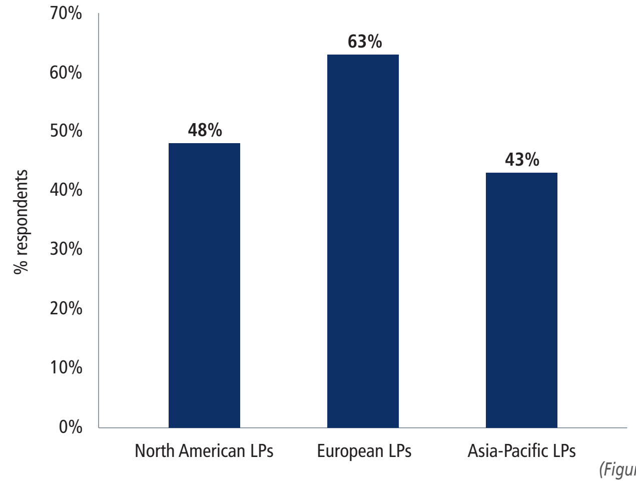


(Figure 6)

LPs are failing to keep up with new PE opportunities

Half of North American LPs – and almost two thirds of European LPs – think their organisations are changing too slowly to take full advantage of new strategies and opportunities appearing in private equity.

Proportion of LPs convinced their organisations are changing too slowly to exploit new PE strategies/opportunities

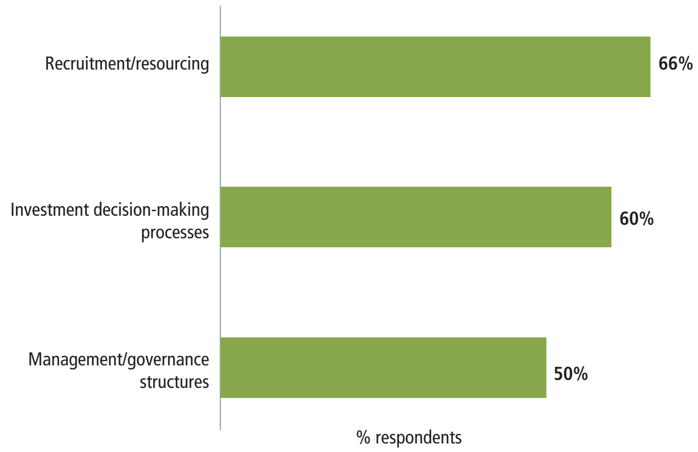


(Figure 7)

LPs' PE returns could be improved by changing their organisations

Two thirds of investors believe changes to their own organisations' recruitment and resourcing processes would improve their private equity returns. A further 60% of LPs think their returns would be positively impacted by making changes to their investment decision-making processes. And half of LPs think their returns could be improved by reforming their organisations' management and governance structures.

Areas in which changes to their own organisations' structures and processes would positively impact PE returns – LP views

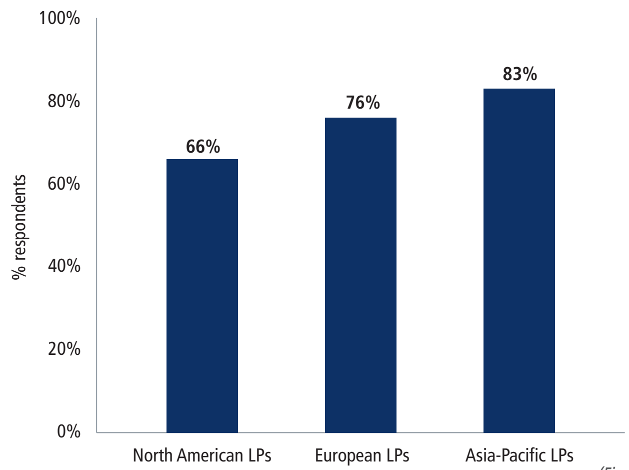


(Figure 8)

Three quarters of LPs are under-using third-party data sources

Three quarters of the world's LPs believe they could make significant improvements to their private equity programmes through better use of external data sources. Fully 83% of Asia-Pacific LPs believe significant improvements to their private equity programmes would be possible.

Proportion of LPs who think their PE programme could be significantly improved through better use of third-party data sources

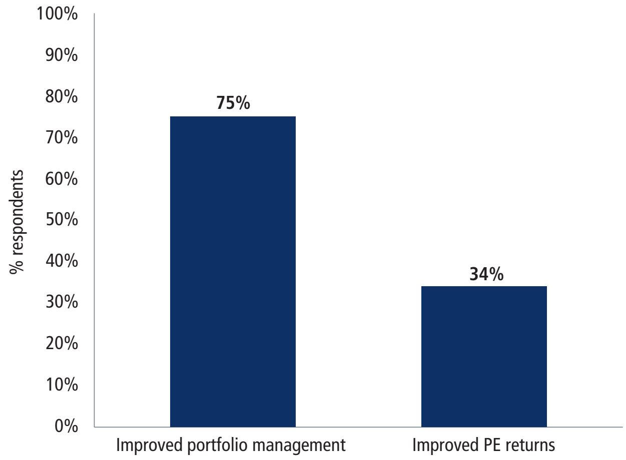


(Figure 9)

Portfolio management and investment returns would be boosted by better data use

Among investors who believe they are under-using external data sources, three quarters think that a more sophisticated use of third-party data would improve their portfolio management, and one third think they could achieve higher private equity returns as a direct result.

Benefits that would result from improved usage of external data sources – LPs' views

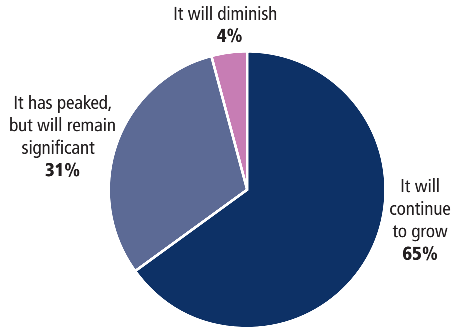


(Figure 10)

PE investment opportunities in fintech will continue to grow, LPs say

Two thirds of LPs expect private equity investment opportunities in fintech to continue growing over the next few years – and even those who do not foresee further growth believe fintech will remain an important investment theme for private equity.

LPs' views on the PE opportunity in fintech in the next few years

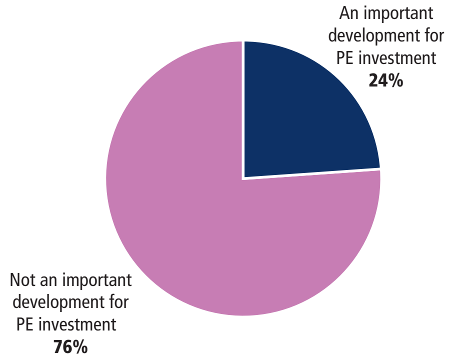


(Figure 11)

Most LPs have yet to be convinced of blockchain's potential for PE investment

Blockchain has yet to convince most LPs that it offers attractive opportunities for private equity. Only a quarter of LPs believe that blockchain technology will become an important area for private equity investment over the next five years.

LPs' views on PE investment in blockchain technology in the next 5 years



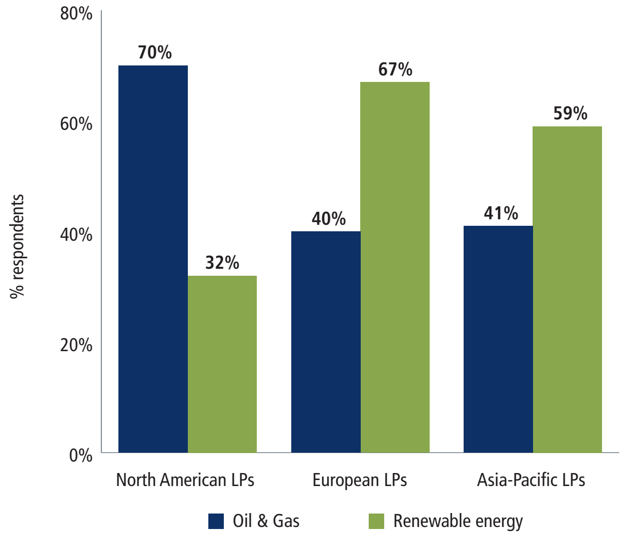
(Figure 12)

North American LPs focused on hydrocarbons; European and Asia-Pacific LPs on renewables

70% of North American LPs see the oil and gas sector as a significant opportunity for private equity in the next few years – compared with only two fifths of European and Asia-Pacific LPs.

By contrast, only a third of North American LPs see significant private equity opportunities in renewable energy in the short-to-medium term – compared with 67% of European LPs and 59% of Asia-Pacific LPs.

Where LPs see good investment opportunities for PE in energy in the next few years

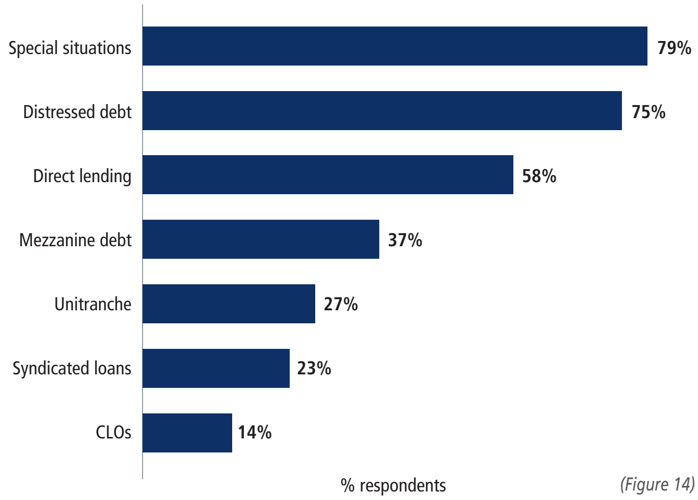


(Figure 13)

Three quarters of LPs see good opportunities in special situations and distressed debt

79% of LPs believe that special situations will provide attractive credit investments in the next two years. 75% of LPs think the same about distressed debt opportunities.

LP views on attractive opportunities in credit investment – next 2 years

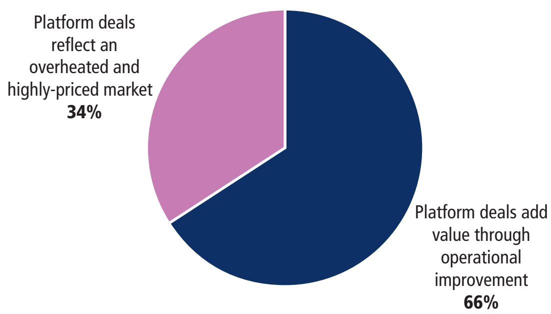


(Figure 14)

Two thirds of LPs believe that GPs add real value in platform deals

Two thirds of LPs believe that the rise of platform deals (investments made as a starting point for follow-on acquisitions) reflect private equity's increasing ability to add value through operational improvement. Just one third of LPs see platform deals simply as a reflection of an overheated and highly-priced market.

LP views on platform deals

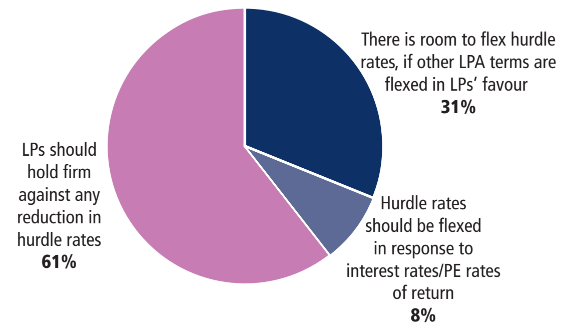


(Figure 15)

Two fifths of LPs would be flexible on fund hurdle rates

In principle, 39% of LPs would be prepared to see fund hurdle rates flexed in response to economic and market conditions, but most of these LPs would expect some quid pro quo in a fund's other terms and conditions. However, a clear majority of investors believe that LPs should resist any lowering of hurdle rates.

LP attitudes to hurdle rates

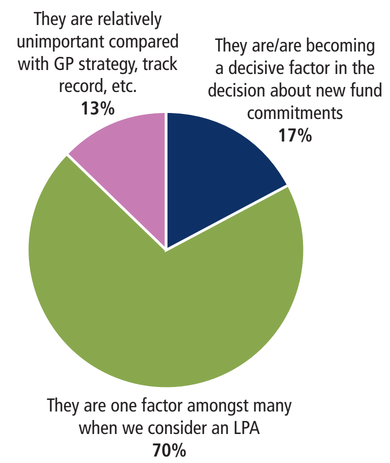


(Figure 16)

Transaction fee provisions are a decisive factor for a third of pension fund LPs

Only 17% of LPs view transaction fee provisions in Limited Partner Agreements as a decisive factor when they consider new fund commitments – but this proportion rises to one third among pension fund LPs.

LP views on transaction fee provisions in fund LPAs



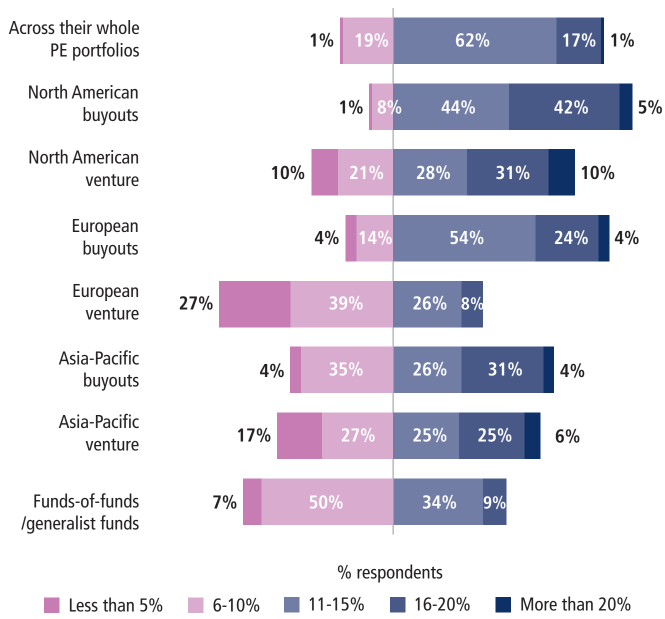
(Figure 17)

Four fifths of LPs have lifetime net annual PE returns of 11%+

80% of LPs have achieved net annual returns of 11% or higher from private equity since their institutions began investing in the asset class. Indeed, almost a fifth of LPs have achieved net annual returns of 16% or more from private equity.

In terms of individual strategies, 91% of LPs have achieved net returns of 11%+ from North American buyouts, and 82% of LPs have achieved this level of return from their European buyout investments.

Annual net returns across LPs' PE portfolios since their inception

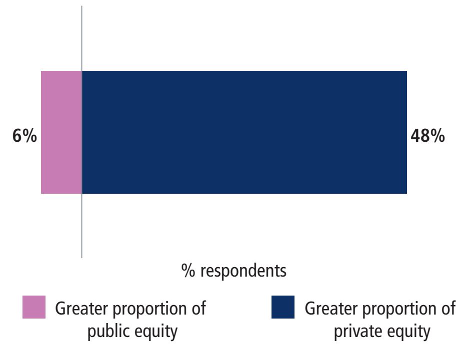


(Figure 18)

LPs expect private equity to grow at public equity's expense

Nearly half of LPs think that the ratio of private equity to public (quoted) equity will change in private equity's favour in the next few years.

LP views on the balance between private equity and public equity in 5 years' time



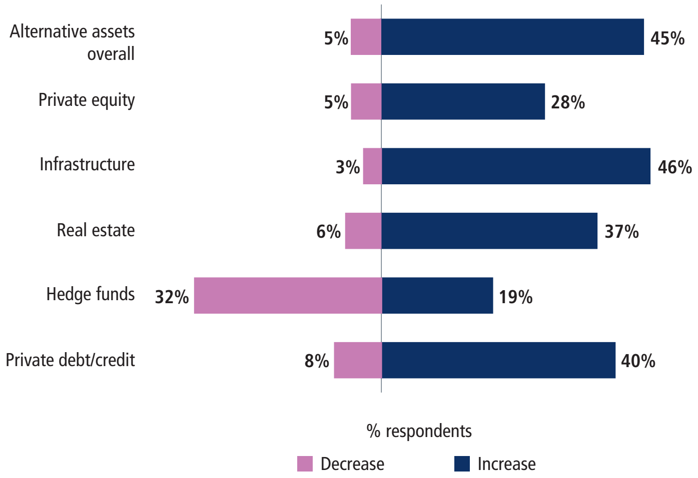
(Figure 19)

Higher infrastructure and private debt allocations are on their way

The areas of alternative assets most favoured for growth by LPs are infrastructure, where 46% of LPs plan an increased target allocation, and private debt (credit), where 40% of LPs intend to raise their target allocation. 28% of LPs plan an increased allocation to private equity.

Hedge funds are the only area of alternative assets to which more investors are planning to reduce than increase their target allocation.

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



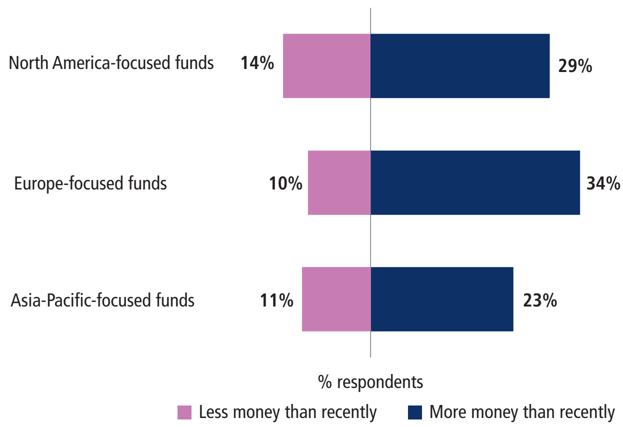
(Figure 20)

GP drawdowns either to continue at current levels or increase, LPs say

The majority of investors expect capital calls to remain at roughly current levels over the next couple of years – across all the main areas of the private equity world.

However, approximately one third of investors expect increased drawdowns from funds focused on Europe and North America.

LP expectations for GPs' drawdowns in the next 2 years



(Figure 21)

LPs becoming more selective in Asia-Pacific PE

The relatively weaker returns from private equity in the Asia-Pacific region in recent years (compared with North America and Europe) have prompted a variety of responses from investors.

One third of LPs regard exposure to Asia-Pacific simply as a strategic priority, and have made little change to their investment approach. However, over half of investors say they are becoming increasingly selective in choosing GPs, geographies, and investment strategies. And some 13% of LPs are going further, reducing their overall commitments to the region.

Two in five Asia-Pacific LPs plan stronger PE teams for the region

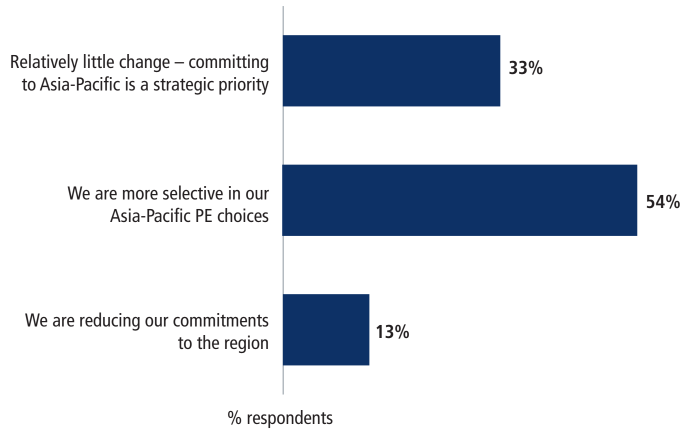
While only 14% of North American LPs and 8% of European LPs are planning to strengthen their Asia-Pacific private equity teams over the next three years, 39% of Asia-Pacific LPs will do so.

European LPs seem the most sceptical about the Asia-Pacific region, with 22% of investors saying they plan to reduce the size of their Asia-Pacific-focused teams.

Many LPs expect improved opportunities in Japan

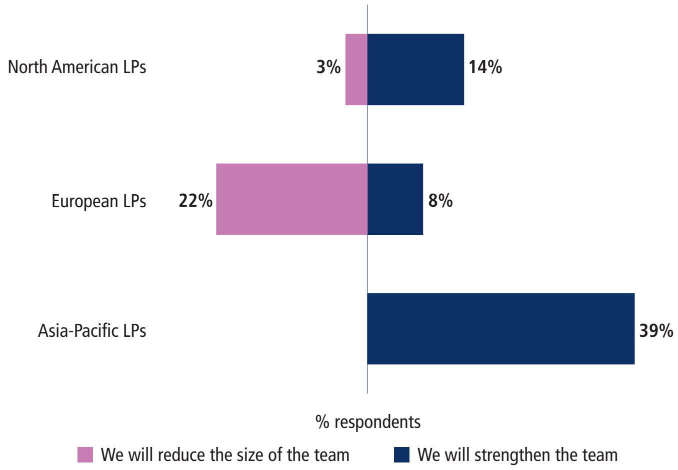
Over two fifths of North American and European LPs believe recent changes in Japan's business and economic environment will create more opportunities for private equity in Japan in the next three years. 71% of Asia-Pacific LPs share this view.

LP responses to the relatively weaker returns from PE in Asia-Pacific



(Figure 22)

LPs' plans for their Asia-Pacific PE teams over the next 3 years



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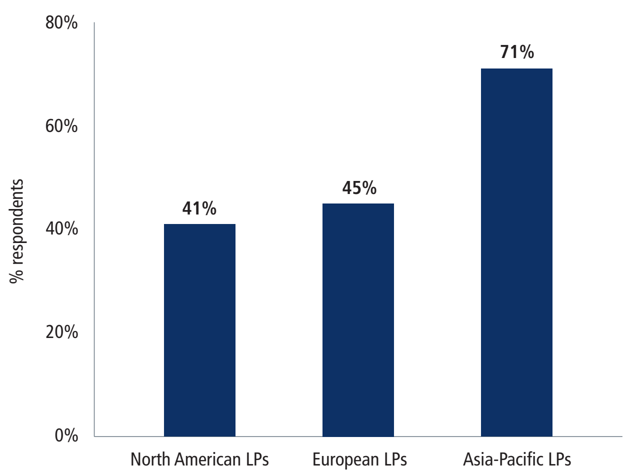
LPs expecting better opportunities for PE in Japan over the next 3 years



(Figure 24)

Coller Capital's Global Private Equity Barometer

Respondent breakdown – Summer 2017

The Barometer researched the plans and opinions of 110 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.

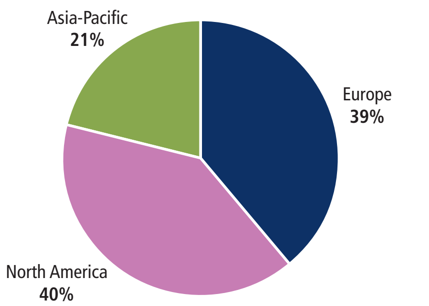
Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital in March-April 2017 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the private equity 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



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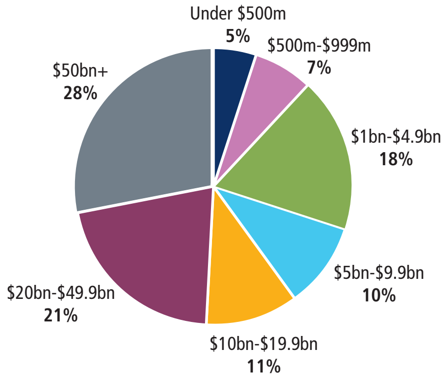
Respondents by total assets under management



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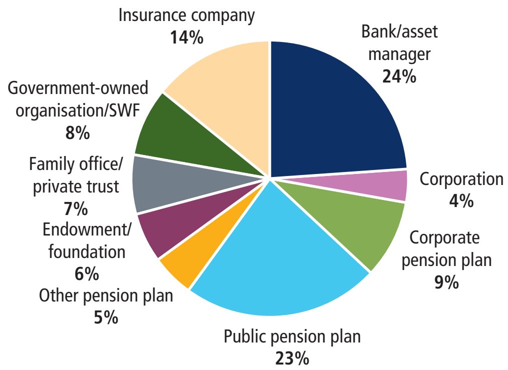
Respondents by type of organisation



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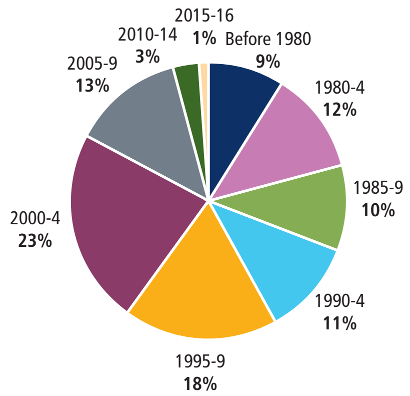
Respondents by year in which they started to invest in private equity



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