

# Global Private Equity Barometer

Summer 2020

Coller Capital

Coller Research Institute

# 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 based in North America, Europe, and Asia-Pacific (including the Middle East).

This 32nd edition of the *Barometer* captured the views of 107 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

**Contact:**

Amanda Das

[Barometer@CollerCapital.com](mailto:Barometer@CollerCapital.com)



## Topics

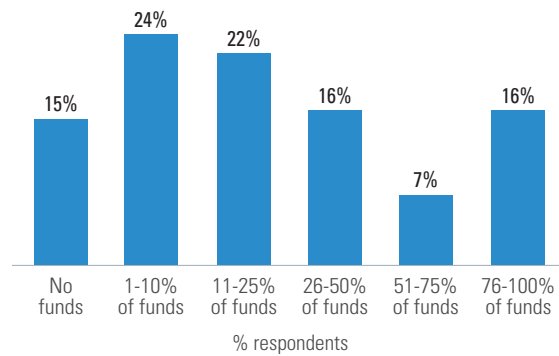
This edition of the Barometer includes investors' views and plans regarding:

- The role of PE fund Advisory Committees (LPACs)
- Interactions between LPs
- Future levels of concentration in PE fund commitments
- The likely effects of geopolitical tensions on PE strategy and asset allocation
- Political risk in PE's emerging markets
- ESG policy, climate change, and carbon neutrality
- LPs' requirements for independent portfolio valuations
- LPs' level of satisfaction with GP transparency
- LP usage of data aggregator services
- PE as a source of creative disruption
- Pervasiveness of buy-and-build expertise within PE
- The role and effectiveness of Operating Partners
- GPs' use of EBITDA 'add-backs'

## Most LPs hold LPAC seats for at least some of their funds

A large majority (85%) of Limited Partners sit on at least one LP Advisory Committee (LPAC). Most LPs (especially the smallest) hold LPAC seats for only a small proportion of their PE funds – but 23% of Limited Partners hold LPAC seats for more than half of the funds in which they are invested.

Fig 1 Proportion of their PE funds for which LPs hold LPAC seats

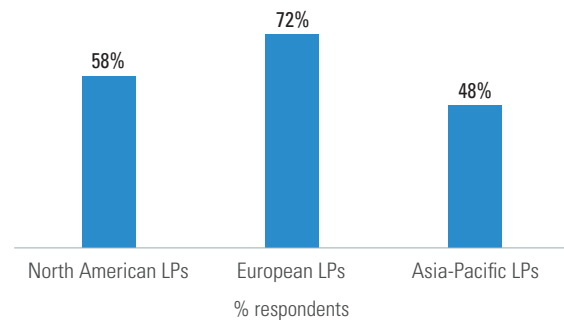


## Most LPs believe LPAC seats are allocated appropriately

On balance, most LPs believe LPAC seats are allocated appropriately by GPs.

However, LP views do vary considerably by region. While almost three quarters of European LPs believe LPAC seats are allocated fairly, only half of Asia-Pacific LPs think this is true.

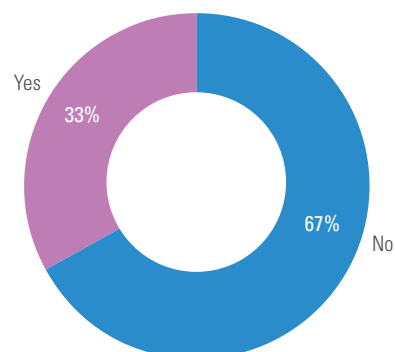
Fig 2 Proportion of LPs that believe LPAC seats are allocated appropriately – by region



## LPACs do not represent all investors equally well

Two thirds of LPs believe that Advisory Committees do not in practice provide equal representation of all investors in a fund. Even investors who sit on many LPACs have sympathy with this view.

Fig 3 Proportion of LPs who believe LPACs represent all LPs equally

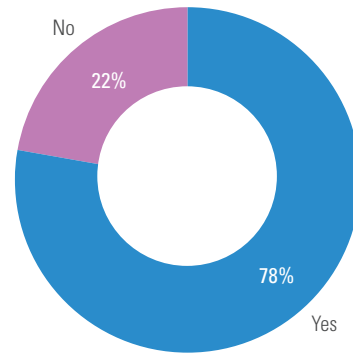


## LPACs nonetheless do a good job, investors say

Over three quarters of Limited Partners think Advisory Committees generally do a good job. This picture holds true even for those with concerns about the overall representativeness of LPACs.

Fig 4

LP views as to whether LPACs generally do a good job

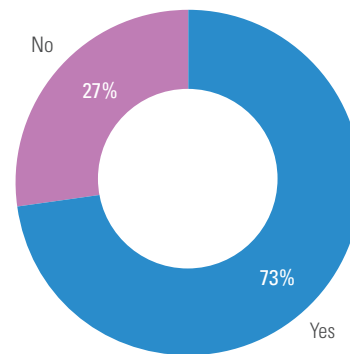


## LPs have too few chances to interact with each other

Three quarters of Limited Partners say they would benefit from more opportunities to interact directly with other private equity investors.

Fig 5

LPs' views on whether they would benefit from more direct interactions with other LPs

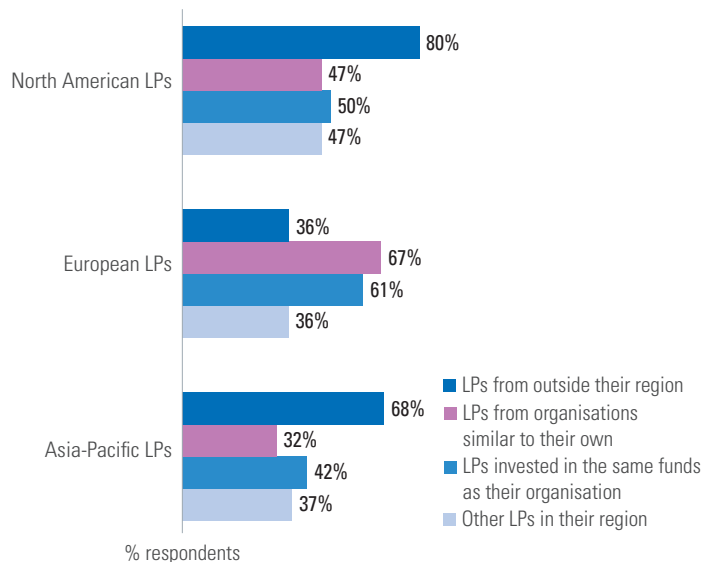


## The extra interactions that LPs would value differ by region

Investors from North America and Asia-Pacific would most like to know more LPs from elsewhere in the world. Whereas European LPs would most like to interact with Limited Partners from organisations similar to their own and with LPs invested in the same funds.

Fig 6

Types of investor with whom LPs have too few chances to interact – by LP location

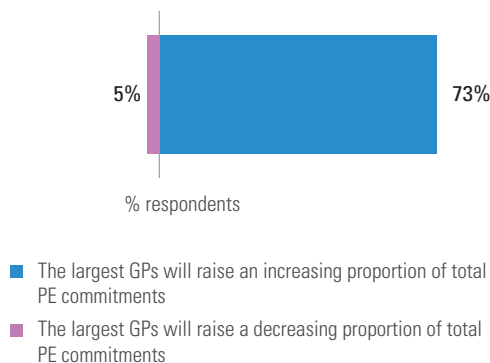


## Private equity commitments will become more concentrated

Three quarters of LPs expect assets under management in the private equity industry to become more concentrated over the next five years, with the largest GPs raising a growing proportion of total PE commitments. Only five percent of investors expect large GPs' share of commitments to diminish.

Fig 7

LPs' views on concentration in the PE industry – in the next 5 years



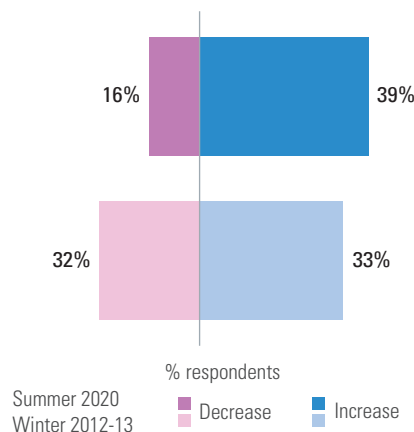
## LPs are increasing the number of their GP relationships

On balance, LPs are expecting to increase the number of relationships they have with GPs over the next three years.

This is a change from the *Barometer* of Winter 2012-13, when equal numbers of Limited Partners were planning to increase and reduce their overall number of GP relationships.

Fig 8

LPs' expectations for the number of their GP relationships – in the next 2-3 years

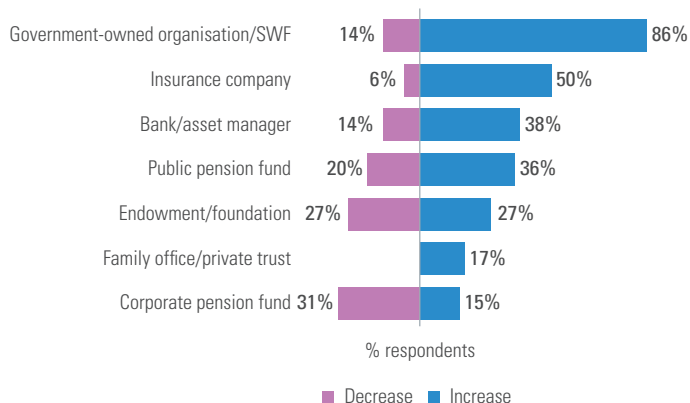


## Sovereign Wealth Funds most likely to grow number of GP relationships

Almost all government-owned organisations and sovereign wealth funds expect to increase the number of GPs with whom they have relationships in the next 2-3 years. Half of insurance companies plan to increase their overall number of GP relationships.

Fig 9

LP plans for their number of GP relationships in the next 2-3 years – by institution type

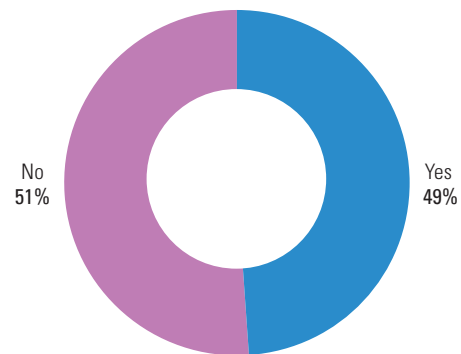


## Half of LPs think geopolitics will impact PE investment strategies

Half of the world's LPs believe geopolitical tensions will have a material impact on the investment strategies and asset allocation of private equity funds over the next five years. Interestingly, this 50/50 split in Limited Partners' views does not vary at all by region.

Fig 10

Likelihood of geopolitical tensions having a material effect on the investment strategies /asset allocation of PE and VC funds in the next 5 years – LPs' views

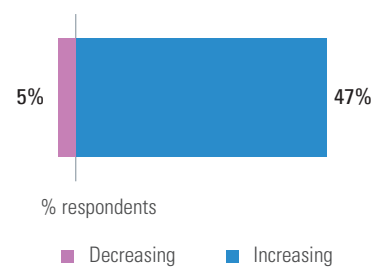


## Many LPs foresee increasing political risks in PE's emerging markets

Nearly half of Limited Partners believe political risk in private equity's emerging markets is increasing. Only five per cent think it is decreasing.

Fig 11

Expected change in political risk across PE's emerging markets in the next five years – LP perceptions



## Political risk will be highest in Russia, China, MENA, and Latin America, LPs think

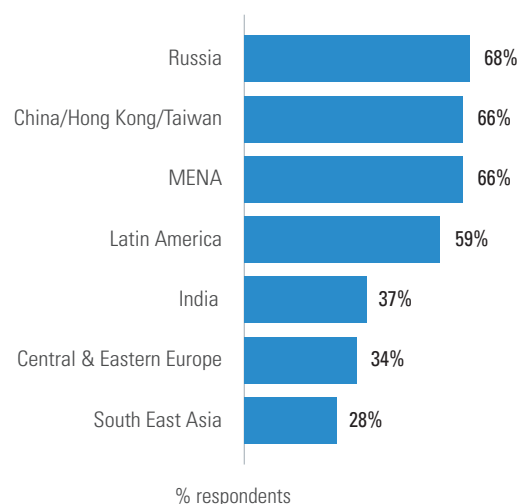
Around two thirds of LPs think the emerging private equity markets of Russia, China, and the Middle East/North Africa will show a higher-than-normal level of political risk in the next five years.

By contrast, only just over a third of LPs expect heightened political risk in India or Central/Eastern Europe.

Investors are most positive of all about political risk in South East Asia – only just over a quarter of private equity investors expect political risk in the region to increase over the next five years.

Fig 12

Emerging markets where there will be higher levels of political risk in the next 5 years – LP expectations

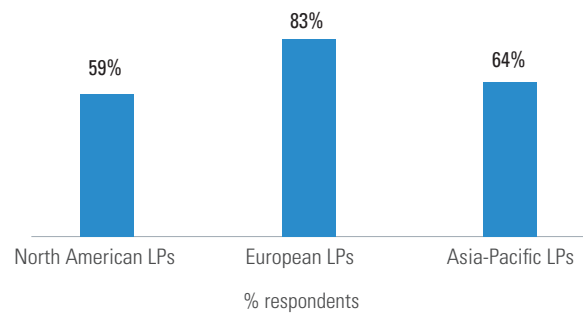


## LPs report internal consensus on ESG policy

Most LPs report a broad consensus of agreement on ESG policy within their own organisations – though this internal consensus is more marked among European LPs than among North American or Asia-Pacific investors.

Fig 13

LPs where there is a broad internal consensus on ESG policy

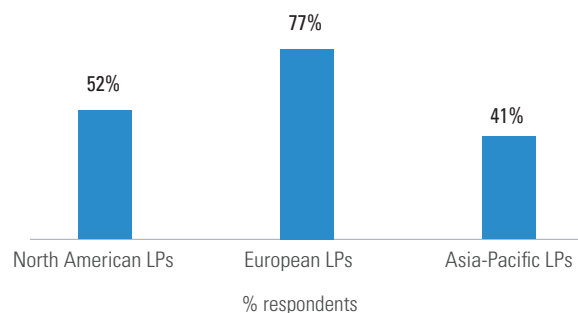


## LPs' views on climate change are more diverse

There is far less consensus of opinion about climate change within LP organisations based in North America and the Asia-Pacific than there is in LPs based in Europe. Over three quarters of European LPs report an internal consensus on the topic.

Fig 14

Degree of LPs' internal consensus on climate change – by region

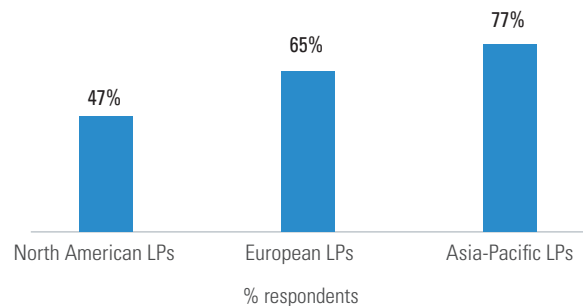


## Many LPs think GPs are not taking climate change seriously enough

Many LPs think GPs are not taking the risks of climate change seriously enough in their investment policies and practices. Over three quarters of Asia-Pacific LPs hold this view.

Fig 15

Proportion of LPs who believe GPs are not taking climate change seriously enough





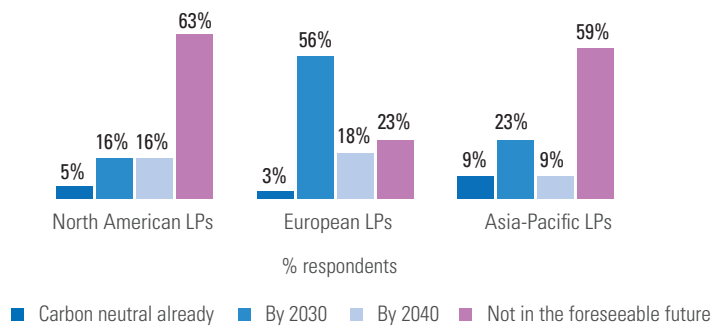
## Most LPs outside Europe will not seek carbon neutrality for their own organisations

The majority of North American and Asia-Pacific LPs do not expect their own organisations to seek carbon neutrality at any time in the foreseeable future.

Although only a tiny proportion of European Limited Partners are currently carbon neutral, well over half of them expect to be so by 2030.

Fig 16

When LPs expect their own institutions to be carbon neutral

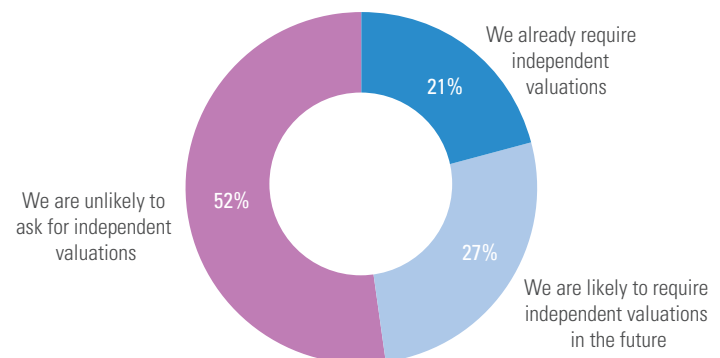


## Half of LPs expect to ask GPs for independent portfolio valuations

One in five LPs currently require their GPs to use third parties to provide independent portfolio valuations – but this proportion is likely to rise to almost half of LPs in due course.

Fig 17

LPs requiring their GPs to procure independent portfolio valuations – now and in the future

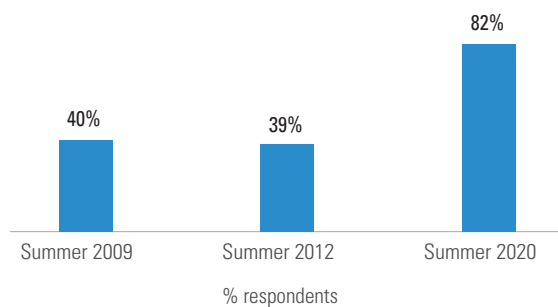


## Big leap in LPs' satisfaction with GP transparency

Four fifths of LPs are satisfied with the transparency of their GPs' disclosures and communications. This contrasts strongly with the years following the Global Financial Crisis, when only two fifths of Limited Partners were satisfied.

Fig 18

Proportion of LPs satisfied with the level of transparency displayed by most GPs



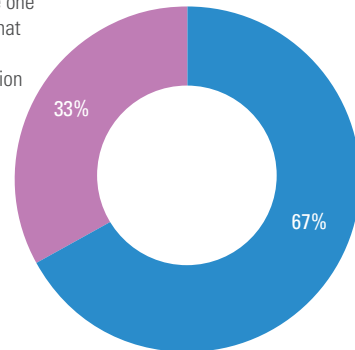
## EBITDA add-backs increase PE risk materially, LPs believe

Two thirds of LPs are concerned that the use of forward-looking EBITDA add-backs by GPs materially increases the risk of private equity investments.

Fig 19

### LPs' level of concern about the use of EBITDA add-backs by PE funds

Not overly concerned – EBITDA metrics are one of many factors that go into a GP's investment decision



Very concerned – it is materially inflating the risk of PE investments

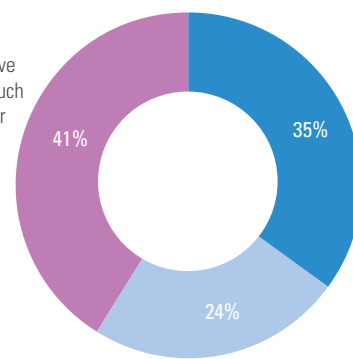
## Three in five LPs will use suppliers of aggregated PE data within three years

One third of LPs currently subscribe to a data provider that collects standardised performance data directly from GPs. The use of such data aggregator services is likely to grow rapidly – three fifths of LPs expect to be using such a service within the next three years.

Fig 20

### LP usage of suppliers that collect standardised performance data direct from GPs – now and within three years

No – and we have no plans to use such a data provider



We already use such a data provider

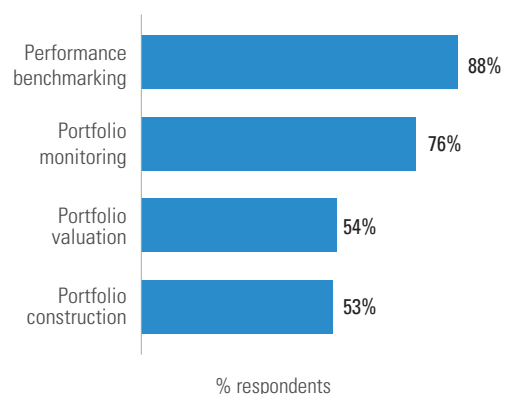
No – but we are likely to do so in the next three years

## Aggregators most used for performance benchmarking and portfolio monitoring

Performance benchmarking and portfolio monitoring are the tasks for which LPs most frequently use the services of data aggregators. But these services are also used as an aid in portfolio valuation and portfolio construction by around half of their Limited Partner subscribers.

Fig 21

### LP activities supported by providers of aggregated PE data



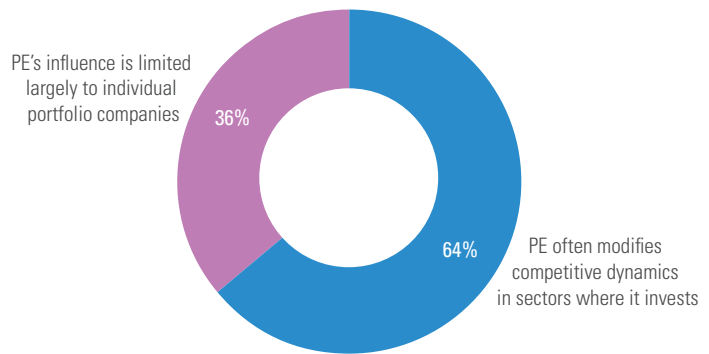
% respondents

## Limited Partners see PE as a source of creative disruption

Two thirds of LPs believe private equity is a source of creative disruption in the economy, acting as a catalyst for wider change in the areas where it invests.

Fig 22

PE as a source of creative disruption – LP views

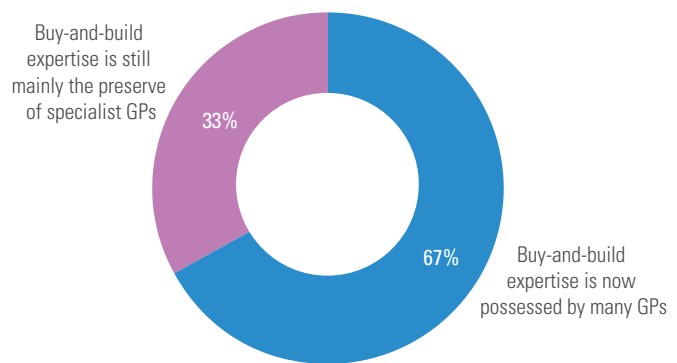


## Buy-and-build expertise is no longer the domain of specialist GPs

Two thirds of LPs believe that buy-and-build skills – once the domain of specialist GPs – are now part of the toolbox of many PE managers.

Fig 23

Prevalence of buy-and-build skills among GPs – LP views

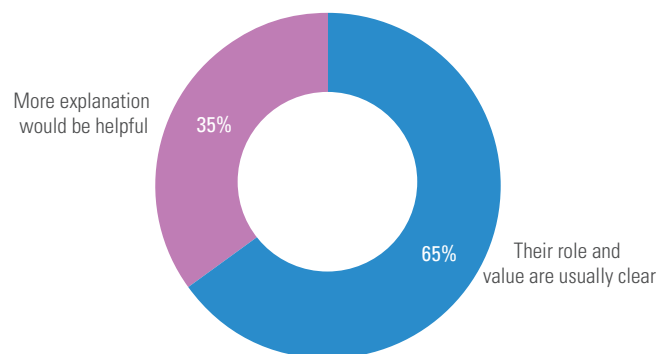


## The role and value of Operating Partners is now clear to LPs

How and why Operating Partners are deployed in investments – and the value that they add when they are – is now clear to a majority of LPs.

Fig 24

Extent of clarity about the role and value of Operating Partners – LP views



# Coller Capital's *Global Private Equity Barometer*

## Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital from 10 February to 27 March 2020 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

## Respondent breakdown – Summer 2020

The *Barometer* researched the plans and opinions of 107 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

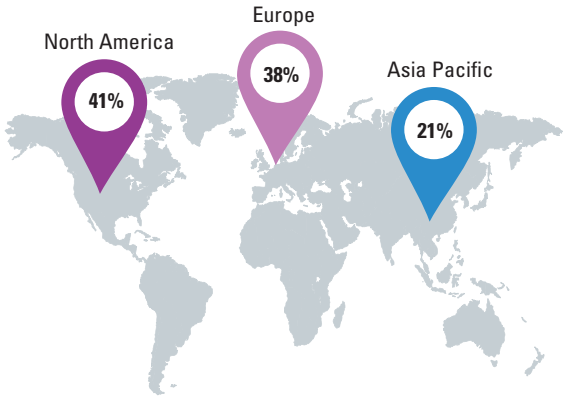


Fig 26 Respondents by total assets under management

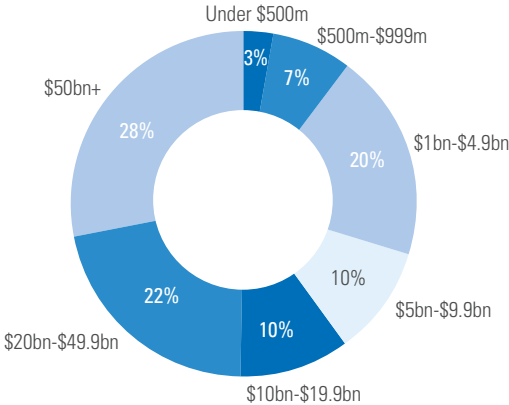


Fig 27 Respondents by year in which they started to invest in private equity

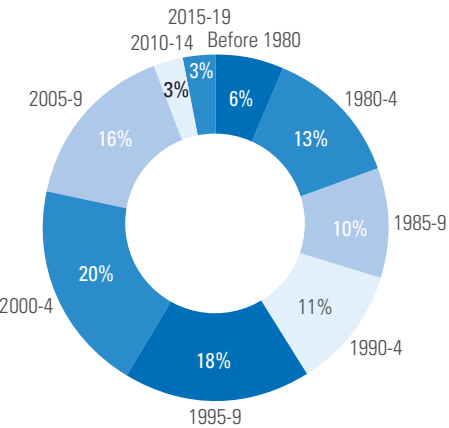
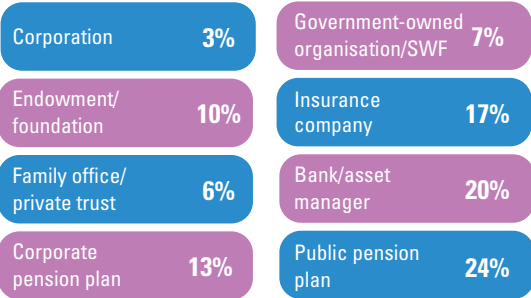


Fig 28 Respondents by type of organisation



## About Collier Capital

Collier Capital is one of the world's leading investors in private equity's secondary market – widely acknowledged as an innovator and stand-out player at the complex end of secondaries.

The firm provides liquidity solutions to private equity investors worldwide, acquiring interests in private equity funds, portfolios of private companies, and other private equity-related assets. Headquartered in London, and with offices in New York and Hong Kong, Collier Capital's multinational investment team has a truly global reach.

In December 2015, the firm closed Collier International Partners VII, with capital commitments of \$7.15 billion and backing from approximately 170 of the world's leading 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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