Global Private Equity Barometer

Summer 2021

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 34th edition of the *Barometer* captured the views of 111 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:

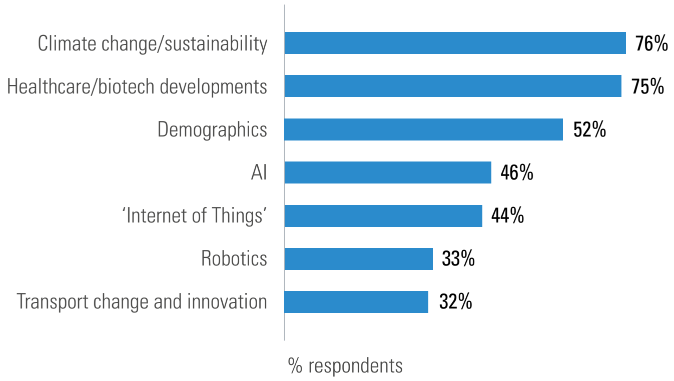
- Mega-trends influencing PE asset allocations
- Risks to PE returns
- Relative attractiveness of different countries/regions for PE investment
- The Biden-Harris Administration's likely impact on PE
- Likelihood of a tech market correction
- PE asset allocation and returns
- LP plans for re-ups and new GP relationships
- The effect of ESG policy on PE returns
- ESG policy effectiveness and LP remuneration
- LPs' work/life balance
- Secondary investment strategies
- LPs' co-investment policies
- Private credit

Climate change and healthcare/biotech to be major influences on LP asset allocation

Three quarters of LPs expect their investment decisions over the next five years to be influenced by issues related to climate change and sustainability, and also by developments in healthcare and biotechnology. Demographic trends will influence the investment decisions of around half of LPs.

Fig 1

Mega-trends likely to influence LP investment decisions in the next 5 years

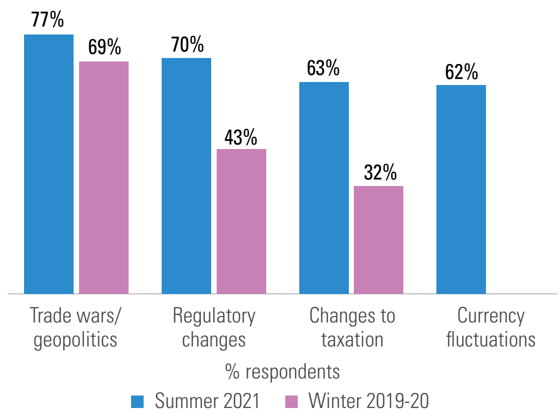


Risks to PE returns have risen significantly in the last 18 months, LPs think

The risks to PE returns from regulatory change and tax rises have increased significantly in the last 18 months, LPs believe. The biggest threat of all is from trade wars and other geopolitical tensions, which over three quarters of LPs view as a significant risk.

Fig 2

Significant risks to PE returns in the next few years – LP views

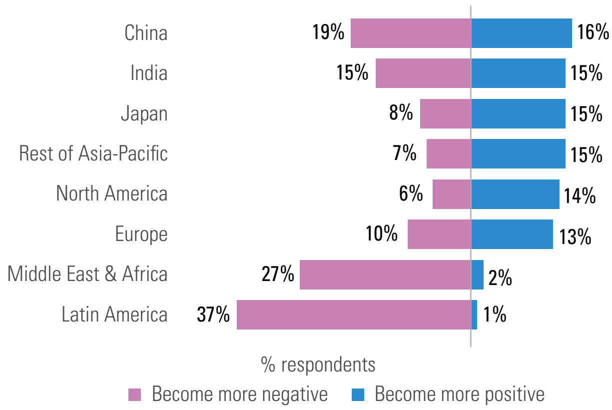


LP sentiment turns more negative towards Latin America, Middle East and Africa

The attractiveness of Latin America as an investment destination has diminished for over a third of PE investors. A quarter of investors now take a more negative view of the Middle East and Africa.

Fig 3

Recent changes in LP views on individual countries/regions as destinations for PE investment

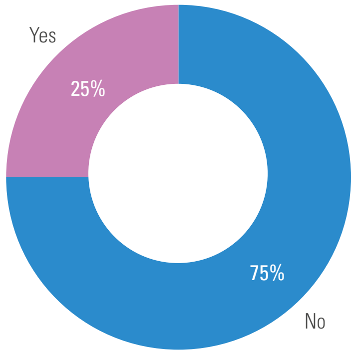


Biden-Harris Administration unlikely to change PE's overall operating environment, LPs think

Three quarters of LPs think the new Administration in the United States is unlikely to change the overall operating environment for private equity.

Fig 4

Likelihood of the Biden-Harris Administration resulting in a significant change to PE's overall operating environment – LP views

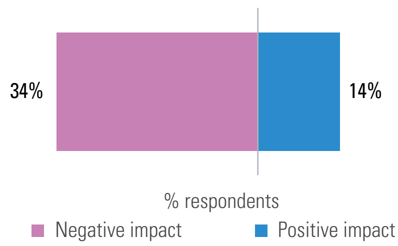


Half of North American LPs expect Biden-Harris to affect their PE returns

Half of North America's PE investors think the Biden-Harris Administration will have an impact on their PE returns – 34% of Limited Partners think it will be negative, and 14% think it will be positive.

Fig 5

Likely effect of Biden-Harris Administration on PE returns – North American LPs' views

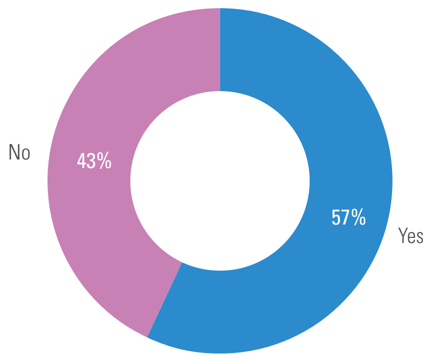


Well over half of LPs expect a tech market correction within 18 months

57% of LPs expect there to be a significant technology market correction within the next 18 months.

Fig 6

Likelihood of a significant tech market correction within 18 months – LP views



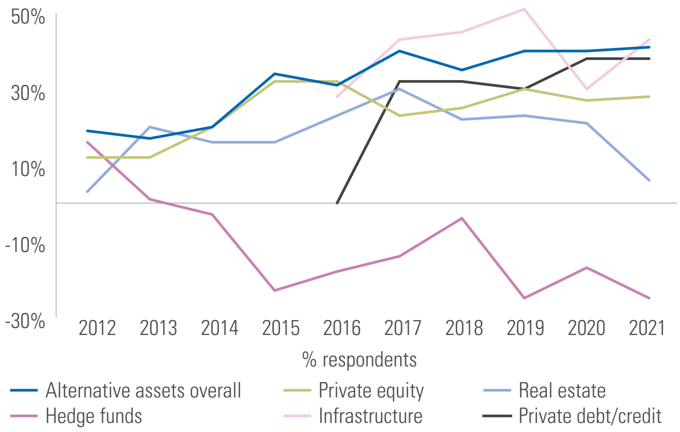
Alternative asset allocations are still rising

The net balance* of investors planning to increase their allocations to alternative assets is now higher than at any time since the global financial crisis. The net balance is positive for all types of alternative assets – except hedge funds to which investor allocations are continuing to decline.

* the proportion of LPs increasing allocations minus the proportion reducing allocations.

Fig 7

Net change in proportions of LPs planning increased/decreased target allocations to alternative assets in the next 12 months

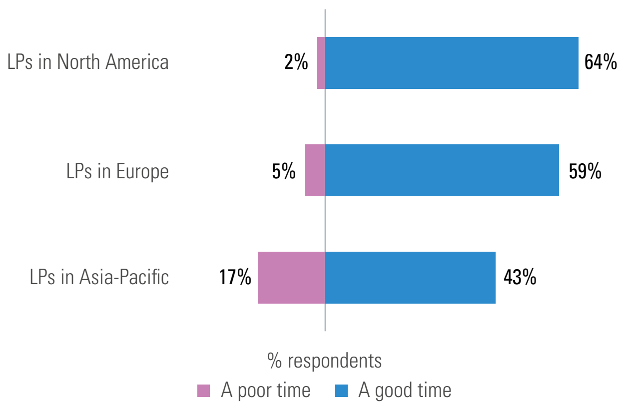


This is a good time to be making PE commitments, LPs believe

This is a favourable time to be making new PE commitments, investors believe – though LPs in the developed markets of North America and Europe are more positive than those based in the Asia-Pacific region.

Fig 8

LPs' views on whether this a good time to be making new PE commitments

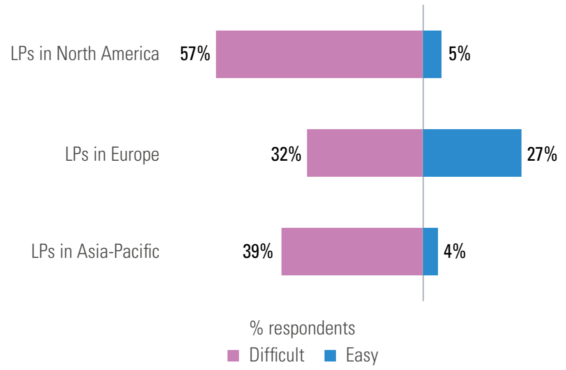


Selecting GPs and funds is now harder than usual, many LPs say

Although this is generally seen as a good time to be making new PE commitments, it is not an *easy* time, according to many investors. North American LPs, in particular, think this is a difficult time to be choosing PE managers and funds.

Fig 9

LPs' views on whether this is an easy time to be making new PE commitments

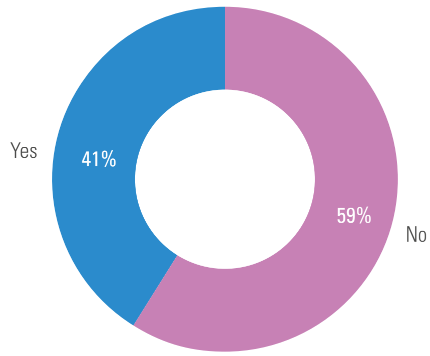


Two in five LPs now more likely to refuse re-ups

Two in five Limited Partners say they are now more likely to refuse an investment in their portfolio GPs' latest funds than they have been in recent years. Among North American investors, the proportion rises to almost half.

Fig 10

Likelihood of LPs refusing re-ups at a faster rate over the next 1-2 years

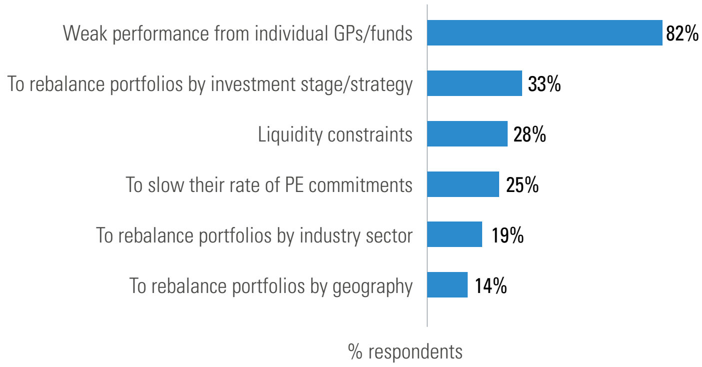


Poor GP performance will be the predominant reason that LPs refuse re-ups

Unexpectedly weak performance by individual GPs will be easily the most important reason for LPs refusing re-ups.

Fig 11

Reasons why LPs are likely to refuse GP re-up requests in the current environment

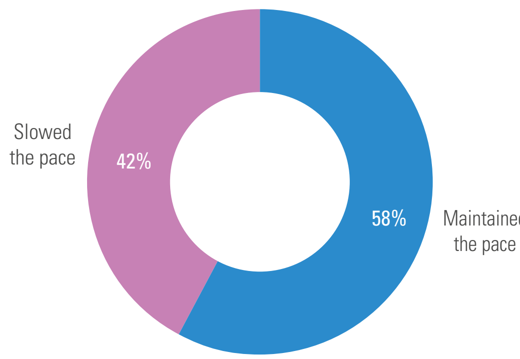


LPs have continued building new GP relationships

The majority (58%) of LPs have continued to build new GP relationships at the same rate as before the pandemic.

Fig 12

LPs' commitment pace to new GP relationships – last 12 months

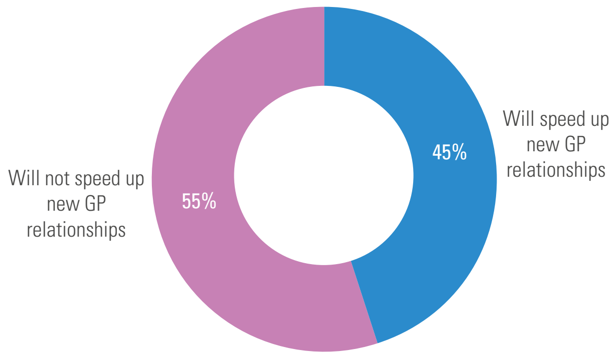


Almost half of LPs will accelerate their commitments to new GP relationships

45% of LPs will speed up their pace of commitment to new GP relationships over the next 18 months.

Fig 13

LPs planning to speed up their commitments to GPs with whom they have not previously invested

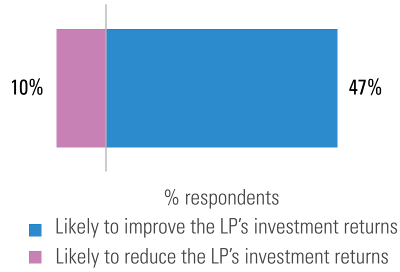


Half of LPs believe a robust ESG policy will boost PE returns

47% of LPs believe that adopting a robust ESG policy will improve an LP's long-term private equity returns. This proportion did not vary significantly by LP location. Only 1 in 10 Limited Partners thinks that adopting a strong ESG policy would lead to a reduction in returns.

Fig 14

The effect of adopting a robust ESG policy on an LP's long-term PE investment returns – LPs' views

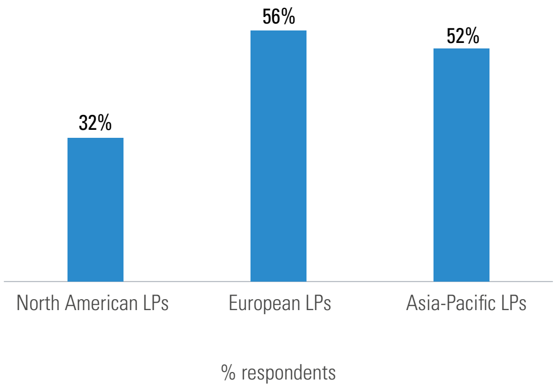


North American LPs unwilling to link remuneration to ESG goals

Just over half of LPs based in Europe and the Asia-Pacific region believe that some performance-related elements of LP remuneration should in principle be linked to the attainment of ESG goals. Fewer North American LPs agree, with only 32% believing there should be a link.

Fig 15

LPs that believe performance-related elements of LP remuneration should be linked to the attainment of ESG goals

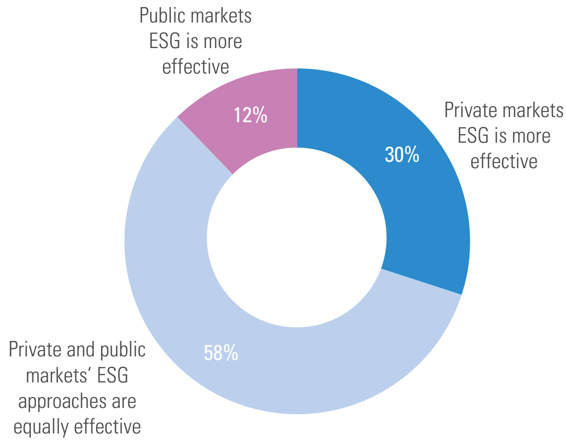


ESG engagement works well in both public and private markets, LPs say

Most investors believe that although ESG engagement is different in public and private markets, it is equally effective – though 30% of LPs think PE's model delivers more real-world change.

Fig 16

The effectiveness of investors' ESG policies in effecting change in the real world – LPs' views

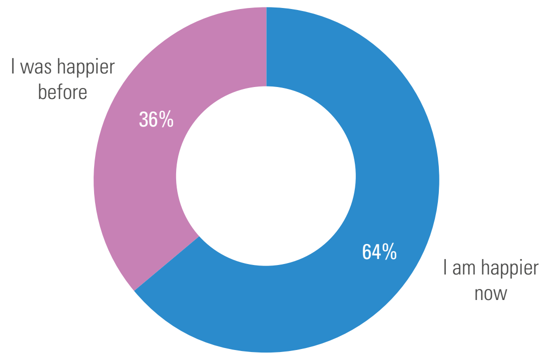


Two thirds of LPs are happier with their work/life balance than before Covid-19

64% of private equity investors say that their work/life balance has improved since the onset of the Covid-19 pandemic, with the challenges of home-working more than offset by the advantages of less frequent travel.

Fig 17

LPs' views on their work/life balance before and since the onset of Covid-19

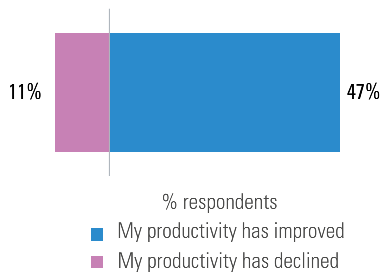


Many LPs' personal productivity has improved since the onset of the pandemic

Nearly half of LPs report that their personal productivity has improved since the pandemic hit.

Fig 18

LPs' views on their personal productivity since the onset of the pandemic

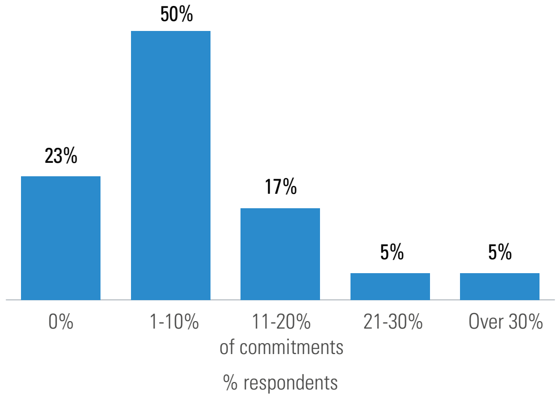


Three quarters of LPs are invested in secondaries

77% of LPs now have exposure to private equity secondaries – and for over a quarter of LPs their exposure is more than a tenth of their total PE commitments.

Fig 19

Proportion of LPs' PE allocations currently committed to secondaries

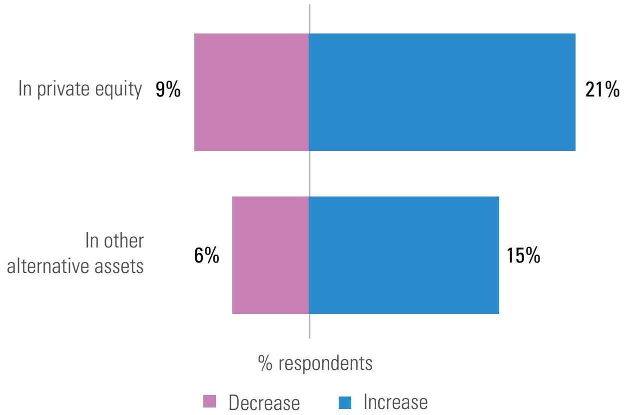


A fifth of LPs plan to boost their exposure to PE secondaries further

21% of LPs plan to increase their exposure to PE secondaries over the next three to five years. And 15% of LPs plan to increase their exposure to secondaries in other alternative asset classes within the same period.

Fig 20

LPs' planned exposure to secondary strategies in the next 3-5 years



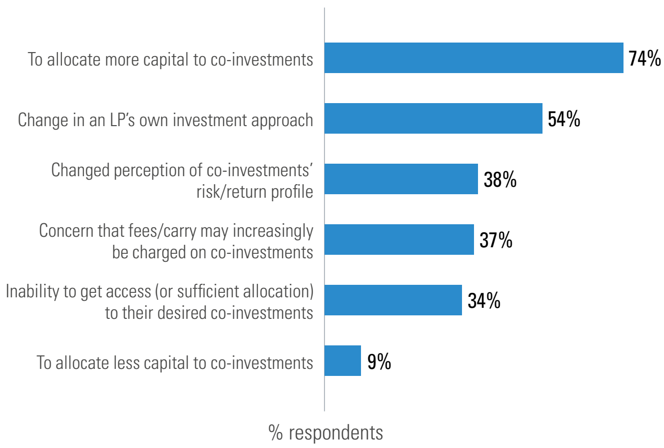
LPs will explore different routes to higher co-investment exposure

The Winter 2020-21 edition of the *Barometer* showed 42% of investors expecting changes to LPs' co-investment policies. The direction of these planned changes is clear – with three quarters of LPs seeing a desire to allocate more capital as a likely motivation.

Other reasons cited for changes to LP co-investment policies include: cost; changed perceptions of risk/return; and access. This suggests the development of more disparate and LP-specific approaches to co-investments across the LP community.

Fig 21

Reasons why LPs might change their co-investment policies in the next few years

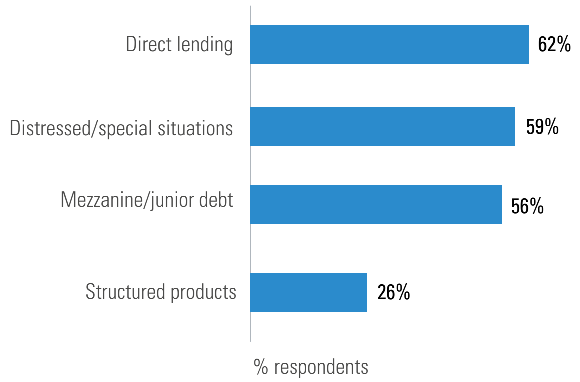


Direct lending, distressed, and mezzanine are LPs' preferred methods of investing in private credit

Around three in five LPs have invested in one or more of the following types of private credit in the last three years: direct lending; distressed/special situations; and mezzanine/junior debt tranches.

Fig 22

Types of private credit strategy LPs have invested in over the last 3 years

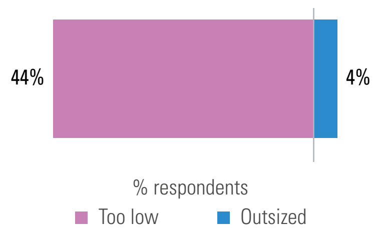


Many LPs believe direct lending returns are too low for their level of risk

44% of LPs believe that the returns currently generated by direct lending funds are too low for their level of risk.

Fig 23

LPs' views on the risk-return profile of today's direct lending funds



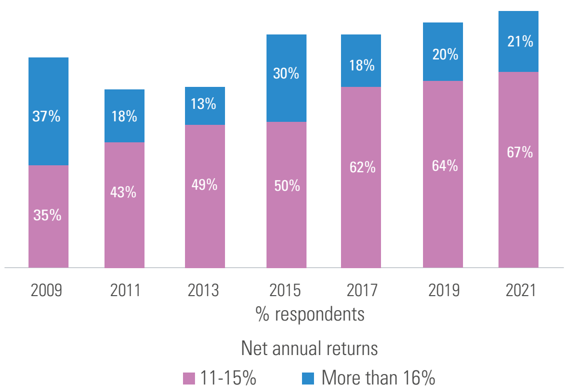
LPs' lifetime portfolio returns from PE are back at record levels

The proportion of LPs who have achieved lifetime portfolio returns of over 11% (net of fees and carried interest) is at record levels, equalling or exceeding the record set in the past in 2016 and 2018. Two thirds of *Barometer* respondents have achieved lifetime returns of between 11% and 15% net, and just over a fifth of LPs have scored lifetime returns of 16%+ net.

Venture capital and buyouts in North America have been the biggest contributors to these strong returns.

Fig 24

Net annual returns across LPs' PE portfolios since inception



Coller Capital's *Global Private Equity Barometer*

Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital from 8 February to 26 March 2021 by Arbor Square Associates, a specialist alternative assets research team with over 80 years' collective experience in the PE arena.

Respondent breakdown – Summer 2021

The *Barometer* researched the plans and opinions of 111 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

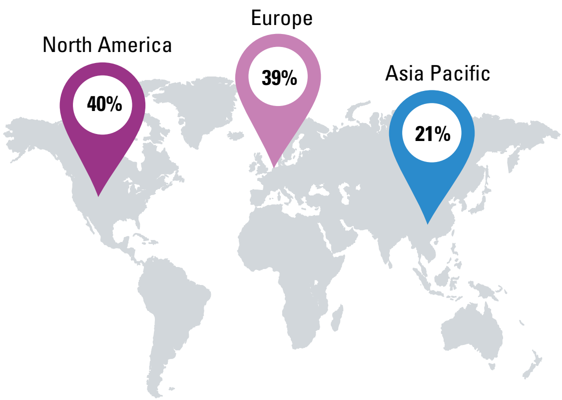


Fig 26

Respondents by total assets under management

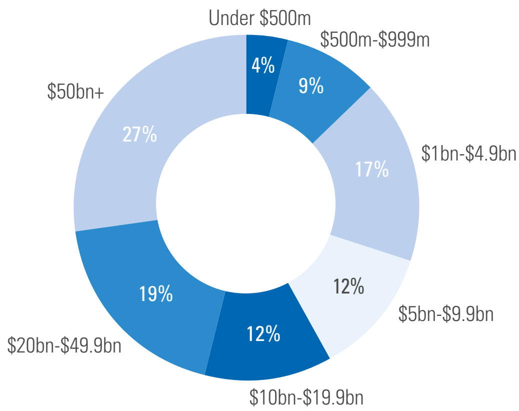


Fig 27

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

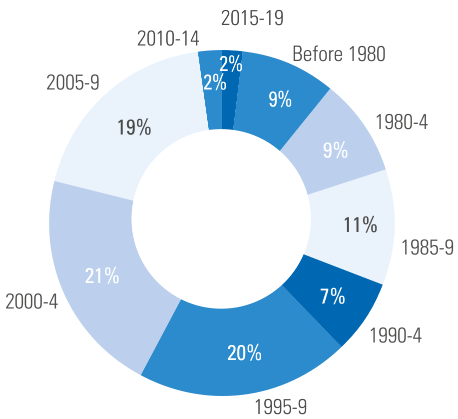


Fig 28

Respondents by type of organisation

Corporation	1%	Government-owned organisation/SWF	5%
Endowment/ foundation	10%	Insurance company	22%
Family office/ private trust	11%	Bank/asset manager	21%
Corporate pension plan	11%	Public pension plan	19%

About Coller Capital

Coller Capital, founded in 1990, is one of the world's leading investors in private equity's secondary market – widely acknowledged as an innovator and a 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. With headquarters in London, and offices in New York and Hong Kong, Coller's multinational 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. The fund is backed by over 200 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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