Global Private Equity Barometer

Winter 2021-22

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 markets – a twice-yearly overview of the plans and opinions of institutional investors in private markets based in North America, Europe, and Asia-Pacific (including the Middle East).

This 35th edition of the *Barometer* captured the views of 102 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' plans and opinions relating to:

- The structuring of portfolio company incentives
- Public/private ownership models and performance
- Continuation funds
- Co-investments
- Secondaries in private markets
- Private credit
- Virtual due diligence
- ESG considerations in new fund commitments
- Likelihood of regulatory change in private markets
- Greenwashing
- Cybersecurity
- Appetite for fund commitments in Asia-Pacific

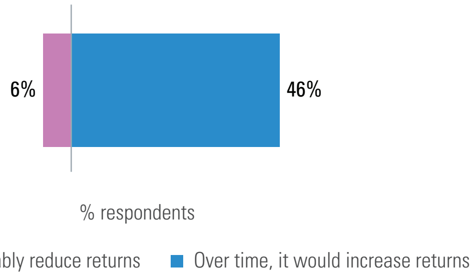
Incentivising a larger proportion of portfolio company employees would boost investment returns, many LPs think

Almost half of LPs believe that offering performance-based incentives to a larger proportion of portfolio company employees would over time improve private equity's investment returns.

Very few LPs believe that such a change would have a detrimental effect on returns.

Fig 1

The likely effect of incentivising a larger proportion of portfolio company employees on PE's overall returns

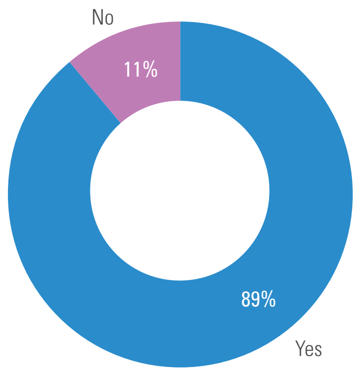


Small and mid-cap public companies would benefit from spells of PE ownership, LPs say

Almost all LPs believe that most small and mid-cap companies listed on public stock exchanges would benefit from periodic spells of private equity ownership as they evolve and grow.

Fig 2

Likelihood of small and mid-cap public companies benefiting from periodic spells of PE ownership – LP views

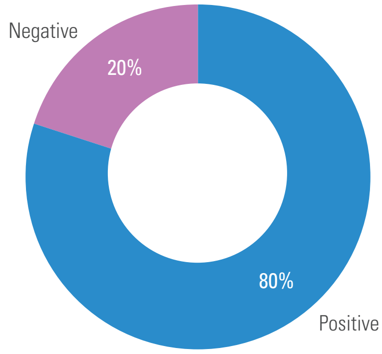


PE sponsorship is a positive indicator when private companies list on public markets, LPs think

A large majority of LPs see PE sponsorship as a positive indicator in assessing the short-to-medium-term prospects of private companies seeking a public market listing.

Fig 3

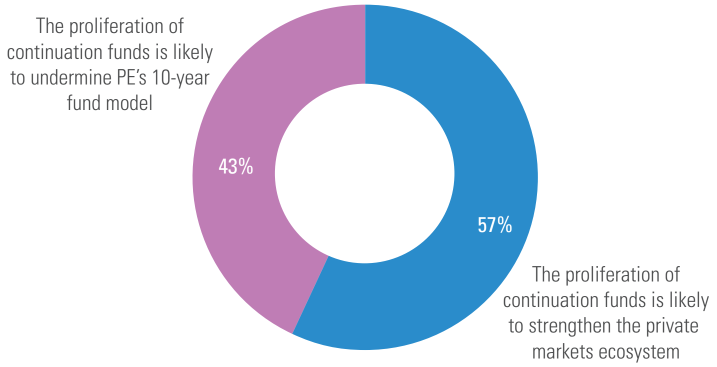
PE sponsorship as a positive or negative indicator for the short-to-medium-term prospects of private companies seeking to IPO – investor views



Continuation funds are a 'game changer' for the private equity ecosystem, LPs believe

LPs recognise that the rapid growth of continuation funds represents a significant evolution of the private markets ecosystem – an evolution whose implications are yet to be fully clear. A majority of PE investors believe the principal effect will be to strengthen the overall private markets ecosystem, but a sizable minority believe the change will be more profound, serving to undermine PE's traditional 10-year-fund model.

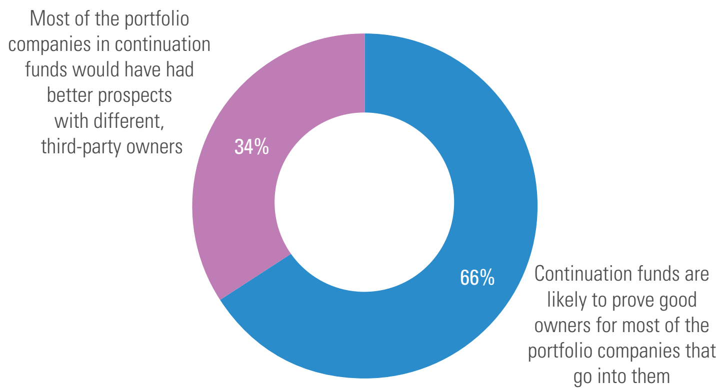
Fig 4 The implications of the rapid growth in continuation funds – LPs' views



Continuation funds are likely to be good owners of portfolio companies, LPs think

Two thirds of LPs believe that continuation funds are likely to prove good owners for their portfolio companies. However, some LPs remain to be convinced – one third believe that the companies in continuation funds might have had better prospects with different, third-party owners.

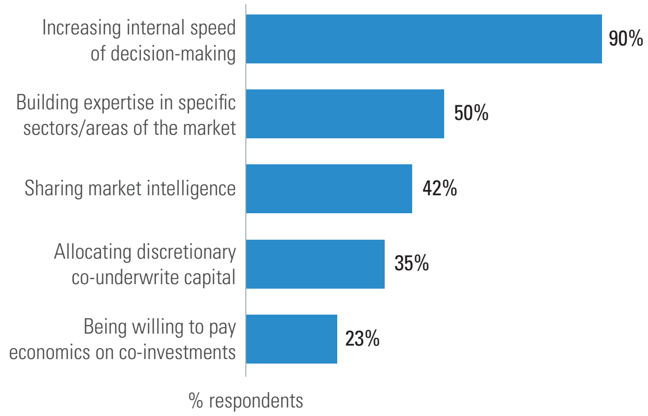
Fig 5 LP views on continuation funds and their portfolio companies



Over half of LPs are taking steps to improve their attractiveness as co-investment partners

More than half (56%) of LPs are changing their business practices to make themselves more attractive to GPs as co-investors. Almost all of this group are trying to increase their speed of decision-making. Other steps being taken by LPs range from building their expertise in particular areas of the market to expressing their willingness to pay economics on co-investments.

Fig 6 Steps taken by LPs to make themselves more attractive as co-investors – as a proportion of all LPs seeking to improve their attractiveness

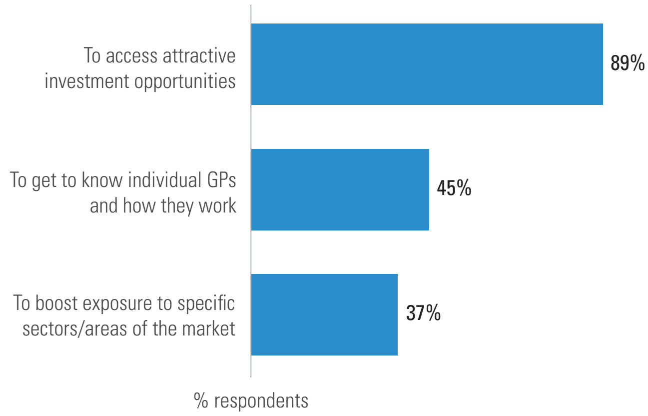


Improved returns are the biggest draw for LPs co-investing outside their primary fund relationships

Almost all LPs that co-invest outside their core fund relationships are motivated by the prospect of boosting their returns. However, this is not investors' only motivation – getting to know first-hand how individual GPs work, and boosting exposure to specific areas of the market, are also common motivations.

Fig 7

Main reasons that LPs make co-investments outside their primary fund relationships

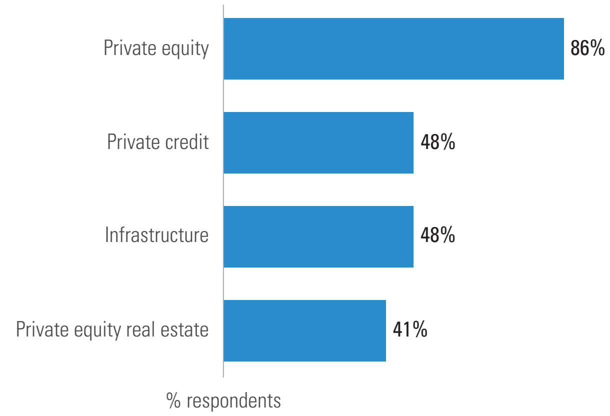


Secondaries to expand across private markets

Almost all LPs believe that the secondary market in private equity will grow further in the next three years – and nearly half of investors foresee secondary market expansion in other key areas of private markets in the same period.

Fig 8

Private asset classes likely to see secondary market expansion in the next 3 years – LP views

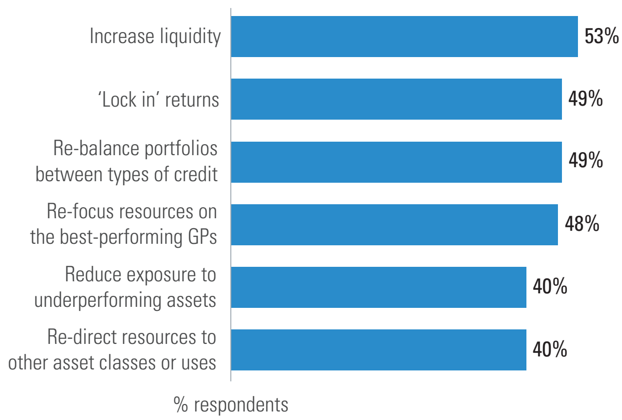


Secondary sellers of private credit assets will have a variety of motivations

Investors selling private credit assets in the next few years will have a wide variety of motivations, LPs believe. A desire for increased liquidity will be only one of several portfolio management needs.

Fig 9

Main reasons that LPs are likely to sell private credit assets as secondaries in the next 2-3 years

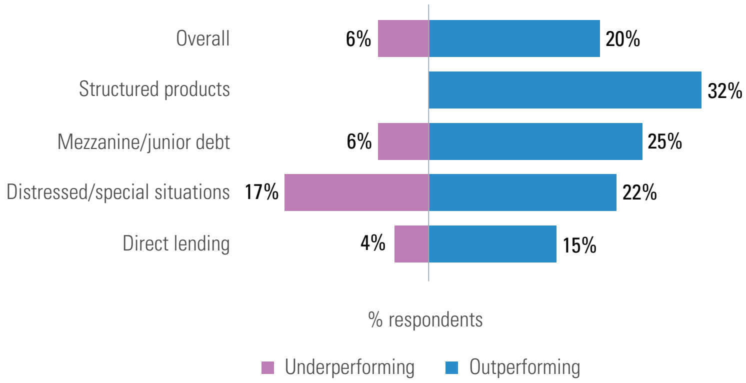


Private credit investments are performing well

On balance, LPs' private credit investments are outperforming, rather than underperforming, their target returns. This picture holds good across all the main types of private credit, though it is noticeably weaker for distressed lending/ special situations, where incidences of outperformance and underperformance are more closely balanced in LP portfolios.

Fig 10

Performance of LPs' private credit investments compared with their target returns

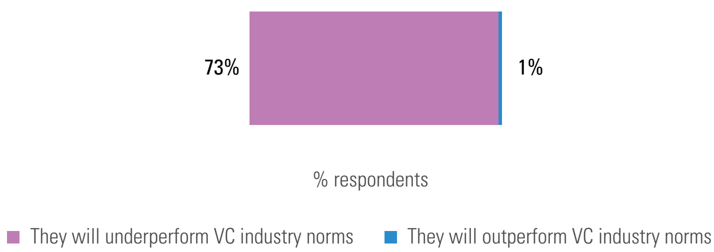


Three quarters of LPs expect early-stage investments by hedge funds to underperform

The large majority of LPs believe that investments by hedge funds into early-stage companies will underperform venture capital norms.

Fig 11

Likely performance of hedge funds' early-stage investments – LP views

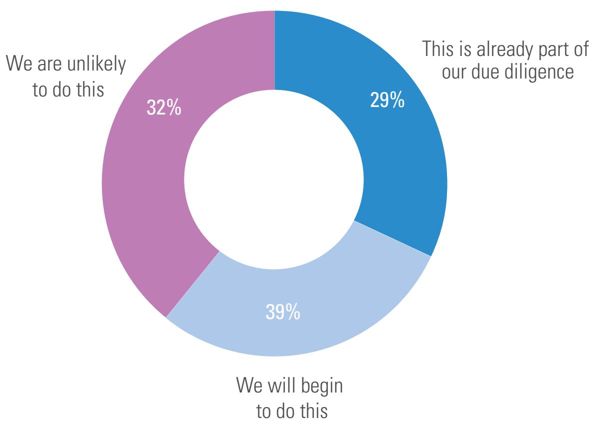


LPs are increasingly monitoring the social media accounts of individual GP team members

Over two thirds of LPs are either already monitoring the social media accounts of individual members of GP teams or are likely to start doing so.

Fig 12

LPs' checks on the social media accounts of individual GP team members – current practice and plans



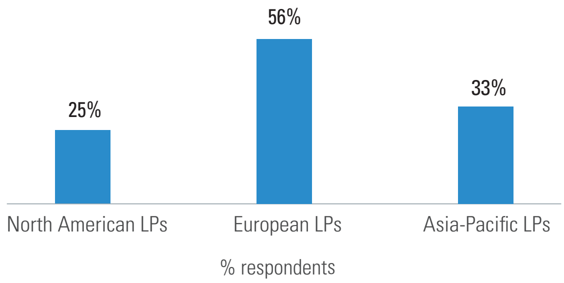
The rejection of fund commitments on ESG grounds has grown rapidly among European LPs

Around a quarter of North American LPs, and a third of Asia-Pacific LPs, have rejected potential fund commitments on ESG grounds – a picture that has remained fairly stable over the last five years.

However, the proportion of European LPs rejecting commitments on ESG grounds has grown significantly over the same period – from a third of investors in the *Barometer* of Winter 2016-17 to well over half of LPs today.

Fig 13

Proportion of LPs for whom ESG factors have played a major role in rejecting fund commitments – by LP location



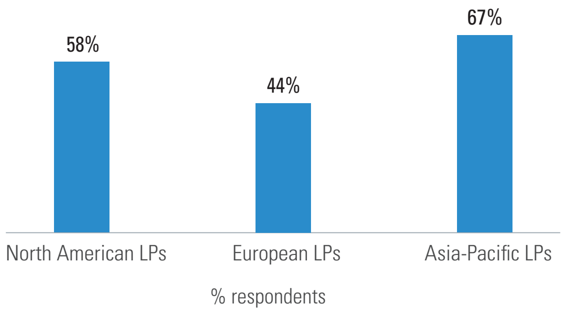
European LPs are more pessimistic about 'anti-greenwashing' regulation

Two thirds of Asia-Pacific LPs and well over half of North American LPs think that new regulations will make it easier to distinguish true environment-related claims from 'greenwashing' (ie, false or misleading environmental claims) in the next three years.

However, European investors are less optimistic that regulatory change will help within the same timeframe.

Fig 14

Likelihood that regulatory change will make it easier to distinguish greenwashing from true environmental claims in the next 3 years – LP views by region

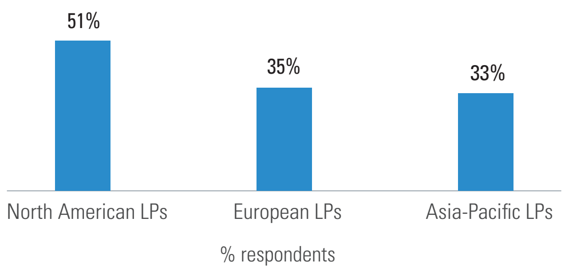


Half of North American LPs foresee more government regulation of PE in their home market

Half of North American LPs expect more regulation of PE in their domestic market in the next few years. This compares with just a third of LPs in Europe and the Asia-Pacific region.

Fig 15

LPs expecting more PE regulation in their home market in the next few years – by LP location

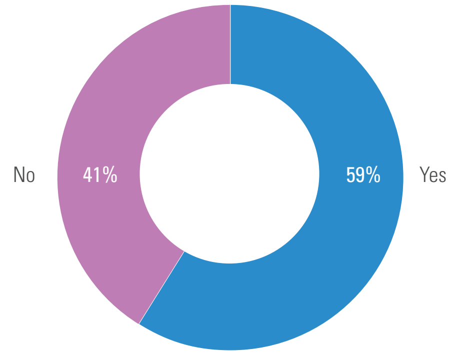


Majority of LPs foresee an increase in PE regulation outside their home market

Three in five LPs across all regions of the world expect more government regulation of PE outside their own home market in the next few years.

Fig 16

Proportion of LPs expecting more government regulation of PE outside their own home market

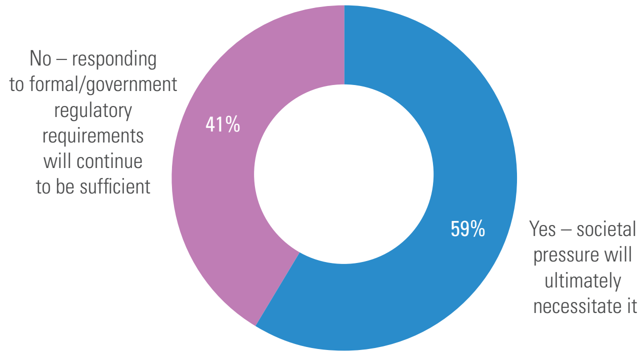


The PE industry will be forced to self-regulate, LPs believe

Three in five LPs believe that societal pressure will make it necessary for the private equity industry to self-regulate within the next few years.

Fig 17

Likelihood of the PE industry being forced to self-regulate in the next few years – LP views



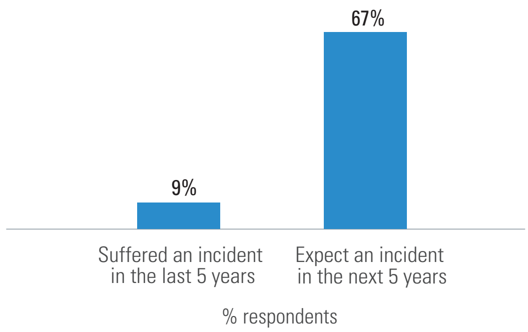
Cyber-attacks on LPs have risen significantly

Nearly a tenth of LP organisations have suffered a cybersecurity attack recently – almost double the proportion of four years ago (*Barometer* of Summer 2017).

Two thirds of LPs expect an attack on their own organisation at some time in the next five years.

Fig 18

Cybersecurity attacks on LP organisations



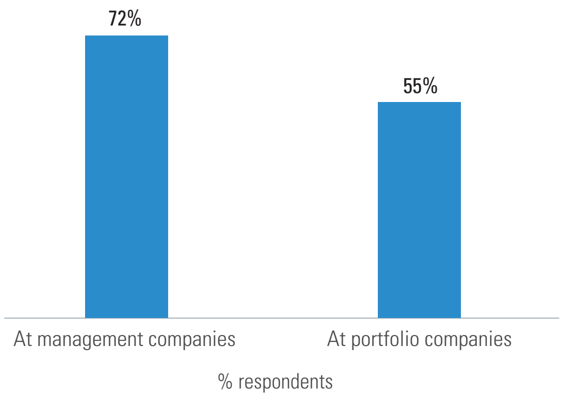
Cybersecurity risk assessments will become a ‘must have’ for GP ManCos

Almost three quarters of LPs say they are likely, within the next few years, to require cybersecurity risk assessments of their GPs’ management companies.

Over half of LPs say they will require similar checks for their GPs’ portfolio companies within the same period.

Fig 19

LP demands for cybersecurity risk assessments by their GPs within 3-5 years



‘Virtual-only’ due diligence is here to stay

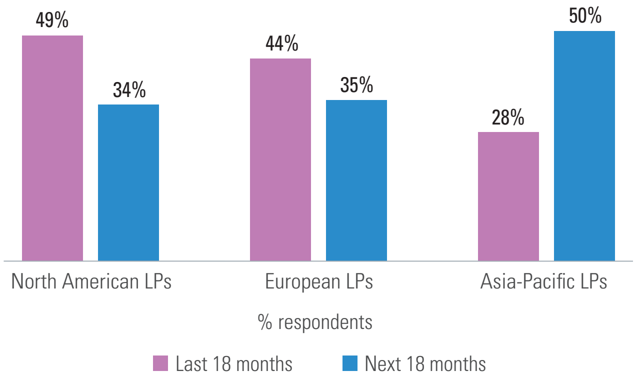
A striking proportion of LPs have made fund commitments in the last 18 months with General Partners on whom they have *never* conducted face-to-face due diligence.

And over a third of investors will continue to make first-time commitments to GPs without face-to-face due diligence in the next 18 months.

The proportion of LPs planning first-time commitments in the next 18 months after ‘virtual-only’ diligence is highest of all in the Asia-Pacific region (at 50% of LPs).

Fig 20

LPs making first-time commitments to GPs without face-to-face due diligence



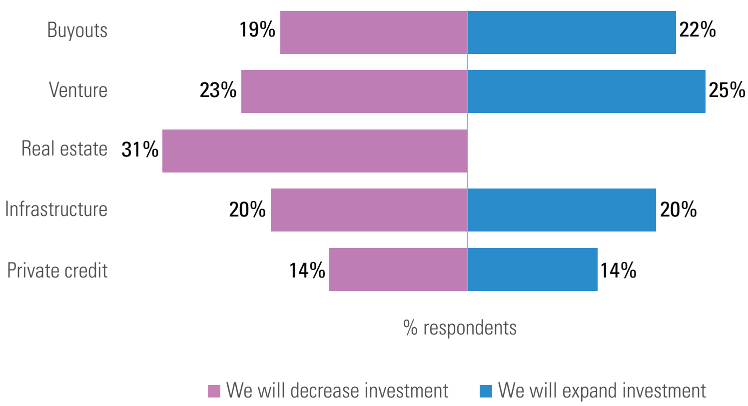
LP appetite for China is stable

Of the international LPs with current exposure to private markets in China (approaching half of them) almost equal proportions plan to increase and decrease their exposure over the next three years.

This picture holds good across buyouts, venture, infrastructure, and private credit. One third of investors are planning to reduce their exposure to Chinese real estate funds.

Fig 21

Planned exposure to private market funds targeting China in the next 3 years – among LPs with current exposure



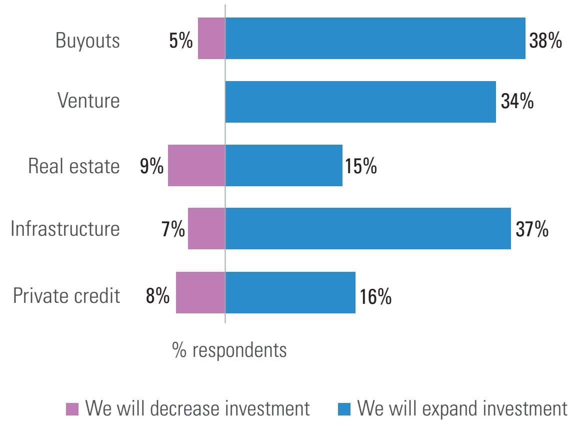
LPs will boost their Asia-Pacific exposure outside China

Of the international LPs with current exposure to private markets outside China (at least two thirds of them overall) many plan to boost their exposure over the next three years – especially in buyouts, venture, and infrastructure.

38% of these LPs plan an increased exposure to Asia-Pacific buyout funds outside China. 34% of LPs expect the same for venture and 37% for infrastructure funds.

Fig 22

Planned exposure to private markets funds targeting the Asia-Pacific outside China in the next 3 years – among LPs with current exposure



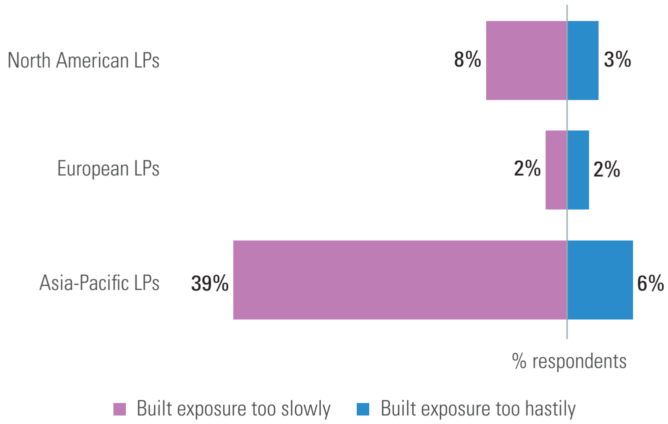
Asia-Pacific LPs have been too slow in building private market exposure

Two fifths of Asia-Pacific Limited Partners believe their organisations have been too slow to build exposure to private markets in the last few years.

North American and European LPs appear broadly happy with how their organisations have exploited the spectrum of private market opportunities in recent years.

Fig 23

How LPs in different regions have exploited private markets in recent years – LPs' own views



Coller Capital's Global Private Equity Barometer

Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital from 28 September to 9 November 2021 by Arbor Square Associates, a specialist alternative assets research team with over 80 years' collective experience in the PE arena.

Respondent breakdown – Winter 2021-22

The *Barometer* researched the plans and opinions of 102 investors in private markets. 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 24 Respondents by region

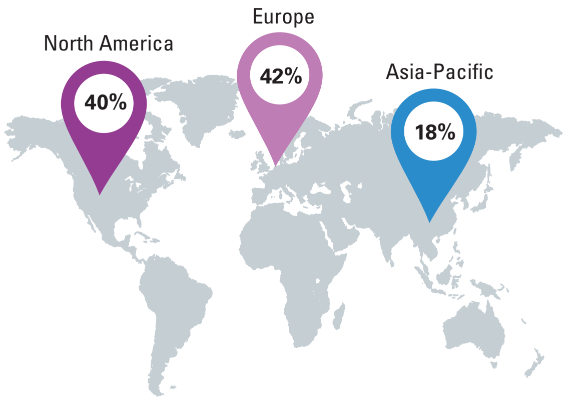


Fig 25 Respondents by total assets under management

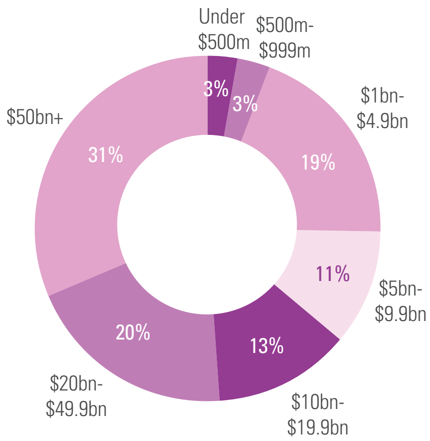


Fig 26 Respondents by year in which they started to invest in private equity

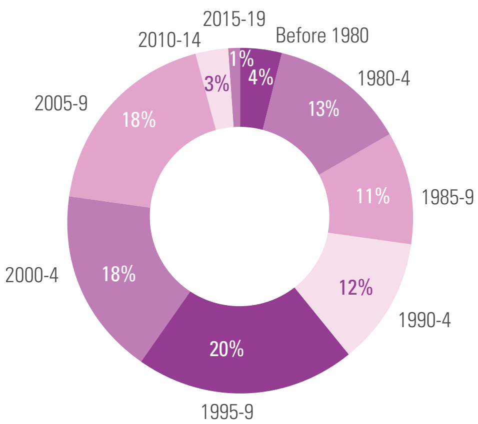
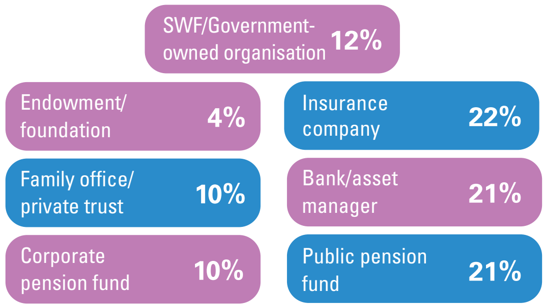


Fig 27 Respondents by type of organisation



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 investors in private markets worldwide, acquiring interests in private equity, private credit, and other alternative assets. With headquarters in London, and offices in New York and Hong Kong, 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. The fund has backing from over 200 of the world's leading institutional investors.

Notes

Limited Partners (or LPs) are investors in private market funds. General Partners (or GPs) are managers of private market funds.

In this Barometer report, the term private equity (PE) is a generic term covering venture capital, growth and buyouts.

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