Coller Capital

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SELLING A STAKE IN A PE MANAGEMENT COMPANY IS FINE, LPs SAY – IF A GP's MOTIVATION IS RIGHT

- **Investors are increasingly willing to back new product launches from their current GPs**
- **Misalignment and a shortage of information are the biggest concerns for LPs in GP-led secondaries**
- **A lack of definitional clarity around the term 'ESG' is becoming problematic for investors**
- **Improving their organisation's employee diversity is a top priority for LPs and GPs alike**

Two thirds of investors will support a GP decision to sell a stake in its management company if it is to facilitate generational change at the business or to strengthen the resources the manager focuses on its market, according to the **30th edition** of Coller Capital's **Global Private Equity Barometer**. By contrast, only a third of LPs think it appropriate for a manager to sell interests in its management company in order to fund GP commitments or launch new products.

This is not to say that investors disapprove of brand extension by their fund managers – over half of LPs are now more willing to back new private equity products from their portfolio GPs than they were five years ago. The reason is clear: almost all investors say that when they *have* backed portfolio GPs in new product offerings, their investment returns have generally met or exceeded their expectations.

Another recent development in LP-GP relations, private equity fund restructurings, has now moved from the periphery to the mainstream of the private equity world, the *Barometer* shows. Two-thirds of North American LPs, and almost three-quarters of European LPs, have had one or more GP-led secondaries in their private equity portfolios. LPs accept that these processes are now a fixed feature of private equity's landscape, but they are alive to the risks as well as the opportunities of such transactions. Investors say that their greatest concerns with future GP-led processes are the possibility of counterparty misalignment or of not having enough information to make a genuinely informed decision.

The *Barometer* reveals that investing in the private equity asset class is getting more taxing for investors. Two-thirds of Limited Partners report a heavier workload now than they had five years ago – and many aspects of private equity portfolio management are proving more demanding. Three-quarters of LPs are spending more time on monitoring and managing their portfolios, and three in five on reviewing co-investment opportunities.

"The rigidity that characterised the early days of LP-GP relations is disappearing rapidly," said **Jeremy Coller, chief investment officer of Coller Capital.** "Investors are deepening their partnerships with individual managers and becoming far more proactive in managing their portfolios. The downside for Limited Partners themselves is that their workloads are also getting heavier, almost across the board."

LP-GP partnerships

LPs say the benefits they derive from their GP relationships go well beyond the terms of the Limited Partner Agreement (LPA). The value that investors place on GP co-investments is especially clear – fully three-quarters of LPs say their organisations have benefited from co-investments. With regard to other 'non-contractual' benefits, two thirds of LPs say they also value market insights and knowledge transfer from their GPs.

ILPA

The role that the Institutional Limited Partners' Association (ILPA) has played in the evolution of private equity is widely acknowledged by investors – 86% of them say the association has played an important role in the development of the industry over the last decade. (Around half of the investors who responded to the Summer 2019 edition of the *Barometer* are currently members of ILPA.)

In terms of future priorities, over 80% of LPs would like to see ILPA focus on creating standardised templates for private equity fund reporting and the terms and conditions in LPAs.

ESG and diversity in private equity

ESG issues are rapidly becoming key considerations in private equity investment decisions, but the variety of ways in which the term 'ESG' is used is not helpful. The majority (60%) of LPs think the increasing vagueness of the concept is starting to create problems for the investment community or is likely to do so in the future.

This is not to diminish the importance of ESG itself – LPs and GPs[1] alike are taking its message seriously within their own organisations. Around 70% of both groups are taking steps to improve their own employee diversity.

Beyond diversity, the internal ESG initiatives of LPs and GPs are similar but differ somewhat in prioritisation. Two-thirds of LPs are working to encourage flexible working and family-friendly employment in their own organisations (compared with 43% of GP organisations), while three quarters of GPs are focusing on ESG training and coaching for their employees' (compared with 43% of LP organisations).

The longer view

The 30th edition of the *Barometer* probed investors' long-term appetite for alternative assets. And this certainly shows no sign of abating. Over half of LPs expect their organisations to dedicate more than a fifth of their total assets to alternative assets in ten years' time. And LPs also expect *private equity's* share of total asset allocation to increase: 43% of Limited Partners expect their organisation to have more than a tenth of its total assets invested in private equity within ten years.

One consequence of continuing capital flows into the asset class is likely to be a strengthening of the private markets' ecosystem. Almost half of LPs believe that the proportion of portfolio company exits to private buyers (as opposed to public market buyers) is likely to grow over time.

This trend toward higher investor allocations to private equity has stayed consistent over many *Barometers.* The net balance of LPs planning an increase in allocations (over those planning a decrease) has grown from around 7% of LPs in 2010 to 30% in 2019. Indeed, a similar picture holds for alternative asset allocations generally – with only hedge funds bucking the trend. There has been a net negative balance in investor intentions toward hedge fund allocations since 2014.

The reason for the continuing increase in investor appetite for private equity is clear. While relatively fewer LPs have managed to achieve net long-term annual returns of 16%+ since the global financial crisis, the consistency of returns for the LP community as a whole has improved since the GFC. The proportion of LPs reporting net annual returns of 11%+ over the lifetime of their portfolios has varied between 80% and 87% in every Coller *Barometer* since 2015.

Venture capital – and space tech

Despite the rapid advance of venture capital and technology investment in China, two-thirds of the world's investors believe the USA will prove to be a more attractive market for venture investing over the next five years. And it is interesting to note that investors based in the Asia-Pacific region share this view with their peers in North America and Europe.

In terms of new frontiers, space technology is starting to attract investor interest. One in eight LPs think their institution is likely to invest in a venture capital fund focused on space tech within the next five years.

[1] Responses to Coller Capital's 2019 ESG Survey of its portfolio GPs.

Additional Barometer findings

The Summer 2019 edition of the Barometer also captures investors' views and opinions of:

- The performance of deal-by-deal carry funds versus whole-fund carry funds
- The prospects for consolidation and regulation in private equity debt markets

– ENDS –

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Notes to Editors

LPs (Limited Partners) are investors in private equity funds. GPs (General Partners) are private equity fund managers.

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 the asset class based in North America, Europe and the Asia-Pacific (including the Middle East). It has appeared in the summer and winter of each year since 2004.

This latest Barometer captured the views of 112 private equity investors from around the world during the spring of 2019. The Barometer's findings are globally representative of the LP population by: investor location; type of investing organisation; total assets under management; and length of experience of private equity investing.

About Coller Capital

Coller Capital, a leading player in private equity 'secondaries', acquires portfolios of positions in private equity funds and unquoted companies from their original owners – investing up to $1 billion or more in individual transactions.

Founded in 1990, the firm is headquartered in London, and has offices in New York and Hong Kong. Coller's multinational investment team – the world's largest dedicated to secondaries – has a truly global reach.

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