Coller Capital

<u>EMBARGOED</u>
<u>until 00.01hrs London time on Monday, 15 June, 2020</u>

BIG LEAP IN INVESTOR SATISFACTION WITH PE TRANSPARENCY

- **Many LPs see geopolitics changing PE asset allocations and political risk in emerging markets rising**
- **Private equity managers are not taking climate change seriously enough, investors believe**
- **Private equity's AUM will become more concentrated – with the largest GPs taking a larger share**

There has been a big leap in investor satisfaction with the transparency of GPs' disclosures and communications, according to Coller Capital's latest **Global Private Equity Barometer**. In the years following the Global Financial Crisis, only two in five LPs were satisfied with their GPs' transparency. Four in five Limited Partners are satisfied today.

Many private equity investors believe rising geopolitical tensions will have a material effect on the asset allocation of private equity and venture capital funds in the next few years. And many also expect higher political risk in private equity's emerging markets – especially Russia, China, the Middle East/North Africa, and Latin America. South East Asia and India are seen as less risky in political terms.

Most investors believe General Partners are not taking climate change seriously enough in their investment policies and practices. However, this is one of the few aspects of climate change on which LPs do agree – even within their own organisations. Only half of North American LPs can report an internal consensus on climate change, and this proportion falls to just two in five for Asia-Pacific LPs.

Investors' starkly different attitudes to the climate change issue are particularly clear regionally. Over half of European investors say their own organisations will be carbon-neutral by 2030 – whereas two-thirds of LPs based in North America say they are unlikely to be carbon neutral at any time in the foreseeable future.

"Climate change remains a vexed and volatile topic in the investor community," said **Jeremy Coller, Chief Investment Officer of Coller Capital.** "In much of the world there is limited agreement on what needs to be done even *within* LP organisations. That said, best practice is contagious in private equity – step back, and the direction of travel is clear."

Concentration in the industry

The private equity industry is likely to become more concentrated – with three-quarters of LPs expecting the largest General Partners to attract a higher proportion of total private equity commitments in the next five years. However, this growing concentration in AUM will not stop LPs from expanding the number of GPs to whom they are committed. On balance, more LPs expect to grow their roster of GP relationships than reduce it – with the trend especially marked among sovereign wealth funds and insurers.

Limited Partner Advisory Committees

Almost all private equity investors hold Advisory Committee ('LPAC') seats for at least some of their funds – and 23% of LPs sit on the Advisory Committees of more than half the funds in which they invest. Although LPs are sceptical of the idea that LPACs represent all investors in a fund equally, they are nonetheless sanguine about the role played by LPACs generally. Three-quarters of LPs think Advisory Committees do a good job, and three-fifths think GPs generally allocate LPAC seats appropriately.

Investment metrics, valuations and data

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

Only one in five investors currently require their GPs to provide independent portfolio valuations – but this proportion is likely to rise to almost half in due course.

Investors are looking to improve oversight of their portfolios in other ways too. Around one-third of LPs currently subscribe to suppliers of aggregated private equity data sourced direct from GPs – but this proportion will rise to three-fifths within three years. LP usage of these services is being driven by a desire for improved performance benchmarking and portfolio monitoring.

Private equity as creative disruption

Two-thirds of investors see private equity as a source of creative disruption and a catalyst for change in the industries in which it invests. This notion is supported by LPs' view that the expertise required to run a buy-and-build strategy is now possessed by many GPs (rather than remaining the domain of a few specialists) and the fact that the value of Operating Partners is now clear to most LPs.

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For further information about Coller Capital's Global Private Equity Barometer, please contact the following:

Global
Shireen Farhana: +44 7757 299 250
Pippa Bailey: +44 7738 912 267
Montfort Communications, London coller@montfort.london

France
Lea Schultz: +33 1 42 86 82 41
Shan Strategic Communication, Paris lea.schultz@shan.fr

Germany
Volker Northoff: +49 694 089 8020
Northoff.com, Frankfurt volker.northoff@northoff.com

Mainland China and Hong Kong SAR
Candise Tang: +852 6375 3675
Newgate Communications, Hong Kong collercapital@newgate.asia

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 107 private equity investors from around the world from 10 February to 27 March 2020. 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.

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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.