Coller Capital

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until 00.01hrs London time on Monday, 14 June, 2021

THREE QUARTERS OF LPs SAY CLIMATE CHANGE AND HEALTHCARE/BIOTECH WILL CHANGE THEIR INVESTMENT PRIORITIES IN THE POST-COVID WORLD

- **Half of Limited Partners believe a strong ESG policy boosts PE returns**
- **Risks to PE returns have risen significantly – but it's still a good time to invest, LPs say**
- **Two in five LPs are refusing more re-ups – and almost half accelerating new GP relationships**
- **Two thirds of LPs are happier with their jobs – and half are more productive – since Covid-19 hit**

Two major issues will drive change in LPs' private equity portfolios in the next few years, according to Coller Capital's latest **Global Private Equity Barometer**. Three quarters of all LPs will invest differently in response to issues connected with sustainability and climate change, and a similar proportion will focus on new opportunities in healthcare and biotech.

"The fact that key ESG issues – climate, sustainability and health – are at the top of investor agendas should surprise no one," said **Jeremy Coller, Chief Investment Officer of Coller Capital**, "but the fact that half of all private equity investors think ESG investing will in itself boost their portfolio returns should be a wake-up call to anyone who still thinks ESG is a 'nice to have' or a PR tool."

PE investment outlook

The risks to private equity returns have risen substantially in the last 18 months, LPs believe. Fully three quarters of investors fear a worsening of geopolitical strife and trade wars, and over two thirds are apprehensive about changes in the regulatory or tax environment. Interestingly, although a third of North America's LPs think the Biden-Harris Administration will have a negative impact on their returns, another 14% of investors think the new Administration will have a positive impact.

Despite their worries, a definite majority of Limited Partners in North America and Europe think this is a good time to be making new PE commitments. It is not necessarily an easy time, however: over half of LPs in North America especially think it has become harder recently to select the right GPs and funds.

The 'brave new world' of post-Covid investing is reflected, too, in a greater willingness among many LPs to change their GP partners. Two fifths of investors say they are now more likely to refuse re-ups with their current GPs than they have been in recent years – primarily because of weaker-than-expected fund performance. Partly as a consequence, almost half of Limited Partners plan to speed up their commitments to new GP relationships over the next 18 months.

Investor returns and asset allocations

Limited Partners' returns from private equity over their portfolios' lifetimes are at record levels, according to the *Barometer*. Two thirds of LP have now achieved overall *net* returns of between 11% and 15% from private equity – with another fifth of LPs reporting *net* returns of over 16% since they started investing in the asset class.

Unsurprisingly, these investors' asset allocations to the asset class – and to alternative assets generally – are continuing to climb: a greater proportion of investors are planning to increase their allocations to alternatives than at any time since the Global Financial Crisis.

The only geographies to which investors are showing significantly more negative sentiment are the Middle East and Africa (towards which just over a quarter of LPs are more negative) and Latin America (to which over a third of LPs are more negative).

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Limited Partner productivity and work/life balance

Almost half of private equity investors report that their personal productivity has improved since the start of the pandemic, and fully two thirds say that their work/life balance has improved. They report that the challenges of home-working have been more than offset by the advantage of less frequent travel.

Secondaries and co-investments

Three quarters of LPs are now invested in funds targeting private equity's secondary market – with over a quarter of LPs having more than a tenth of their total private equity commitments in secondaries. And growth in secondaries looks set to continue, with a fifth of investors planning to increase their exposure further.

The Winter 2020-21 edition of the *Barometer* found that many investors expected changes in LPs' co-investment policies. The current *Barometer* suggests that this is likely to result in more disparate and LP-specific approaches to co-investments. Although three quarters of LPs say a desire to allocate more capital to co-investments will be a spur to new policies, they also cite issues such as cost; changed perceptions of risk/return; and limited access as likely to lead to investor reassessments.

Private credit

Direct lending distressed and mezzanine are all preferred methods for LPs to invest in private credit, with around three fifths of LPs having invested in at least one (and sometimes multiple) funds in the last three years. However, many LPs believe that returns from the largest of these areas, direct lending, are too low for their level of risk.

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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 111 private equity investors from around the world from 8 February to 26 March 2021. 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 January 2021, the firm closed Coller International Partners VIII, with capital commitments (including co-investment vehicles) of just over $9 billion and backing from over 200 of the world's leading institutional investors.