Coller Capital

WIDER INCENTIVISATION OF PORTFOLIO COMPANY EMPLOYEES WOULD BOOST PRIVATE EQUITY RETURNS, INVESTORS SAY

- **Investors think societal pressure will force the PE industry to begin self-regulating**
- **Over half of European LPs have now rejected potential PE fund commitments on ESG grounds**
- **Investors are increasingly scouring the social media accounts of individual GP team members**
- **Over half of LPs are trying to boost their attractiveness as co-investment partners**

Incentivising a larger proportion of portfolio company employees would lead to higher investment returns, according to almost half of the Limited Partners (LPs) responding to Coller Capital's latest **Global Private Equity Barometer.** A mere 6% of investors thought that broadening the incentivisation of portfolio company staff would be detrimental to returns.

The pension funds, insurance companies, and asset managers that make up the bulk of the industry's backers believe strongly in the private equity model – almost 90% of LPs think that most small and mid-cap public companies would benefit from periods of private equity ownership as they grow. And a large majority of LPs also see private equity sponsorship as a positive indicator in assessing the short-to-medium-term prospects of private companies seeking to IPO.

However, Limited Partners also think the industry needs to evolve. The majority of LPs think that a policy of simply staying within the law is no longer enough and that societal pressure will force the industry to begin self-regulating.

"The days when private equity flew under the radar have gone," said **Jeremy Coller, Chief Investment Officer** of **Coller Capital.** "The industry is now simply too big for society to ignore. Like it or not, private markets are becoming less private – and we need to decide how to respond."

Secondary markets

Investors recognise that continuation funds are a 'game changer' for private markets. While a majority of LPs believe their principal effect will be to strengthen the private markets ecosystem, a sizable minority believe they may undermine private equity's traditional 10-year-fund model. Having said that, investors generally regard continuation funds as a positive development – two thirds of LPs believe they are likely to prove good owners of portfolio companies.

Investors expect rapid growth in the secondary markets for private assets. Almost all LPs expect growth in private equity secondaries, and half of LPs foresee expansion in the secondary markets for private credit, infrastructure, and real estate.

Within the private credit market in particular, LPs see numerous reasons for investors to sell assets as secondaries – these range from a desire to increase liquidity to a wish to reduce exposure to underperforming assets.

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Co-investments

LP appetite for co-investing is another area that shows no sign of slowing – over half of LPs say they are taking steps to improve their attractiveness as co-investment partners. Almost all of these LPs are trying to increase their speed of decision-making, and around half are looking at other ways of making themselves more attractive.

LP due diligence and cybersecurity

The pandemic has also brought about lasting changes in the way investors conduct due diligence. Over the last 18 months, approaching half of North American and European LPs made first-time commitments to GPs whom they had never met face-to-face – and around a third of Western LPs say they are likely to do the same in the next 18 months. This latter proportion rises to 50% for Asia-Pacific investors.

However, this does not mean that investor due diligence is becoming less personal. Two thirds of LPs say they are already checking the social media accounts of individual GP team members or have plans to do so.

Cybersecurity is also front of mind for LPs. Almost a tenth say they have already suffered cybersecurity attacks (a proportion that has almost doubled since the *Barometer* of Summer 2017). And two thirds of LPs think an attack on their organisations is likely within the next five years.

Investors will respond to these higher risks in their portfolios too. Almost three quarters of LPs plan to ask for cybersecurity risk assessments of their GPs' management companies in the next few years and half expect to demand the same for portfolio companies.

ESG

The well-known regional differences in the ways LPs approach ESG are reflected in interesting ways in the *Barometer*. The proportion of investors who have rejected potential fund commitments mainly on ESG grounds has grown significantly among European LPs – from a third of investors in the *Barometer* of Winter 2016-17 to well over half today. However, these proportions have not changed among North American and Asia-Pacific investors, remaining at around a quarter and a third of LPs respectively.

European LPs are also more pessimistic about the likely effectiveness of anti-greenwashing regulation. Well over half of North American and Asia-Pacific investors think such regulation will make it easier for them to distinguish true environmental claims from false or misleading ones over the next three years. Only two fifths of European LPs share this confidence.

LPs foresee increased regulation for private markets. A majority expect an increase in regulation outside their home market – and half of North American LPs expect more regulation in their domestic market.

Fund commitments in Asia-Pacific

LPs are looking to boost their Asia-Pacific exposure outside China, especially in buyouts, venture, and infrastructure.

Around two fifths of Asia-Pacific Limited Partners believe they have been too slow to build exposure to private markets in recent years.

Hedge fund investments in early-stage companies

In recent years, early-stage investment in private companies has attracted an ever-wider pool of investors. However, not all will be successful, if LPs are to be believed – around three quarters of LPs think hedge fund investments in early-stage companies will underperform venture capital norms.

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Notes to Editors

LPs (Limited Partners) are investors in private equity or private market funds. GPs (General Partners) are the managers of private equity or private market funds. Private equity (PE) is a generic term covering venture capital, growth and buyouts.

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 102 private equity investors from around the world from 28 September to 9 November 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, 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 private markets investors worldwide, acquiring interests in private equity, private credit, and other private markets 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 and backing from over 200 of the world's leading institutional investors.