Coller Capital

EMBARGOED
until 00.01hrs London time on Wednesday, 8 June, 2022

PRIVATE EQUITY RETURNS ARE AT NEAR-RECORD LEVELS

- **Two thirds of LPs worldwide believe ESG adds value to individual portfolio companies.**
- **One third of North American LPs expect increased default rates in their private credit portfolios.**
- **One fifth of investors will commit to funds that use cryptocurrencies to invest.**
- **Nearly all LPs will invest in a PE fund's first closing if they are incentivised to do so.**
- **LPs are having to improve pay and working conditions to secure high-quality investment talent.**

The proportion of investors reporting net annual returns of over 16% across the lifetime of their private equity portfolios has reached near-record levels, according to Coller Capital's latest **Global Private Equity Barometer.** 42% of Limited Partners (LPs) now have portfolio-lifetime annual returns of over 16% net. This number has been exceeded only once since the Barometer was first published in 2004: in the *Barometer of Summer 2007* in the run-up to the Global Financial Crisis (GFC).

Over 70% of LPs say their private equity assets have outperformed their public equity portfolios since the GFC. Indeed, most LPs say they would hit their target private equity returns if each of their funds achieved only the median performance for its fund-type in its vintage year.

ESG as a proactive driver of value

Most private equity investors in all regions of the world believe that ESG investing creates value in individual portfolio companies, in addition to providing portfolio-level value by excluding high-risk investments and business practices.

"ESG's positive impact at the individual company level is a reflection of private equity's unique hands-on management model," said **Jeremy Coller, Chief Investment Officer** of **Coller Capital.** "The managers of private equity funds hold the levers of change for the companies they invest in, in a way that the managers of public equity funds do not."

ESG as a risk management tool

For investors who focus on individual ESG risks, climate change is by far the most important environmental issue. In fact, it comes close to being a universal concern – 93% of ESG-engaged LPs said it was a focus for them. By contrast, European investors focus to a far greater extent on more specific environmental issues (such as biodiversity and deforestation) than their peers elsewhere.

A similar pattern can be seen in investors' exclusion of specific industry sectors for ESG reasons. Many more European investors exclude thermal coal and non-sustainable land clearance than do their peers from other regions. Indeed, European investors are also far more likely to exclude sectors for non-environmental reasons. Only on the subject of pornography do LPs seem to take a similar view irrespective of where they are located – around three quarters of investors in all regions of the world exclude pornography-related investments.

Very few investors have so far asked their GPs to adopt the Science-Based Target initiative (SBTi) into measuring the environmental impact of their portfolios. However, between a quarter and two thirds of LPs in different regions of the world plan to so.

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Private credit markets

Investors see the more developed private credit markets of North America and Europe as being more attractive than those in other regions in the next two years. However, investors do acknowledge today's economic volatility. One in five European investors and one in three North American investors believe rising interest rates will lead to higher default-rates in their private credit portfolios.

This uncertainty is reflected in investors' target allocations – with 35% of LPs having increased their target allocation to private credit, and 19% having reduced it, over the last two years.

Cryptocurrencies and the metaverse

Although only 19% of investors are already committed (or plan to commit) to funds that invest using cryptocurrencies, almost a third of LPs have commitments to funds that invest in crypto-enabling businesses – and another 13% of LPs plan to make such commitments.

In a similar way, a third of LPs are already committed (or plan to commit) to funds that invest in the metaverse (a virtual-reality space in which users can interact with a computer-generated environment and other users).

Funds targeting businesses with female or ethnic minority founders

North American investors are ahead of their peers in other regions in committing to venture capital funds focused on companies with female or ethnic minority founders. Well over half of North American LPs have made or expect to make commitments to such funds, compared with around a third of investors from other regions.

Working conditions and the competition for talent

Around half of LPs are having to change their pay scales and/or working conditions to attract new recruits, as private markets grow, and labour markets remain tight.

However, the wearing of formal business clothing in the private equity world is unlikely to be a casualty of this trend. Only two in five LPs expect formal clothing to disappear, and – even more tellingly – half of investors would be unhappy if it did.

Commitments at PE funds' first closings

Almost all private market investors are willing to commit to a fund's first closing if the incentives are right. In the last two years, 91% of LPs have committed at first close in response to incentives (such as an 'early bird' discount) offered by GPs. Indeed, half of investors do this often.

Limited Partner engagement with the asset class

LPs acknowledge several opportunities and challenges specific to the private equity asset class:

The proportion of investors who invest or plan to invest in funds that acquire minority interests in GP management companies has increased noticeably. In the *Barometer* of Summer 2018, just over one third of investors were doing or planning to do this – a proportion that has risen to almost half of LPs by Summer 2022.

Institutional investors are keeping a watchful eye on the rise of alternative sources of capital for private market funds (such as retail investment or insurance premiums). While only around one third of investors view these new sources of capital as a risk to their access to private equity funds, almost two thirds see them as an eventual threat to the level of their private equity returns.

'Politically-exposed' investors see a growing risk to their reputations from commentators and activists focused on LPs' links to private equity-owned businesses. Well over half of public pension plans, endowments and foundations see this as a growing risk – compared with less than a quarter of other types of LP.

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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 110 private equity investors from around the world from 7 February to 30 March 2022. 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.

In February 2022 the firm closed Coller Credit Opportunities I, with committed capital (including co-investment vehicles) of $1.45 billion and backing from over 40 institutional investors.