Coller Capital

EMBARGOED
until 00.01hrs London time on Monday, 12 December, 2022

DENOMINATOR EFFECT LIKELY TO REDUCE THE PACE OF PE COMMITMENTS

- **Macro environment and inflation viewed as significant risks to private equity returns by LPs**
- **PE and private credit are viewed as more attractive by LPs than public markets in volatile times**
- **PE markets in the CEE, UK and Italy have become less attractive to LPs than four years ago**
- **More LPs are investing in PE energy assets than four years ago, both renewables and hydrocarbons**
- **ESG-related disclosures viewed as a gating issue for three quarters of LPs**

The pace of private equity commitments is set to fall for many Limited Partners as a result of the denominator effect, according to Coller Capital's latest **Global Private Equity Barometer.**

The effect is already being felt by an increasing number of larger LPs and public pension funds, with two thirds reporting it as a factor in the slowdown of their commitment pace. Liquidity shortfalls are also causing commitments to slow down for over a quarter of LPs.

LPs' target allocations to alternative assets are also being hit by the effect, with the number of investors planning to increase allocations to private equity falling over the past six months – although allocation plans to private credit are holding steady.

While the majority of LPs believe their private equity portfolios are well-positioned for the current market conditions, two thirds of those making modifications are doing so through investment stage and sector exposure. Overall, half of LPs are utilising the secondary market to modify their portfolios.

"The latest edition of the Global Private Equity Barometer graphically illustrates the impact that the turmoil in public markets and the economic environment is having on private equity portfolios," said **Jeremy Coller, Chief Investment Officer of Coller Capital**. "LPs are modifying their portfolios and utilising the secondary market."

The macroenvironment and high levels of inflation are top of investors' minds when considering risks to their private equity returns over the next two to three years, with almost all LPs citing these factors as significant. Fewer LPs are concerned over high asset prices, following a decline in valuations compared with the Barometer of Winter 2019-20. Despite these concerns LPs are optimistic on the outlook for returns from private equity, with one third of LPs forecasting net annual returns from their PE portfolios of over 16%, the highest level reported since the Barometer of Winter 2011-12.

When assessing the overall market, one third of LPs are more positive on the outlook for private over public markets, saying volatility in the current market environment has made private equity and private credit more attractive than their public counterparts. One fifth of LPs plan to accelerate their commitments to private credit funds in the next year, with two fifths viewing senior direct lending and special situations as attractive areas for investment.

The outlook for regional private equity markets

LPs views on European private equity markets have a wide divergence, with markets in central and Eastern Europe viewed more negatively by the majority of LPs compared to three years ago. Two fifths of LPs are negative on the outlook the UK private equity market. The only European region becoming more attractive in the eyes of LPs is the Nordics.

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In the US, just over half of LPs are expecting a tightening of the regulatory environment for private markets and one quarter of LPs think that any change will have a negative impact on their US private market returns. Very few LPs plan see the Biden Administration's Inflation Reduction Act as an opportunity when targeting new private market fund commitments.

Within Asia, LPs report a difference in the investment route they take to invest in private equity. While investors in every locality see the merits of regionally-focused funds, Asia-Pacific investors also look very favourably on country-specific funds.

Sector specific private equity investments

Private equity energy assets have grown in popularity with investors. Compared with four years ago, more LPs are choosing to invest not only in PE renewable energy but also in private asset hydrocarbons. Fewer LPs are choosing to reduce their investments in PE hydrocarbons.

Volatility within technology markets has affected how LPs view the outlook for this sector. 45% of LPs said they believe that current volatility in markets has reduced the attractiveness of venture capital technology investments over the medium term and 28% of LPs said the same about private equity technology investments.

GPs' ESG disclosure and the impact on LPs' investment decisions

Disclosure standards are rising with the introduction of the Sustainable Finance Disclosure Regulation (SFDR) in Europe and the proposed SEC ESG disclosure in the US. Failure to reach these disclosure standards is being taken seriously by LPs, with three quarters saying they would consider stopping investing in a GP's fund if they failed to comply with the standards in the next three years. The majority of LPs say their institutions are well placed to assess GPs' ESG measurement systems.

Multiple product investing across a GP's platform

Gaining more influence with a GP is seen as a major advantage of investing in multiple products from the same manager by over half of LPs. Other advantages cited by LPs include access to other investment opportunities, a reduction in fees and lower levels of due diligence for additional products. One third of LPs currently utilise separately managed accounts (SMAs) to gain access to multiple products from the same manager. This proportion is relatively unchanged since Barometer of Winter 2015-16, suggesting use of SMAs has plateaued. From a performance perspective, one fifth of LPs with these accounts report they are outperforming their overall private equity portfolio.

Another route to investing in a GP is to invest in a fund that takes stakes in a GP's management company. This route is largely untapped although of those LPs who have, one quarter report they have exceeded their expectations.

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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 112 private equity investors from around the world from 20 September to 4 November 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, Hong Kong and Korea, 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.