Coller Capital

First in Secondaries

INVESTORS EXPECT STRONG VINTAGE YEARS FOR PRIVATE EQUITY IN 2023/24

- **Healthcare/pharma are attractive sectors for LPs, along with mid-market and special situation funds**
- **Due diligence has increased over the past two years, with LP travel returning to pre-Covid levels**
- **Negotiating terms is a challenge for the majority of investors in the fund investment process**
- **Three quarters of LPs see a role for AI in originating private equity transactions**
- **Most LPs don't expect the 'Anti-ESG' movement in the US to derail the importance of ESG in PE**

The majority of Limited Partners (LPs) are positive on the outlook for private equity in North America and Europe in 2023 and 2024, believing these will be strong vintage years, according to Coller Capital's latest **Global Private Equity Barometer.** Investors' views are more balanced on the outlook for private equity in Asia-Pacific.

Within private equity, most investors believe that the healthcare and pharmaceutical sectors will provide attractive investment opportunities over the next two years, and three quarters of LPs say the same about IT and business services. There's a marked difference in views on energy, with more LPs stating a preference for renewables rather than hydrocarbons.

Within investment strategies, the majority of investors see good opportunities in mid-market and special situation funds in the next two years. Three quarters of LPs also see good opportunities in secondaries where they see an uptick in LPs using the secondaries market to rebalance portfolios. Fewer LPs see opportunities for GPs in large and mega buyouts, a marked change from their views five years ago. LPs also have concerns on the level of debt in buyout deals, with half saying the current proportion is too high.

"Markets have been going through a long, challenging winter, so it's good to see that investors are upbeat on the outlook for private capital and see signs of spring ahead," said **Jeremy Coller, Chief Investment Officer of Coller Capital**. "Being selective and choosing the right strategies and sectors to invest in will be key."

Investors approach to due diligence and travel

The level of diligence that investors undertake has increased over the past two years, with more European LPs increasing their levels of diligence than their peers in North America and Asia-Pacific. Due diligence for fund commitments is a key reason for LPs returning to levels of travel not seen since pre-Covid days. Investors are also likely to travel to attend conferences and AGMs, with fewer LPs planning to return to their historical office commute. When it comes to the fund investment process, three fifths of investors are finding negotiating terms a challenge, but less so assessing managers or accessing funds. Their views are split on the importance of incentives when committing to a first close.

Significance of Artificial Intelligence to private equity

Investors are keeping an open mind on the usefulness of Artificial Intelligence (AI) to the private equity transaction process, with three quarters of LPs thinking it could be a useful tool for originating dealflow. Three fifths of LPs believe it could be useful as part of deal assessment or post transaction portfolio company engagement.

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‘Anti-ESG’ movement in the US

The importance of ESG within private equity is still being taken seriously by LPs, despite the ‘Anti-ESG’ movement in the US, with three quarters of LPs not expecting this to change the emphasis GPs place on ESG. European LPs are ahead of their global peers in their approach to dedicated ESG teams within their organisations, with three quarters of European LPs already having dedicated ESG personnel in place. The reverse is true for North America LPs, with the same percentage saying they have no plans to recruit dedicated ESG employees.

Performance of buy-and-build portfolios

Across their portfolios, LPs are recording record levels of returns, with two fifths of LPs reporting net annual returns of over 16% across the lifetime of their private equity portfolios. Performance does differ across types of strategy, particularly between their buy-and build investments and those investments focused more on organic growth, with two thirds of LPs stating that their buy-and-build portfolios have outperformed. LPs also shared views on where the best investment opportunities for private equity will come from, with around three fifths of LPs saying families, entrepreneurs and corporations will provide the best opportunities over the next two years.

Changing shape of private markets

Two fifths of investors plan to increase their target allocations to private credit and infrastructure over the next year. Within private debt markets, two thirds of LPs expect there to be a greater concentration of capital within larger GPs over the next three to five years. For private equity, fewer LPs expect to increase their average commitment size to individual GPs than when we asked them five years ago. LPs are however making room for new managers in their portfolios, with the majority making a commitment to a new private equity manager and over half of LPs adding new private credit and venture capital managers.

GP drawdowns and Venture Capital down rounds

Some LPs are cautious on how they expect the amount of money drawn down by their GPs to change over the next two years compared to the last two years, with two fifths of LPs expecting less money to be drawn. Similar caution was seen in their views on their venture capital portfolios, where three quarters of LPs are expecting more down rounds in their portfolios.

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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 13 February and 31 March 2023. 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 in 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, Beijing and Seoul, 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 c.$1.45 billion and backing from over 40 institutional investors.

In March 2023, Coller Capital announced the creation of its global Private Wealth Secondaries Solutions ("PWSS") business to provide further access to private capital markets for high-net-worth individuals.