

Coller Capital

# Global Private Equity Barometer

❖ SUMMER 2014

A UNIQUE PERSPECTIVE ON THE ISSUES AND OPPORTUNITIES  
FACING INVESTORS IN PRIVATE EQUITY WORLDWIDE

## Coller Capital's *Global Private Equity Barometer*

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 private equity (Limited Partners, or LPs, as they are known) based in North America, Europe and Asia-Pacific (including the Middle East).

This 20th edition of the *Global Private Equity Barometer* captured the views of 115 private equity investors from round the world. The *Barometer's* findings are globally representative of the LP population by:

- Investor location
- Type of investing organisation
- Total assets under management
- Length of experience of private equity investing

## Contents

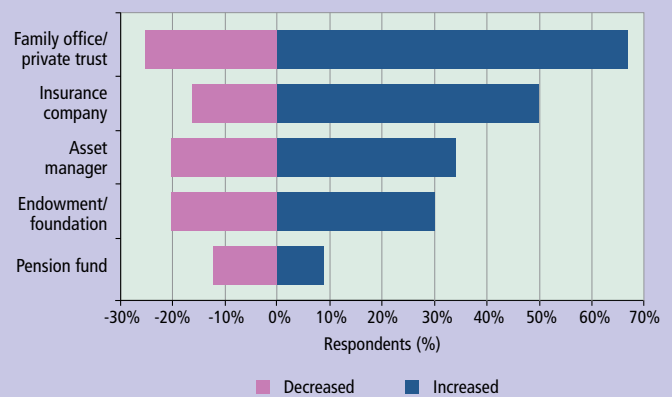
Topics in this edition of the *Barometer* include investors' views and plans regarding:

- LPs' returns & appetite for PE
- LPs' willingness to back GPs on a deal-by-deal basis
- Fund terms & conditions
- GPs' first-time funds
- Canadian vs US pension plans
- Attractive countries in Europe for PE
- Impact of AIFM Directive
- The debt markets
- Asia-Pacific PE market
- The secondaries market
- Venture capital & crowd-funding

## Family offices and insurance companies lead growth in target PE allocations

Investor appetite for private equity continues to increase, with more LPs reporting increases (31% of LPs) rather than decreases (17% of LPs) to their target allocation over the last two years. Family offices and insurance companies have increased their target allocations the most.

Changes in LPs' target allocations to PE over the past 2 years – by LP type

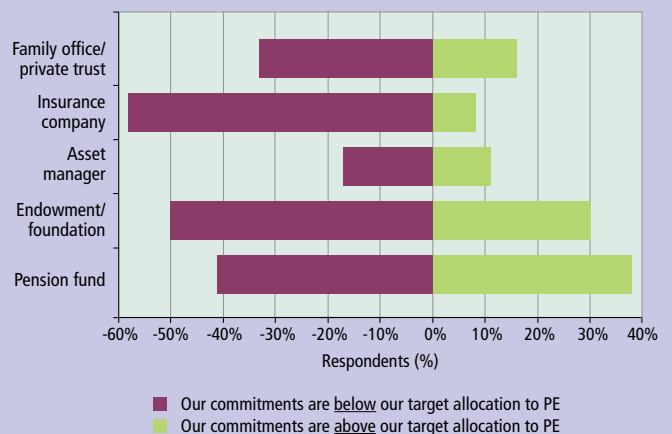


(Figure 1)

## Insurance companies and endowments/foundations are most below their target PE allocations

Just over a third (35%) of LPs have a level of PE commitments below their target allocation to private equity. Almost 60% of insurance companies and half of endowments/foundations are currently below their target allocations.

LPs' current PE commitments vs their target allocation to PE – by LP type

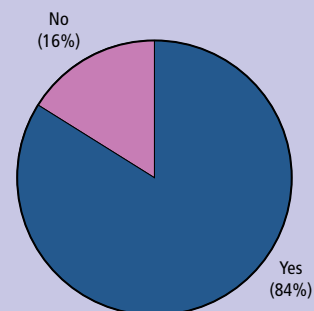


(Figure 2)

## Nearly all LPs are planning to decline re-ups with previously 'core' GPs

Over the next two years, 84% of PE investors will refuse re-investment requests from GPs whose last two funds they backed.

LPs expecting to refuse GP re-investment requests from new GPs whose last two funds they backed

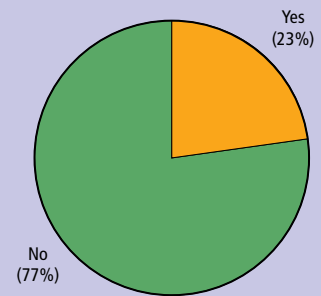


(Figure 3)

## A quarter of LPs have recently backed GPs on a deal-by-deal basis

Almost one quarter (23%) of PE investors have supported GPs on a deal-by-deal basis since the onset of the global financial crisis. One in five LPs have done this with GPs whose funds they backed previously; one in ten with GPs they have not previously backed.

LPs who have backed GPs on a deal-by-deal basis since the global financial crisis

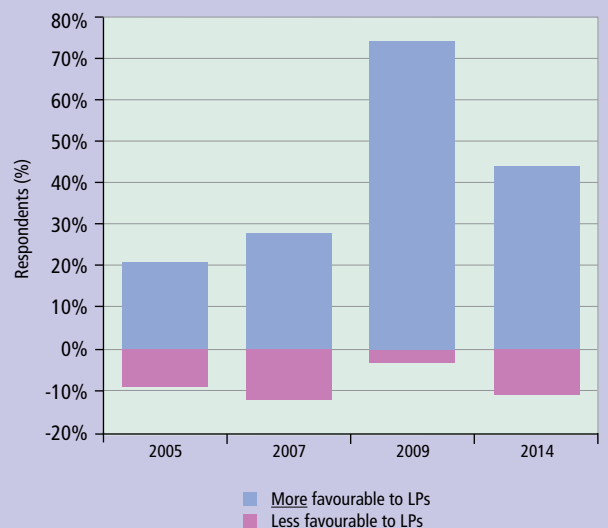


(Figure 4)

## Fund terms and conditions to improve further, LPs think

Many PE investors believe the balance of power in LP/GP relations will continue to swing towards LPs, despite the improving economy and GP concessions of recent years. While just under half (44%) of investors think the balance of power has reached equilibrium, the same proportion believe new fund terms and conditions will continue to change in their favour.

LP expectations for PE fund terms and conditions in the next 2 years

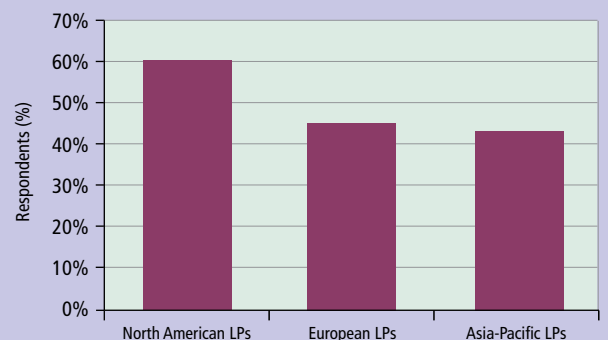


(Figure 5)

## North American LPs would trade lower hurdle rates for lower fees

About half of the world's PE investors (and 60% of North American investors) would accept lower hurdle rates in return for lower fund management fees.

LPs who would, in principle, trade lower hurdle rates for lower fees

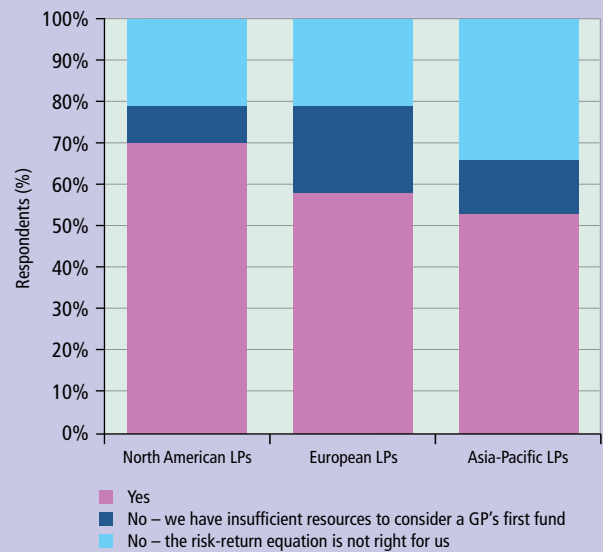


(Figure 6)

## Majority of LPs will invest directly in a GP's first fund in the next two years

70% of North American investors expect to invest directly (ie, not through a gatekeeper or fund-of-funds) in a GP's first fund within the next two years. 58% of European LPs and 53% of Asia-Pacific LPs also expect to back first-time funds.

LPs planning to invest directly in a GP's first fund in the next 2 years

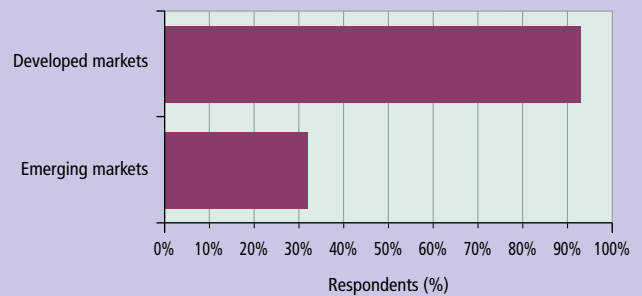


(Figure 7)

## First-time developed-market funds most appealing to LPs

For LPs planning investment in new GPs' first funds, it is developed markets that hold the most appeal – 93% say they will invest in first-time funds in *developed* markets, compared with one third who will back first-time funds in emerging markets.

Target regions for LPs planning commitments to first-time funds in the next 2 years

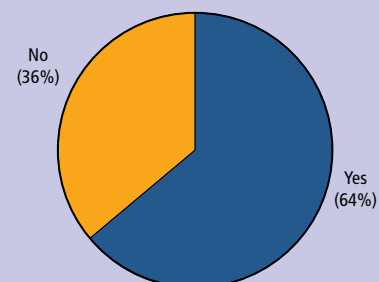


(Figure 8)

## Weaker investor sentiment towards emerging markets will impact existing EM funds, say LPs

Two thirds of LPs believe that weaker investor sentiment towards emerging markets will impact the returns of *existing* EM PE funds.

LPs believing weaker investor sentiment towards emerging markets will impact the returns of existing EM PE funds



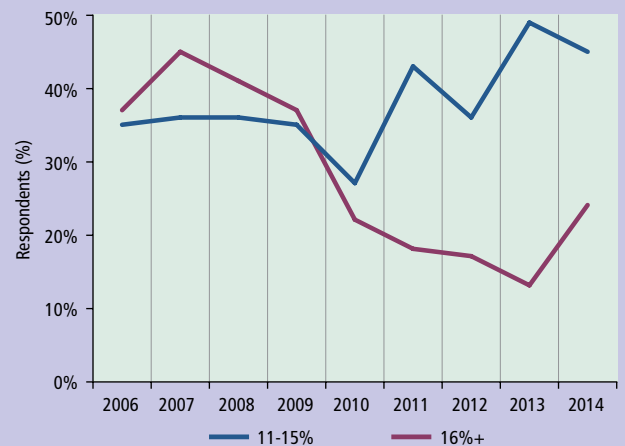
(Figure 9)

## Rebound of LPs' lifetime PE returns

The proportion of investors that have made annual net returns of 16% or more from private equity since they began investing has almost doubled from a year ago (24% vs 13% of LPs). Moreover, seven out of ten investors have made net lifetime PE returns of *at least* 11% – a level not seen since summer 2009.

North American investors' portfolios have performed best, with 81% of North American LPs having made net lifetime PE returns of *at least* 11%. This compares with two thirds of European LPs and half of Asia-Pacific LPs.

LPs' net annual returns from their PE portfolios since inception

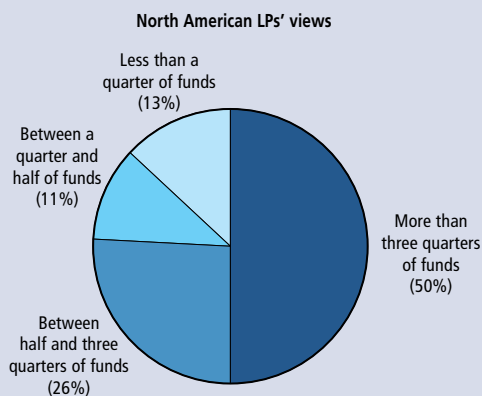


(Figure 10)

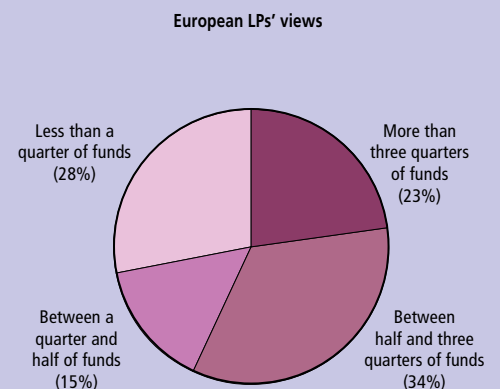
## North American LPs most optimistic about bubble-year vintages

Three quarters (76%) of North American PE investors expect most or all of their 2005-07 vintage funds to exceed their hurdles and pay carried interest. European LPs are less optimistic with just over half (57%) believing this.

Proportion of 2005-07-vintage funds likely to exceed their hurdles



(Figure 11)

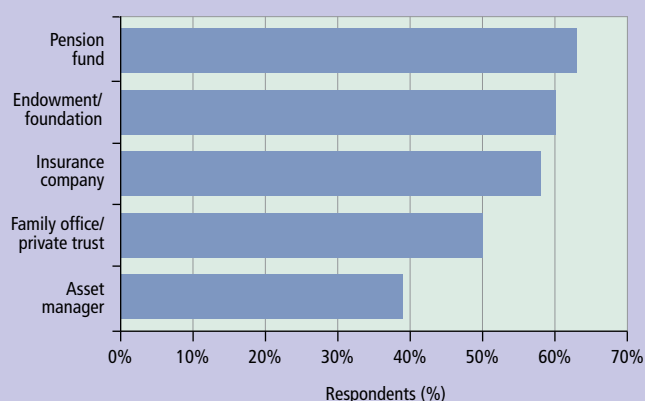




## Most LPs would resist a re-setting of terms for failing PE funds

Less than half (46%) of PE investors would agree (even in principle) to re-set GP terms and conditions for PE funds unlikely to achieve their preferred return. Pension plans, insurance companies and endowments/foundations are the most resistant to this idea.

LPs that would refuse to re-set the terms of failing PE funds

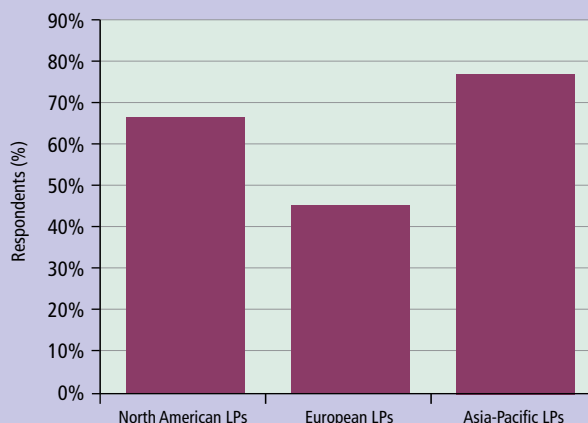


(Figure 12)

## Investment in back office systems is high on LPs' agendas

Two thirds of North American LPs and over three quarters of Asia-Pacific LPs are prioritising investment in their back office systems to improve portfolio monitoring. 45% of European LPs are doing the same.

LPs prioritising investment in their back office systems



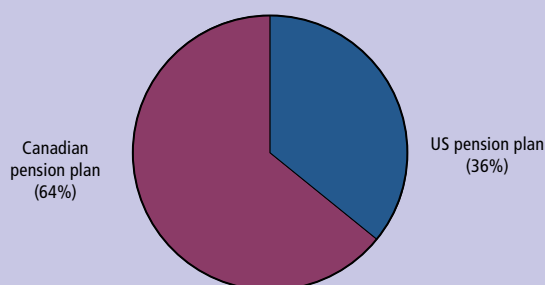
(Figure 13)

## Most investors would prefer to manage PE for a Canadian pension plan than a US pension plan

If given a choice between managing the PE programme of a Canadian or a US pension plan, two thirds (64%) of LPs would choose the Canadian plan.

In fact, even among US pension plan managers half would prefer to be running private equity for a Canadian plan – a view shared by 100% of Canadian pension managers!

LPs preferring to manage a US or Canadian pension plan's PE programme

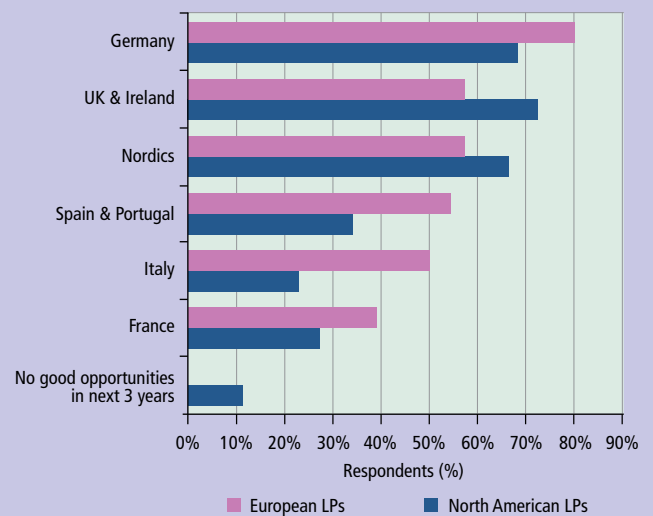


(Figure 14)

## All LPs see opportunities in Northern Europe – but American LPs still wary of Southern Europe

The majority of the world's PE investors see good opportunities in Northern Europe in the next three years. But, while North American LPs are even more optimistic about the UK/Ireland and Scandinavia than their European counterparts, they are not yet convinced about Southern Europe. Only a quarter to a third of North American LPs see good PE opportunities in Iberia, Italy or France in the next three years.

Location of attractive PE investment opportunities in Europe in the next 3 years – LP views



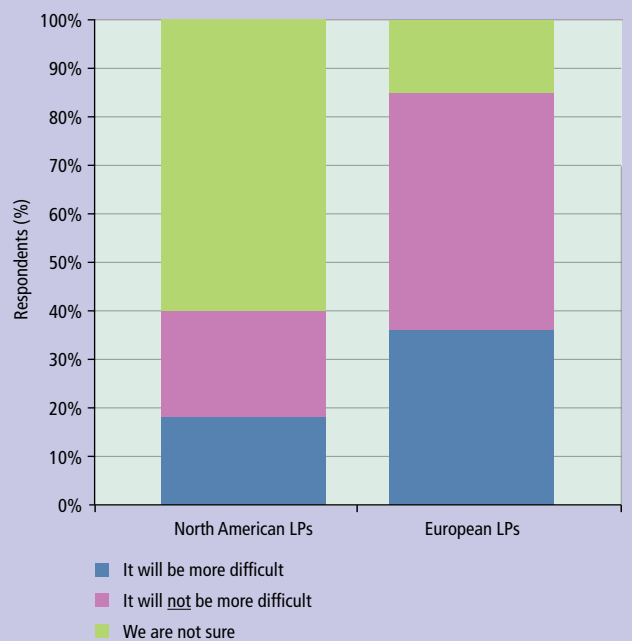
(Figure 15)

## Majority of North American LPs still unsure of AIFM Directive impact

The majority (60%) of North American LPs are still uncertain about the likely impact of the AIFM Directive on investing in European funds. 85% of European LPs have now assessed the likely impact.

Just over a third of European LPs think the AIFM Directive will make it more difficult to invest in European PE funds, while around a half do not believe their own operations will be impacted.

The impact of the AIFM Directive on investing in European PE funds – LP views



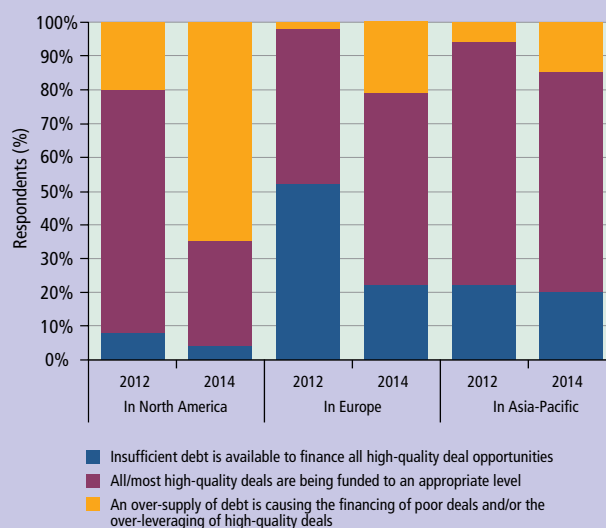
(Figure 16)



## North American PE using too much debt, LPs say

Two thirds of LPs believe that an over-supply of debt in the North American PE market is resulting in poor deals being financed and some good deals being over-leveraged. By contrast, the majority of investors believe the debt component in European and Asia-Pacific PE deals is at an appropriate level.

The state of the PE debt markets – LP views

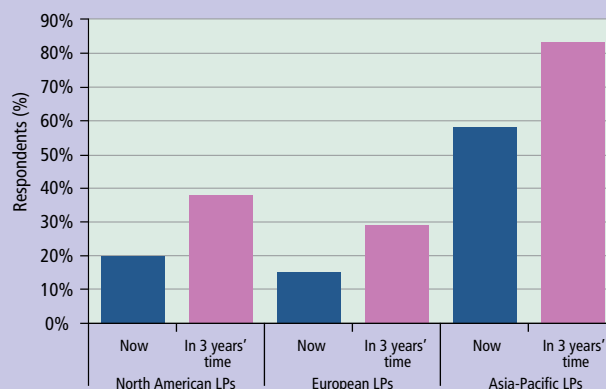


(Figure 17)

## Investors continue rapid expansion of Asia-Pacific PE exposure

The proportion of North American and European LPs with at least a tenth of their PE exposure in the Asia-Pacific region will double within the next three years – from 20% to 38% of North American LPs and from 15% to 29% of European LPs. 83% of Asia-Pacific LPs expect to have more than a tenth of their PE investment in the Asia-Pacific region within the next three years (vs 58% of respondents today).

LPs with more than a tenth of their PE investment in the Asia-Pacific region – now and in 3 years' time

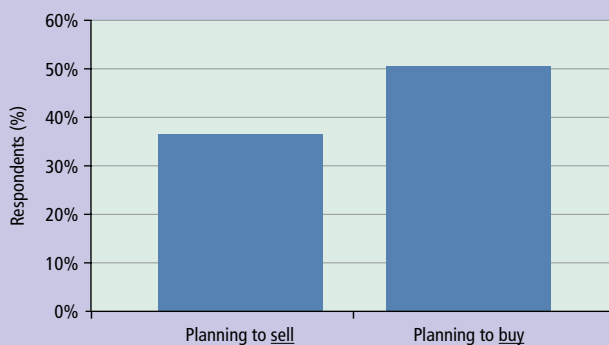


(Figure 18)

## Two thirds of LPs likely to use the secondaries market in the near future

Two thirds (67%) of LPs intend to use the secondaries market, either to buy or sell PE assets, over the next 2-3 years – with North American investors planning to be the most active both in buying and selling.

LPs' planned usage of the secondaries market in the next 2-3 years



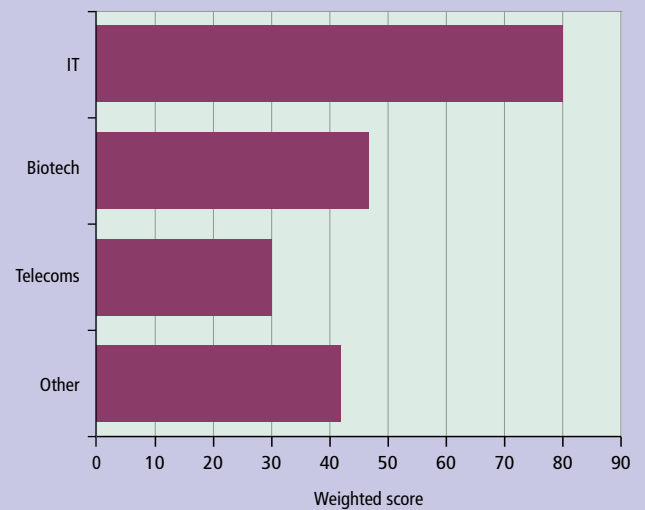
(Figure 19)

## IT to be most attractive VC sector in the next 2-3 years, say LPs

Currently, half of the world's LPs invest in North American venture capital, one third in European venture and one quarter in Asia-Pacific venture.

LPs are currently looking most favourably on the IT sector – although European LPs show a significantly higher preference for biotech than other investors.

LPs' commitment intentions for venture funds in the next 2-3 years – by sector

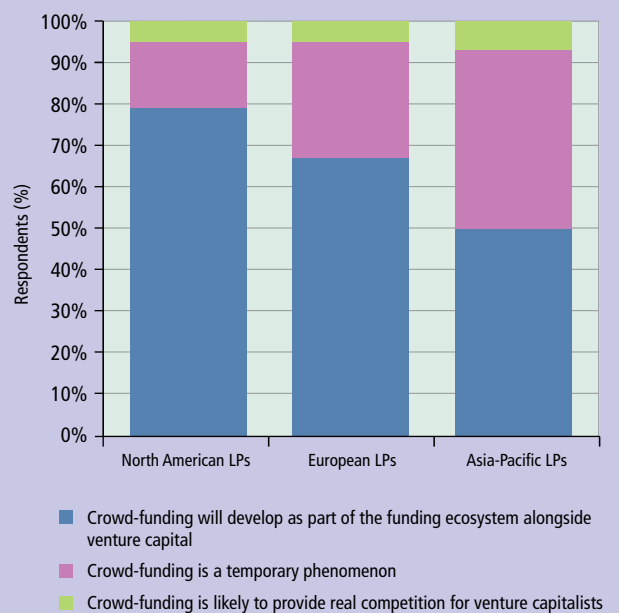


(Figure 20)

## Majority of LPs expect crowd-funding to develop alongside VC

Four fifths (79%) of North American LPs, two thirds of European LPs and half of Asia-Pacific LPs think crowd-funding is here to stay, and will develop as part of the funding ecosystem alongside venture capital. They see it as complementary to, rather than competitive with, venture capital.

LPs' views on crowd-funding



(Figure 21)

# Coller Capital's Global Private Equity Barometer

## Respondent breakdown – Summer 2014

The *Barometer* researched the plans and opinions of 115 investors in private equity funds. These investors, based in North America, Europe and Asia-Pacific (including the Middle East), form a representative sample of the LP population worldwide.

## About Coller Capital

Coller Capital, the creator of the *Barometer*, is the leading global investor in private equity secondaries – the purchase of original investors' stakes in private equity funds and portfolios of direct investments in companies.

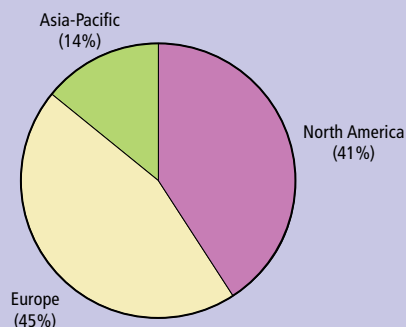
## Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in February-March 2014 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

## Notes:

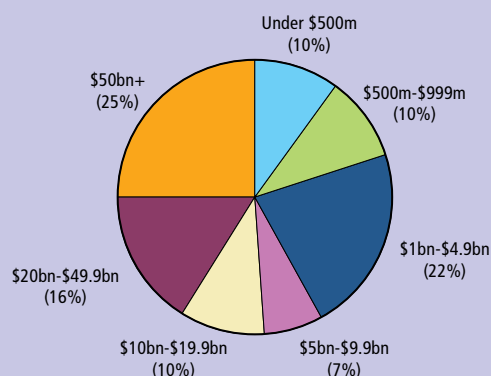
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, growth capital, buyouts and mezzanine investments

Respondents by region



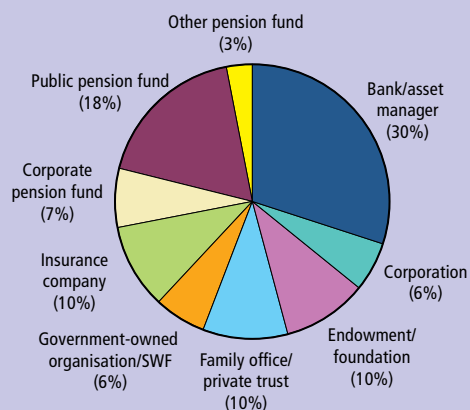
(Figure 22)

Respondents by total assets under management



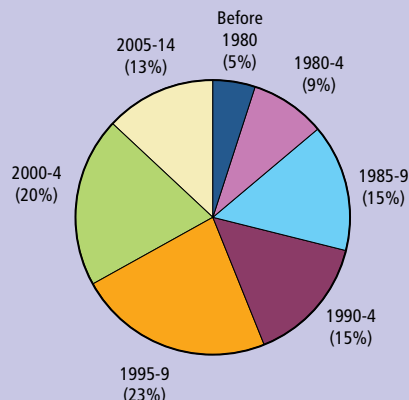
(Figure 23)

Respondents by type of organisation



(Figure 24)

Respondents by year in which they started to invest in private equity



(Figure 25)

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