

Global Private Equity Barometer

❖ SUMMER 2015

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 22nd edition of the Global Private Equity Barometer captured the views of 113 private equity investors from around 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

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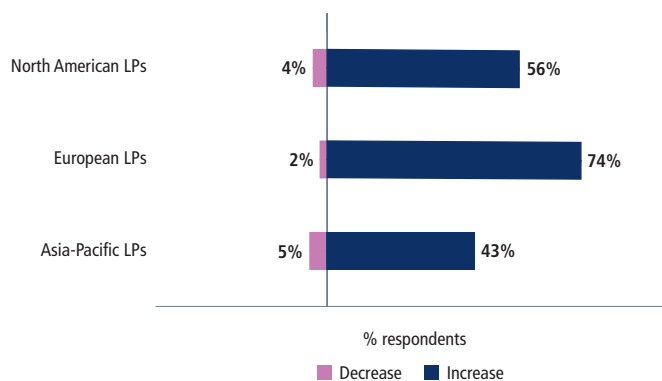
Topics in this edition of the Barometer include investors' views and plans regarding:

- Returns from, and appetite for, PE
- Investments in Oil & Gas PE funds
- Venture capital
- Debut GP funds
- Early bird discounts
- Co-investments
- Consolidation among LPs
- Secondaries
- The debt markets
- GP fund restructuring
- Prospects for European PE

LPs expect PE to increase its share in balanced portfolios

Over 60% of LPs expect private equity to increase its share in a balanced investment portfolio over the next 3-5 years. European LPs are most positive, with three quarters expecting an increase.

LP expectations for PE's share in balanced portfolios

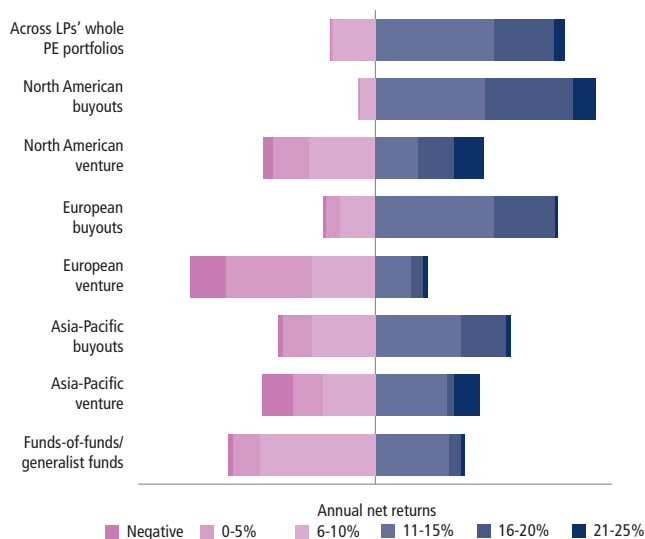


(Figure 1)

North American buyouts have performed most strongly

North American buyouts have been the strongest performer in LPs' private equity portfolios – for nearly half of LPs these funds have delivered annual net returns of over 16%. European buyouts have been the second most consistent performer, with 28% of LPs achieving returns at the 16%+ level. Four fifths of all private equity portfolios have delivered annual net returns of over 11% across their lifetimes.

Annual net returns across LPs' PE portfolios since their inception

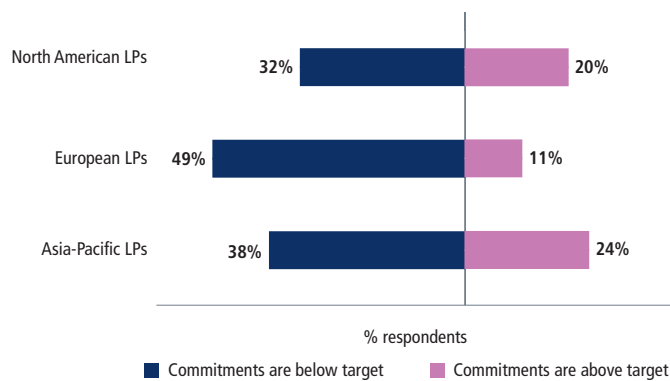


(Figure 2)

Two fifths of LPs need to boost their level of PE commitments

Half of European LPs and a third of North American LPs have aggregate commitments to private equity below their target allocations. One in five North American LPs, and one in four Asia-Pacific LPs, is currently over-committed to private equity.

LPs' current levels of PE commitments versus their target allocations

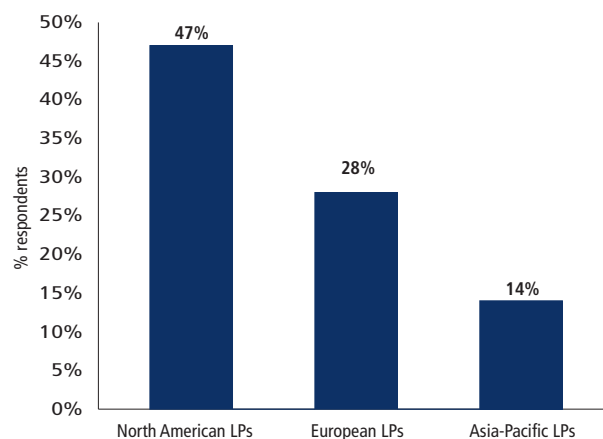


(Figure 3)

North American LPs hungry for Oil & Gas PE funds

Approximately one third of LPs say they plan to invest in Oil & Gas private equity funds in the next three years, following the recent fall in oil prices. North American LPs were the most positive of all, with nearly half of them expecting to commit to Oil and Gas funds.

LPs expecting to commit to Oil & Gas PE funds

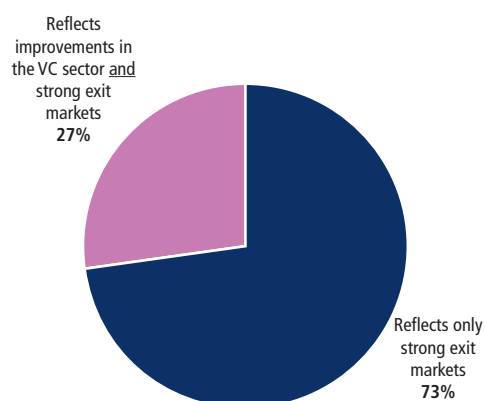


(Figure 4)

Most LPs see the recent improvement in VC returns as cyclical

Three quarters of LPs believe that the recent improvement in venture capital returns is wholly due to strong exit markets. However, one quarter of LPs believe that the venture capital sector has also seen structural performance improvements.

LPs' views on recently improved VC returns

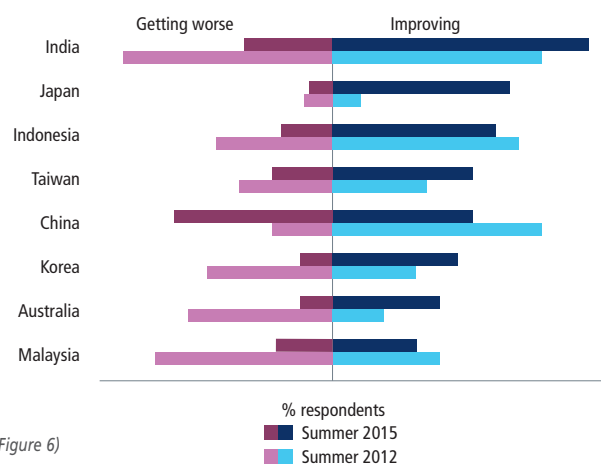


(Figure 5)

Risk/reward balance improving in most Asia-Pacific markets, LPs say

LPs have a more positive view of private equity risk/reward in India, Japan, Taiwan, Korea and Australia than they did three years ago (Barometer of summer 2012). Moreover, fewer LPs now have doubts about Indonesia and Malaysia than they did in 2012. However, the outlook for China has worsened, according to LPs – one third of whom see the risk/reward balance in the country as deteriorating.

LP views of the risk/reward equation for Asia-Pacific PE

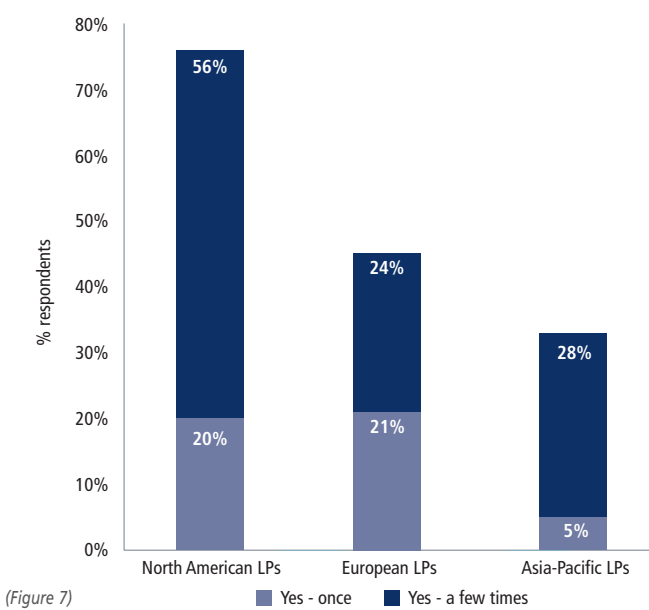


(Figure 6)

Over half of LPs have recently invested in new GPs' debut PE funds

Three quarters of North American LPs have invested in debut funds from new GPs since the financial crisis. Almost half (45%) of European LPs have done so.

LPs investing in debut funds from new GPs since the financial crisis

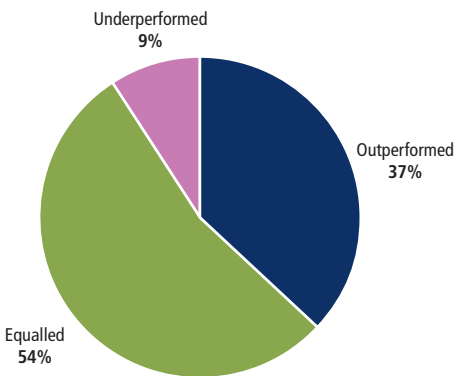


(Figure 7)

Debut funds from new GPs have delivered strong results

Nearly all the debut funds from new GPs in which LPs have invested since the financial crisis have equalled or outperformed the rest of their private equity portfolios.

Performance of new GPs' debut funds relative to LPs' overall PE portfolios

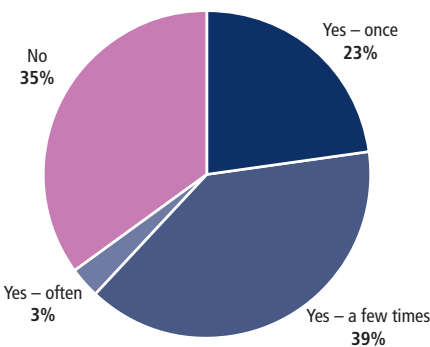


(Figure 8)

Two thirds of LPs have settled for smaller-than-desired allocations to new funds in the last 12 months

Two thirds of LPs have failed to receive their full requested allocation to new private equity funds at least once in the last 12 months, with 42% of LPs reporting that this has happened more than once.

LPs failing to secure their full allocation to PE funds in the last 12 months



(Figure 9)

Early bird discounts remain popular with LPs

Over four fifths of LPs have been offered 'early bird' discounts in the last two years, and two thirds of LPs have taken advantage of them. Investors expect early bird discounts to continue to be a feature of private equity fundraising.

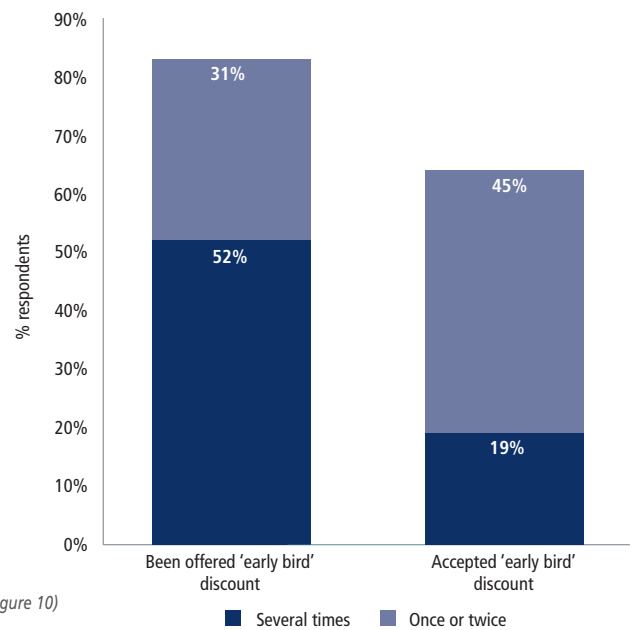
Investors consider co-investments as 'here to stay'

Most LPs expect co-investments to remain a fixed feature of the private equity landscape, despite the growing size of private equity funds.

LPs are divided on desirability of 'longer life' PE funds

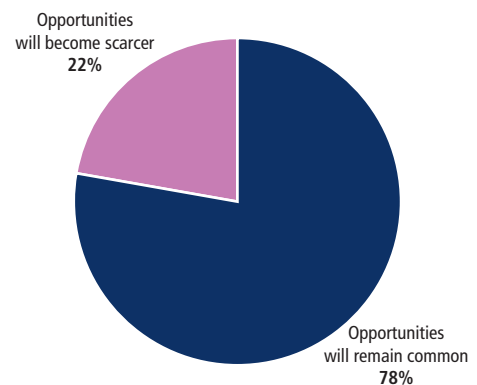
Around half of LPs see 'longer life' private equity funds (funds with lives intended to be longer than 10 years) as a potentially valuable addition to the liquidity and risk/return options available to them.

Share of LPs being offered, and accepting, early bird discounts in the last two years



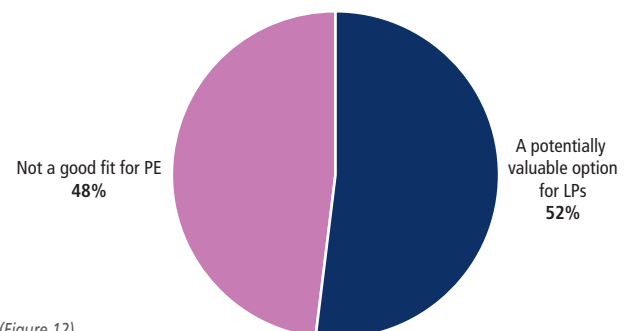
(Figure 10)

LP views on the future availability of co-investment opportunities



(Figure 11)

LP views on 'longer life' PE funds

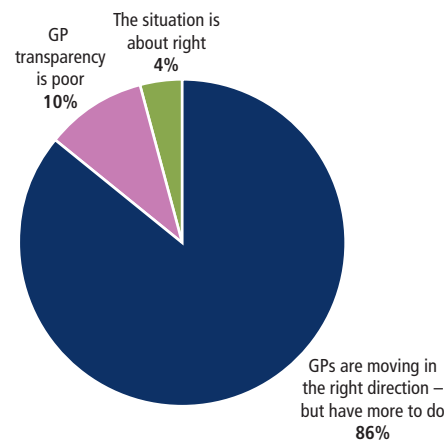


(Figure 12)

LPs say GPs are moving in the right direction on transparency

A large majority of LPs think the private equity industry is moving towards the right balance on transparency, but they see this as a journey, with GPs having more still to do.

LPs' views on transparency in PE

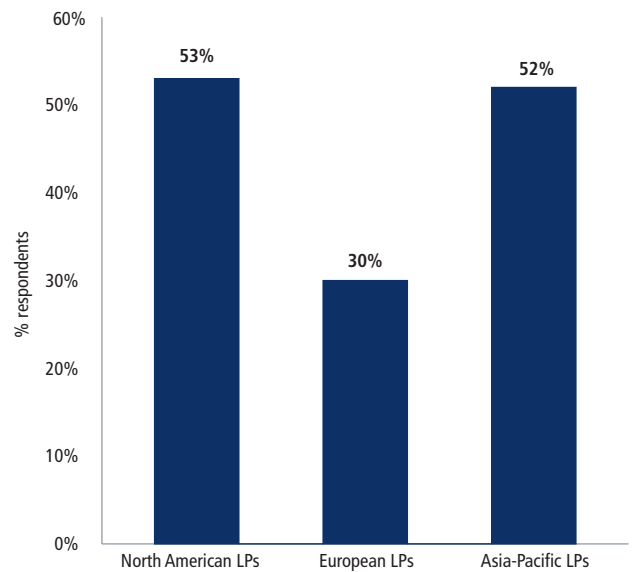


(Figure 13)

LPs' views on PE fees differ by region

Just over half of LPs based in North America and Asia-Pacific believe that current private equity fee levels are acceptable if fees charged are transparent and a fund's performance is strong. By contrast, 70% of European LPs take the view that fees are too high, irrespective of performance and transparency.

LPs seeing fee levels as acceptable (if performance is strong and fees are transparent)

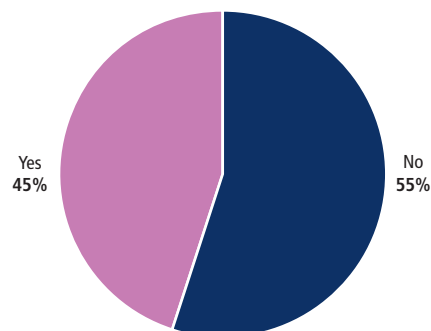


(Figure 14)

Majority of LPs not under major internal pressure over fees

Only a minority of LPs receive significant pressure on fees from senior levels within their organisations.

Proportion of LPs receiving significant pressure on fees from higher up their organisations



(Figure 15)

LPs do not foresee much consolidation or cooperation among smaller LPs

Most investors do not in practice expect to see significantly increased consolidation or cooperation among smaller LPs (though 29% of LPs believe it might happen within 5-10 years).

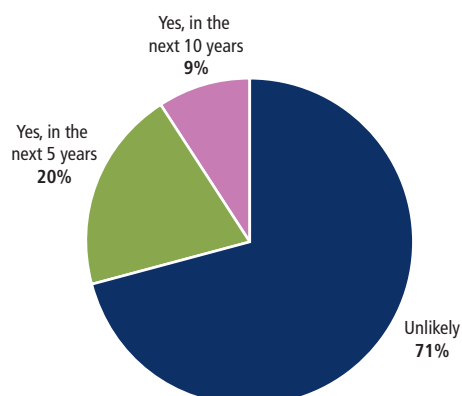
The secondaries market will remain very active

51% of LPs plan to buy private equity assets in the secondaries market in the next two years, and 38% of LPs expect to sell assets. Asia-Pacific LPs will be the most active of all, with 59% saying they expect to buy assets and 50% expecting to sell.

80% of LPs have received PE fund restructuring proposals since the GFC

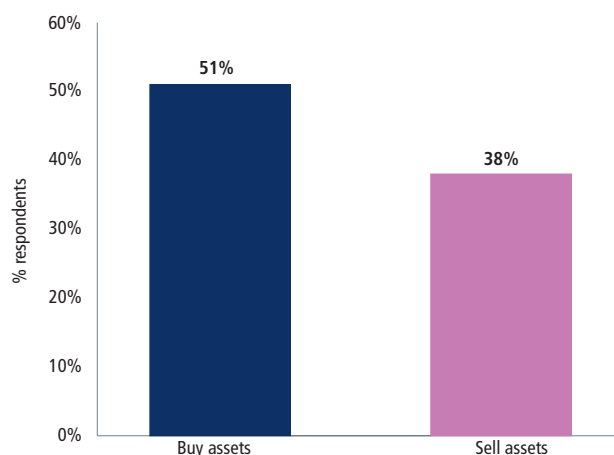
Four in five LPs have received private equity fund restructuring proposals since the onset of the financial crisis. This rises to 95% for European LPs. One in five LPs has received more than five such proposals.

LPs' views on future consolidation/cooperation among smaller LPs



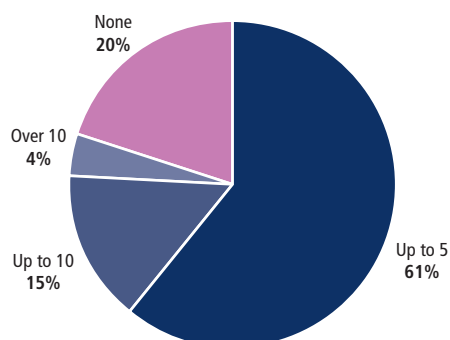
(Figure 16)

LPs' planned engagement with the PE secondaries market in the next two years



(Figure 17)

Number of fund restructuring proposals received by LPs since the GFC – by percentage of LPs



(Figure 18)

79% of LPs have taken part in one or more PE fund restructurings

Around four fifths of LPs have been actively involved in fund restructurings since the GFC. North American LPs are more likely to have experience of attaining liquidity through a restructuring – 62% of involved LPs (versus 26% of European LPs). Almost two thirds of European and Asia-Pacific LPs involved in fund restructurings have at least once remained invested on a fund's reset terms (versus 44% of North American LPs).

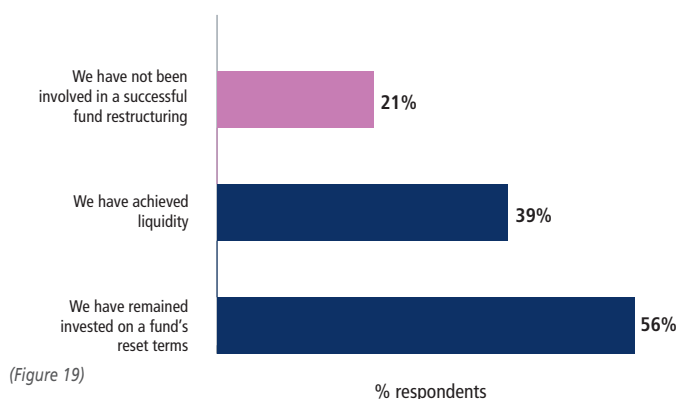
Over half of LPs believe credit markets are at risk of over-regulation

56% of LPs think credit markets are in danger of over-regulation – though one fifth of private equity investors believe more still needs to be done by regulators.

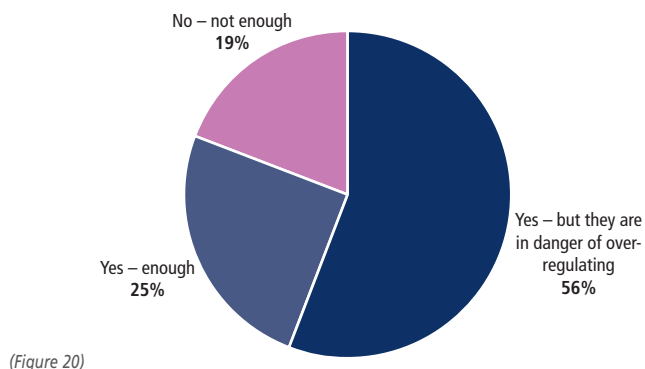
SEC leverage guidelines will not change PE risk/return, LPs say

Two thirds of LPs say recent SEC guidelines aimed at limiting debt multiples in buyouts will not change private equity's overall risk/return profile in the medium to long-term.

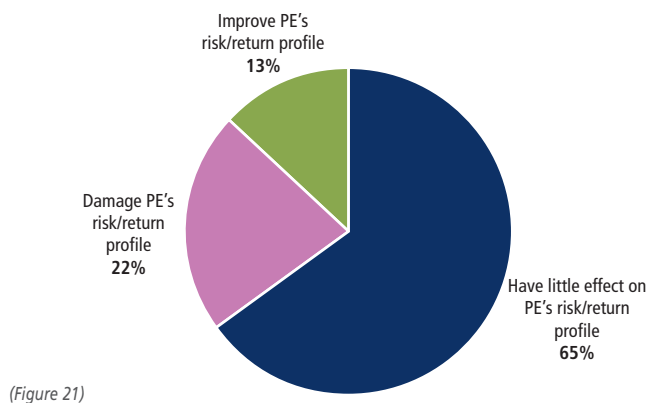
LP responses to fund restructuring proposals



LPs' views on whether regulators are doing enough to protect credit markets



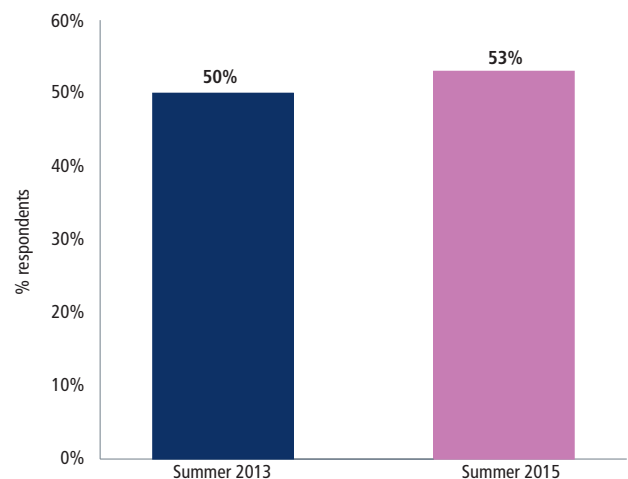
LP views on the likely effect of SEC guidelines limiting debt multiples in buyouts



Over half of LPs are investing in private debt funds

53% of LPs have recently invested, or expect soon to invest, in a private debt fund. Investor interest has remained high since the Barometer of summer 2013, when 50% of LPs said the same thing.

LPs that have recently invested, or are considering investing, in private debt funds

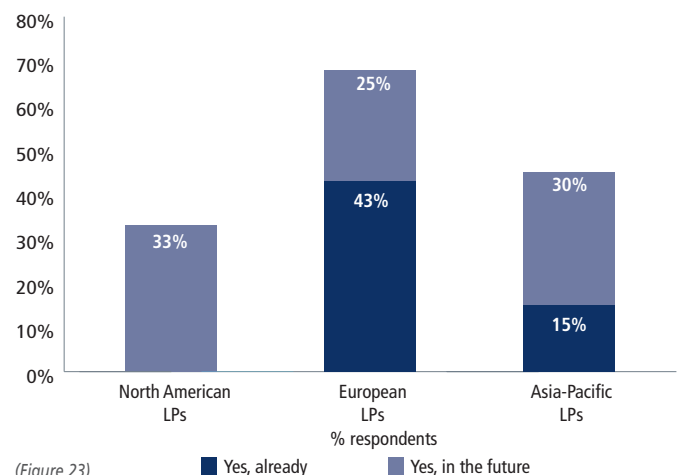


(Figure 22)

LPs are becoming more proactive with European GPs because of new regulation

Over two thirds of European LPs, 45% of Asia-Pacific LPs and one third of North American LPs anticipate being more proactive in their relationships with European GPs as a result of new European Union regulation. A quarter of European LPs and 30% of Asia-Pacific LPs have already taken this step (though North American ones have yet to do so).

Recent and expected increases in LP proactivity towards EU GPs as a result of new regulation

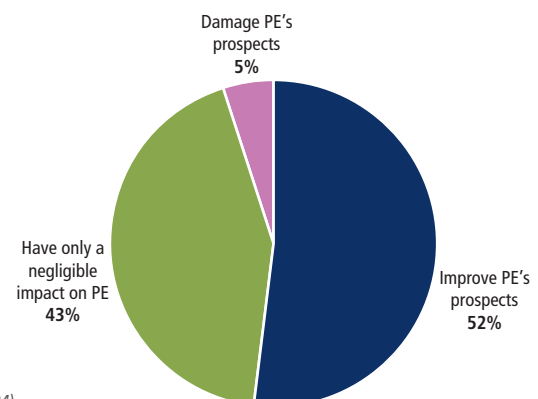


(Figure 23)

Majority of LPs think QE will help PE in the Eurozone

Just over half of LPs believe the launch of quantitative easing (QE) will improve private equity's prospects in the Eurozone. Very few private equity investors (5% of LPs) think its impact will be negative.

LP views on the impact of QE on PE in the Eurozone



(Figure 24)

Collier Capital's Global Private Equity Barometer

Respondent breakdown – Summer 2015

The Barometer researched the plans and opinions of 113 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 Collier Capital

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

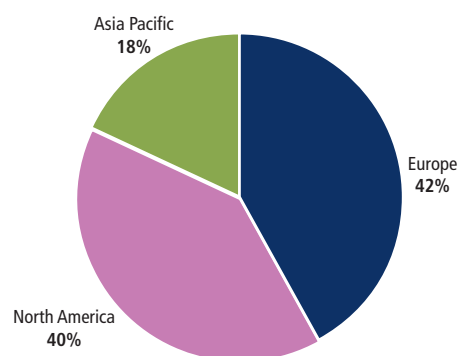
Research methodology

Fieldwork for the Barometer was undertaken for Collier Capital in March-April 2015 by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Notes

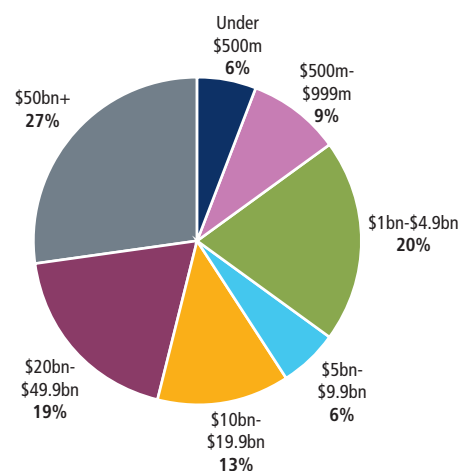
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this Barometer report, the term private equity (PE) is a generic term covering venture capital, growth, buyout and mezzanine investments.

Respondents by region



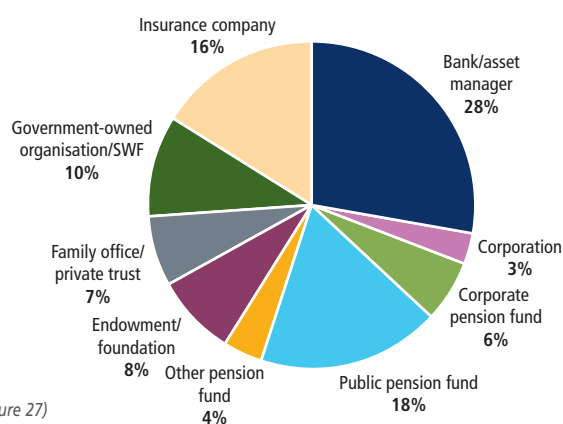
(Figure 25)

Respondents by total assets under management



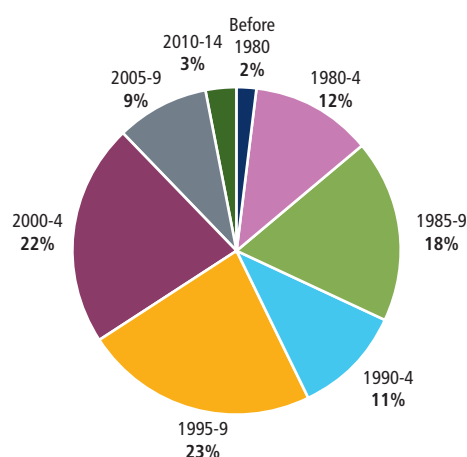
(Figure 26)

Respondents by type of organisation



(Figure 27)

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



(Figure 28)

