Coller Capital

Global Private Equity Barometer

SUMMER 2011

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.

This 14th edition of the *Global Private Equity Barometer* captured the views of 110 private equity investors from all 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

Key topics in this edition of the *Barometer* include:

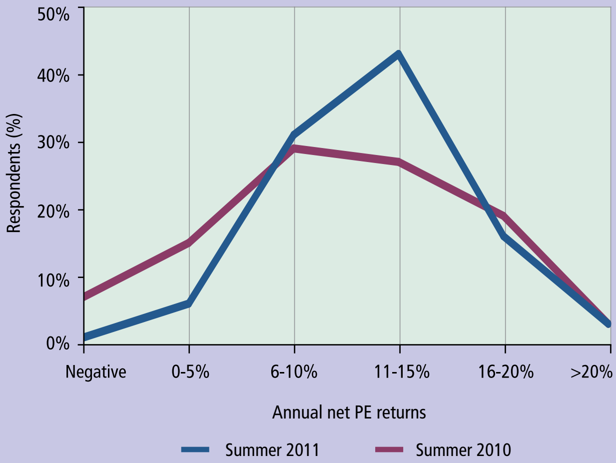
- LPs' returns & appetite for PE
- The exit environment
- The debt markets
- Dividend recaps
- GP survival
- GPs' focus on operational improvement
- Sector-specialist PE funds
- The LP workplace and remuneration
- The secondaries market
- Asia-Pacific PE market

Rebound of LPs' lifetime PE returns

The proportion of investors that have made net lifetime returns of 11-15% or more from private equity has increased to 62% (from 49% of LPs in the Summer 2010 *Barometer*).

This overall picture disguises some interesting regional variations. Seven out of 10 (71%) North American LPs have made lifetime PE returns of 11-15% or more, compared with 58% of Asia-Pacific LPs and 53% of European LPs.

Dispersion of LPs' annual net returns from their PE portfolios since they began investing

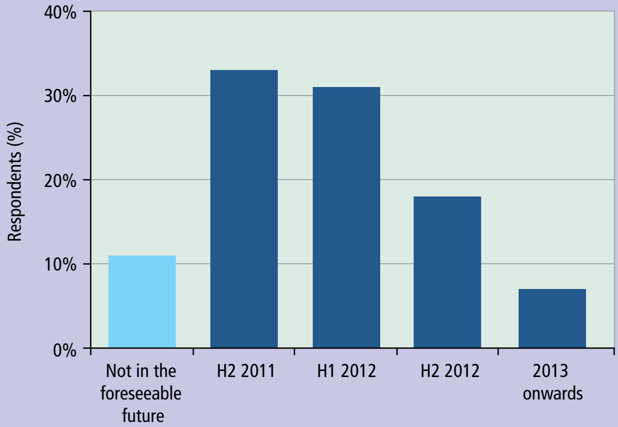


(Figure 1)

LPs expect large growth in PE exits to trade buyers

Two thirds (64%) of PE investors expect the large volume of cash on corporate balance sheets to result in a significant increase in PE exits to trade buyers within 12 months – and 82% of LPs expect this to happen within 18 months.

Timing of a significant increase in exits to trade buyers – LP views

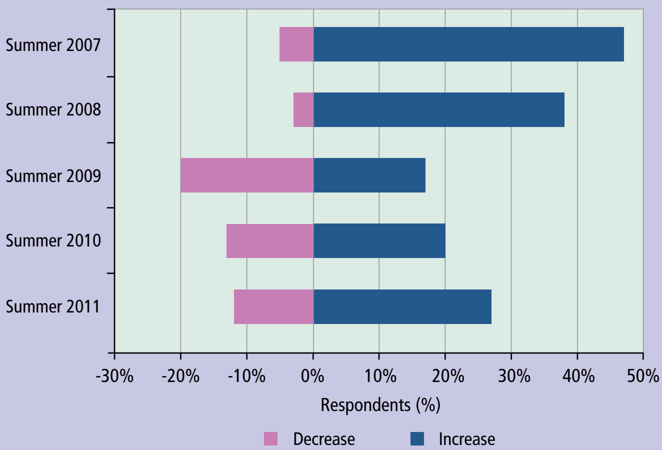


(Figure 2)

Target PE allocations rising

More than twice as many LPs (27%) are intending to increase their target allocation to private equity over the next 12 months as reduce it (12% of LPs). The picture for target PE allocations has continued to improve in every *Barometer* since 2009, when for the first time, there was a negative balance (ie, more investors planning to reduce than increase their allocation).

LPs' plans for their percentage of assets targeted at PE over the next 12 months

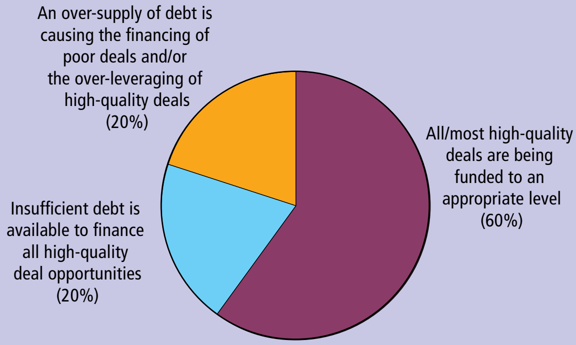


(Figure 3)

Most LPs believe the PE debt markets are functioning well

The majority of investors believe the debt component in high-quality PE deals is being funded to an appropriate level. However, this picture contains some regional differences: investors are most likely to be worried about an *over-supply* of debt finance in North America (29% of LPs); and are most concerned about a *shortage* of debt finance for good deals in the Asia-Pacific region (27% of LPs).

The state of the PE debt markets – LP views

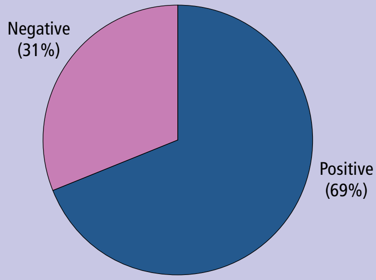


(Figure 4)

LPs welcome the return of dividend recaps

Over two thirds (69%) of LPs welcome the recent growth in dividend recaps – a sign of confidence in the GPs and portfolio companies in their fund portfolios.

LP attitudes to the recent growth in dividend recaps

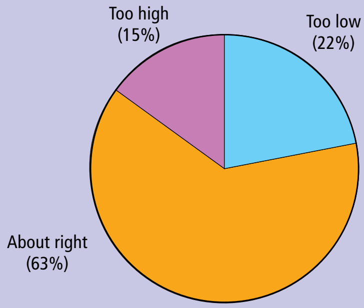


(Figure 5)

The debt/equity ratio of buyout deals is about right

Almost two thirds (63%) of investors believe the current proportion of equity in buyout deals is about right, with smaller percentages thinking it is too low (22% of LPs) or too high (15% of LPs).

The proportion of equity in buyout deals – LP views

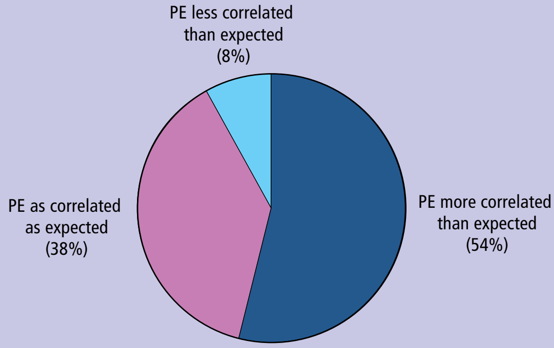


(Figure 6)

Investors underestimated the correlation of PE with public markets

62% of investors were surprised by the degree of correlation between private and quoted equities during the financial crisis. European LPs were the most taken by surprise, with two thirds now saying they had underestimated the degree of correlation (vs 46% of North American and 42% of Asia-Pacific LPs).

The correlation of PE with public markets as revealed by the financial crisis – LP views



(Figure 7)

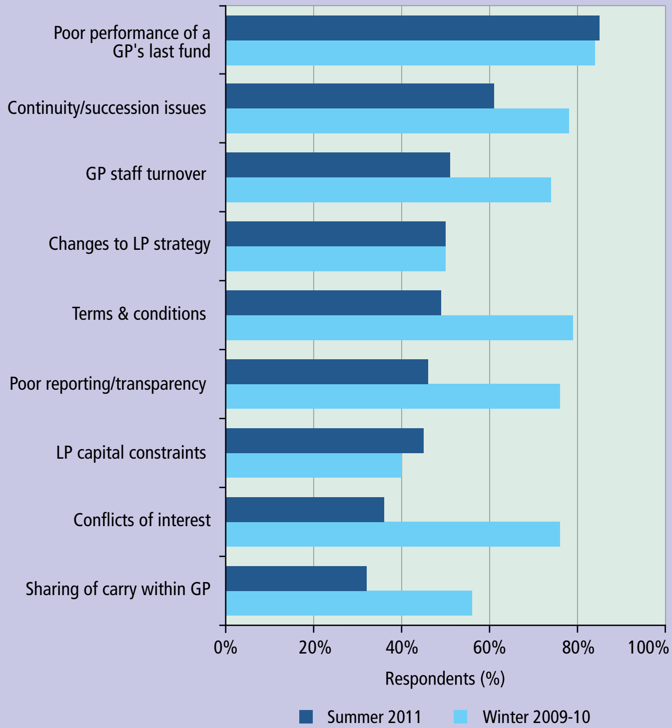
GP performance and team issues to drive re-up refusals

Almost 9 in 10 LPs (87%) expect to refuse GP re-investment requests in the coming year, as investors continue to re-shape their PE portfolios in the wake of the financial crisis.

Whereas 18 months ago investors were exhibiting heightened concerns in a whole host of areas, most of these worries have receded. Investors are once again focused primarily on the areas where they have traditionally focused: fund performance, and the strength and stability of a GP's team.

While 59% of North American investors cite capital constraints as a likely reason for refusing re-ups in the coming year, only 18% of Asia-Pacific investors do the same.

Factors likely to deter investor re-ups in the next 12 months

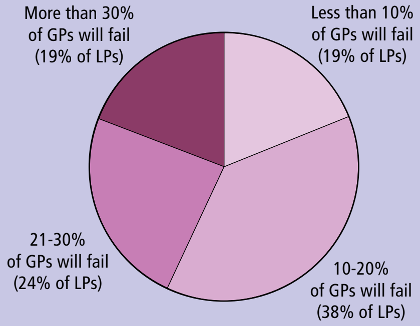


(Figure 8)

One in five GPs now expected to fail in the wake of the downturn

In the wake of the financial crisis, the typical (median) private equity investor expects about one in five GPs to fail (ie, to be unable to raise another fund within the next seven years). Only 19% of investors believe that the proportion of GPs likely to fail will be one third or more.

Proportion of GPs that will *not* be able to raise a new fund within 7 years – by % of LP respondents

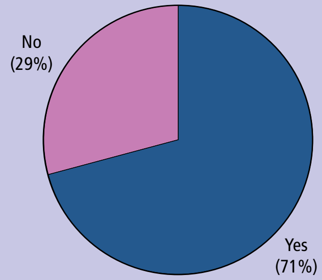


(Figure 9)

LPs expect sector-specialist PE funds to become more common …

GP specialisation will be a growing trend, LPs think. Seven out of 10 LPs (71%) believe sector-specialist funds will become more common in the private equity industry.

LPs expecting sector-specialist PE funds to become more common

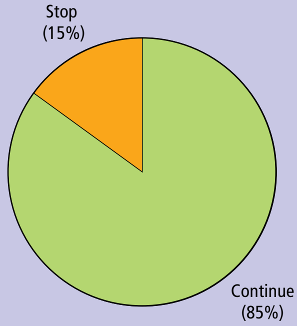


(Figure 10)

… and they believe GPs will continue to focus on operational improvement

Investors foresee GPs maintaining their focus on operational improvement at portfolio companies even as investment conditions improve.

LPs expecting GPs to continue to focus on operational improvement at portfolio companies once investment conditions improve

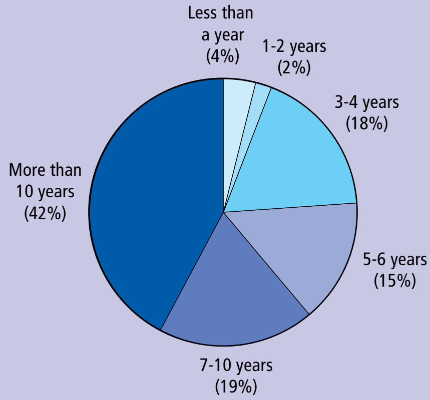


(Figure 11)

Three quarters of LPs have worked for their current employer for at least five years

Three quarters (76%) of LPs have worked for their current employer for five years or more – and 42% of LPs have been with their current employer for at least 10 years.

Years that LPs have worked for their current employer



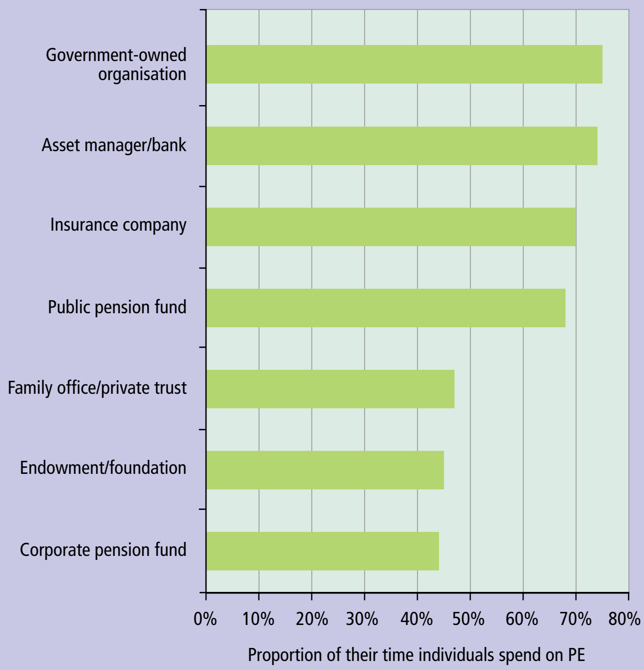
(Figure 12)

Degree of individuals' PE focus varies by LP type

A third of LPs (32%) spend their entire time working on private equity investments, but others have wider responsibilities. The amount of an individual's time dedicated to PE varies according to the type of organisation for which they work.

Individuals working for asset managers/banks, insurance companies, public pension funds and government-owned organisations tend to spend between two thirds and three quarters of their time making and monitoring PE investments. People employed by family offices, endowments, foundations and corporate pension funds, however, typically spend just under half of their time on private equity.

Proportion of time LPs spend making and monitoring PE investments



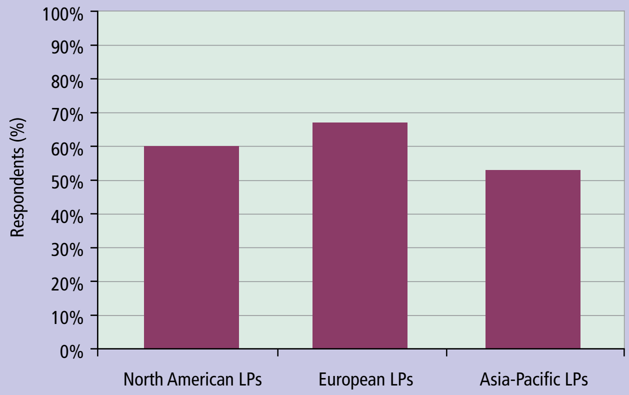
(Figure 13)

Half to two thirds of LPs have performance-related remuneration

Two thirds (67%) of European LPs have a performance-related element to their remuneration, compared with 60% of North American and 53% of Asia-Pacific LPs.

Almost half (46%) of North American LPs that *do* receive performance-related remuneration believe the performance-related element should be higher. For European LPs the equivalent figure is 41%.

LPs *with* performance-related remuneration

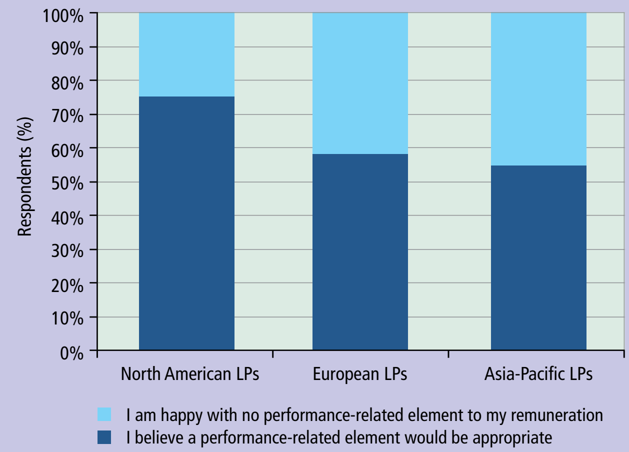


(Figure 14)

Most who do not, think they should

Most LPs *without* performance-related remuneration believe it would be appropriate to have a performance-related element to their remuneration. This is true of three quarters of North American LPs lacking performance-related pay, 58% of European and 55% of Asia-Pacific LPs.

Views of LPs *without* performance-related remuneration

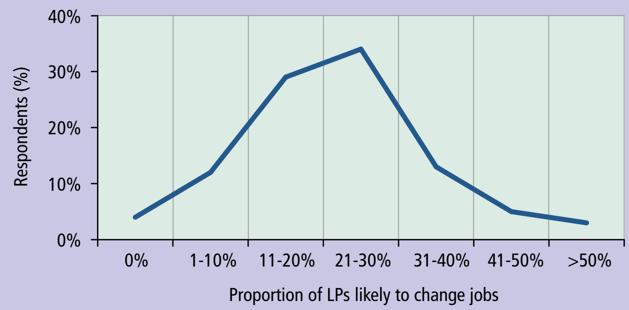


(Figure 15)

A quarter of LPs will change jobs in the near term

On average, LPs believe that a quarter (26%) of their peers will change jobs over the next two years. Given that three quarters of LPs have been with their current employer for five years or more, this suggests a quickening pace of change in the LP community.

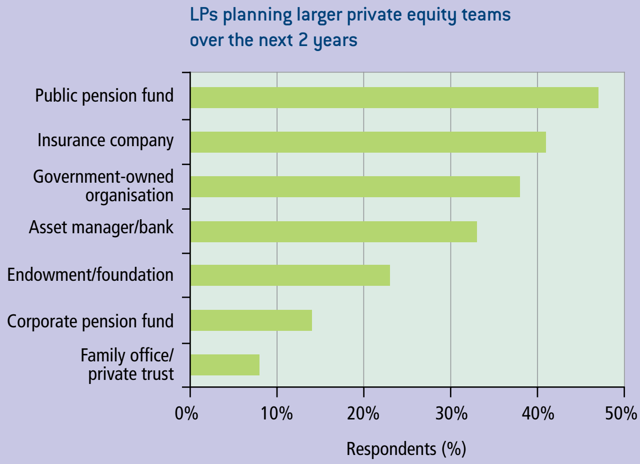
Proportion of LPs likely to change jobs within 2 years



(Figure 16)

A third of LPs to grow their PE teams in next two years

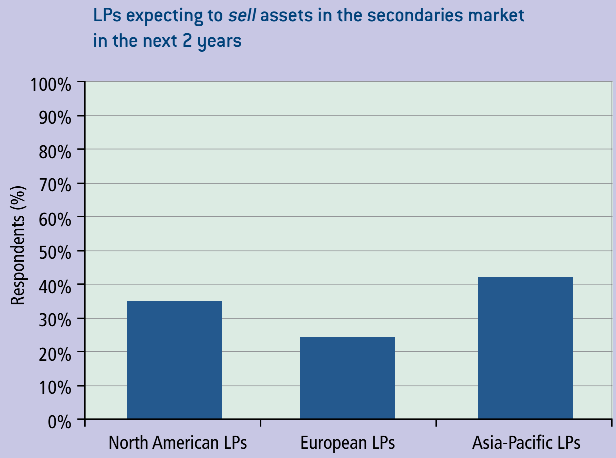
A third (32%) of LPs plan to increase the size of their PE teams over the next two years. Investors' plans vary considerably by type of LP, with 47% of public pension funds expecting to hire more private equity professionals, compared with just 14% of corporate pension funds. A third of asset managers/banks and 41% of insurance companies also plan to augment their private equity teams over the next two years.



(Figure 17)

Secondaries sellers to reach record levels

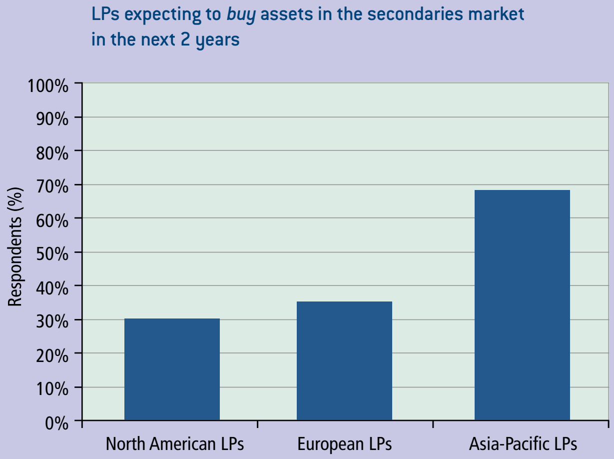
Over one third of North American LPs, one quarter of European LPs, and as many as 42% of Asia-Pacific LPs plan to sell assets in the secondaries market in the next two years. These levels represent a new record for secondaries – in the Summer 2008 *Barometer* only 22% of investors had *ever* sold in the market.



(Figure 18)

Over two thirds of Asia-Pacific LPs plan to *buy* assets in the secondaries market

Over two thirds (68%) of Asia-Pacific investors plan to acquire assets in the secondaries market over the next two years – as do 35% of European and 30% of North American LPs.



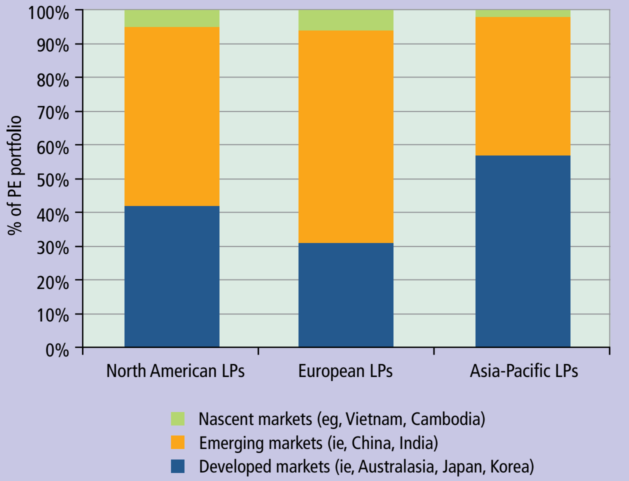
(Figure 19)

Almost two thirds of European LPs' Asia-Pacific PE exposure is to China and India

European LPs are twice as exposed to China and India as to the developed markets of Australasia, Japan and Korea – 63% vs 31% of their exposure respectively. The Asia-Pacific exposure of North American investors is more balanced, with 53% in the emerging markets of China and India and 42% in the developed markets.

About one twentieth of North American and European exposure to Asia-Pacific PE is currently to nascent PE markets such as Vietnam and Cambodia. Perhaps unsurprisingly, Asia-Pacific LPs have a relatively greater exposure to developed Asia-Pacific markets – 57% of their Asia-Pacific portfolios.

Split of Asia-Pacific PE exposure

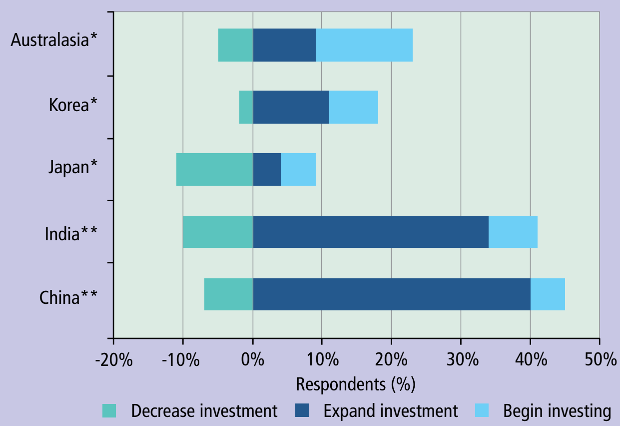


(Figure 20)

LP commitments to Australasia and Korea to grow

Almost a quarter (23%) of LPs plan to increase their exposure to Australasian PE in the next two years, as do 18% of LPs to Korean PE. In Japan, LPs' exposure is likely to stagnate or shrink, with 11% planning to reduce exposure vs. 9% planning an increase. (Investors' plans for exposure in China and India, from the recent *EMPEA/Coller Capital Survey*, are included by way of comparison).

LPs' planned changes to their Asia-Pacific PE exposure over the next 2 years



* Coller Capital's *Global PE Barometer* (Summer 2011)
** *EMPEA/Coller Capital Survey* (Spring 2011)

(Figure 21)

Challenges facing PE investment vary significantly by country

Half (52%) of LPs believe increasing competition between GPs will be a major challenge to PE in Australasia over the next three years. Japan and Korea will face challenges from a scarcity of both established GPs and PE talent generally. Japan will be additionally challenged by a weak exit environment.

Challenges facing PE investment in Australasia, Japan and Korea over the next 3 years – by % of LPs citing a factor

	Australasia	Japan	Korea
Increasing competition for deals	52%	29%	27%
Limited access to capital markets	10%	11%	14%
Limited number of established GPs	27%	41%	37%
Too few good managers for portfolio companies	21%	29%	25%
Entrepreneurs reluctant to share ownership	11%	30%	22%
Scarcity/turnover of PE talent	19%	35%	30%
Difficult regulatory/tax environment	30%	25%	27%
Weak exit environment	8%	44%	27%

(Figure 22)

Coller Capital's *Global Private Equity Barometer*

Respondent breakdown – Summer 2011

The *Barometer* researched the plans and opinions of 110 investors in private equity funds. These investors, based in North America, Europe and Asia-Pacific, 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.

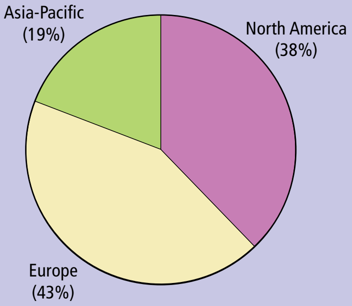
Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital in March-April 2011 by IE Consulting, a division of Initiative Europe (Incisive Media), which has been conducting private equity research for over 20 years.

Notes:

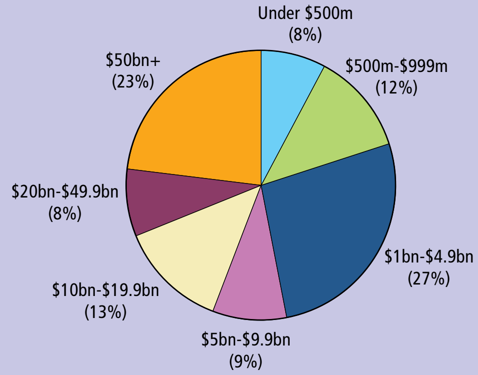
- Limited Partners (or LPs) are investors in private equity funds
- General Partners (or GPs) are private equity fund managers
- In this *Barometer* report, the term private equity (PE) is a generic term covering venture capital, buyout and mezzanine investments

Respondents by region



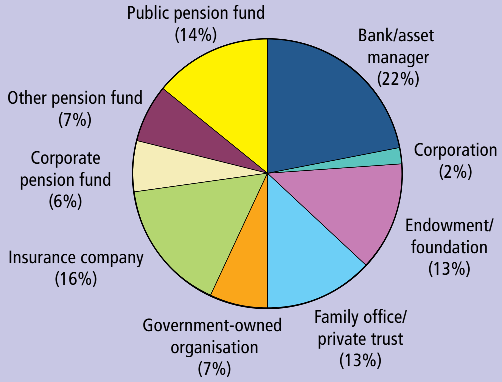
(Figure 23)

Respondents by total assets under management



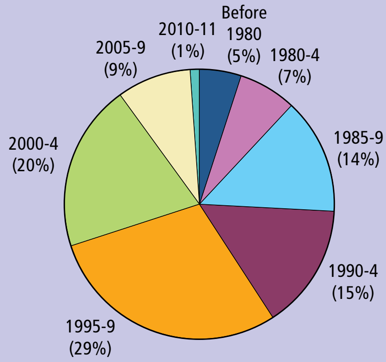
(Figure 24)

Respondents by type of organisation



(Figure 25)

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



(Figure 26)

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