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 based in North America, Europe, and Asia-Pacific (including the Middle East).

This 33rd edition of the Barometer captured the views of 113 private equity investors from around the world. Its 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

This edition of the Barometer includes investors’ views and plans regarding:

- GP communications during the Covid-19 crisis
- Structural risks in PE portfolio construction
- PE investment opportunities in the current environment
- PE allocations and returns
- Co-investments
- LPs’ liquidity needs and the secondary market (including GP-led secondaries)
- ‘Take privates’ of public companies
- Special Purpose Acquisition Companies (SPACs)
- Business sector-focused strategies
- Ethnic diversity within PE
- Distressed and turnaround strategies – exposure, return expectations, default rates
LPs satisfied with GPs’ Covid-19 communications

Nearly all LPs are fairly or highly satisfied with how their GPs have communicated during the Covid-19 crisis.

Over a third of investors reported being highly satisfied with their managers’ communications – and this included approaching half (45%) of North American LPs.

Virtual AGMs are here to stay

Most LPs believe virtual AGMs will be common in the future, but as a complement to, rather than a replacement for, face-to-face AGMs.

Relatively few investors think virtual AGMs will replace face-to-face meetings or that virtual AGMs will disappear again once travel and social distancing restrictions are relaxed.

PE travel will never return to pre-Covid levels, LPs believe

Over four fifths of LPs think PE-related travel will be reduced permanently as a result of the Covid-19 crisis.
Investors will focus more on structural risks in portfolio construction

Two-thirds of investors believe the Limited Partner community as a whole will in future take more account of structural risks (such as pandemics, climate change, or geopolitical tensions) in their portfolio construction.

Almost all investors think now is a good time for GPs to invest

Almost all LPs believe that the months ahead will offer many good opportunities for private equity investment by their General Partners.

Just one in ten LPs believe GPs should pause or slow their investment pace until the Covid-19 crisis is resolved.

Almost all LPs think North America is attractive for PE investment now

The current environment for private equity investment is seen as attractive in all regions of the world.

This is especially true of North America – where 96% of LPs think there will be attractive investment opportunities in the near future.
LPs expect strong PE returns over the next 3-5 years

Over four fifths of Limited Partners expect to achieve annual net returns of more than 11% from their private equity portfolios in the next 3-5 years. 13% of private equity investors are forecasting net returns of over 16%.

Two in five investors say a review of LP co-investment policies is likely

Over two fifths of Limited Partners believe that changes in the investment environment mean that a review of LP co-investment policies is now likely.

A third of LPs to remedy liquidity shortfalls via new credit facilities/asset disposals

Almost a third of Limited Partners plan to use new credit facilities or asset disposals to remedy liquidity shortfalls in their private equity portfolios over the next couple of years.

While European and Asia-Pacific LPs are almost equally likely to choose each of these routes, North American investors are twice as likely to choose asset disposals over new credit facilities.
Well-structured GP-led secondaries are overwhelmingly popular with LPs

The large majority of private equity investors welcome well-constructed GP-led secondary transactions, believing that they increase optionality for both Limited and General Partners.

Half of LPs plan to access the secondary market in the next two years

Just over half of LP institutions plan to utilise the secondary market in the next two years, either as a buyer or a seller – or both. One in five Limited Partners plan both to buy and to sell assets.

PE portfolio re-shaping to drive secondary market sales

Re-focusing their portfolios in favour of individual managers or particular types of private equity will be important reasons for LPs to sell assets in the secondary market in the next two years, complementing a desire to boost liquidity in their portfolios.

These priorities are broadly similar to those shown by investors at the time of the Global Financial Crisis (in the Barometer of Winter 2008-09).
Number of ‘take privates’ likely to rise, LPs believe

Three quarters of LPs believe the number of ‘take privates’ of public companies by private equity firms will rise over the next two years. Investors from all regions of the world share this view.

Very few PE investors plan to invest in SPACs

The large majority of LPs have not recently invested in a SPAC (Special Purpose Acquisition Company) and have no intention of doing so in the future.

PE offers a better risk/return profile than SPACs, LPs say

Seven out of ten LPs believe that private equity offers a better risk/return profile than SPACs. Just one in twenty five PE investors sees SPACs’ risk/return profile as superior to private equity’s.
SPACs are a cyclical phenomenon, LPs believe

Around two thirds of LPs believe that SPACs will prove to be a temporary, cyclical phenomenon. This proportion rises to almost three quarters among North America-based investors.

Longevity of the SPACs phenomenon – LP views

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>36%</td>
<td>They will remain an important feature of the investment landscape</td>
</tr>
<tr>
<td>64%</td>
<td>They will prove to be a temporary / cyclical phenomenon</td>
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</tbody>
</table>

LPs retain enthusiasm for alt assets – but become cautious about real estate

Investors plan to increase their target asset allocations to alternative assets over the next year – as they have done annually for many years. However, they are significantly more cautious about real estate than twelve months ago.

LPs’ planned increases to their allocations to private equity and private credit largely mirror last year’s intentions. By the same token, investor appetite for hedge funds continues its apparently relentless decline.

Change to LP allocations to alternatives in the next 12 months

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>2021 Increase</th>
<th>2020 Increase</th>
<th>2019 Decrease</th>
<th>2018 Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alternative assets</td>
<td>36%</td>
<td>42%</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>Private equity</td>
<td>35%</td>
<td>35%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>42%</td>
<td>42%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Real estate</td>
<td>29%</td>
<td>19%</td>
<td>5%</td>
<td>16%</td>
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<tr>
<td>Hedge funds</td>
<td>37%</td>
<td>35%</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td>Private debt / credit</td>
<td>42%</td>
<td>37%</td>
<td>5%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Almost half of LPs plan to increase their industry sector focus

Many LPs plan to increase the sector focus of their private equity programmes in the coming years. Almost two thirds (64%) of Asia-Pacific investors say that they intend to do this.
LP plans to boost sector focus vary by target industry

Overall, investors prefer buyout funds to venture/growth ones in seeking a higher exposure to online retail and to telecoms services/online media/entertainment (though there is clear Limited Partner appetite for both strategies).

However, almost four times as many investors plan to boost exposure to biotech and drug discovery via venture/growth funds than via buyout funds.

Sports-focused PE funds will remain a niche LP interest

Only 7% of LPs are likely to commit to a private equity fund focused significantly on sports franchises and leagues in the next few years.

Ethnic diversity within the PE industry will accelerate, LPs say

Two thirds of LPs expect ethnic diversity within the private equity industry to accelerate over the next few years, saying that an increased focus by the industry is likely to bring about faster change.
Over two thirds of LPs expect today’s distressed debt funds to achieve returns of 11%+

Seven out of ten LPs expect to achieve annual net returns of more than 11% from distressed debt funds that are currently investing. 17% of investors are forecasting net returns of over 16%.

LP appetite for turnaround / distressed strategies has accelerated

Almost one third of investors are planning to increase their exposure to private equity turnaround and distressed strategies in the next two to three years. This compares with fewer than one in five (20% of) LPs who were planning to do so in the Barometer of Winter 2018-19.

One in five LPs sees rising default rates as problematic for Asia-Pacific private debt

Overall, investors believe higher default rates will be a manageable problem for the world’s private debt funds. Only 10% of LPs believe higher defaults will be a major problem for North American debt funds, but this figure rises to 22% of LPs for Asia-Pacific funds.
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Research methodology

Fieldwork for the Barometer was undertaken for Coller Capital from 14 September to 16 October 2020 by Arbor Square Associates, a specialist alternative assets research team with over 50 years’ collective experience in the private equity field.

Respondent breakdown – Winter 2020-21

The Barometer researched the plans and opinions of 113 investors in private equity funds. These investors, based in North America, Europe, and the Asia-Pacific region (including the Middle East), comprise a representative sample of the LP population worldwide.

Respondents by type of organisation

- Corporation: 3%
- SWF/Govt-owned organisation: 8%
- Endowment/foundation: 8%
- Insurance company: 17%
- Family office/private trust: 8%
- Bank/asset manager: 23%
- Corporate pension fund: 11%
- Public pension fund: 22%
About Coller Capital

Coller Capital is one of the world’s leading investors in private equity’s secondary market – widely acknowledged as an innovator at the complex end of secondaries.

The firm provides liquidity solutions to private equity investors worldwide, acquiring interests in private equity funds, portfolios of private companies, and other private equity-related assets. Headquartered in London, and with offices in New York and Hong Kong, Coller Capital’s multinational investment team has a truly global reach.

In December 2015, the firm closed Coller International Partners VII, with capital commitments of $7.15 billion and backing from approximately 170 of the world’s leading institutional investors.

Notes

Limited Partners (or LPs) are investors in private equity funds. General Partners (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.