Coller Research Institute

Global Private Equity Barometer

Winter 2023-24

Coller Capital

First in Secondaries

Coller Capital's
Global Private Equity Barometer

Since 2004, Coller Capital's *Global Private Equity Barometer* has provided 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 39th edition of the *Barometer* captured the views of 110 private equity investors from around the world. Its findings are 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:

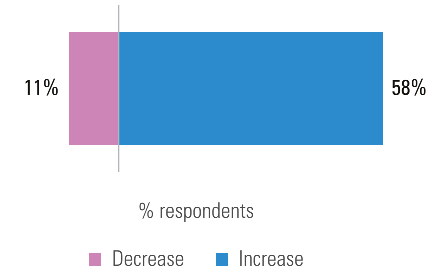
- M&A activity amongst private market managers
- LPs' views on Artificial Intelligence and Machine Learning
- Venture capital recovery rate expectations
- Newly proposed SEC regulations
- Co-investment interest and opportunities
- Continuation vehicles
- Stapled transactions and strategy shift
- Impact of higher interest rates on private credit
- PE transactions financing outlook
- Private wealth capital growth
- APAC buyout opportunities
- GP return expectations
- Performance related compensation
- LPs views on historical and future annual net returns

Majority of LPs anticipate growth in M&A activity across private market managers

Almost three fifths of LPs expect to see higher volumes of M&A activity amongst private market managers over the next 3-5 years with European LPs expressing strongest support of the notion. Current interest rates, fundraising challenges and increased regulatory costs could be potential factors shaping LP perspectives.

Fig 1

LPs views on change in M&A levels amongst private market managers

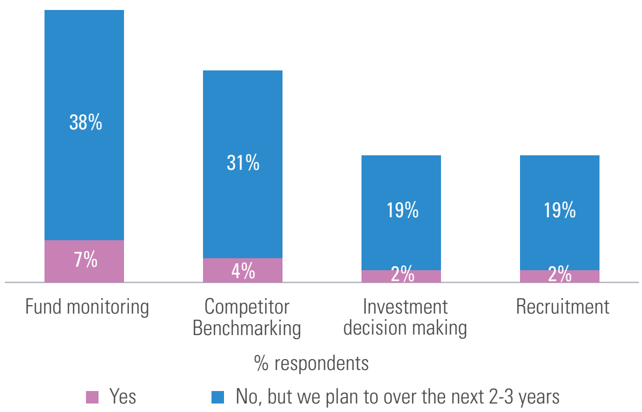


Integration of AI across processes expected over the next 2-3 years

AI integration across processes is expected to increase over the next 2-3 years as LPs recognise potential growth in AI-driven solutions. 38% of LPs plan to implement AI across fund monitoring, whilst 31% stated they would look to utilise AI capabilities as part of their competitor benchmarking efforts. European LPs are most likely to integrate AI across the range of processes. LPs are least likely to integrate AI to improve recruitment or investment decision making.

Fig 2

AI integration across processes – LPs views



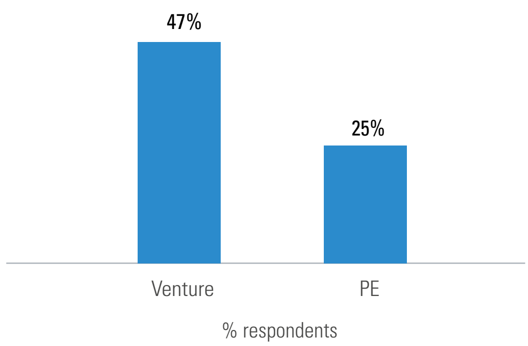
LPs show appetite for AI focused VC funds

Nearly half of LPs report interest in venture funds specifically targeting AI investments. European LPs displayed the strongest investment appetite across both VC and PE AI focused funds.

Broader AI adoption across a range of industries along with future advancements in technology, could pave the way for new market entrants and increased opportunities, leading to sustained LP engagement.

Fig 3

AI focused PE vs Venture Fund investment interest – LP views



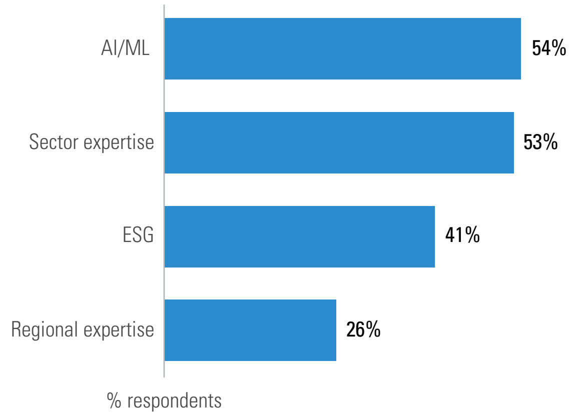
LPs view AI/ML as a key specialist area to build capabilities in order to improve investment selection abilities

54% of LPs acknowledge the need to develop an in-house AI/ML skillset to enhance their organisational ability to optimise investment decision making.

Over half of LPs also highlighted the importance of developing sector expertise.

Fig 4

AI/ML viewed as a top specialist area to develop capabilities in – LPs views

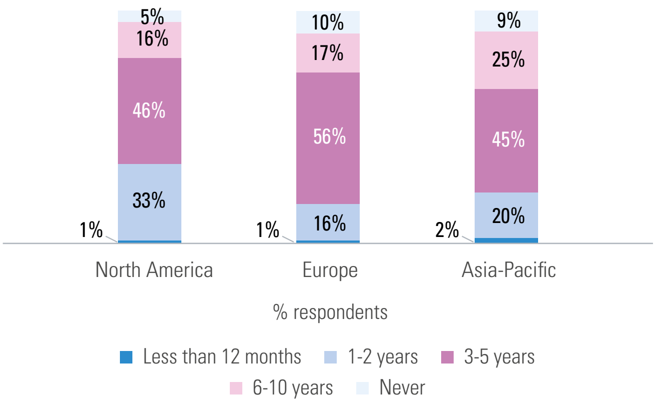


LPs optimistic for a recovery in VC activity

Whilst LPs don't foresee VC activity exceeding 2021 levels in the next 12 months, a greater display of optimism is evident over the next 1-2 years. LPs are most bullish about a recovery in VC activity in North America compared to the rest of the world. The future VC recovery expectation might be an indication of adjustment in investors' valuation along with risk-return expectations, as they continue to navigate and adapt to the current macro-economic conditions.

Fig 5

LPs expectations for VC activity surpassing 2021 levels across the regions



Note: Totals may not add up due to rounding.

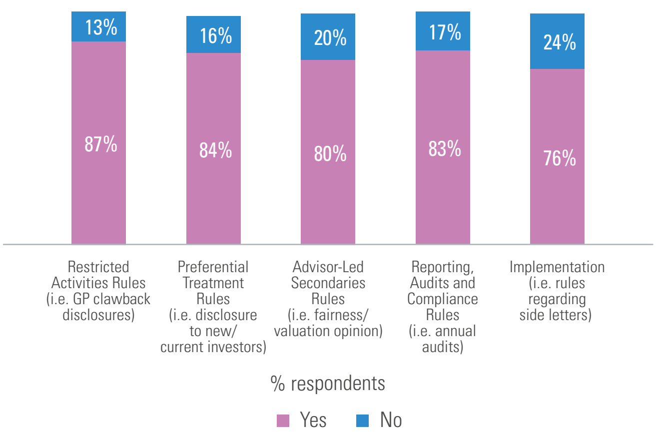
LPs expect newly proposed SEC regulation to help transparency and alignment

LP's believe SEC's proposed new "Private Funds Rules" would have positive impact on transparency and alignment.

In particular, LPs believe the Restricted Activities Rules, such as GP clawback disclosures, will lead to enhanced transparency.

Fig 6

Will the following recent SEC proposals relating to the 'Private Funds Rules' be helpful in improving transparency and alignment?

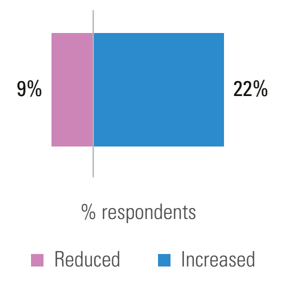


LPs appetite for co-investments has increased over the past 12 months

A fifth of LPs have increased their interest in co-investment opportunities, more than double the number of respondents who expressed a reduced inclination to engage in the strategy. The shift in appetite could be attributed to greater LP sophistication in the selection of investment opportunities, typically lower than fund commitments fees, and a potentially growing aim to commit funds to previously under-allocated strategies.

Fig 7

Change in co-investment appetite over the past 12 months – LP views

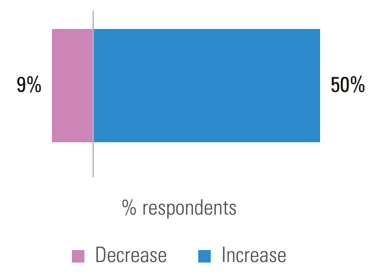


Half of LPs anticipate greater availability of co-investment opportunities over the next 12 months

Half of LPs expect to see increased co-investment deal flow offered by GPs. The view was unanimous among LPs across all regions. LPs demand for co-investment opportunities would likely find a favourable response from GPs which would be keen to accommodate the evolving requirements of their investor base. In turn, LPs' co-investment participation could also widen the scope of potential asset acquisition opportunities.

Fig 8

LPs expectations for shifts in co-investment opportunities availability – next 12 months

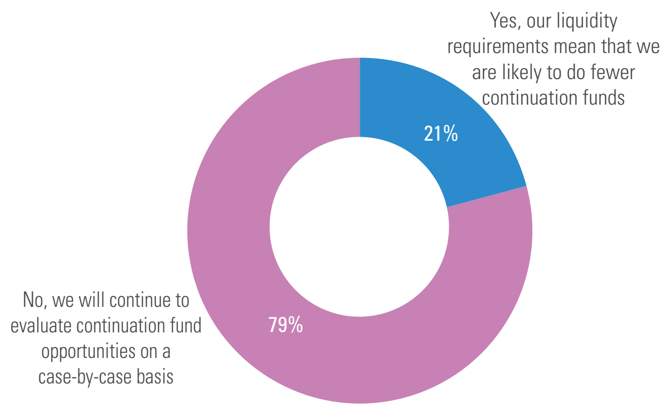


Interest in continuation funds likely to remain unchanged

Four fifths of LPs say they will continue to evaluate continuation fund opportunities offered by their GPs on a case-by-case basis. For the remaining respondents, liquidity requirements are likely to constrain their participation in continuation funds.

Fig 9

Do you anticipate the likelihood of your institution investing in continuation funds offered by your current GPs to change over the next 12-18 months?

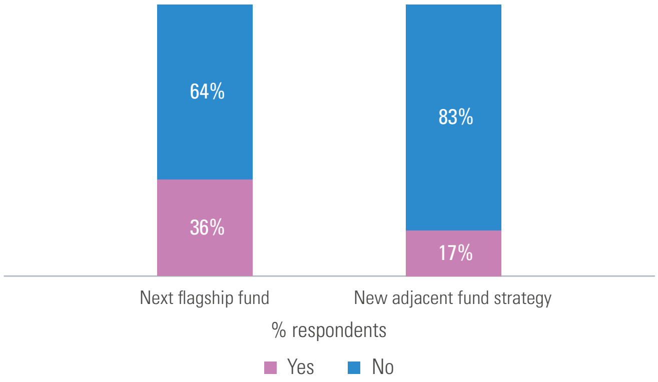


LPs express reluctance to invest in GP-leds with a staple

Over four fifths of LPs are not prepared to invest in GP-leds that involve a stapled commitment to a new adjacent fund strategy, whilst nearly two thirds have no interest in participating in GP-leds with a stapled commitment to the GP's next flagship fund.

Fig 10

LPs display little interest in investing in GP-led transactions with a stapled element

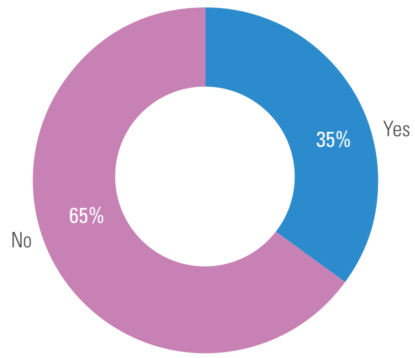


LPs hesitant to see GPs flex investment strategy to deploy dry powder

Two thirds of LPs are reluctant to allow their GPs to flex their investment strategy given current market conditions. North American LPs displayed the least willingness to see their GPs adjust their investment strategy, whereas Asian LPs were the most prepared to tolerate GPs flexing their investment approach.

Fig 11

Are you happy for your GPs to flex their investment strategy in order to deploy dry powder?



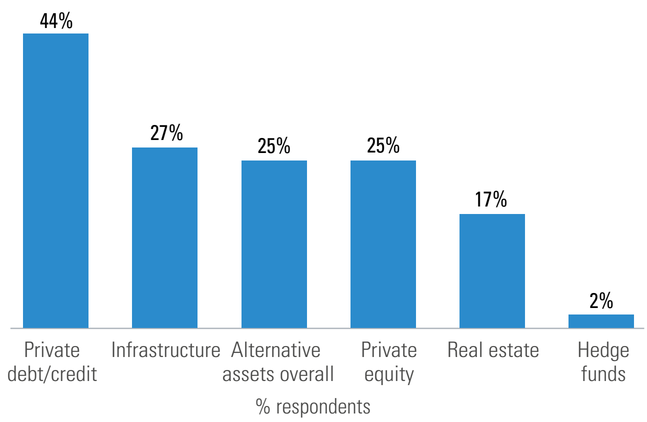
LPs most likely to increase target allocation to Private Credit

44% of LPs anticipate target allocations to private credit to increase over the next 12 months, the greatest increase of any strategy. In contrast, LPs are most likely to decrease their target allocation to Hedge Funds and Real Estate.

Anticipation of higher for longer interest rates, continued expectations for diminished near-term bank lending, and unfavourable macro-economic dynamics will likely continue to provide conditions for private credit to remain an attractive opportunity as a broader set of investors gain experience and exposure to it.

Fig 12

LPs planned increase in target allocation by asset class – next 12 months

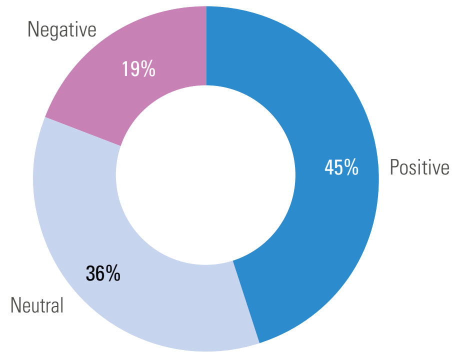


Current interest rate environment seen as favourable for private credit portfolios performance

Nearly half of LPs reported that the current interest rate environment has positively impacted the performance of their private credit portfolios. For 36% of the respondents, the effects of higher interest rates on their private credit portfolios are yet to materialise.

Fig 13

Impact of higher interest rates on performance of private credit portfolios

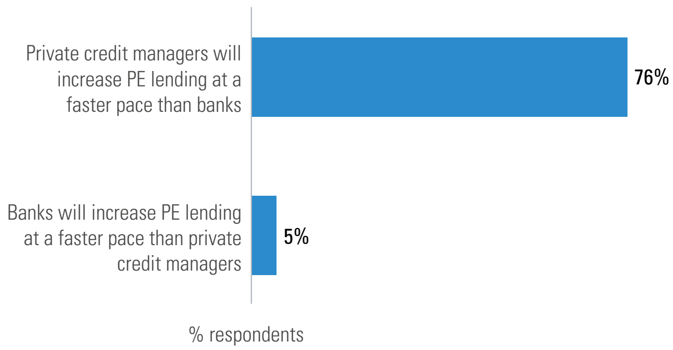


LPs believe private credit managers will increase PE lending at a faster rate than banks

Three quarters of LPs think that private credit managers will lend to private equity at a faster pace than banks over the next 1-2 years. Just 5% of LPs expect bank lending to outpace private credit managers.

Fig 14

Banks vs private credit managers PE financing over the next 1-2 years – LP views

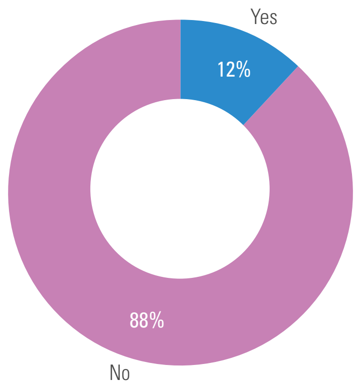


Majority of LPs are not prepared to borrow to finance new fund commitments

Nearly 90% of LPs say that they do not see borrowing to fund new commitments as a viable approach over the next 1-2 years. The views were consistent among LPs across all regions.

Fig 15

Willingness to borrow to finance new fund commitments in the next 1-2 years – LP views

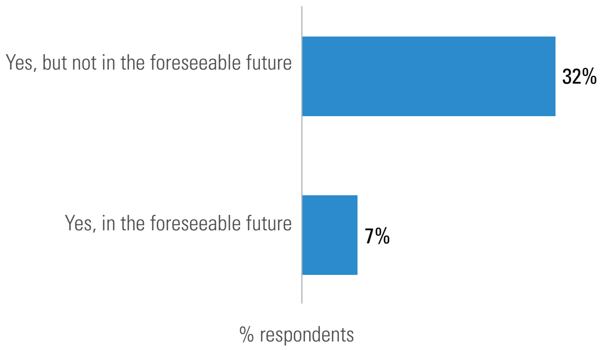


LPs see private wealth/retail capital making up a meaningful component of total capital levels over time

One third of LPs anticipate private wealth/retail capital across PE to reach institutional capital levels eventually, whilst 7% of respondents consider this achievable in the foreseeable future.

Fig 16

LPs believe private wealth/retail capital will reach institutional capital levels eventually

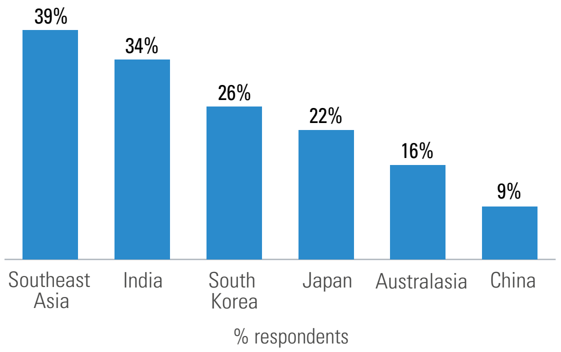


India and Southeast Asia viewed as most attractive markets for buyout opportunities in Asia

One third of LPs view India and Southeast Asia as attractive markets for buyout opportunities. Since we last asked LPs for their views in the *Summer 2018 Barometer,* more LPs are looking at Asia on a country by country basis.

Fig 17

Asia-Pacific private markets attractiveness in the next three years – LP views

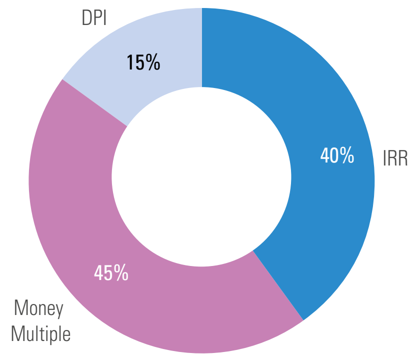


Money Multiple and IRR viewed by LPs as the most important performance measures

Over four fifths of LPs believe that money multiple and IRR are the most important performance measures. Only 15% of LPs recognise DPI (Distributed to Paid-in Capital) as the key performance indicator.

Fig 18

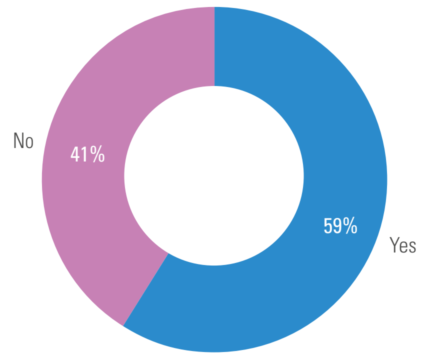
What is the most important PE performance measure for your institution – LPs view



Majority of LPs have an element of their compensation tied to the performance of their institutions' PE portfolio

59% of LPs report that a component of their compensation is tied to the performance of their institution's PE portfolio. The relative distribution remains largely the same since last reported in the *Summer 2018 Barometer.*

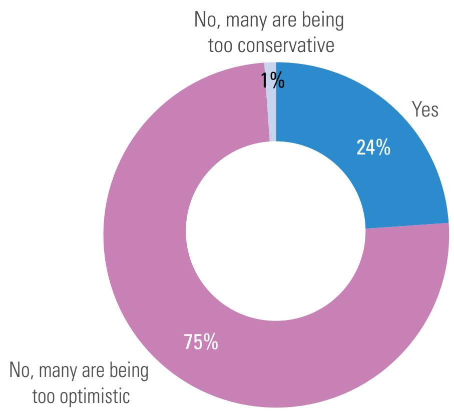
Fig 19 Ratio of LPs' compensation which is tied to their institutions' PE portfolio performance



LPs view GPs return expectations as too optimistic

Three quarters of LPs believe that GPs are being too optimistic in their returns' expectations.

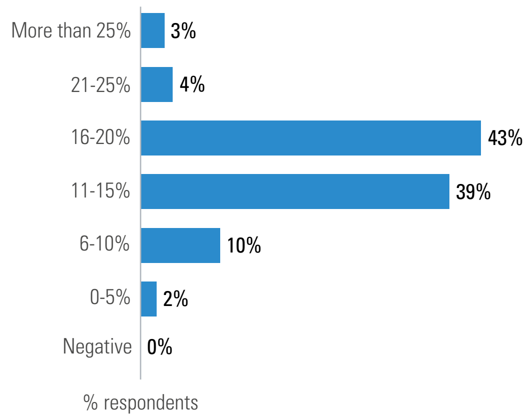
Fig 20 Are GPs being realistic with their return expectations? – LP Views



Over the past 5 years, the majority of LPs have achieved 11-20% annual net returns across their PE portfolio

Fourth fifths of LPs have seen 11-20% annual net returns across their private equity portfolio over the last 5 years. This is a slight decrease from 2018 levels when 85% of respondents achieved returns across the same range.

Fig 21 Annual net returns achieved across LPs' PE portfolio over the last 5 years

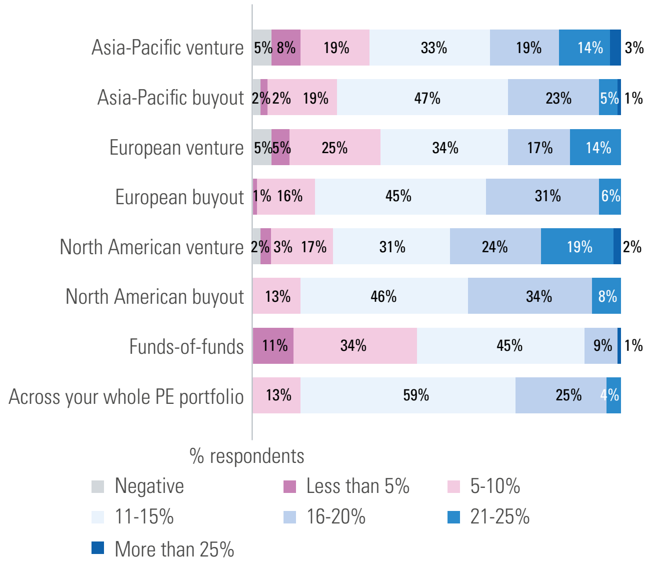


Most LPs expect their PE portfolio to generate net returns within the 11-15% range

59% of LPs expect to achieve annual net returns across their entire PE portfolio within the 11-15% range in the next 3 to 5 years. Buyout seen as able to deliver higher returns overall.

Fig 22

What annual net returns do you expect from PE in the next three to five years?



Note: Totals may not add up due to rounding.

Coller Capital's Global Private Equity Barometer

Research methodology

Fieldwork for the *Barometer* was undertaken for Coller Capital from 19 September to 3 November by Arbor Square Associates, a specialist alternative assets research team with over 50 years' collective experience in the PE arena.

Respondent breakdown – Winter 2023-24

The *Barometer* researched the plans and opinions of 110 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. In total, the investors surveyed oversee an aggregate minimum of $2.2 trillion in assets under management.

Fig 23 Respondents by region

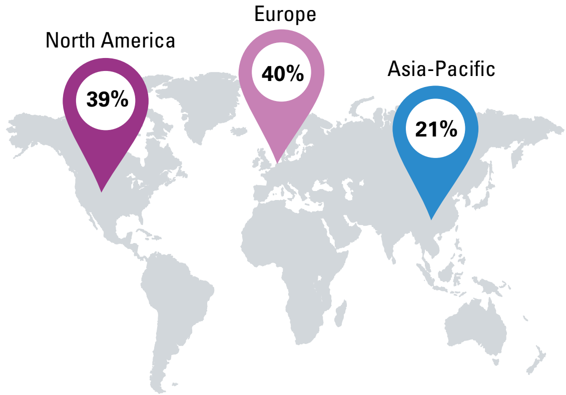


Fig 24 Respondents by total assets under management

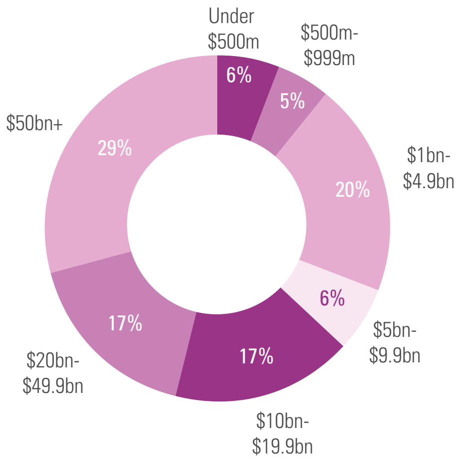


Fig 25 Respondents by year in which they started to invest in private equity

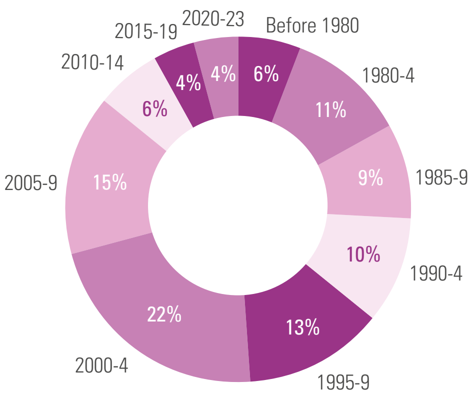


Fig 26 Respondents by type of organisation

Bank – investing the bank's own capital only	3%	Pension fund – public	17%
Bank/Asset Manager – investing third party funds only	11%	Endowment/ foundation	10%
Bank/Asset Manager – investing the bank's own capital & third party funds	6%	Family office/ private trust	14%
Corporation	1%	Government-owned organisation/SWF	7%
Pension fund – corporate	14%	Insurance company	17%

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, Seoul and Luxembourg, 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.

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.

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