Inaugural Limited Partners Sentiment Survey

2024-2025 Edition

ilpa INSTITUTIONAL LIMITED PARTNERS ASSOCIATION

Foreword by ILPA CEO Jennifer Choi

As the only global organization dedicated exclusively to advancing the interests of Limited Partners and their beneficiaries, we set out to more formally capture their perspectives in our *Inaugural LP Sentiment Survey*.

While the needs, experiences and priorities of our member LPs are varied, a story did emerge.

LPs are indicating stability with allocations at target and returns as expected, but many are signaling changes ahead.

In addition to planning an increase to their PE policy target, many are shaking up their manager rosters and commitment sizes and turning an eye towards the middle market. Co-investments remain popular due to low fees and great returns.

LPs will do more with less as teams are projected to remain fairly lean.

With this potential for movement on the horizon, there is an opportunity to strengthen LP/GP alignment and transparency, though LPs are already reporting some strides in communications and reporting.

Stay tuned for more around this data in the months ahead.

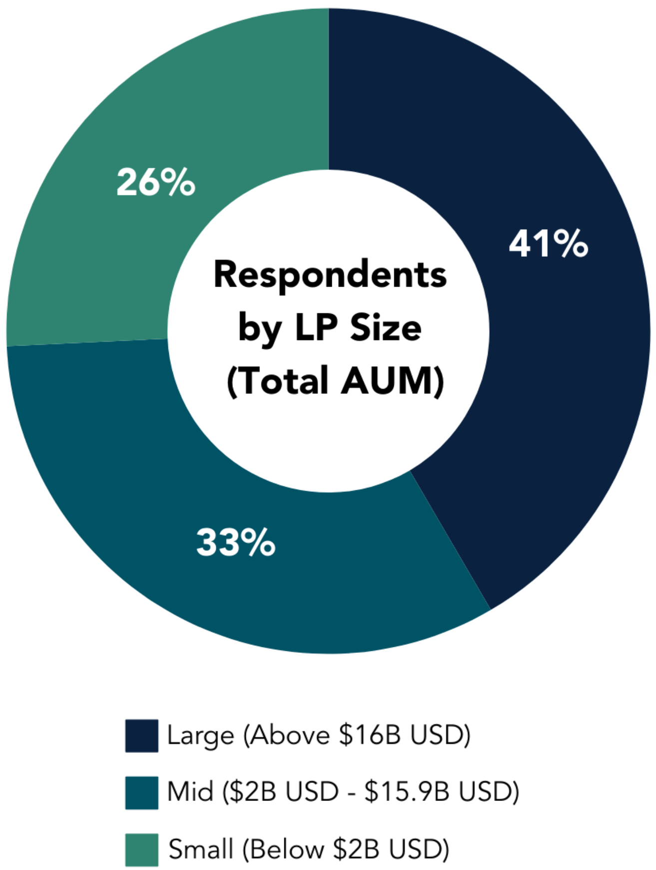
About the Survey

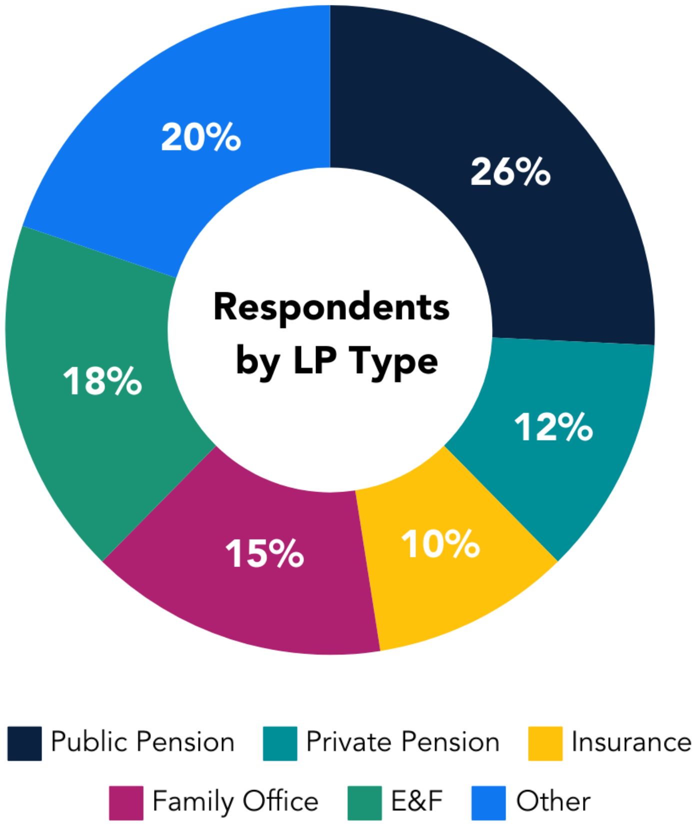
Survey Background

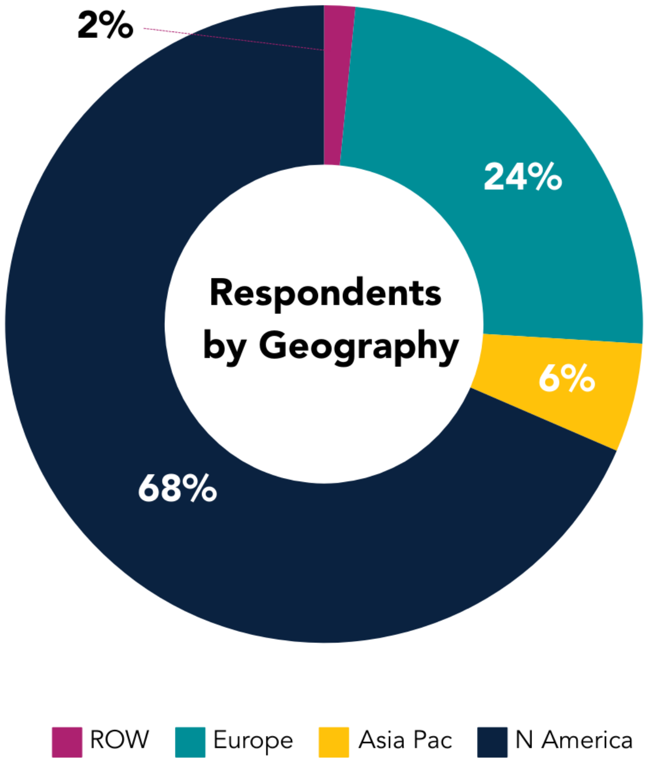
- Conducted among senior-level investment professionals (Heads of PE) in Q4 2024
- Gathered information around:
  - Private equity allocation strategies
  - Attitudes toward industry trends
  - Challenges and opportunities related to resourcing, co-investment programs, GP relationships, and fund reporting
- All responses were anonymized and aggregated to ensure confidentiality

Profile of Survey Respondents

ILPA's **618** member organizations represent a diverse array of LPs by size, type and geographic location. The survey sample of **101** respondents proportionally matched the makeup of the ILPA membership in these areas.







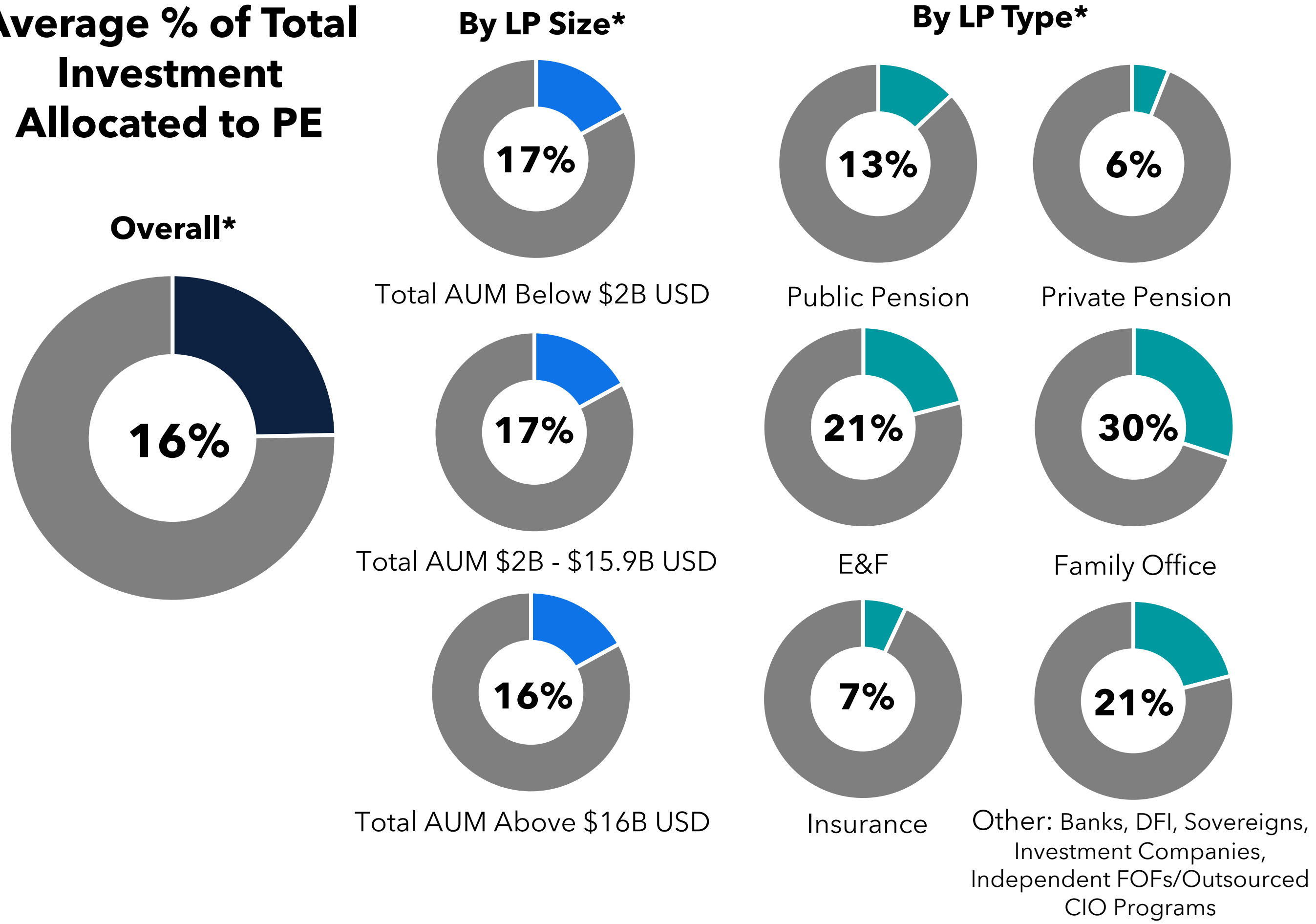
n=101

*Other includes DFI, Sovereign Fund

Landscape of Allocations and Check Sizes

For the survey, **Private Equity** was defined as buyout, growth and venture.

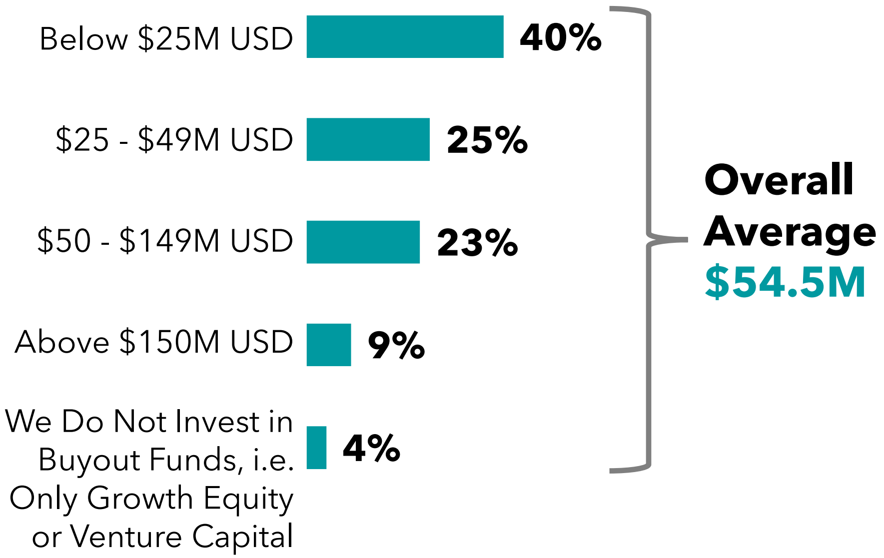
Average % of Total Investment Allocated to PE



Average Five-Year Net Returns Expected for PE

2x Net MOIC
15% Net IRR

Average Current Commitment Per Buyout Fund



*For smoothing, excluded 10 respondents from sample of 101 who reported being 100% allocated to PE, the majority of which were from the 'Other' category.

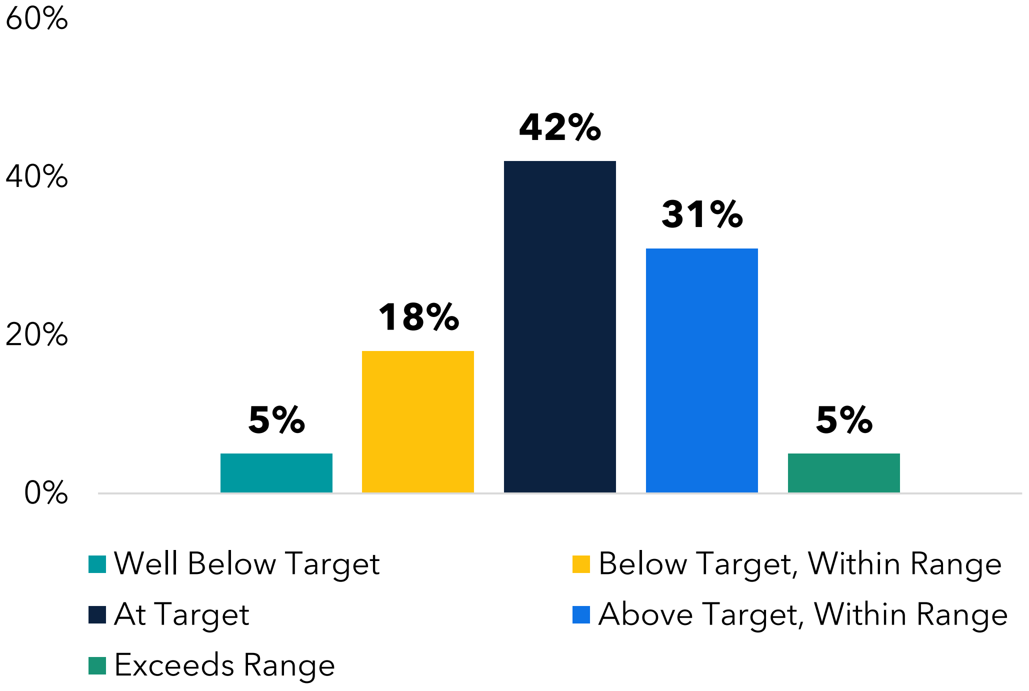
n=101

Key Findings

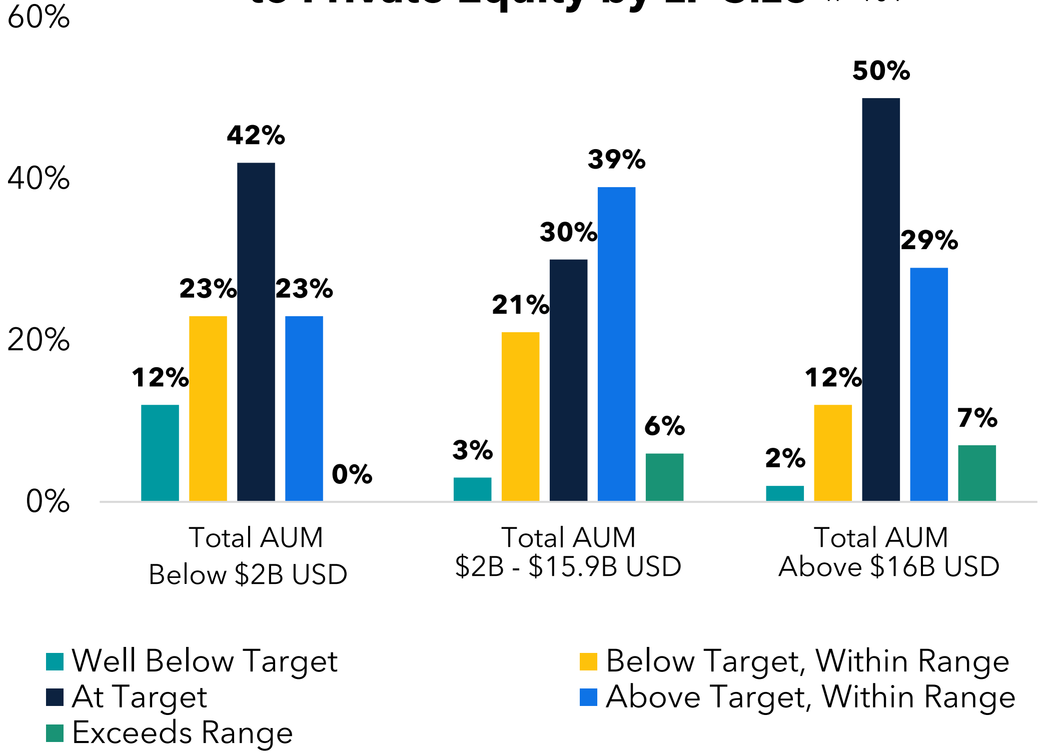
Current Allocations to Private Equity Are At Target

As of Q4 2024, approximately **90%** of institutions reported their current allocations to PE were at target or within range; Larger LPs were slightly more likely to report being at target with allocations.

Status of Institution's Current Allocation to Private Equity n=101



Status of Institution's Current Allocation to Private Equity by LP Size n=101

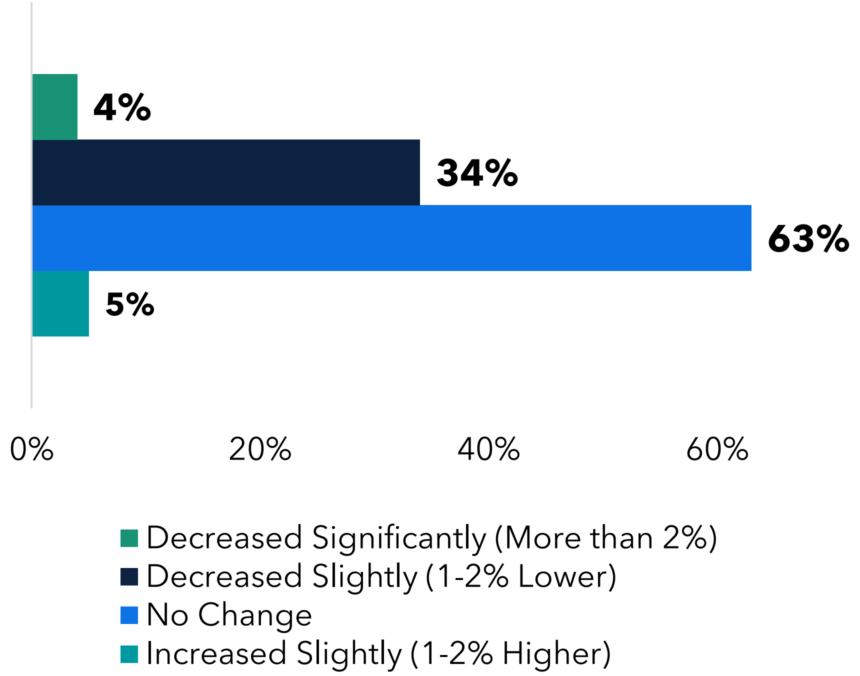


Allocation trends were consistent across geographies, though North American LPs were the only region to report instances of being well below target or exceeding their target range.

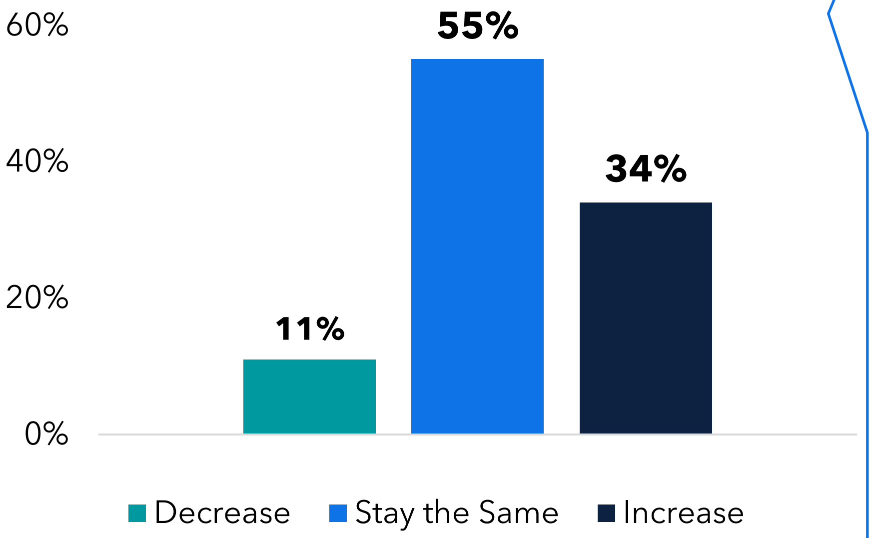
Programs Holding Steady, Still Support for PE

Most (**63%**) respondents reported no changes in five-year net return assumptions for PE—with more than a third (**38%**) anticipating a decrease. Still, **55%** of respondents said they expected their PE policy target to stay the same for the foreseeable future with a third (**34%**) even anticipating an increase; this was a consistent finding across LP type, size and geography, signaling continued support for PE's role in portfolios.

Changes to Five Year Net Return PE Program Assumptions Over Last 12 Months n=101



Policy Target Movement Over Next Five to 10 Years* n=101



*Policy target defined as the amount of the total portfolio allowed for allocation to PE.

"No change to PE allocation but [the] Board is challenging status quo. What's needed to win in PE in the next 5-10 years?"

"[We're] spending time on the role of PE in the portfolio, amid a three-year planning process, ensuring we have the right objectives and risk metrics."

"PE allocation as a percentage of AUM is expected to decrease given challenging recent returns and go-forward expected relative performance."

Adjustments Planned for Programs

When it comes to adjusting programs by commitment sizes or manager relationships, a third (**32%**) will maintain their approach. However, most (**68%**) are planning adjustments to either their commitment sizes, manager relationships or both.

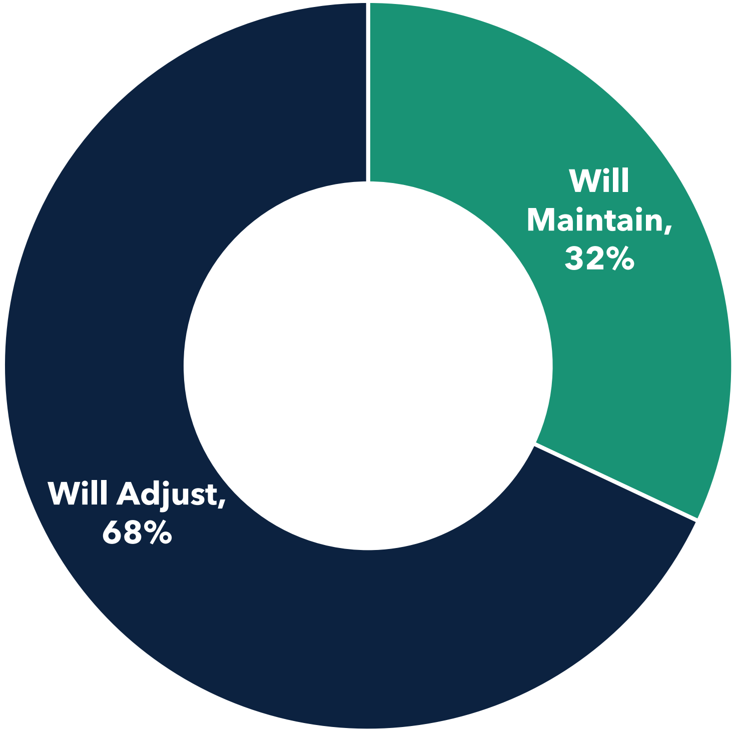
For reference, respondents average **20+** manager relationships; this is consistent across LP type and size.

"Modest changes to commitment size and number of managers in line with portfolio growth and construction targets."

"Trying to do more with our best names; liquidity has constrained commitment sizes."

"We typically increase our fund commitments with proven managers over fundraising cycles."

Plans to Adjust Private Equity Program Over Next 24 Months n=101

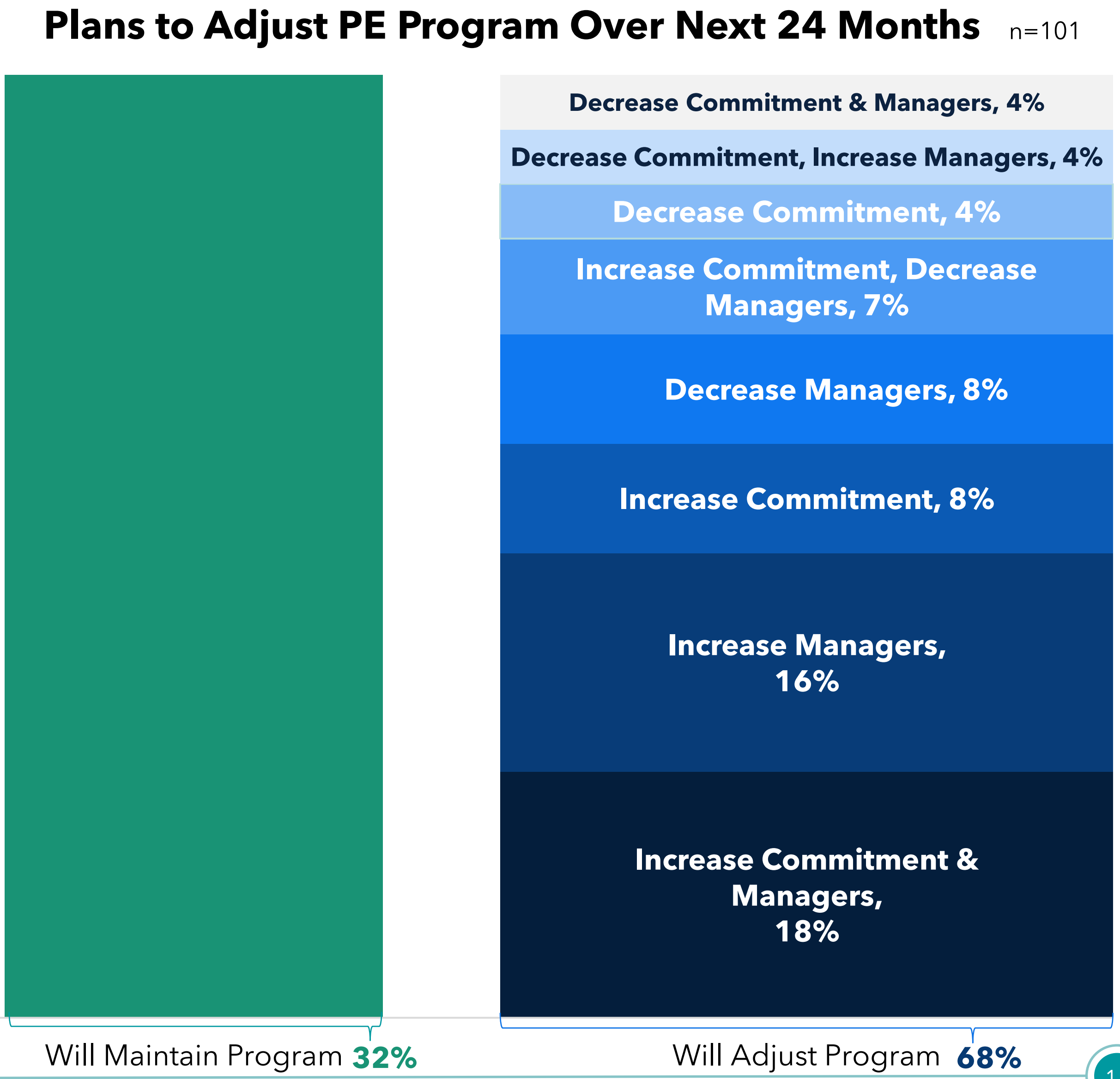


Those Adjusting Programs Opting for Growth

Of those opting to adjust their programs, **58%** expected to change up the number of managers, with more planning increases than decreases.

Fewer than half (**44%**) of those adjusting their programs expected to alter commitment sizes, with more planning increases than decreases.

> "In such a constrained liquidity environment, every re-up is a unique case by case decision."
>
> "We believe in judiciously stepping away from GP relationship to avoid too many GP relationships."
>
> "Our ability to make commitments to new managers has been constrained in this environment and we are mostly focused on re-ups."



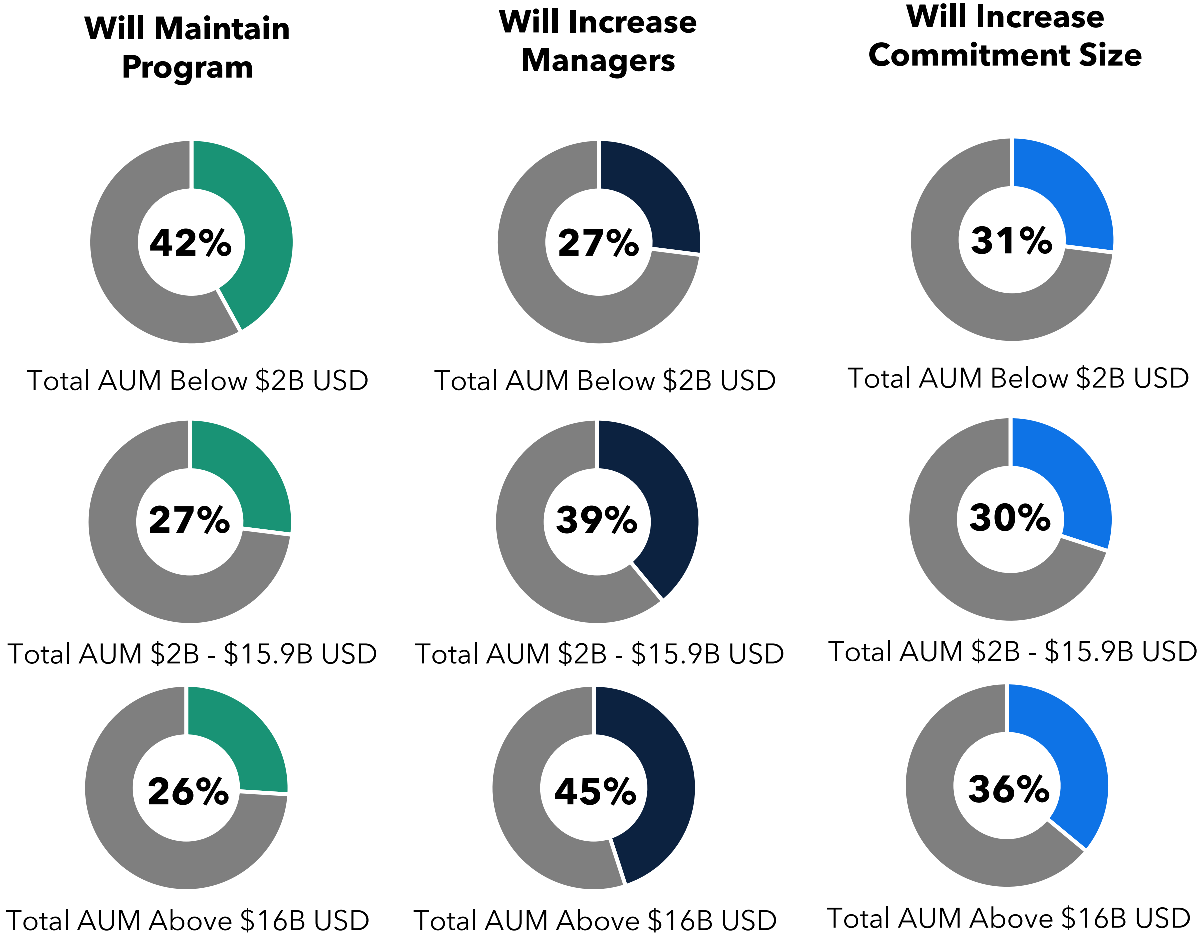
Plans for Programs Consistent Across Size and Type

Smaller LPs were **slightly more likely** to say they will maintain their programs, while larger LPs were **slightly more likely** to plan to increase managers.

But what of those tightening their programs?

Those planning to decrease commitment sizes and/or managers represented a variety of LP types, sizes and geographies with one exception–**no small LPs** said they planned to decrease commitment sizes per fund.

Plans to Adjust PE Program Over Next 24 Months by LP Size



Is There An Active Shift to Mid-Market?

In the open text portion of this section, a share of respondents referenced a **probable shift** in focus to mid-market GPs, though this is not necessarily reflected in the quantitative data. ILPA will continue to explore this further.

"Need to broaden our market coverage to return to mid-market roots."

"More managers expected in the mid/small market segment and smaller checks to those managers than our average has been recently."

"We will broadly maintain our current program, supplementing with some slightly smaller commitments to a few high-quality mid-market GPs and niche strategies"

"Good growth prospects in the small and mid market range."

"We are also favoring lower middle market in current environment."

"We believe that sector-focused funds typically outperform generalist managers. The more specialized the sector, the more potential for alpha generation."

Despite Eye on Growth, Staffing Remains Lean

Most organizations (**57%**) rely on 1-3 staff to manage PE investments, with larger organizations accounting for larger front office teams. Half (**52%**) have no plans to hire additional investment staff this year. Larger organizations are much **more likely** to plan to hire.

Front Office Staff Managing Private Equity LP Investments by LP Size

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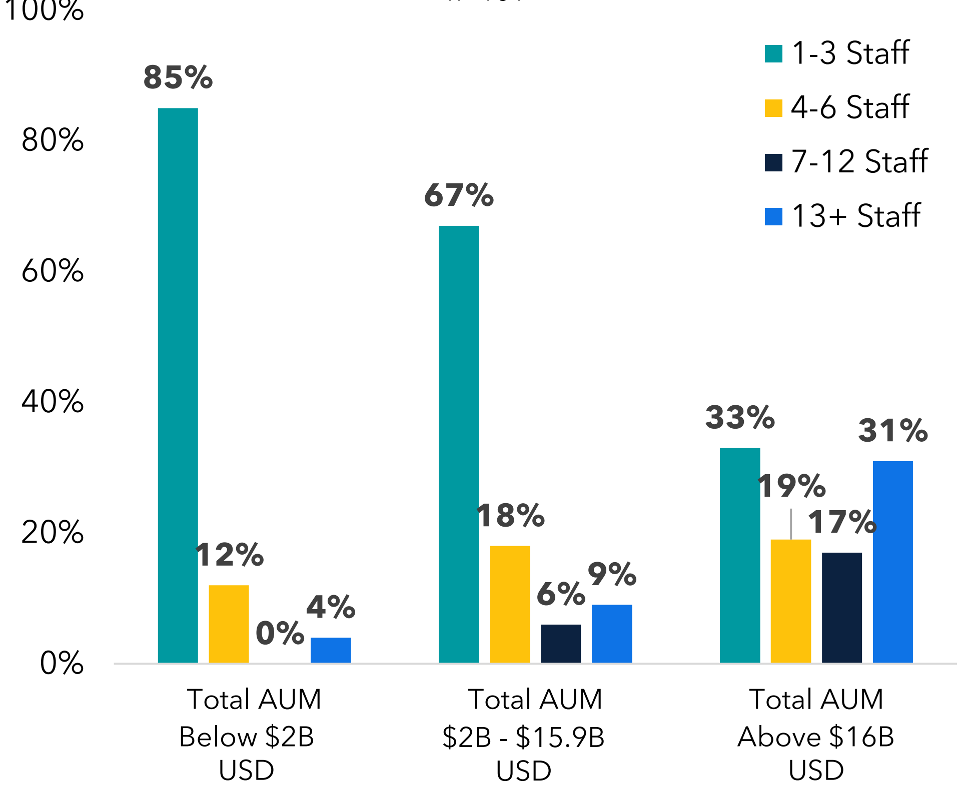

Plans to Hire in the Next Year

"We are covering the private asset space efficiently."

"Budgetary constraints."

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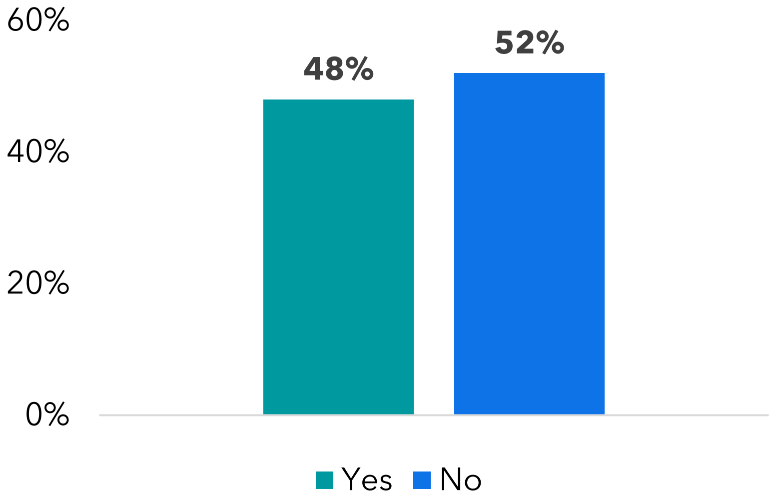

Plans to Hire Next Year by LP Size

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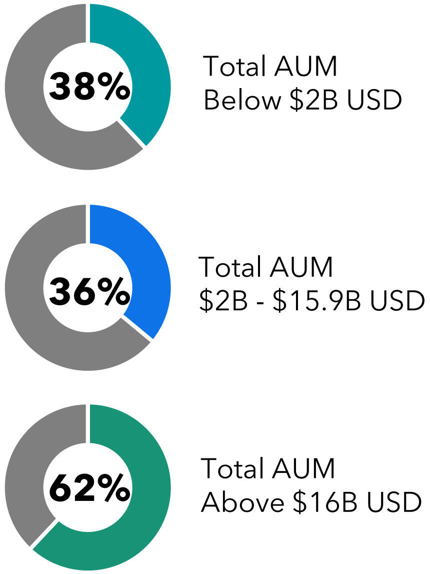
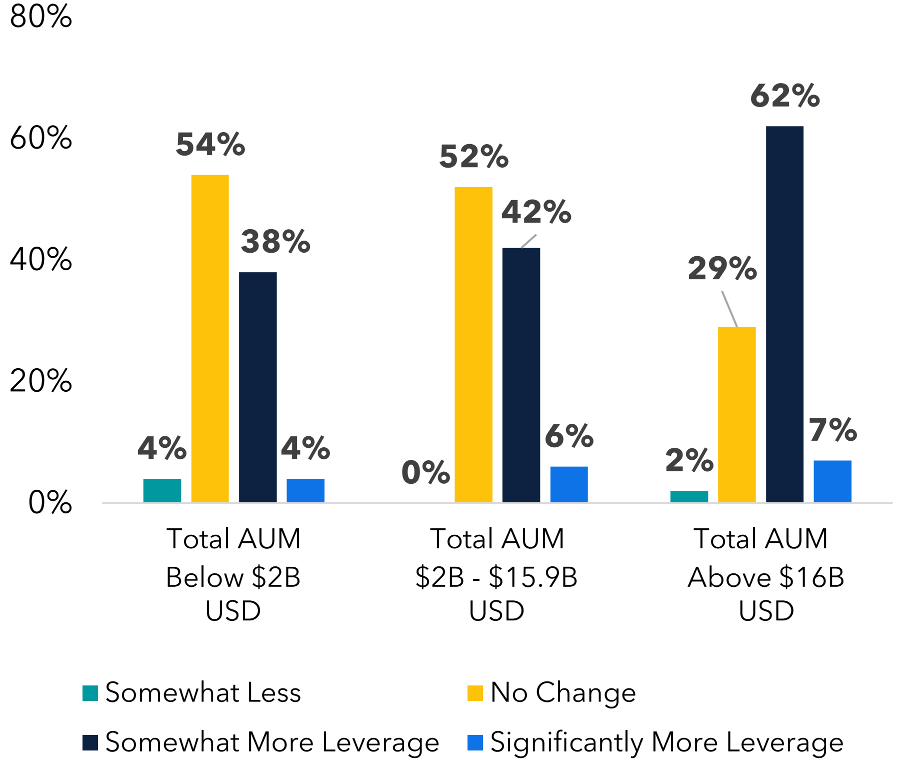


More Negotiating Leverage Compared to Last Year

Over half (**56%**) of LPs reported more negotiating leverage with GPs compared to a year ago. Most small and mid sized LPs reported no change, with larger LPs mostly reporting this increased leverage (**69%**).

Negotiating Leverage with GPs Compared to 12 Months Ago by LP Size n=101



"As the fundraising markets have become more challenging, our organization has been able to shape terms more frequently. The top managers are still difficult to influence but remain open to thoughtful feedback and direction from valued strategic LPs."

"GPs seem to be a bit more receptive to term changes, but there is a bifurcation between the 'haves' and the 'have nots.'"

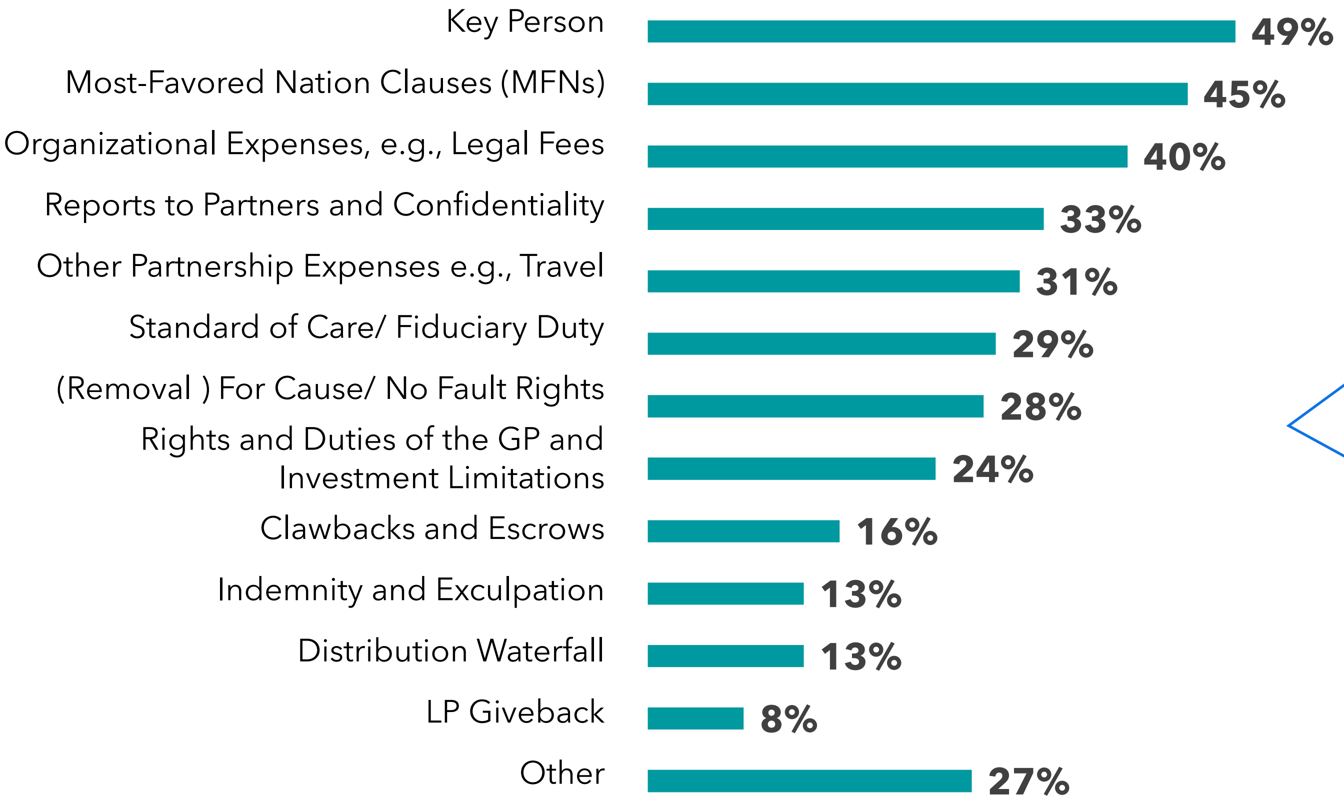
"Have had reasonable success negotiating with smaller, emerging managers. More established managers we don't have meaningful leverage due to our check sizes."

"Hardest to access groups still have same leverage over LPs."

LPs are Pushing Back Most Often on Key Person, MFN and Org Expense Provisions

Key person, MFNs, and org expenses are reported to be the **most often challenged** LPA terms in negotiations that are ultimately received; that's consistent by LP type and region.

LPA Terms Most Challenged but Ultimately Received n=101



"Slightly more leverage in transparency and governance topics, but no change in leverage on alignment of interest / economic topics."

"GPs are more responsive to aligning on governance, we are yet to see material movements on economics."

"Most of our challenges are around the edges, specific terminology that we don't like, for example. Seems that they are different challenges for each agreement …"

Slight Variances Across Commonly Selected Terms

Top LPA Terms Most Challenged but Ultimately Received by LP Size n=101

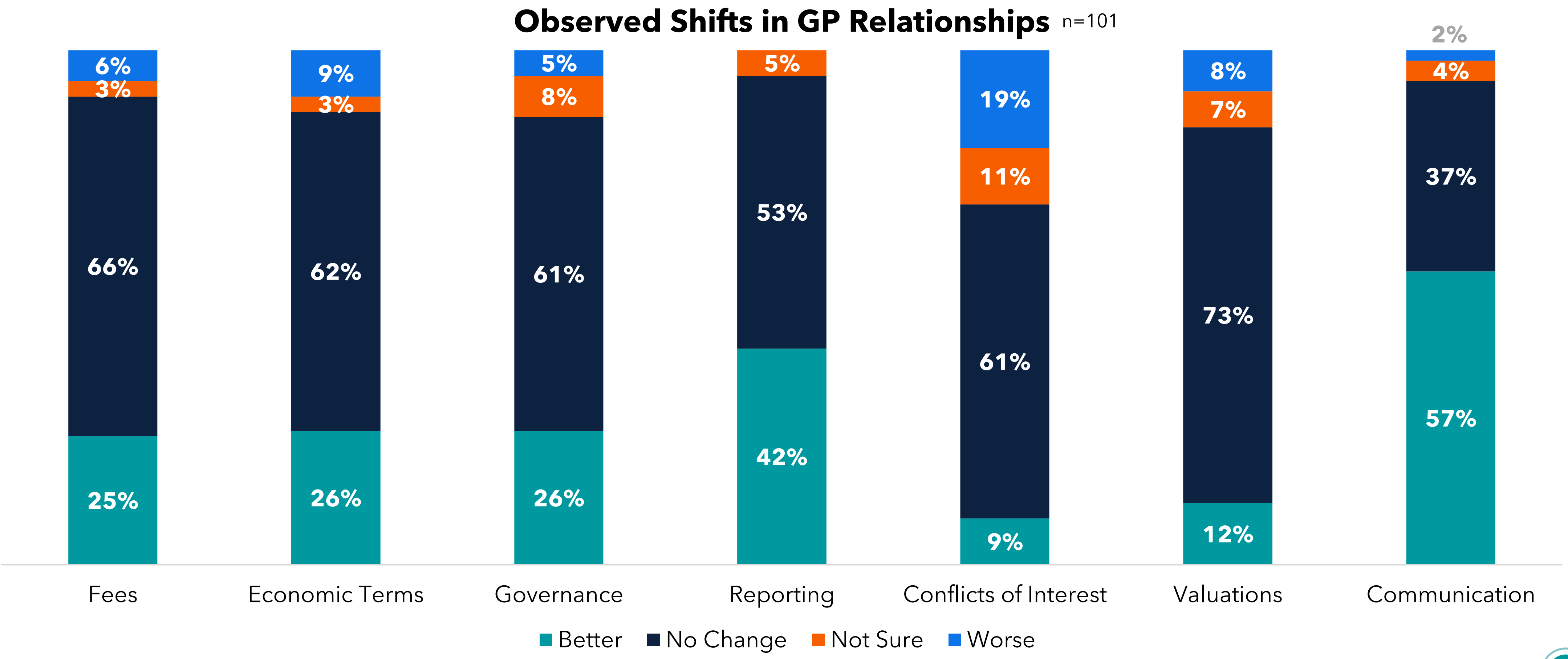
Below $2B USD	$2B - $15.9B USD	Above $16B USD
1. Key Person	1. Most Favored Nation Clauses	1. Key Person
2. Most Favored Nation Clauses	2. Key Person	2. Org Expenses
3. Reports to Partners & Confidentiality	3. Org Expenses	3. Reports to Partners & Confidentiality
4. Other	4. Travel & Other Partnership Expenses	4. Standard of Care / Fiduciary Duty
5. Org Expenses / Distribution Waterfall	5. Removal + For Cause / No Fault Rights	5. Most Favored Nation Clauses

Top LPA Terms Most Challenged but Ultimately Received by Avg. Check Size n=101

Below $25M USD	$25M- $49M USD	$50M-$149M USD	Above $150M
1. Key Person	1. Key Person	1. Most Favored Nation Clauses (Tied for 1st)	1. Key Person (Tied for 1st)
2. Most Favored Nation Clauses	2. Most Favored Nation Clauses	2. Other Partnership Expenses (Tied for 1st)	2. Standard of Care / Fiduciary Duty (Tied for 1st)
3. Travel & Other Partnership Expenses	3. Standard of Care / Fiduciary Duty	3. Reports to Partners & Confidentiality	3. Rights and Duties of the GP & Investment Limitations (Tied for 1st)
4. Other (Tied for 4th)	4. Removal + For Cause / No Fault Rights	4. Org Expenses	4. Removal + For Cause / No Fault Rights (Tied for 2nd)
5. Reports to Partners & Confidentiality (Tied for 4th)	5. Org Expenses	5. Key Person	5. Org Expenses (Tied for 2nd)
			6. Other Partnership Expenses (Tied for 2nd)

LPs See Improved Reporting & Communications but Greater Challenges in Conflicts of Interest

LPs mostly reported no change in GP behavior across key areas of alignment over the last year. However, respondents observed a **positive shift** in Communication & Engagement, and a **noticeable improvement** in Reporting.

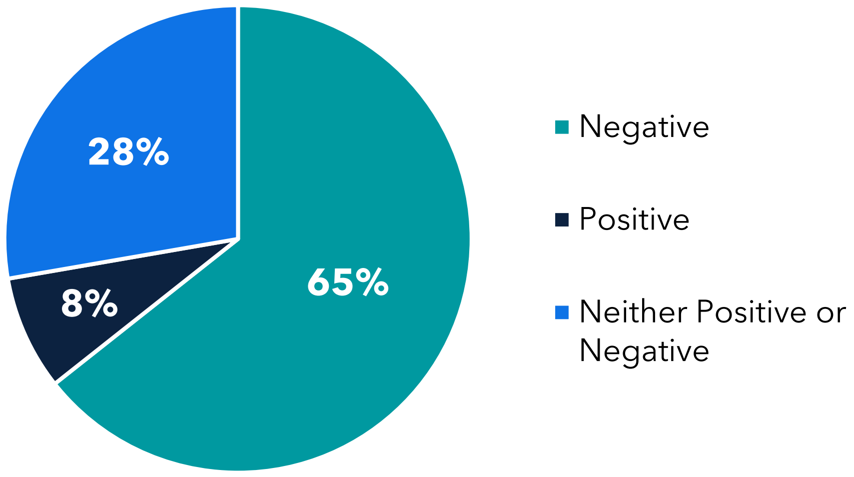


NAV-Based Facilities Are Unpopular, LPs Seek Greater Transparency

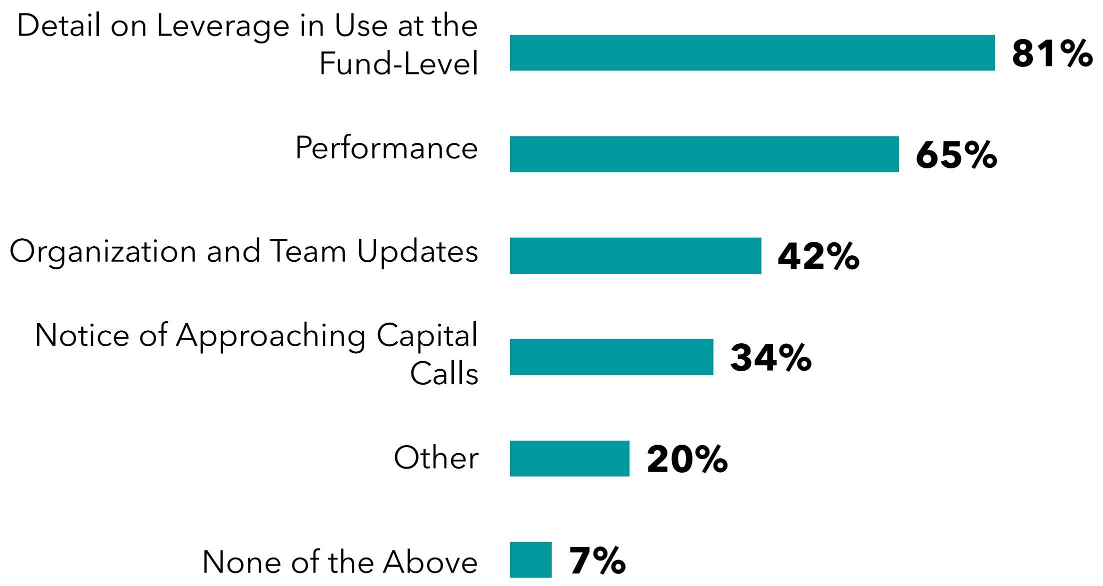
The majority (**65%**) of LPs agree that the widespread use of NAV-based facilities will have a somewhat or very negative impact on the industry, consistent across the respondent group regardless of LP size, type or region.

Detail on **leverage in use at the fund level** (e.g., subscription lines, NAV facilities) is the information LPs would most like to see presented more consistently.

Perception of Impact of NAV-Facilities on Industry
n=101



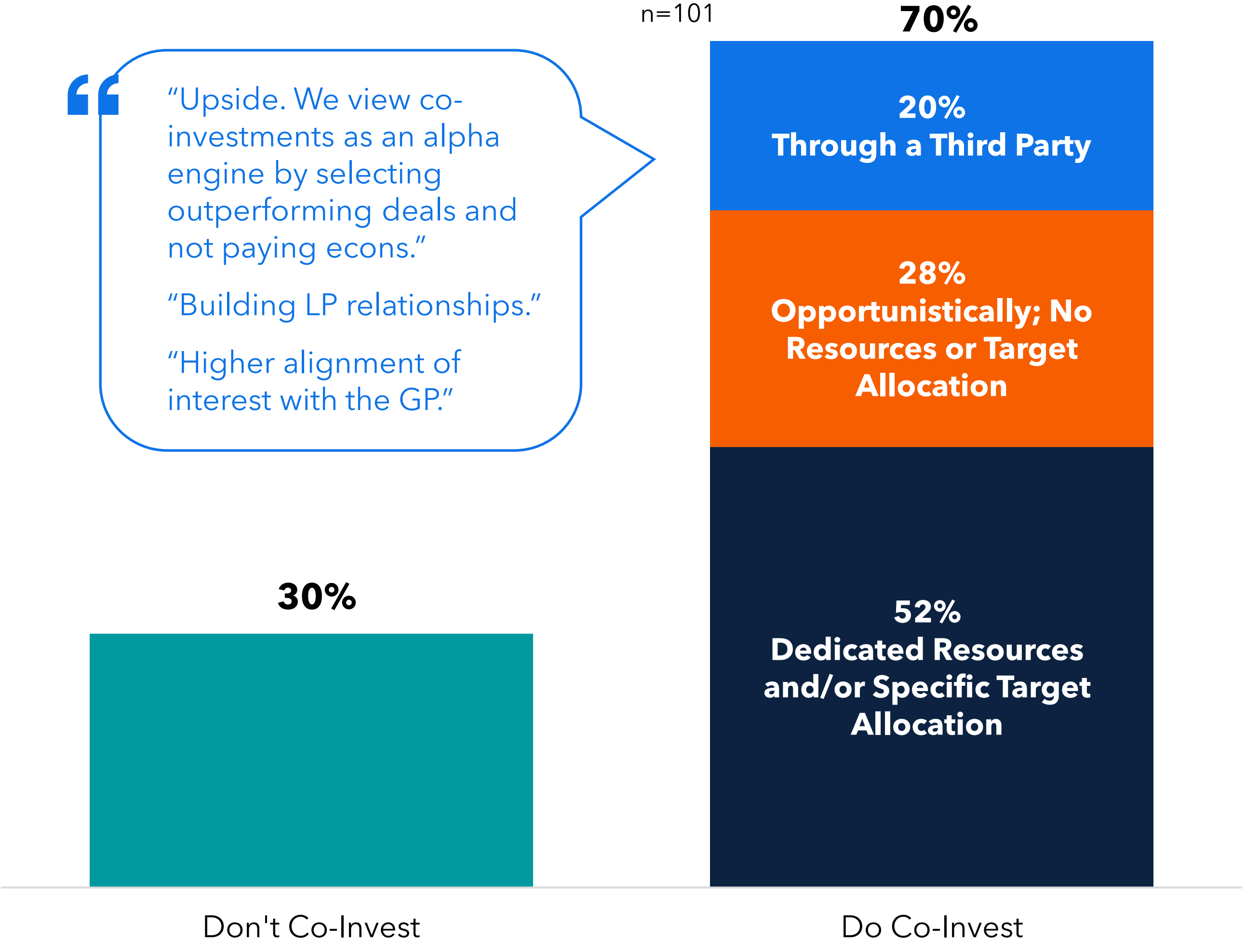
Information Desired for Consistent Fund Reporting n=101



Co-Invest is Commonplace Due to Lower Fees and Higher Returns

Describe Organizations' Co-Investments Program

n=101



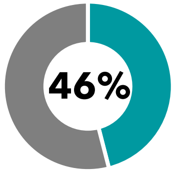
"Upside. We view co-investments as an alpha engine by selecting outperforming deals and not paying econs."

"Building LP relationships."

"Higher alignment of interest with the GP."

Most LPs (~**70%**) said they co-invest. However, more than **a quarter** that do co-invest said they do not have dedicated resources to do so. Large LPs make up the majority (**62%**) of those likely to have resources dedicated to co-invest.

Lower fees and greater returns were respondents' top reasons for pursuing co-investments.



of LPs Co-Invest Outside of Manager Relationships n=78

"…[We've] moved from opportunistic and open to any GP to budgeted, only with existing GPs."

We would like to build on to our existing direct program by considering fund of one partners to broaden our sourcing and allow us to consider opportunities outside our existing manager roster.

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