Private Equity Update

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KPMG Private Equity Forum, November 2016
About Preqin

Private Equity & Venture Capital  Hedge Funds  Real Estate  Infrastructure  Private Debt  Natural Resources

Data available via online databases, publications and research reports

Clients include over 44,000 industry professionals from 16,000 firms

Multi award-winning service
Market Overview
Private Capital has evolved

<table>
<thead>
<tr>
<th>Closed-End Private Capital</th>
<th>Private Equity</th>
<th>Private Debt</th>
<th>Real Estate</th>
<th>Infrastructure</th>
<th>Natural Resources</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Buyout</td>
<td>Direct Lending</td>
<td>Private Equity Real Estate</td>
<td>Infrastructure</td>
<td>Energy</td>
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<td></td>
<td>Venture Capital</td>
<td>Distressed Debt</td>
<td>Private Equity Real Estate</td>
<td></td>
<td>Agriculture/Farmland</td>
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<tr>
<td></td>
<td>Growth</td>
<td>Mezzanine</td>
<td>Private Equity Real Estate Fund of Funds</td>
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<td>Metals &amp; Mining</td>
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<tr>
<td></td>
<td>Turnaround</td>
<td>Special Situations</td>
<td>Infrastructure Fund of Funds</td>
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<td>Timberland</td>
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<tr>
<td></td>
<td>Other Private Equity</td>
<td>Venture Debt</td>
<td>Private Equity Real Estate Secondaries</td>
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<td>Water</td>
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<tr>
<td></td>
<td>Private Equity Secondaries</td>
<td>Private Debt Fund of Funds</td>
<td>Infrastructure Secondaries</td>
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<td>Natural Resources Fund of Funds</td>
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<tr>
<td></td>
<td>Private Equity Fund of Funds</td>
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</tbody>
</table>

www.preqin.com
Private Capital Assets Under Management - $4.4tn as at March 2016

Source: Preqin Private Equity Online
Alternative Assets – No Longer Alternative!

Institutional Investors by Number of Alternative Asset Classes Invested In

- None: 21%
- One: 16%
- Two: 15%
- Three: 18%
- Four: 13%
- Five: 9%
- Six: 7%

Proportion of Institutional Investors Allocating to Each Alternative Asset Class

- Private Equity: 58%
- Hedge Funds: 55%
- Real Estate: 63%
- Infrastructure: 32%
- Private Debt: 36%
- Natural Resources: 43%

Source: Preqin H2 2016 Investor Outlook
Distinct Investor Motivations

Has PE delivered vs. LPs’ expectations?

Source: Preqin H2 2015 Investor Outlook
All Private Equity Strategies Median Net IRRs and Quartile Boundaries

Source: Preqin Private Equity Online
PrEQIn Index, 2000 - 2015

Source: Preqin Private Equity Online
Returns by Asset Class – Pension Funds (as of June 2016)

- Listed Equity
- Fixed Income
- Hedge Funds
- Total Investment Portfolio
- Private Equity
- Real Estate

Source: Preqin Private Equity Online
Private Equity Capital Calls & Distributions, 2000 – 2016 (March)

Source: Preqin Private Equity Online
Global PE Fundraising

Source: Preqin Private Equity Online
Fundraising by First-Time Fund Managers as a Proportion of All Private Equity Fundraising, 2009 - 2016

Source: Preqin Private Equity Online
Private Capital Fundraising by Fund Type, 2016 YTD

Source: Preqin Private Equity Online
Private Capital Fundraising by Primary Geographic Focus, 2000 – 2016YTD

Source: Preqin Private Equity Online
## Private Capital Fundraising Momentum, 2008 – 2016 YTD

<table>
<thead>
<tr>
<th>Year</th>
<th>Average No. of Months to First Close</th>
<th>Average % of Target Size at First Close</th>
<th>Average No. of Months to Final Close</th>
<th>Average % of Target Size at Final Close</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>7</td>
<td>47%</td>
<td>16</td>
<td>104%</td>
</tr>
<tr>
<td>2015</td>
<td>7</td>
<td>46%</td>
<td>17</td>
<td>101%</td>
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<td>8</td>
<td>47%</td>
<td>16</td>
<td>104%</td>
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<tr>
<td>2013</td>
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<tr>
<td>2012</td>
<td>8</td>
<td>44%</td>
<td>17</td>
<td>94%</td>
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<tr>
<td>2011</td>
<td>7</td>
<td>46%</td>
<td>16</td>
<td>97%</td>
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<tr>
<td>2010</td>
<td>7</td>
<td>48%</td>
<td>18</td>
<td>92%</td>
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<tr>
<td>2009</td>
<td>6</td>
<td>52%</td>
<td>17</td>
<td>80%</td>
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<tr>
<td>2008</td>
<td>6</td>
<td>53%</td>
<td>15</td>
<td>93%</td>
</tr>
</tbody>
</table>

Source: Preqin Private Equity Online
### Top 10 European Private Capital Fund Domicile Locations - 2010 to 2016 Vintages

<table>
<thead>
<tr>
<th>Year</th>
<th>UK</th>
<th>Luxembourg</th>
<th>Guernsey</th>
<th>Cayman Islands</th>
<th>Jersey</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>Delaware</th>
<th>Spain</th>
<th>Other</th>
</tr>
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<tbody>
<tr>
<td>2016</td>
<td>19%</td>
<td>22%</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
<td>2%</td>
<td>5%</td>
<td>2%</td>
<td>4%</td>
<td>3%</td>
<td>19%</td>
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<tr>
<td>2015</td>
<td>20%</td>
<td>16%</td>
<td>13%</td>
<td>9%</td>
<td>8%</td>
<td>5%</td>
<td>4%</td>
<td>5%</td>
<td>3%</td>
<td>2%</td>
<td>15%</td>
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<tr>
<td>2014</td>
<td>23%</td>
<td>15%</td>
<td>10%</td>
<td>8%</td>
<td>6%</td>
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<td>4%</td>
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<td>4%</td>
<td>16%</td>
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<td>2013</td>
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<td>11%</td>
<td>9%</td>
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<td>9%</td>
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<td>4%</td>
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<td>19%</td>
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<td>2012</td>
<td>14%</td>
<td>10%</td>
<td>17%</td>
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<td>21%</td>
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<td>2011</td>
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<td>19%</td>
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<td>2010</td>
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<td>15%</td>
<td>10%</td>
<td>1%</td>
<td>6%</td>
<td>10%</td>
<td>9%</td>
<td>3%</td>
<td>6%</td>
<td>0%</td>
<td>27%</td>
</tr>
</tbody>
</table>

**Source:** Preqin Private Equity Online
PE-Backed Buyout Exits, 2007 – 2016 YTD

Source: Preqin Private Equity Online
Venture Capital Deals, 2007 – 2016 YTD

No. of Deals vs Aggregate Deal Value (bn USD)

Source: Preqin Private Equity Online
Proportion of Venture Capital Deals (Value) by Region, 2007-2016 YTD

Source: Preqin Private Equity Online
Venture Capital Exits, 2007 – 2016 YTD

Source: Preqin Private Equity Online
Implications for LPs and GPs
LP Satisfaction with PE Returns

**Fig. 2.2:** Proportion of Investors that Feel Their Private Equity Fund Investments Have Lived up to Expectations over the Past 12 Months, 2013 - 2016

Source: Preqin Investor Interviews, June 2013 - June 2016

**LP Intentions for PE Allocations**

Source: Preqin Investor Interviews, June & November 2016
Challenges

Fig. 1: Fund Manager Views on the Biggest Challenges Facing the Private Equity Industry in the Next 12 Months

- Pricing/Valuations: 48%
- Ongoing Volatility and Uncertainty in Global Markets: 38%
- Fundraising: 33%
- Regulation: 28%
- Exit Environment: 27%
- Performance: 26%
- Deal Flow: 23%
- Fee Pressure: 15%

Proportion of Respondents

Source: Preqin Fund Manager Survey, June 2016

Fig. 2.13: Biggest Challenges Facing Investors Seeking to Operate an Effective Private Equity Program at Present

- Pricing/Valuations: 67%
- Exit Environment: 56%
- Volatility/Uncertainty in Global Markets: 44%
- Performance: 42%
- Fees: 37%
- Deal Flow: 31%
- Regulation: 20%
- Governance: 15%
- Availability/Pricing of Debt Financing: 12%
- Transparency: 8%

Proportion of Respondents

Source: Preqin Investor Interviews, June 2016
LP Return Expectations & Views on Difficulty of Identifying Attractive Investment Opportunities

**Fig. 2.15:** Investors’ Return Expectations from Their Private Equity Portfolios in the Next 12 Months Compared to the Past 12 Months

- 61% Will Perform Better
- 11% Will Perform about the Same
- 28% Will Perform Worse

**Fig. 2.16:** Investor Views on the Difficulty of Identifying Attractive Investment Opportunities Compared to 12 Months Ago

- 47% Easier to Find Attractive Opportunities
- 46% No Change
- 6% Harder to Find Attractive Opportunities

Source: Preqin Investor Interviews, June 2016
GPs views on Pricing & Competition for Private Equity Transactions

Fig. 2: Fund Manager Views on Pricing for Portfolio Companies Compared with 12 Months Ago

- Pricing is Higher: 46%
- Pricing is the Same: 37%
- Pricing is Lower: 17%

Source: Preqin Fund Manager Survey, June 2016

Fig. 3: Fund Manager Views on the Level of Competition for Private Equity Transactions Compared with 12 Months Ago by Type

- More Competition
- No Change
- Less Competition

Source: Preqin Fund Manager Survey, June 2016
Alignment of Interests

Fig. 2.17: Extent to Which Investors Believe LP and GP Interests Are Properly Aligned

Fig. 2.19: Areas of Fund Terms Investors Feel Have Shown the Most Improvement over the Past 12 Months and that Need to Improve Further in the Next 12 Months

Source: Preqin investor interviews, June 2016
LP Use of Alternative Structures Increasing

**Fig. 2.24:** Investor Participation in Alternative Methods of Accessing Private Equity

- **Separate Accounts:**
  - Use Structure: 68%
  - Consider Using Structure: 59%
  - Not Using Structure: 51%
- **Direct Investments:**
  - Use Structure: 23%
  - Consider Using Structure: 37%
  - Not Using Structure: 39%
- **Co-Investments:**
  - Use Structure: 9%
  - Consider Using Structure: 5%
  - Not Using Structure: 10%

**Fig. 2.26:** Investors’ Expected Level of Activity in Alternative Structures in the Long Term

- **Separate Accounts:**
  - Increase Activity: 3%
  - Maintain Same Level of Activity: 67%
  - Reduce Activity: 30%
- **Direct Investments:**
  - Increase Activity: 3%
  - Maintain Same Level of Activity: 68%
  - Reduce Activity: 32%
- **Co-Investments:**
  - Increase Activity: 3%
  - Maintain Same Level of Activity: 51%
  - Reduce Activity: 47%

*Source: Preqin Investor Interviews, June 2016*
LPs views on Brexit

**Fig. 5:** Investor Views on the Impact of Brexit on the Performance of Their Private Equity Portfolios in the Next 12 Months

Source: Preqin Fund Manager Survey, June 2016

**Fig. 6:** Investor Views on the Impact of Brexit on Future Private Equity Investments in the Next 12 Months: UK vs. Rest of EU

Source: Preqin Investor Interviews, June 2016
GPs views on Brexit

**Fig. 3:** Private Equity Fund Manager Views on the Impact of Brexit on the Performance of Their Portfolios

- **In the Next 12 Months:**
  - 39% Positive
  - 53% Uncertain
  - 28% No Impact
  - 16% Negative

- **Longer Term:**
  - 33% Positive
  - 32% Uncertain
  - 44% No Impact
  - 11% Negative

**Fig. 4:** Private Equity Fund Manager Views on the Impact of Brexit on Their Investments in the UK and Rest of EU

- **UK: In the Next 12 Months:**
  - 44% Will Make More Investments
  - 50% Will Make Same No. of Investments
  - 33% Will Make Fewer Investments

- **UK: Longer Term:**
  - 20% Will Make More Investments
  - 38% Will Make Same No. of Investments
  - 38% Will Make Fewer Investments

- **Rest of EU: In the Next 12 Months:**
  - 11% Will Make More Investments
  - 30% Will Make Same No. of Investments
  - 15% Will Make Fewer Investments

- **Rest of EU: Longer Term:**
  - 21% Will Make More Investments
  - 43% Will Make Same No. of Investments
  - 36% Will Make Fewer Investments

*Source: Preqin Fund Manager Survey, June 2016*
Outlook
LPs’ Expected Capital Commitments & Intentions for GP Relationships

Amount of Capital LPs are looking to Invest in next 12 Months

- More Capital in Next 12 Months than Last 12 Months: 43% (H2 2016), 39% (Preliminary H1 2017)
- Same Amount of Capital as Last 12 Months: 50% (H2 2016), 50% (Preliminary H1 2017)
- Less Capital in Next 12 Months than Last 12 Months: 14% (H2 2016), 11% (Preliminary H1 2017)

Intentions for GP Relationships in the next 12 Months

- Not Looking to Invest in Coming Year: 13% (H2 2016), 19% (Preliminary H1 2017)
- Only New GP Relationships: 3% (H2 2016), 6% (Preliminary H1 2017)
- Mostly New GP Relationships: 14% (H2 2016), 16% (Preliminary H1 2017)
- Mix of Re-ups and New GP Relationships: 39% (H2 2016), 40% (Preliminary H1 2017)
- Mostly Re-ups, Consider Some New GP Relationships: 14% (H2 2016), 19% (Preliminary H1 2017)
- Entirely in Re-ups: 11% (H2 2016), 10% (Preliminary H1 2017)

Source: Preqin Investor Interviews, June & November 2016
LP Preferences – Fund Type & Geography

Fund Types LPs View as Presenting the Best Opportunities in the Current Financial Climate

- Buyout - small to mid-market: 40%
- Buyout - large to mega: 21%
- Venture Capital: 20%
- Growth: 13%
- Fund of Funds: 12%
- Distressed PE: 11%
- Secondaries: 9%
- Mezzanine: 8%
- Natural Resources: 5%
- Cleantech: 4%
- Other: 25%

Regions LPs View as Presenting the Best Opportunities in the Current Financial Climate

- North America: 60%
- Europe: 40%
- Asia: 20%
- ROW: 10%
- Emerging Markets: 10%
- Other: 10%

Source: Preqin Investor Interviews (Preliminary), November 2016
GPs Timeframe for Next Fund & Amount of Capital Looking to Deploy in next 12 months

Source: Preqin Fund Manager Survey (Preliminary) – November 2016
Exit Activity Predictions

How will the Exit Environment Change Over the Next 12 Months?

<table>
<thead>
<tr>
<th></th>
<th>Private Equity</th>
<th>Venture Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced Exit Activity</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>No Change</td>
<td>46%</td>
<td>41%</td>
</tr>
<tr>
<td>Increased Exit Activity</td>
<td>31%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: Preqin Fund Manager Survey (Preliminary) – November 2016
Key Takeaways

- PE industry has evolved and continues to grow as a result of strong long term performance

- Distributions are driving LP appetite and fundraising - majority of LPs will maintain/increase allocations and reinvest capital received....

- BUT difficult for both for LPs and GPs to find attractive investments in highly competitive markets

- Clear current concerns – namely around valuations and performance impact

- Still a seller’s market but wider political/financial instability may cause shifting of the scales

- LPs are evolving and increasing in sophistication – directs/co-investments

- Future is bright – both LPs and GPs looking to increase activity
Data Sources

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