Preqin Investor Outlook: Private Equity H1 2014

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Foreword

The private equity industry went from strength to strength in 2013, recording the largest amount raised in capital commitments since the onset of the financial crisis in 2008. LP appetite was healthy, as demonstrated by the $481bn raised by 955 private equity vehicles that closed the last year, and following Preqin's latest survey, it appears that this momentum is likely to carry through 2014. This report collates responses from direct conversations with over 100 LPs, and covers topics from the most favoured private equity fund strategies and geographies (page 13), to future plans for asset class allocation and investment cycles (page 12).

Our survey serves as a valuable tool to gauge the attitudes of investors toward a range of topics within the private equity universe. Results revealed that the key issue perceived to most greatly affect the industry in 2014 is regulation. This is explored in more detail on page 10. We found, however, that despite a number of directives being announced some time ago, their effect on private equity investors is somewhat delayed. The majority (87%) of investors stated no change as yet has been made to their investment activities following regulatory changes and proposals such as the AIFMD and Solvency II.

It is interesting to note the advancement of LP portfolios, as the surrounding investment landscape changes, as well as the ever increasing sophistication and strengthening expertise of the investor community as a whole. Diversifying their portfolios has always been a risk management strategy for investors, and recent times have seen a notable rise in interest in the private debt sector in particular. Preqin's survey reveals that 59% of LPs currently have exposure to private debt, and 44% of those that said they do not, would consider private debt investments in the future.

Bifurcation seen in 2013's private equity fundraising figures, with only 7% of total capital garnered being raised by first-time fund managers and the remaining 93% attributed to established GPs, was supported by survey results on investor appetite for newly formed fund managers. When assessing private equity fund managers to partner with, investors value past performance and length of track record the most, with the largest proportions of investors interviewed (40% and 21% respectively) specifying these factors as the most important to consider when searching for GPs.

The recent strengthening of public markets as they recover at least some of the vibrancy of years past has indeed boosted economies worldwide, but investors continue to see the value of committing to the private equity asset class which is known to generate superior returns in the long term. The outlook for private equity is positive, with momentum fuelled by evidently vigorous investor appetite in the continuously evolving industry.

Key Facts

68% of investors interviewed by Preqin are looking to make their next commitments to private equity funds in H1 2014.

87% of investors feel their private equity investments have met or exceeded their expectations.

36% of investors expect to increase their allocations to private equity in the next 12 months.

79% of investors would commit to a private equity fund before it has held an initial close and begun making investments, or would consider doing so.

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Investor Activity in 2013

With the aggregate amount of capital secured by private equity funds closed in 2013 reaching its highest annual level since the global financial crisis, investor appetite for the asset class appears to be the strongest it has been in many years.

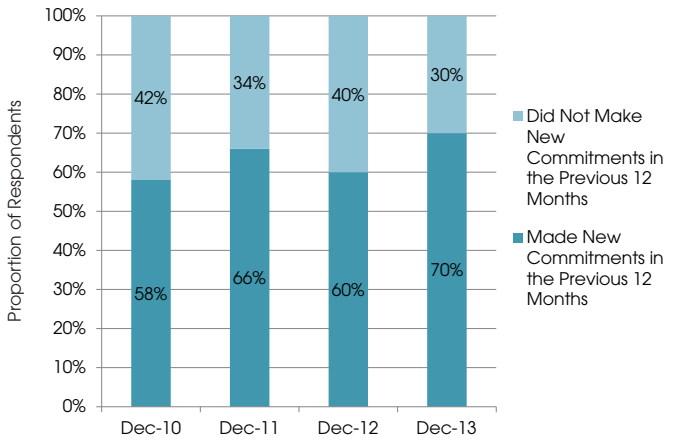
The latest statistics from Preqin's bi-annual survey of investors around the globe show the highest level of investor activity in recent years in terms of the proportion of investors that made new commitments to private equity funds within a 12 month period (Fig. 2.1). As of December 2013, 70% of investors interviewed had made a commitment to a private equity vehicle during the year, a notably large majority, and a marked increase from the corresponding 58% of respondents in December 2010 and even from the 60% in December 2012.

Renewed confidence in the economic stability of global markets, and specifically in the private equity asset class, could be one of the primary reasons behind the uptick in the level of commitments, and this is further reflected in the private equity fundraising figures from 2013. The year saw $481bn raised by the 955 private equity funds that closed, the greatest annual amount of capital commitments garnered by fund managers since the onset of the 2008 financial crisis.

The results from Preqin's December 2013 investor interviews also saw the lowest proportion of investors (44%) at their target allocation to private equity since December 2009, when the statistic was 42%. As of the end of 2013, 18% of investors were above their target allocations, while almost two-fifths were below their target allocations to the asset class (Fig. 2.2). The exact level of exposure an institutional investor has to alternatives is crucial not only for portfolio management, but also for ensuring compliance with any mandatory requirements as outlined by the law in their relevant jurisdictions. On pages 10-11 we discuss the impact the recent announcements of directives such as Basel III and Solvency II have had on investor activity within the private equity space.

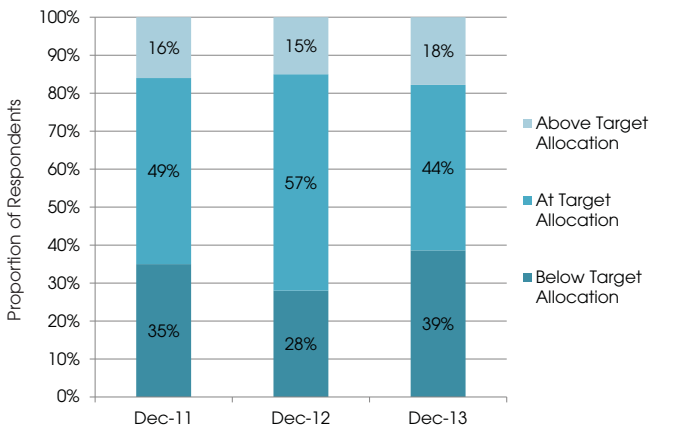
With the majority of investors interviewed appearing to be either short of, or in excess of, their target allocations, there is much potential for a shift in investor activity in the future as LPs either work to ramp up or scale down their private equity commitments.

Fig. 2.1: Proportion of Investors that Made New Commitments to Private Equity Funds in the Previous 12 Months, December 2010 - December 2013



Source: Preqin Investor Interviews, December 2010 - December 2013

Fig. 2.2: Proportion of Investors At, Above, or Below Their Target Allocations to Private Equity, December 2011 - December 2013



Source: Preqin Investor Interviews, December 2011 - December 2013

Satisfaction with Returns

Investor satisfaction with returns from private equity appears to be increasing, with 90% of investors we spoke to in December 2013 stating that the performance of their investments in the asset class had met or exceeded expectations.

Private equity as an alternative asset class is known for its potential for superior returns compared to other public indices over the long term. Preqin's investor interviews aimed to gauge how investors felt their private equity fund investments fared over the past year, with the results of our most recent interviews, and also the results of the previous two years, shown in Fig. 2.3. The chart shows the progressively increasing proportion of investors that feel the performance of their private equity fund commitments has either met or exceeded expectations. In particular, the proportion of those investors that believed their investments in the asset class had surpassed their expectations grew from 6% in 2011 to 11% in 2012 and 13% in 2013. While this could signal the general lowering of expectations of private equity investors as they appreciate the volatility of the economic environment around them, it is fundamentally a positive sign and will fuel investor confidence going forward.

One UK-based investor alluded to the crucial role fund managers play in working to minimize losses felt by portfolios: "None of us saw the scale of the down draught coming at the scale it did, but our managers have generally done good work to protect the portfolio". While macro factors may lie out of investor and fund manager control and be totally unpredictable, it is important that teams work to manage risk by controlling whatever micro factors they do have influence over, in order to try to ensure that investments do not fall short and the impact of negative external influences are as small as possible.

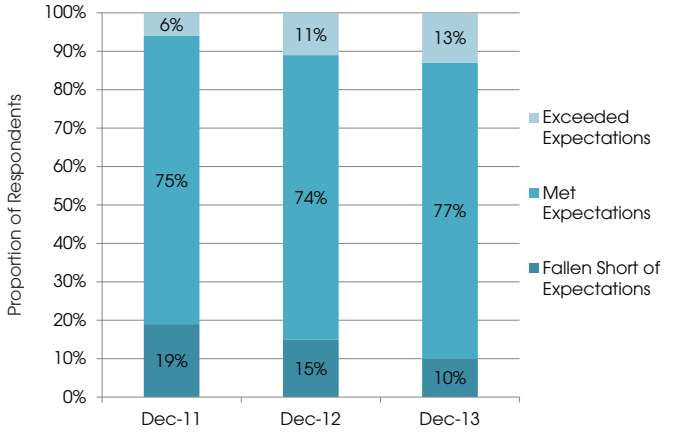
Comparisons to the Public Market

As the performance of public market indices in recent times has strengthened, investor confidence in the returns to be gained from investments in public markets has surged correspondingly.

While the private equity asset class has traditionally been considered to be more rewarding in the long term, the margin by which private equity is anticipated to outperform public markets has decreased slightly as a result of the improvements seen in the public indices, and this is reflected in the returns expectations of investors, as shown in Fig. 2.4.

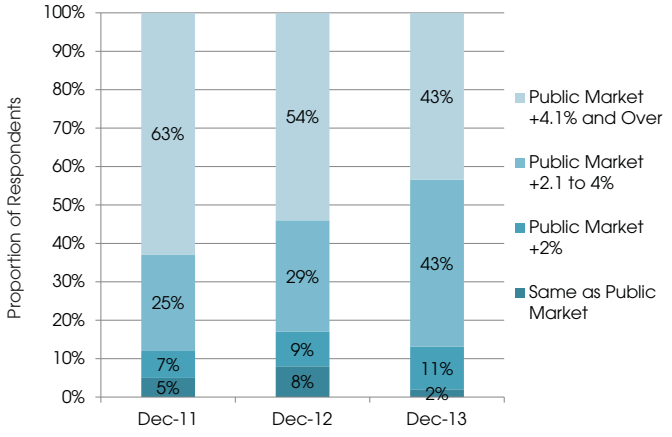
The chart shows the extent to which investors expect their private equity portfolios to generate superior returns compared to the public market. As of December 2013, the proportion of investors interviewed by Preqin that expect their private equity investments to outperform the public market by over 4.1% became a minority for the first time, with only 47% believing this, compared to 54% in December 2012 and 63% in December 2011.

Fig. 2.3: Proportion of Investors that Feel Their Private Equity Fund Investments Have Lived up to Expectations, December 2011 - December 2013



Source: Preqin Investor Interviews, December 2011 - December 2013

Fig. 2.4: Investors' Returns Expectations for Their Private Equity Portfolios, December 2011 - December 2013



Source: Preqin Investor Interviews, December 2011 - December 2013

Key Issues and Regulations

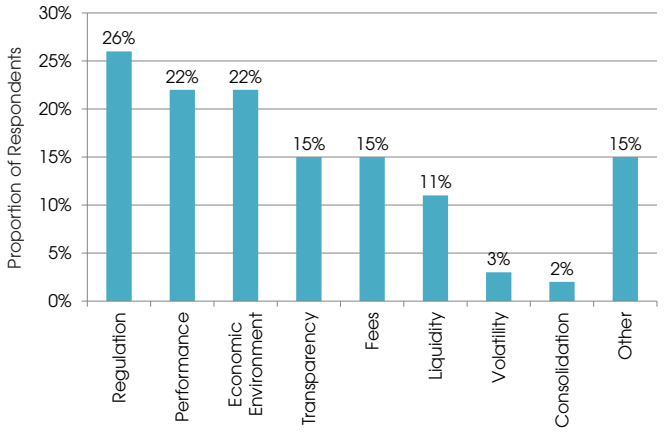
Though the dates of implementation for Solvency II and Basel III remain relatively distant, the deadline for existing fund managers to fully comply with the Alternative Investment Fund Managers Directive (AIFMD) looms closer and the effect that regulation has on the private equity industry has become a hot topic for discussion.

Preqin's survey of over 100 institutional investors across the globe in December 2013 revealed that over a quarter (26%) of LPs interviewed cited regulation to be one of the key challenges that the private equity investor community faces in 2014. The next most concerning issues that investors face in the year ahead are performance and the economic environment, both highlighted by 22% of the LPs surveyed, as shown in Fig. 2.5.

Regulation

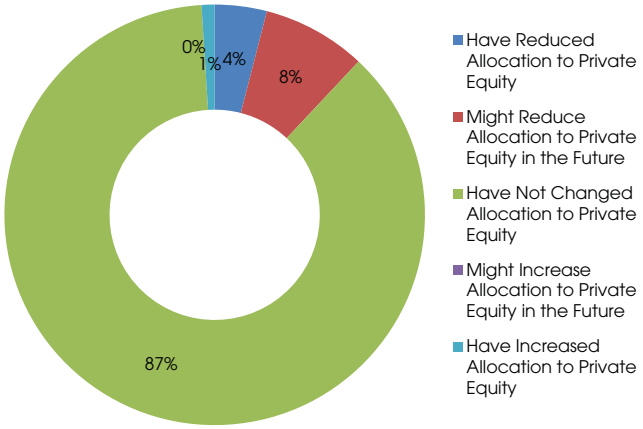
The three aforementioned directives, which will predominantly affect investors in the world's largest markets of North America and Europe, are examples of the changing laws across the globe that will impact on many players in the private equity universe. The scope of the AIFMD is broad and, with a few exceptions, covers the management, administration and marketing of alternative investment funds. The Directive will come into full effect in July 2014 and, although there may be a last-minute rush to comply, firms are by and large expected to be compliant by then. While private equity firms will be forced to swallow the additional costs of regulation, they are also unlikely to be deterred from investing in Europe as a result of regulation. Despite the largest proportion (26%) of investors surveyed citing regulation as the biggest challenge LPs currently face, it seems that the actual impact of recent regulation has been felt by a much smaller percentage, as shown in Fig. 2.6, with only 4% having reduced their private equity allocations and 8% stating that the new industry rules may affect their future allocations.

Fig. 2.5: Biggest Challenges Facing Investors Seeking to Operate an Effective Private Equity Program at Present



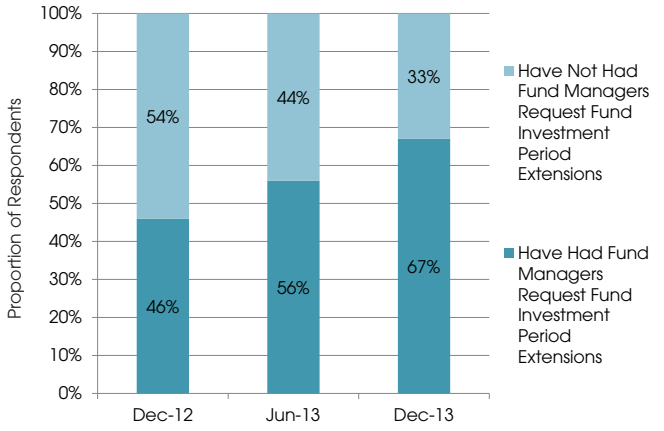
Source: Preqin Investor Interviews, December 2013

Fig. 2.6: Impact of Regulatory Changes and Proposals on Investors' Private Equity Allocations



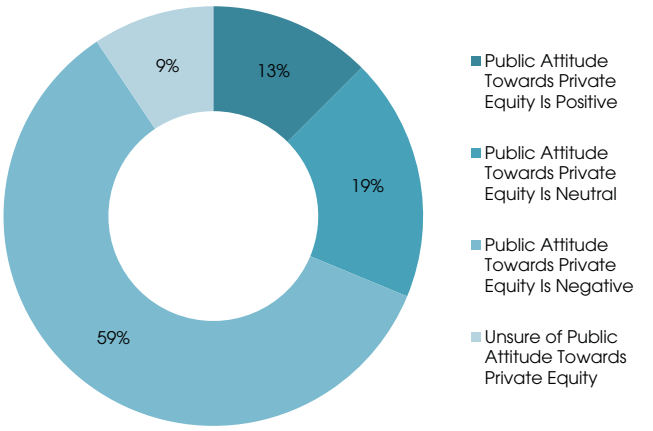
Source: Preqin Investor Interviews, December 2013

Fig. 2.7: Proportion of Investors that Have Had Fund Managers Request Fund Investment Period Extensions in the Past 12 Months



Source: Preqin Investor Interviews, December 2012 - December 2013

Fig. 2.8: Investors' Views on Public Attitudes Towards Private Equity



Source: Preqin Investor Interviews, December 2013

Previously, there was some assumption that several financial institutions would be winding down alternative investment allocations as part of a continued bid to reduce exposure to these assets. The implementation of the Volcker Rule for instance places limitations on the amount of capital that US banks are able to hold in private equity or hedge funds to no more than 3%. We must note, however, that only a small proportion of private equity investors are affected by regulatory changes as directives are applicable to only certain types of institutional investors operating in certain geographies; for example, Basel III is targeted at banks whereas Solvency II affects EU insurance companies. This is reflected in Preqin's survey results; when asked if regulation had affected their allocation to private equity, or they expected it to in the future, only a minority (13%) indicated it would.

It seems there is some uncertainty surrounding the regulations that were introduced in 2011-2013, with the largest proportion of investors surveyed (40%) stating they were fundamentally unsure on whether the changes were beneficial to the private equity industry. A third of respondents said that the regulations are good for the asset class and 27% were of the opinion that they would be detrimental.

Fund Investment Period Extensions

In a fund operating agreement, terms are set for the GP outlining a time-limited investment period. A private equity fund is only permitted to enter into new investments during this set time, typically of around four to six years from the closing of its first investment or final close of the vehicle. After this defined window, the firms lose access to the funding. These built-in deadlines to invest the money raised place some pressure on fund managers to find ways to deploy their capital before their time limit is reached. It is possible for the firms to request extensions from their investors, though this could be perceived as unfavourable to the GP's reputation and can even negatively affect fundraising efforts in the future.

Fig. 2.7 depicts the recent trend of fund managers seeking fund extensions. The proportion of LPs that have been approached by their GPs to request a change of terms has risen steadily from 46% in December 2012 to 56% in June 2013 and 67% in December 2013. This gives a strong indication of the challenges that teams face in order to deploy capital in the originally allocated investment period. If fund extensions are granted, the GPs have more time to find suitable deal opportunities and have the opportunity to maximize returns which fundamentally benefits the investors as a result.

Public Perception of the Asset Class

Fig. 2.8 shows the split in opinion of LPs with regard to the public perception of private equity. The majority (59%) of investors surveyed felt that the public see the industry negatively, while only 13% think the public perceive private equity positively, and 19% think the public are neutral. A number of investors we surveyed attributed the negative perception in part to a lack of public education of what private equity truly involves, as well as the damaging portrayal of the industry that is frequently seen in the media.

Investor Activity in the Coming Year and the Longer Term

Preqin's interviews with investors reveal strong appetite for investing in private equity, with the vast majority of investors satisfied with their current exposure to the asset class, or planning to increase their exposure over the next 12 months and the longer term.

Within the next 12 months, 90% of investors interviewed are looking to maintain or increase their allocations to private equity; this figure increases to 92% in the longer term (Fig. 2.9). Specifically, over a third of investors (36%) will be seeking to increase their allocations over the next 12 months, and this proportion rises to 39% over the longer term. This is encouraging news for those fund managers currently seeking capital or planning to launch private equity vehicles in the future.

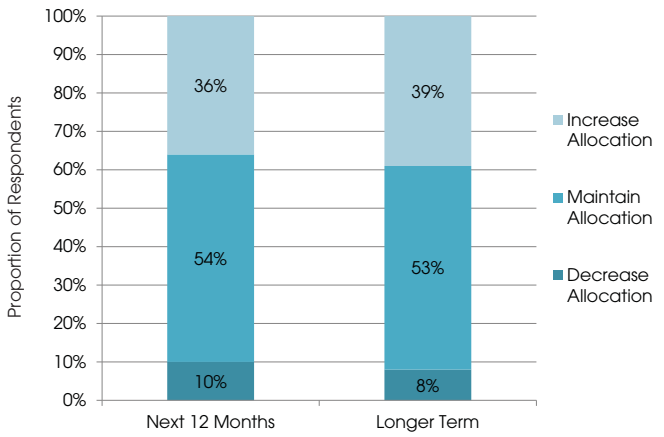
As discussed earlier, these statistics hint at the impact certain regulatory changes relating to investors' private equity portfolios have had on investors so far, and will have in the foreseeable future. The very small proportion (8%) of investors interviewed that are looking to decrease their allocations in the longer term may be a result of repeated delays in the implementation of both the Solvency II Directive and Basel III. The EU legislative act Solvency II is scheduled to come into effect in January 2016, having been pushed back numerous times before, whereas Basel III has had its implementation period extended until March 2018, despite previously being scheduled to be introduced from 2013 to 2015.

New GP Relationships

Fig. 2.10 shows that investors are generally content with their current GP relationships and are largely not looking to end them in search of new fund managers, with only 2% of investors interviewed solely looking to invest with new managers and the remaining 98% intending to re-up with existing managers in varying proportions. The process of forging a new partnership with a new manager requires much time and effort on both parts, involving stringent due diligence. The long-term nature of the private equity asset class means that investors are understandably cautious before committing to a new relationship with a fund manager that is unfamiliar, and need to feel fully secure in their choice. Past performance is usually seen as the greatest indicator for an investor when judging a fund manager (see page 5) and, within existing manager relationships, investors have more transparent access to the private equity firm's historical performance data and benefit from the time and resource efficiency of re-upping.

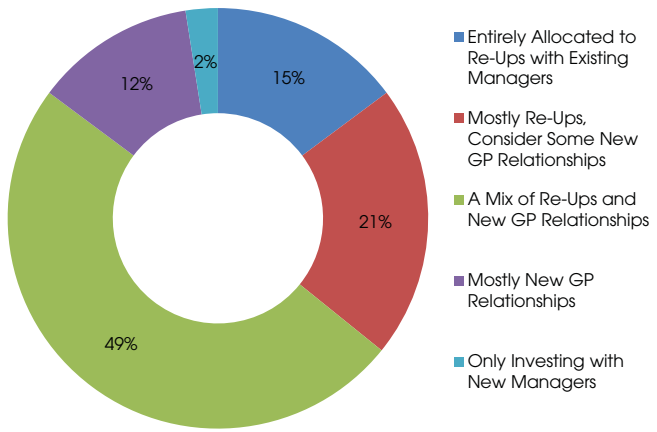
A more detailed breakdown of the statistics reveal that 15% of private equity investors expect to solely re-up with existing managers in their portfolio in the next 12 months (Fig. 2.10), 21% will consider some new GP relationships but will mostly re-up, and 49% intend to have a mix of re-ups and new GP relationships in their investment portfolios in the next year.

Fig. 2.9: Investors' Intentions for Their Private Equity Allocations



Source: Preqin Investor Interviews, December 2013

Fig. 2.10: Investors' Intentions for Forming New GP Relationships over the Next 12 Months



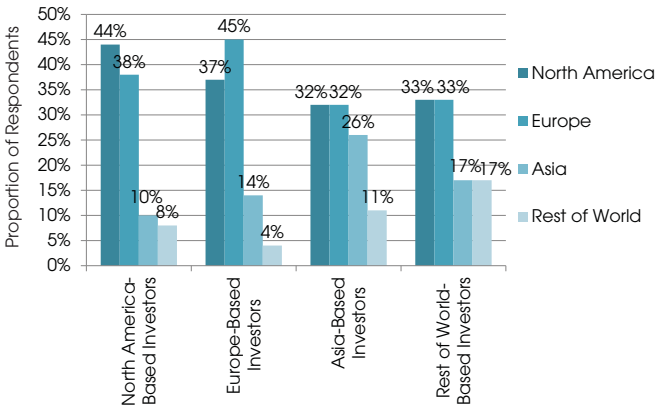
Source: Preqin Investor Interviews, December 2013

Strategies and Geographies Targeted

Investor appetite for different regions is changing; investors are now reverting back to the established markets of North America and Europe and are moving away from emerging markets. In terms of fund type, small to mid-market buyout funds remain most favoured by LPs, although investor appetite for large to mega buyout funds is returning.

Fig. 2.13 shows that North America- and Europe-based private equity investors largely show a preference for their domestic regions for their investments. The largest proportions of investors based in North America (44%) and Europe (45%) respectively cited their own regions as holding the most attractive private equity opportunities. These two markets are also the most favoured by investors based in Asia and other regions, with around a third of investors based in these geographies selecting Europe and North America ahead of their home regions as presenting the best private equity investment opportunities.

Fig. 2.13: Regions Found Attractive by Private Equity Investors by Investor Location



Source: Preqin Investor Interviews, December 2013

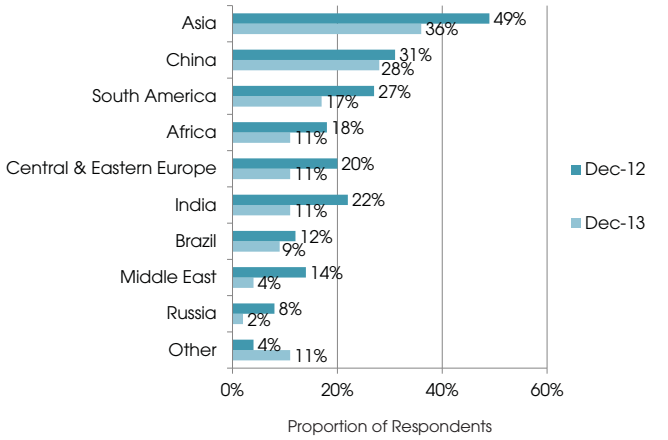
Investor Appetite for Emerging Markets

Parallel to the recent bounce back of traditional markets of North America and Europe following the financial crisis in 2008, emerging markets seem to have fallen out of favour with private equity investors. This is particularly reflected in the proportion of investors interviewed that view Asia as the region within emerging markets presenting the best investment opportunities. Fig. 2.14 compares the results from December 2012 and December 2013, showing the decline in investor interest in all emerging market regions and countries. Asia has suffered the greatest proportional drop in investors that view it as an attractive investment destination, from 49% in 2012 to 36% in 2013. This is likely due to concerns about slowing economic growth and an absence of exit avenues in Asia, which can negatively impact investor confidence.

Fund Types Targeted

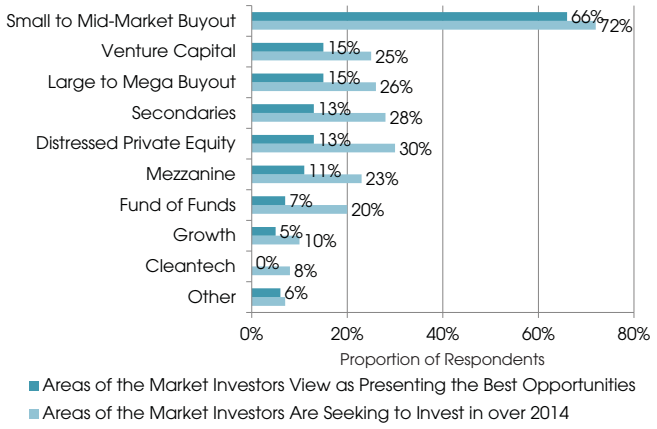
Preqin's investor interviews also investigated which private equity fund types are particularly attractive to investors, and found that, as has been the trend in previous years, small to mid-market buyout funds drew the most attention. The majority (72%) of investors we spoke to were seeking to specifically invest in vehicles following a small to mid-market buyout strategy in 2014, and 66% view it as the strategy that presents the best opportunities (Fig. 2.15). Venture capital and large to mega buyout were the next most favoured fund types, with a quarter of investors respectively seeking to invest in these vehicles in the year ahead. This is somewhat unsurprising given the home-run returns these strategies have the potential to produce.

Fig. 2.14: Countries and Regions within Emerging Markets that Investors View as Presenting the Best Opportunities*



Source: Preqin Investor Interviews, December 2012 - December 2013

Fig. 2.15: Investor Attitudes towards Different Fund Types at Present*



Source: Preqin Investor Interviews, December 2013

**Respondents were not prompted to give their opinions on each region/fund type individually; therefore, the results display the regions/fund types at the forefront of investors' minds at the time of the survey.*

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This is an excerpt from Preqin Investor Outlook: Alternative Assets, H1 2014.
Read the full report: www.preqin.com/investoroutlook

The Investor Spring: Proactive Private Equity Investors

Private equity investors today are different from investors of even a few years ago. With ever greater reliance upon alternatives to meet their returns objectives, investors are increasingly likely to survey as much of the market as possible before committing to a fund. Preqin Investor Network, the most comprehensive funds in market resource for investors around, shows just how expansive investors are in their search for the best private equity funds.

The idea of an Investor Spring is one gaining momentum within the alternative assets industry. A look at investor activity in private equity shows us that this Spring is not something that will soon blossom; it is already upon us. There has been a significant rise in investor activity within alternative assets, coupled with a more proactive approach being taken by investors to actively seek out new private equity investments. Traditionally, investors waited for investment opportunities to come to them from fund managers, placement agents and consultants, but they are now more likely to actively approach potential investments themselves.

With growing internal and regulatory pressure on investors to be more diligent with their investments and alternative assets increasingly relied upon within investment portfolios to meet liabilities, it is more important than ever to find the best available investment opportunities. Preqin's recent studies indicate that more than half (51%) of investors use their own internal investment teams as one of their main ways of sourcing new opportunities, and furthermore, 50% of those questioned stated that they take a proactive approach to seeking out investments.

Proactive Investor Universe

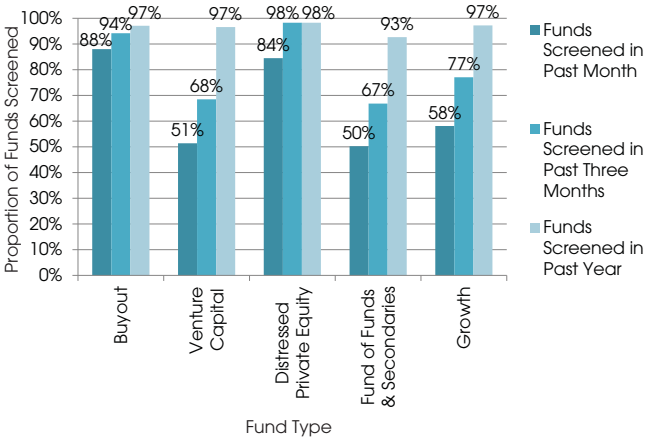
Preqin Investor Network demonstrates just how proactive investors are in discovering and researching potential investment opportunities. Over 5,600 investment professionals across 3,200 accredited institutions use Preqin Investor Network to get overview and contact information for all 2,117 private equity funds in market. More than 140,000 pages of fund, firm, performance, market overview and benchmark data are reviewed by investors every month, with screenings of funds in market alone amounting to over 5,400 a month. Furthermore, managers signed up to the Enhanced Fund Listings service have been receiving direct requests from investors seeking confidential information on their funds typically found in PPMs since 5 November.

Surveyors of the Market

Investors have become surveyors of the market, with 96% of all private equity funds in market having been reviewed on Preqin Investor Network over the past year. Funds big and small, established and first-time, are screened via Preqin Investor Network; it is a key way for both new and established fund managers to get their fund material in front of potential investors. Of first-time and non-first-time private equity funds, 55% and 66% were reviewed during January 2014 by investors respectively. Over the past year, 97% and 96% of first-time and experienced fund managers' funds have been screened by investors respectively. Fig. 2.11 shows that in terms of strategy, the greatest proportion of funds in market screened by investors during January 2014 was buyout and distressed private equity funds. In fact, 88% of the 274 buyout funds in market were reviewed in January 2014, consisting of 1,650 individual reviews, and 84% of distressed debt funds were screened.

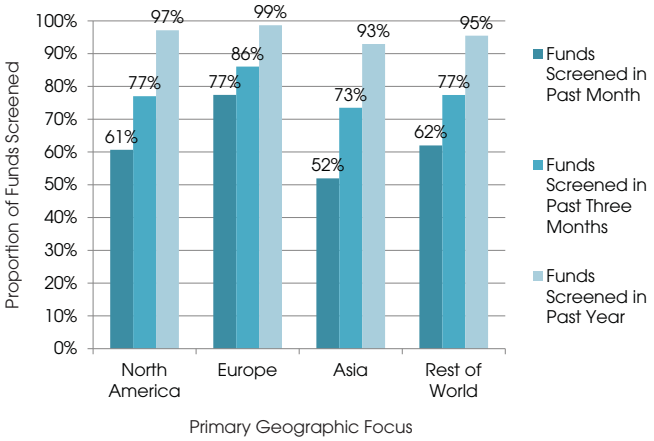
While North America-focused funds attracted the greatest number of investor views in the past month, with 1,862 reviews, a greater proportion of Europe-focused funds were surveyed than North America-focused funds, with 77% and 61% of such funds screened respectively in January 2014, as shown in Fig. 2.12. The proportion of European funds reviewed increased to 86% over the past quarter, and 99% of funds across the past year, with 77% of North America funds screened in the last quarter and 97% in the past year.

Fig. 2.11: Proportion of Private Equity Funds Screened by Investors on Preqin Investor Network by Fund Strategy (As at 01 February 2014)



Source: Preqin Investor Network

Fig. 2.12: Proportion of Private Equity Funds Screened by Investors on Preqin Investor Network by Primary Geographic Focus (As at 01 February 2014)



Source: Preqin Investor Network

Attracting LP Capital and Due Diligence

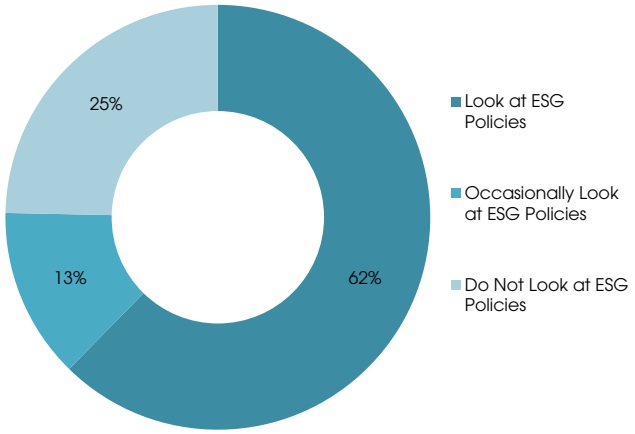
With over 2,100 private equity funds on the road as of February 2014, there is intense competition for investor capital and investors must be ever more scrupulous in their fund selection processes; this includes ESG policies and considering whether to invest in a fund before a first close or commit to first-time funds.

When we asked investors about their methods of due diligence, we found that 70% use an in-house team and 51% employ an external consultant. Investors may utilize the skills of an external consultant to draw on their expertise in a specific fund strategy, industry sector or a geographic region that is less familiar to the investor's internal team.

ESG Policies

Responsible investment is an investment approach that has had increasing prominence within the private equity asset class and Preqin's survey indicates that many investors in fact do make it a mandatory consideration in their due diligence process. Sixty-two percent of investors consistently look at a firm's Environmental, Social and Governance (ESG) policies before making a commitment (Fig. 2.16). In an intensely competitive fundraising environment, managing ESG risks and opportunities is additional way for private equity firms to distinguish themselves.

Fig. 2.16: Proportion of Investors that Look at a GP's Environmental, Social and Governance (ESG) Policies Before Making a Commitment



Source: Preqin Investor Interviews, December 2013

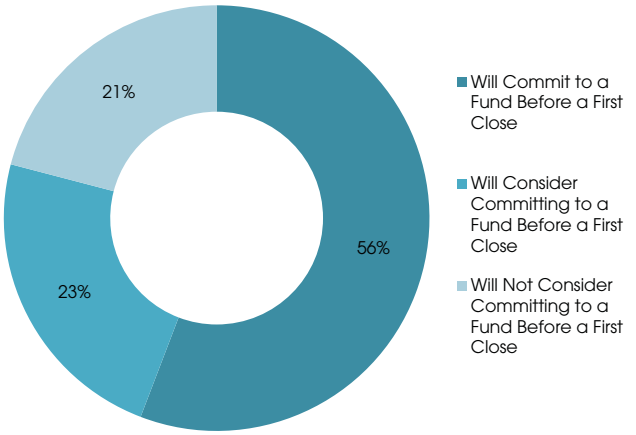
First Closes and First-Time Fund Managers

The risk of investing in a fund before it has held an interim close is offset by fund managers in an attempt to attract capital commitments by offering benefits such as co-investment rights or an "early-bird discount", whereby management fees are often reduced. Indeed, the majority (79%) of investors interviewed state they would commit to a fund before it has reached a first close, or at least consider doing so, as shown in Fig. 2.17.

Similarly, investing in a first-time fund, i.e. a debut vehicle from a newly established firm, holds some significant risk potential, as the experience and expertise of the fund manager is untested.

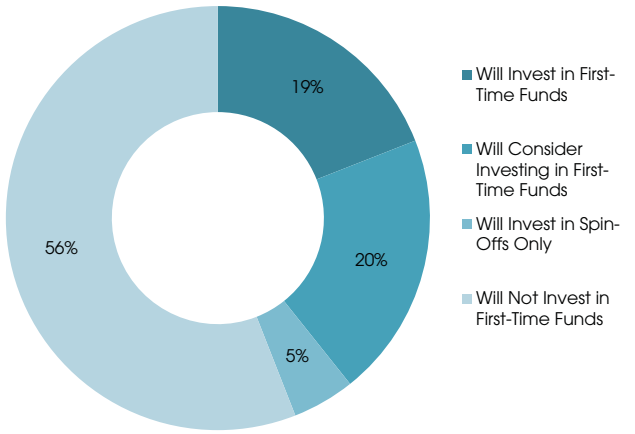
Without a proven track record behind them, first-time fund managers may find securing capital commitments a challenge, and the majority (56%) of investors interviewed will not invest in a maiden fund (Fig. 2.18). Private equity fundraising figures for 2013 reinforce this, as the proportion of total private equity capital commitments in the year that can be attributed to first-time fund managers was a mere 7%. Not only has the dominance of more established fund managers been a consistent trend, but the level of bifurcation is also getting wider. The 7% of capital raised by first-time fund managers in 2013 is a four percentage point decrease compared to the proportion first-time fund managers raised in 2012, and is also the lowest proportion seen since 2004.

Fig. 2.17: Investor Attitudes towards Investing in a Fund Before a First Close



Source: Preqin Investor Interviews, December 2013

Fig. 2.18: Investor Attitudes towards Investing in First-Time Funds



Source: Preqin Investor Interviews, December 2013

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Alternative Methods of Accessing the Asset Class

The maturation of economic markets, the private equity asset class and the investor community, has led to a number of developments and shifts in trends within the private equity landscape, such as the rise of separate account mandates and increased levels of activity in the secondary market and direct investments.

Separate Accounts

In recent years, billions of dollars have been allocated to separate account mandates by private equity investors across the globe. The benefits of such an arrangement with a fund manager include the ability to gain customized exposure to private equity, tailored specifically for the need of the individual investor, along with investor participation in decision making. Separate account mandates are often awarded to fund of funds managers, which serve an important function to smaller and less experienced investors looking to gain exposure to the asset class, as well as to more experienced investors that want to access newer markets. Such offerings tend to be more attractive from a fees perspective to investors, compared to investing in a traditional commingled vehicle.

Though only 23% of the investors Preqin interviewed in December 2013 were investing in separate account vehicles, over half of these investors (55%) indicated that separate account commitments will become a permanent part of their investment strategy. Of those investors that do not currently have separate account investments, 30% are considering doing so, as shown in Fig. 2.19.

Direct Investments

Direct investments involve investors working in conjunction with their fund managers, furthering their relationships, providing return benefits and a first-hand view of how the fund managers add value to companies in the portfolio. Over a third of investors interviewed (34%) co-invest alongside GPs in portfolio companies, and 53% are looking to increase their level of activity in this area over the course of 2014. Thirty percent invest as a direct investor on a proprietary basis, with 41% of investors intending to increase such operations in the upcoming year.

Secondary Market

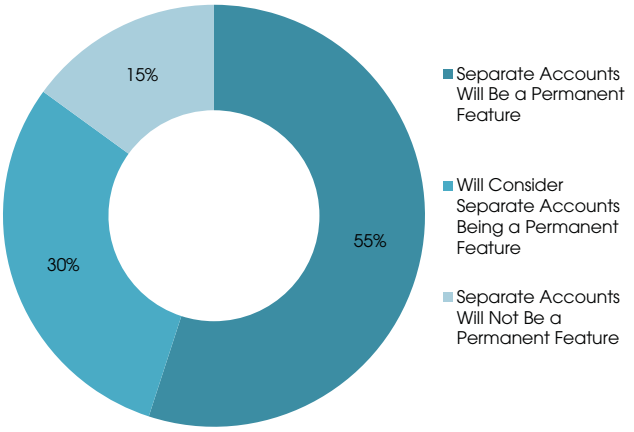
The secondary market is a helpful tool for investors in an abundance of ways: it provides investors with the ability to buy fund stakes at a discount to NAV, create vintage year diversification and access top performing managers. Investors are also attracted to the secondary market as it offers the opportunity to mitigate the effect of the J-curve; buying a stake in a fairly mature private equity fund enables investors to avoid the negative returns in the early years of investment and take advantage of the investment gains in the later stages as the underlying portfolios of companies mature. Fig. 2.20 shows two-thirds of investors interviewed will be increasing their level of secondary market activity as a direct participant in 2014. All remaining investors interviewed would be looking to maintain their level of secondary investments; none intend to decrease their activity.

Preqin's Secondary Market Monitor: A Vital Tool

Preqin's Secondary Market Monitor provides detailed information on all aspects of the secondary market, including investors buying and selling fund interests, secondaries funds, transactions, and much more.

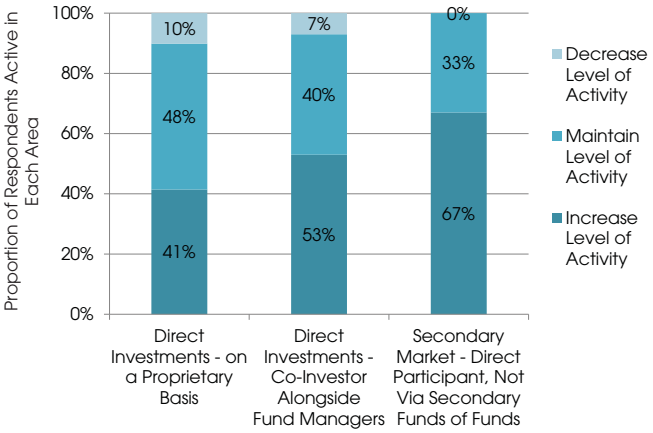
For more information, please visit: www.preqin.com/smm

Fig. 2.19: LPs Investing in Separate Accounts: Proportion that Expect Separate Accounts to Be a Permanent Feature of Their Private Equity Portfolios



Source: Preqin Investor Interviews, December 2013

Fig. 2.20: Investors' Expectations of Their Direct Investment and Secondary Market Activity in 2014



Source: Preqin Investor Interviews, December 2013

Fees and Alignment of Interests

There is a positive picture for private equity relations as we move through 2014, with more than three-quarters of investors believing that GP and LP relations are properly aligned. Despite this, however, LPs still believe there is room for improvement with certain fund terms and conditions.

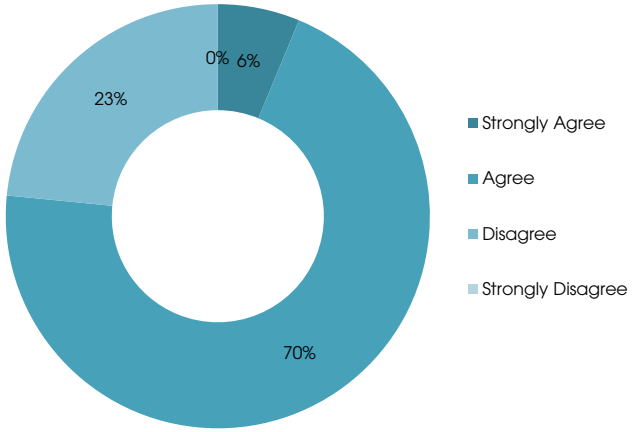
According to Preqin's interviews with investors in December 2013, 70% of investors agree that LP and GP interests are properly aligned, and 6% strongly agree this is the case (Fig 2.21). In contrast, only 23% of investors interviewed believe LP and GP interests are not properly aligned.

Eighteen percent of investors plan to reduce the number of GP relationships in their portfolios in the next two years, which will enable them to reduce their spread of focus and form more strategic relationships. A further 34% are planning to maintain the same number of managers, although for fund managers that have failed to meet expectations, or broken terms in their outlined LP Agreement, investors may have decide not to invest in their next offering.

By increasing the number of fund manager relationships in their private equity portfolios, as 48% of investors interviewed intend to do in the longer term (Fig. 2.22), investors open themselves up to the opportunity of gaining exposure to niche strategies or new geographies that their existing managers may not offer.

Fig. 2.23 illustrates the weight many investors place on various fund terms, with management fees in particular cited by the greatest proportion (56%). A fifth (20%) feel that in order for LP and GP relations to be improved, there needs to be a move away from paying fees on capital not yet invested, and 15% are of the opinion that the typical rebate of deal-related fees needs to be amended. One Iceland-based public pension fund summed up by asserting, "if there isn't something done with regards to fees, it will harm the private equity market". This alludes to the power that these factors have on deterring investors, and how important it is for fund managers to balance these issues when the drawing up of their fund's terms and conditions.

Fig. 2.21: Proportion of LPs that Feel LP and GP Interests Are Properly Aligned



Source: Preqin Investor Interviews, December 2013

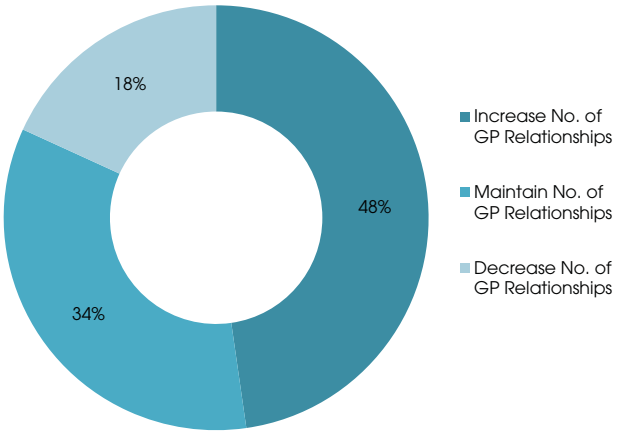
In-Depth Private Equity Fund Manager Data

Preqin's **Fund Manager Profiles** contains detailed information for over 7,500 private equity fund managers. Access league tables of the most prominent fund managers, performance track records, investment preferences, known investors, key contact details, and much more.

For more information, please visit:

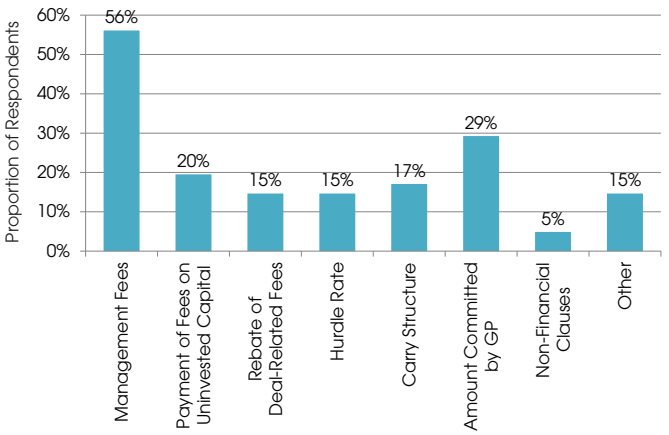
www.preqin.com/fmp

Fig. 2.22: Investors' Intentions for GP Relationships over the Next Two Years



Source: Preqin Investor Interviews, December 2013

Fig. 2.23: Fund Terms Investors Feel Need to Be Amended to Improve LP and GP Relations



Source: Preqin Investor Interviews, December 2013

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