Investor Sentiment: The Opinions of 100 Leading LPs

Following in-depth interviews with investors in private equity around the world, Antonia Lee looks at where these institutions plan to place their capital in the next 12 months.

Three hundred and thirty-six funds reached a final close in H1 2012 having secured aggregate commitments of $143bn, down slightly from the $167bn raised by the 434 funds that reached a final close in H1 2011. However, it is encouraging to see that despite on-going problems in the eurozone and wider financial markets, aggregate capital raised by funds in H1 2012 has increased slightly in comparison to H2 2011, when 405 funds reached a final close having secured $135bn in aggregate commitments.

Preqin interviewed over 100 institutional investors in private equity in June 2012 to find out about their private equity exposure and assess their current attitudes towards the asset class. Almost half (47%) of investors we spoke to have made commitments so far in 2012, and 44% expect to next commit capital to a private equity fund before the end of the year.

A further 11% of investors expect they will next commit to a fund in 2013, while a significant third of LPs interviewed are uncertain about the timeframe of their next commitment, but may commit to a new fund within the next 12 months should an attractive opportunity arise. Some investors are uncertain when they will next commit to a fund due to the current instability in wider markets. For example, one Nordic insurance company we spoke to is currently holding off making new commitments due to uncertainty surrounding the future of the euro.

One-third of LPs are currently below their targeted levels of exposure to private equity, as Fig. 1 illustrates, and 48% are at their target allocations to the asset class. This suggests that 81% of investors are likely to continue to make new commitments to private equity funds in the near future in order to maintain or build towards their target allocations to the asset class. Nineteen percent of investors are currently above their target allocations to private equity.

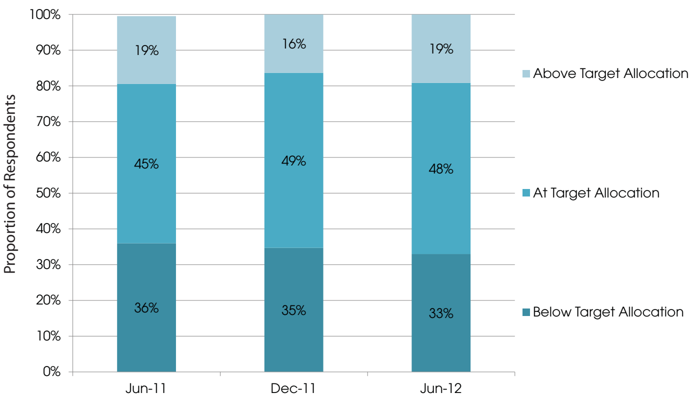
Key Geographies and Strategies over the Next 12 Months

As Fig. 2 illustrates, small to mid-market buyout funds continue to attract the highest level of investor interest, with 49% of LPs naming this fund type as offering the best opportunities and 49% planning to commit to such funds over the next 12 months.

Venture capital, secondaries and growth vehicles continue to attract attention from investors, with 23%, 19% and 16% of investors naming these fund types respectively as offering the best opportunities in the current market.

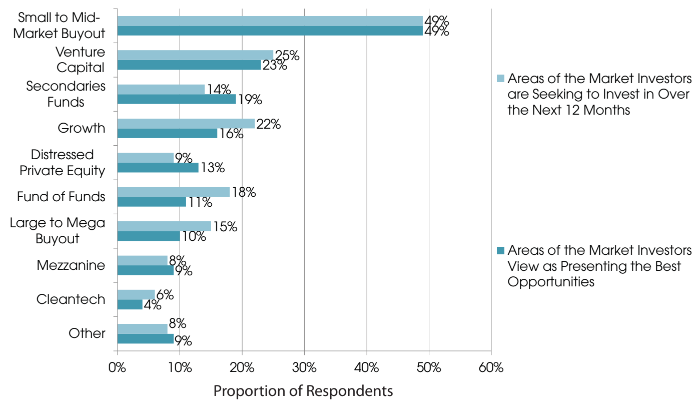
In light of recent macroeconomic issues, particularly within the eurozone, we asked LPs which regions they feel are currently presenting the best opportunities, and if they are avoiding any regions that they may have considered investing in before. The highest proportion of investors (34%) named North America as the most attractive region for investment, 27% named Asia, 26% named Europe and a similar proportion named Rest of World, while 31% did not pick out any specific regions as offering the best opportunities. One UK public pension fund commented: “There are interesting opportunities in all regions so [we] cannot name one region.”

Fig. 1: Proportion of Investors Currently At, Above, or Below Their Target Allocations to Private Equity



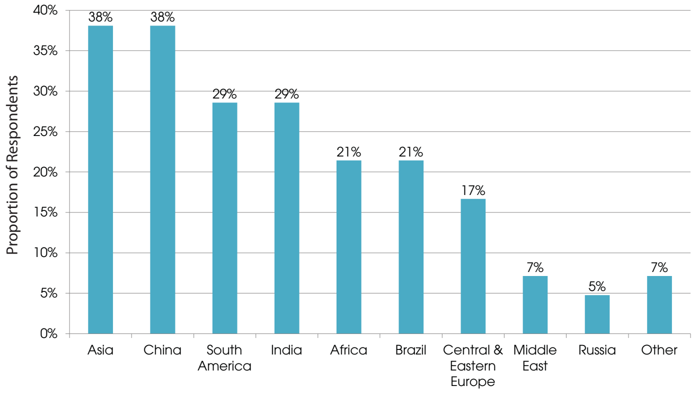
Source: Preqin Investor Outlook: Private Equity, H2 2012

Fig. 2: Investor Attitudes to Different Fund Types at Present*



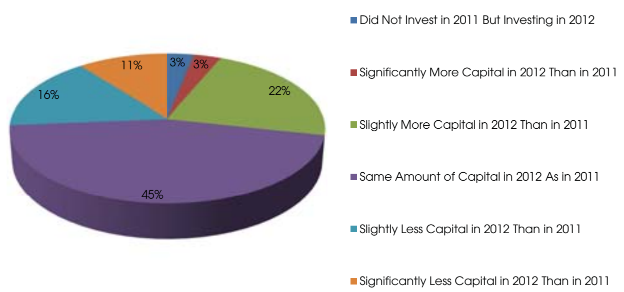
Source: Preqin Investor Outlook: Private Equity, H2 2012

Fig. 3: Countries and Regions within Emerging Markets that Investors View as Presenting Attractive Opportunities*



Source: Preqin Investor Outlook: Private Equity, H2 2012

Fig. 4: Amount of Capital Investors Plan to Commit to Private Equity Funds in 2012, Compared to 2011



Source: Preqin Investor Outlook: Private Equity, H2 2012

Notably, 24% of investors told us they would not invest in Europe at present and some commented that they would avoid specific regions within Europe, such as one German bank, which will invest in Eastern Europe but wants to avoid Western Europe. Nevertheless, some investors see opportunities in the region. We spoke to a US endowment that commented: "Despite the financial crisis, Europe is presenting some strong investment opportunities if there is a real strong long-term strategy."

Three percent of LPs would not invest in North America, and 2% are avoiding opportunities in Asia and Rest of World. One Swiss bank noted: "We are avoiding emerging markets in general; we have invested there before but will be very selective in the future." Almost three-quarters of LPs (73%) are not avoiding investment opportunities in any region they have previously invested in.

Appetite for Emerging Markets

A substantial 72% of LPs will invest or consider investing in emerging markets. Furthermore, 95% of these expect to increase their exposure to such regions over the next 12 months, and none plan to reduce their exposure in the long term. Fig. 3 shows the specific countries and regions within emerging markets that investors view as presenting the best opportunities. China, and more broadly Asia, remains attractive to the highest proportion of LPs (38%). India and South America are also viewed as offering good investment opportunities, each named by 29% of investors that have an appetite for emerging regions.*

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

Attracting Capital before the First Close

Forty-nine percent of investors would invest in a fund before the first close and a further 16% would consider being a first-close investor. Fund managers often offer incentives to attract LPs to commit early; for example, a European government agency noted: "[Investing before the first close] is attractive as you can be offered preferential rights, for example with regards to co-investment opportunities, and preferential fees and carry." Additionally, a Malaysian investor told us: "Usually we prefer to invest before the first close with re-ups so that we can negotiate [fund terms] better." One Spanish investor commented: "[We] will only invest [before the first close] if we have previously invested with the manager and know the fund has the capacity to reach a first close and the overall target."

Allocations and Intentions for 2012 and Beyond

Continued uncertainty in financial markets and record numbers of funds on the road mean that fundraising is likely to remain challenging in the year ahead. With many LPs remaining cautious when selecting private equity funds and others exploring new ways of investing in the market, what level of activity can we expect from LPs going forward?

As discussed earlier, aggregate capital raised by funds closed in H1 2012 is up slightly compared to that raised by funds that reached a final close in the latter half of 2011. Encouragingly, almost three-quarters of LPs (73%) expect to commit more or the same amount of capital to private equity funds in 2012 compared to 2011. This suggests that we may see a slight uptick in fundraising by the end of the year in comparison to 2011.

As Fig. 4 illustrates, one-quarter of LPs plan to commit more capital in 2012 than they did in 2011. Those LPs gave various reasons for increasing the pace of their commitments this year, including changes to their investment strategy leading to a bigger allocation to private equity, new mandates available to invest, more opportunities (particularly re-up opportunities) in the market, and building up towards their targeted levels of exposure to the asset class.

Another 3% of LPs anticipate a return to private equity this year having held off making new commitments in 2011. One Austrian investment company told us: "We have been reluctant since 2009 and now want to commit more capital."

The highest proportion of investors (45%) plan to maintain the pace of their commitments in 2012 compared to 2011. Many of those LPs are at target and investing to maintain their allocation by continuing a set commitment policy, although some mentioned they would invest more if they had the necessary capital available.

Twenty-seven percent of investors expect to commit less capital to private equity opportunities in 2012. A Swedish foundation told us: “We don’t have the money to invest right now, so we probably will not do anything for a couple of years at least.” A Swedish bank said that regulatory changes are affecting its allocation. Unhappy about increasing transparency in the asset class, one Swiss family office said: “One of the attractions of private equity is that it used to be private; these days people are trying to bring it out in the open and regulate and strangle it. This will have a negative impact on the asset class.” Some investors are waiting for a natural rundown of their existing commitments before adding new funds to their portfolio, while others said they are reducing their exposure to funds to focus more on direct investments.

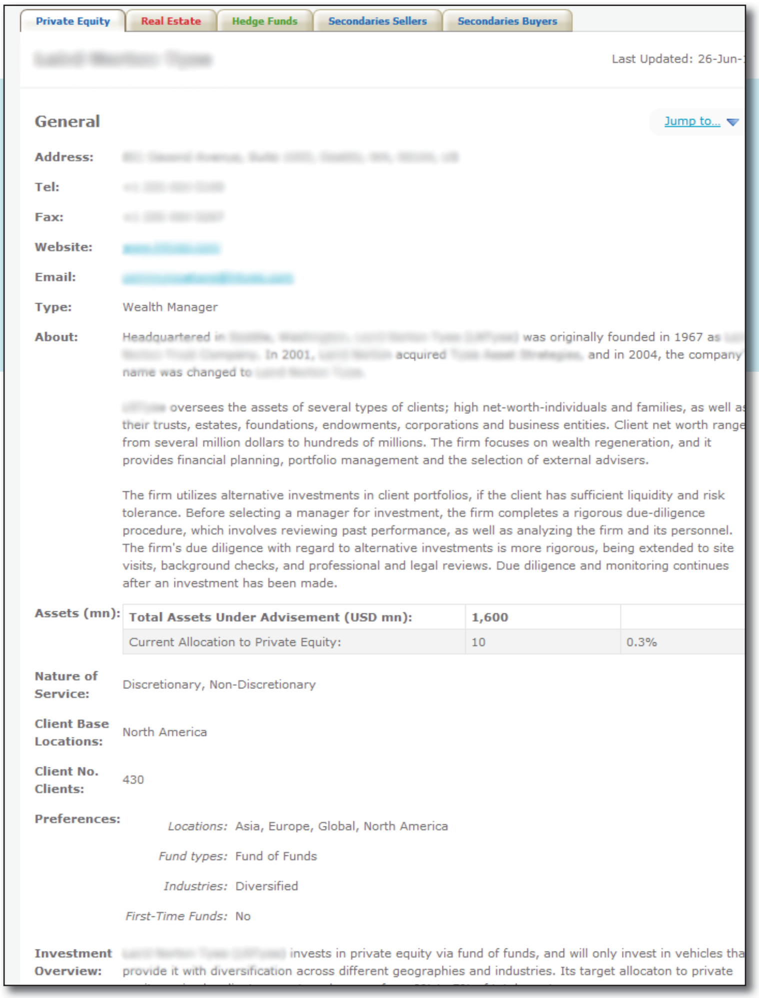
Although there are still investors that remain reluctant to commit fresh capital to funds, and others that are exploring new methods of accessing private equity investments such as co-investments and separate accounts, the majority of LPs intend to continue to allocate capital to private equity funds. Nineteen percent of investors expect to increase their exposure to the asset class over the next 12 months, while just 11% expect their private equity fund allocations to go down. Furthermore, in the long term, over one-quarter of LPs (28%) plan to increase their exposure to private equity funds, 62% plan to maintain their allocations, and just 10% expect to reduce their allocations to the asset class.

Wealth Managers in Private Equity

Preqin has now launched coverage of wealth managers involved in the Private Equity, Real Estate, Infrastructure and Hedge Fund asset classes.

Investor Intelligence Now Includes:

- Wealth Manager Profiles - constantly updated, searchable profiles of wealth managers and their real estate investment preferences.
- Wealth Manager Contact Details - access the details of wealth managers' key personnel and preferred methods of contact.



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Address: [illegible]

Tel: [illegible]

Fax: [illegible]

Website: [illegible]

Email: [illegible]

Type: Wealth Manager

About: Headquartered in [illegible] was originally founded in 1967 as [illegible] In 2001, [illegible] acquired [illegible] and in 2004, the company name was changed to [illegible]

[illegible] oversees the assets of several types of clients; high net-worth-individuals and families, as well as their trusts, estates, foundations, endowments, corporations and business entities. Client net worth ranges from several million dollars to hundreds of millions. The firm focuses on wealth regeneration, and it provides financial planning, portfolio management and the selection of external advisers.

The firm utilizes alternative investments in client portfolios, if the client has sufficient liquidity and risk tolerance. Before selecting a manager for investment, the firm completes a rigorous due-diligence procedure, which involves reviewing past performance, as well as analyzing the firm and its personnel. The firm's due diligence with regard to alternative investments is more rigorous, being extended to site visits, background checks, and professional and legal reviews. Due diligence and monitoring continues after an investment has been made.

Assets (mn):			
	Total Assets Under Advisement (USD mn):	**1,600**	
	Current Allocation to Private Equity:	10	0.3%

Nature of Service: Discretionary, Non-Discretionary

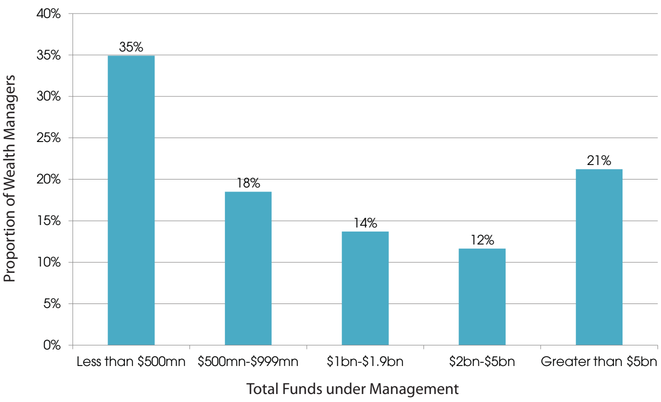
Client Base Locations: North America

Client No. Clients: 430

Preferences:
Locations: Asia, Europe, Global, North America
Fund types: Fund of Funds
Industries: Diversified
First-Time Funds: No

Investment Overview: [illegible] invests in private equity via fund of funds, and will only invest in vehicles that provide it with diversification across different geographies and industries. Its target allocaton to private

Fig. 1: Private Equity Wealth Managers by Funds under Management



Source: Preqin Investor Intelligence

Preqin has also released a complimentary research report, providing insights into wealth managers involved in the alternative assets industry. Download your free copy now:

Wealth Managers Outlook: Alternative Assets

For more information or to arrange a walkthrough of the service, please visit:
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