



PREQIN SPECIAL REPORT: **PRIVATE EQUITY FUND** **MANAGER OUTLOOK**

H2 2017

FOREWORD

In June 2017, Preqin surveyed 153 private equity fund managers to understand their outlook for the industry, covering key issues such as deal flow, investor appetite and their plans for the year ahead.

Fund managers reported that investor enthusiasm for private equity has drawn large sums of capital to the asset class in recent years: 59% noticed increased appetite for private equity funds over the past 12 months, including 13% that noticed a significant increase. With record sums of dry powder available, fund managers are expecting to invest ambitiously in the year ahead, with 62% expecting to deploy more capital in the next 12 months than in the past year.

Success has brought its own challenges, however, with increased competition for transactions and heightened valuations continuing to be concerns among fund managers. Nearly half (49%) of fund managers surveyed believe that portfolio company pricing is now higher than 12 months ago, and 51% consider deal pricing one of the key issues facing the industry at present.

Nevertheless, fund managers remain optimistic about the prospects for the asset class, with 60% either currently in market or planning to begin raising their next fund within the next year.

We hope that you find this report useful and welcome any feedback you may have. For more information about Preqin and our services please visit www.preqin.com or contact info@preqin.com.

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Deal Flow and Competition

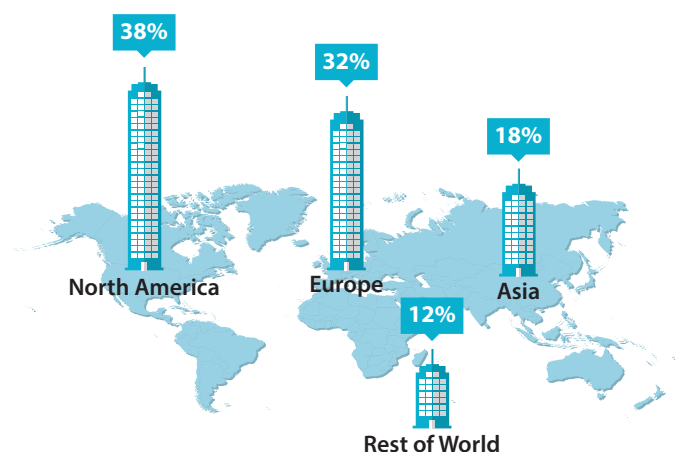
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Fund Manager Views on Investor Appetite

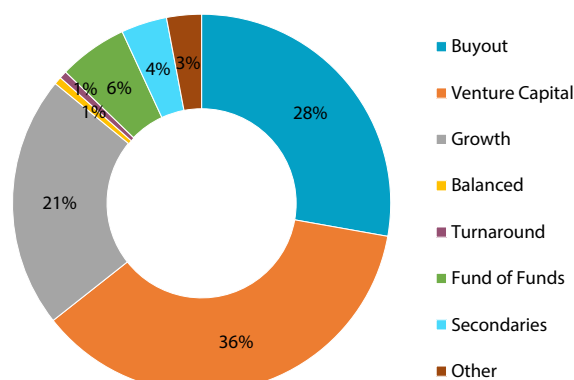
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Outlook and Future Plans

Survey Respondents by Headquarters Location



Survey Respondents by Primary Investment Strategy



Source: Preqin Fund Manager Survey, June 2017

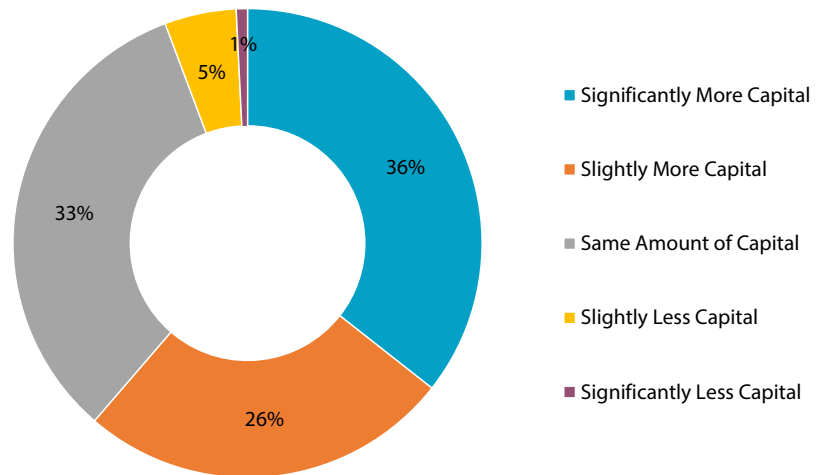
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DEAL FLOW AND COMPETITION

The continued fundraising success of private equity fund managers, combined with growing investor appetite for the asset class, has served to bring ever more capital into private equity funds in recent years. With dry powder levels continuing to grow - standing at \$963bn as at July 2017 - fund managers are looking to increase the amount of capital they deploy. The majority (62%) of fund managers surveyed by Preqin in June 2017 plan to increase the amount they invest in private equity assets in the next 12 months compared to the previous 12 months, including 36% that plan to invest significantly more (Fig. 1). By contrast, just 6% reported that they will be deploying less capital in the next 12 months.

Fig. 1: Amount of Capital Fund Managers Expect to Deploy in the Next 12 Months Compared to the Past 12 Months



Source: Preqin Fund Manager Survey, June 2017

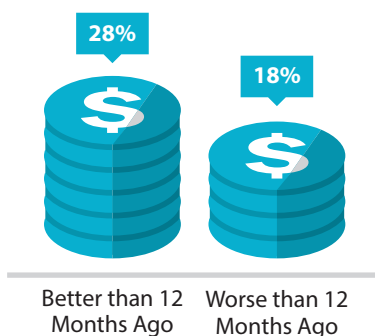
There has been increased competition for transactions, due to large sums of capital dedicated to private equity investments and the need to put this capital to work. Half of surveyed fund managers reported that competition for transactions has increased from a year ago, compared to only 2% that feel competition has declined (Fig. 2). The greatest proportion (52%) of fund managers have noticed increased competition for mid-market

buyouts, followed by seed (50%) and early stage (47%) ventures (Fig. 3); the smallest proportion (35%) noticed an increase in competition for companies at the expansion stage.

With increased competition for deals, fund managers have been finding it more difficult to identify attractive companies at reasonable valuations. Twenty-eight

percent of fund managers surveyed reported that it is now more difficult to find attractive investment opportunities than 12 months ago, compared to just 9% that find it easier (Fig. 4). However, the proportion of fund managers that are finding it more difficult has decreased by 10 percentage points from 38% of managers surveyed in November 2015.

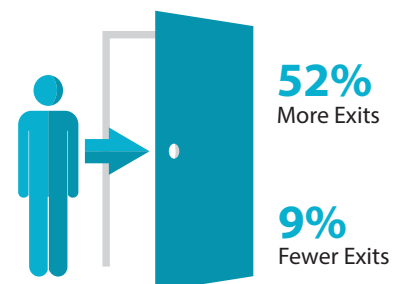
FUND MANAGER VIEWS ON HOW DEBT FINANCING TERMS FOR ACQUIRERS HAVE CHANGED OVER THE PAST 12 MONTHS



FUND MANAGER VIEWS ON PORTFOLIO COMPANY PRICING COMPARED TO 12 MONTHS AGO



AMOUNT OF INVESTMENTS FUND MANAGERS EXPECT TO EXIT IN THE NEXT 12 MONTHS COMPARED TO THE PAST 12 MONTHS



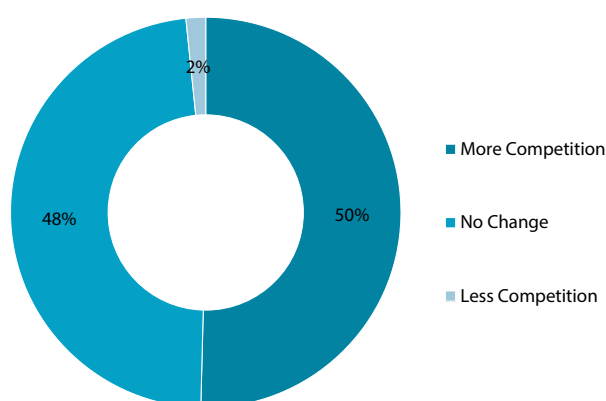
This may, in part, be due to fund managers widening their searches to find more potential investments: 47% of respondents are currently reviewing more opportunities than 12 months ago, compared to just 10% that are reviewing fewer (Fig. 5). When it comes to accessing these opportunities, low interest rates have helped some fund managers with financing for their deals: 28% of fund managers reported that debt financing terms have improved

for acquirers over the past 12 months, compared to 18% that believe they have worsened.

These elements – high levels of competition for assets and increased access to debt – have helped to push up portfolio company valuations: 49% of fund managers believe that portfolio company pricing is higher than 12 months ago, and just 7% consider it lower. Although

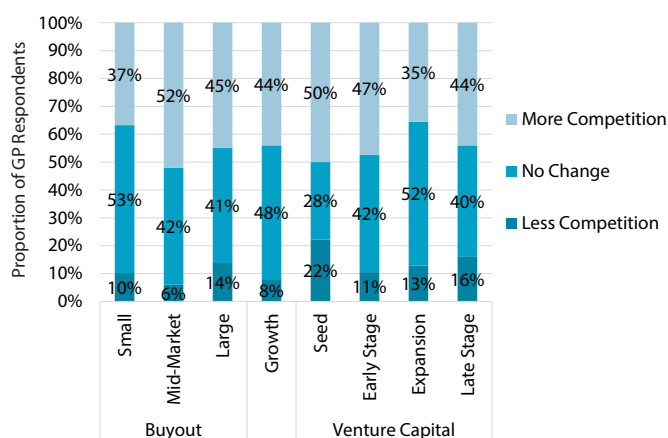
high valuations can pose challenges for fund managers seeking to make new acquisitions and remain one of the key issues facing the industry at present (see page 6), they can be beneficial for fund managers hoping to sell companies in their portfolio: 52% of fund managers expect to see more exits in the next 12 months than the past 12 months, and just 9% expect to see fewer.

Fig. 2: Fund Manager Views on the Level of Competition for Transactions Compared to 12 Months Ago



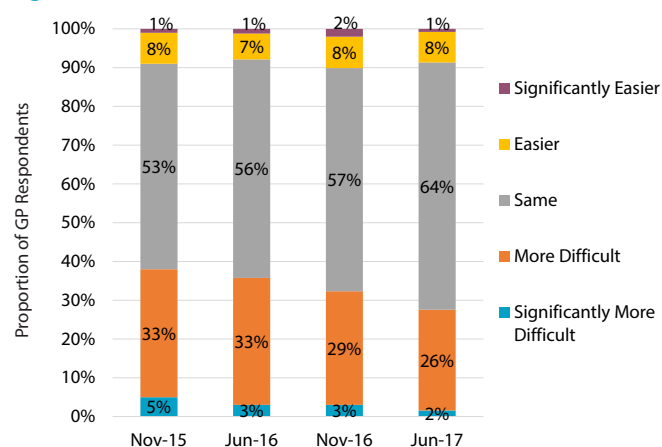
Source: Preqin Fund Manager Survey, June 2017

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



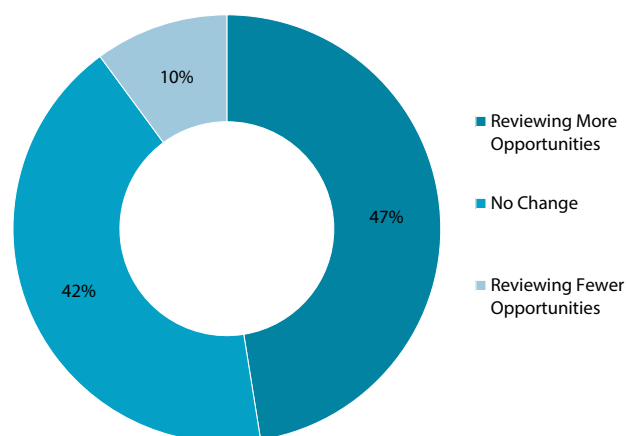
Source: Preqin Fund Manager Survey, June 2017

Fig. 4: Fund Manager Views on the Difficulty of Finding Attractive Investment Opportunities Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, November 2015 - June 2017

Fig. 5: Amount of Investment Opportunities under Review by Fund Managers Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, June 2017

PRIVATE EQUITY ONLINE

Private Equity Online is the leading source of data and intelligence on the growing private equity industry and covers all aspects of the asset class, including fund managers, fund performance, fundraising, institutional investors and more.

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FUND MANAGER VIEWS ON INVESTOR APPETITE

Institutional investor interest in private equity funds remains strong: 59% of managers surveyed by Preqin saw an increase in appetite for their funds over the past year, including 13% that cited a significant increase (Fig. 6). By contrast, only 12% have seen less investor interest.

The greatest increase in appetite is from family offices: 58% of fund managers have noticed more appetite from these investors over the past 12 months (Fig. 7). This past year has also seen sovereign wealth funds, private sector pension funds and wealth managers become increasingly involved in the asset class.

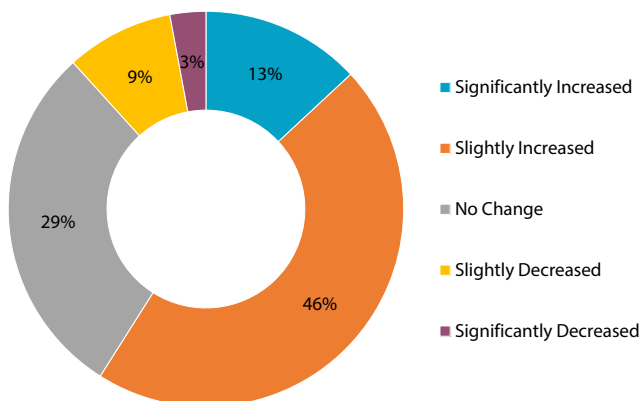
A greater proportion of fund managers have seen reduced rather than increased interest from banks (26% vs. 19% respectively) – yet the gap between these two figures has narrowed, suggesting that much of the reduction in private equity activity by banks is driven by regulatory changes such as the Volcker Rule.

Half of fund managers surveyed have noticed increased appetite from Asia-based investors (Fig. 8). The proportion of fund managers reporting increased interest from North America-based investors has grown from 39% in November 2016 to 45% in June 2017; the

proportion reporting increased interest from MENA-based investors has grown from 20% to 27% in the same time period.

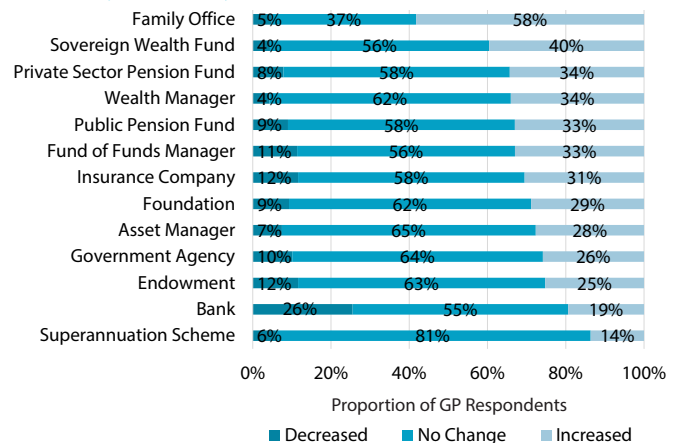
Despite increased investor interest in private equity, the record number of private equity funds in market – 1,998 as at the start of Q3 2017 – means that competition among fund managers for investor capital remains high. Of those surveyed, 80% feel there is more competition for investor capital than 12 months ago. This includes 16% citing a significant increase (Fig. 9), and just 1% that feel that competition has decreased over this time.

Fig. 6: Fund Manager Views on How Institutional Investor Appetite for Private Equity Has Changed over the Past 12 Months



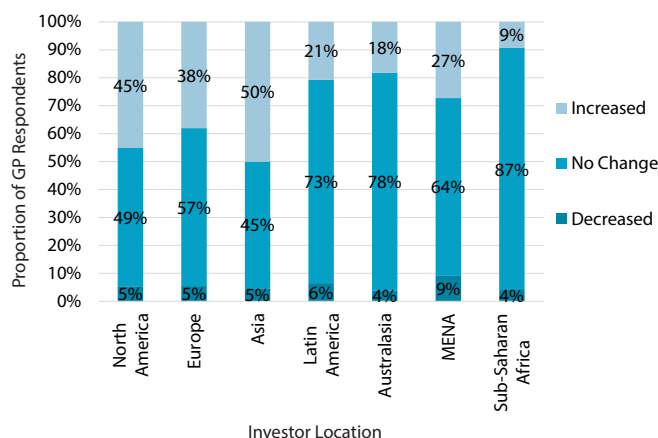
Source: Preqin Fund Manager Survey, June 2017

Fig. 7: Fund Manager Views on How Institutional Investor Appetite for Private Equity Has Changed over the Past 12 Months by Investor Type



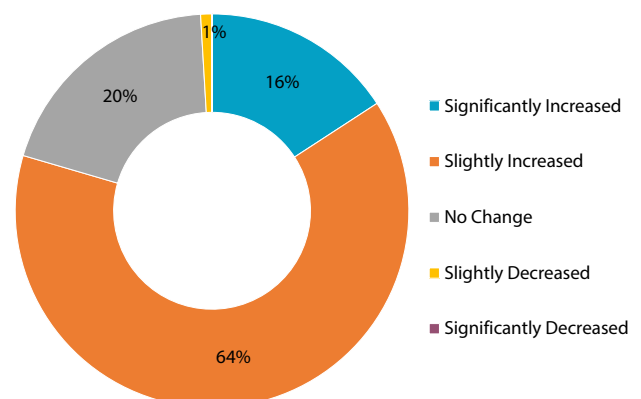
Source: Preqin Fund Manager Survey, June 2017

Fig. 8: Fund Manager Views on How Institutional Investor Appetite for Private Equity Has Changed over the Past 12 Months by Investor Location



Source: Preqin Fund Manager Survey, June 2017

Fig. 9: Fund Manager Views on the Level of Competition for Institutional Investor Capital Compared to 12 Months Ago



Source: Preqin Fund Manager Survey, June 2017

OUTLOOK AND FUTURE PLANS

As fund managers look ahead to the next 12 months, their leading concern is the high valuations of portfolio companies. Fifty-one percent of surveyed fund managers see deal pricing as a key challenge facing the industry in the year ahead (Fig. 10). The exit environment (35%), performance (34%) and fundraising (32%) also rank highly on their list of concerns.

Preqin's latest investor survey shows that 81% of investors plan to commit the same or more capital to private equity funds in the next year than in the past 12 months, indicating that there will be considerable opportunities for fund managers to raise new vehicles despite increased

competition. Twenty-nine percent of fund managers surveyed are already raising their next fund, while a further 31% plan to do so in the next year (Fig. 11).

Although the inflow of capital to the industry has increased the competition for deals (see page 4), the vast majority (79%) of fund managers will maintain their return targets for these new vehicles, with 12% raising their targets and 9% lowering them (Fig. 12). However, a notable proportion (19%) of fund managers plan to make changes to their strategies to achieve these returns, either through targeting new geographical regions or investing in new industries.

Alongside traditional fund launches there remains considerable appetite for alternative means of accessing the asset class among LPs; GPs have responded to this by increasing their offerings of alternative structures, a trend that looks set to continue in the year ahead. The greatest growth is expected in co-investments: 39% of fund managers plan to offer more co-investment opportunities over the next year, with only 1% expecting to offer fewer (Fig. 13). By contrast, just 10% intend to offer more separate accounts, and 8% are planning more joint ventures.

Fig. 10: Fund Manager Views on the Biggest Challenges Facing the Private Equity Industry in the Next 12 Months

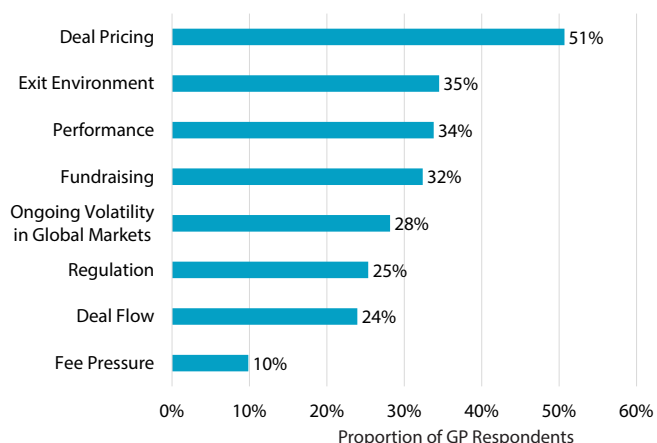


Fig. 11: Timeframe with which Fund Managers Intend to Launch Their Next Private Equity Fund

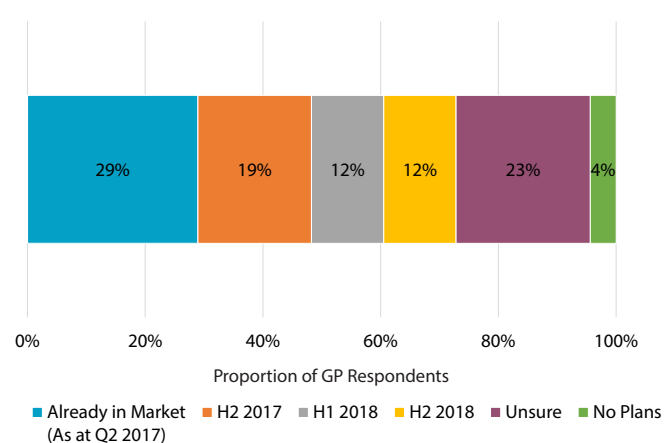


Fig. 12: Fund Managers' Plans to Alter Their Targeted Returns for Their Latest Funds Due to Market Conditions

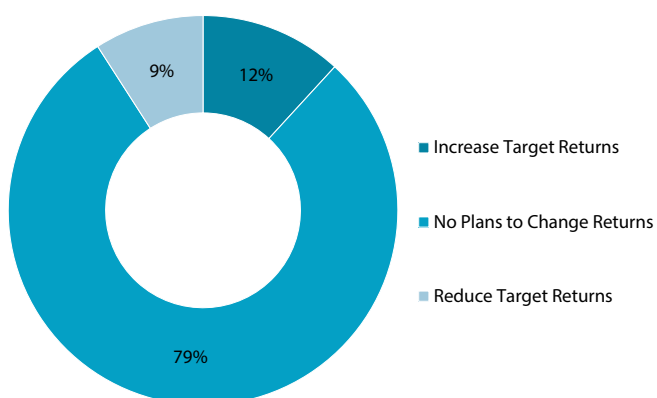
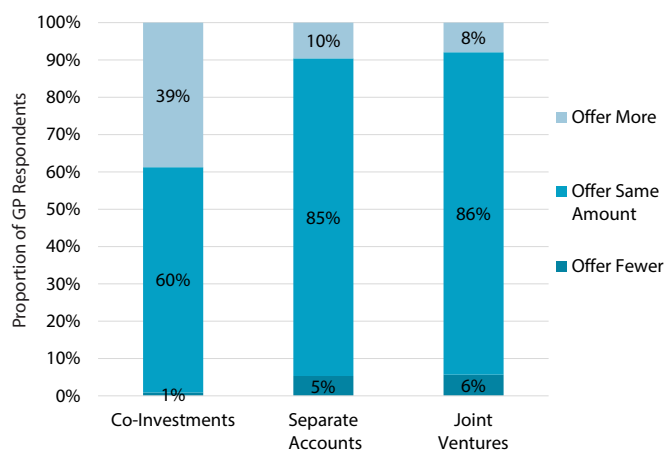


Fig. 13: Fund Managers' Plans to Offer Alternative Structures to Investors in the Next 12 Months Compared to the Past 12 Months



Source new investors for funds

Identify new investment opportunities

Conduct competitor and market analysis

Find potential deal opportunities

Develop new business



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