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Survey Highlights – and The Pandemic

- The Pandemic has had a roller coaster impact on institutional investors during 2020 as the normal market environment of January plunged into volatility and uncertainty in March and April followed by a slow rebound in public market and private market valuations.

- By late October prices for many firms returned to January levels as various stimulus plans mitigated certain economic impacts and progress in developing vaccines gave hope for a return to "normal" sometime in 2021.

- Probitas’ latest annual survey was taken over the first two weeks of November after the markets had recovered significantly from the depths of April – and the results of a survey done in April would have been very different from what we are showing now.

- In private equity, investors are still heavily focused on U.S. and European Middle-Market Buyouts and U.S. Growth Capital, though interest in Asian private equity has increased from this time last year.

- In the second and third quarter of 2020 there was sharply increased interest in secondaries and distressed private equity – but at this point, many investors seem to have already made their bets in these sectors and are waiting for their commitments to be invested before committing too much more to these sectors.

- Interest in U.S. and Asian Venture Capital increased during the year – boosted in part because technology and life science investing that dominate the sector have done well during the Pandemic.

- Interest in Impact Funds also increased this year, more than doubling since our last survey.
Respondents by Type of Institution

- 70 institutional investors responded to this year’s survey
- 57% of respondents came from Funds-of-Funds, Insurance Companies or Endowments & Foundations, with another 19% coming from Public or Corporate Pension Plans

Chart I: Respondents by Institution
I represent a:

- Fund-of-Funds Manager: 24%
- Insurance Company: 17%
- Endowment/Foundation: 16%
- Consultant/Advisor: 10%
- Public Pension: 9%
- Corporate Pension/Private Pension: 7%
- Wealth Manager/Outsourced CIO: 7%
- Family Office: 7%
- Bank: 4%
- Other: 3%

Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results
42% of respondents were from North America while 33% were from Europe and 25% from Asia or Australia.

Investors from developed markets, which are the major source of capital for private equity, dominated the survey.

**Chart II  Respondents by Firm Headquarters**

My firm is headquartered in:

- United States: 39%
- Canada: 3%
- Western Europe ex-UK: 29%
- United Kingdom: 4%
- Asia ex-Japan: 10%
- Japan: 4%
- China: 2%
- Australia: 9%

*Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results*
Current and Target Allocations

- 50% of respondents were roughly at or over their target but are still looking to maintain or increase their allocations, a similar result to last year.
- Only 1% of respondents said that they were slowing their investment pace as they were still analyzing the impact of the Pandemic; the rebound in the public markets has alleviated many previous concerns.

**Chart III  Current and Target Private Equity Allocations**

As far as our current private equity allocation, we are:

- Roughly at our target and are looking to maintain that level of exposure
- Under our target allocation and actively committing to private equity to achieve that target
- A fund-of-funds or consultant to which the question does not apply
- Roughly at our target but considering increasing the target
- Temporarily slowing our investment pace as we continue to analyze the impact of the pandemic
- Over our target and are looking to reduce exposure to meet that target
- Over our target but seeking to increase the target
- Looking to reduce our target allocation or exit the asset class
- Other

*Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results*
Drivers of Sector Interest

- The bulk of respondents simply target the best managers currently in market – no other reason came close to that
- These results were similar across all respondent geographies and investor types

**Chart IV  Drivers of Sector Investment**

Our sector investment focus in 2021 will be driven by (choose no more than two):

- Our institution simply pursues the best funds and managers available in the market: 47%
- A focus on those private equity sectors we believe will outperform others in this vintage year: 12%
- Maintaining established relationships with fund managers returning to market this year: 10%
- Our institution’s need to diversify its private equity portfolio: 9%
- Targeting funds that will provide access to co-investments: 8%
- The strategies that our clients have directed us to pursue: 3%
- Our need to deploy significant amounts of capital allocated to private equity: 0%
- Our need to decrease exposure to private equity: 1%
- Other: 0%

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Size of Respondent Allocations

- Investors of various size responded to the survey – though this year’s respondents skewed slightly larger compared to those who participated last year.
- There are differences of opinion on the market depending upon the size of an investors’ program – for example, the increased interest in co-investments that large investors have.

**Chart V  Private Equity Allocations**

For the next year, we or the clients we advise are looking to commit across all areas of private equity (in USD):

Source: Probitas Partners’ Private Equity Investor Trends: 2020 and 2021 Survey Results; other responses had no target.
Manager Relationships

- More respondents were focused on evaluating re-ups with their current GPs with a limited look at offerings from new managers than they were last year.
- Most respondents that are actively pursuing new managers are targeting teams they have met previously with fewer interested in totally “virtual” relationships.

**Chart VI  Manager Relationships**
During 2021, we would expect our primary focus to be:

- Evaluating re-ups with current general partner relationships with a limited look at new relationships: 66% in 2020, 54% in 2021.
- Actively pursuing relationships with new managers who we have met previously: 30% in 2020, 24% in 2021.
- Actively pursuing relationships with new managers that we have only met “virtually”: 5% in 2020, 3% in 2021.
- Evaluating re-ups with current general partner relationships, looking to decrease the number of relationships significantly: 1% in 2020, 1% in 2021.
- Pursuing separate accounts with a smaller number of managers: 1% in 2020, 0% in 2021.
- Our commitments for next year have already been completely allocated: 0% in 2020, 0% in 2021.
- Other: 1% in 2020, 1% in 2021.

Source: Probitas Partners’ Private Equity Investor Trends: 2020 and 2021 Survey Results
Private Equity Sectors of Interest

- U.S. Middle-Market Buyouts and European Middle-Market Buyouts were the only sectors to generate interest from more than 50% of respondents
- Outside of buyouts and growth capital in various geographies, interest in Special Situations was strongest, just ahead of U.S. Venture Capital
- The list only includes sectors that collected the interest of at least 5% of respondents

Chart VII  Private Equity Sectors of Interest
During 2021, my firm or my clients, plan to focus most of our attention on investing in the following sectors (choose no more than seven):

- U.S. Middle-Market Buyouts ($500 million to $2.5 billion)
- European Middle-Market Buyouts - Country or Region Focused
- Growth Capital Funds - U.S.
- European Buyouts - Pan-European
- U.S. Large Buyouts ($2.5 billion to $5 billion)
- Asian Country-Focused Funds
- U.S. Small-Market Buyouts (< $500 million)
- Special Situations Funds
- U.S. Venture Capital
- Pan-Asian Funds
- Asian Venture Capital
- Growth Capital Funds - Europe
- Secondary Funds
- Direct Lending/Credit Strategies
- Impact Funds
- Infrastructure Funds
- Mega Buyout Funds ( > $5 billion or equivalent)
- European/Israeli Venture Capital
- Mezzanine Funds
- Cleantech/Green-Focused Funds
- Distressed Debt Funds
- Emerging Markets (ex-Asia)
- Restructuring Funds
- Fund-of-Funds
- Sustainable/Renewable Focused Funds

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Private Equity Sectors of Interest

- Consistent with our past surveys, Mega-Buyout Funds were not a strong focus of interest among limited partner investment staffs – but they are a core holding of many large investors who need to deploy capital in large amounts

- U.S. Venture Capital scored strongly this year as it has the last two years and interest in Asian Venture Capital increased significantly this year

- Last year for the first time, Impact Funds were included as an option in the survey; last year they were targeted by 6% of respondents, and increased to 15% this year

- Funds targeting Energy investing (focused on oil & gas production) fell to a new low, attracting only 3% interest; renewable energy funds scored 6% on this survey and considerably higher on other surveys we have done tracking infrastructure funds

- The table below lists those funds that attracted less than 5% of respondent support.

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Funds</td>
<td>3</td>
</tr>
<tr>
<td>Other Niche Sectors</td>
<td>3</td>
</tr>
<tr>
<td>Funds Investing in Other General Partners</td>
<td>1</td>
</tr>
<tr>
<td>Agriculture Funds</td>
<td>1</td>
</tr>
<tr>
<td>Mining Funds</td>
<td>1</td>
</tr>
<tr>
<td>Timber Funds</td>
<td>1</td>
</tr>
<tr>
<td>Long-dated funds with maturities significantly longer than ten years</td>
<td>0</td>
</tr>
</tbody>
</table>
There are distinct differences in interest between respondents operating from different geographies.

Europeans were more interested in European-focused funds and were less focused on niche strategies, though more of them invested in infrastructure from PE allocations.

**Chart VIII  Private Equity Sectors of Interest; European Respondents**

During 2021, my firm or my clients, plan to focus most of their attention on investing in the following sectors (choose no more than seven):

- European Middle-Market Buyouts - Country or Region Focused (78%)
- U.S. Middle-Market Buyouts ($500 million to $2.5 billion) (70%)
- Growth Capital Funds - U.S. (52%)
- European Buyouts - Pan-European (52%)
- U.S. Large Buyouts ($2.5 billion to $5 billion) (52%)
- U.S. Venture Capital (43%)
- Special Situations Funds (39%)
- Growth Capital Funds - Europe (22%)
- European/Israeli Venture Capital (22%)
- Asian Country-Focused Funds (22%)
- U.S. Small-Market Buyouts (< $500 million) (22%)
- Secondary Funds (17%)
- Infrastructure Funds (17%)
- Impact Funds (17%)
- Pan-Asian Funds (17%)
- Cleantech/Green-Focused Funds (13%)
- Distressed Debt Funds (13%)
- Mega Buyout Funds ( > $5 billion or equivalent) (9%)
- Fund-of-Funds (9%)
- Asian Venture Capital (9%)
- Restructuring Funds (9%)

*Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results*
Private Equity Sectors of Interest: European Respondents

- As detailed in the table below, there were more fund sectors that fell below the 5% interest hurdle in Europe.
- Europeans have never had a strong interest in real asset energy funds and this year no European selected the sector.
- There is more interest from Europe in Direct Lending and Mezzanine funds among private debt specialists that are not reflected in this survey.

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Lending/Credit Strategies</td>
<td>4</td>
</tr>
<tr>
<td>Funds Investing in Other General Partners</td>
<td>4</td>
</tr>
<tr>
<td>Mezzanine Funds</td>
<td>4</td>
</tr>
<tr>
<td>Sustainable/Renewable Focused Funds</td>
<td>4</td>
</tr>
<tr>
<td>Timber Funds</td>
<td>4</td>
</tr>
<tr>
<td>Other Niche Sectors</td>
<td>4</td>
</tr>
<tr>
<td>Agriculture Funds</td>
<td>0</td>
</tr>
<tr>
<td>Energy Funds</td>
<td>0</td>
</tr>
<tr>
<td>Long-dated funds with maturities significantly longer than ten years</td>
<td>0</td>
</tr>
<tr>
<td>Mining Funds</td>
<td>0</td>
</tr>
</tbody>
</table>
Private Equity Sectors of Interest: Asian Respondents

- Asian-focused funds were of more interest to Asian investors, though U.S. Middle Market funds, U.S. Large Buyout funds and Pan-European funds also scored well.
- They are less interested in Special Situations funds, or in U.S. Venture Capital or U.S. Growth Capital funds.

**Chart IX  Private Equity Sectors of Interest; Asian Respondents**
During 2021, my firm or my clients plan to focus most of their attention on investing in the following sectors (choose no more than seven):

- Asian Country-Focused Funds
- U.S. Middle-Market Buyouts ($500 million to $2.5 billion)
- U.S. Large Buyouts ($2.5 billion to $5 billion)
- Pan-Asian Funds
- European Buyouts - Pan-European
- European Middle-Market Buyouts - Country or Region Focused
- Asian Venture Capital
- Direct Lending/Credit Strategies
- Infrastructure Funds
- Mega Buyout Funds ( > $5 billion or equivalent)
- Emerging Markets (ex-Asia)
- Secondary Funds
- Mezzanine Funds
- Special Situations Funds
- Impact Funds
- U.S. Small-Market Buyouts (< $500 million)
- Fund-of-Funds
- U.S. Venture Capital
- Sustainable/Renewable Focused Funds
- Growth Capital Funds - U.S.

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Private Equity Sectors of Interest: Asian Respondents

- Asian Venture Capital funds attracted significantly more interest from Asian respondents than U.S. Venture Capital – a reversal of priorities historically where Asians strongly favored U.S. Venture Capital
- Among Asian respondents, several niche sectors scored no interest at all, including Funds Investing in Other General Partners, Long-dated Funds and European/Israeli Venture Capital

<table>
<thead>
<tr>
<th>Sectors Attracting Less Than 5% of Responses</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture Funds</td>
<td>0</td>
</tr>
<tr>
<td>Cleantech/Green-Focused Funds</td>
<td>0</td>
</tr>
<tr>
<td>Distressed Debt Funds</td>
<td>0</td>
</tr>
<tr>
<td>Energy Funds</td>
<td>0</td>
</tr>
<tr>
<td>European/Israeli Venture Capital Funds</td>
<td>0</td>
</tr>
<tr>
<td>Funds Investing In Other General Partners</td>
<td>0</td>
</tr>
<tr>
<td>Growth Funds - Europe</td>
<td>0</td>
</tr>
<tr>
<td>Long-dated funds with maturities significantly longer than ten years</td>
<td>0</td>
</tr>
<tr>
<td>Mining Funds</td>
<td>0</td>
</tr>
<tr>
<td>Restructuring Funds</td>
<td>0</td>
</tr>
<tr>
<td>Timber Funds</td>
<td>0</td>
</tr>
</tbody>
</table>
Private Equity Sectors of Interest: North American Respondents

- North American respondents were heavily focused on U.S. Middle Market and Small Market Buyouts and U.S. Growth Capital Funds, with European Middle Market Buyouts and Special Situations funds just slightly behind.

- Interest in European Middle Market Buyouts in particular increased significantly, from 28% last year to 44% this year.

**Chart X Private Equity Sectors of Interest; North American Respondents**

During 2021, my firm or my clients plan to focus most of their attention on investing in the following sectors (choose no more than seven):

- U.S. Middle-Market Buyouts ($500 million to $2.5 billion)
- Growth Capital Funds - U.S.
- U.S. Small-Market Buyouts (≤ $500 million)
- European Middle-Market Buyouts - Country or Region Focused
- Special Situations Funds
- Asian Venture Capital
- U.S. Venture Capital
- Asian Country-Focused Funds
- European Buyouts - Pan-European
- Pan-Asian Funds
- Direct Lending/Credit Strategies
- Growth Capital Funds - Europe
- U.S. Large Buyouts ($2.5 billion to $5 billion)
- Secondary Funds
- Mezzanine Funds
- Impact Funds
- European/Israeli Venture Capital
- Cleantech/Green-Focused Funds
- Restructuring Funds
- Distressed Debt Funds
- Mega Buyout Funds (>$5 billion or equivalent)
- Emerging Markets (ex-Asia)
- Energy Funds
- Sustainable/Renewable Focused Funds
- Infrastructure Funds

Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results
Private Equity Sectors of Interest: North American Respondents

- Asian Venture Capital funds were much more highly ranked by North Americans than by Europeans.
- There was more interest in niche strategies among North American respondents, in part because they were more likely to have well-established core portfolios.
- As with European and Asian respondents, North Americans did not express strong interest in Funds Investing in Other General Partners or in Long-dated funds.

### Sectors Attracting Less Than 5% of Responses

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture Funds</td>
<td>4</td>
</tr>
<tr>
<td>Mining Funds</td>
<td>4</td>
</tr>
<tr>
<td>Mezzanine Funds</td>
<td>4</td>
</tr>
<tr>
<td>Fund-of-Funds</td>
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</tr>
<tr>
<td>Other Niche Sectors</td>
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<tr>
<td>Timber Funds</td>
<td>0</td>
</tr>
</tbody>
</table>
Though Middle Market Buyouts and U.S. Growth Capital continued to attract strong interest, there was a shift in interest towards European funds and U.S. Large Buyouts.

Interest in U.S. Small Market Buyouts fell significantly from 53% last year to 33% this year, in part because they are more difficult to target and diligence for offshore investors due to the travel restrictions of the Pandemic.

Though not within the top five responses, interest in Special Situations remained strong, especially among North American investors, with interest increasing from 24% of respondents to 31%.

### Table I
Institutional Investors Focus of Attention Among Private Equity Sectors

<table>
<thead>
<tr>
<th>Top Five Responses</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Middle-Market Buyouts ($500 million to $2.5 billion)</td>
<td>74%</td>
<td>U.S. Middle-Market Buyouts ($500 million to $2.5 billion)</td>
</tr>
<tr>
<td>U.S. Small-Market Buyouts (&lt;$500 million)</td>
<td>53%</td>
<td>European Middle-Market Buyouts — Country or Region Focused</td>
</tr>
<tr>
<td>Growth Capital Funds — U.S.</td>
<td>51%</td>
<td>Growth Capital Funds — U.S.</td>
</tr>
<tr>
<td>European Middle-Market Buyouts — Country or Region Focused</td>
<td>47%</td>
<td>European Buyouts - Pan-European</td>
</tr>
<tr>
<td>U.S. Venture Capital</td>
<td>39%</td>
<td>U.S. Large Buyouts ($2.5 billion to $5 billion)</td>
</tr>
</tbody>
</table>

Source: Probitas Partners' Private Equity Investor Trends for 2020 and 2021 Survey
Overall Geographic Focus of Investors

- As it has been on all our past surveys, respondents were heavily focused on the three key markets of North America, Western Europe and Asia.
- Over the last five years interest in Sub-Saharan Africa and Latin America has continued to decline, though historically interest in these geographies has never been truly strong.

**Chart XI  Private Equity Geographical Focus**
During 2021, my firm anticipates that the three primary areas of geographical focus for our programs will be:

Source: Probitas Partners’ Private Equity Institutional Investor Trends for 2021 Survey
Most Attractive European Markets

- Over most of the last decade, the Nordic Region, the U.K. and Germany led investor interest in specific private equity markets in Europe, with the lead among those three rotating year-by-year depending upon specific events in those markets.
- Interest in southern and central Europe remains comparatively weak as it has been in the past.

**Chart XII  Most Attractive European Markets**

For European country/regionally-focused funds, we find the most attractive markets to be (choose no more than three):

- Nordic Region
- Germany
- United Kingdom
- Netherlands
- France
- Spain
- Italy
- Eastern Europe (Russia, Ukraine, Georgia, etc.)
- Central Europe (Poland, Czech Republic, Hungary, etc.)
- France
- Spain
- Italy
- PSU
- Local focus

Source: Probitas Partners’ Private Equity Investor Trends: 2020 and 2021 Survey Results
Further Commentary On Europe

- With the Brexit situation, the U.K. has been less popular among continental Europeans, and this year it ranks 3rd among them in interest compared to being 2nd overall; its overall strength is due to strong support from North American respondents, where it ranked 1st among all European geographies.

- We also received interesting comments from a couple of investors on their views of the European market:

  - “Europe seems positioned to deliver excellent private equity returns, though the UK is a question mark.” – Continental European Corporate Pension Plan

  - “Given our primary focus on sustainability, the country mix falls out of the location of the best sustainable opportunities. This tends to result in pan-Western European exposure.” – U.S. Consultant
Most Attractive Asian Markets

- China is the private equity market most targeted by investors, boosted by strong interest from Asian respondents, 88% of whom had a focus on China.
- Interest in both Japan and India increased notably this year, and interest in Southeast Asia has remained strong.

**Chart XIII Most Attractive Asian Markets**
For Asian focused funds, we find the most attractive markets to be (choose no more than three):

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Interest in Specific Emerging Markets

- Emerging Asia dominated investor interest, taking the six top spots in the rankings, with China leading the way
- Interest in Southeast Asia and India both increased notably since last year
- There was little interest in countries or regions in Latin America or Africa

**Chart XIV  Most Attractive Emerging Markets**
Which emerging markets does your firm find most attractive (choose no more than four):

![Chart showing the most attractive emerging markets with percentages for 2020 and 2021]
What Drives Investor Interest in Emerging Markets?

- As it has been in the past, the anticipation of strong long-term economic growth in a few emerging markets is the biggest driver of interest, while a desire to diversify their portfolio to reduce correlation also has an impact on investor interest.
- The percentage of respondents saying they don’t invest in emerging markets has not changed significantly from last year.

**Chart XV  Interest in Emerging Market Private Equity**

Our interest in emerging market private equity is driven by (check all that apply):

- Strong long-term economic growth in a number of these countries: 54%
- Desire to diversify our private equity portfolio by geography to achieve benefits of lack of correlation: 32%
- We are less interested in emerging markets in general than in exposure to a few specific countries with large opportunities: 17%
- Lower forecast returns in the established markets of private equity make this sector relatively more attractive: 14%
- As an institutional investor from an emerging market, we are looking to support our home markets: 2%
- We do not invest in emerging markets: 33%

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Why Are Other Investors Not Interested in Emerging Markets?

- 56% of respondents felt the risk/return tradeoff in developed markets was more attractive than in emerging markets; focus on this issue fluctuates over our past surveys but is higher this year

- On a related basis, this year 52% of respondents were uncomfortable with political, currency or economic risks in emerging markets

**Chart XVI Disinterest in Emerging Market Private Equity**

For those not interested in emerging markets, we are not interested because (check all that apply):

- We find the risk/return profile in developed markets more attractive
- We are uncomfortable with the degree of political, currency, or economic risk in emerging markets
- We are not staffed properly to perform due diligence on these markets that basically offer emerging manager risk as well as emerging markets risks
- These markets are not developed enough and it is difficult to find experience managers with strong track records
- As an organization, we are satisfied to get emerging markets exposure through publicly-traded securities
- Our private equity program is new and we are focused on building exposure in our core, home markets before diversifying
- Other

**Source:** Probitas Partners' Private Equity Investor Trends: 2021 Survey Results
U.S. Middle-Market Strategies of Interest

- There is a heavy focus on strategies looking to generate returns through operational improvements, including buy-and-build and industry-focused funds, which continues the trend over the last decade.

- Unlike Europe, regionally-focused funds are not heavily favored as a key differentiator as the U.S. is more culturally homogenous.

**Chart XVII  Most Attractive U.S. Middle-Market Strategies**
Which of these sectors/strategies in the U.S. middle market does your firm find most appealing (check all that apply):

- Funds focused on operational improvements heavily staffed with professionals with operating backgrounds: 62%
- Funds focused on buy-and-build strategies: 57%
- Funds focused on single industries (i.e., energy, retail, healthcare, media): 54%
- Funds focused on growth companies, often investing without majority control: 37%
- Restructuring/turnaround funds: 17%
- Regionally-focused funds: 12%
- Strategy is irrelevant, a demonstrable superior track record is my primary concern: 26%
- We do not invest in the U.S. middle market: 11%
- We only invest via funds-of-funds: 10%
- Other: 2%

*Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results*
Interest in Industry-Focused Funds

- As they were last year, Healthcare and Technology focused Buyout and Growth Capital funds were the strongest area of focus, boosted further this year by their strength to date in addressing issues brought about by the Pandemic.

- Energy-focused funds, which six years ago were targeted by 30% of respondents, have continued to decline, with only 3% of investors targeting them this year.

Chart XVIII  Interest in Industry-Focused Funds
As far as funds focused on single industries, we are most interested in (choose no more than three):

- Healthcare: 67%
- Technology: 67%
- Industrials: 23%
- Financial services: 21%
- Retail/Consumer: 15%
- Media/Telecommunications: 9%
- Energy: 3%
- Agribusiness: 0%
- We do not invest in industry-focused funds: 8%
- Other: 2%

Industry is irrelevant, we simply focus on the best managers: 17%

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
There are very different sector strategies within energy investing as detailed below:

This year for the first-time interest in renewable energy funds were the leading sub-sector, overtaking upstream oil & gas funds; renewable energy is also the leading sector within infrastructure funds.

52% of respondents said they did not invest in energy funds.

**Chart XIX  Interest in Sectors within Energy**

In the energy sector, we are most interested in (choose no more than three):

- Renewable energy funds
- Energy/power infrastructure funds
- Diversified funds with broad mandates
- Upstream oil & gas funds
- Midstream oil & gas funds
- Distressed energy funds
- Oilfield services
- Energy debt funds
- We do not invest in funds focused on energy
- Other

*Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results*
Venture Capital Interest

- Early-stage Venture Capital was the strongest focus of respondents as it has been in the past, and interest in industry sectors was very spread out, though Biopharma and Fintech did well.

- 20% respondents stated that they did not invest in Venture Capital, a number that fell significantly from 33% two years ago.

**Chart XX  Most Attractive Venture Capital Sectors**

In venture capital, we focus on funds active in the following sectors or stages (choose all that apply):

- Technology only funds
- Life Science only funds
- Funds investing in multiple sectors
- Biopharma only funds
- Fintech only funds
- Artificial Intelligence only funds
- Digital Media/Internet only funds
- OnLine Retail only funds
- Cleantech only funds
- Venture debt funds
- Multi-stage
- Late stage
- Mid-stage
- Early stage
- Seed stage
- MicroVC funds

*Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results*
Further Commentary on Venture Capital

- Endowments and Foundations have long been supporters of Venture Capital; that continues to hold true as none of these respondents stated that they did not invest in the sector
- Several comments left by respondents gave more insight into what affected investors’ interest in Venture Capital:
  - “VC has been expensive. We expect the current dislocation to serve as a good vintage for venture investing. Certain areas are hot (remote working, etc.), and the focus has shifted from investments that would be "nice to have" to "must have" in the new norm.” – Asian Endowment
  - “We are focused on funds with a sustainable strategy.” – U.S. Consultant
  - “We believe many opportunities are still available, especially in tech and healthcare.” – Asian Endowment
Over the past three years interest in Special Situations funds with broad investment mandates that allow investment in both stressed and distressed situations generated the most interest, but this year respondents focus was more split across the four major distressed strategies.
Further Commentary on Distressed Investing

- Dislocation funds are a new strategy created in reaction to COVID-19, with funds targeting bridge financing to companies under temporary stress during the Pandemic.
  - These funds were of more interest early in the Pandemic when the feeling was the COVID-19 problem was likely to be resolved by the end of the summer, but interest seems to have waned as the forecast for getting the Pandemic under control has lengthened.
- There are still a number of investors who are not targeting distressed; many of them are worried that the various stimulus programs that have been enacted will mitigate certain opportunities while other firms under stress are dealing with secular issues – such as “brick-and-mortar” retail and oil & gas – that have more fundamental risks.
- One comment from a respondent was interesting:

  “Opportunities are still available, but one has to be cautious.” – Asian Endowment
Secondary Market Interest

- Interest in Secondaries going into 2021 is not very much different from what it was this time last year looking forward to 2020
- However, there was a surge in secondary fundraising earlier in 2020 in reaction to opportunities likely to be generated by the Pandemic – though at this point many investors have made their bets in the sector and are waiting for commitments to be invested

**Chart XXII  Secondary Market Investments**

In the secondary market, my firm (choose all that apply):

- Actively invests in secondary funds: 35%
- Actively purchases direct positions in funds in the secondary market: 33%
- Has sold or is considering selling funds in our portfolio for portfolio management purposes: 32%
- Actively invests in general partner led secondaries: 27%
- Actively purchases direct positions in companies in the secondary market: 17%
- Provides advice to clients on secondaries: 12%
- Is not active in secondaries in any manner: 25%

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Co-investments and Direct Investments

- Co-investing continues to be very popular; larger investors are more likely to have dedicated co-investment programs and are more likely to be “co-syndicators”
- Few limited partners have the resources to make direct investments though large investors are more likely to pursue them

**Chart XXIII  Directs and Co-Investments**
Regarding directs and co-investments, my firm (choose all that apply):

- Has an active internal co-investment program
- Only opportunistically pursues co-investments
- Provides advice to clients on co-investments or direct investments
- Invests directly in companies
- Has an outsourced co-investment program
- Only co-invests with fund managers with which it already has a relationship
- Only pursues "no fee, no carry" co-investments
- Requires or prefers a co-investment as a means of diligencing a new fund manager
- Co-invests alongside fundless sponsors
- Is focused on "co-syndication" co-investments, doing company due diligence alongside managers
- Does not invest in co-investments, nor directly invests in companies

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Note: “Large Investors” denotes those survey respondents who plan to commit $500 million or more to private equity in 2021
Further Commentary on Co-Investments

- Smaller investors are more likely to invest in transactions alongside “fundless” sponsors who tend to target smaller companies for investment.

- 23% of respondents say they are focused on “no fee, no carry” co-investments but there is also the feeling that these opportunities are becoming harder to come by.

- Issues of pricing and access to co-investments are well-covered in this comment by a respondent:

  “Co-investment has become of increasing importance to investors. The tables have turned, however. Five to ten years ago, co-investment was largely free and in LP’s favour. Now, GPs are able to charge fees and LPs are finding it more and more difficult to secure co-investment allocations” – Asian Endowment
First-Time Funds

- Many investors are interested in first-time funds but are most focused on spin-outs and managers with attributable track records; they are usually not interested in “concept” plays managed by investment professionals with limited experience.

- Even during the travel restrictions of the Pandemic, 24% of respondents were only targeting fund managers that they have met in person previously.

**Chart XXIV  First-Time Funds**

As far as first-time funds are concerned, my firm (check all that apply):

- Focuses on groups with attributable track records: 69%
- Focuses on "spin outs" where the team has significant experience working together: 64%
- Is attracted to teams pursuing niche strategies that present compelling investment opportunities: 37%
- Is willing to look at a team of experienced investors coming together for the first time: 36%
- Focuses on firms that have invested together as a fund-less sponsor or through separate accounts: 27%
- Is focused solely on managers I have met in person at some point: 24%
- Pursues co-investment opportunities as a fund launches as a preferred method of performing due diligence: 14%
- Looks to act as a sponsor for first-time funds, providing early capital commitments or working capital: 7%
- Does not invest in first-time funds in any form: 15%

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Private Credit Interest and Allocations

- There is significant interest in Opportunistic Credit and Mezzanine Funds, both overall and within private equity allocations.
- Investments in private credit are made from various portfolio allocations, with specific private debt allocations being the most important for pure-play debt managers.

**Chart XXV Credit**
In the credit sector, my firm:

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Real Asset Interest and Allocations

- Infrastructure is the area of most interest, though most of those commitments come from dedicated infrastructure allocations; while metals & mining and shipping or aircraft are the least favored sectors.

- Over the last five years there has been a continuing shift away from the traditional real asset leader of Oil & Gas, and the Pandemic has not favored this sector.

**Chart XXVI  Real Assets**

In the real asset sector, my firm:

Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results
Key Issues Regarding Fund Structure

Chart XXVII  Issues Regarding Fund Structure
The issues we focus on most when investing or advising a client as far as terms or structure of a fund are (choose no more than four):

- Distribution of carried interest: 46%
- Level of general partner financial commitment to the fund: 40%
- Cap on fund size: 40%
- Structure or inclusion of a key man provision: 37%
- Issues of transparency and disclosure: 35%
- Overall level of management fees: 33%
- Carry distribution waterfalls: 28%
- Inclusion of a strong ESG policy: 25%
- Ownership allocations of the management company by senior staff: 21%
- The structure of a long-term subscription credit line if included: 19%
- Sharing of profits or investment decision making with third parties: 19%
- Structure or inclusion of a no-fault divorce clause: 16%
- Outside ownership of the management company: 16%
- Level of carried interest: 14%
- Transaction fee splits: 12%
- Terms regarding the recycling of capital: 7%
- Strict adherence to the ILPA Principles: 4%

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Commentary on Issues Regarding Fund Structure

- Though there were some differences among respondents, the top four issues were of concern to investors across geographies and investor type.

- One area of particular interest is the inclusion of a strong ESG policy:
  - It is ranked 8th among pre-identified issues among overall respondents with 25% of respondents focused on it this year – a significant increase in interest from its 14th rank last year with 16% of respondents targeting it.
  - There are, however, large differences in responses on ESG importance geographically:
    - European respondents: 42%
    - North American respondents: 9%
    - Asian respondents: 25%
      - It should be noted that a number of Asian respondents worked for funds-of-funds with headquarters in Europe or North America.

- Two respondents stated that literally all of the fund structure options included in the survey were important issues to them.
This year saw a notable increase in investor sentiment that fund manager use of subscription credit lines should be moderate; this is in reaction to the more aggressive use of these lines by certain managers to boost reported IRR.

In addition, fewer investors reported that the use of subscription credit lines was irrelevant to their fund due diligence process.

**Chart XXIII  Fund-level Leverage**

As far as fund-level leverage is concerned (please answer all as appropriate):

- **As far as subscription credit lines, we prefer their use to be very moderate**
  - 2021: 53%
  - 2020: 44%

- **For private equity funds, we do not invest in vehicles that are levered, except for the use of subscription credit lines**
  - 2021: 33%
  - 2020: 34%

- **The use of subscription credit lines by a fund manager is irrelevant to our due diligence process**
  - 2021: 13%
  - 2020: 5%

- **For private debt debt funds, we do not invest in vehicles that are levered**
  - 2021: 2%
  - 2020: 4%

**Source:** Probitas Partners’ Private Equity Investor Trends: 2020 and 2021 Survey Results
Due Diligence Policies and Practices by Geography

- In late September Probitas did a separate survey of institutional investors on how they were reacting to COVID-19; the impact on due diligence practices was particularly interesting and the relevant chart is reprinted here.
- There were wide differences in investor practices depending upon the office location of the respondents and the virulence of the virus in those locations this past summer; the chart highlights the different perspectives of Europeans and North Americans.

**Chart XXIX  My firm’s current due diligence policies and practices:** European vs. North American Respondents

- Our offices are open for business and we are meeting with fund managers that are not constrained by travel restrictions
- Our investment staff is neither taking in-person meetings nor traveling to meet fund managers, with no set time to return to "normal" operations by the end of 2020
- Our investment staff is neither taking in-person meetings nor traveling to meet fund managers, but expects to return to "normal" operations by the end of 2021
- Our investment staff is neither taking in-person meetings nor traveling to meet fund managers, but expects to return to "normal" operations by the summer of 2021
- Our investment staff is neither taking in-person meetings nor traveling to meet fund managers, with no set time to return to "normal" operations
- Our program is currently paused so we are no longer doing due diligence

*Source: Probitas Partners’ COVID-19 Impact Survey: Follow-up*
Most Used Benchmarking Databases or Tools

- As is evident from the numbers, many investors use multiple databases or tools.
- Cambridge and PREQIN are the market leaders across most geographies, though Pitchbook and Burgiss have a number of adherents; PME usage continues to increase across all geographies.
- The chart only includes those databases that were of interest to at least 4% of respondents for at least one geography.

**Chart XXX Benchmarking**
As far as fund performance benchmarking, we use the following databases or tools in different fund geographies (please choose all that apply):

<table>
<thead>
<tr>
<th>Database</th>
<th>North America</th>
<th>Europe</th>
<th>Asia</th>
<th>Other Emerging Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambridge</td>
<td>50</td>
<td>43</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>PREQIN</td>
<td>50</td>
<td>48</td>
<td>35</td>
<td>13</td>
</tr>
<tr>
<td>Pitchbook</td>
<td>28</td>
<td>22</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Public Market Equivalent</td>
<td>28</td>
<td>20</td>
<td>11</td>
<td>7</td>
</tr>
<tr>
<td>Burgiss</td>
<td>24</td>
<td>24</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>Hamilton Lane</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>State Street</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>AVCJ</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results
Key Investor Fears

Chart XXXI Greatest Fears Regarding the Private Equity Market
Our four greatest fears regarding the private equity market at the moment are:

1. Too much money is pursuing too few attractive opportunities across all areas of private equity
   - 55% of respondents

2. Access to top quartile venture capital managers is impossible without previous relationships, and new managers are unattractive
   - 45% of respondents

3. The trend towards long-lived subscription lines is increasing risk and distorting reported IRR
   - 33% of respondents

4. Increased competition among limited partners is limiting our access to co-investments
   - 28% of respondents

5. The trend of decreasing exits and distributions caused by the pandemic present liquidity challenges for my firm
   - 27% of respondents

6. Purchase price multiples in middle-market buyouts are too high and threaten future returns
   - 20% of respondents

7. The effects of the pandemic as it plays out may have a dramatic impact on our returns
   - 18% of respondents

8. Given central bank policies, we are not sure there will ever be a future wave of distressed opportunities
   - 15% of respondents

9. Management fee levels on large funds are destroying alignment of interest between fund managers and investors
   - 13% of respondents

10. Fees being paid to general partners over a fund’s life are not being properly documented or disclosed
    - 12% of respondents

11. Too much money is pursuing too few experienced private equity professionals in the hot emerging markets
    - 12% of respondents

12. The trend towards long-lived subscription lines is increasing risk and distorting reported IRR
    - 10% of respondents

13. Too much money is pursuing too few attractive opportunities across all areas of private equity
    - 10% of respondents

14. Too much money is pursuing too few attractive opportunities across all areas of private equity
    - 8% of respondents

15. The effects of the pandemic as it plays out may have a dramatic impact on our returns
    - 7% of respondents

16. The effects of the pandemic as it plays out may have a dramatic impact on our returns
    - 7% of respondents

Source: Probitas Partners’ Private Equity Investor Trends: 2021 Survey Results
Key Investor Fears: 2021 vs. 2020

- Nine months into the Pandemic, investors are no longer concerned that we are at the top of a market cycle as they were last year.
- However, their greatest fears revolve around structural features of private equity, with only 27% currently concerned about long term impacts of the Pandemic as public and private market valuations have rebounded.

<table>
<thead>
<tr>
<th>Issue</th>
<th>2021</th>
<th>Issue</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too much money is pursuing too few attractive opportunities across all areas of private equity</td>
<td>55%</td>
<td>The current private equity market feels like we are at the top of the cycle</td>
<td>64%</td>
</tr>
<tr>
<td>Purchase price multiples in middle-market buyouts are too high and threaten future returns</td>
<td>45%</td>
<td>Too much money is pursuing too few attractive opportunities across all areas of private equity</td>
<td>54%</td>
</tr>
<tr>
<td>Large firms in the market are becoming generalized asset managers and are moving away from key investment strengths</td>
<td>33%</td>
<td>Purchase price multiples in middle-market buyouts are too high and threaten future returns</td>
<td>48%</td>
</tr>
<tr>
<td>Management fee levels on large funds are destroying alignment of interest between fund managers and investors</td>
<td>28%</td>
<td>Purchase price multiples in large-market and mega-buyouts are too high and threaten future returns</td>
<td>33%</td>
</tr>
<tr>
<td>The effects of the Pandemic as it plays out may have a dramatic impact on our returns</td>
<td>27%</td>
<td>Large firms in the market are becoming generalized asset managers and are moving away from key investment strengths</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: Probitas Partners’ Private Equity Investor Trends for 2020 and 2021 Survey
Further Commentary on Investor Fears

- Chart XXXI only lists those responses that collected 6% or more interest
- Though investors were most focused on Middle Market Buyouts, one of their greatest fears is that purchase price multiples in the middle market are too high – though this pattern of interest and fear has remained constant over the last few years
- There were differences in investor concerns by geography and fund type:
  - North Americans were most worried that middle market purchase price multiples were too high, with 55% mentioning it
  - European and Asian respondents were more focused on the fact that they felt that there was too much money in the market, with 67% of Europeans and 53% of Asians feeling that way
  - The biggest fear of pension plans was large firms in the market were becoming generalized asset managers and were moving away from their key investment strengths, with 78% of them mentioning that fear
  - 43% of insurance companies felt that aggressive use of subscription credit lines was increasing risk and distorting reported IRR, a much larger percentage than for other types of investors
- Interesting investor comments:
  - “Numerous geopolitical events are in the wings with potential impact on economies. Markets are overpriced considering the economic uncertainty (depth and duration) coming out of C19.” – Japanese Wealth Manager
  - “Multiples are no longer that interesting over a fund’s life. We will invest only if we see social impact benefits and necessity on our part.” – European Private Asset Manager
Summary

- The public and private markets have been extremely volatile in 2020 and year-to-date private equity fundraising has slowed noticeably after a strong first quarter that was barely affected by the Pandemic.

- However, looking ahead to 2021, fears of the ongoing effects of the Pandemic are not dominating private equity – institutional investors’ greatest fears at this point revolve around structural issues in the private markets and not COVID-19.

- The last three to four years have seen increased trade and geopolitical tensions between China and the U.S. that have marginally decreased private equity interest in China from U.S. institutional investors – but that decrease has been offset to a large degree by stronger interest in China from Asian investors.

- As has been the case for over a decade, U.S. and European Middle Market Buyouts have been leading targets for investors – while for at least the last five years one of investors’ largest concerns was that purchase price multiples in the middle market were too high and would negatively impact future returns.

- There has been a noticeable increase in interest in ESG investing in general and Impact Funds in particular – though there are still strong differences in focus between investors from different geographies.

- There is little interest in private equity investing in emerging markets -- with the exception of certain developing economies in Asia.
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