



Probitas Partners 2021 Institutional Investors Private Equity Survey

December 2020



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Survey Highlights – and The Pandemic

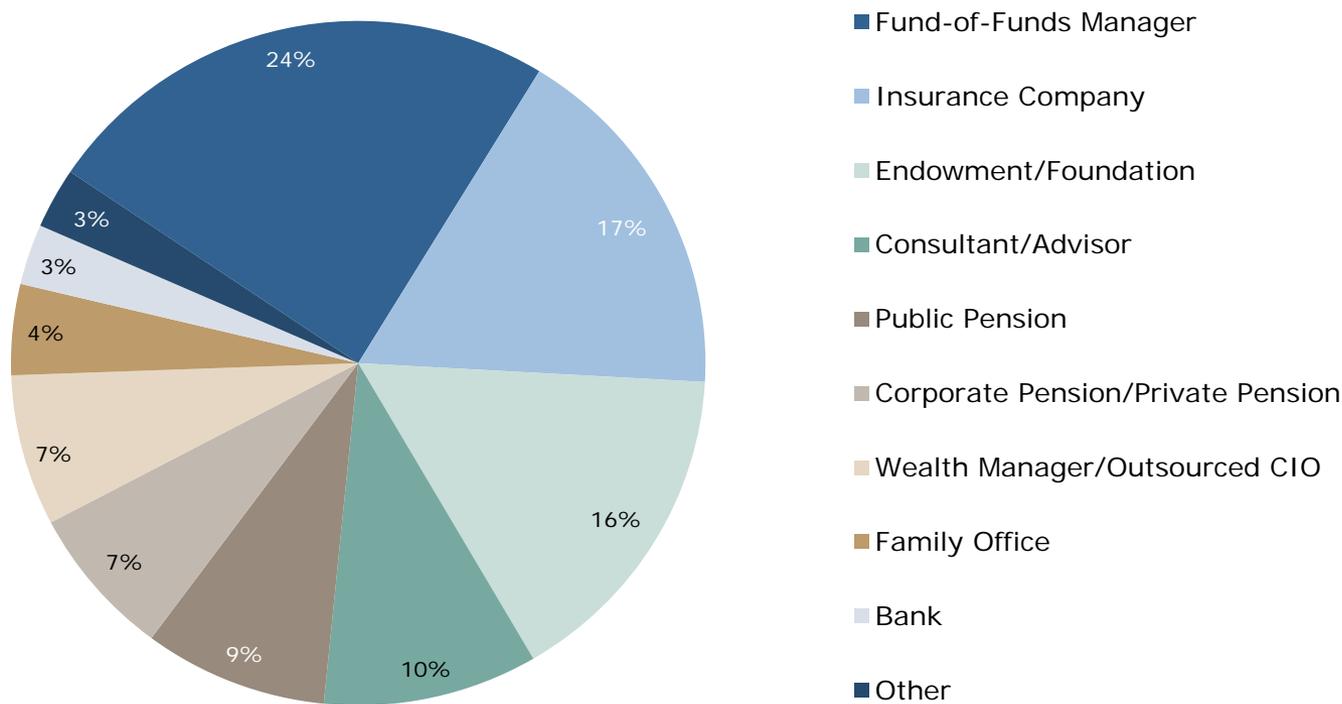
- The Pandemic has had a roller coaster impact on institutional investors during 2020 as the normal market environment of January plunged into volatility and uncertainty in March and April followed by a slow rebound in public market and private market valuations
- By late October prices for many firms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

P 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:



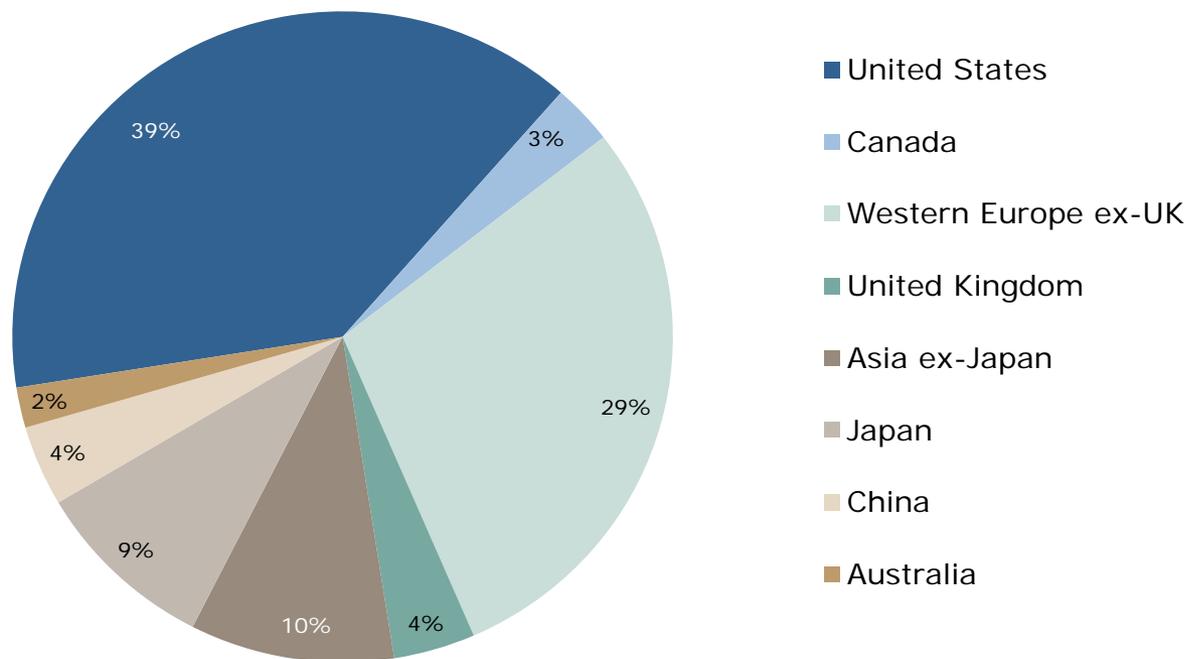
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

Respondents by Firm Headquarters

- 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:



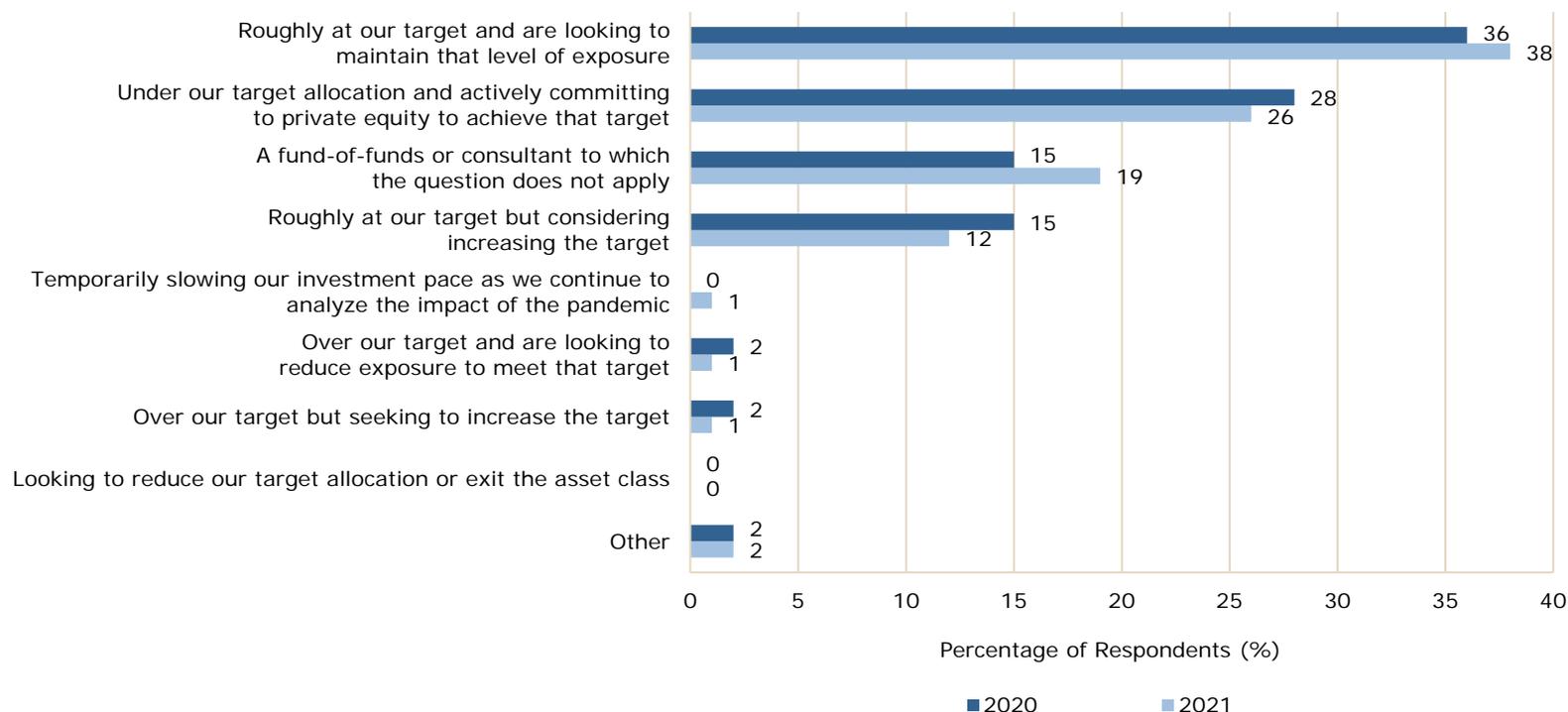
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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:



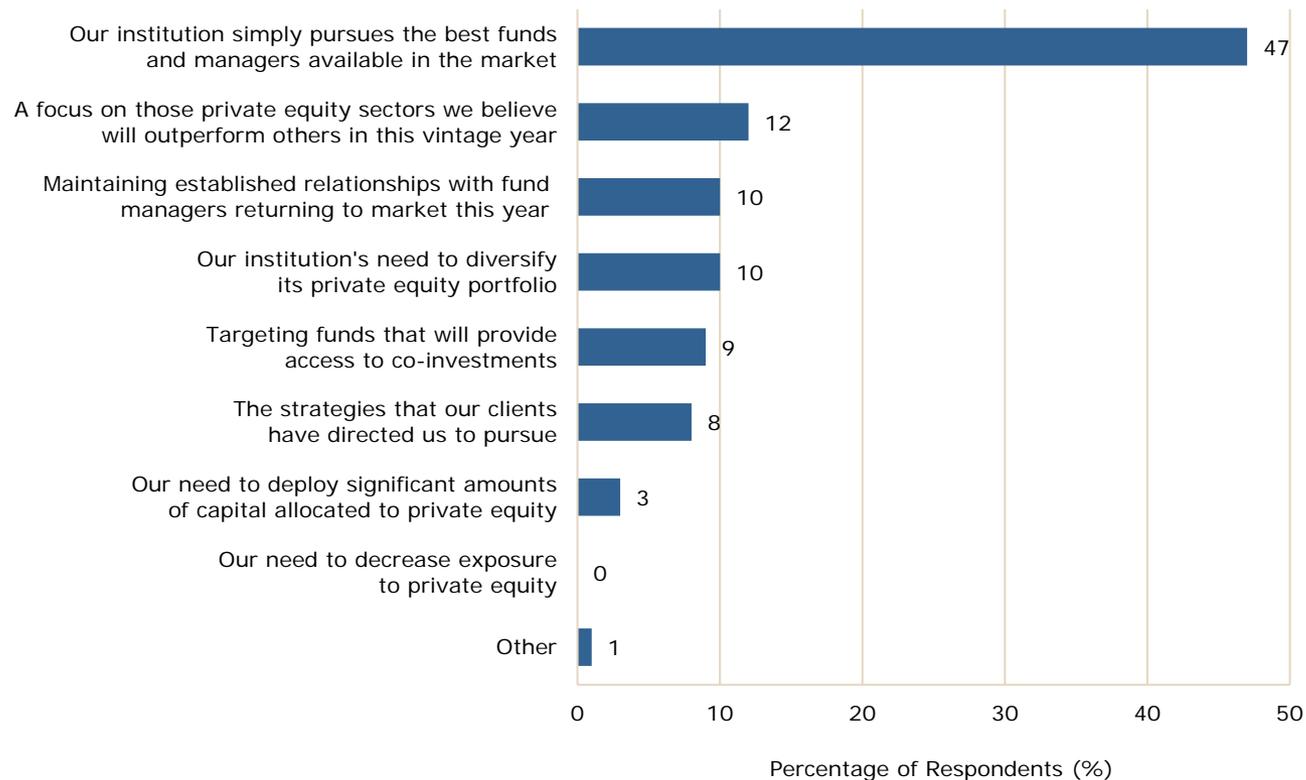
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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):



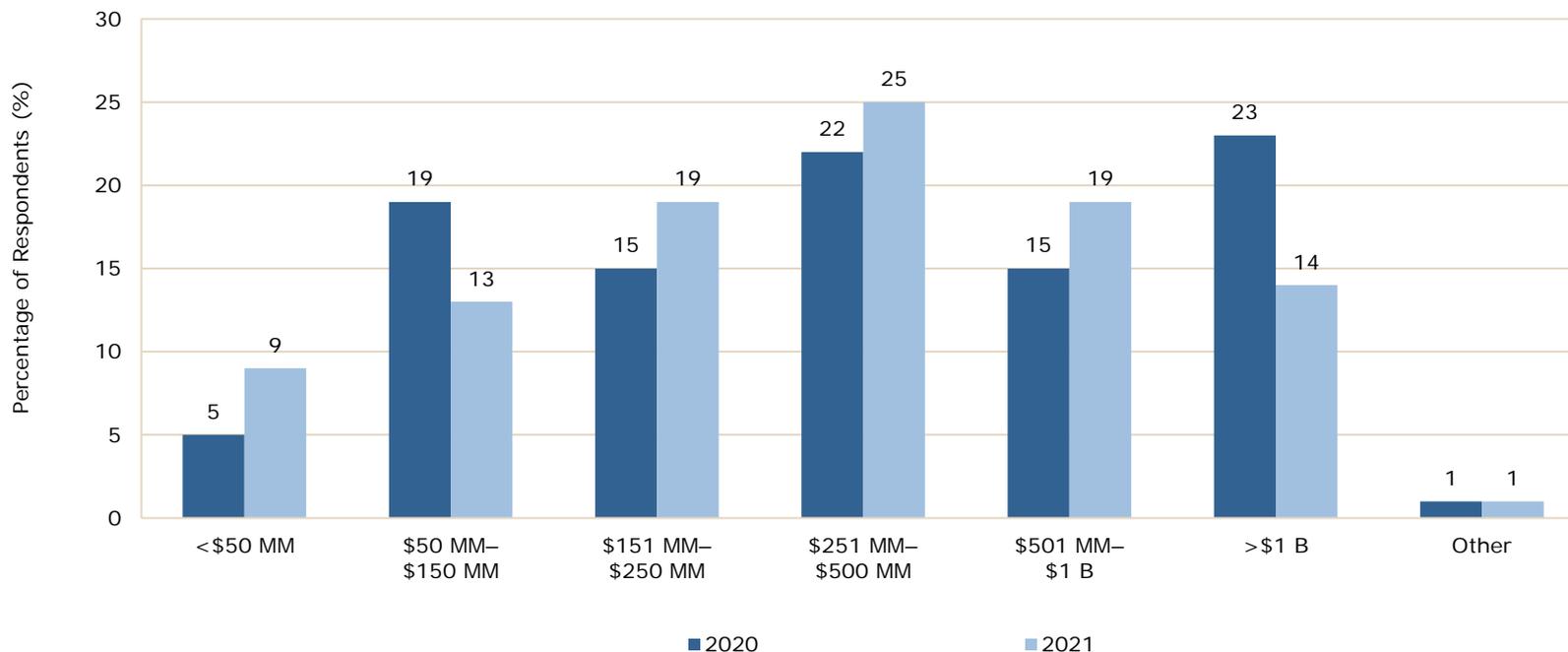
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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):



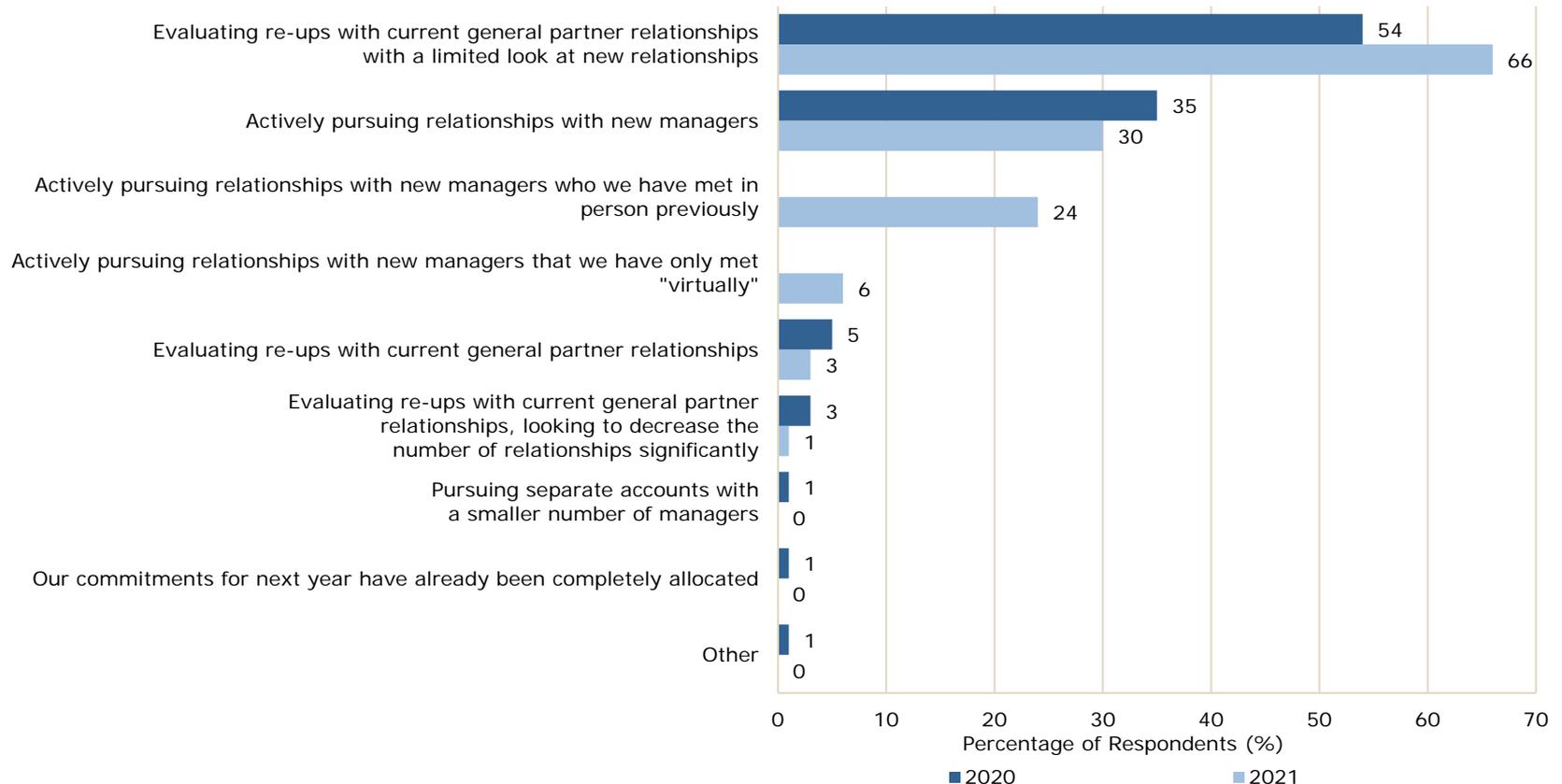
Source: Probitas Partners' Private Equity Investor Trends: 2020 and 2021 Survey Results; other responses had no target

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:



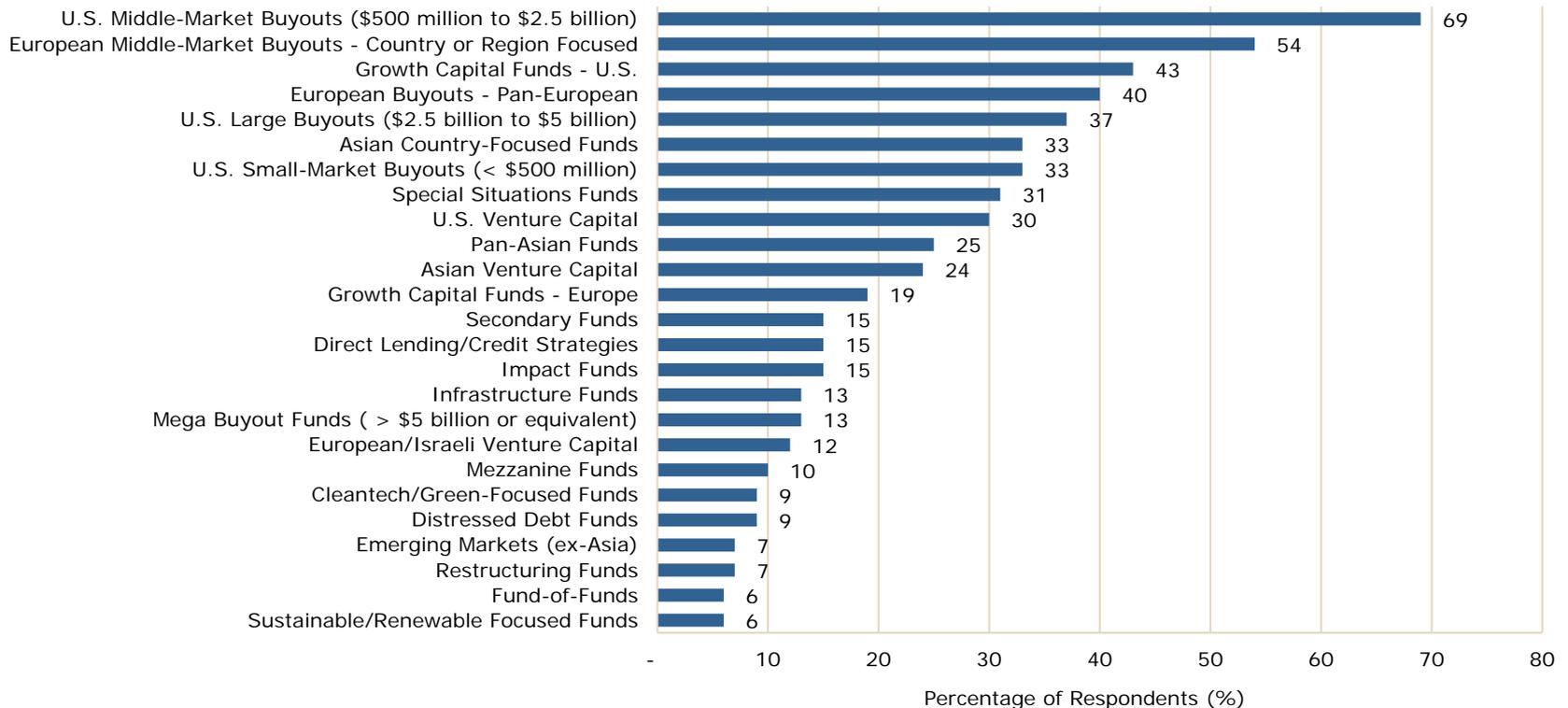
Source: Probitas Partners' Private Equity Investor Trends: 2020 and 2021 Survey Results

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):



P 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 considerable higher on other surveys we have done tracking infrastructure funds
- The table below lists those funds that attracted less than 5% of respondent support.

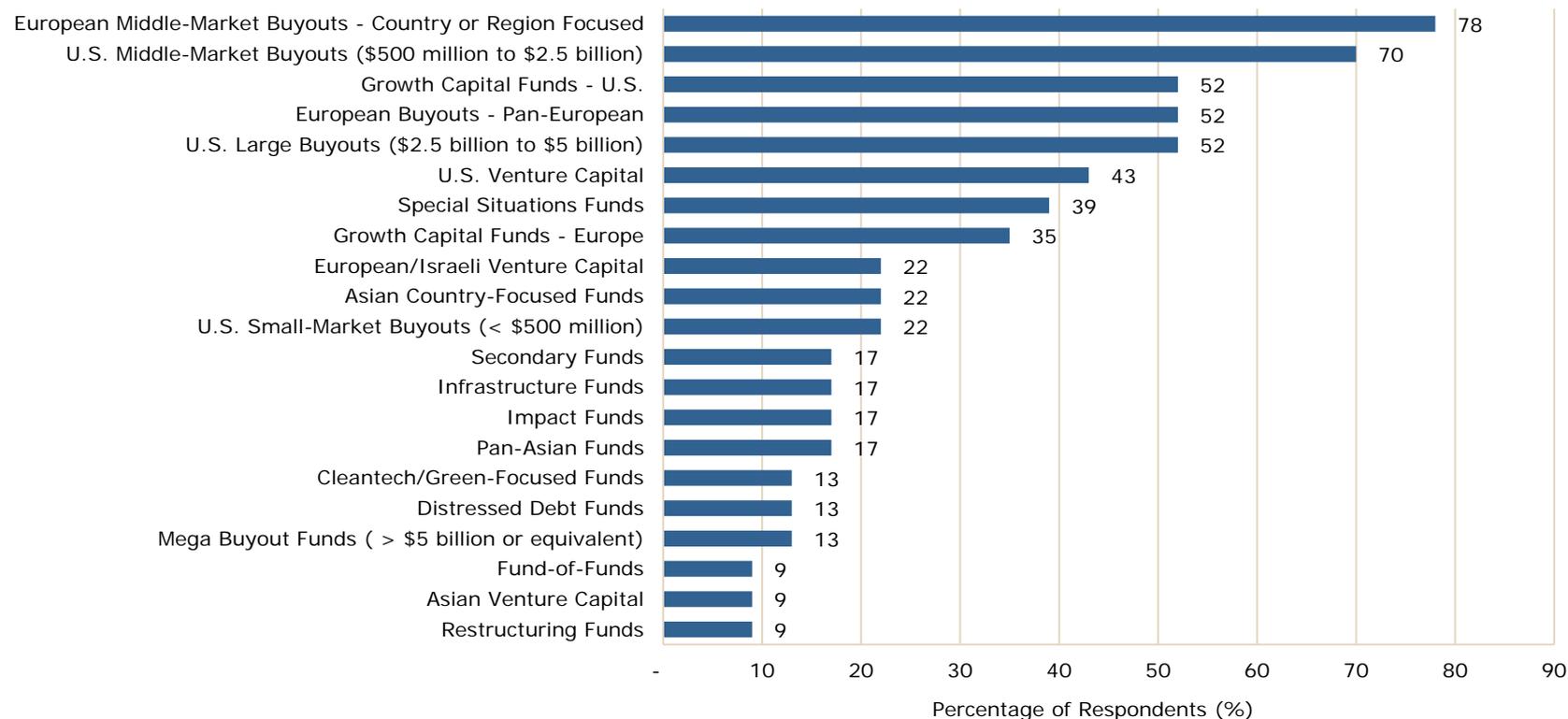
Sectors Attracting Less Than 5% of Responses	
Fund Type	Percent
Energy Funds	3
Other Niche Sectors	3
Funds Investing in Other General Partners	1
Agriculture Funds	1
Mining Funds	1
Timber Funds	1
Long-dated funds with maturities significantly longer than ten years	0

P Private Equity Sectors of Interest: European Respondents

- 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):



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

P 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

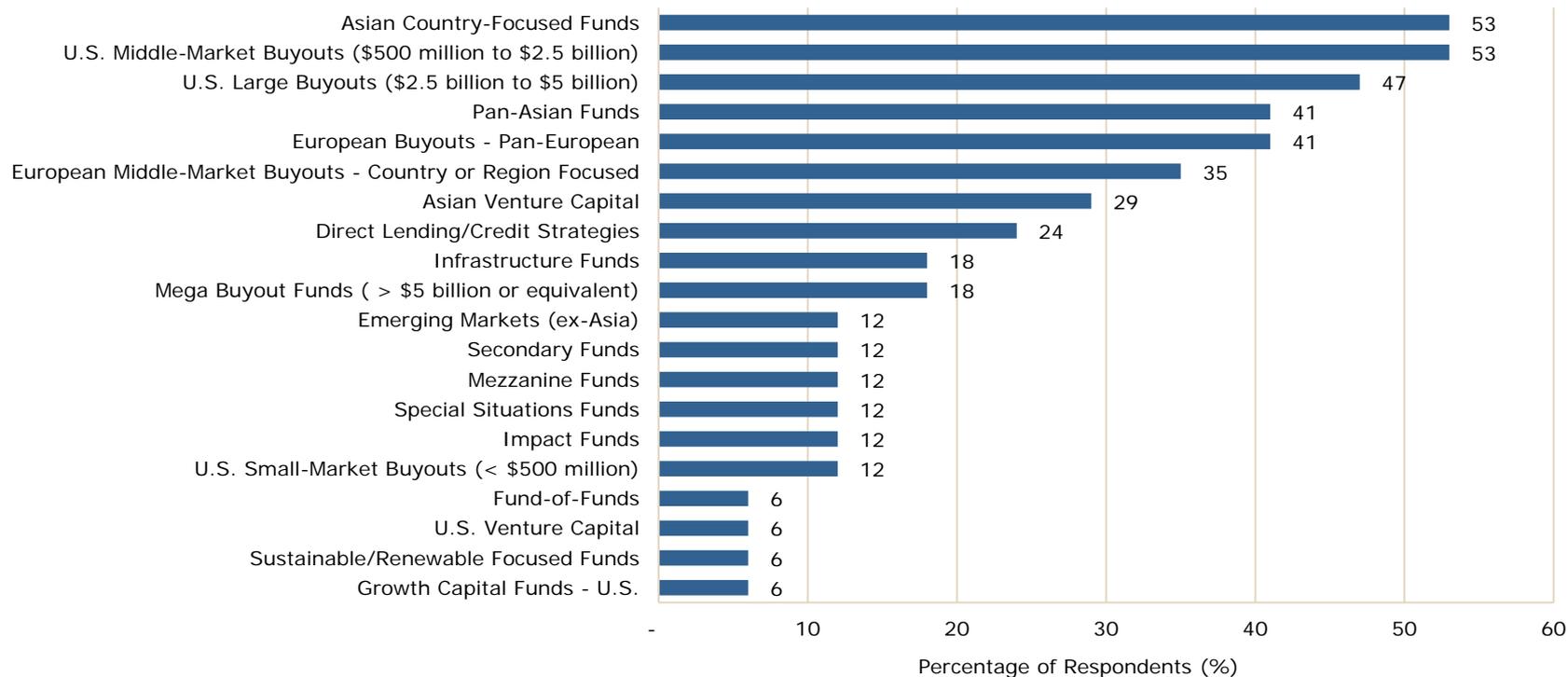
Sectors Attracting Less Than 5% of Responses	
Fund Type	Percent
Direct Lending/Credit Strategies	4
Funds Investing in Other General Partners	4
Mezzanine Funds	4
Sustainable/Renewable Focused Funds	4
Timber Funds	4
Other Niche Sectors	4
Agriculture Funds	0
Energy Funds	0
Long-dated funds with maturities significantly longer than ten years	0
Mining Funds	0

P 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):



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

P 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

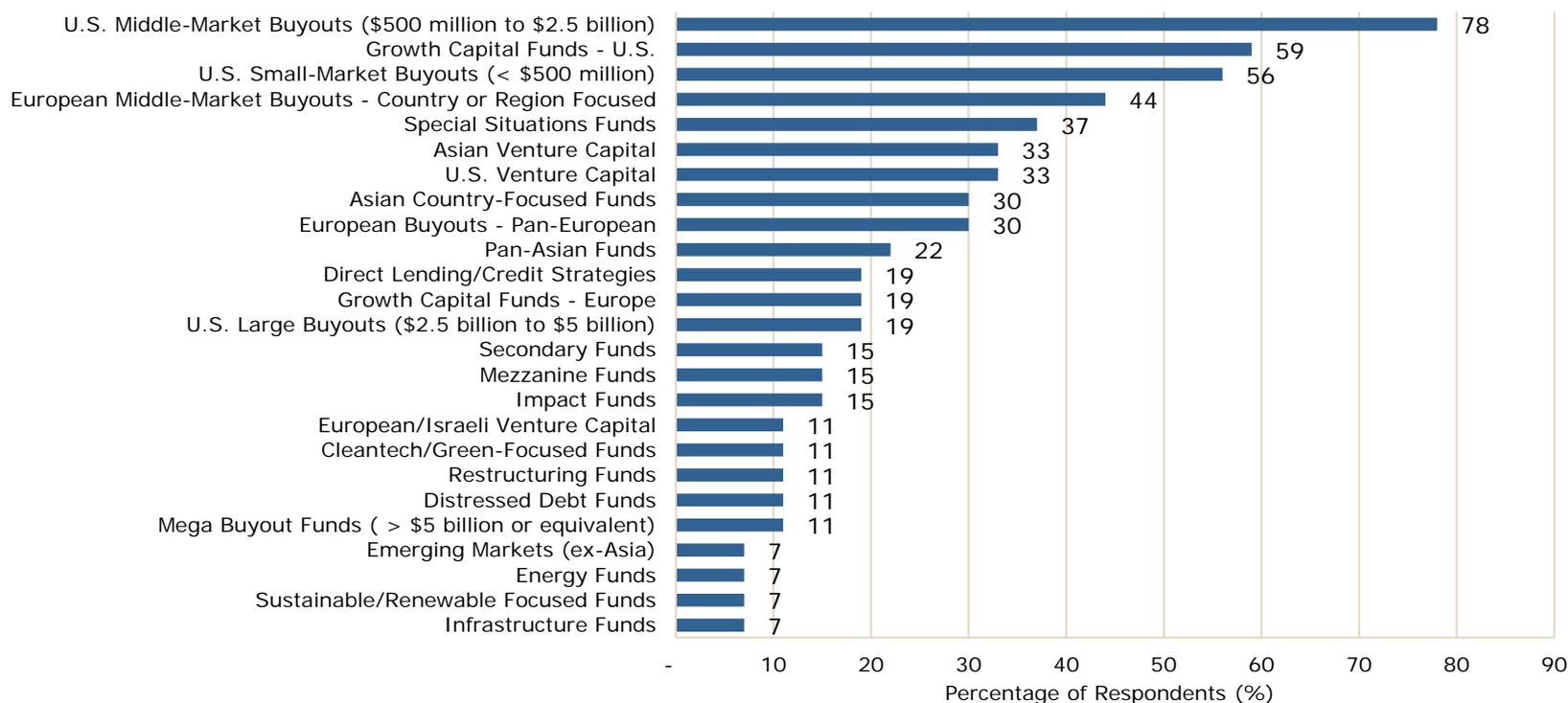
Sectors Attracting Less Than 5% of Responses	
Fund Type	Percent
Agriculture Funds	0
Cleantech/Green-Focused Funds	0
Distressed Debt Funds	0
Energy Funds	0
European/Israeli Venture Capital Funds	0
Funds Investing In Other General Partners	0
Growth Funds - Europe	0
Long-dated funds with maturities significantly longer than ten years	0
Mining Funds	0
Restructuring Funds	0
Timber Funds	0

P 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):



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

P 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	
Fund Type	Percent
Agriculture Funds	4
Mining Funds	4
Mezzanine Funds	4
Fund-of-Funds	4
Other Niche Sectors	4
Funds Investing in Other General Partners	0
Long-dated funds with maturities significantly longer than ten years	0
Timber Funds	0

Sector Interest Before The Pandemic vs 2021

- 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

Top Five Responses

2020		2021	
Sector	% Targeting	Sector	% Targeting
U.S. Middle-Market Buyouts (\$500 million to \$2.5 billion)	74%	U.S. Middle-Market Buyouts (\$500 million to \$2.5 billion)	69%
U.S. Small-Market Buyouts (<\$500 million)	53%	European Middle-Market Buyouts — Country or Region Focused	54%
Growth Capital Funds — U.S.	51%	Growth Capital Funds — U.S.	43%
European Middle-Market Buyouts — Country or Region Focused	47%	European Buyouts - Pan-European	40%
U.S. Venture Capital	39%	U.S. Large Buyouts (\$2.5 billion to \$5 billion)	37%

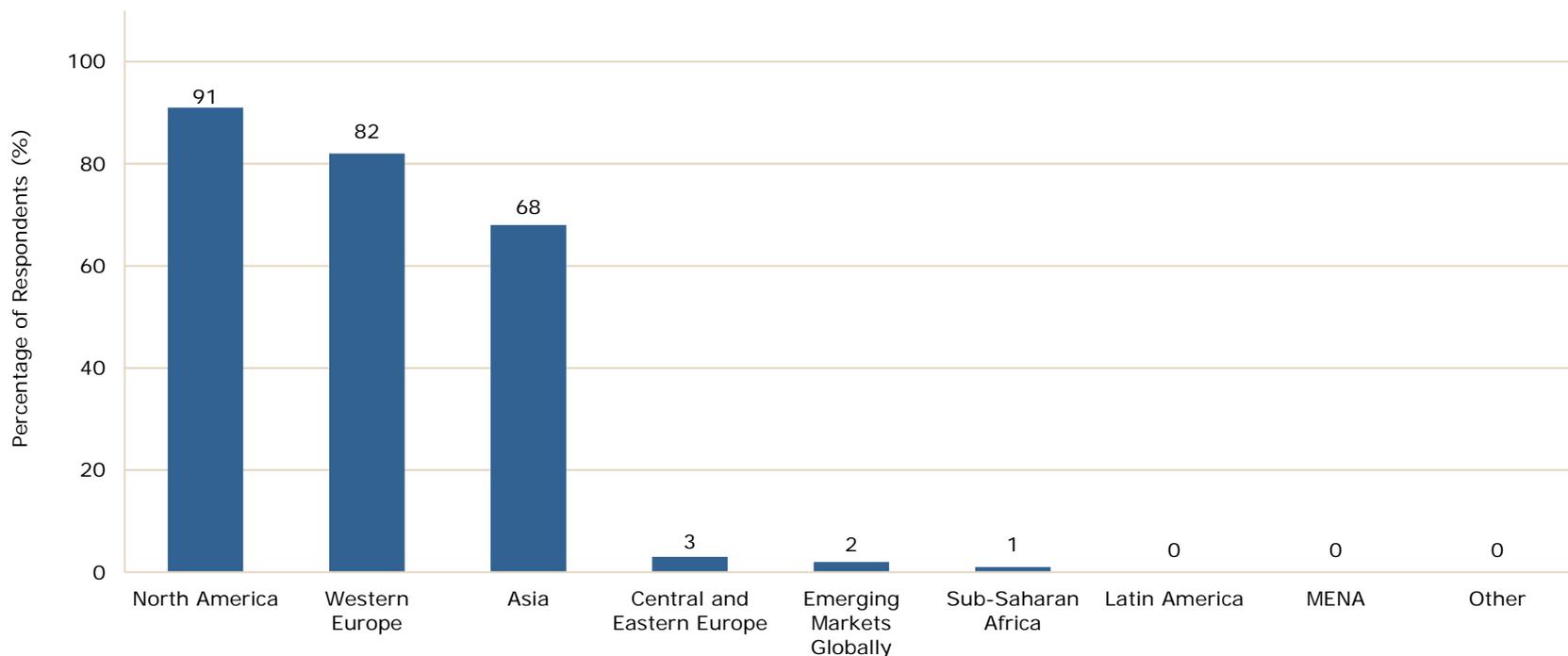
Source: Probitas Partners' Private Equity Investor Trends for 2020 and 2021 Survey

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:



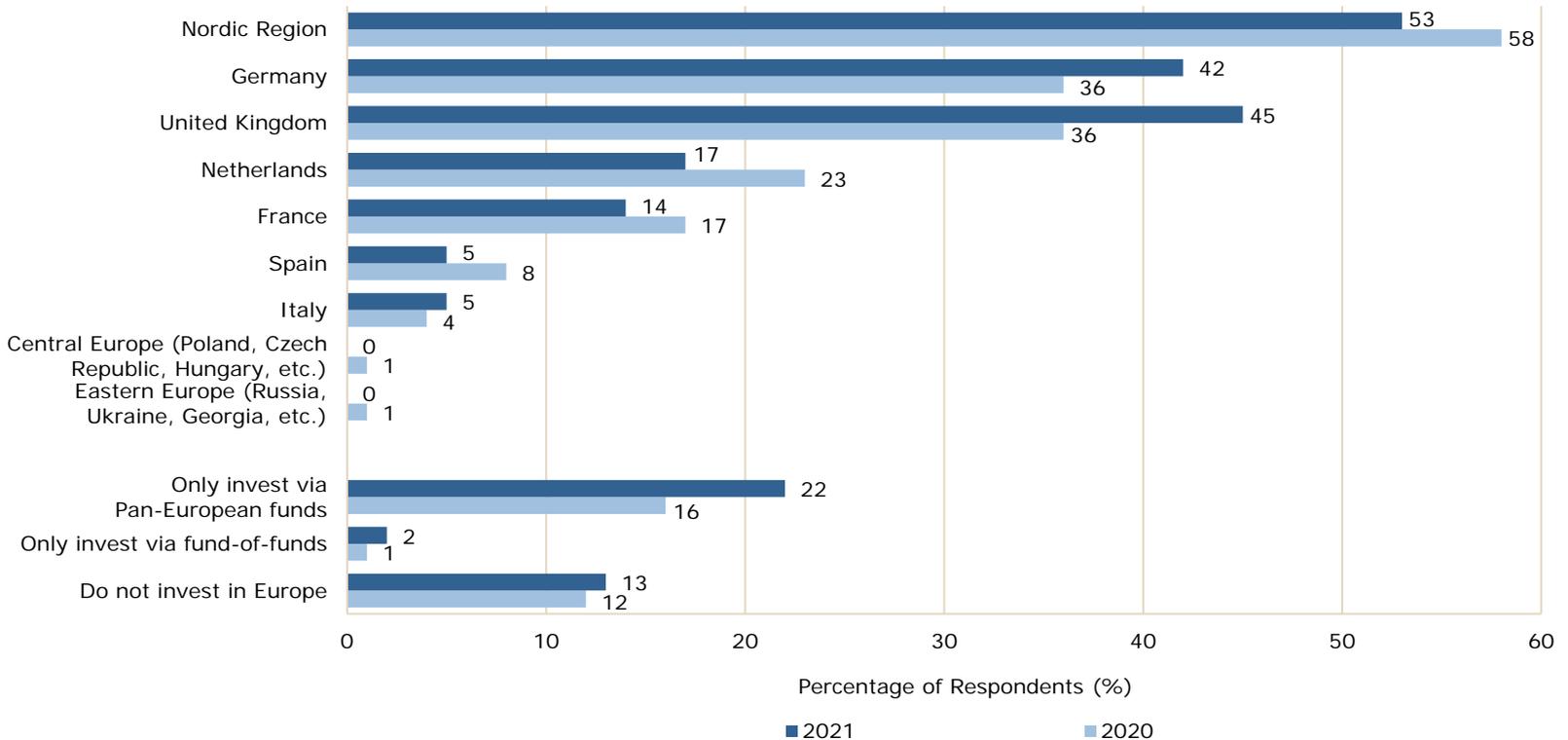
Source: Probitas Partners' Private Equity Institutional Investor Trends for 2021 Survey

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):



Source: Probitas Partners' Private Equity Investor Trends: 2020 and 2021 Survey Results

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Further Commentary On Europe

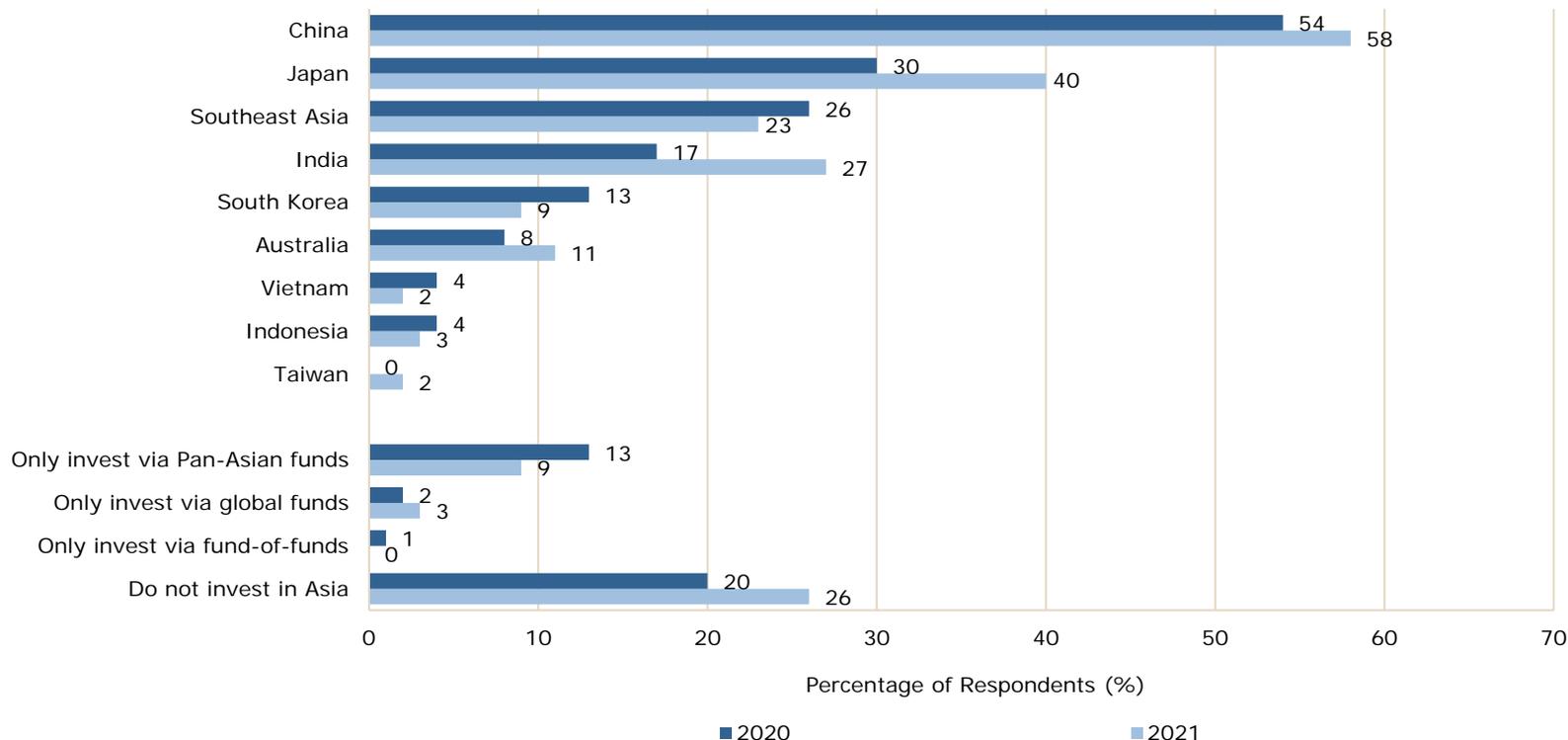
- With the Brexit situation, the U.K. has been less popular among continental Europeans, and this year it ranks 3rd among them in interest compared to being 2nd overall; its overall strength is due to strong support from North American respondents, where it ranked 1st among all European geographies
-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



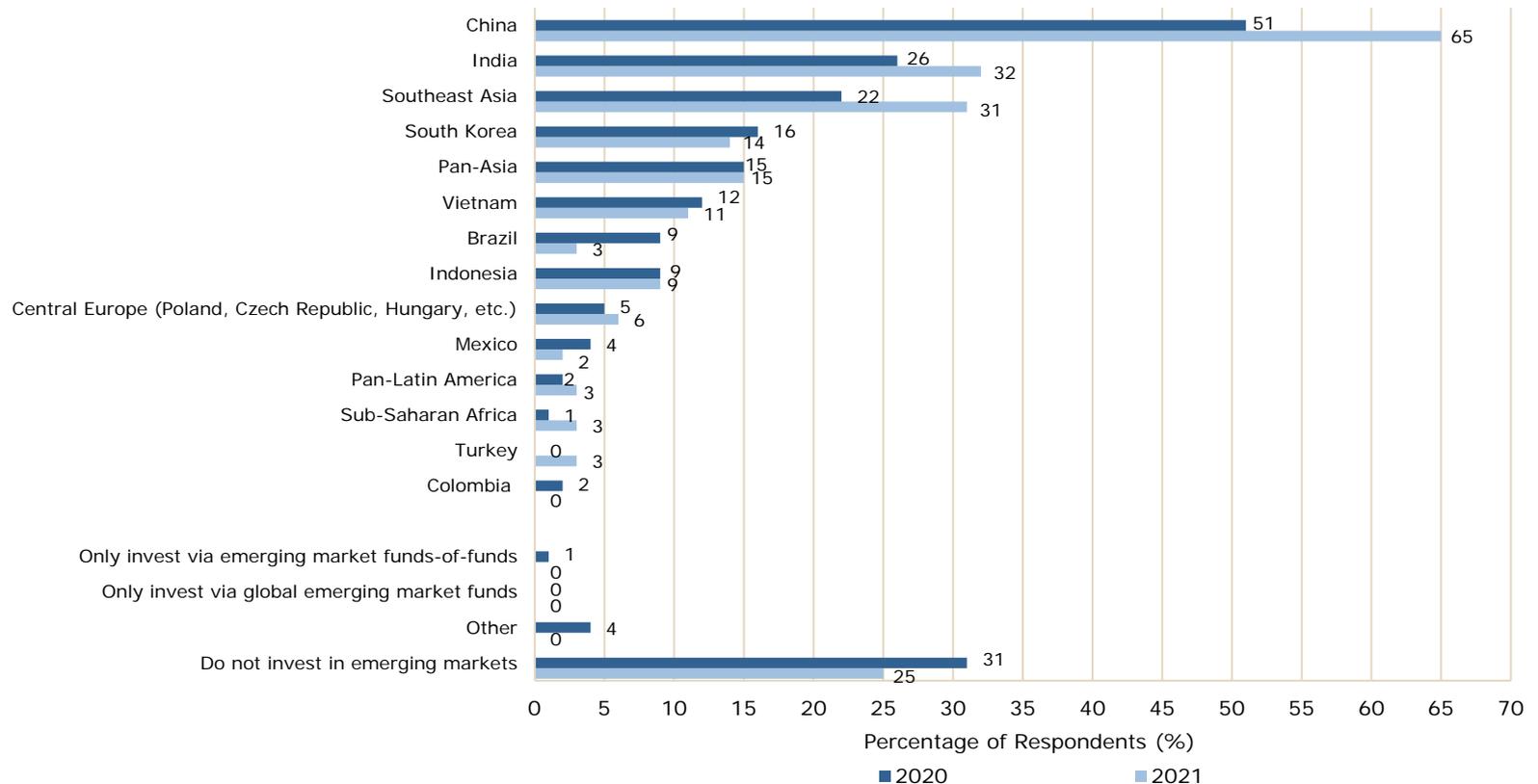
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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):



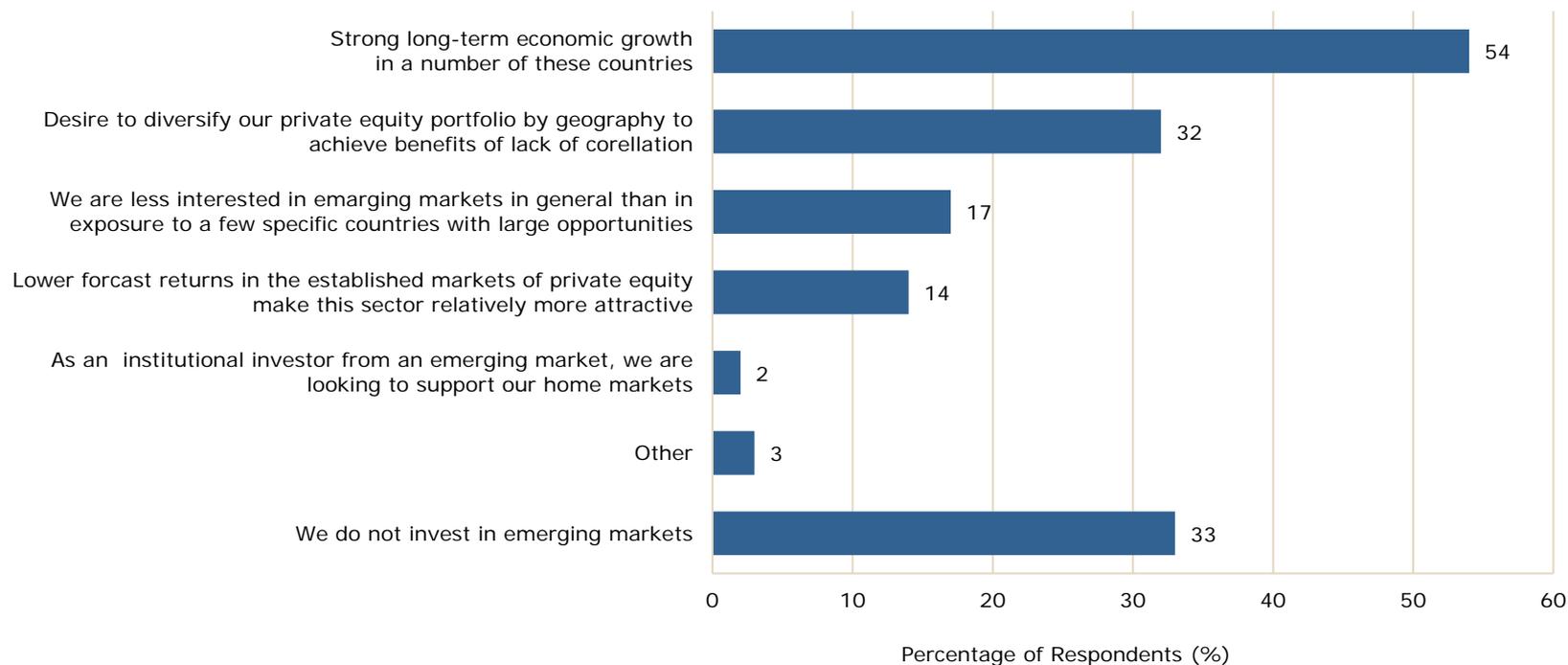
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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):



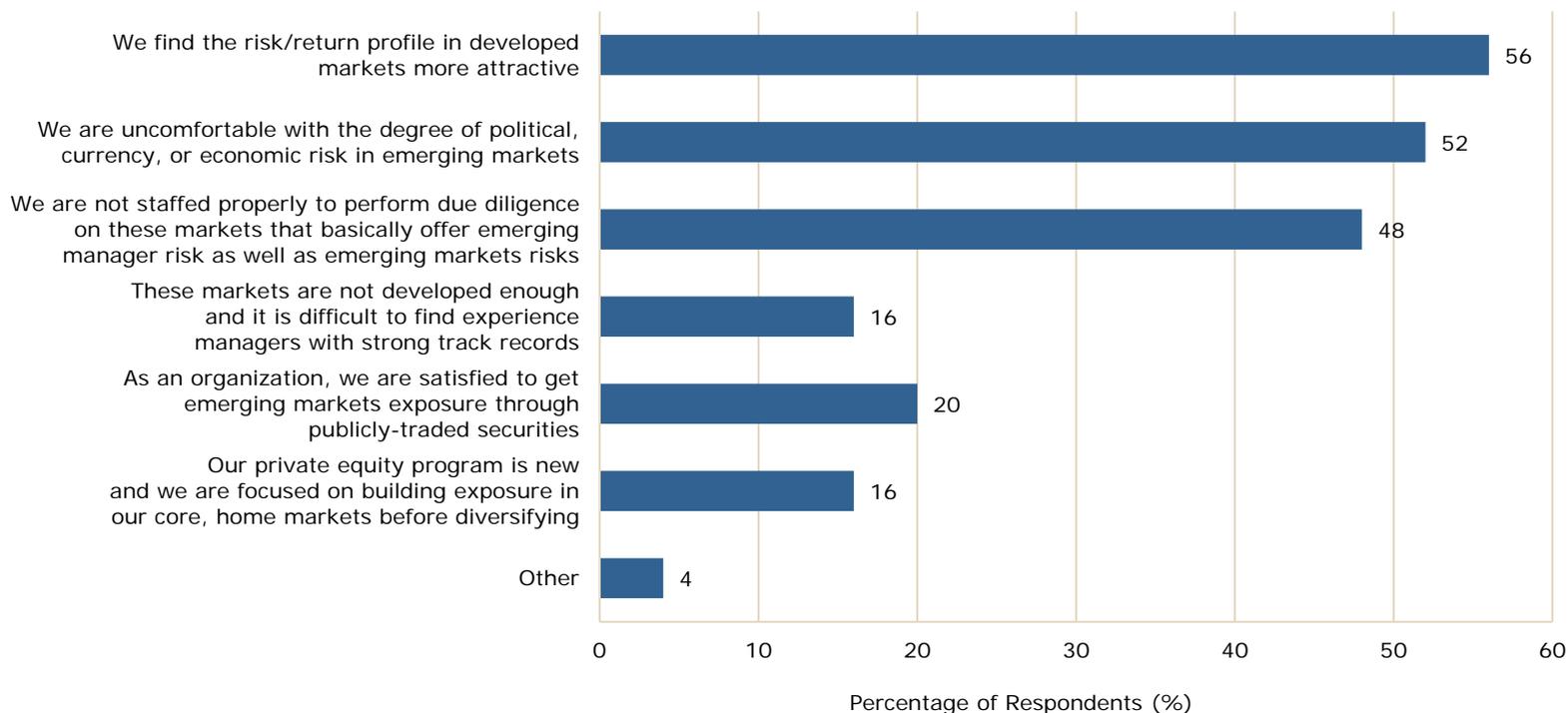
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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):

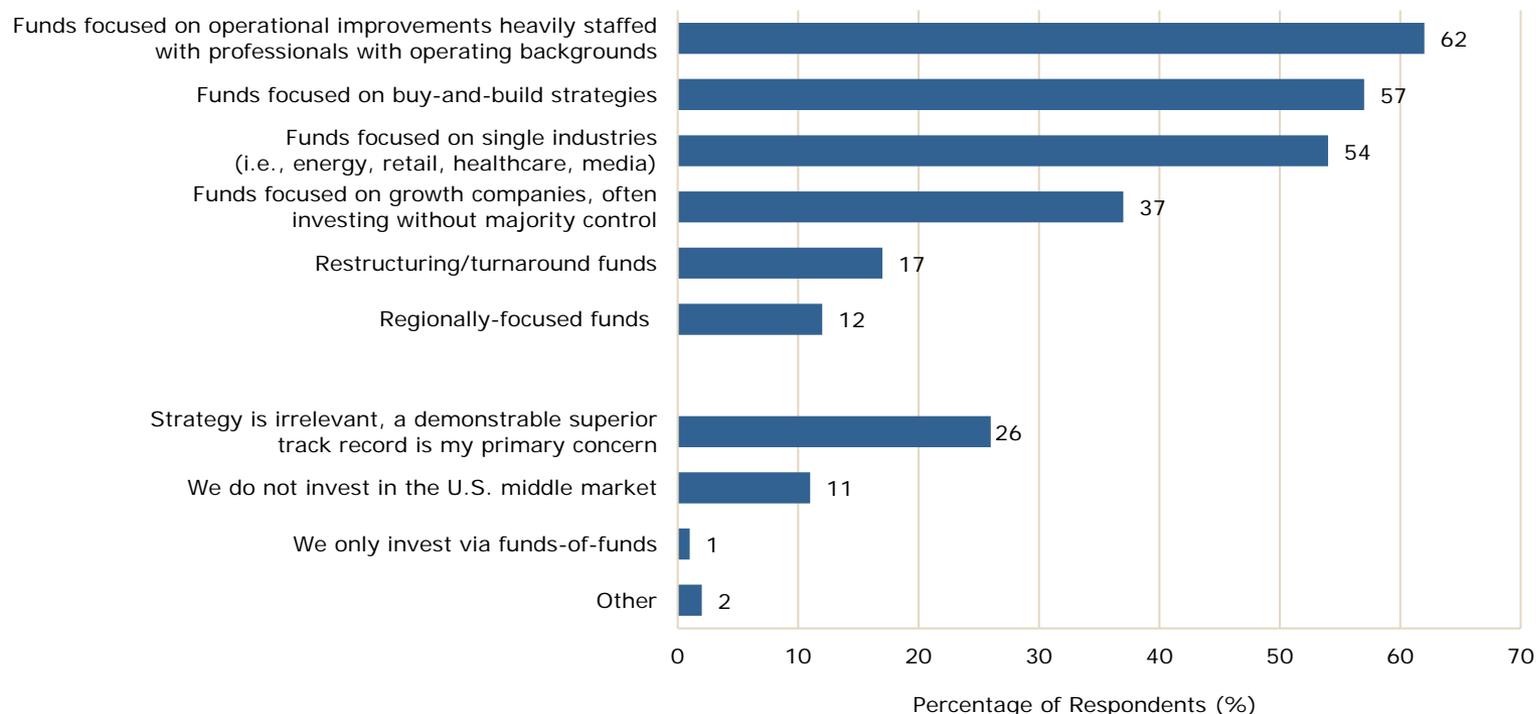


U.S. Middle-Market Strategies of Interest

- 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):



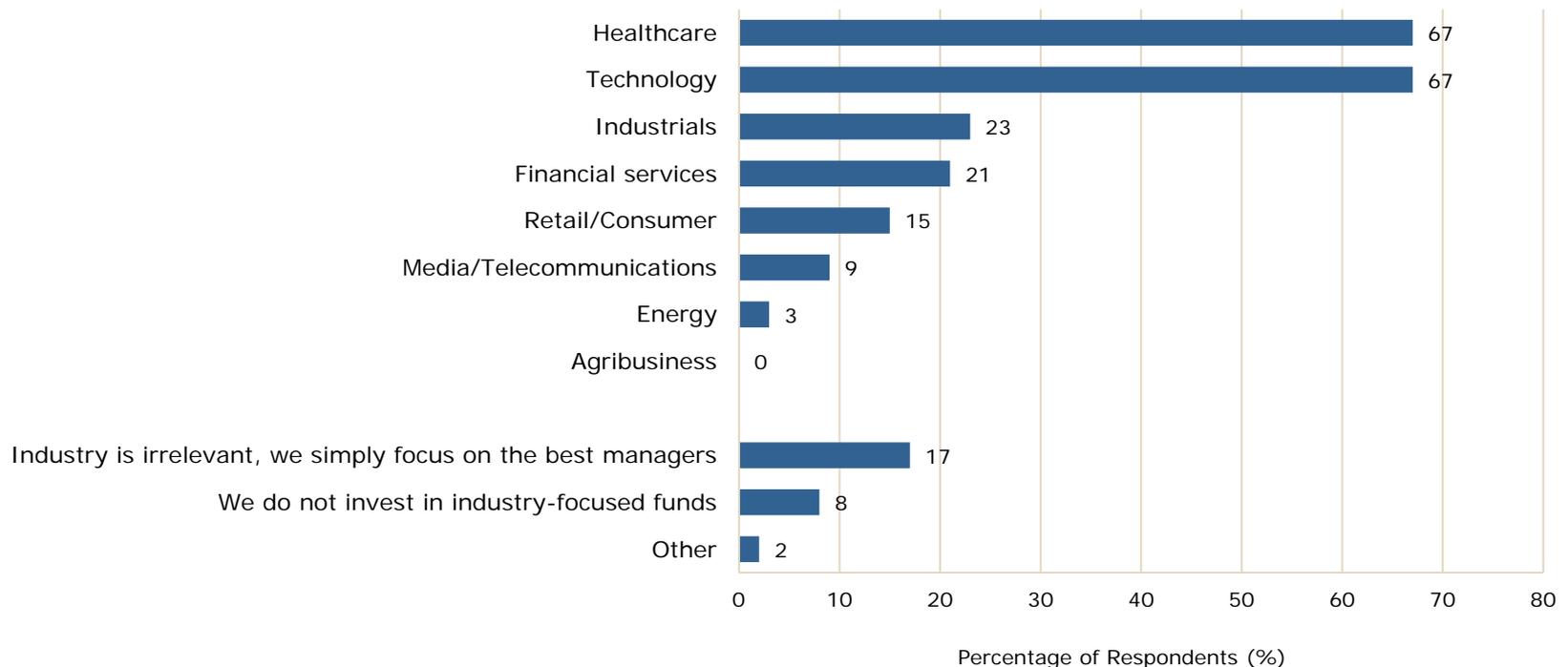
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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):



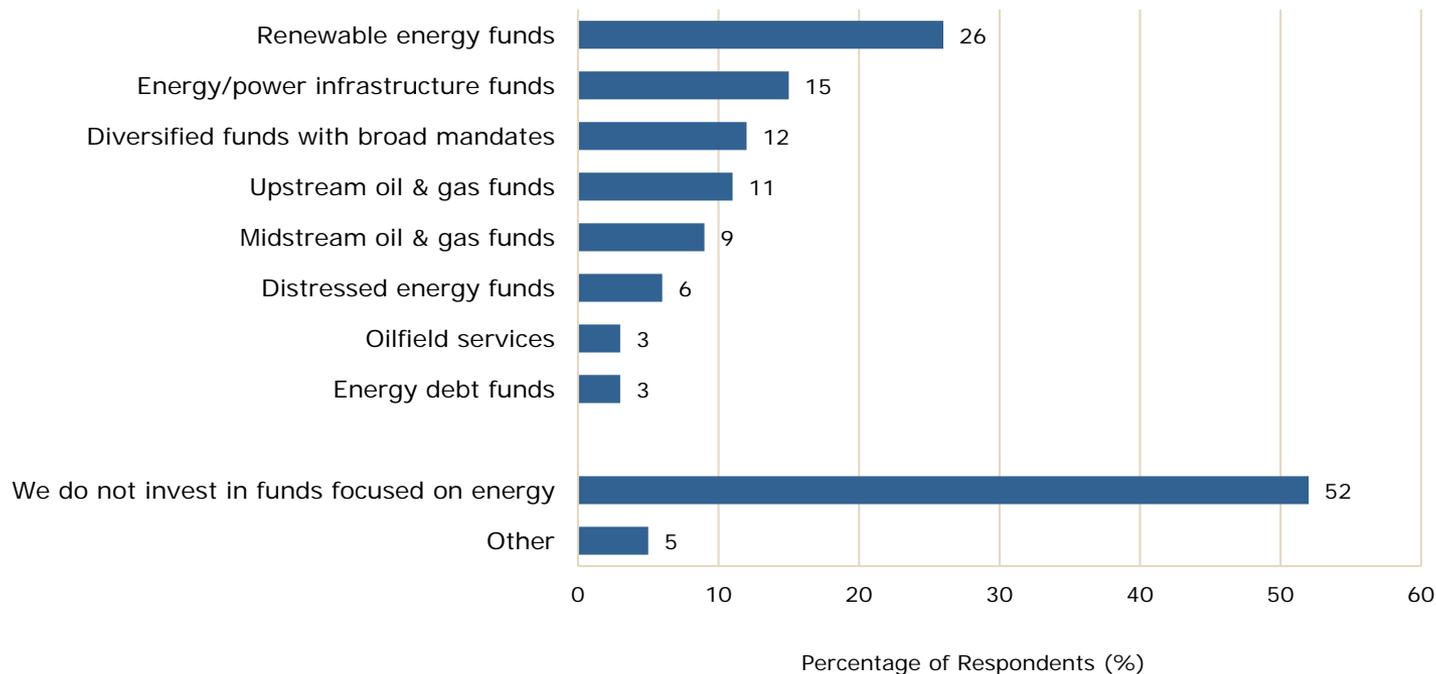
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

Interest in Sectors Within Energy

- 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):

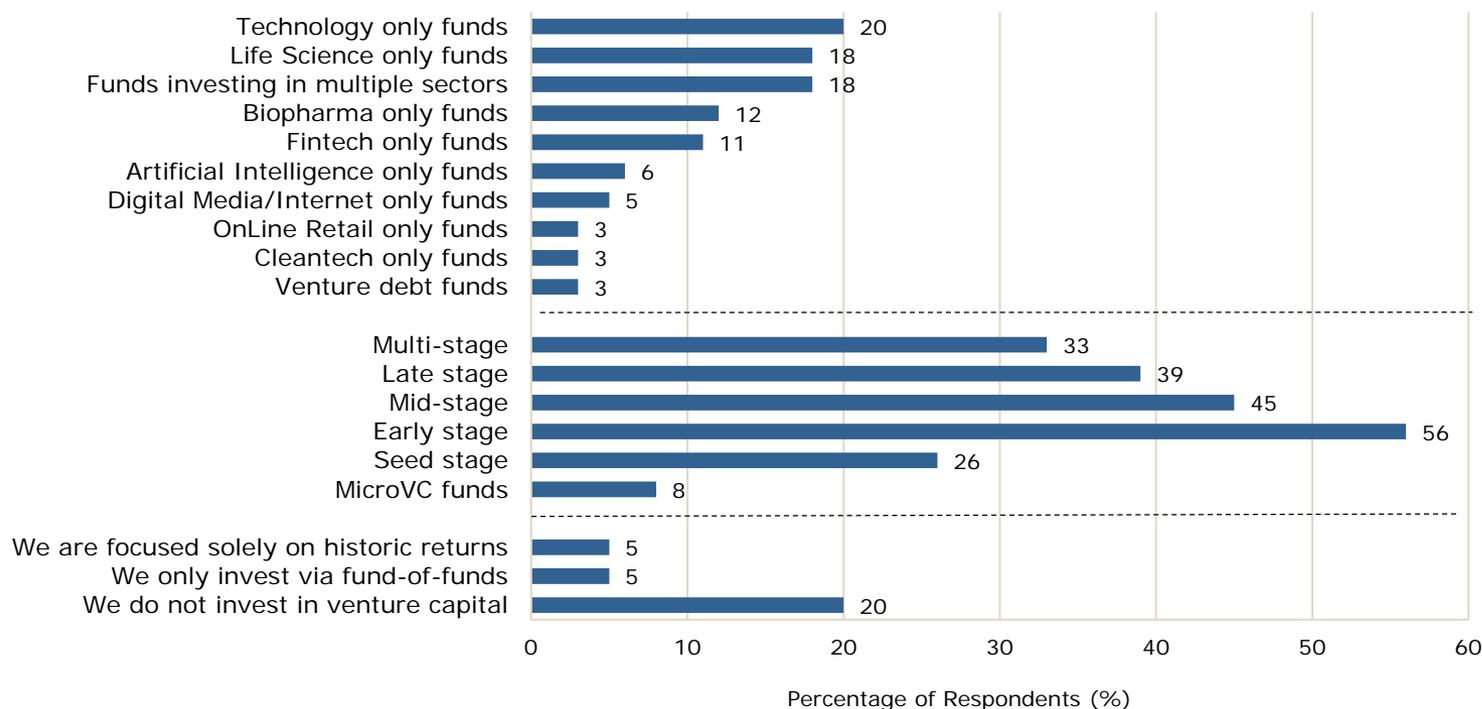


Venture Capital Interest

- 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):



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

Further Commentary on Venture Capital

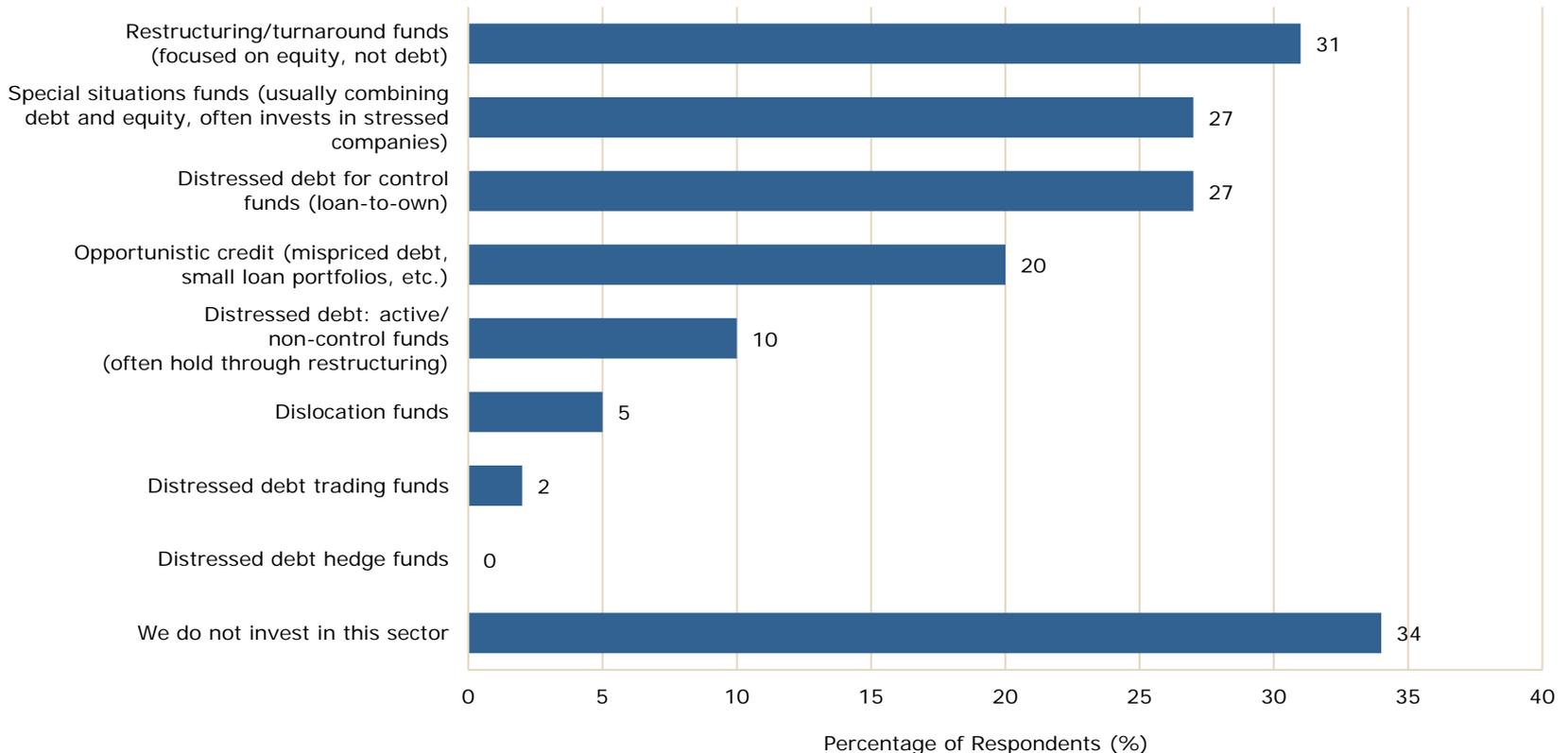
- Endowments and Foundations have long been supporters of Venture Capital; that continues to hold true as none of these respondents stated that they did not invest in the sector
- Several comments left by respondents gave more insight into what affected investors' interest in Venture Capital:
 - *"VC 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*

Distressed Investing Interest

- 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

Chart XXI Distressed Investments

Within the distressed private equity sector, we are most interested in (choose no more than two):



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

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:

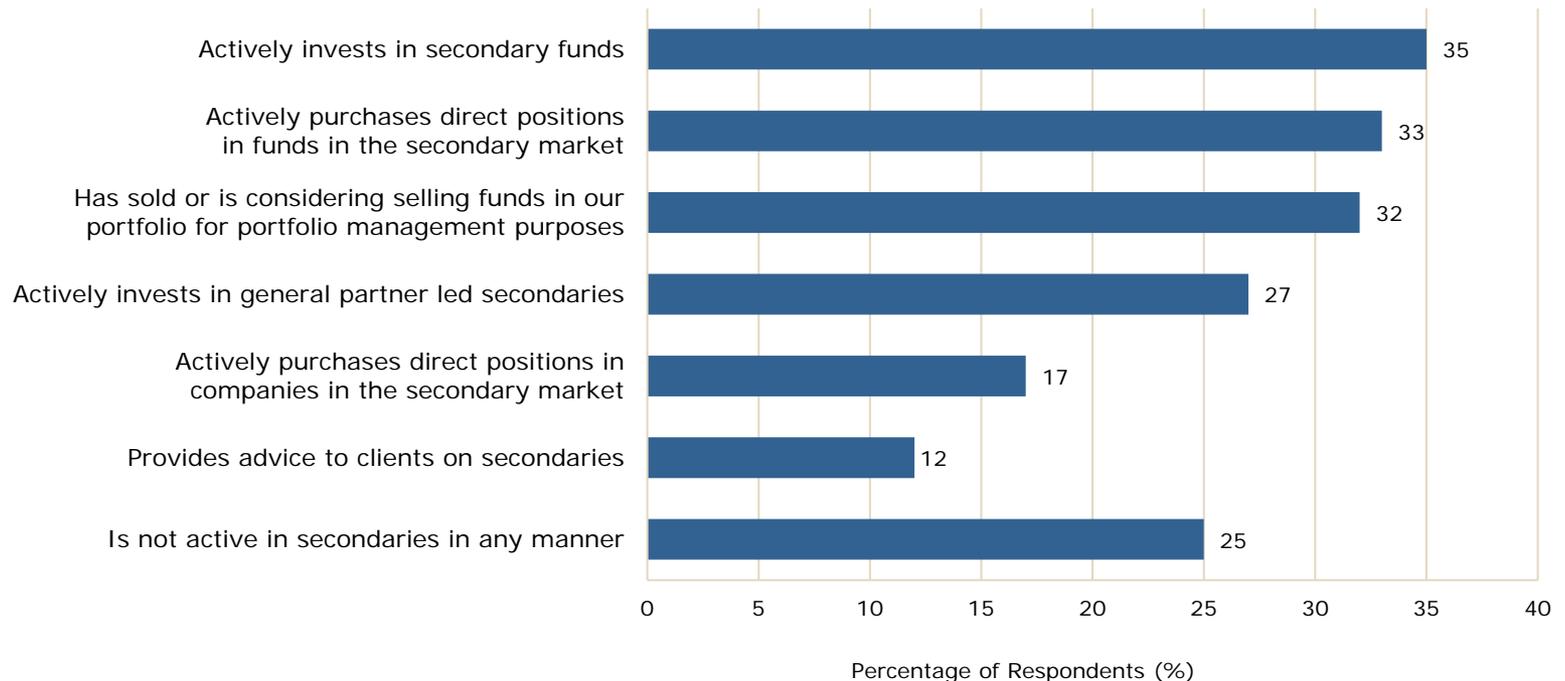
“Opportunities are still available, but one has to be cautious.” – Asian Endowment

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):



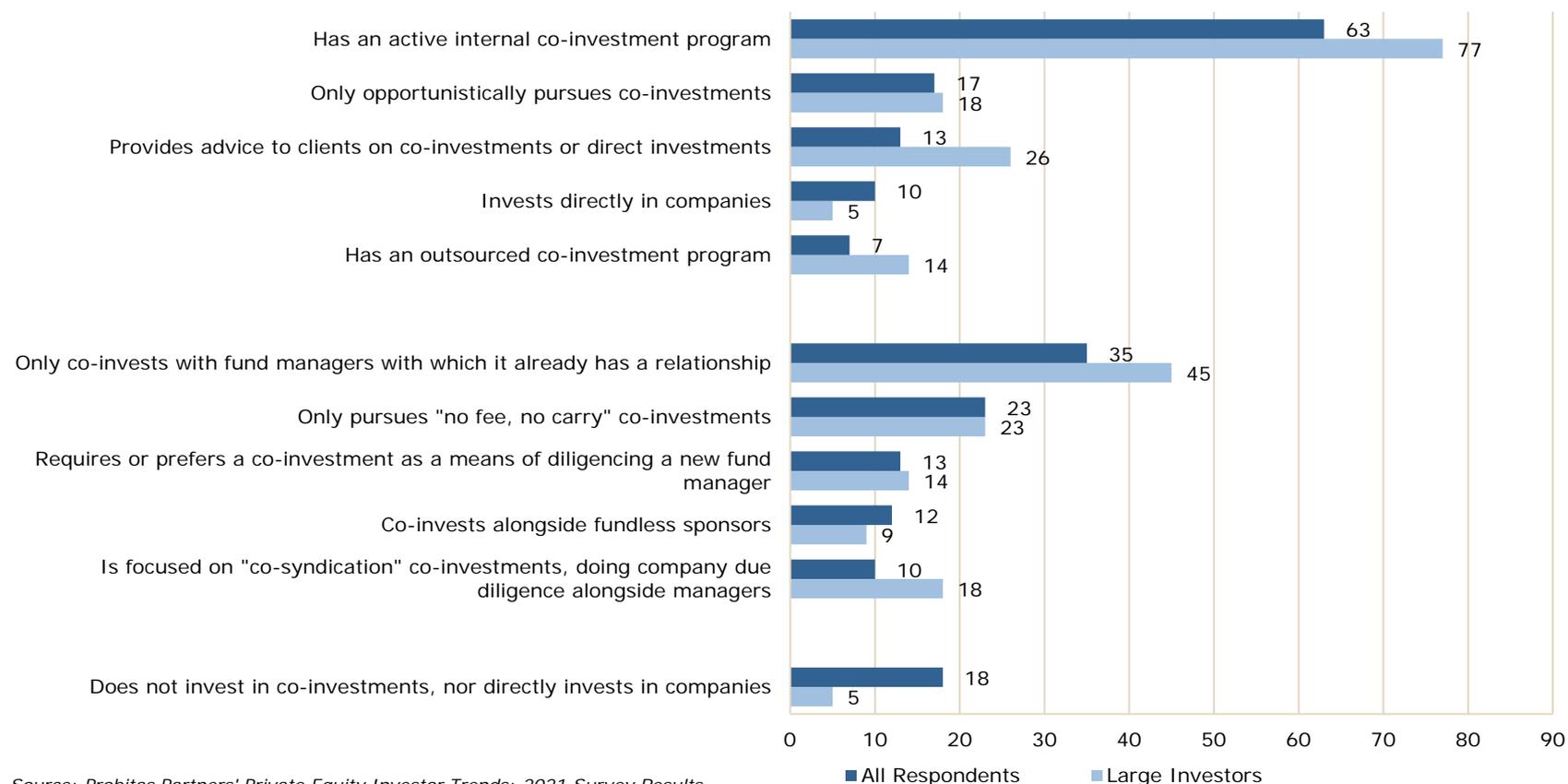
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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):



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:

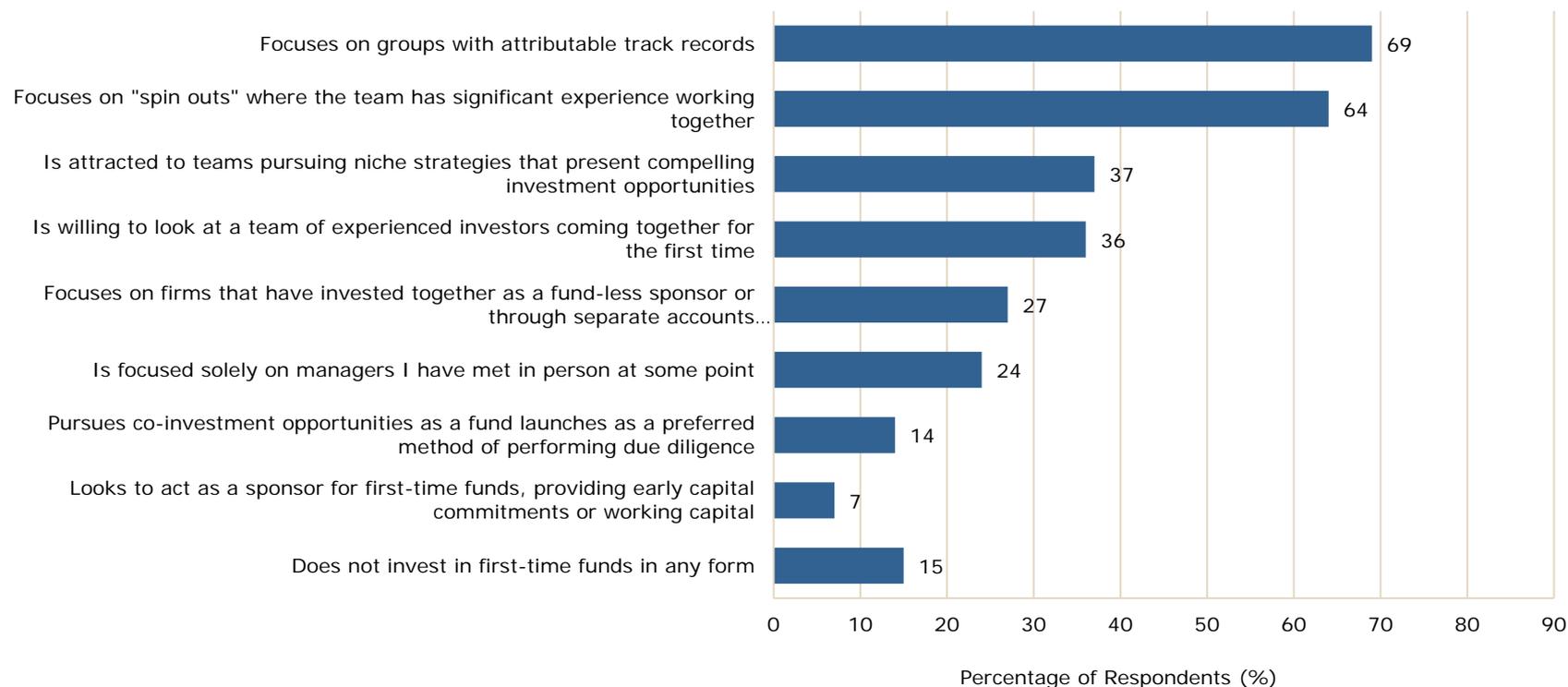
“Co-investment has become of increasing importance to investors. The tables have turned, however. Five to ten years ago, co-investment was largely free and in LP’s favour. Now, GPs are able to charge fees and LPs are finding it more and more difficult to secure co-investment allocations” – Asian Endowment

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):



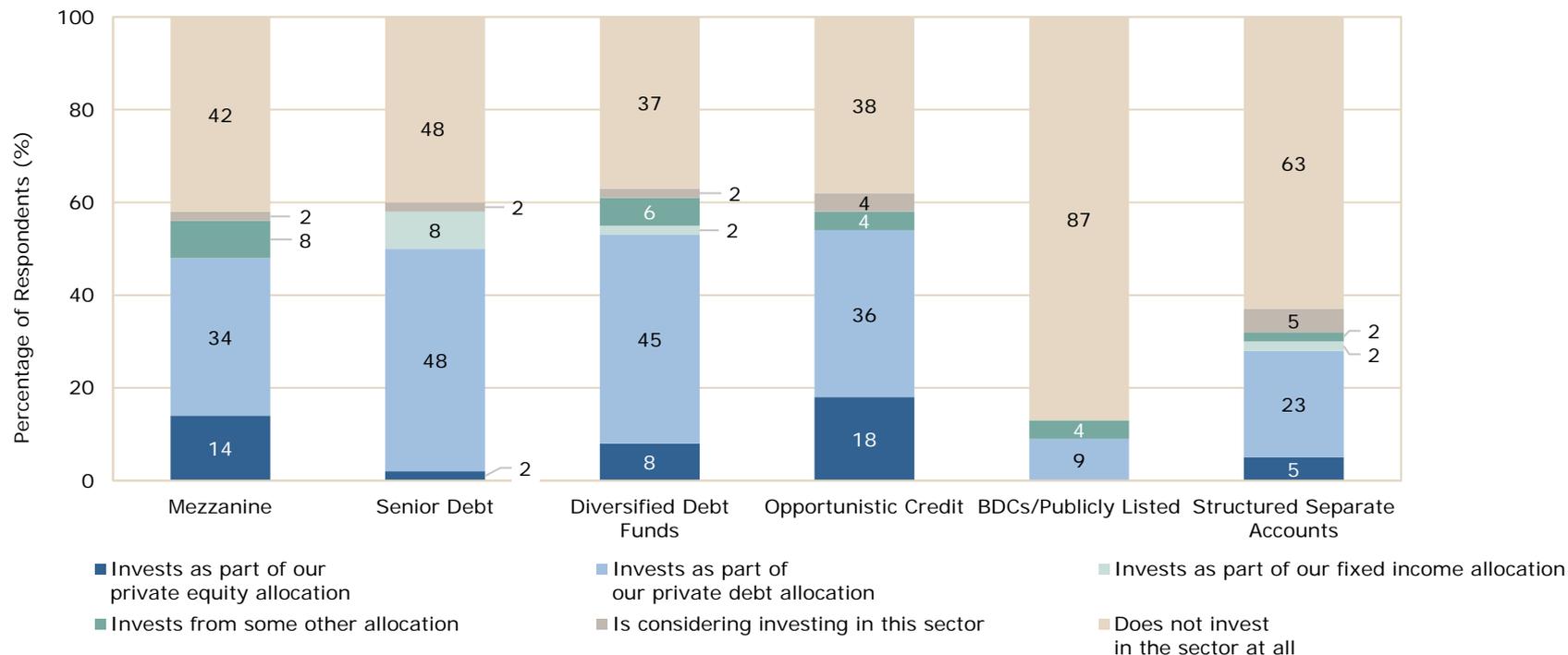
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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:



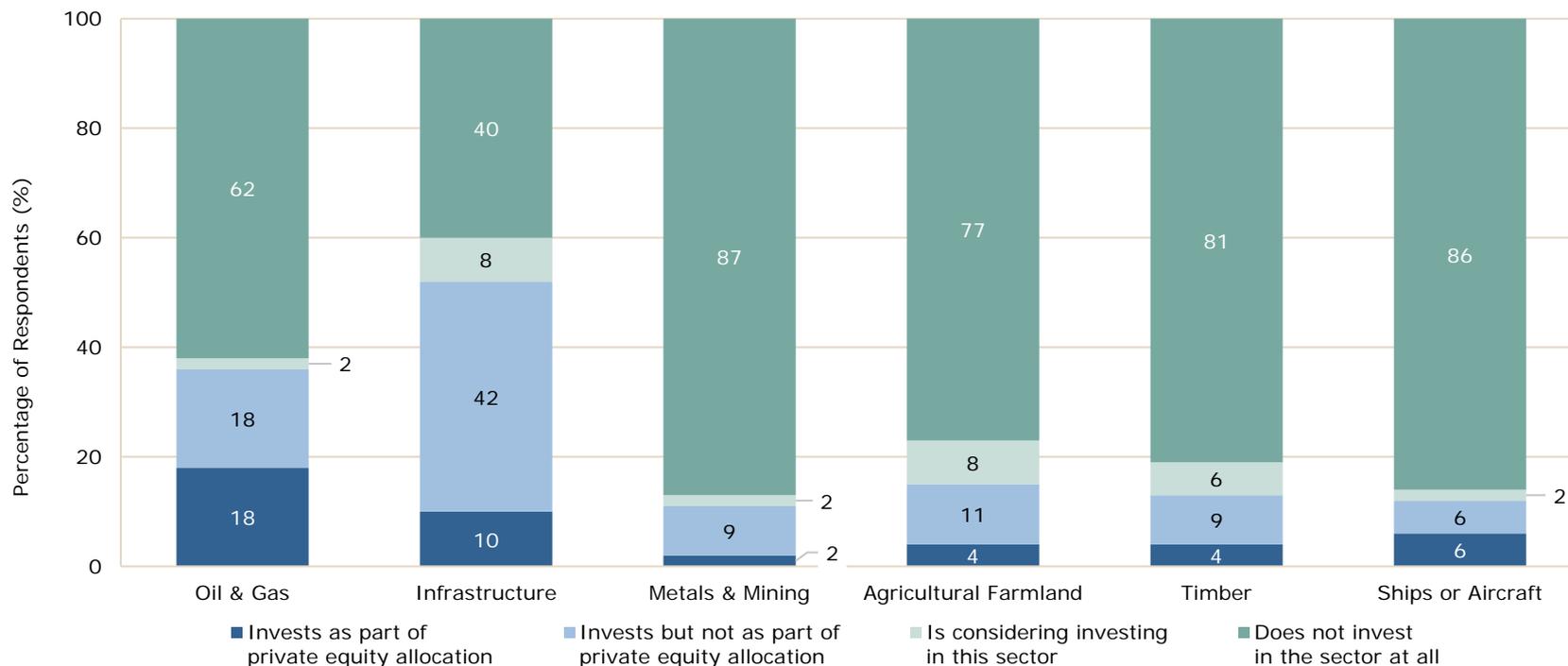
Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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:

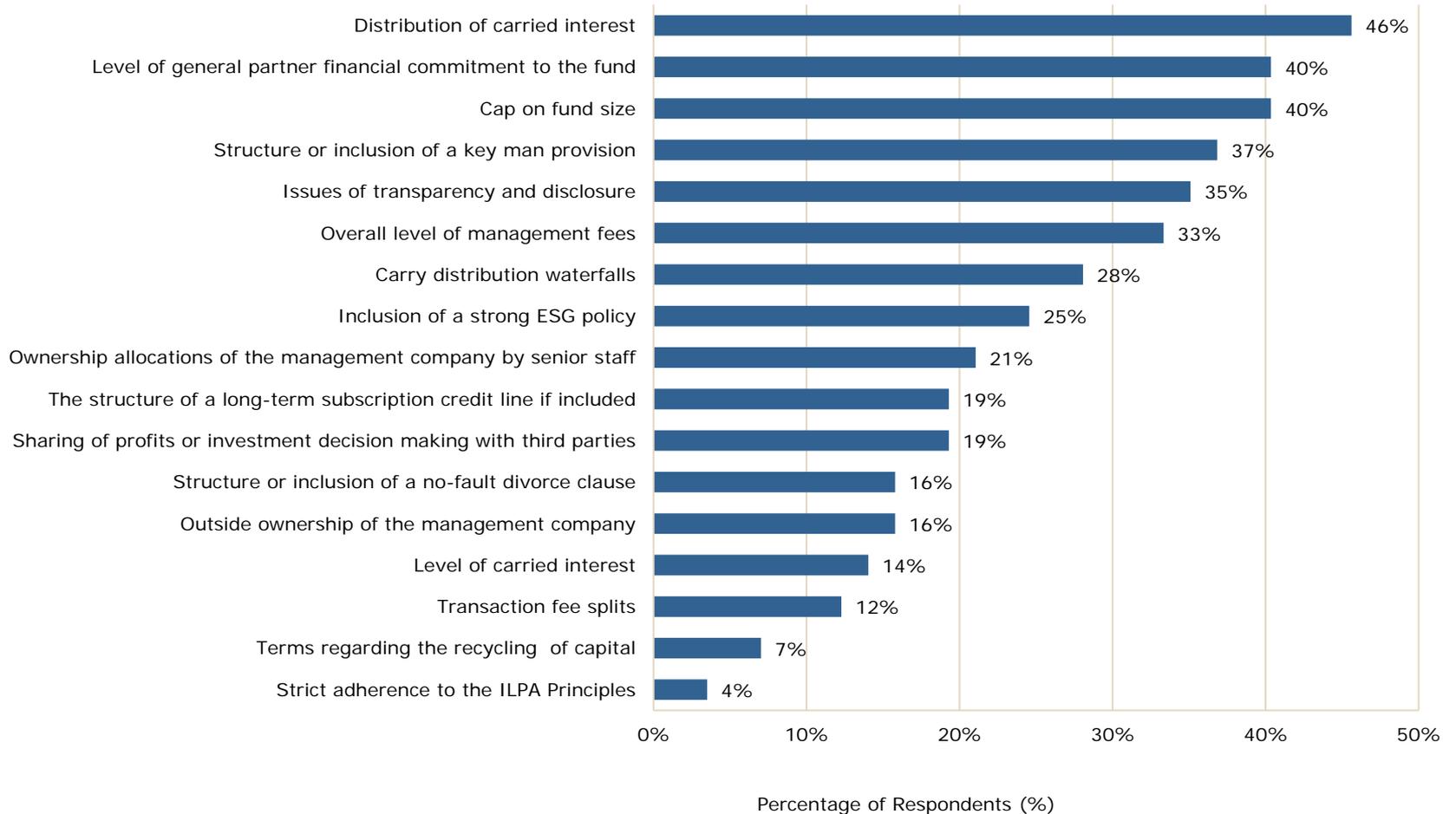


Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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):



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

Commentary on Issues Regarding Fund Structure

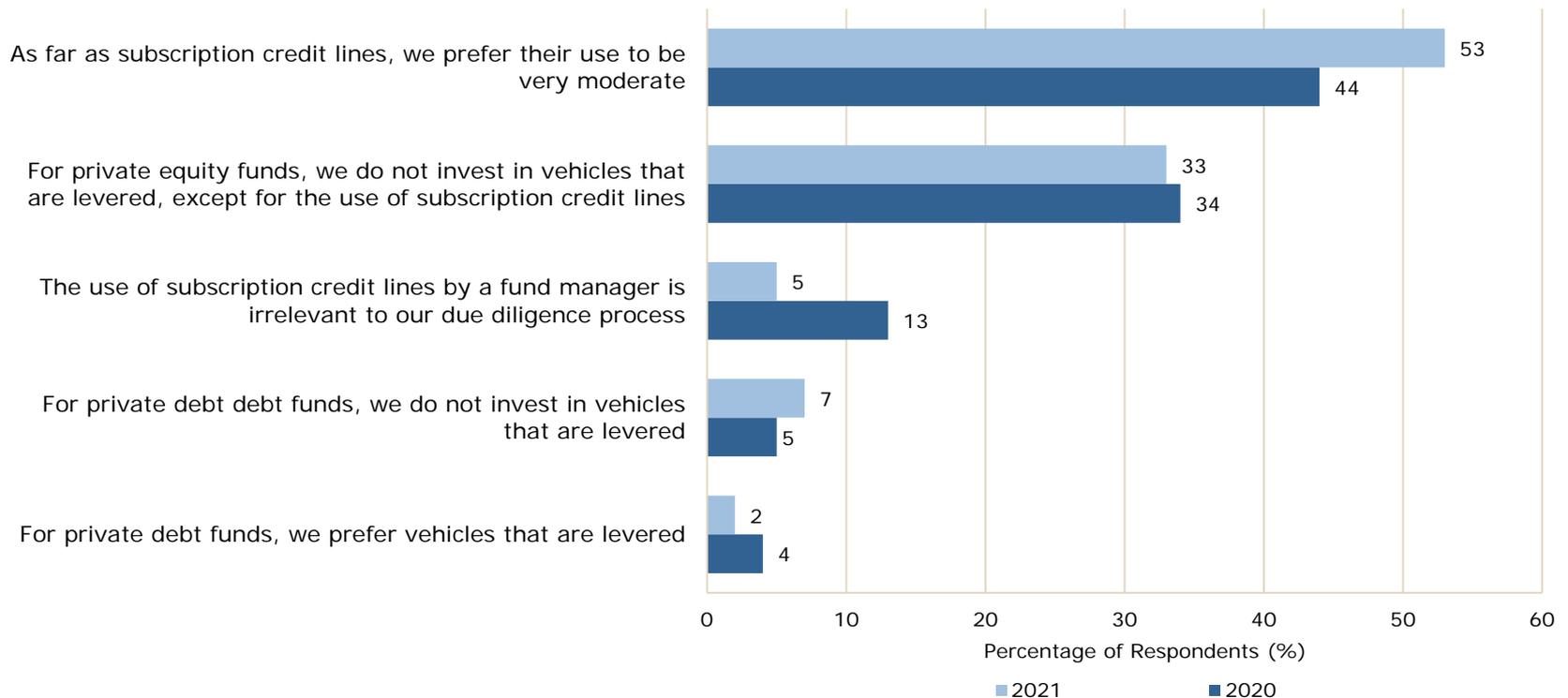
- Though there were some differences among respondents, the top four issues were of concern to investors across geographies and investor type
- One area of particular interest is the inclusion of a strong ESG policy:
 - It is ranked 8th among pre-identified issues among overall respondents with 25% of 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

Fund-level Leverage

- 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):

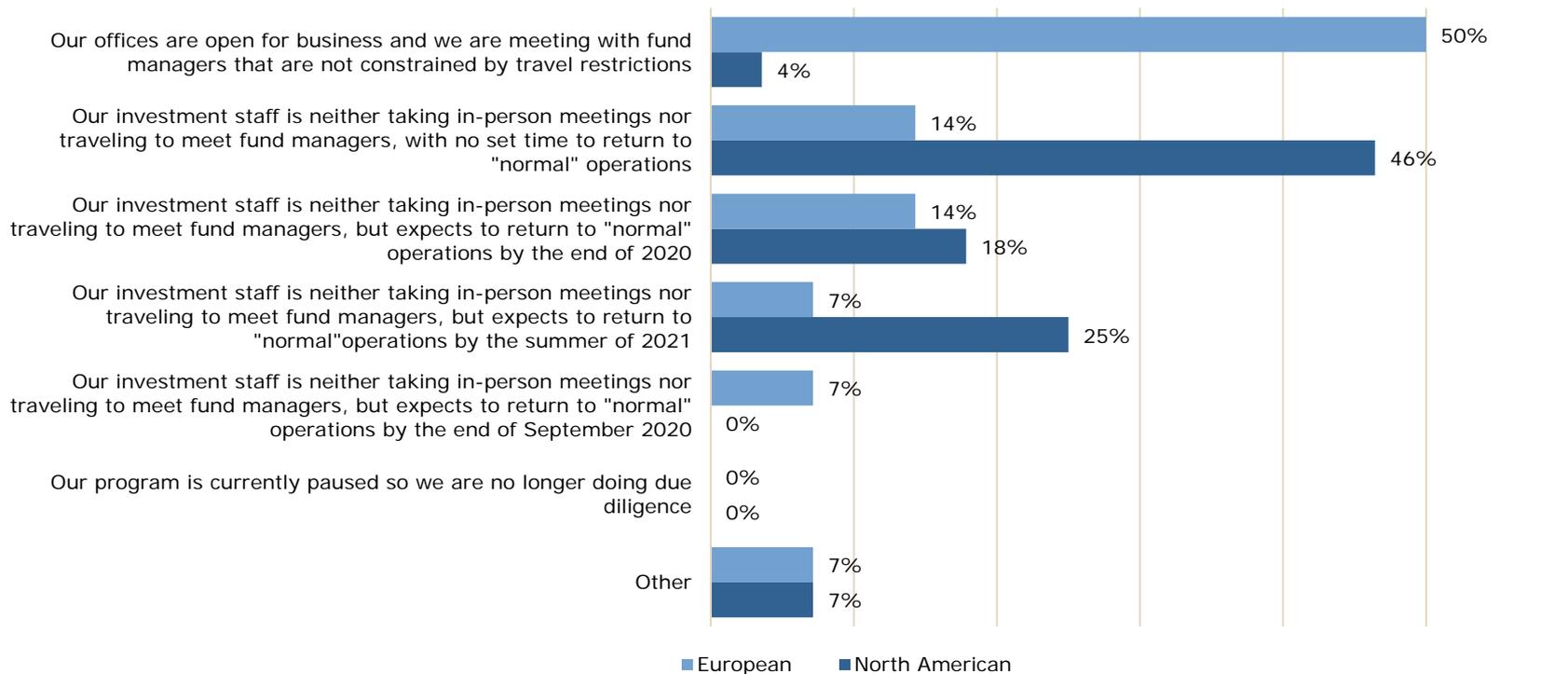


Source: Probitas Partners' Private Equity Investor Trends: 2020 and 2021 Survey Results

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



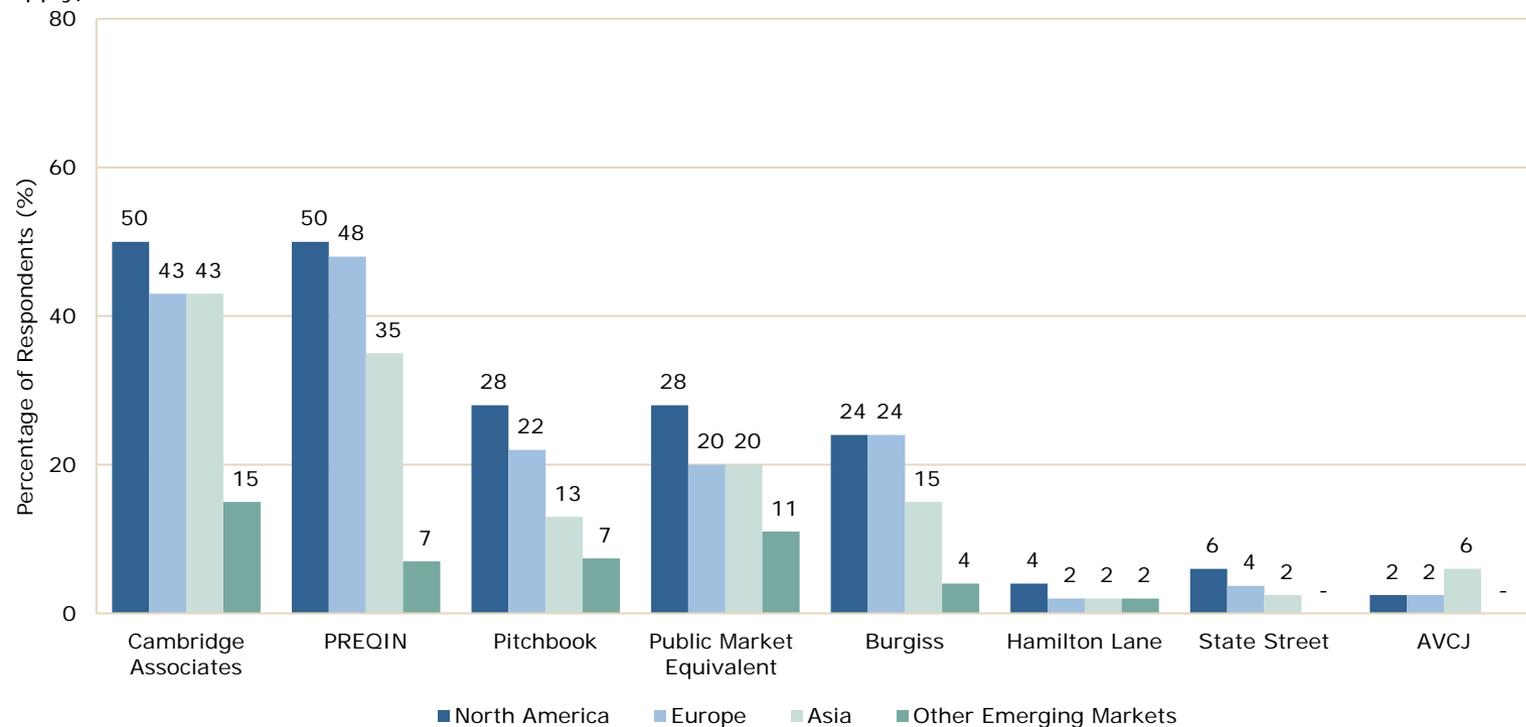
Source: Probitas Partners' COVID-19 Impact Survey: Follow-up

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):

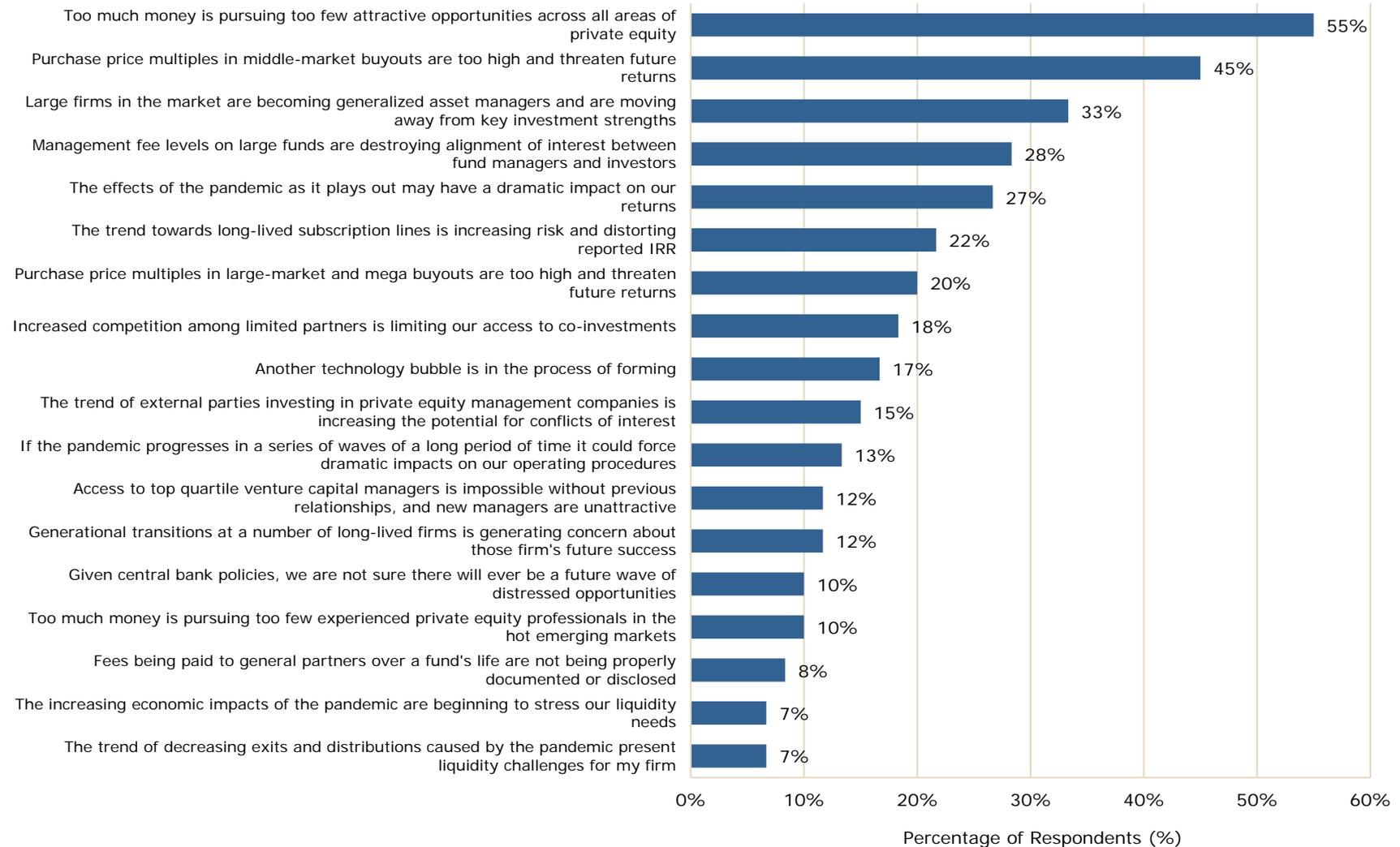


Source: Probitas Partners' Private Equity Investor Trends: 2021 Survey Results

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:



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 II: What Keeps You Up At Night?

Top Five Responses:

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

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 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*

- 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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