



# Probitas Partners 2022 Institutional Investors Private Equity Survey

December 2021



# Table of Contents

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<b>Topic</b>	<b>Page</b>
▪ Survey Highlights	2
▪ Background and Appetite	3
▪ Sectors of Interest	9
▪ Geographies of Interest	18
▪ Middle-Market Buyouts	25
▪ Venture Capital	27
▪ Niche Sectors	29
▪ Structural Issues	37
▪ Investor Fears	40
▪ Summary	44

# Survey Highlights

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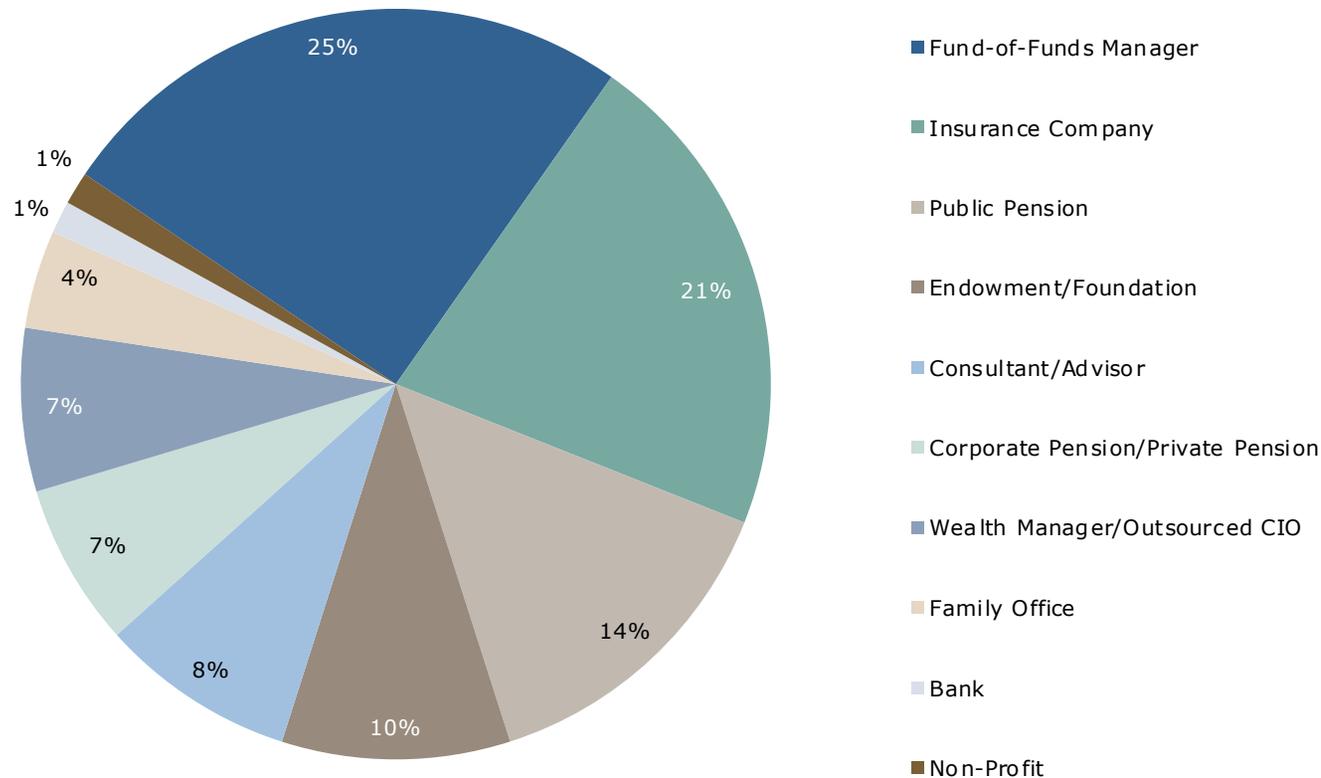
- Probitas' latest annual survey was taken over the last week of October and the first two weeks of November and the underlying private market trends for 2021 were set in investor's minds at that point
- In private equity, looking ahead to 2022 investors were heavily focused on U.S. and European Buyouts, U.S. Growth Capital and U.S. Venture Capital – though many investors also feel that buyout purchase price multiples are too high, threatening future returns
- On the other hand, interest in Asian private equity has decreased as has interest in distressed
- Among the major sectors, interest in U.S. Venture Capital increased the most during the year, boosted by strong valuations and exits in the technology sector – an interest that is offset somewhat by increasing investor fears that a bubble is developing in the technology sector
- Interest in ESG and Impact Funds increased a little this year, but as in the past these sectors are more strongly targeted by Europeans
- Interest in oil & gas funds shrank further and remains very weak, but there is increased interest in renewables, sustainability and energy transition

# Respondents by Type of Institution

- 71 institutional investors responded to this year's survey
- 60% of respondents came from Funds-of-Funds, Insurance Companies or Public Pensions, with another 10% coming from Endowments & Foundations

**Chart I Respondents by Institution**

I represent a:



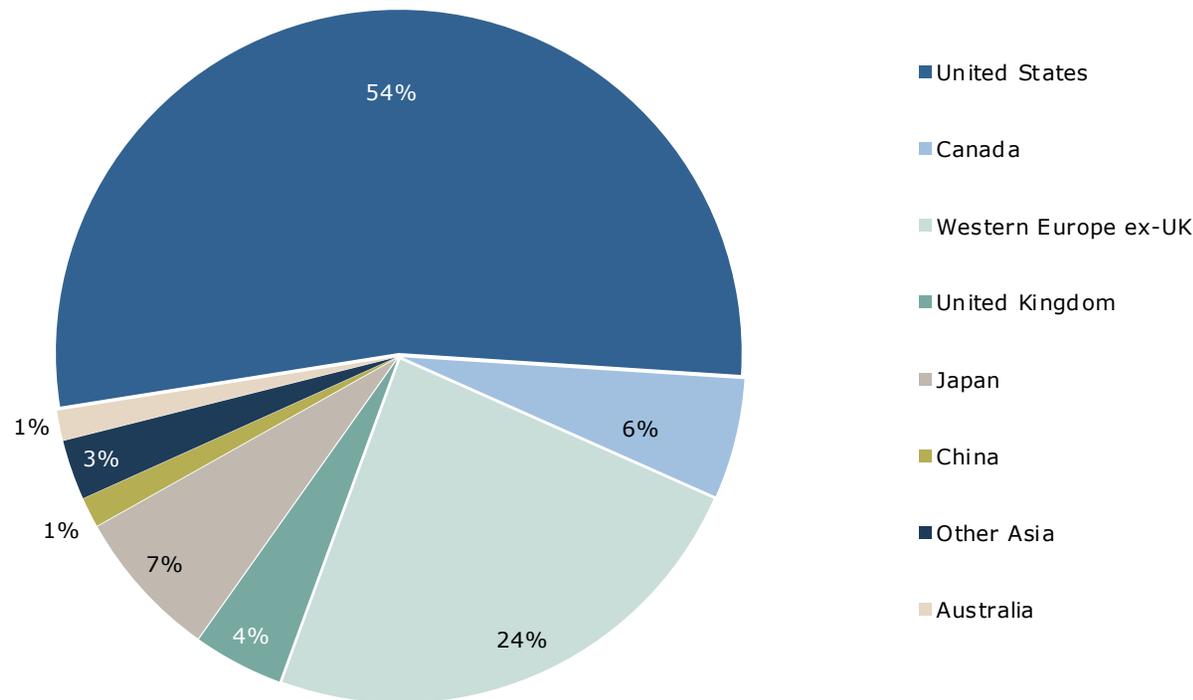
Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Respondents by Firm Headquarters

- 60% of respondents were from North America while 28% were from Europe and 12% 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:



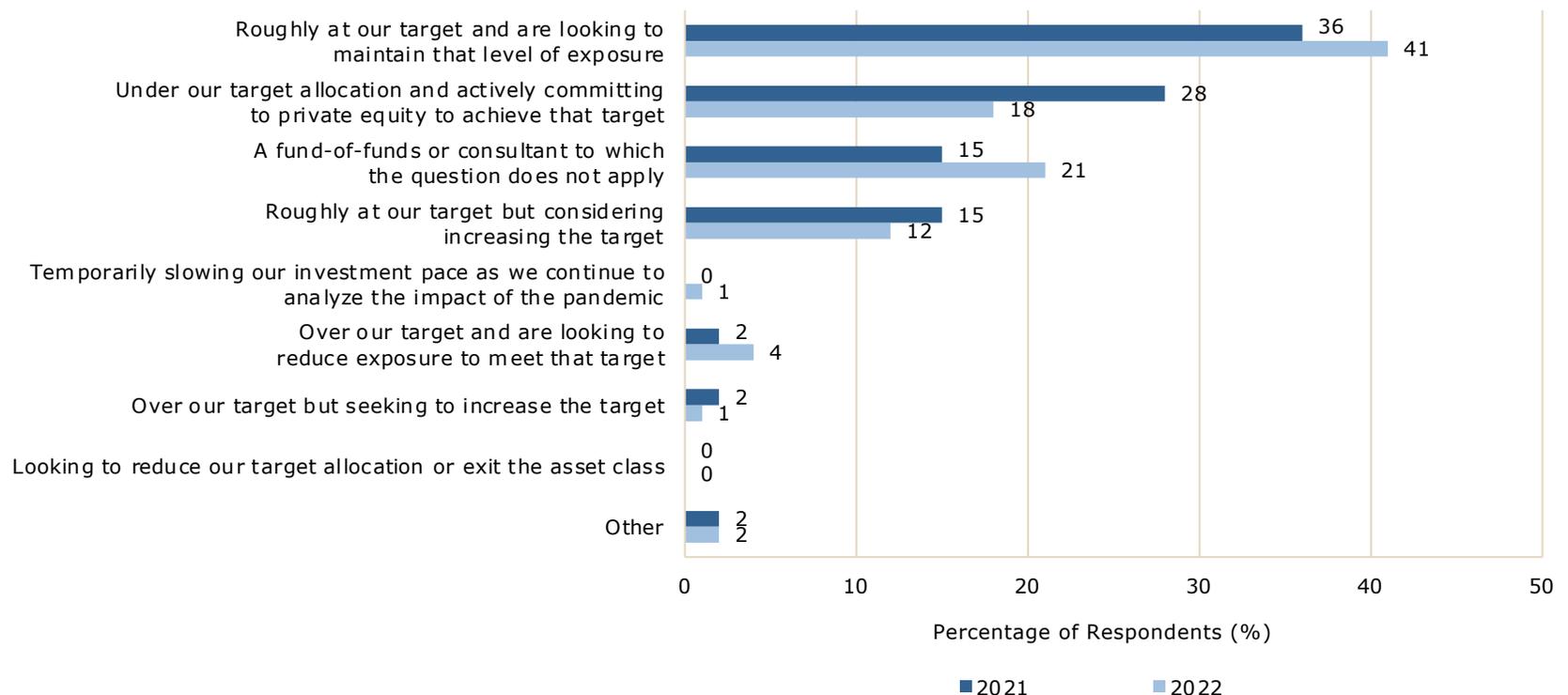
Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Current and Target Allocations

- 53% 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
- The percentage of respondents who were under target and actively committing to private equity fell from 28% to 18% as fundraising during 2021 soared, eating into allocations

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

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



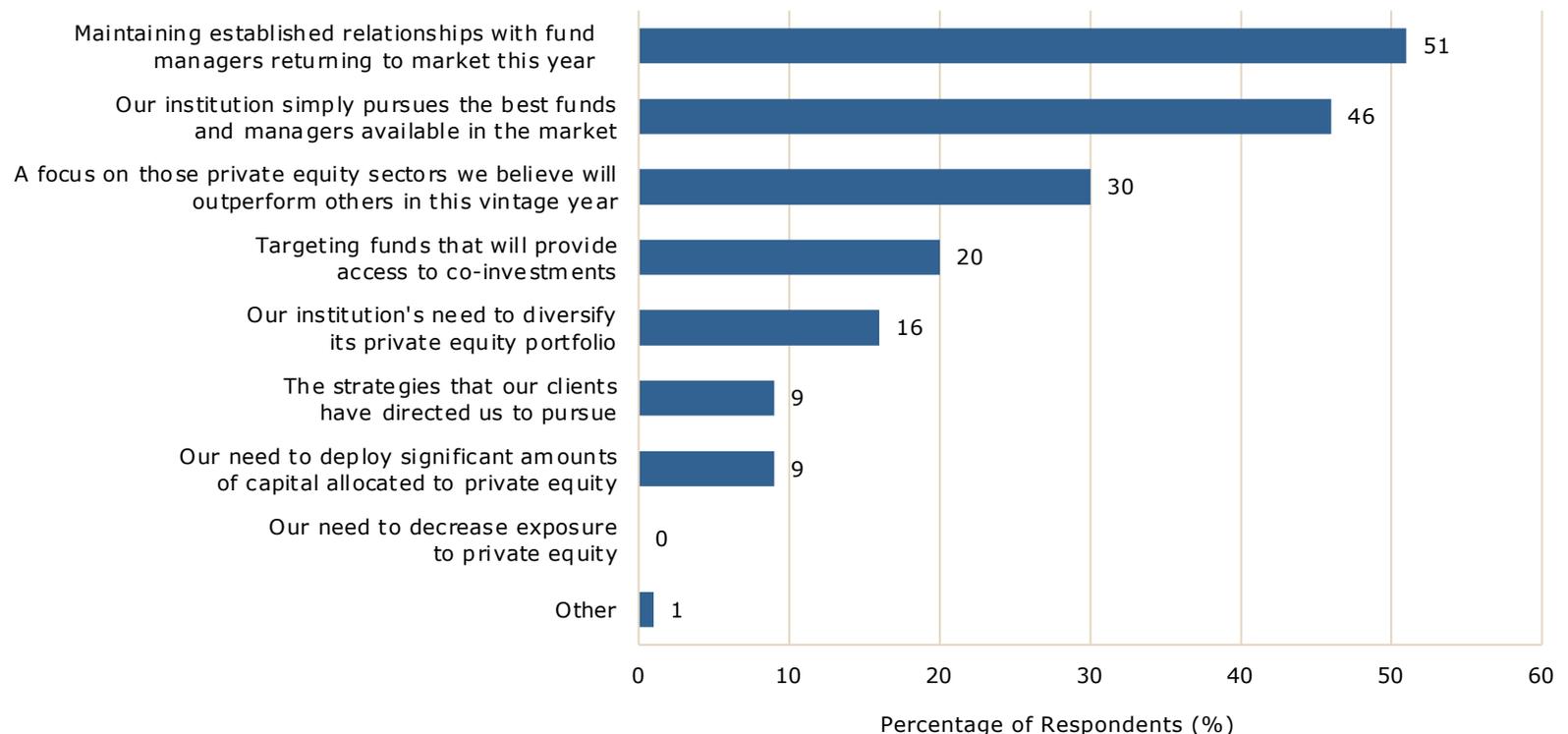
Source: Probitas Partners' Private Equity Investor Trends: 2021 & 2022 Survey Results

# Drivers of Sector Interest

- Over the past few years, respondents to our surveys overwhelmingly simply targeted the best managers currently in market – no other reason came close
- This year, maintaining established relationships with fund managers soared to 51% this year from 10% last year, reflecting the surging fundraising environment and its impact on fund manager access

## Chart IV Drivers of Sector Investment

Our sector investment focus in 2022 will be driven by (choose no more than two):



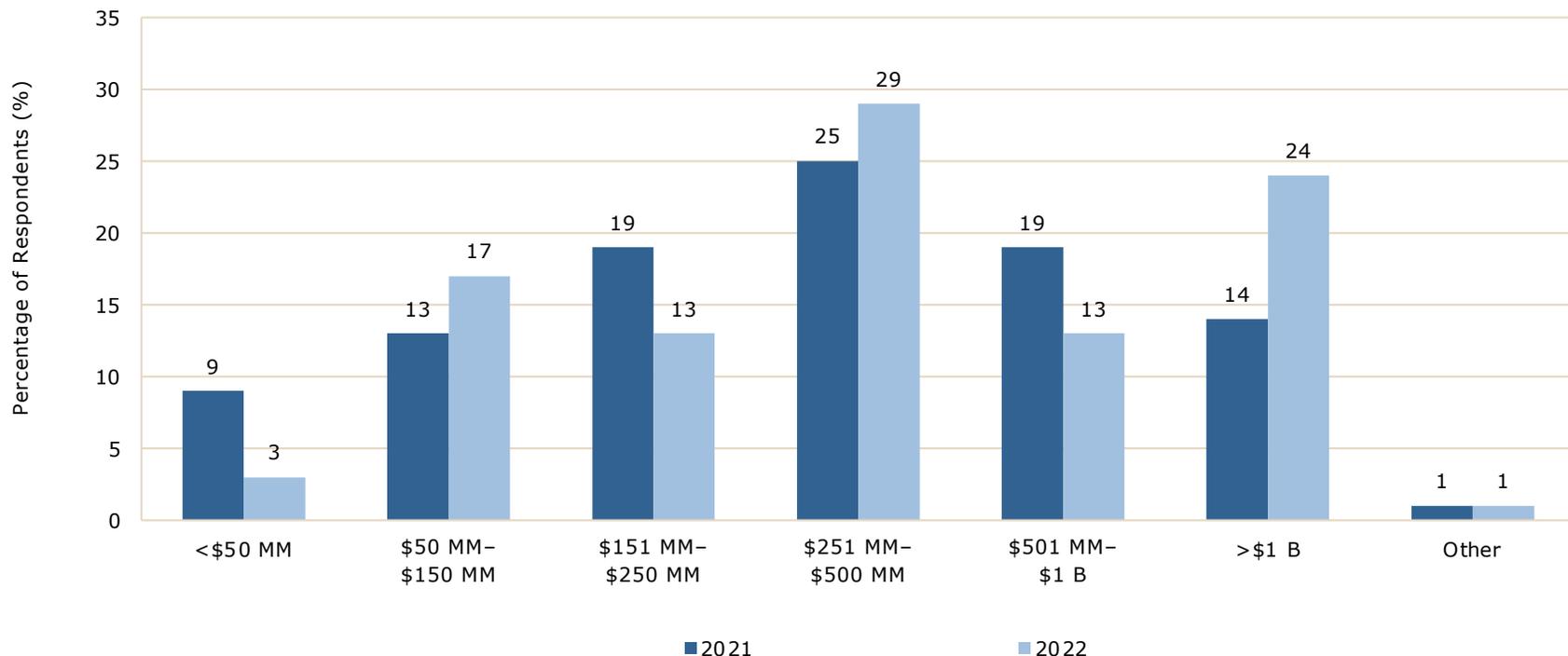
Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Size of Respondent Allocations

- Investors of various size responded to the survey – though respondents this year skewed larger compared to those who participated last year
- The size of a respondent's allocations influence their opinions – for example, the increased interest in co-investments and direct investments among large investors

## 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, displayed in percent:



Source: Probitas Partners' Private Equity Investor Trends: 2021 & 2022 Survey Results; other responses had no target

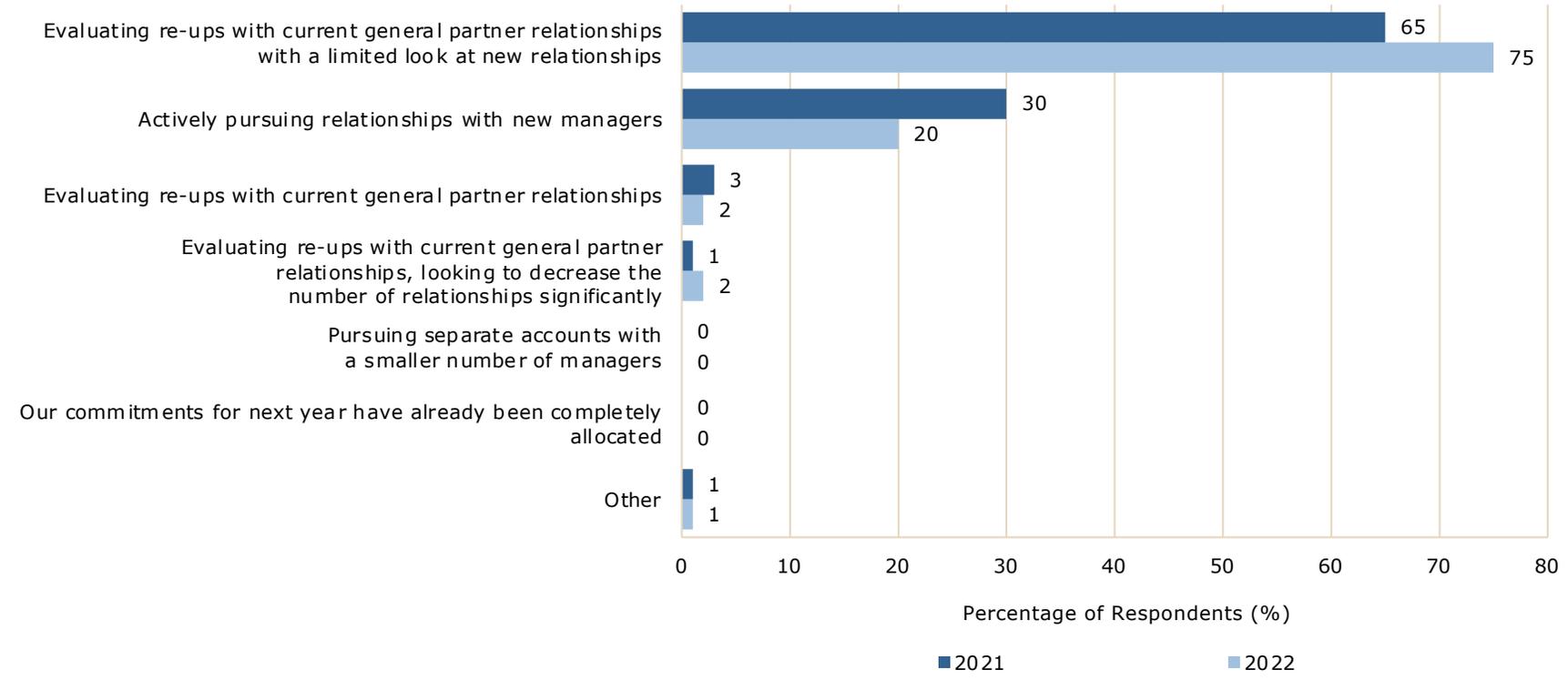


# Manager Relationships

- There was a notable increase in those focused on evaluating re-ups with their current general partners with a limited look at offerings from new managers since last year as well as a corresponding decline in those actively pursuing new managers
- In conversations with limited partners, many of them are concerned that so many fund managers in their portfolios are coming back quickly to market, stretching their due diligence processes and limiting their ability to look at new managers

## Chart VI Manager Relationships

During the next year, we would expect our primary focus to be:



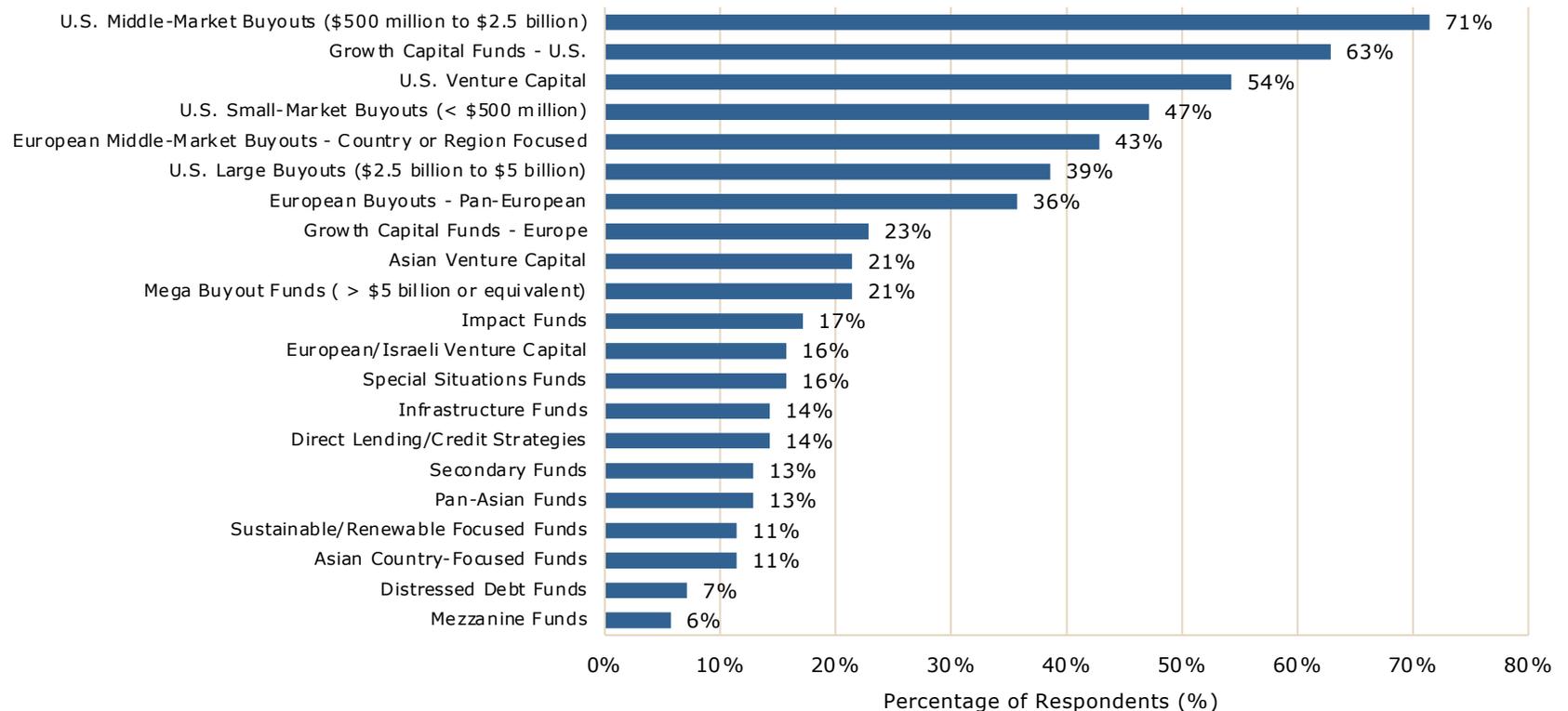
Source: Probitas Partners' Private Equity Investor Trends: 2021 & 2022 Survey Results

# Private Equity Sectors of Interest

- Respondents were limited to selecting seven sectors: U.S. Middle-Market Buyouts and U.S. Growth Capital funds topped the market, with U.S. Venture Capital close behind
- The top eight ranked sectors are all in the U.S. or Europe, and only Asian Venture Capital attracted more than 20% of respondent interest besides those markets
- The list only includes sectors that collected the interest of at least 5% of respondents

## Chart VII Private Equity Sectors of Interest

During 2022, my firm or my clients plan to focus most of our attention on investing in the following sectors (choose no more than seven):



Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Private Equity Sectors of Interest: Other Comments and Niche Sectors

- Mega-Buyout Funds (ranked 10<sup>th</sup> on the overall list) have never been a strong focus of limited partner investment staffs – but they are a core holding of many large investors who need to deploy capital in large amounts to meet their portfolio targets
- Two years ago, Impact Funds were first included as an option in the survey; that year they were targeted by 6% of respondents and increased to 17% this year
- Funds targeting Energy (focused on oil & gas production) remained at only 3% interest; however, renewable energy funds scored 11% on this survey and considerable higher on other Probitas surveys tracking infrastructure funds specifically
- Long-dated funds and those investing in other GPs attracted little interest

<b>Sectors Attracting Less Than 5% of Responses</b>	
<b>Fund Type</b>	<b>Percent</b>
<b>Restructuring Funds</b>	<b>4%</b>
<b>Energy Funds</b>	<b>3%</b>
<b>Cleantech/Green-Focused Funds</b>	<b>3%</b>
<b>Fund-of-Funds</b>	<b>3%</b>
<b>Agriculture Funds</b>	<b>1%</b>
<b>Emerging Markets (ex-Asia)</b>	<b>1%</b>
<b>Long-dated funds</b>	<b>1%</b>
<b>Funds investing in other general partners</b>	<b>0%</b>
<b>Timber Funds</b>	<b>0%</b>
<b>Mining Funds</b>	<b>0%</b>
<b>Other Niche Sectors (please specify)</b>	<b>1%</b>

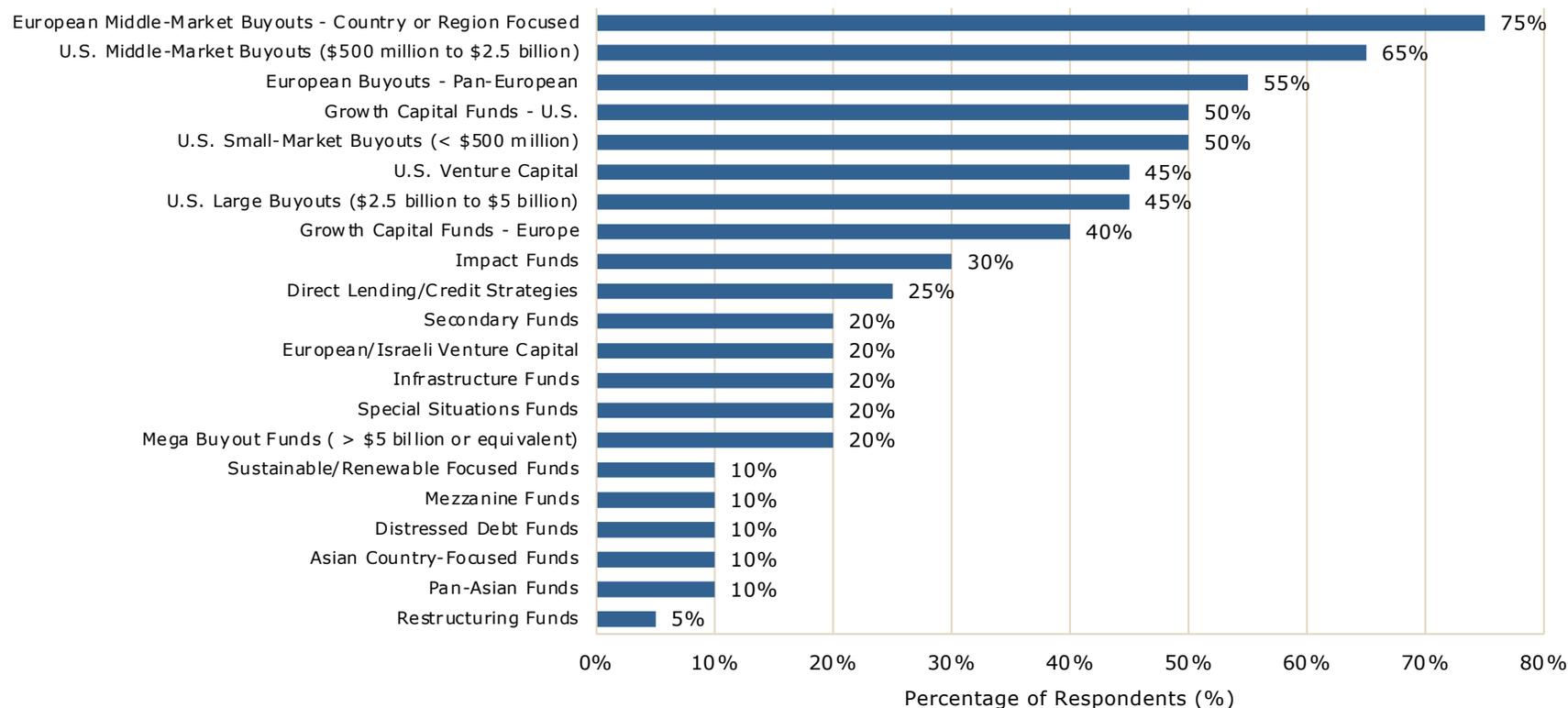


# Private Equity Sectors of Interest: European Respondents

- Europeans were more interested in their home markets and less focused on niche strategies, but were also strongly interested in a variety of funds focused on the U.S.
- They also had the strongest interest in Impact funds across all geographies, and little interest in Asian-focused strategies

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

During 2022, my firm or my clients plan to focus most of our attention on investing in the following sectors (choose no more than seven):



Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results



# Private Equity Sectors of Interest: European Respondents

- As covered in the table below, there were many more niche fund sectors that European respondents have no interest in, including Asian venture capital and emerging markets outside of Asia
- This lack of interest in niche sectors likely reflects European respondents skewing smaller in their allocations to private equity than other respondents and may have fewer resources to diversify their portfolios

<b>Sectors Attracting Less Than 5% of Responses</b>	
<b>Fund Type</b>	<b>Percent</b>
<b>Agriculture Funds</b>	<b>0%</b>
<b>Asian Venture Capital</b>	<b>0%</b>
<b>Cleantech/Green-Focused Funds</b>	<b>0%</b>
<b>Emerging Markets (ex-Asia)</b>	<b>0%</b>
<b>Energy Funds</b>	<b>0%</b>
<b>Fund-of-Funds</b>	<b>0%</b>
<b>Funds investing in other general partners</b>	<b>0%</b>
<b>Long-dated funds</b>	<b>0%</b>
<b>Mining Funds</b>	<b>0%</b>
<b>Timber Funds</b>	<b>0%</b>
<b>Other Niche Sectors (please specify)</b>	<b>0%</b>

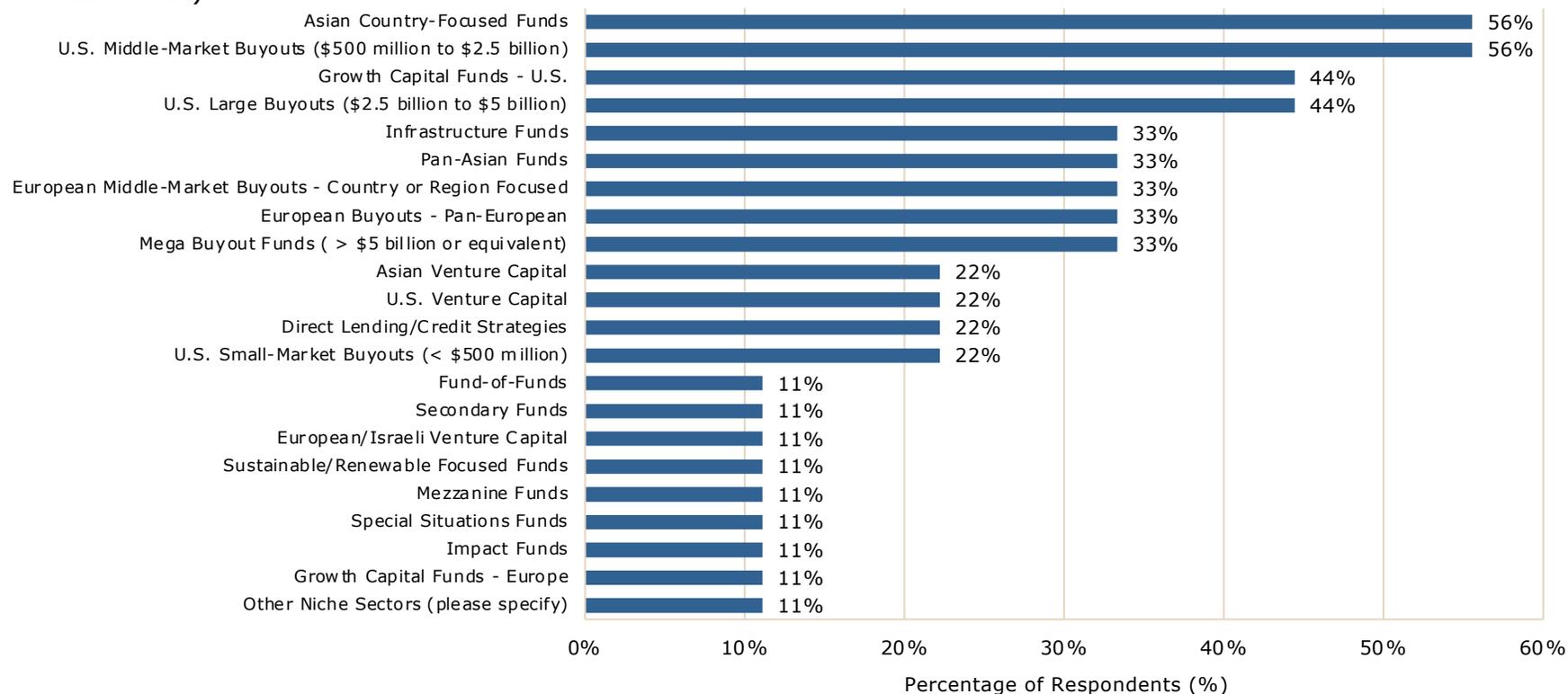


# Private Equity Sectors of Interest: Asian Respondents

- Asian-focused funds were of more interest to Asian investors, though U.S. Middle Market funds, U.S. Large Buyout funds and U.S. Growth Capital funds also scored well
- Asian respondents are more likely to include infrastructure funds in their private equity allocations and rate them more highly than other investors

**Chart IX Private Equity Sectors of Interest; Asian Respondents**

During 2022, 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: 2022 Survey Results



# Private Equity Sectors of Interest: Asian Respondents

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- Among Asian respondents, there were a number of sectors with no expressed interest at all, including Funds Investing in Other General Partners, Long-dated Funds, European Growth Capital and European/Israeli Venture Capital

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

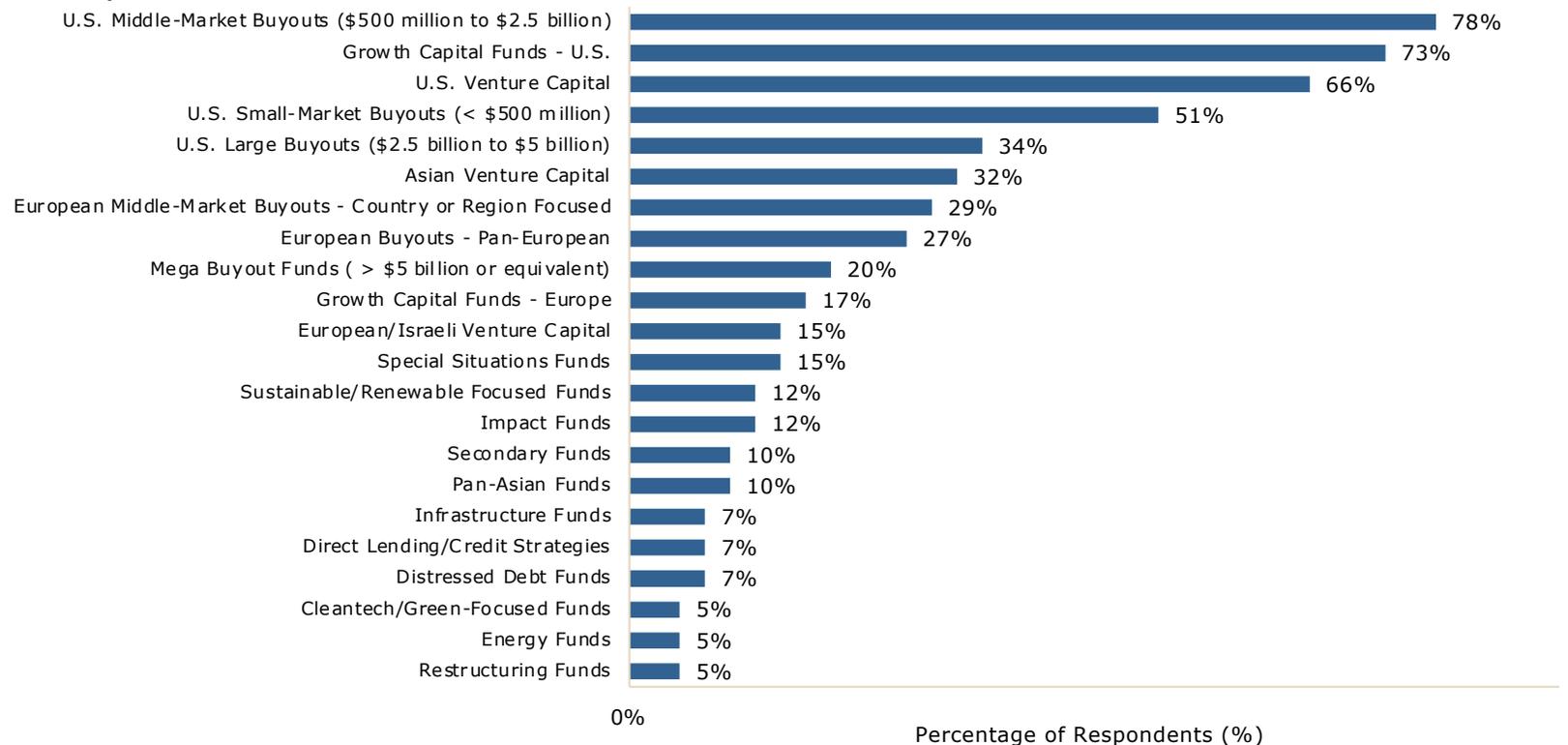


# Private Equity Sectors of Interest: North American Respondents

- Unsurprisingly, North American respondents were heavily focused on funds targeting their local markets
- European Buyouts and Asian Venture Capital also scored well
- Impact funds were only of interest to 12% of North American respondents compared to 30% of Europeans

## Chart XI Private Equity Sectors of Interest; North American Respondents

During 2022, 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: 2022 Survey Results



# Private Equity Sectors of Interest: North American Respondents

- There was more interest in niche strategies among North American respondents, in part because they were more likely to have well-established core portfolios therefore more likely to be looking to diversify
- Interest in Asian Country-Focused Funds fell significantly from 30% last year to 2% this year, likely due to tensions between China and the U.S.
- As with European and Asian respondents, North Americans are not focused on Funds Investing in Other General Partners or on Long-dated Funds

<b>Sectors Attracting Less Than 5% of Responses</b>	
<b>Fund Type</b>	<b>Percent</b>
<b>Agriculture Funds</b>	<b>2%</b>
<b>Asian Country-Focused Funds</b>	<b>2%</b>
<b>Emerging Markets (ex-Asia)</b>	<b>2%</b>
<b>Fund-of-Funds</b>	<b>2%</b>
<b>Long-dated funds</b>	<b>2%</b>
<b>Mezzanine Funds</b>	<b>2%</b>
<b>Funds investing in other general partners</b>	<b>0%</b>
<b>Mining Funds</b>	<b>0%</b>
<b>Timber Funds</b>	<b>0%</b>
<b>Other Niche Sectors (please specify)</b>	<b>0%</b>

# Sector Interest Changes Since Last Year

- U.S. Middle-Market Buyouts remained the leading sector with strong interest coming from respondents from all geographies
- Interest in U.S. Venture Capital soared from 33% last year to 54% this year, driven by a strong valuation and exit market in the technology sector
- Interest in U.S. Growth Capital also surged from 43% last year to 63% this year
- Interest in European Middle-Market Buyouts dropped this year but that reflects the fact that there were fewer European respondents to this year's survey and more from North America

**Table I**

**Institutional Investors Focus of Attention Among Private Equity Sectors**

2022		2021	
Sector	% Targeting	Sector	% Targeting
U.S. Middle-Market Buyouts (\$500 million to \$2.5 billion)	71%	U.S. Middle-Market Buyouts (\$500 million to \$2.5 billion)	69%
Growth Capital Funds — U.S.	63%	European Middle-Market Buyouts — Country or Region Focused	54%
U.S. Venture Capital	54%	Growth Capital Funds — U.S.	43%
U.S. Small-Market Buyouts (<\$500 million)	47%	European Buyouts - Pan-European	40%
European Middle-Market Buyouts — Country or Region Focused	39%	U.S. Large Buyouts (\$2.5 billion to \$5 billion)	37%

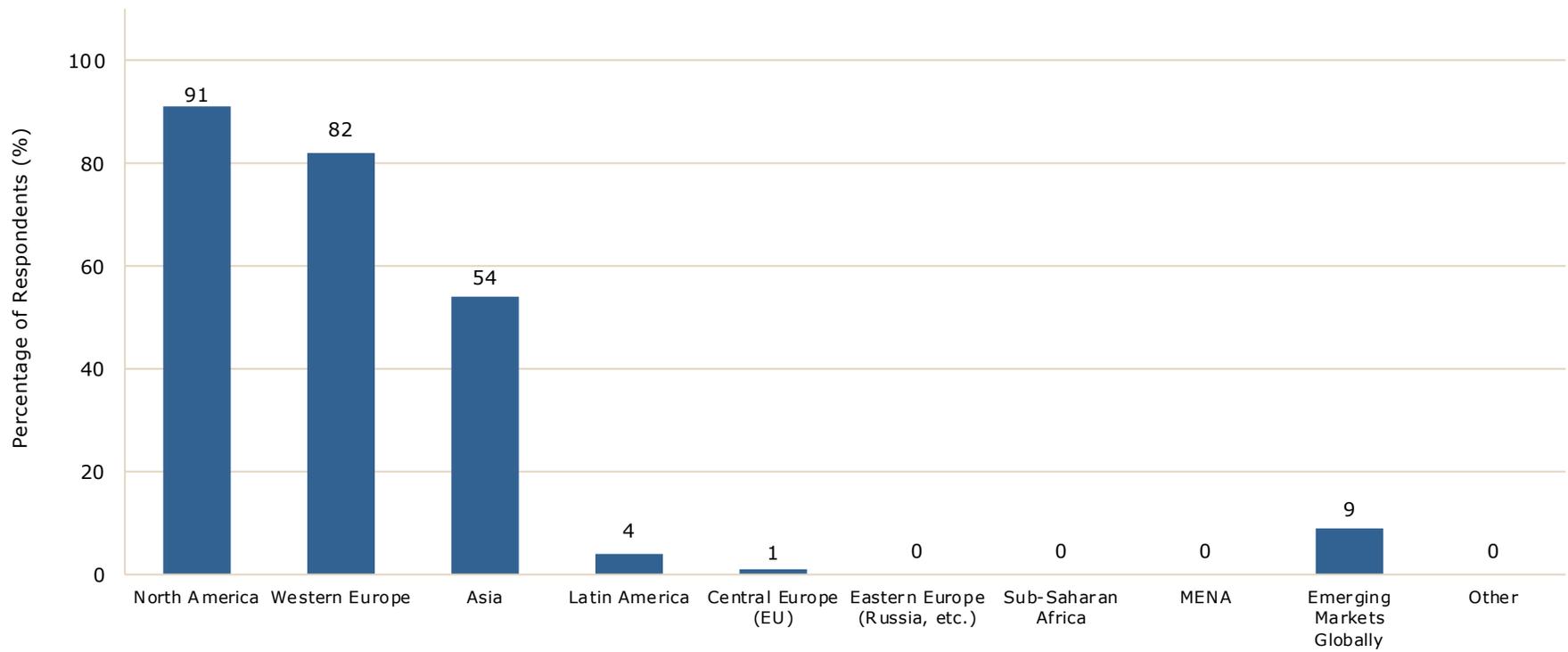
Source: Probitas Partners' Private Equity Investor Trends for 2022 and 2021 Survey

# Overall Geographic Focus of Investors

- Respondents were heavily focused on the three key markets of North America, Western Europe and Asia as they have been in the past
- Over the last five years interest in Sub-Saharan Africa and Eastern Europe has continued to decline, though historically interest in these geographies has never been truly strong

## Chart XI Private Equity Geographical Focus

Choose no more than three:



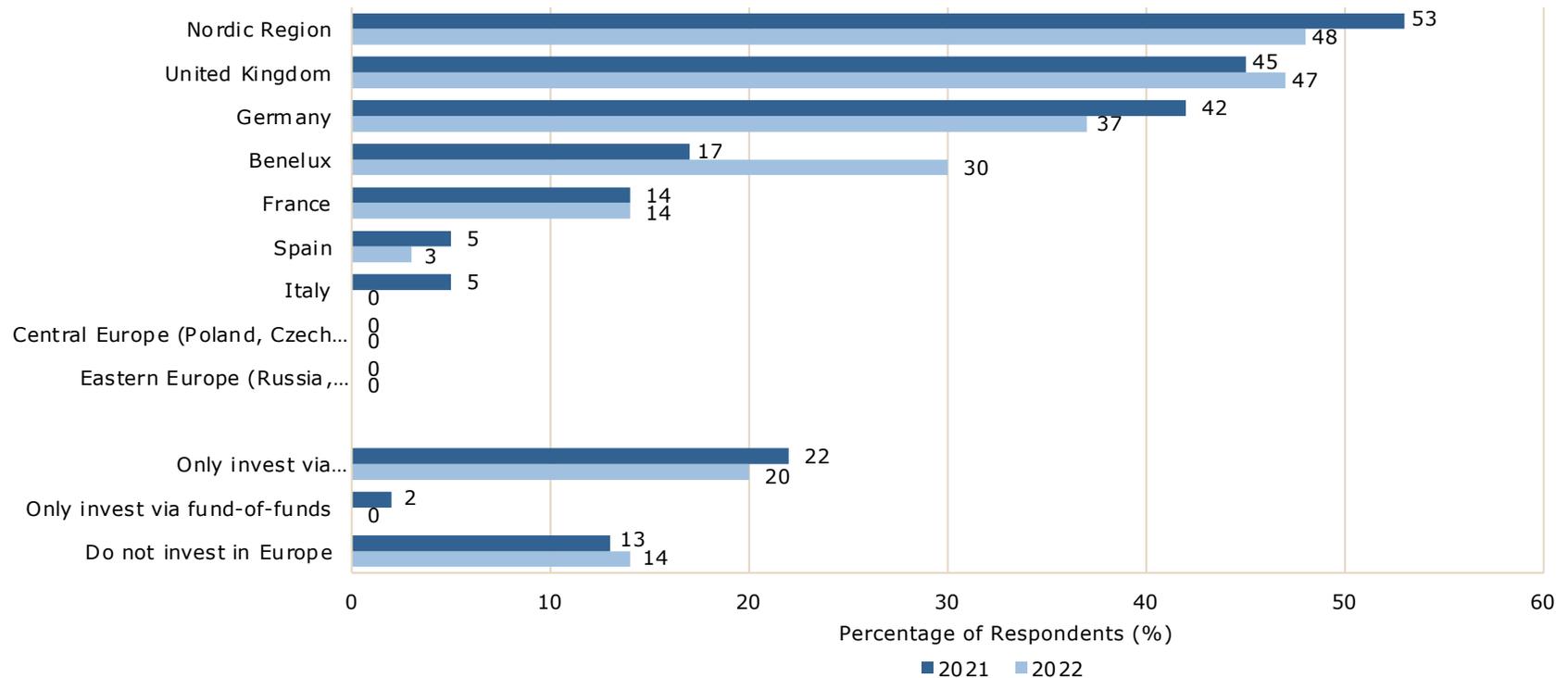
Source: Probitas Partners' Private Equity Institutional Investor Trends for 2022 Survey

# 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
- Over the last year interest in Germany has weakened while the number of respondents targeting the Benelux has soared

## 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: 2022 & 2021 Survey Results

## Further Commentary On Europe

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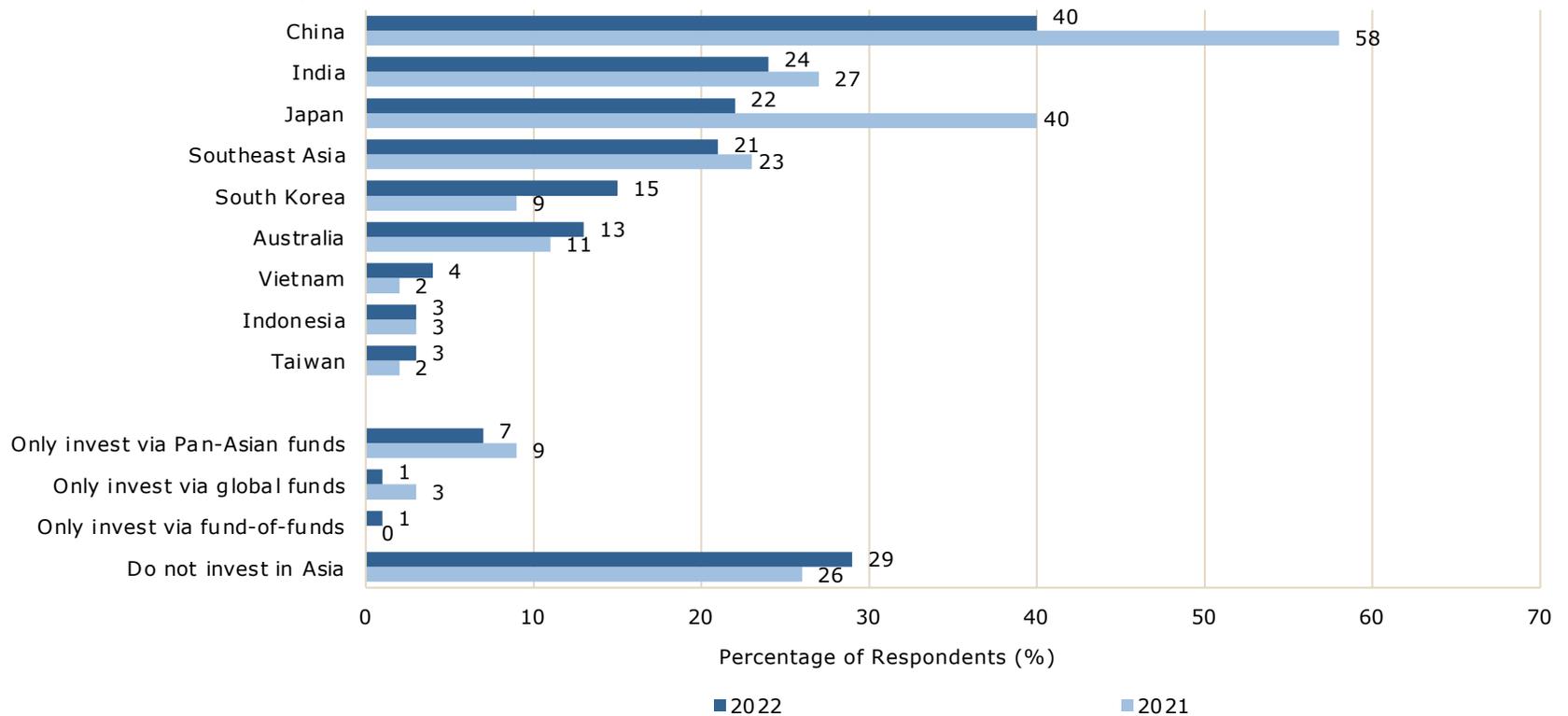
- The U.K. has been less popular among continental Europeans since Brexit, and this year only 31% of them targeted the UK; its overall ranking was boosted by strong support from North American respondents, 53% of whom targeted it, and Asian respondents, 44% of whom focused on it
- We also received interesting comments from a couple of investors on their views of the European market:
  - ***"We're seeing broad innovation across the continent. The core hubs are generating strong returns and there are a few firms who are really setting the pace for what's possible in the region. Our European commits are at least keeping up with our US performance, and in many cases are outperforming over the past 2-3 years. In the last year or so we're also seeing a few positive trends: Spain/France are increasingly open to non-native language speaking investors and the engineering talent in Central Europe is maturing beyond its historical role as an external/3rd party engineering hub. We expect to see more companies being founded outside of the London/Paris/Germany hubs." -- U.S. Fund of Funds Manager***
  - ***"Dedicated European funds have not been a priority over the last few years, but this may change over time. There are high-quality groups in Europe, but travel has been limited due to COVID, etc." – U.S. Endowment/Foundation***

# Most Attractive Asian Markets

- Interest in China fell substantially this year as fewer European and Asian respondents targeted it, though interest from North America was stable
- Interest in Japan also fell though the number of respondents focused on South Korea increased

### Chart XIII Most Attractive Asian Markets

For Asian Country/Regionally Focused Funds, we find the most attractive markets to be (choose no more than three):



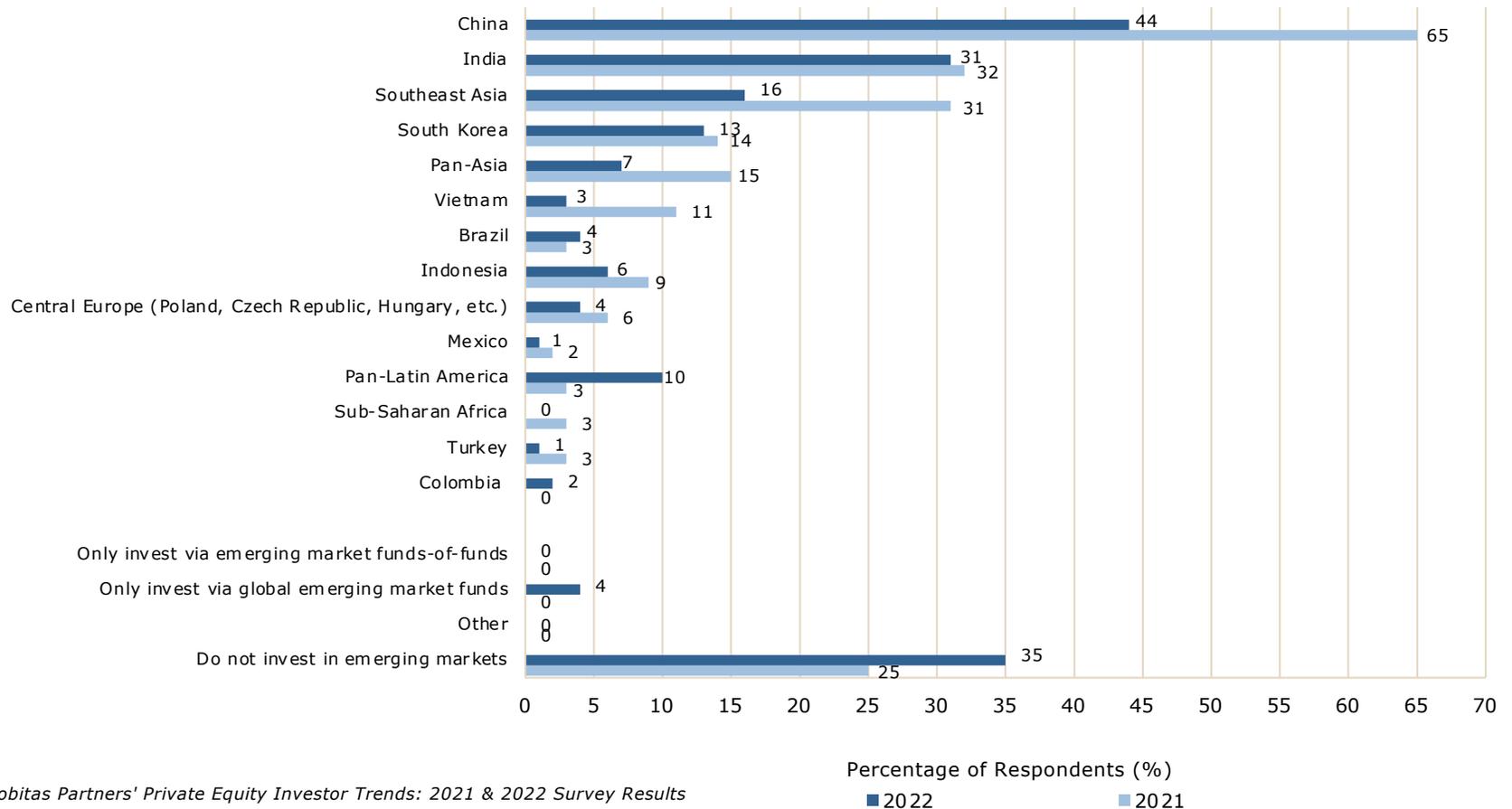
Source: Probitas Partners' Private Equity Investor Trends: 2021 & 2022 Survey Results

# Interest in Specific Emerging Markets

- Emerging Asia dominated investor interest in the emerging markets, taking the six top spots in the rankings, with China leading the way
- However, interest in both China and Southeast Asia declined significantly
- 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):



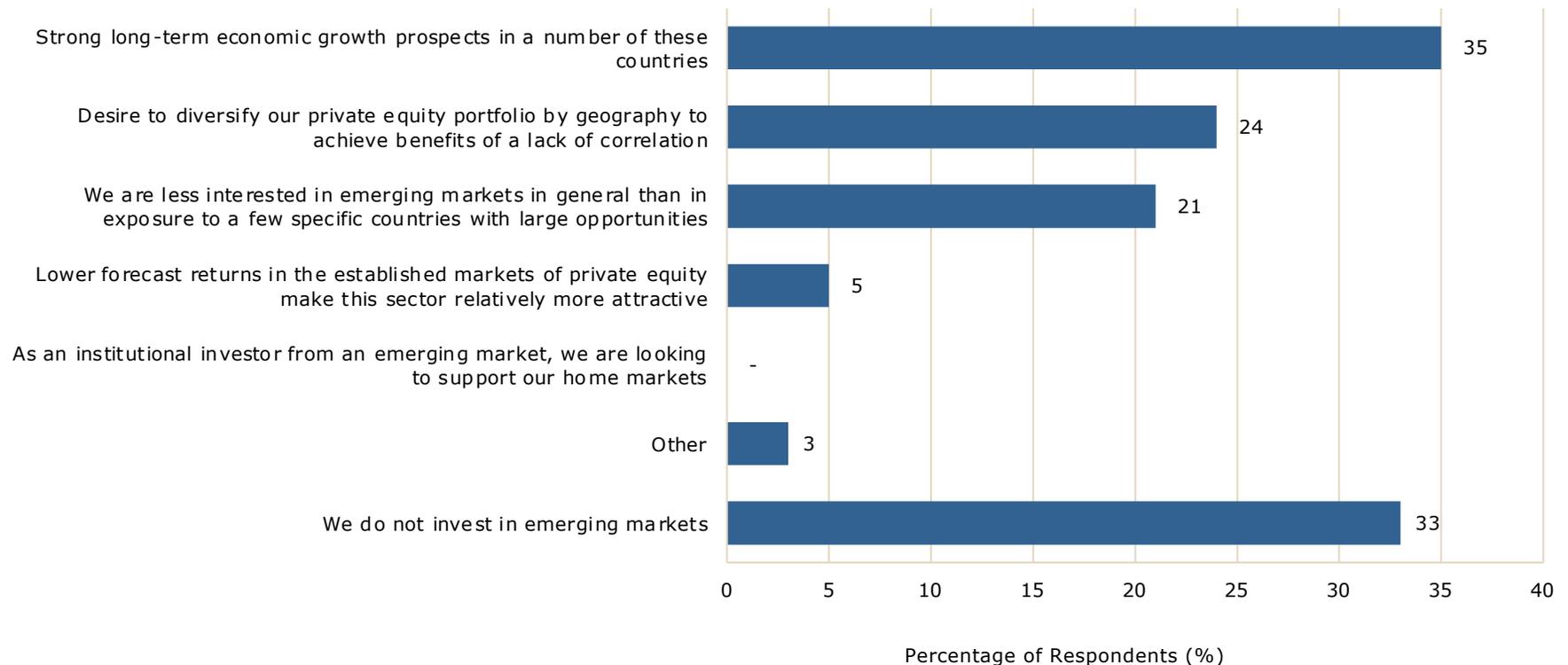
Source: Probitas Partners' Private Equity Investor Trends: 2021 & 2022 Survey Results

# What Drives Investor Interest in Emerging Markets?

- As it has been in past surveys, the anticipation of strong long-term economic growth in a few specific emerging markets is the biggest driver of interest, though that interest declined notably from 53% last year
- The percentage responding that they do not invest in emerging markets has not changed 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: 2022 Survey Results



# Why Are Other Investors Not Interested in Emerging Markets?

- 66% of respondents felt the risk/return tradeoff in developed markets was more attractive than in emerging markets, higher than the 56% who selected that answer last year
- Another 47% of this year's 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):



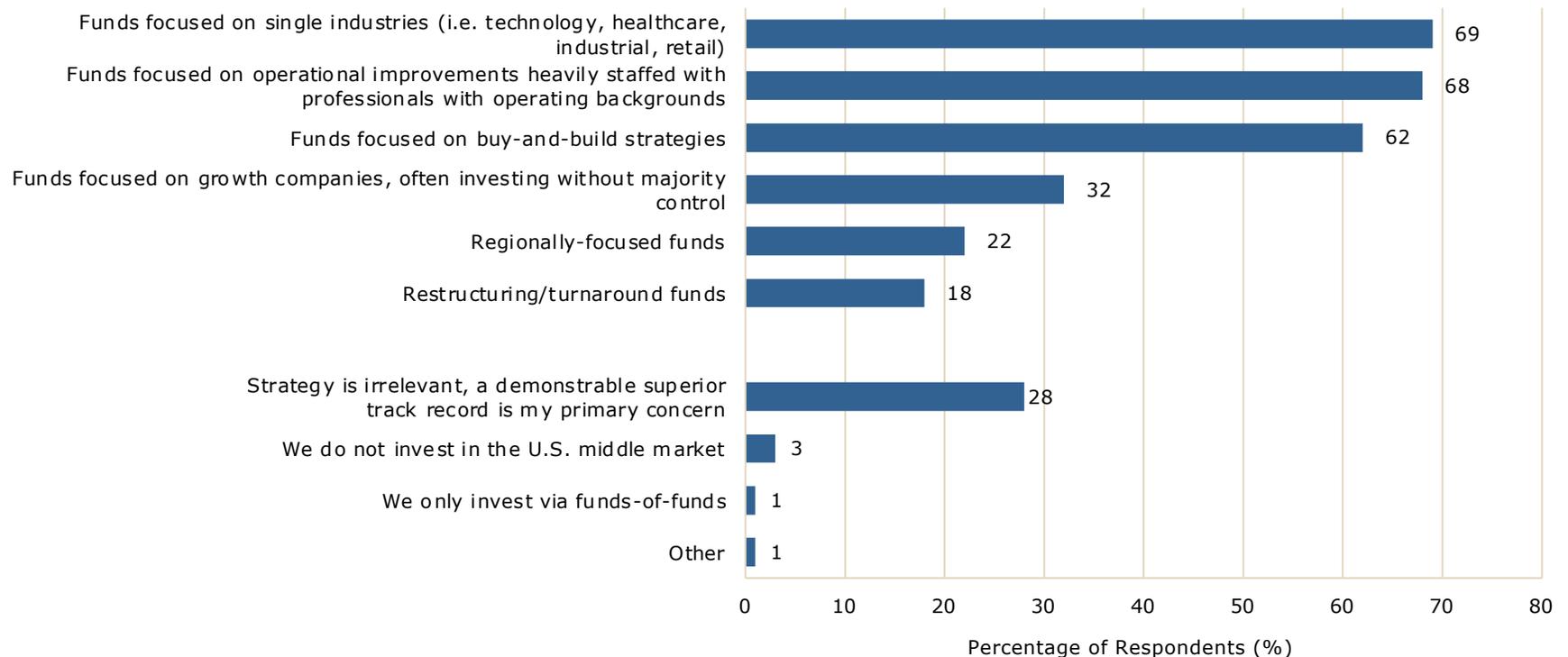
Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# 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):



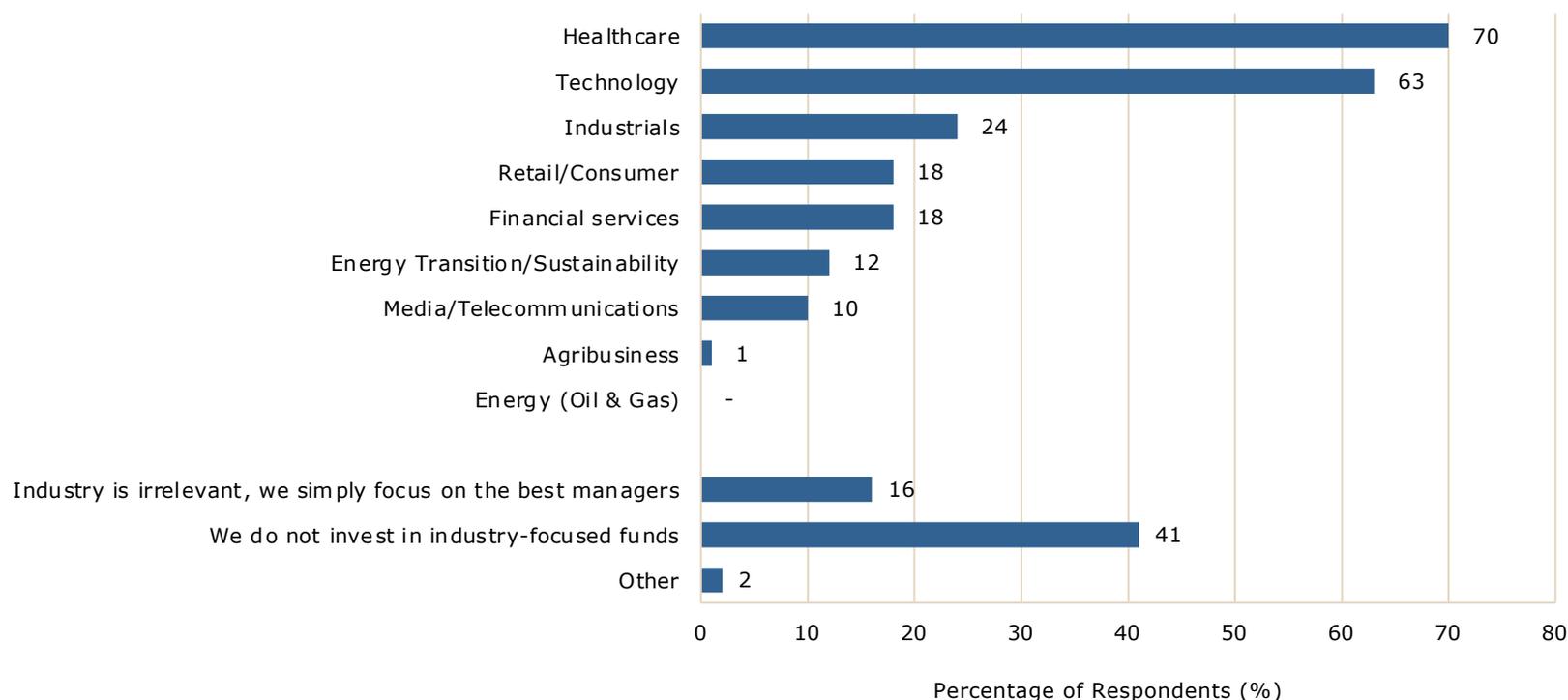
Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Interest in Industry-Focused Funds

- Last year Healthcare and Technology focused Buyout and Growth Capital funds were tied as the strongest area of focus at 67%, but this year Healthcare has moved ahead
- Seven years ago, Oil & Gas funds were targeted by 30% of respondents; interest has steadily declined since then to 0% this year
- This year for the first time we asked about interest in Energy Transition/Sustainability, which was selected by 12% of respondents

## 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):

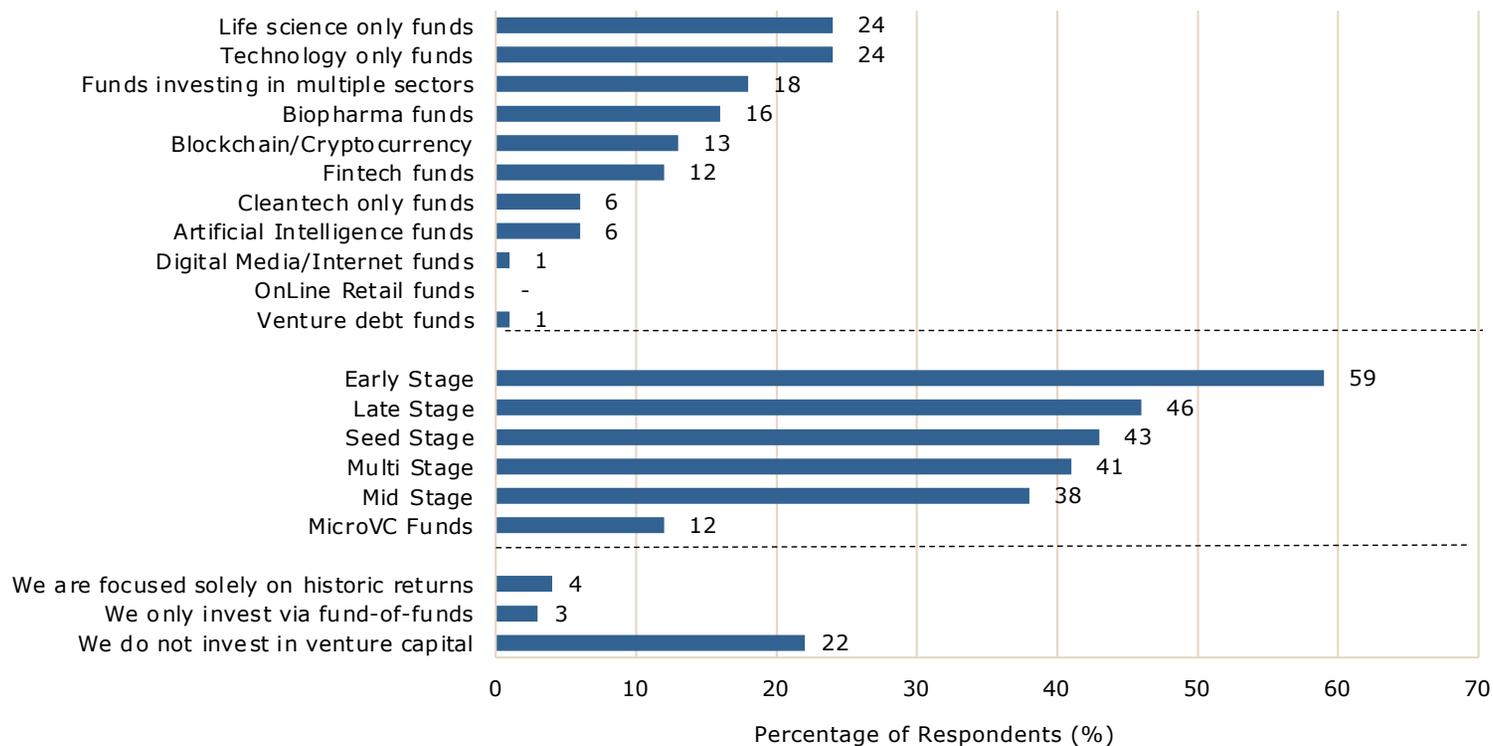


# Venture Capital Interest

- As far as stage, Early-stage Venture Capital was the strongest focus of respondents as it has been in the past, and there is little interest among institutions in MicroVC funds
- As far as industry sectors, generalized Life Science and Technology funds were tied
- For the first time this year we asked about Blockchain/Cryptocurrency interest, and it scored well against other specialized industry sector-focused funds

## Chart XIX 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: 2022  
Survey Results

# Further Commentary on Venture Capital

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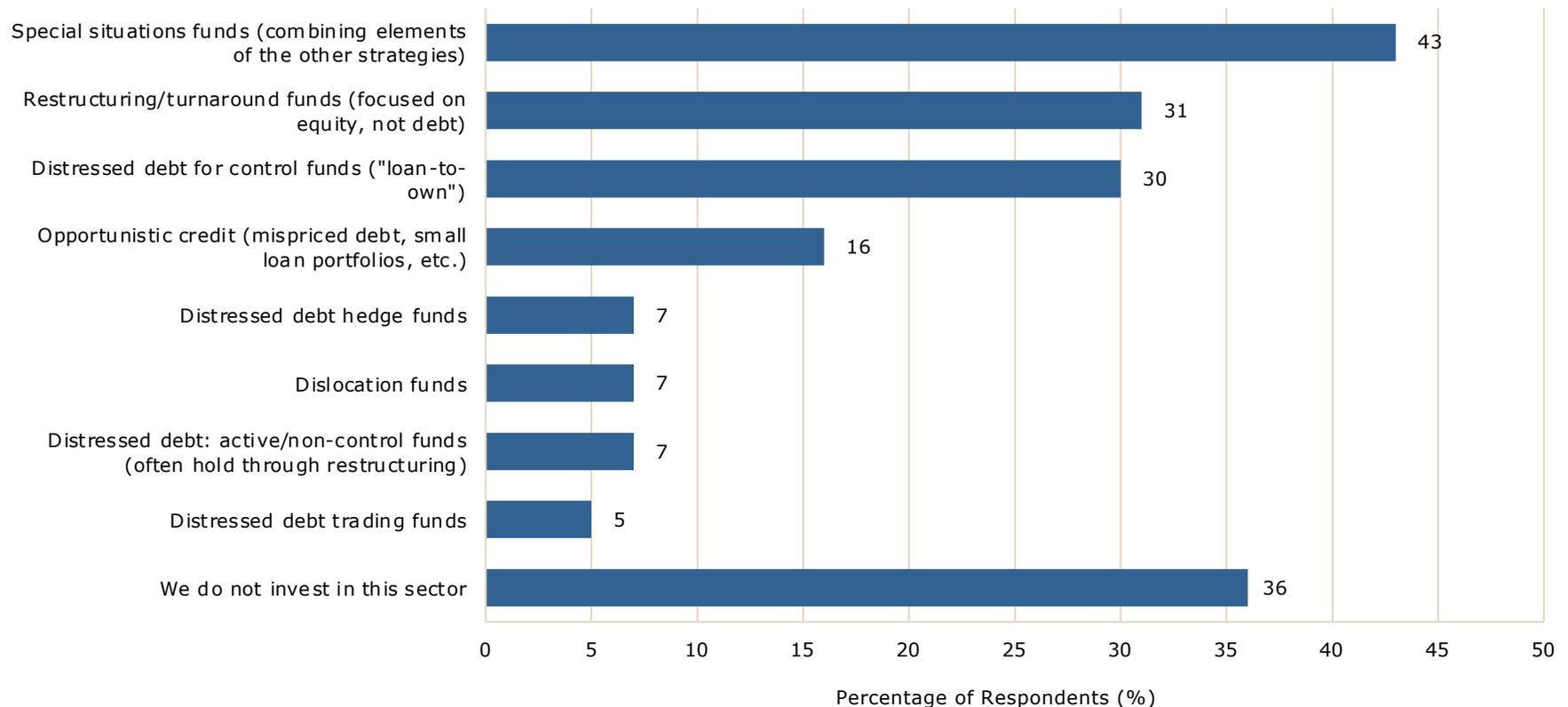
- Endowments and Foundations have long been supporters of Venture Capital; that continued to be the case as none of these respondents stated that they did not invest in the sector
- In addition, 43% of Endowments and Foundations were targeting Blockchain/Cryptocurrency
- A couple of comments left by respondents gave more insight into how they felt about the sector:
  - ***"We expect VC to continue to outperform other global equity markets" – U.S. Fund-of-Funds Manager***
  - ***"It seems overpriced, but it is hard to time the cycle...so consistent deployment is our strategy" -- U.S. Endowment/Foundation***

# Distressed Investing Interest

- Interest in Special Situations funds continued to expand, logging 43% interest this year compared to 31% last year; notably, Special Situations funds also make investments in companies under stress – short of true distressed
- Dislocation funds sprung up last year as a creature of the early Pandemic but are not popular – these types of investments can also be handled by Special Situations funds

## Chart XX Distressed Investments

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



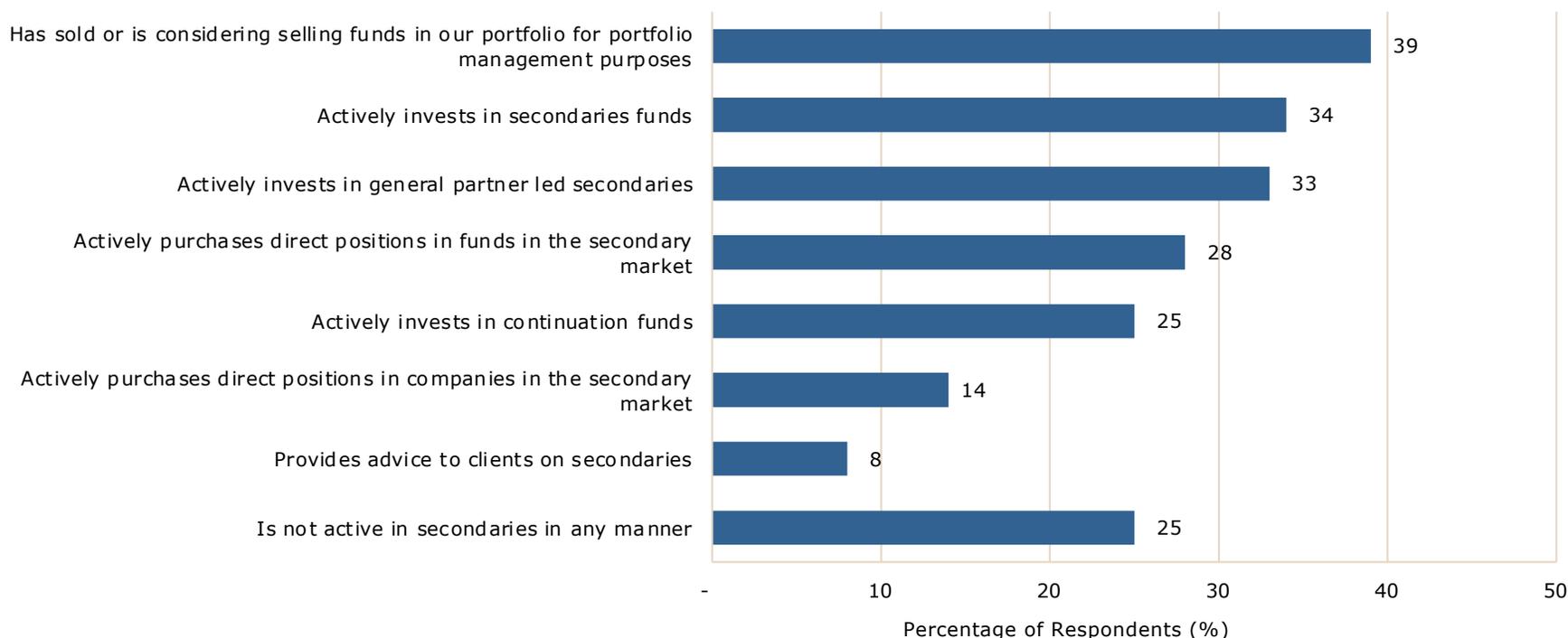
Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Secondary Market Interest

- There has been a surge in secondary fundraising over the last couple of years, first in early reaction to possible distressed sales caused by the Pandemic, then by a rebound in transactions led by general partners
- As far as specific respondent interest, the biggest change since last year was an increase in interest selling fund portfolios, climbing to 39% from 32% last year

## Chart XXI Secondary Market Investments

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



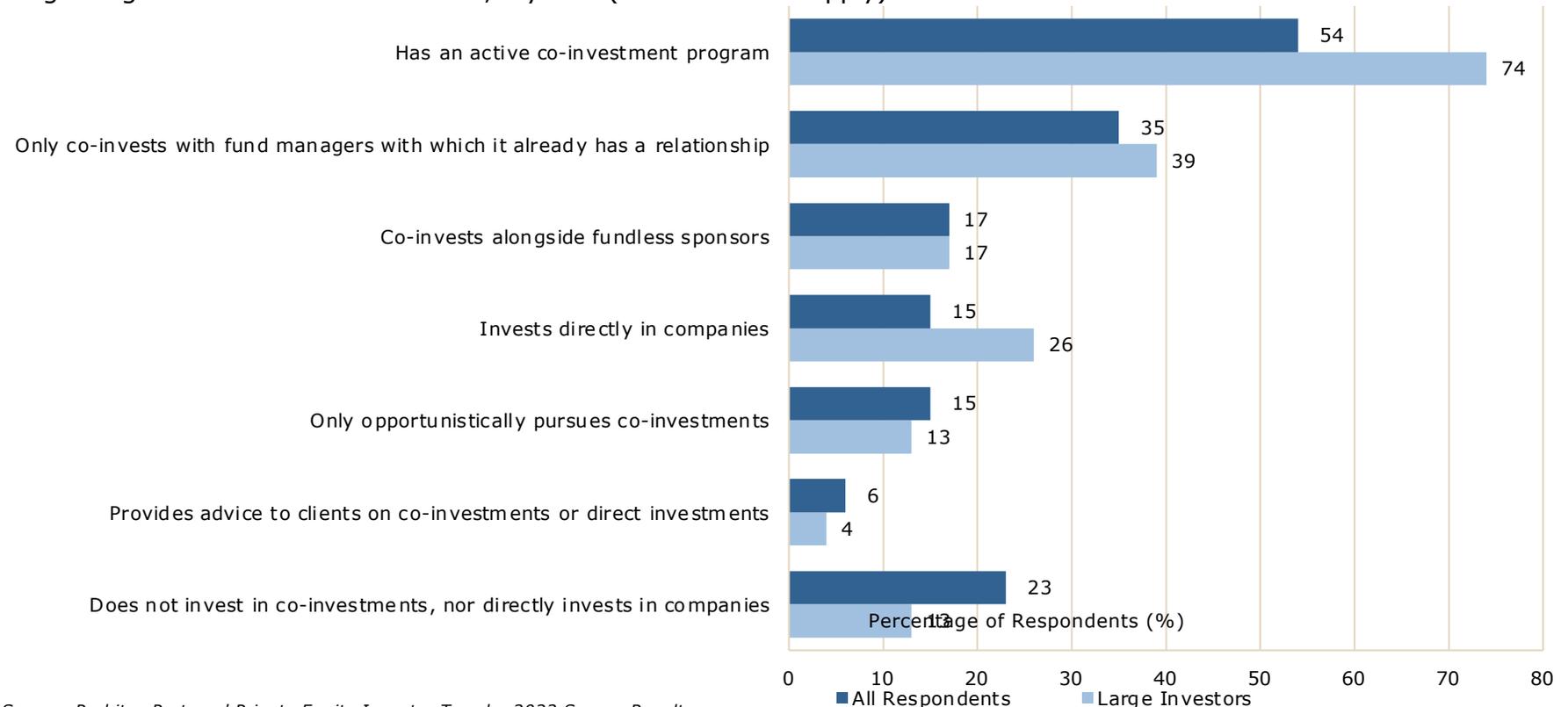
Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Co-Investments and Direct Investments

- Larger investors are much more likely to have dedicated co-investment programs and the percentage of smaller investors with active co-investment programs shrank from 64% last year to 54% this year
- Large investors are also more likely to have programs allowing them to invest directly in companies

## Chart XXII Directs and Co-Investments

Regarding directs and co-investments, my firm (choose all that apply):



Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

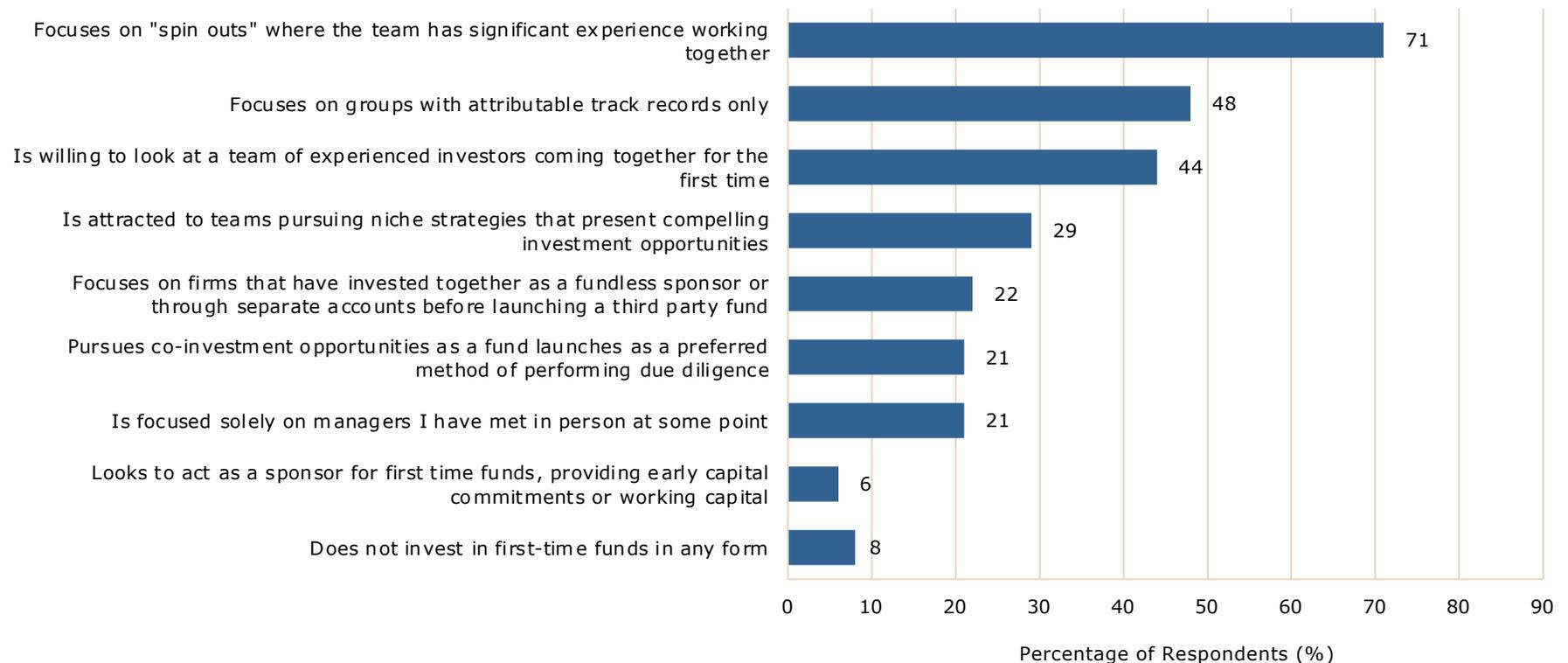
Note: "Large Investors" denotes those survey respondents who plan to commit \$500 million or more to private equity

# First-Time Funds

- The number of respondents that say they are focused on “spinouts” increased from 64% last year to 71% this year, putting this response clearly in the lead
- The percentage of respondents only willing to focus on groups with attributable track records fell from 69% last year to 48% this year
- Only 8% said they were not targeting first-time funds compared to 15% last year

## Chart XXIII First-Time Funds

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



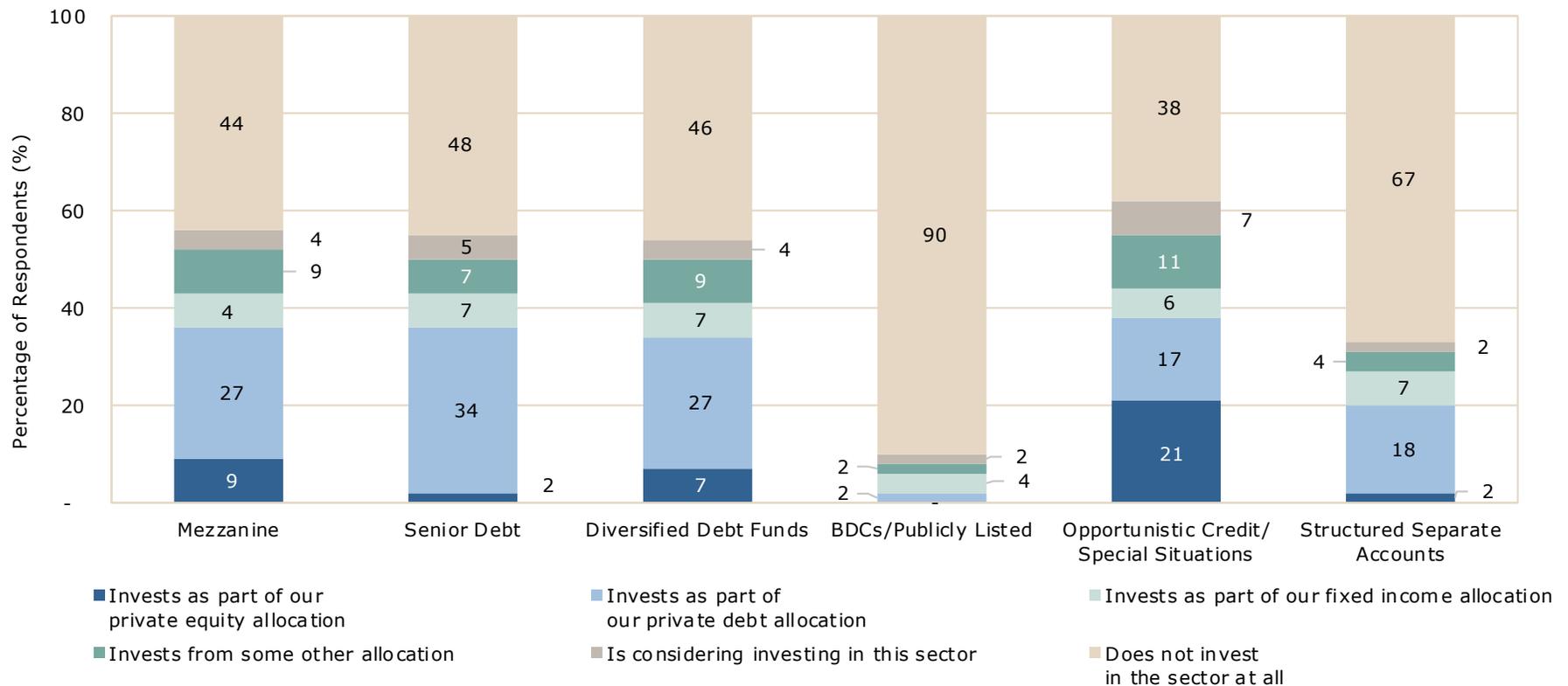
Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Private Credit Interest and Allocations

- Investments in private credit are made from various portfolio allocations, including private equity; however, specific private debt allocations are the most important except for Opportunistic Credit/Special Situations
- A number of smaller respondents, such as focused funds-of-funds that only target buyouts or venture capital, as a matter of policy do not invest in private debt

**Chart XXIV Credit**

In the credit sector, my firm:



Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Further Commentary on Private Debt

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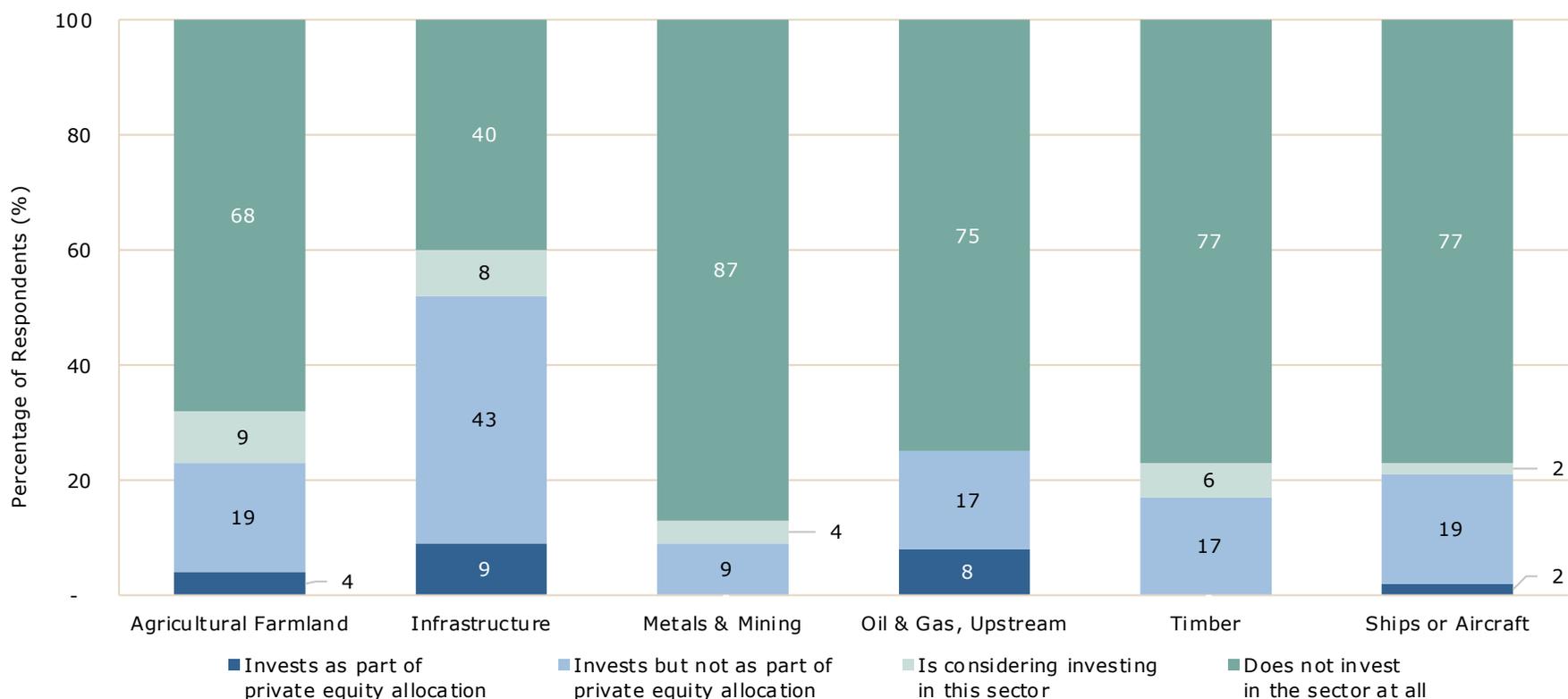
- The area of least interest to respondents are BDCs and other publicly listed vehicles; this sector has always been of least interest
- We also received additional insight from certain respondent's comments:
  - ***"This space has become far more difficult in recent years because the amount of liquidity in markets means that traditional debt for control restructuring funds find very few opportunities and have to go off-strategy, usually with poor results"*** – Canadian Public Pension Plan
  - ***"We invest directly through a staff of >50 credit analysts"*** – U.S. Insurance Company
  - ***"Venture debt in India is promising"*** – U.S. Consultant/Advisor

# Real Asset Interest and Allocations

- Infrastructure is the area of most interest, though most of those commitments come from dedicated infrastructure allocations
- As with Private Credit, a number of smaller respondents have specialized portfolios targeting, for example, middle-market buyouts or venture capital, with no allocation to Real Assets for policy reasons

**Chart XXV Real Assets**

In the real asset sector, my firm:



Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

## Further Commentary on Real Assets

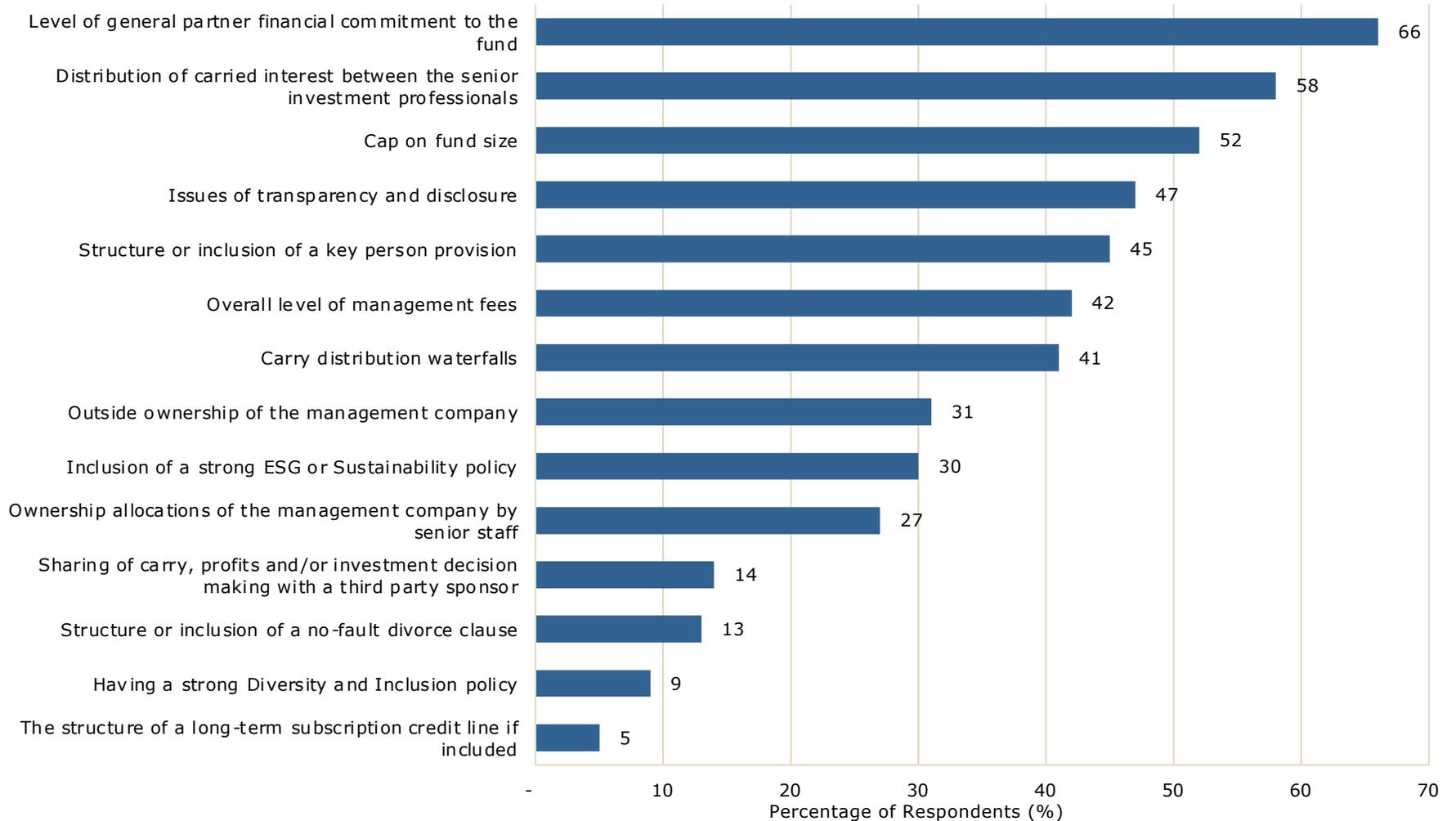
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- Though certain investors include Real Estate under a Real Assets allocation, nearly all of those commitments come from a dedicated Real Estate allocation or a sub-allocation within Real Assets; for that reason, we did not include them here
- Metals & Mining and Timber are the least favored sectors; it should be noted that Timber investments are most often structured as separate accounts
- Interest in Upstream Oil & Gas investing, formerly a leader in the Real Assets sector, continued its seven-year decline; last year 65% of respondents said they did not invest in the sector and that rose to 75% this year
- There was one interesting comment from a respondent:
- ***"We invest in this sector on a direct basis" – U.S. Insurance Company***

# Key Issues Regarding Fund Structure

## Chart XXVI 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: 2022 Survey Results

# Commentary on Issues Regarding Fund Structure

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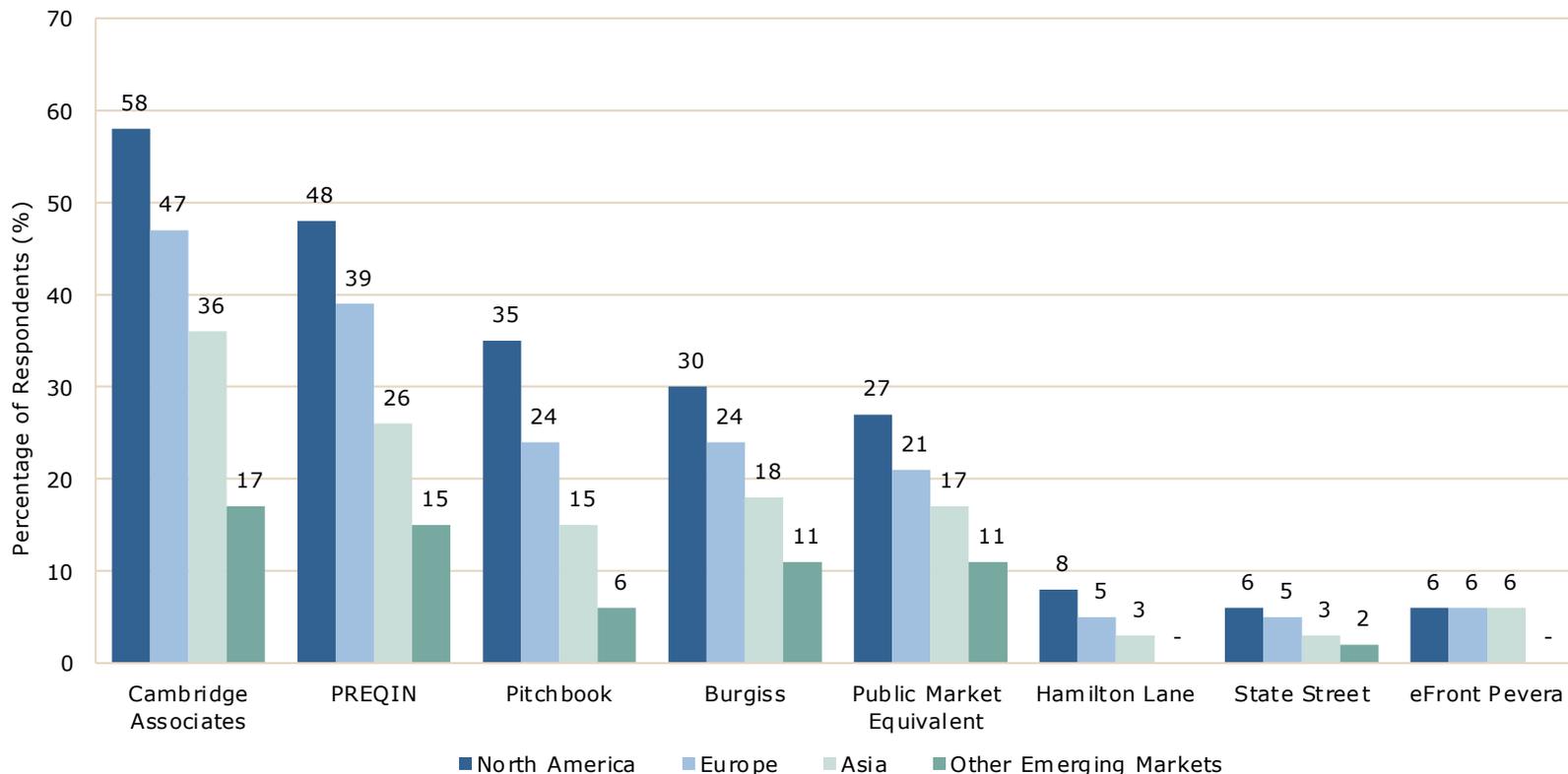
- The level of general partner financial commitment to the fund was the leading response from respondents from all geographies, increasing from 40% last year
  - For European respondents, the level of general partner financial commitment was tied as an issue at 67% with a cap on fund size
  - For Asian investors, the level of general partner financial commitment was tied with the structure or inclusion of a key person provision, both targeted by 63%
- One area of particular interest is the inclusion of a strong ESG policy:
  - It is ranked 9<sup>th</sup> among pre-identified issues among overall respondents with 30% of respondents focused on it this year – an increase from 25% last year
  - However, there were large differences in responses geographically:
    - European respondents: 50%, ranking 4<sup>th</sup> overall
    - North American respondents: 21%, an increase from 9% last year
    - Asian respondents: 25%, the same percentage as last year
- One respondent stated that they could not select only five response from the list while another had a totally different concern:
  - ***“The valuation policies of public stock distributions and more recently restrictions on making distributions in cryptocurrencies is a concern. Terms are rich in the current venture capital market environment - especially management fees alongside many of the platform VCs raising later stage vehicles” – U.S. Fund-of-Funds Manager***

# Most Used Benchmarking Databases or Tools

- As is evident from the percentages, many investors use multiple databases or tools
- Cambridge and PREQIN lead respondent interest across most geographies, though Pitchbook and Burgiss had an increasing number of adherents; PME usage continues to increase across all geographies
- The chart only includes those databases that were of interest to at least 5% of respondents for at least one geography

## Chart XXVIII Benchmarking

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

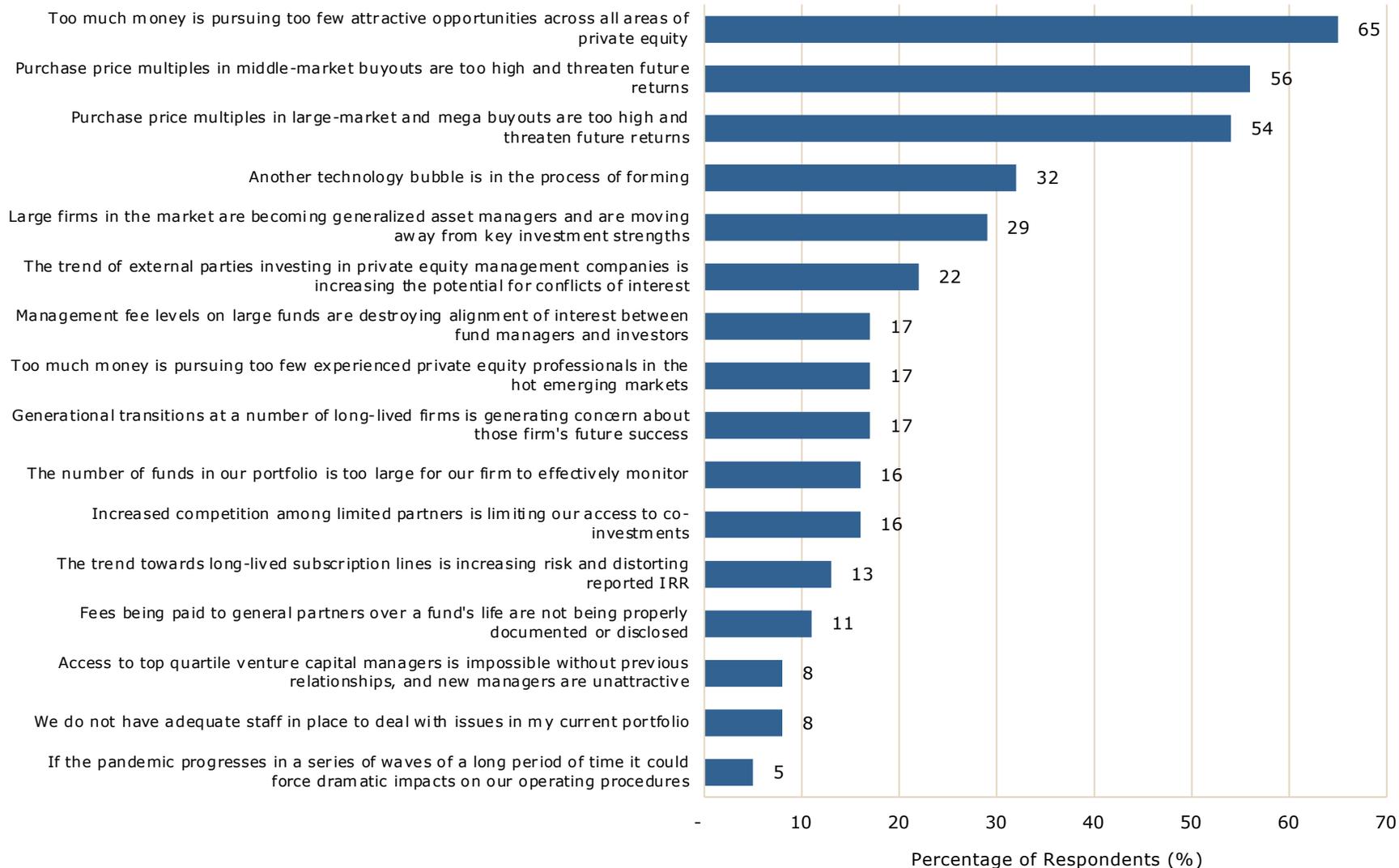


Source: Probitas Partners' Private Equity Investor Trends: 2022 Survey Results

# Key Investor Fears

**Chart XXIX 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: 2022 Survey Results

# Key Investor Fears: 2021 vs. 2022

- Fears of the pandemic were not a major issue for investors this year, though the survey was completed before the Omicron variant hit the headlines
- Investors fears were focused on high purchase price multiples and the amount of money pouring into private equity, though this year 32% of respondents were concerned that a technology bubble was forming

**Table II: What Keeps You Up At Night?**

2021		2022	
Issue	%	Issue	%
Too much money is pursuing too few attractive opportunities across all areas of private equity	55%	Too much money is pursuing too few attractive opportunities across all areas of private equity	65%
Purchase price multiples in middle-market buyouts are too high and threaten future returns	45%	Purchase price multiples in middle-market buyouts are too high and threaten future returns	56%
Large firms in the market are becoming generalized asset managers and are moving away from key investment strengths	33%	Purchase price multiples in large-market and mega buyouts are too high and threaten future returns	54%
Management fee levels on large funds are destroying alignment of interest between fund managers and investors	28%	Another technology bubble is in the process of forming	32%
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	29%

Source: Probitas Partners' Private Equity Investor Trends for 2021 & 2022 Survey

## Key Investor Fears By Geography

- There are also distinct differences in what respondents feared by geography; the top five fears overall are again listed below, and broken out are those concerns by the geography of the respondents
- Both European and Asian respondents were more concerned that too much money was pouring into all areas of private equity, and North Americans were much more concerned about external partners investing in PE management companies

**Table III -- Greatest Fears By Geography**

Fear	Overall Respondents	North American	European	Asian
Too much money is pursuing too few attractive opportunities across all areas of private equity	65%	56%	79%	75%
Purchase price multiples in middle-market buyouts are too high and threaten future returns	56%	56%	68%	40%
Purchase price multiples in large-market and mega buyouts are too high and threaten future returns	54%	47%	53%	88%
Another technology bubble is in the process of forming	32%	33%	26%	38%
Large firms in the market are becoming generalized asset managers and are moving away from key investment strengths	29%	33%	16%	38%
The trend of external parties investing in private equity management companies is increasing the potential for conflicts of interest	22%	36%	5%	13%

## Further Commentary on Investor Fears

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- Chart XXXI only lists those responses that collected 5% or more of responses
- When respondents were asked earlier about which sectors they targeted, U.S. Middle Market Buyouts were the leading area among all geographies; however, one of the greatest fears of all these respondents is that purchase price multiples in the middle market are too high
- There were other differences in investor concerns by their geography beyond that listed in Table II or by investor type:
  - 43% of endowments and foundations feared that another technology bubble was forming, a larger percentage than for other types of investors and in an area they are quite familiar with
  - 50% of Asian investors are concerned that too much money was going into the emerging markets – a greater fear for them as they were targeting it more
  - 38% of Asian investors felt that generational changes at fund managers called into question those fund’s future success
  - 32% of European investors felt that management fee levels at large funds were destroying alignment of interest between them and those managers
- Interesting investor comments:
  - ***“Some continuation fund arrangements do not adequately protect the interest of existing LPs. Fund level leverage beyond subscription lines such as NAV facilities can be potentially very detrimental in a down market and something to watch out for.” – Japanese Bank***
  - ***“Inflation and Federal Tax Policies” – United Kingdom Fund-of-Funds Manager***

- Both the private markets and the publicly traded markets rebounded strongly in 2021, and private equity fundraising and deal making are both hitting new highs
- Many private equity fund managers have increased their fundraising pace – not only raising larger funds but coming back to market with new vehicles much more quickly than investors expected; a number of investors that we talked to were buried in re-ups this year and their calendars are already jammed for 2022 – leaving little room for targeting new relationships
- The last five years have seen increased trade and geopolitical tensions between China and the U.S. as well as rising regulatory issues within China; that has resulted in a noticeable decline of interest in investing in China, though it remains the largest region of interest in Asia
- 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 an increase in interest in ESG investing in general and Impact Funds in particular – though interest among European investors is still much stronger than with investors from other geographies
- Interest in private equity investing in emerging markets remains weak, though the most interest is in Asian markets



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