

New research shows German institutions' acceleration of commitments to private equity through dedicated secondaries funds and fund of funds

4 September 2006

Highlights of the study:

- German institutional investors have raised allocations to private equity by 25% increasing their commitments to the asset class at a pace markedly above normal maturity patterns
- A significant 7% of the allocation (as compared with a global average of 3%) is going to secondaries funds, demonstrating a high level of sophistication of allocation modelling.
- 62% of existing German Institutional Investors intend to invest in secondaries going forward, with 27% of respondents citing impressive returns and 23% citing risk diversification of portfolios as the key reasons for investing.
- Secondary transactions are regarded as an important portfolio management instrument, with the most important characteristics remaining discretion, a win-win solution, and the ability to structure complex transactions.
- Decisions to sell to secondaries funds are fundamentally based on achieving otherwise difficult exits (22% of respondents), active portfolio management (22%) and locking in a return (22%).

A recent study of German Institutional Investors¹ has found that appetite for the private equity market is rapidly accelerating, with capital allocations up 25% from 2003. The study conducted by Prof. Dr. Stefan Jugel from the highly respected Wiesbadener Private Equity Institut in Germany shows a country accelerating its commitment to the asset class, particularly through secondaries funds, beyond the allocation patterns normally witnessed.

The backdrop for comparison purposes is that European private equity funds, in total, currently account for 27% (\$306.5bn) of the total global funds raised between 1999 and 2005² (Global PE funds raised a total \$1,129.1bn³). Secondaries funds globally account for 3% of the total funds under management at \$37bn⁴ with Europe accounting for \$10bn.

Key findings of this new study have shown that within this expanding market the German sector is rapidly maturing and has become considerably more institutionalised. While Germany is mirroring the investment modelling pattern previously observed in the US and UK, it is doing so at an accelerated pace. Its higher than average commitment to secondaries funds sets this trend in sharp relief.

¹ For the purposes of the study the term 'Institutional Investors' refers to Insurance companies, Pension and Relief funds.

² Private Equity Analyst/EVCA/PriceWaterhouseCoopers/Thomson Financial Venture Economics/AVCJ

³ Private Equity Analyst/EVCA/PriceWaterhouseCoopers/Thomson Financial Venture Economics/AVCJ

⁴ Private Equity Intelligence

A noteworthy 62% of German Institutional Investors that have previously invested in private equity were cited as intending to commit to secondaries in the future. This marked interest in secondaries is highlighted with German Institutional investors allocating a significant 7% [to the asset class] compared to the global average of 3%.

The study showed that 18% of German Institutional investors have already invested in secondaries funds and 11% of the capital invested in Private Equity was sold via secondaries transactions. These figures highlight the increasing importance of secondaries funds to the primary market as a liquidity solution.

Francesco di Valmarana at Unigestion commented:

“We are very encouraged by the findings of this research, which reinforce our positive internal forecasts for German private equity. With such a rapid increase in private equity allocations over the last three years, institutional investors have obviously understood the benefits of the asset class. Germany is set to become an increasingly significant market both for private equity fund of funds and dedicated secondaries players in the next few years.”

Joanna Jordan at Greenpark Capital added:

“This research confirms our own reading of German investors’ attitude towards the secondaries market. The characteristics cited as being important when considering a sale to a secondaries manager, namely discretion, being able to achieve a fair consideration for assets and the ability to structure complex transactions, show a high level of sophistication among German institutional investors.”

- Ends -

A copy of the research report is available upon request.

Contacts

Equus: Piers Hooper +44 20 7223 1100

Greenpark Capital: Joanna Jordan +44 20 7647 1400

Unigestion: Francesco di Valmarana +44 20 7529 4169

