Private Equity
Where Challenges Meet Opportunities

71%

of survey respondents said demand for greater information flows is the most significant way in which investor behaviour is being changed or influenced by trends within the market.

Contents

Vistra and Coleman Parkes Research would like to thank the CEOs and heads of department at the General Partners, Limited Partners and legal intermediaries who kindly gave up their time to participate in this study.

Executive Summary

Vistra has conducted its second global research study investigating the current state of play in the private equity industry from the perspective of Limited Partners (LPs), General Partners (GPs) and legal intermediaries. This report identifies the predominant trends in the industry and how they are changing and influencing investor behaviour. It also examines the participants' broader views of the PE market.

It is evident from our findings that while opportunities certainly exist, private equity is facing a number of conflicting pressures. Not only are managers faced with a significant regulatory burden, but the current general political climate, including the as-yet-unresolved issue of Brexit, is casting a shadow on the PE decision-making process.

When juxtaposed with a rise in co-investment, an increasing number of debt options and a trend towards larger fund sizes, there is a push-pull between the opportunities that are being created and a sense that investors are becoming more cautious.

On the basis of the responses received, this report focuses on six key areas of interest.

"Our survey reveals that outsourcing is on a general upward curve, with an average of 72% of GPs currently outsourcing one or more functions to a third-party service provider, and 86% of those who aren't doing so saying they will outsource within the next five years."

1. The increasing demand for more information

The demand for greater information flows was identified by 71% of respondents as the most significant way in which investor behaviour is being changed or influenced by trends within the market – with regulatory reporting and portfolio performance data also high on the PE agenda.

Not only does the volume of information required appear to be growing, it is also becoming more diverse – with investors wanting data streams to develop their own reports, and issues around transparency creating demands for better-quality information. These demands for information are having a knock-on effect on the technology used to deliver the data, as well as managers' decisions on whether to outsource particular functions.

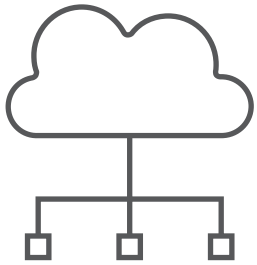
2. Is ESG the new normal?

The move towards environmental, social and governance (ESG) investing and socially responsible investing (SRI) seems to be gathering momentum. In the coming years, this is expected to continue, with 82% of respondents believing that Millennials and Generation Z will provide a new level of socially engaged investors.

While this may help drive new business and have a positive reputational impact on those in the PE industry, there are also concerns that it will add to an already onerous compliance and regulatory burden, as well as adding costs and creating greater demands for data.

3. The evolving role of technology

The PE industry appears very open to the possibilities offered by technology – with 85% agreeing or strongly agreeing that technology could be a major enabler of change, and 81% saying that new technology, such as blockchain, will have a massive impact on the industry in the



23%

of respondents said cybersecurity is the greatest threat to the PE industry right now.

future. In light of the increased demands for data, utilising technology would be a natural step.

The challenge arises, however, when it comes to data management and integration across outdated legacy systems, and the lack of standardised, industry-wide software. The cost of in-house investment versus outsourcing technology services seems to be a key decision facing the PE sector. And all of this sits under the cloud of cybersecurity, which was identified as the biggest threat facing the industry for at least the next five years.

4. Regulation, transparency and ILPA principles

Regulation and transparency continue to be leading concerns across PE, with 63% of respondents citing increasing regulation and 59% increasing transparency as a result of how general trends are changing or influencing investor behaviour.

Significantly, 63% believe that the level of regulation will become more difficult and complex in the next three years.

It is clear from our survey that there are numerous forces in play when it comes to transparency. While the Institutional Limited Partners Association (ILPA) has published a set of principles around transparency, only 32% of respondents are fully compliant, with technology being cited as the key factor holding back GPs from achieving compliance.

5. Outsourcing – a service becomes standard

Our survey reveals that outsourcing is on a general upward curve, with an average of 72% of GPs currently outsourcing one or more functions to a third-party service provider, and 86% of those who aren't doing so saying they will outsource within the next five years. One of the key drivers is that LPs are demanding it before they commit capital, as well as being keen to influence who GPs actually outsource to.

While the attitude to outsourcing is largely positive – with some of the main factors being seen as access to technology and talent, and the ability to meet regulatory requirements – some barriers are still clearly in place, most notably concerns around cybersecurity and a lack of control.

6. Current and future markets

When considering which countries are going to offer the most significant opportunities, there was an interesting difference of opinion based on the location of our respondents.

While India was identified by an average 35% as most likely to be the next emerging market, with China in second on 25%, respondents in the Americas rated these two countries marginally the other way around. Notably, Asia respondents had China in fourth place, behind India, Brazil and Mexico.

The US was seen by a majority as the most resurgent market and also the one that has become more domestic, indicating a tendency for US players to stay closer to home. This seems to run contrary to Asia respondents, who are looking outside of the region for opportunities.

Introduction and General Trends

There are a number of factors that are creating both challenges and opportunities within the private equity sector. Considering ongoing geo-political uncertainty, conflicts and trade wars, and with general election results around the world creating a shifting landscape, it is unsurprising, when asked about the key trends shaping the industry, that the general political climate, including the impact of Brexit, featured highly.

The top trends shaping the PE industry

General political climate	Bigger fund sizes	Increasing number of debt options	Impact of Brexit	Co-investment	Growing investment in real estate	Outsourcing	ESG/SRI considerations	Low interest rates	Re-insourcing
39%	38%	36%	35%	31%	29%	29%	27%	21%	17%

Respondents to the survey specifically noted 'tariffs and trade uncertainty', 'the volatile nature of stock markets' and 'the impact of globalisation' as trends having an impact on the industry.

Many of the responses to the survey very much tally with what Vistra is experiencing on a daily basis, including the shift towards bigger fund sizes, selected by 38% of respondents, and the increasing number of debt options (36%).

Bigger funds are something that we are seeing in both Asia and the US. In the US in particular, bigger fund sizes are a huge driver in the real estate and infrastructure space. We have also started to witness a lot of sizeable venture funds – some in the billions of dollars – which are moving alongside the smaller buyout funds.

We felt it was interesting that co-investment also featured strongly on the list of trends – identified by an average of 31% of respondents (rising to 40% among intermediaries).

From our experience, we have noticed an increase in co-investment and single managed accounts, which also indicates that LPs have more say in the way that they are investing and some of the key terms around their investments. In Asia, we've identified a rise in co-investment, and for nearly every large deal we're seeing a co-investment element.

In our 2017 PE survey, co-investment was identified as a growing trend and that certainly seems to be continuing in the current market.

This combination of funds increasing in size, smaller investors in the venture and PE space potentially not getting the opportunities, and LPs determining the terms of the investment, could actually be bifurcating the opportunities available to investors.

How trends are influencing investors

By examining how these identified trends are changing or influencing investor behaviour, we can see the real impacts being felt across the industry.

Once again, responses were very much aligned with what Vistra is seeing across the PE sector. And we will go on to address the most highly rated issues separately in later sections of this report – information flows (noted by 71% of respondents), regulation (63%) and transparency (59%).

However, it is interesting to note the apparent contradiction in the responses, with 59% saying that trends are making investors more cautious, yet 55% believing they are creating opportunities.

Drilling down further into the data, there are regional variations. Only 49% of those from Asia felt that investors were more cautious, against 70% of those from Europe, which would indicate more optimism from Eastern respondents.

Our general view is that while these responses acknowledge some of the broader pressures that the trends are creating, there remains a sense of measured optimism.

Weighing the trends

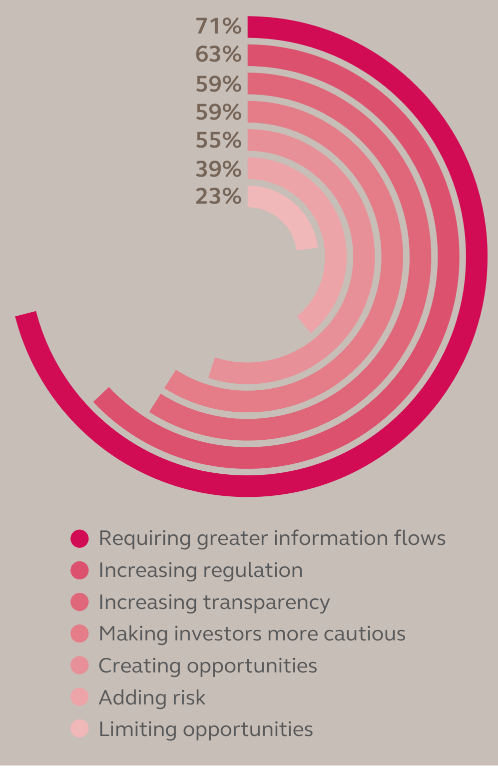
There are a number of factors worth considering here. Higher valuations in mature markets are forcing global players to look elsewhere to find prospective investments, for instance, which may be creating an air of caution. However, by looking at other markets in order to deploy capital, opportunities are actually being created. It is effectively two sides of the same coin.

With regard to only 49% of respondents from Asia saying the trends are making investors more cautious, this may arise largely from the fact that Asian investors are actively looking outside the region for opportunities. We have witnessed a shift in investors moving into private equity in Asia, with the view that this asset class isn't adding risk to their portfolios and is creating opportunities.

It is arguable that all respondents based their answers on recent experiences and deals that have taken place. As a result, some are more cautious while others believe there are opportunities in the market, especially considering the current amount of dry powder, which Preqin estimated at $2.44trn at H2 2019.

On a final note, the demand for greater information flows and the need for transparency, which both figured highly, are also indicative of general concerns around portfolio performance. This is something Vistra regularly sees in the market. Higher valuations are creating the demand for managers to get value out of their investments – and information flows and transparency are central to this.

How market trends are changing/ influencing investor behaviour



Research methodology and respondent information

The research was conducted online and by telephone interviews in the period August to September 2019 among 150 senior executives in the private equity sector.

Interviewees were drawn from General Partners (GPs), Limited Partners (LPs) and legal intermediaries – with 50 respondents from each. Roles varied from C-suite to financial directors, fund managers and partners in law firms.

Respondents came from three key geographical regions:

- Americas – Boston, Dallas, New York, San Francisco, Sao Paolo
- Asia – Greater China, Hong Kong, Singapore
- Europe – France, Germany, Luxembourg, Netherlands, United Kingdom

Increasing Demand for More Information

When asked how general market trends are changing or influencing investor behaviour, those in the PE industry will perhaps find it unsurprising that by far the highest response was a demand for greater information flows – as identified by 71% of respondents.

Information and data pervade almost every aspect of the PE sector – from investment data through to regulatory reporting and everything in between and beyond. And it would appear that this is an area which is only going to grow in intensity.

From investors and regulators to internal management and other stakeholders – everyone requires an increasingly complex amount of information, delivered faster than ever in a way that suits them best. And this is manifesting itself in a number of ways.

Among GPs, for instance, 52% said they are seeing an increasing trend of larger clients requesting data to develop their own reports. This may well be having an impact on GPs who would normally carry out this activity.

Similarly, when it comes to data downloads, the survey revealed the following:

- 46% of all respondents are seeing actual data downloads used to create their own reports and analysis from raw data
- 35% are seeing specific data reports in the format they want, which can then be distributed to auditors, investors and other parties
- 19% are seeing an application-based download of data that provides input into the development of a report.

Based on the survey results and our experience, it is clear that demands for portfolio performance data are playing a significant role in this picture.

We would also argue that an increasing movement towards environmental, social and governance (ESG) investing is creating a demand for portfolio transparency – with 51% of respondents saying that the push to ESG is creating demands for better-quality information, and 46% saying it has led to demands for greater information flow.

Managing the data requirements

Transparency and portfolio performance, however, are far from the whole picture. The increased regulatory compliance burden has undoubtedly led to pressures around reporting.

And considering fee compression across the market, which is creating more competition to get into deals, people want data quickly and at their fingertips because they don't have the time to actively look for it.

In other circumstances, demands for data are putting pressure on administrators – the expectation being that the administrator is going to provide the data.

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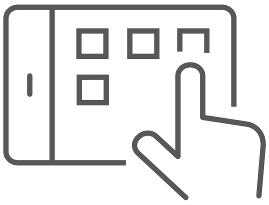


82%

of respondents said that investor demands for access to data for reporting are having an impact on the technological requirements within the business.

This, in turn, is having an impact on outsourcing – not only on whether to outsource certain functions in the first instance, but also the information that is being requested of the outsourced service provider. With an expected increase in outsourcing in the coming years (see page 16), this is an area of the market that is likely to continue to develop.

We would also argue that there is a disparity between the demands for data and the technology available to deliver it. Notably, 82% of respondents said that investor demands for access to data for reporting are having an impact on the technological requirements within the business. Yet in some instances, the technology being used is relatively basic.

With the evolution of fintech, apps and online portals, it would be a natural assumption that investors want to be able to access data instantaneously. Concerns around data security, however, may be causing a reluctance to move towards such technology.

While information flows are clearly an area of concern for the industry, it appears there is a gap between the challenge and a solution.

Is ESG the New Normal?

The prominence of environmental, social and governance (ESG) investing and socially responsible investment (SRI) in the broader landscape is reflected, and becoming increasingly accentuated, in the PE space. Although bringing opportunities, it is also creating challenges.

While 63% of respondents say it is driving new business and 62% believe it is having a positive reputational impact, the largest effect of the push to ESG is the added need for compliance (65%), likely owing to issues around transparency.

The subsequent knock-on effect of this added compliance burden is that 51% say ESG is creating a demand for better-quality information (as covered on page 8) with 48% saying it is adding cost to meet the regulations. These positive and negative factors are creating a push-pull situation for those embracing ESG in private equity.

Making a statement about running an SRI fund or being ESG-compliant immediately comes with certain responsibilities – to collate and report data, and perform higher levels of due diligence, for instance, such as ensuring a particular BREEAM rating benchmark in a construction project has been achieved. There is an onus to prove such compliance, requiring additional data, which often is not readily available.

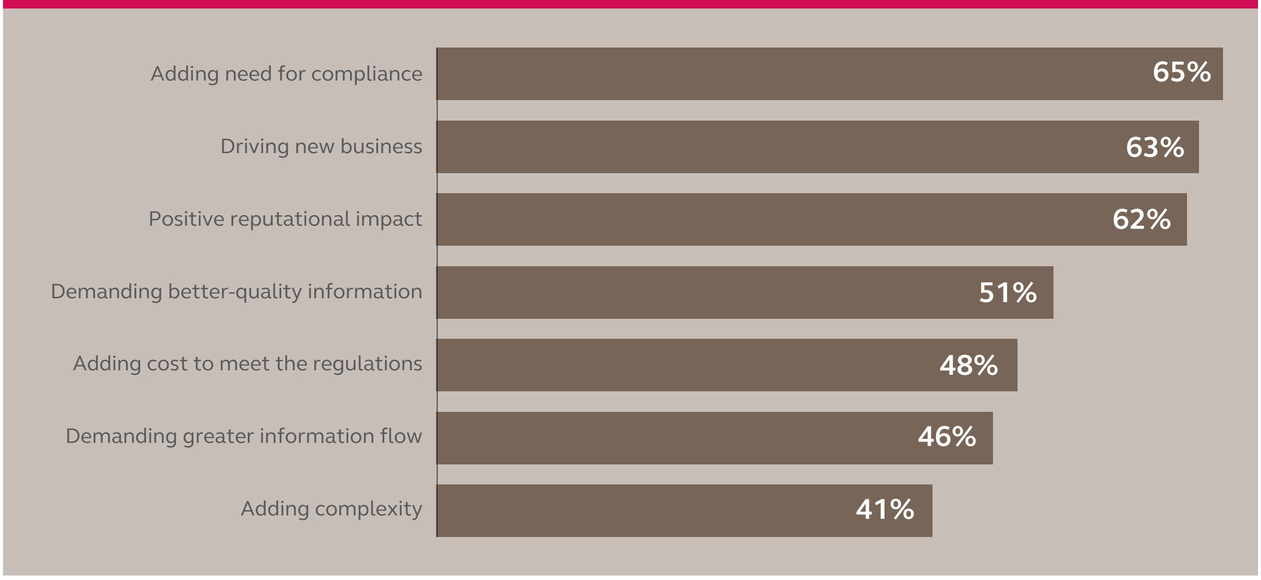
This is probably why responses to our survey indicate that there is some way to go to achieving ESG compliance – with less than half (48%) saying they are compliant with any ESG/SRI principles, such as the United Nations' Principles for Responsible Investment and the American Investment Council's guidelines.

It is our contention that the challenge of ESG/SRI compliance stems from a lack of clear and consistent international standards. And while this is being addressed, there is very little out there that is fully representative for all the markets. In certain industries, such as oil and gas, there are metrics in place. But in other sectors, the measurement is either very complex or simply doesn’t exist.

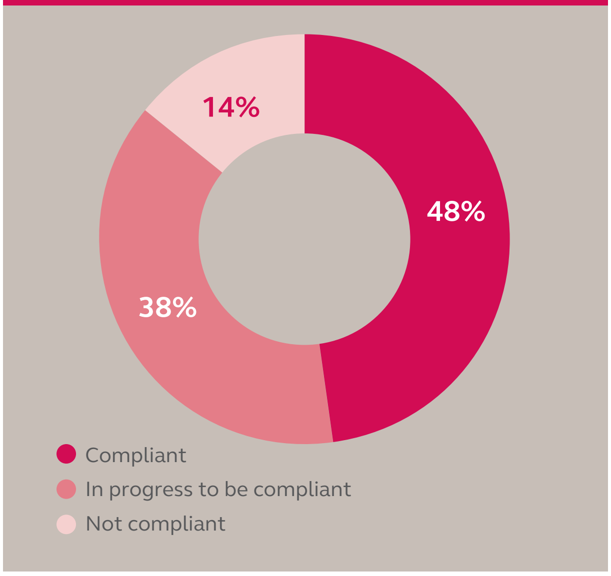
A new generation driving change

It is worth considering how ESG is actually manifesting itself in private equity and to what extent. Is it in the policies of the PE managers themselves, the policies of the businesses in which they invest, or in the actual nature of those businesses, for instance?

The impact of the push to ESG/SRI



Compliance with ESG/SRI principles



"It has been predicted that over the next two to three decades, the Millennial generation could put between $15trn and $20trn into US-domiciled ESG investments alone."

From our experience, it is all of those things, which is where the complexity lies. At Vistra, we are definitely seeing a trend towards funds marketing themselves as ESG-compliant, but this is not as dominant a trend as might be expected. The excitement surrounding ESG isn't yet backed up by capital flows.

Just as in the broader green investing landscape, investors are still cautious that funds deliver the returns they state they will. That is the payoff.

Consider, however, that one of the key drivers of ESG/SRI is the rise in the number of socially conscious Millennials and Generation Z – with 82% of respondents believing that the rise in these demographic groups will provide a new level of socially engaged investors.

Indeed, while ESG investing in the broader landscape has seen a significant rise in recent years, it has been predicted that over the next two to three decades, the Millennial generation could put between $15trn and $20trn into US-domiciled ESG investments alone. This figure would roughly double the size of the current US equity market .

And with members of those groups also set to become the future leaders in private equity, it would be a natural assumption that things will only move in one direction.

We have already seen how gender diversity on boards has become embedded in law in certain countries and the drive towards climate change has gathered momentum in just the last few years. There is no reason to believe that will change, but quite what it will mean for private equity may yet take some time to become clear.

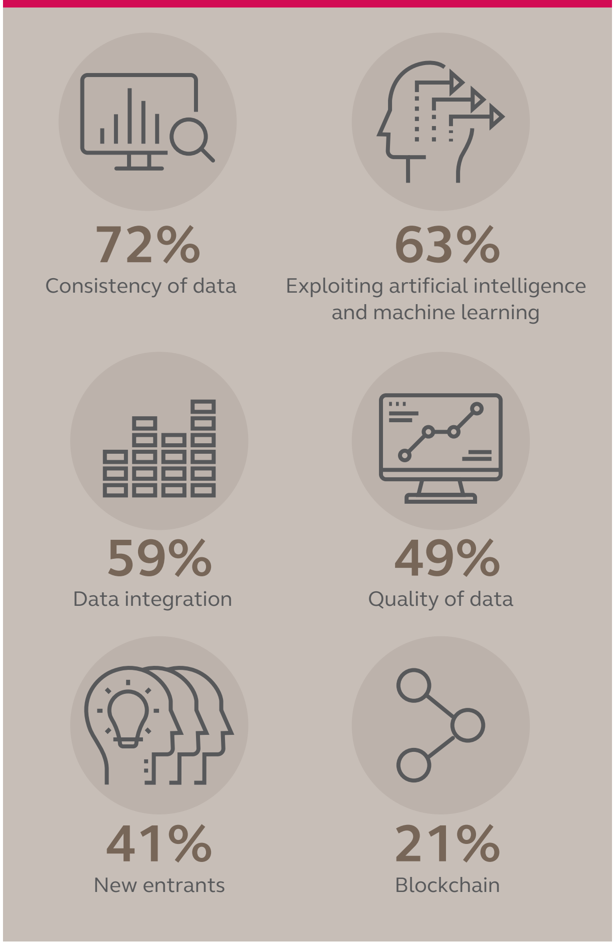
82% **of respondents agree or strongly agree that the rise of Millennials and Generation Z will provide a new level of socially engaged investors.**

The Evolving Role of Technology

Technology continues to be the lifeblood of a vast majority of business sectors. Yet, while already fundamental to many operations and functions, the way that technology is harnessed and exploited is constantly evolving. So how are technological advances set to have an impact on the private equity sector?

According to our survey, 85% of respondents agree or strongly agree that technology could be a major enabler of change. It is perhaps surprising that this figure isn't higher. Similarly, the fact that an average of 7% felt that technology wouldn't disrupt their business in any great way is something that we aren't easily able to interpret.

Key technology challenges facing PE in the last two years



A significant number of respondents felt that technological advances are expected to have a major role to play in PE, with 81% agreeing or strongly agreeing that new technology, such as blockchain, will have a massive impact on the industry in the future.

As with many finance sectors, it isn't entirely clear what role blockchain will play in PE. It is, however, already gaining traction in cash and security settlement processing and there are potential uses for Know Your Customer and anti-money laundering requirements. This might especially be true in certain regions, such as Africa, where it can be difficult to move money around.

There have also been developments in data lineage capabilities to enable waterfall computations. Our general sense, however, is that while there may be some excitement around blockchain, how it will manifest itself is unclear at this stage, but will be something to monitor and possibly adapt to.

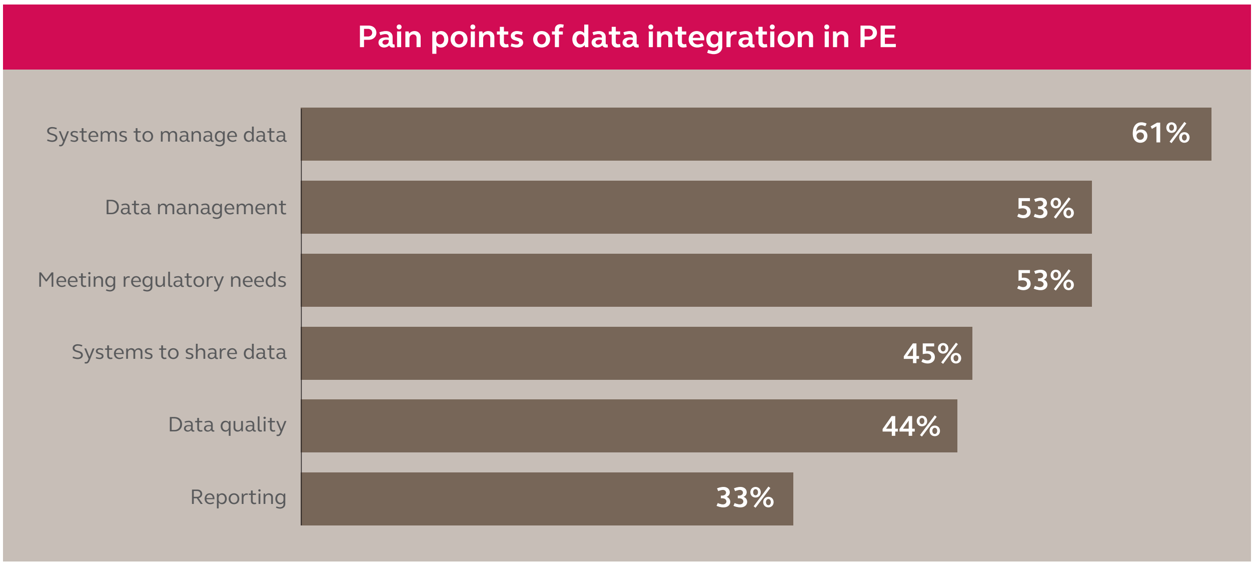
The threats posed by technology

Curiously, tech disruption, which is often seen as a positive factor leading to innovation, was also seen as a threat by 13% of respondents, increasing to 16% in the next three-to-five years.

However, this falls some way behind concerns around cybersecurity, which are understandable when examining the broader tech landscape. Indeed, cybersecurity was viewed as the biggest threat to the PE industry from a range of options including compliance risk and lack of investment.

Not only did 23% of respondents identify it as the biggest threat right now, 25% viewed it as the biggest threat in three-to-five years, clearly indicating that it is going to remain front of mind for some considerable time.

A number of respondents made specific comments with regard to their concerns around technology,



citing issues such as 'the increasing number of cyber criminals', 'outdated hardware and software' and 'user privacy' as technology reaches the next level. These concerns are particularly pertinent in the context of the size of some PE investments – cash fraud around multi-million-dollar investments could be catastrophic, for instance.

Furthermore, smaller managers and administrators are often hindered by the lack of technical expertise or functional capabilities to handle tech issues. This may be leading to an increase in outsourcing certain aspects of the technology function (see page 16).

Meeting the technological challenges

The fact that the demand for greater information flows is having the biggest impact on the PE industry (see page 8) seems to be compounded by the major challenges posed by data consistency and integrating that data.

Indeed, consistency of data was named by 72% of respondents as a key challenge facing the PE market from a tech perspective in the last two years.

Additionally, there are a number of 'pain points' that respondents identified when it comes to data integration – most notably, having the systems to manage the data (61%) and subsequent management of data itself (53%).

This all points to the fact that while more data is required, the consistency isn't there, and neither are standardised platforms – which is the likely reason why so many managers continue to use Excel.

Unsurpringly, then, when it comes to finding solutions that can be implemented to help with better data and technology management, the two key suggestions were:

- Investment in new technology – an average of 67% (rising to 78% for intermediaries)
- Outsourcing to a third-party expert/single service provider – 55%

Investing in new technology, however, comes at a cost, one that the smaller operators won't necessarily be able to bear. When it comes to choosing between investing in new tech or using available funds to optimise an organisation, the choice is problematic.

The aforementioned general demands for data, and portfolio and returns reporting, along with LPs increasingly expecting GPs to use outsourced providers (see page 16), would certainly seem to be pushing the industry towards a more standardised and cohesive approach to technology.

As a final observation, we believe it is notable that 63% of respondents highlighted exploiting artificial intelligence (AI) and machine learning as a technological challenge in the last two years. While strides are being made in those areas, this may only truly happen as part of a more comprehensive change in the industry that brings about data integrity and data standardisation. This will also require a better understanding of the uses of AI.

Regulation, Transparency and the Move Towards ILPA Principles

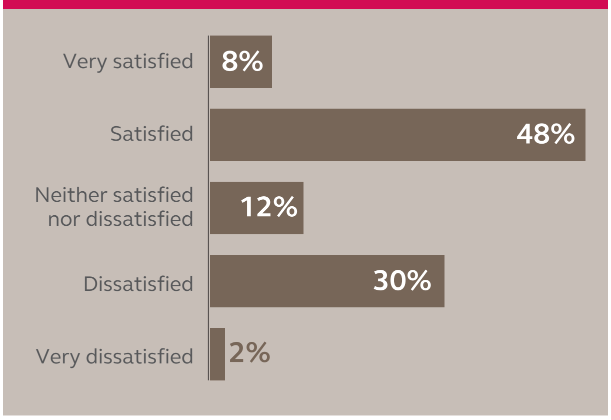
Since the financial crisis, the challenges posed by regulatory and transparency requirements have increased across the PE industry. From Dodd-Frank and the Alternative Investment Fund Managers Directive (AIFMD) to the impact of the Foreign Account Tax Compliance Act (FATCA) and anti-money laundering regulations, the burden has been building and the landscape constantly shifting.

Both regulation and transparency feature highly when it comes to how general trends in PE are changing and influencing investor behaviour – with 63% of respondents citing increasing regulation and 59% increasing transparency as key factors.

Significantly, these issues are expected to continue to bear pressure – 63% of respondents either agreed or strongly agreed that the level of regulation over the next three years will become more difficult and complex to meet.

Marry this with the fact that 44% agreed or strongly agreed that the current level of regulation is too costly and restrictive in allowing them to operate effectively, and this paints something of a rather challenging picture moving forwards.

Satisfaction with transparency in the private equity industry



While regulation tends to be rather more clear cut – creating a set of standards that have to be met – transparency can be somewhat more nebulous. And it is an area where there is particular room for improvement, with only 56% expressing any satisfaction around the overall level of transparency in the PE industry.

Aiming for global standards

Despite the Institutional Limited Partners Association (ILPA) having published three sets of best practice principles – the most recent in June 2019 – establishing standardised transparency and governance continues to be problematic.

Indeed, despite the second iteration of the ILPA principles being released as far back as January 2011, only 32% of GPs responded that they are fully compliant with them, with the vast majority (64%) saying that they are still progressing towards compliance. The survey couldn't tell us how advanced respondents were with this.

Interestingly, the most significant factor holding back GPs from being fully compliant was technology, cited by 68%, followed by experience/skill (62%) and cost to outsource (56%).

From our experience, there are a number of factors at play. Investors want transparency so that they understand the minutiae of their investments. The additional work associated with meeting transparency requirements comes with costs, however, and GPs are typically cost-conscious. This creates a natural push-pull between GPs and LPs.

Considering the fact that compliance with ILPA principles is still largely a work in progress, it is important to note that transactions and funds are more complex now than they were a decade ago. So, what may have been transparent then may not be transparent now. As the industry evolves, what people need to be transparent about also evolves and it is difficult to move in unison with that.

It is also worth noting that only 21% of our Asia respondents are fully compliant with ILPA and its equivalents (as against the 32% average). It is our contention that this may well be because ILPA has been driven more by US institutional LPs. In Asia, it is the larger funds that are ILPA-compliant because their US investors require this. Other funds have to meet a range of reporting requirements within the region and are, therefore, slower to adapt to ILPA.

We would say, however, that LPs are beginning to mandate ILPA compliance and may well choose not to invest in a fund that isn't compliant. That said, the lack of a global transparency standard – which is what ILPA is trying to achieve – means that global compliance is likely to be a long haul. This is, not least, because any changes to the way the industry operates – such as the introduction of blockchain or artificial intelligence – will add more complexity to the transparency landscape.

63%

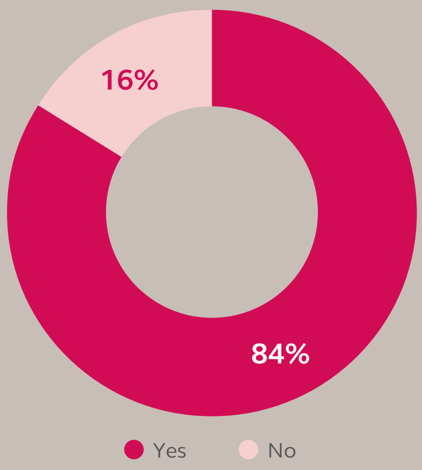
of respondents either agreed or strongly agreed that the level of regulation over the next three years will become more difficult and complex to meet.

Outsourcing – a Service Becomes Standard

The move to outsourcing services is growing. Across GPs surveyed, an average of 72% currently outsource one or more functions to a third-party service provider. This happens across a range of services, such as tax compliance, SPV accounting, and registrar and transfer agency.

Notably, there was some disparity by region, in that the figure for Europe was even higher, at 82%, while Asia came in lower at 64%.

LPs who want GPs to outsource



“One of the main drivers for outsourcing is coming from LP demand, with 84% of LPs saying they want their GP to outsource, and 67% saying they are keen to influence the decision of which provider to use.”

Significantly, of those GPs that don’t currently outsource, 7% planned to do so in the next year, with 79% saying they will do so in the next two-to-five years.

One of the main drivers for this is coming from LP demand, with 84% of LPs saying they want their GP to outsource, and 67% saying they are keen to influence the decision of which provider to use. Considering that this latter figure rises to 79% for Asian respondents, it would appear that while fewer Asian GPs outsource, LPs want a bigger say in who they do outsource to.

There is a similar picture among intermediaries, with 72% saying that fund managers should use an outsourced administrator and 67% saying that they do influence the choice of provider.

This is leading to a bifurcation in the markets, where some investors won’t invest in a fund unless there is due diligence on the service provider. At Vistra, we are seeing this first-hand as LPs increasingly want to understand our operations before they make the decision to invest.

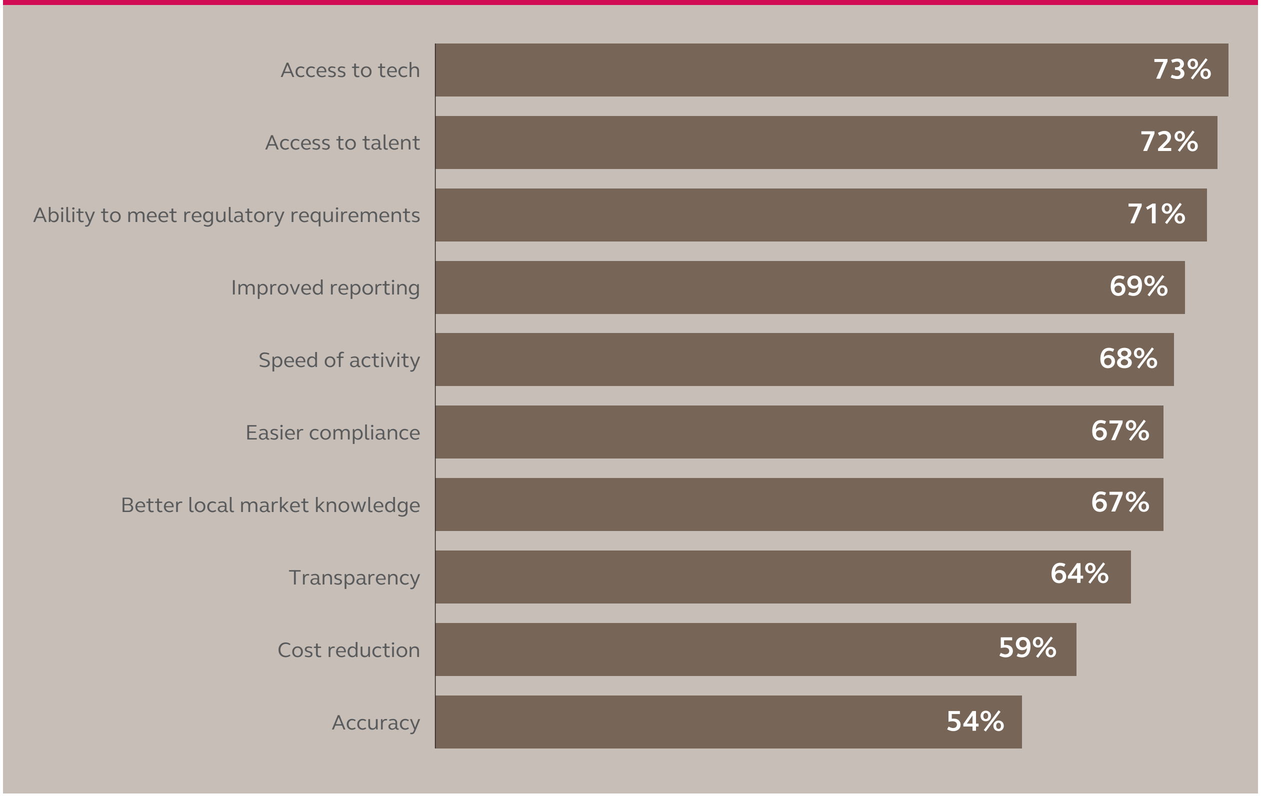
More specifically, smaller managers rely more heavily on the administrator for technology and security – so LPs need to be reassured that they’ve picked the right partner. Working with respected service providers adds robustness to the overall framework.

In our experience, outsourcing can become a pre-requisite – with LPs stating very clearly that unless certain functions are outsourced, the investment won’t take place.

A positive trend

While outsourcing is a growing trend – 78% of LPs and legal intermediaries believe it has increased in the last two years – it is also viewed as largely positive across a whole range of factors. Perhaps unsurprisingly, in light of areas covered earlier in this report, both technology and regulation

Areas where outsourcing has been very positive/positive



are highly regarded as outsourced functions – with outsourcing seen as having a positive or very positive impact on access to technology (73% of respondents) and the ability to meet regulatory requirements (71%).

One interesting outlier in the data is that 82% of LPs felt that outsourcing had a positive or very positive effect on speed of activity (against an average of 68%). Considering how the market is moving today, and the amount of dry powder, there is a need to act fast in order to just look at deals, as well as to be quick on fundraising and on closing. So, speed of activity becomes increasingly critical when it comes to outsourcing.

Room for growth

Despite the fact that a vast majority of respondents are already outsourcing and feel positive towards outsourcing in general – there is still considerable room for growth by region and by function.

While an average 72% are currently outsourcing one or more function, this isn't necessarily happening across all funds. Indeed, when asked what percentage of funds were currently outsourced, the figures were relatively low – with 31% in the Americas, 29% in Europe and only 14% in Asia.

Yet when asked if they expected outsourcing to reach 75% in the next three years, 45% of respondents felt this would happen in their

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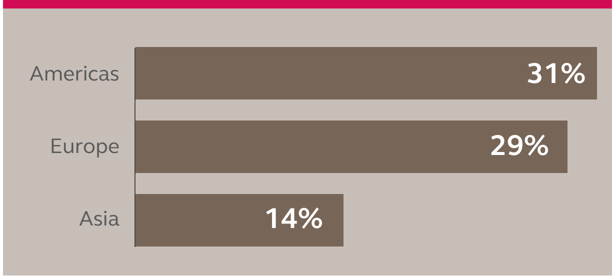
Percentage of PE funds outsourced



Americas funds, compared with 58% in European funds and 32% in Asian funds.

With regard to the services normally outsourced, tax compliance came in highest at 56% and regulated fund administration lowest at 33%. However, when asked about services to be outsourced in the next two years, tax compliance came last at 18%, with regulated fund administration the highest at 45%.

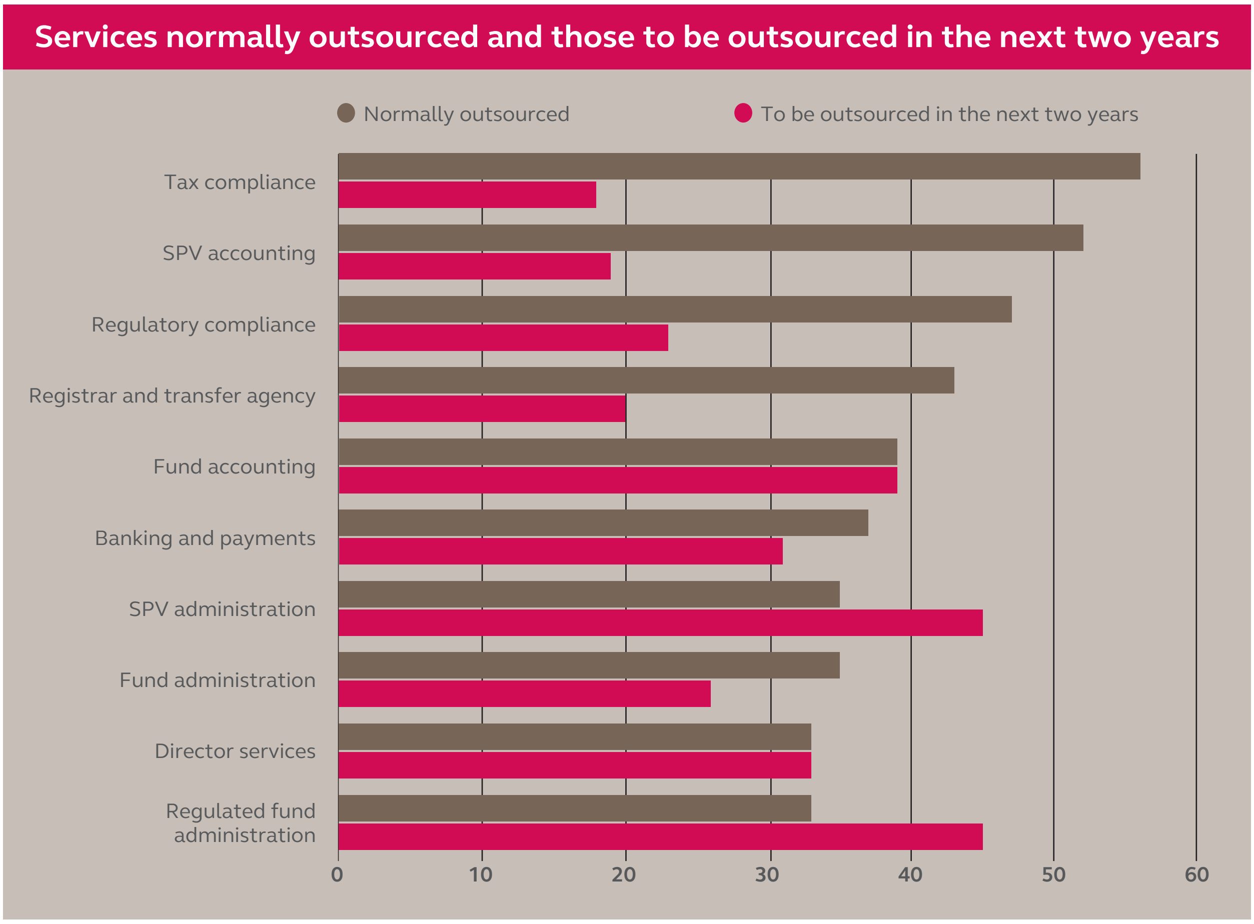
While not completely representative across the board, there is a sense from our survey that there is going to be some rebalancing across functions.

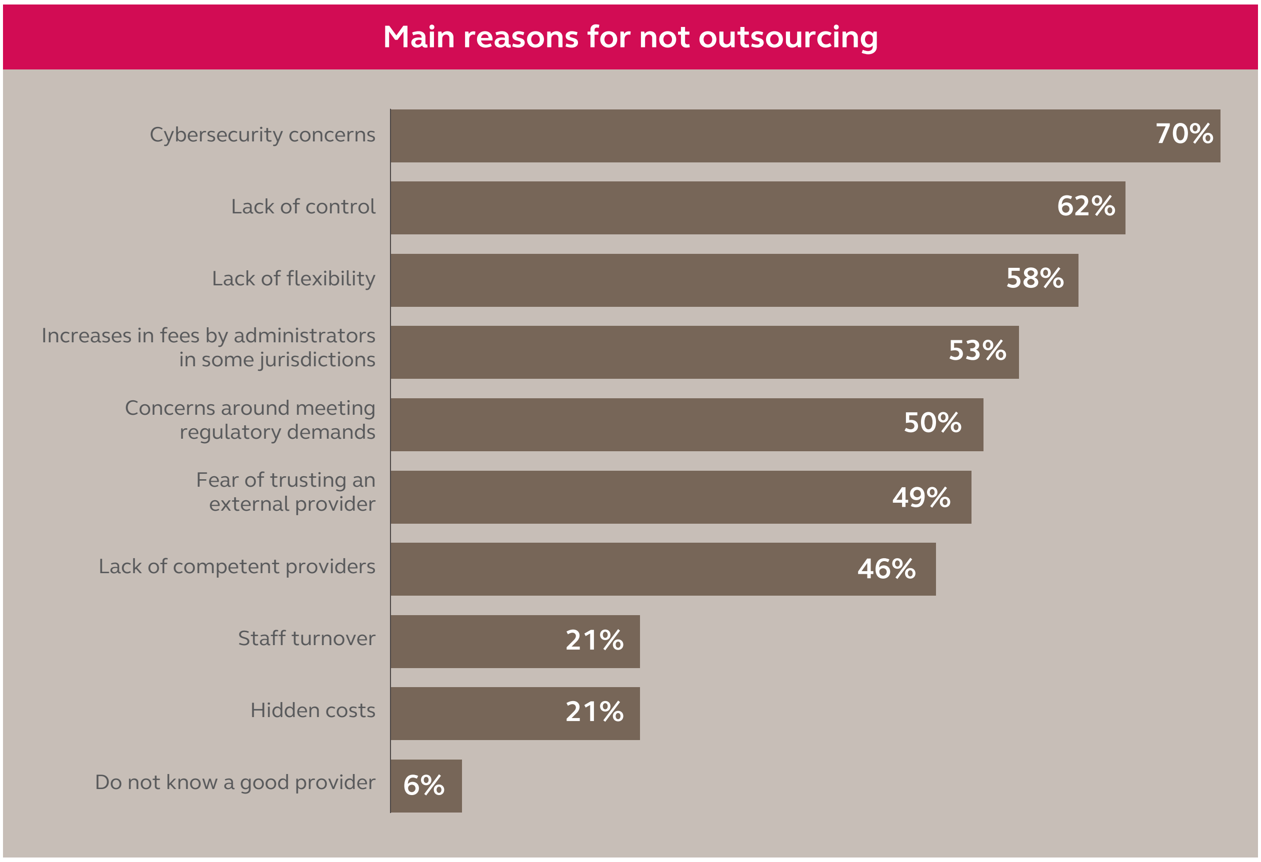
When asked which services they would re-insource in the next two years, there was one stand-out figure – 47% for registrar and transfer agency (among Asia respondents, this figure rose to 59%). The closest other area was fund administration at 31%. We suggest this is because the registrar and transfer agency handles the most sensitive information regarding investors and it makes sense for such data to be managed internally. The higher Asian figure may be a result of a greater sensitivity to privacy and issues around security.

Barriers to outsourcing

Despite the growing trend towards outsourcing, the projected growth in the years to come and benefits realised from outsourcing – such as being able to focus on core skills (cited by 71% of respondents), access to better technology (63%) and better management of increasingly complex structures (58%) – there are still some key factors that are stopping those within PE from outsourcing.

Considering that cybersecurity is seen as the biggest current and ongoing threat to private equity, it makes sense that concerns in this area (at 70%) are the main reason for not





"Considering that cybersecurity is seen as the biggest current and ongoing threat to private equity, it makes sense that concerns in this area are the main reason for not outsourcing."

outsourcing. It could be argued that these might be allayed by outsourcing to a business that has the most stringent cybersecurity, such as those, including Vistra, that have achieved ISO 27001 certification. But those concerns are still very real in the current landscape.

In our experience, those who aren't outsourcing, or who are considering it for the first time, tend to be more conservative or have issues around sensitivity. There is also fear around a lack of control and flexibility, particularly among those who have always retained full control. But with an increasing number of LPs demanding that GPs work with outsourced service providers, the time may come when they have little choice but to make a leap of faith.

At Vistra, we have also found that those who allow a discrete scope of work to be outsourced and have a positive experience become more amenable and, indeed, actively outsource more functions.

Current and Future Markets

As much as it is natural to consider which sectors have the potential to become prominent on the PE landscape in the years ahead, the same applies to where these developments might take place.

When asked where the next opportunities are going to appear, an average 35% of respondents replied that they expected India to be the next emerging market, ahead of China on 25%, with Brazil in third (19%).

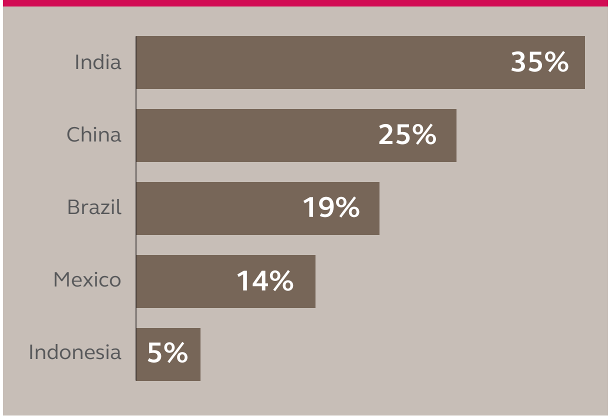
Interestingly, when looking at regional responses, those in Asia reversed second and third place, with Brazil on 27% and China on 18%. We attribute this to the current trend in Asian PE of looking outside the region for investment opportunities.

Another regional difference appears in the Americas, with respondents marginally favouring China (35%) over India (33%).

We suspect that these positions are at least in part due to the cyclical nature of PE in this narrow band of countries, and the fact that the broader economy in each, notably India, does tend to go up and down in a wave.

From Vistra's perspective, there is a lot of potential in India, particularly in areas such as infrastructure and housing, which are huge debt markets. This is offset to a degree, however, by currency controls and regulation that have had a negative impact. Yet our survey indicates this is certainly not putting investors off.

Where the next emerging market may be



It is arguable that the position on China is something of a blip – partly because of the trade war with the US and the political situation in Hong Kong. The China boom is likely taking a pause, but it would come as a surprise if it was over.

The fact that Brazil and Mexico between them are favoured by an average 33% of respondents is quite significant – even more so considering Asian respondents rated the two countries at a total of 47%. We suggest this indicates that those wishing to get their money out of Asia may well be prioritising the Americas.

The bigger players

With regard to established markets, our respondents felt that, on average, the US (65%) and the UK (54%) were going to have the biggest resurgence. There was particular optimism among intermediaries towards the UK, where 68% expected a resurgence.

An interesting outlier is that among LPs, 48% felt that Germany would have the bigger resurgence, against 46% who favoured the UK.

It may seem unusual to talk about the larger markets in terms of a resurgence, but we can also read this as the established markets being likely to perform better, as opposed to a market that is just emerging.

Likewise, the US was also seen as the market that has become more domestic, with 64% saying that is the case, indicating a tendency for US players to stay closer to home. This seems to run opposite to Asian investors, who are actively looking outside of the region for opportunities.

If we have learned anything from this area of the survey, it is that responses are very much driven by whether investors in particular regions have a more local or international focus – with Asia clearly being more global in its outlook.

Conclusion

As we analysed the data from this survey, it became clear that there is considerable interplay between many of the themes explored and how our respondents perceive the PE sector. The level of deals being done and the amount of dry powder in the market understandably create a sense of optimism, yet this is offset by concerns around the general political climate and the regulatory and transparency burden, among other factors.

Based on our reading of the survey and our own extensive experience across the PE markets, we have drawn a number of conclusions.

Information is king – but technology is falling short

More so than ever, it seems that demands for data are having a major influence on PE. From regulatory reporting, portfolio performance, pre-deal data and the need for detail around transparency, the level of information required is having a major influence on investor behaviour – recognised by 71% of our respondents.

Yet it appears that there are technological shortcomings around how to manage and deliver that data, and with no standardised platforms, integration continues to be an issue.

While there is new and exciting technology ready to be taken advantage of – including blockchain, artificial intelligence and machine learning – it isn't clear how it will fit into the PE ecosystem, if at all. Solutions need to be found to data-related issues, but there is a danger that these may end up as 'quick fixes' as opposed to an industry-wide answer.

Transparency challenges can't be ignored

There continues to be a push-pull between LPs and GPs when it comes to transparency. LPs are increasingly demanding it, yet GPs are struggling to reach expected levels of compliance. Despite attempts by ILPA to introduce a global standard for transparency, there seem to be numerous barriers to achieving it – not least issues around technology.

However, a shift towards ESG investing – which is an evolving trend in PE – is adding to the need for transparency, as well as making matters more complex. We believe that as LPs begin to mandate compliance around transparency, resistance will gradually be eroded, although it may take some considerable time for full compliance to become the norm.

Regional differences are pronounced

When analysing the data by region, it becomes clear that there are significant differences in the priorities and perceptions of respondents depending on where they are based. For example, 70% of those in Europe felt that trends in the PE market were making investors more cautious, yet only 49% in Asia felt the same way. Similarly, 79% of LPs in Asia are keen to influence their GPs' choice of outsourcing provider, compared with only 54% in the Americas.

Considering also that Asian respondents see Mexico and Brazil ahead of China as an emerging market, while those in the Americas believe China will provide more opportunities, it is clear that there are very divergent views on the current state of the market. This is natural in our opinion, as the nature of >

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investors in these regions varies in terms of appetite and the type of investment they want to pursue.

Outsourcing is becoming mandated

While a considerable number of GPs (72%) are already outsourcing certain functions to third-party providers, the vast majority of those that aren't yet doing so are planning to within the next five years. This is largely being driven by LPs demanding that their GPs outsource as well as wanting an influence on the decision of which provider to use.

While the benefits of outsourcing are often counteracted by concerns around handing control to a third party, we believe that it will become increasingly common for LPs to provide outsourcing ultimatums to GPs – mandating that any contracts be contingent on specific functions being outsourced to a preferred provider.

Cause for optimism

Despite the understandable concerns expressed throughout this survey – notably around data demands, technology shortcomings and cybersecurity, which was identified as the biggest threat to the PE industry – there was also clear optimism in a number of areas.

Not only was co-investment flagged as a key trend in the market, along with the increasing number of debt options, 55% of respondents also felt that opportunities were being created more broadly. The reality is that solutions will have to be found to address the many issues that exist, and this will rely on the will of all market participants. But drivers such as ESG and the move to transparency will keep the sector moving forward.

It is often too easy to look at any negative factors affecting the sector without examining the positives and the bigger picture. While we certainly don't deny the concerns and the challenges, we do believe that measured optimism comes through clearly in the results of this survey, and very much marries with our general take on PE as we enter 2020.

Contributors to this report

Caroline Baker
Managing Director,
Vistra Asia

Onno Bouwmeister
Global Sector Lead – Private Equity

Scott Kraemer
Managing Director,
Vistra North America

About the Authors

Vistra

Vistra Group, ranked among the top four service providers globally, is a versatile group providing a uniquely broad range of services and solutions – from fund administration to trust, fiduciary and international expansion.

As a leading global player with expert industry knowledge and location specialists, Vistra has a deep understanding of the professional worlds of our clients and a proven track record of offering highly versatile solutions, providing the people, processes and products that help those clients get the most from their international businesses.

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Coleman Parkes Research

Coleman Parkes Research, the UK-based independent leading business-to-business research company, designed and implemented the research project on behalf of Vistra.

All information was obtained under the rules of the Market Research Society, which ensures respondent anonymity and confidentiality. One hundred and fifty detailed interviews, using an agreed set of questions, were completed among General Partners, Limited Partners and legal intermediaries in the Americas, Asia and Europe.

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