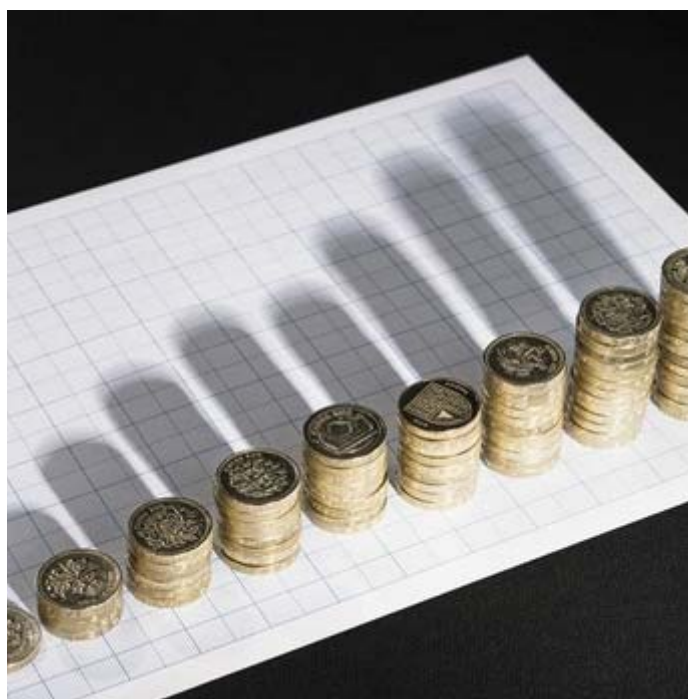


## Private investors increase allocation to private equity

Family offices and HNWIs are increasingly investing in private equity, according to Preqin.



“They have seen the returns and want a piece of it,” said Christopher Elvin, head of private equity products at Preqin, which tracks private equity activity.

Family offices now account for 9% of all active investors in private equity worldwide, up from just 5% four years ago, according to data by Preqin. The average allocation of family offices as a proportion of their total assets grew to 28.9% from 24.7% over the same time.

Private equity has outperformed most other asset classes, sometimes significantly. Preqin data shows that the internal rate of return, the most suitable metric for measuring the profitability of such complex investments, was an annualised 11.7% for private equity for the decade ending December 2015.

This compares to an internal rate of return of 5.1% for the S&P 500 and 8.8% for hedge funds. The measure combines the returns of funds with all different vintages and measures the relative returns across a fixed period.

However, the investment is often locked in for five years or more and lack of transparency and fees have been issues for some investors.

## Changes in PE

Private equity has long been popular with public and private sector pension funds, foundations and insurance companies, all of which tend to make large investments over the long term. Smaller investors, however, are now the fastest-growing group of allocators, sources said.

This comes amid broader changes in the private equity industry that have led firms to address investor concerns over issues such as key person risk, transparency and illiquidity.

The median number of deal-making employees dedicated to a buyout fund is now eight, according to Preqin, making the investment less reliant on just one person.

Even though investors initially agree to commit their money for several years, they can sometimes negotiate a way out with the private equity fund, sell their stake with the help of an intermediary or sell it directly to another investor.

Elvin said the attraction of PE was not only performance, but also portfolio diversification at a time when many other asset classes were highly correlated.

## Private debt investing

Daryl Liew, the head of portfolio management at wealth manager Reyl Singapore, said there had been an increase in appetite from clients - although the appetite for private debt had been even larger.

“We have been seeing more appetite for private debt rather than for private equity,” said Liew. “The main reason for this is that these clients who have shown interest are generally looking for yield.”

The firm also noticed that there was a preference among its clients to invest directly in private issues rather than through a fund structure because this allows them to pick deals they are comfortable with as well as control fees.

Sanjay Mistry, a director of private debt and private equity funds of funds at Mercer Private Markets, said the interest in private equity has been felt worldwide, including in Asia.

Mistry said the challenge for smaller investors was still getting sufficient scale to meet the minimum investment that private equity funds request. They also face difficulties getting access to high-quality private equity funds, many of which are capacity constrained and already have a queue of investors waiting.

“We have also generally found that private equity managers prefer the more sticky institutional capital,” said Mistry.

However, Preqin found in a survey of institutional investors earlier this year that 53% wanted to see further improvements in transparency and that 93% have on occasion not committed money to a private equity fund because of the high fees.

In addition, 44% said that private equity funds made changes to their fund terms.

Even so, the same survey found that 89% of investors in private equity felt the asset class had met or exceeded expectations; 87% expected to commit the same amount or more to the asset class in the near term.

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