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PRIVATE EQUITY SURVEY: UPDATE ON INDUSTRY SENTIMENT



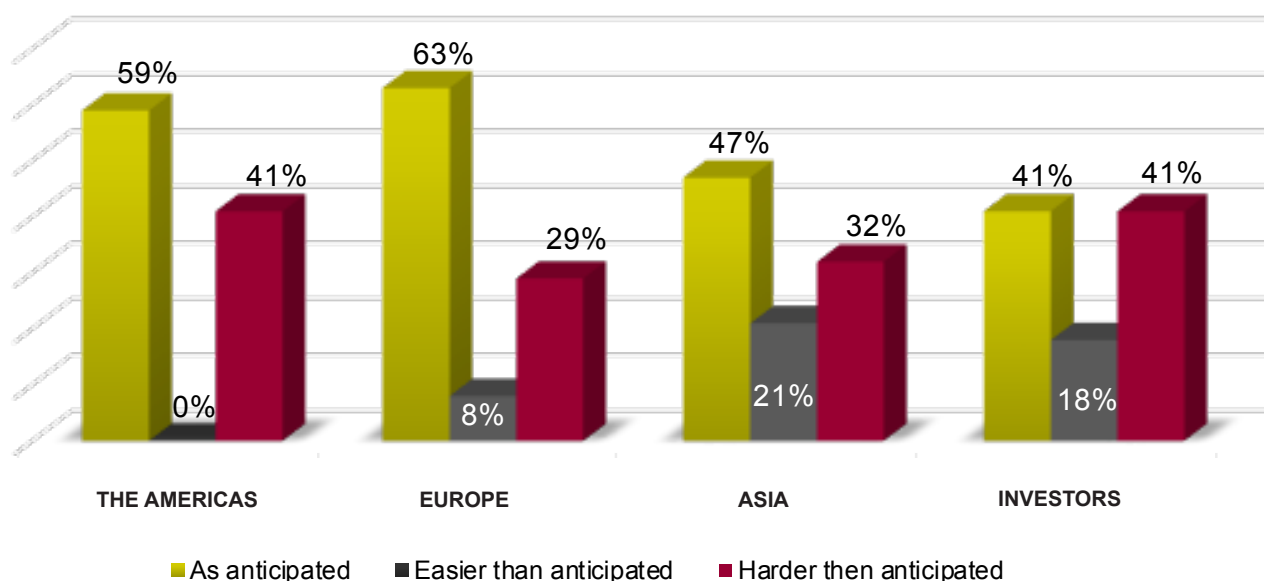
USA CAYMAN BVI GUERNSEY JERSEY LUXEMBOURG THE NETHERLANDS CYPRUS HONG KONG SINGAPORE MAURITIUS

OUR INDUSTRY – HALF WAY THROUGH 2017

2017 is proving to be every bit as turbulent, politically speaking, as 2016. Europe and the Americas (and indeed the whole world) are still reeling from the unexpected twin shocks of the Brexit vote and the Trump election, with the likely outcome of the former still very uncertain, and the latter administration continuing to prove volatile to say the least. And of course 2017 provided its own surprise in the UK with the Conservative Government losing its majority in a snap election.

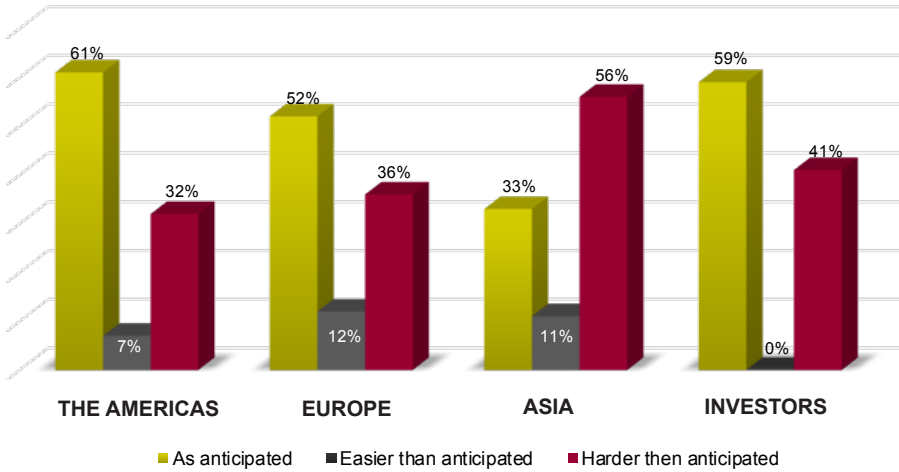
Despite this political turbulence, global markets, by contrast, continue to display resilience and strength, with the global Private Equity and Real Estate industry being no exception. In keeping with the spirit of our annual industry surveys at the start of each New Year, Augentius ran a summer survey to take the temperature of the Private Equity and Real Estate industry at this critical juncture and provide a snapshot of sentiment across the globe. We asked a number of general and specific questions to managers across the world in the Americas, Europe, and Asia, as well as their investors – below is a rundown of the results.

GENERAL SENTIMENT



Our general sentiment snapshot reveals a mixed bag in terms of how Private Equity and Real Estate managers and investors are finding 2017 so far. While the majority of GPs in the Americas and Europe are finding that things are progressing as expected, a significant minority in both regions are finding things harder than expected, and very few are finding things easier than expected. The balance is more even in Asia, where a slim majority are finding things either easier or harder than expected, with both fairly balanced at 21% (easier) and 32% (harder). A similar split to the Asian region is seen amongst LPs, suggesting that the general climate is less significant a factor than the specific circumstances different investors find themselves in.

VIEWS ON PORTFOLIO INVESTMENT / DIVESTMENT

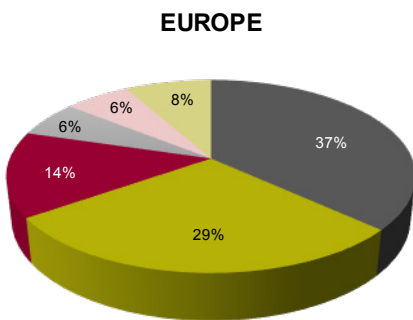
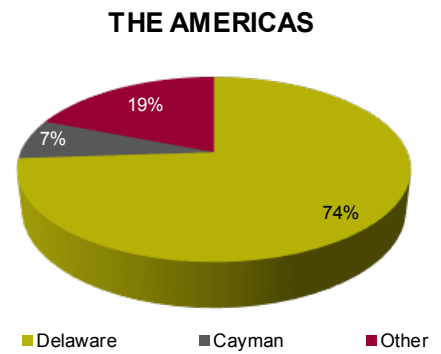


Asking specifically about portfolio investment and divestment reveals a similar mixed picture, although again the majority are finding that things are progressing as expected, with the exception of Asia where investment and divestment appears to be a bigger challenge than initially expected.

WHERE WILL YOU DOMICILE YOUR NEXT FUND?

We also asked our different regional managers where they plan to domicile their next fund.

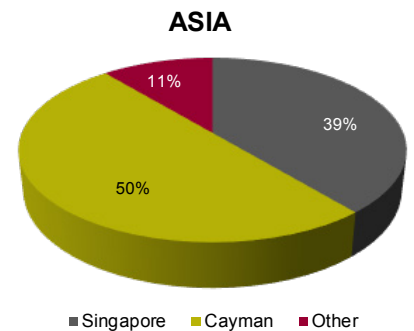
In the Americas, Delaware leads the pack by a significant distance, although almost 20% of GPs marked 'other', within which was a smattering of different domiciles including European hubs such as Luxembourg and Malta. Only 7% of managers in the Americas said the Cayman Isles, which perhaps reflects its diminished status as a domicile following the regulatory tightening of the past half-decade.



Europe provided a more split picture, although the UK and the Channel Islands lead the pack, pouring some cold water on the notion that Brexit would create a sharp fall in the UK's attractiveness as a domicile.

■ UK ■ Channel Islands ■ Luxembourg ■ USA ■ Cayman ■ Other

Among our Asian GPs, however, Cayman lead the pack with around half of respondents, showing its continued popularity as a domicile in contrast with Americas managers. Singapore follows closely behind with almost 40%.

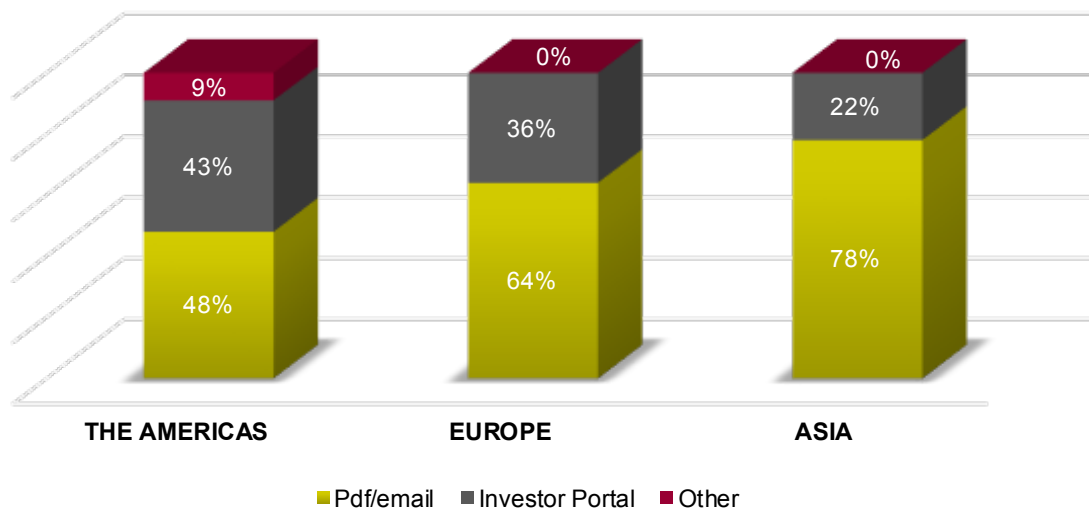


■ Singapore ■ Cayman ■ Other

CYBERSECURITY AND TRANSPARENCY

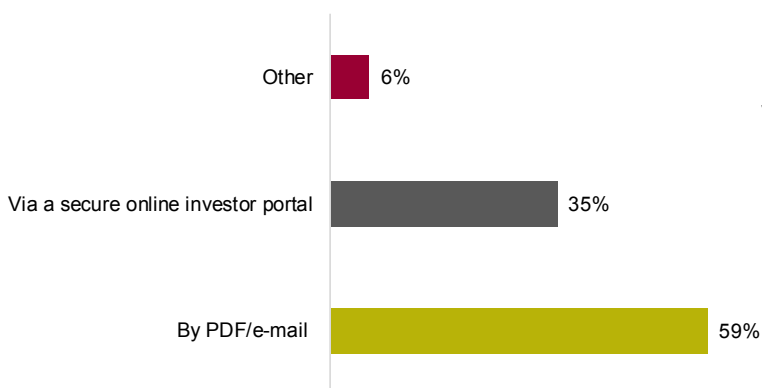
With the globe’s digital revolution continuing at speed, cybersecurity and the question of secure investor communications is becoming an ever-increasing concern to both the industry and regulators alike. With the advent of advanced and secure investor portals, many managers have begun to transition away from the relatively unsecure old approach of emails and PDFs. However, as our survey reveals, this transition is still very much underway. The Americas is ahead of the curve as a region, with almost half of respondents using secure investor portals. However a majority in Europe and Asia continue to use the PDF approach, with Asia in particular lagging behind.

HOW ARE YOU COMMUNICATING WITH INVESTORS?

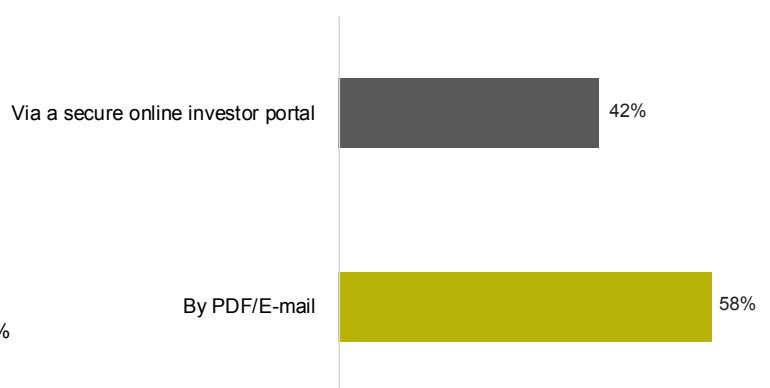


The results from LPs when asked about their existing setup and preferences on this front highlights the importance for GPs of transitioning to more secure communications. Only 35% currently receive information via investor portals, yet the appetite is greater (42%), suggesting that investors are increasingly aware of the risks involved in older methods and are starting to expect more.

CURRENT REPORTING FORMAT



PREFERRED REPORTING FORMAT



Connected to the methodology issue is the fact that investors are becoming increasingly demanding in terms of their information needs. Our survey of LPs reveals that largely these needs are being met – almost half (47%) of investors generally feel their managers are providing all the needed information. However, additional work is still being created for LPs – 35% of investors are having to ask for additional information (which is then provided). What is surprising and somewhat concerning is that nearly 1 in 5 (18%) of investors ask for additional information but don't receive it.

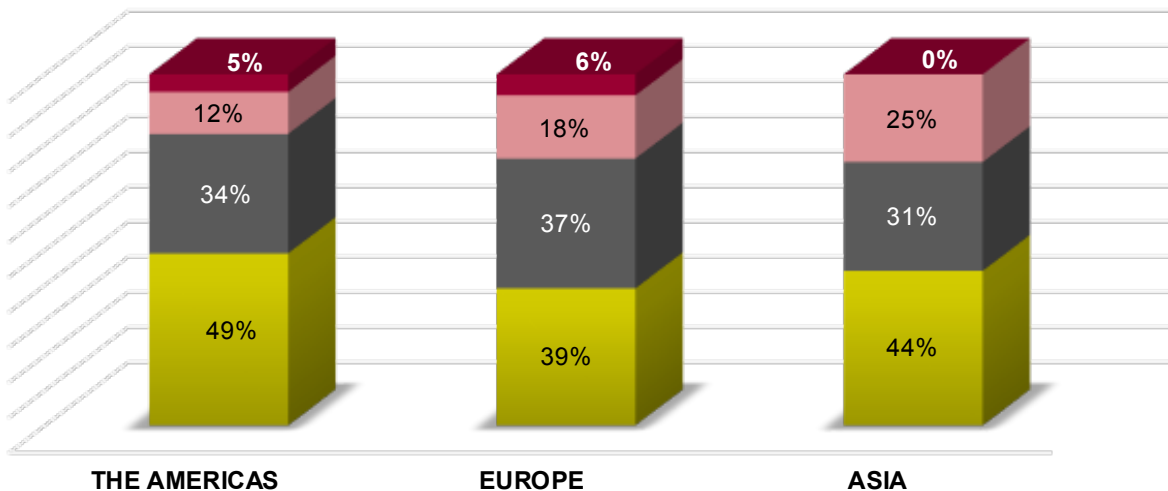
HOW ARE GPS REACTING TO INCREASED TRANSPARENCY DEMANDS?

- 'Up to speed' - no special requests needed
- Additional information needed and generally provided
- Additional information needed and this is often not provided



This picture is reflected in the actions GPs are taking on this issue. Around 40% to 50% in each region feel they are already providing all that is needed, with an additional 30 to 35% looking to provide increased detail. However in Europe and the Americas it seems this is being done via ways other than providing additional resources (e.g technology) – only our Asian GPs showed significant plans to increase resources (nearly 25%).

ARE YOU ADDRESSING INVESTOR NEED FOR GREATER TRANSPARENCY & DETAIL?



- Investors get all information
- Increased detail in reports
- Increased resources to handle
- Other

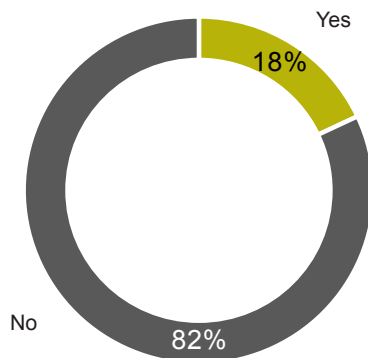
A CLOSER LOOK AT THE REGIONS

Given the particular issues affecting the Americas market we asked a few specific questions to this audience:

HAVE FEARS REGARDING US POLITICAL INSTABILITY HINDERED YOUR ABILITY TO RAISE FUNDS FROM FOREIGN INVESTORS?



WILL RISING US INTEREST RATES REMAIN A THREAT TO PRIVATE EQUITY DEAL FLOW?



Despite all the sound and fury surrounding the November election and the subsequent volatility of the new administration, this has not had the dampening effect on the US market that some feared. Only 16% feel this has had a negative effect with the vast majority seeing business as usual in this regard.

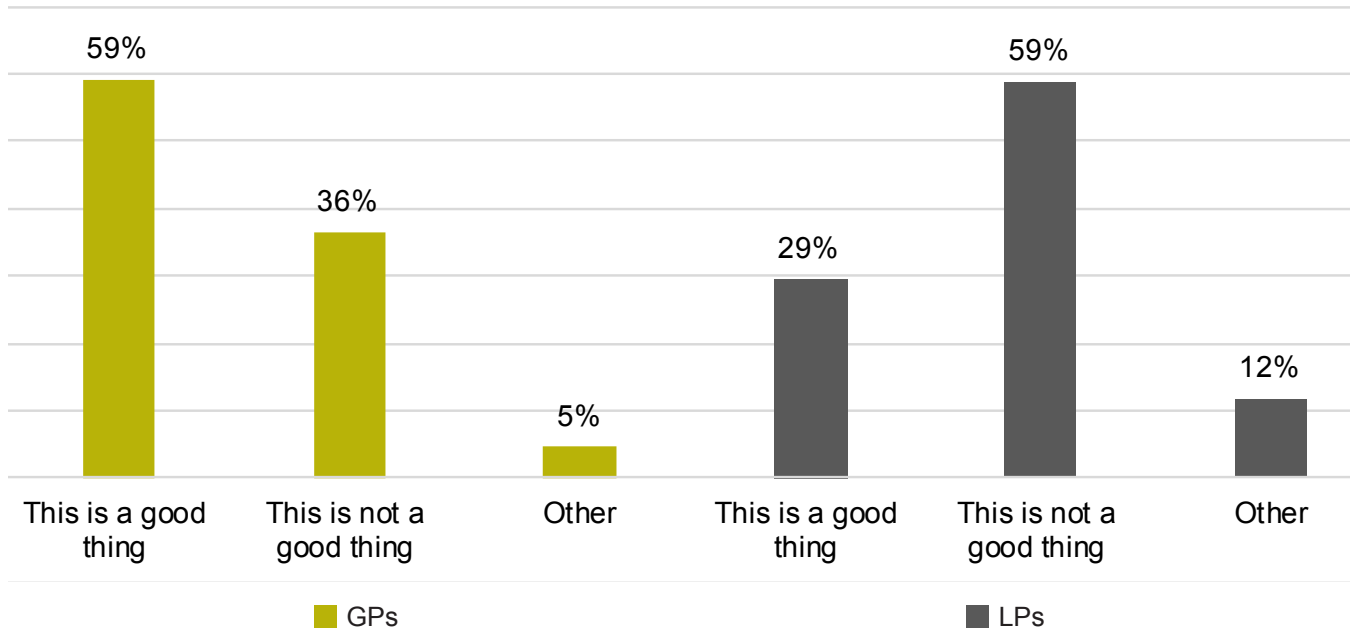
Then of course there is the thorny issue of US interest rates, which are now on an upward path, albeit an uncertain one with regard to timings.

Again, our survey suggests concern here is overblown, with the vast majority of respondents stating it will have no effect on deal flow (82%).

The proposed CHOICE Act in the US will remove the need for Private Equity and Real Estate funds to register with the SEC, potentially removing costs and administrative burden for GPs. However funds in other domiciles remain regulated and if anything the level of regulation (and therefore potential protection for investors) is increasing.

Attitudes towards the CHOICE Act seemingly depend on whether you are looking at it from the GP or LP perspective. The majority of our GP respondents view the removal of regulation in this regard as a positive step, whereas the figures are nearly reversed for LPs – suggesting that the changes might help GPs but at the expense of LPs.

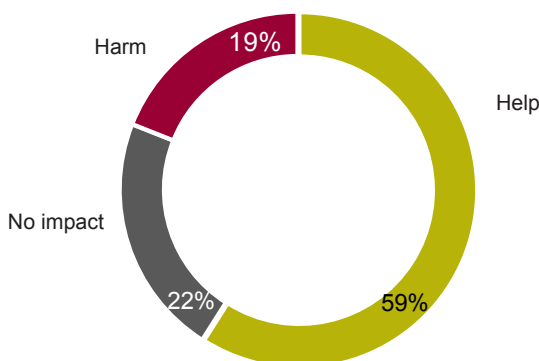
WHAT DO YOU THINK ABOUT THE PROPOSED CHOICE ACT, REMOVING THE NEED FOR PE AND VC FIRMS TO REGISTER WITH THE SEC?



BREXIT

In Europe, there is of course the looming issue of Brexit, and its potential impact on the market. Following the shock result in the June election, the prospects of a softer Brexit now look brighter. We asked our UK managers what impact a soft Brexit would have on their fund-raising capabilities:

HOW WILL A SOFT BREXIT IMPACT FUNDRAISING?



A majority welcome the idea, saying a 'soft' Brexit would improve their fundraising prospects. The rest are split between thinking it would have no impact either way (22%) or that a softer Brexit would actually harm their fundraising capabilities (19%).

A substantial group of the respondents also gave more complex additional comments, suggesting that the issue is as divisive in the GP community as it is in the wider public, and that the possibilities are not so straightforward either way. These 'other' responses ranged from "too early to tell" to "investors are over Brexit". A number were unable to give a categorical answer, with some commenting that Brexit will "make everything much more problematic".

LOOKING AHEAD

For all the sound and fury on both sides of the Atlantic regarding the shock political disruptions of the last year and a half, global markets have remained relatively buoyant – and private equity and real estate is no exception. Our snapshot of the sector reveals an overall picture of cautious optimism and steadiness, a sector relatively insulated from and able to adapt to developments that make for alarming headlines elsewhere. The world is changing in ways that few would have predicted just a year ago, but change is no longer a stranger to an industry that has undergone its own rapid transformation over the last half-decade. A more resilient – and flexible – industry has emerged.

Nonetheless despite the positives, the picture is still partly a mixed one – a significant minority of managers across all regions are having a more troublesome year than planned for. Much remains uncertain, and more than ever managers will need to keep a keen eye on developments as we head towards another New Year.

If 2016 and 2017 have taught us anything, it's that change can be unexpected and abrupt. A lot will depend on how newly emergent political and macroeconomic tensions end up playing out – the final details of the Brexit settlement, in particular, could end up redrawing the European regulatory map. By staying on top of the detail and embracing new standards in technology and communication, firms can put themselves on a good footing to weather any storms ahead, and gain that crucial edge in an increasingly competitive and unpredictable environment.

ABOUT US

The Augentius Group provides specialist solutions to the Private Equity and Real Estate sector. Both managers and investors alike utilise our services ranging from fund administration through to regulatory reporting and compliance consultancy. With over 650 staff across the globe servicing over 500 funds, Augentius is one of the largest solution providers in the world.

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