

# Private Equity

## Outlook Survey 2019

# Introduction.

As we head toward 2020, the old Chinese curse about living in ‘interesting times’ has rarely seemed more apt. 2018 proved a tumultuous year of dizzying highs and lows for markets worldwide. Despite the general volatility, the global private equity and real estate industry had another strong year of growth, as alternative investments continued to perform strongly relative to traditional markets.

Yet for all the many positives and opportunities, continued political uncertainty and economic instability on multiple fronts mean that investors and managers alike are looking ahead to 2019 with a degree of caution. More than ever, good judgement and sound strategy will mean the difference between success and failure.

We surveyed private equity and real estate firms across the globe in order to take the temperature of the industry, get fund managers’ perspectives on the year gone by, and gain a sense of what to expect – and where the key challenges and opportunities lie – over the year to come.

A total of 121 Funds professionals participated in the online survey. See survey methodology for more information.



“I would like to thank all those who contributed to the completion of this survey.”

**Justin Partington**  
Group Head of Funds

# Market conditions.

## General sentiment.

The last three annual surveys broadly showed a steady, increasing optimism about market conditions among managers worldwide (in line with the boom in private equity fundraising during this period). This year's survey shows a slight levelling off in that sentiment.

While a slim majority of last year's managers expected conditions in 2018 to improve on those of 2017, nearly half of the managers in this year's survey reported conditions as remaining much the same. However, slightly more still reported conditions as having improved as opposed to worsened.

Looking ahead to 2019, similar patterns emerge, with the majority expecting conditions to remain about the same.

However, a third were expecting a drop off relative to 2018, and only 18 per cent were expecting conditions to improve.

This likely reflects a certain caution off the back of drops in major equity markets leaving some LP investors overweight in alternative assets, and the general expectation of significant corrections to come, with expectations for growth being downgraded the world over.

Political instability, particularly around Brexit, as well as slowdowns in Asia, are also likely to be having an impact. Nonetheless, that so many expect conditions to hold steady as opposed to worsen suggests a feeling that private equity will continue to hold strong regardless of shocks elsewhere.

**Q1: How would you compare the fundraising climate in 2018 against 2017?**

**46%**

Same

**30%**

Better

**24%**

Worse

**Q2: What do you predict the fundraising climate will be like in 2019 compared to 2018?**

**48%**

Same

**19%**

Better

**33%**

Worse

# Market climate. Regional impact.

Zooming down in to the regional view, it can be seen that the US and Asia have led the way in terms of the best investment opportunities over the past year, reflecting the continued strength of the US economy compared with other mature markets, and the continued potential of Asia despite recent slowdowns in China. The ongoing liberalisation of RMB investment will also have played a role in attracting capital to the region from foreign funds.

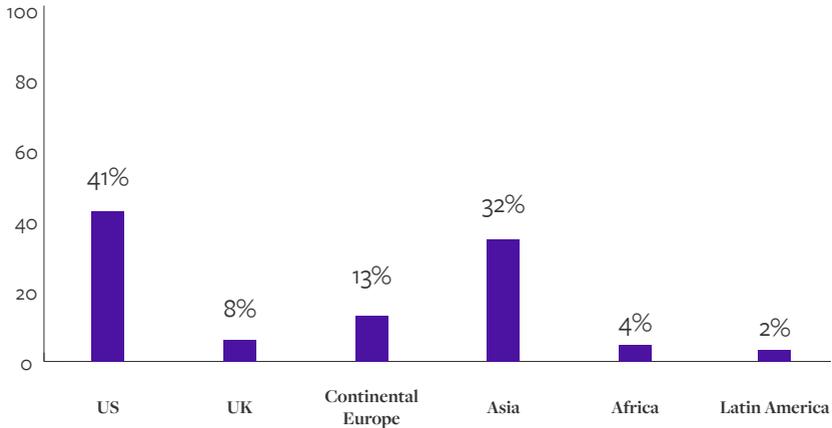
The UK in particular, however, has struggled relative to others as a destination for investment, scoring only a few percentage points above Latin America and Africa – this likely reflects the uncertain limbo in which UK currently stands in regards to its

future relationship with the EU and international markets.

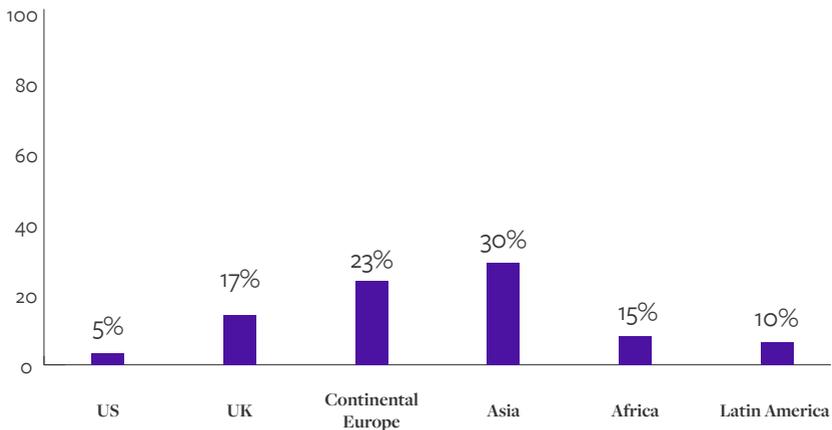
Looking ahead to the next 12 months, the picture that emerges is more mixed, with Continental Europe and Asia scoring highest as areas of interest. The UK does better on the forward-looking front, perhaps hinting at a raft of deals once the future of Brexit inevitably becomes more settled, and the halting uncertainty removed.

The US scores the lowest here, suggesting a feeling that the low-hanging fruit in this region has already been picked, as well as the potential for market correction as predicted by many analysts.

**Q3: In your opinion which regions have attracted the most investment deals in 2018?**



**Q4: In which regions do you see the most interesting investment opportunities?**



# Challenges.

# Opportunities.

Respondents also presented a mixed picture in terms of what they perceive to be their main challenges and issues over the year to come. The ‘bread and butter’ activities – fundraising and finding investment and exit opportunities – all unsurprisingly score highly, and their even split likely can be attributed to the different stages in the lifecycle of the funds surveyed.

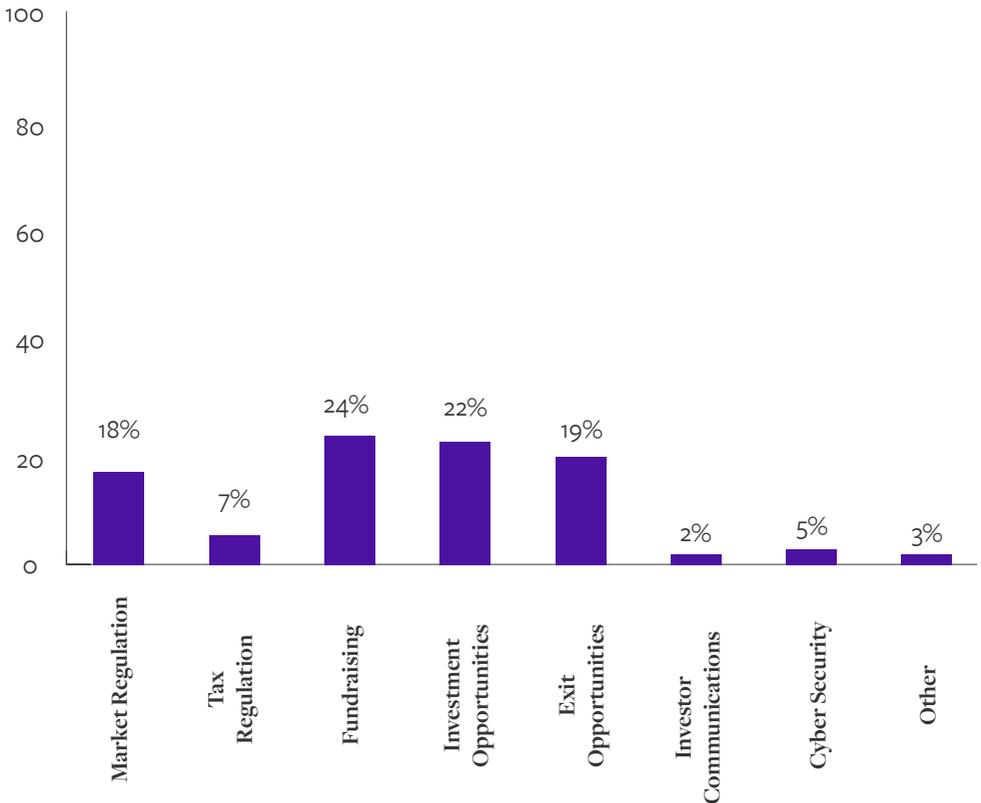
Market regulation also follows closely behind as an area of focus for many, with MIFID in Europe in particular presenting an ongoing source of work as ambiguities and issues continue to be ironed out.

Cybersecurity scores less highly as a prominent challenge than in previous years’ surveys, when a series of high-profile breaches caused firms’ arrangements to come under intense scrutiny from regulators over the world.

While the issue is as crucial as ever in terms of protecting client assets and firms’ reputations, the lower score may suggest that a lot of ‘catch up’ and prevention work has been done on this front. Nonetheless, complacency is not an option and any shortcomings on this front should remain a priority.

Although investor communications scores the lowest as a concern, research shows that we are in an increasingly competitive fund environment - with LPs demanding more and more granular information and allocating capital to fewer funds. As such, the highest standard of transparent reporting and open access to data can make a vital difference to fundraising. Those that don’t adapt on this front could easily fall behind.

**Q5: Which of the following will prove to be the most challenging issues for the fund management industry over the next year?**



# Brexit.

# Uncertainties.

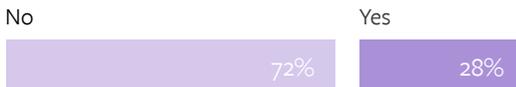
The immediate focus for 2019 on the political front in the UK is Britain's ongoing negotiations for withdrawal from the European Union. Much uncertainty still remains over the terms of exit, let alone the future relationship. Given the potential impact on markets and fund strategies, we asked our UK-based respondents for their insights into the effects so far, and plans for the future. The results are quite balanced – nearly half say it has made business harder. Around half expect it to become harder to invest in the UK market post-Brexit, with a larger majority

fearing the impact on fundraising for UK managers in the future. It is however interesting to note that 72% of respondents are not considering to redomicile and those who are willing to leave the UK have selected Luxembourg as their domicile of choice.

**Q6: To what extent do you think that Brexit has had an impact upon your fund management business in 2018?**

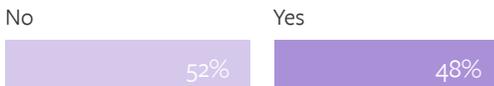


**Q7: Are you considering whether to redomicile your fund as a direct impact of Brexit?**



*All those who responded "Yes" said that Luxembourg was the location they were considering.*

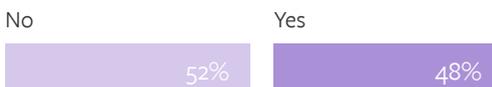
**Q8: In your opinion will it be harder to invest in the UK post-Brexit?**



**Q9: Will it be more difficult for a UK-based fund manager to attract LPs post-Brexit?**



**Q10: Is Brexit impacting on your investment strategy?**

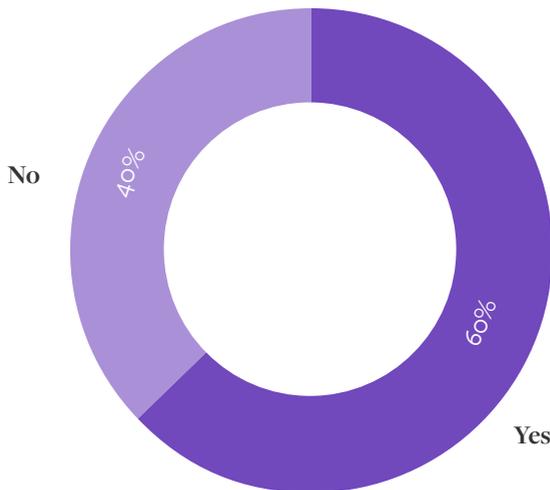


# Standards. Technology.

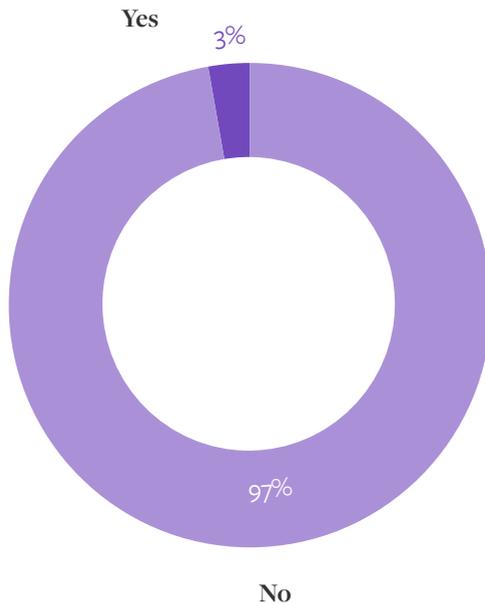
One of the major developments in recent years across the global private equity and real estate industry has been the push to standardise and digitise reporting and communications between managers and their investors. As the industry continues to mature and take its rightful place alongside older, more traditional asset classes, this standardisation effort will play a key role in improving transparency and keeping ahead of trends, both technological and regulatory.

The main thrust on this front has come from the Institutional Limited Partners Association (ILPA), which issued its first set of reporting guidelines which were introduced back in 2011. ILPA has continued to expand and develop this framework since. The uptake has been impressive, with nearly 6 in 10 of respondents now saying that they are using the standard. However there is clearly some road left to travel.

**Q11: Is your firm using ILPAs industry-wide reporting standard?**



**Q12: Is your firm currently using Blockchain technology for investor dealings?**



More speculatively, the emergence of blockchain technology has caused a wave of excitement across the financial world, with numerous applications being developed and tested in a range of areas.

**Q13: Do you believe that Blockchain technology will have a significant impact on the fund management industry in the future?**

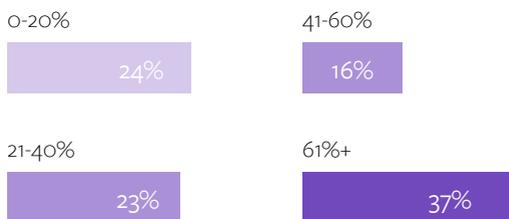


While our survey shows that very few managers are yet actively using the technology for transactions in the private equity space, around half believe it will have a major impact on the industry in the future, and is therefore one to watch in the coming years.

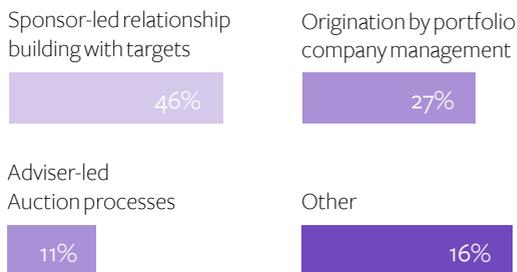
# Fund strategy. Activities.

To round off this year's survey, we also asked our clients a number of questions on the circumstances of their funds with regard to re-investment levels, deal sourcing, and remaining periods for dry powder deployment.

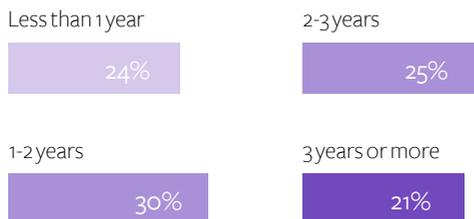
**Q14: What percentage of investors have re-invested in your latest fund?**



**Q15: What is your main method of deal sourcing?**



**Q16: What is the expected duration remaining to deploy your available dry-powder?**



# Looking ahead.

The last few years have been a rollercoaster ride for markets generally, amid a boom in fundraising. Our findings suggest that there is little expectation that volatility and instability will subside over the coming year, and that managers are preparing to navigate a trickier investment environment as certain political and economic uncertainties come to a head, and sentiment levels off. The outcome of Brexit negotiations in particular will be a major focus point for firms active in the UK and Europe.

Nonetheless it is clear that the fund management industry sees plenty of opportunities over the months to come as it looks to deploy its record levels of dry powder and take advantage of any potential corrections in equity markets. The growing role of technology in both the investment and communication process will also continue to gather pace, and those with the wherewithal to move first could reap rewards. We look forward to revisiting our clients for their perspective in a year's time, to see what has changed as the decade enters its final year.

# Survey methodology.

121

Fund professionals interviewed



Respondents domiciled in  
Europe, US, Africa, Asia

30

UK-based fund managers interviewed  
for Brexit related questions



Respondents interviewed from  
17 December 2018 to 15 January 2019

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