Investor outlook on 2020 in light of covid-19
How we conducted the Covid-19 Study

This is a turbulent time for the private equity market and understanding LP opinions and changes in sentiment is more important than ever.

PEI’s Covid-19 Study gathers insight on how institutions are responding to changing market dynamics. For this report, PEI’s Research & Analytics team surveyed 80 institutional investors in March 2020 and 45 institutional investors in May 2020 with allocations to private equity. Participation was anonymous. We have combined the findings and presented them in this special report.

PEI recognises that investors and fund managers may be facing personal and professional challenges given covid-19, and we appreciate respondents taking the time to share their thoughts with us.
Investors are less likely to reduce the number of planned commitments

When this study was first carried out in March, over half of investors were considering or planning to reduce the number of new fund commitments made in 2020. Since then, investors have become more likely to maintain their number of planned commitments for this year, reducing the average size of these commitments.

Directly because of covid-19, is your institution...

<table>
<thead>
<tr>
<th>March 2020</th>
<th>May 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>reducing the planned number of new private equity fund commitments you will make in 2020?</td>
<td>21%</td>
</tr>
<tr>
<td>reducing the planned average size of commitment in 2020?</td>
<td>12%</td>
</tr>
<tr>
<td>reducing its private equity co-investment activity levels?</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: Private Equity International's Covid-19 Study

Over the past five years, there’s still been a pool of investors that are reliant on GPs for syndicated co-investments, but more and more it’s moving towards co-underwriting

Sweta Chattopadhyay, head of private equity advisory, Bfinance
LPs seek distressed funds in this time of upset

There is greater interest in distressed strategies with fund managers able to acquire assets more cheaply amid the downturn.

How do you anticipate your interest in distressed debt or special situations investment strategies to change over the next six months in light of covid-19?

- Greater interest 63%
- No change in interest 25%
- Less interest 5%
- Not applicable 7%

Source: Private Equity International's Covid-19 Study

There have been a fair number of closes over the past six to eight weeks, but most of those are with funds that are well along the way toward a final close.

Kelly DePonte, managing director, Probitas Partners

CLICK HERE to read more on how secondaries and distressed debt opportunities have experienced an uptick in LP interest.
Investors are warming to the idea of greater flexibility when it comes to GPs investing beyond their investment mandates. Over the course of 2020, a greater proportion of respondents revealed to us that they are considering or are already being more flexible with these mandates.

**Directly because of covid-19, is your institution increasing its allocation to private equity?**

<table>
<thead>
<tr>
<th>March 2020</th>
<th>May 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>16%</td>
<td>43%</td>
</tr>
<tr>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>24%</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Source: Private Equity International’s Covid-19 Study*

**Directly because of covid-19, is your institution...**

- being more flexible with GPs to invest beyond their investment mandate?
  - March 2020: 16%, May 2020: 43%
  - Yes: 16%, No: 42%

- being more active on the secondaries market as a seller?
  - March 2020: 16%, May 2020: 79%
  - Yes: 16%, No: 79%

Steve Lessar, managing director, BlackRock

The market right now feels like it’s treading water: above the surface not a lot appears to be happening, but people are kicking furiously below the surface.
Many private equity firms are facing the challenge of keeping their portfolio companies afloat. Some governments have offered aid to struggling businesses that are PE-backed. However, investors display mixed sentiment when asked whether these companies should receive support in the same way as other businesses.

To what extent do you agree that PE-backed portfolio companies should receive government support in the same way as other businesses?

Source: Private Equity International’s Covid-19 Study

To rule a company out of state aid on the basis of ownership is quite dangerous, because companies will end up going to the wall.

Head of private equity, Europe-based bank
Investors are staying put

In 2020, a greater proportion of respondents have revealed to us that they are planning to shift towards conducting more business through digital channels than in person. Investors are also planning on attending fewer industry conferences.

Which of the following do you expect to do once "normal" business life returns?

<table>
<thead>
<tr>
<th>March 2020</th>
<th>May 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>We will expect to attend GP AGMs by videoconference as opposed to fly in</td>
<td>13%</td>
</tr>
<tr>
<td>We will conduct fund due diligence by videoconference as opposed to fly in</td>
<td>13%</td>
</tr>
<tr>
<td>We will attend fewer industry conferences in person</td>
<td>14%</td>
</tr>
</tbody>
</table>

This kind of event forces everyone to look at what they are doing and how they are doing it and to really re-evaluate.

Brian Gildea, head of investments, Hamilton Lane

Source: Private Equity International’s Covid-19 Study
The impact of covid-19 on performance is clearer

When we asked investors in March about the level of visibility they have on the impact covid-19 is having on their PE portfolio performance, 28% revealed they had good visibility. Two months later, nearly half of investors believe they have good visibility over this impact.

What level of visibility do you feel you have on the impact of covid-19 on your PE portfolio performance?

<table>
<thead>
<tr>
<th>March 2020</th>
<th>May 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>8%</td>
<td>19%</td>
</tr>
<tr>
<td>28%</td>
<td></td>
</tr>
<tr>
<td>45%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Private Equity International’s Covid-19 Study

Some firms, with newly raised mega funds will be eager to put money to work more quickly. Other firms that invested heavily through 2019, will take more of a defensive stance.

Gopal Tampi, managing director, Mizuho Securities

CLICK HERE to read about the three phases of private equity in the age of covid-19.
More than half of investors are receiving requests from fund managers to extend fund terms and investment periods as a result of covid-19. Investors are more likely than not to receive a request for expanding investment mandates or the use of fund-level credit.

**Directly related to covid-19, are you receiving fund amendment requests from fund managers for the following:**

<table>
<thead>
<tr>
<th>Request Type</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycling provisions</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>Fund term extensions</td>
<td>51%</td>
<td>49%</td>
</tr>
<tr>
<td>Investment period extensions</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>Expanded use of fund level credit</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>Expansion of investment mandate</td>
<td>37%</td>
<td>63%</td>
</tr>
</tbody>
</table>

Source: Private Equity International’s Covid-19 Study

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Firms are also using subscription lines of credit to draw down capital for their portfolio companies and must come back to their partners to ‘replenish’ them.

Rod June, chief investment officer LACERS
Investors unlikely to budge with ESG policies

Private equity investors are placing greater importance on and paying closer attention to environmental, social and governance integration across their portfolio. Proponents of ESG frameworks will be pleased to see that respondents are more likely to stay firm with their current ESG policies than relax this.

In light of the impact of covid-19, is your institution prepared to relax its ESG policy as it relates to private equity fund investments?

Source: Private Equity International’s Covid-19 Study
This report was compiled from data collected for PEI’s Covid-19 Study published in June 2020.

Dan Gunner  
Director of Research & Analytics  
Private Equity International  
dan.g@peimedia.com  
+44 (0)207 566 5423

Nicole Douglas  
Head of Investor Research  
Private Equity International  
nicole.d@peimedia.com  
+44 (0)207 879 3894