

10th annual GP Trends 2020

North American overview



Welcome to the North American overview of Investec's 10th annual GP Trends survey. Back in 2009, we published the first edition of GP Trends. The global financial crisis ("GFC") of 2007/8 had hit the economy hard, with many private equity funds and firms feeling the subsequent impact. Some closed their doors, for good.

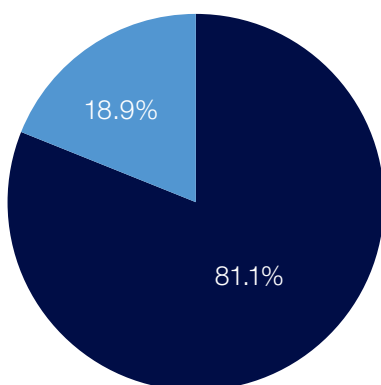
As we publish the 10th edition of our research into the important issues for those working in the private equity industry, "crisis" is the watchword, once again. But the COVID-19 pandemic of today is not the GFC: whereas the impact of the GFC was first felt in economic terms (albeit with very personal consequences, for many), the current pandemic has had a tragically human impact, which has led to a severe economic downturn.

Indeed, the 2019 novel coronavirus took hold just as we were researching this edition of our GP Trends report. We couldn't ignore the pandemic; in fact, we commissioned additional research, in order to provide a timelier picture of how the world has been impacted and how you and your peers are reacting. You will find a

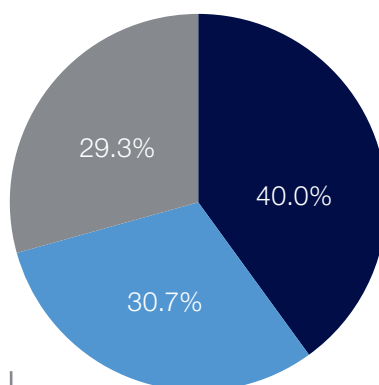
special section in this edition of GP Trends, dedicated to the impact of COVID-19.

But, while current events and their effects are central to this year's analysis, there are more longstanding trends that also deserve our attention. Once again, we look at gender diversity in the industry and, through the lens of environmental, social and governance ('ESG') factors, we look at private equity's place in North America. Institutional investors continue to clamour for more responsible and sustainable investment practices, but are GPs really listening? And, finally, we'll take a look at what is to come in the next decade, for private equity GPs. First, though, let's survey the major changes that have taken place over the last 10 years:

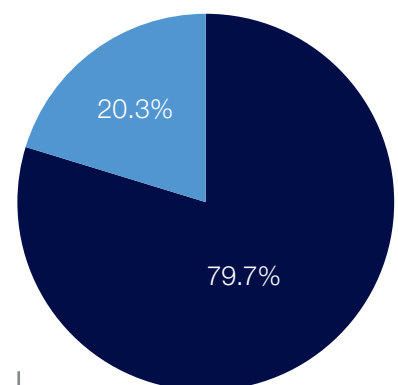
About the 79 North American respondents



■ Male
■ Female



■ Managing Partner or equivalent
■ Partner or equivalent
■ Below partner level



■ <1bn
■ >1bn

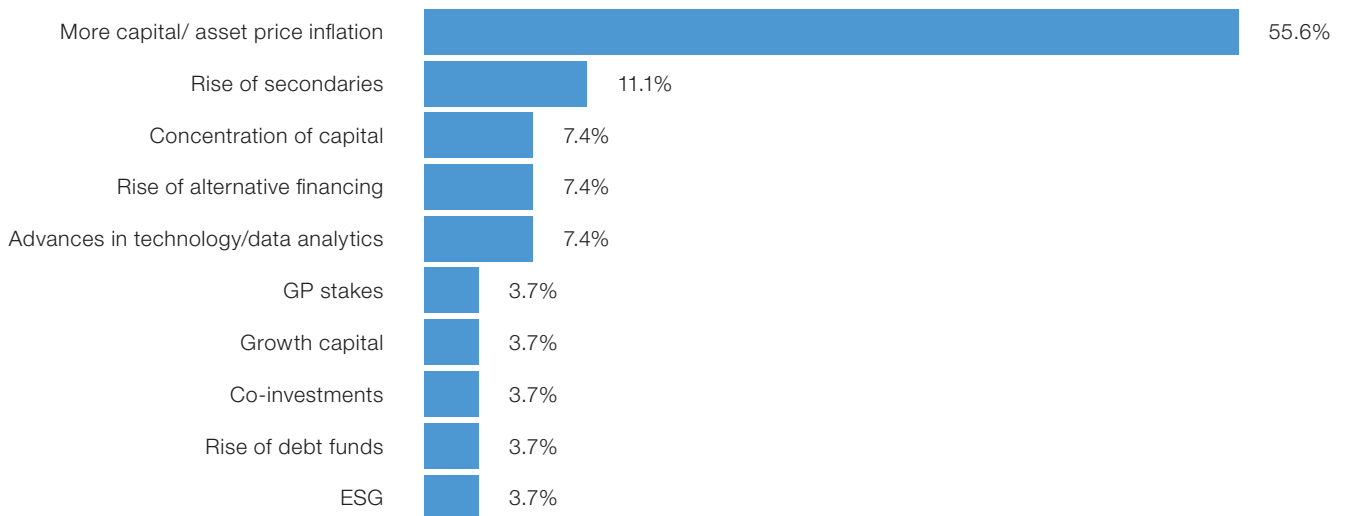
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1

Private equity: a decade of growth

What has been the most significant development in the private equity industry, since 2010?



Nearly two thirds of North Americans mentioned the increase or concentration of capital. The clearest and most impactful result of this had been asset price inflation, as more money chased the same number of deals. Clearly, the economic effects of COVID-19 will slow this appreciation, even if only temporarily.

Although a much less popular choice, 11% still suggested that the rise of secondaries was the most significant change. For a supposedly illiquid asset class, the emergence

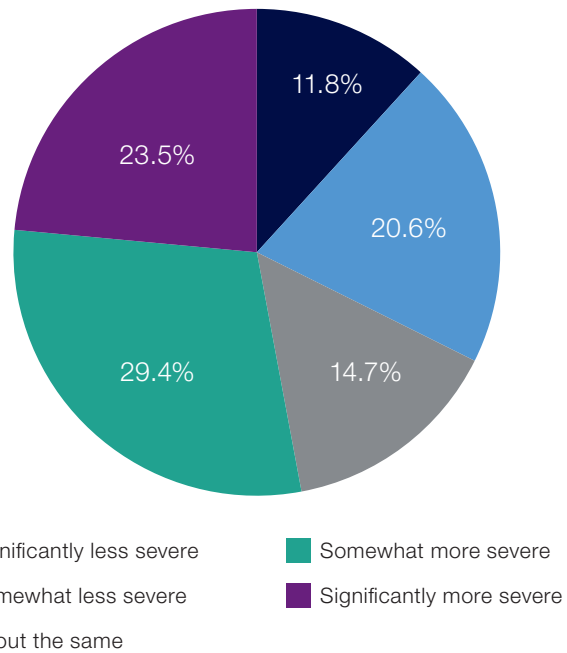
of a secondary market for fund and portfolio company interests made a dramatic change to the industry. What started as a typically LP-led phenomenon has continued to evolve, as Whitney Krutulis, Head of IR at Chicago based Sterling Partners, notes:

“The biggest shift I’ve seen in the last 10 years is the growth of secondary markets. GP-led fund restructuring has grown into a big and sophisticated market and there was hardly any presence, back then. It has had a huge impact on IR roles.”

2

The impact of COVID-19 on private equity

Compared to the global financial crisis of 2008, how severe do you think the impact of COVID-19 on the private equity industry will be?



53%

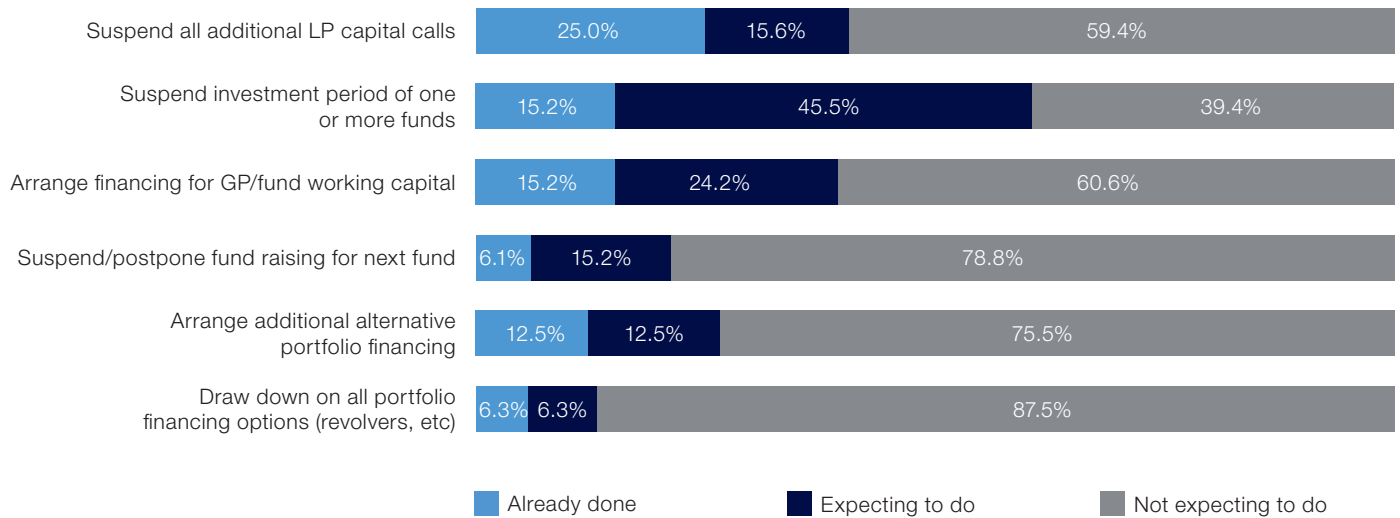
of the North American GPs we surveyed believe that COVID-19 will have a greater impact on the private equity industry than that suffered from the 2008 global financial crisis.

Just over half (53%) of the North American GPs we surveyed believe that COVID-19 will have a greater impact on the private equity industry than that suffered from the 2008 global financial crisis.

Nevertheless, compared to other locations, they are less likely to consider COVID-19 the most

damaging event of the two. Whereas 53% of North Americans believe that COVID-19 will have a more severe impact, this compares to 56% of continental Europeans and 65% of UK respondents.

In response to COVID-19, which of the following steps has your firm already undertaken, and which are you expecting to do in the next six months?



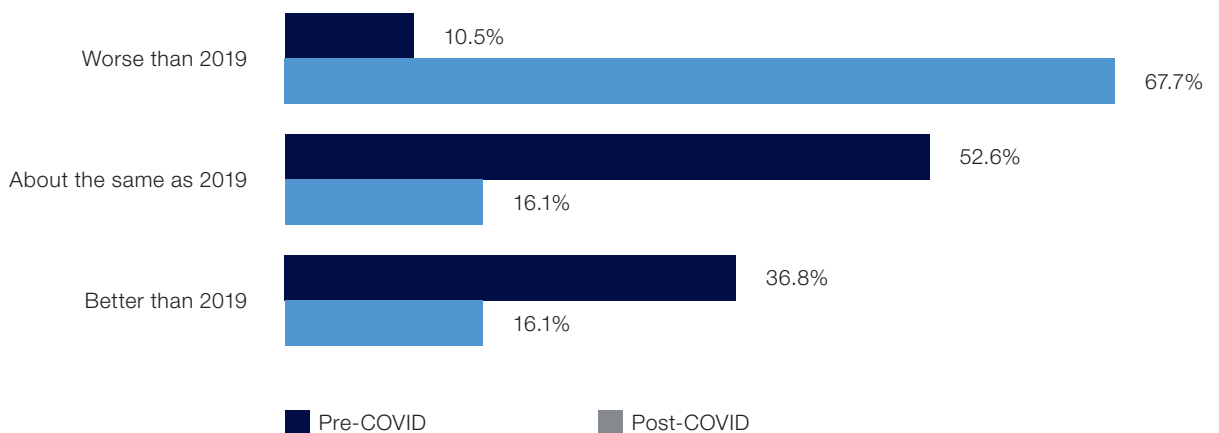
Only a quarter of North Americans said that they already have drawn down on all portfolio financing options, significantly less than in the UK (71%) and in continental Europe (40%). Almost 60% of North American GPs said that they are not even considering this.

Dave Novak, Co-President of Clayton, Dubilier & Rice has a clear plan for the pandemic:

“We have a focus on three areas at the moment. Firstly, keeping people safe - we insist on the best health and safety procedures. Then, we are ensuring that our portfolio companies have enough liquidity and are reducing the cash burn. And, of course, it is very important to us to make sure they can emerge from this strongly.”

Before the outbreak of COVID-19, the overwhelming majority (89%) of North American GPs expected greater returns in 2020. However, this level of confidence has dropped, as the pandemic has taken hold, with more than two-thirds now expecting short-term returns at their firm to be worse this year compared to 2019.

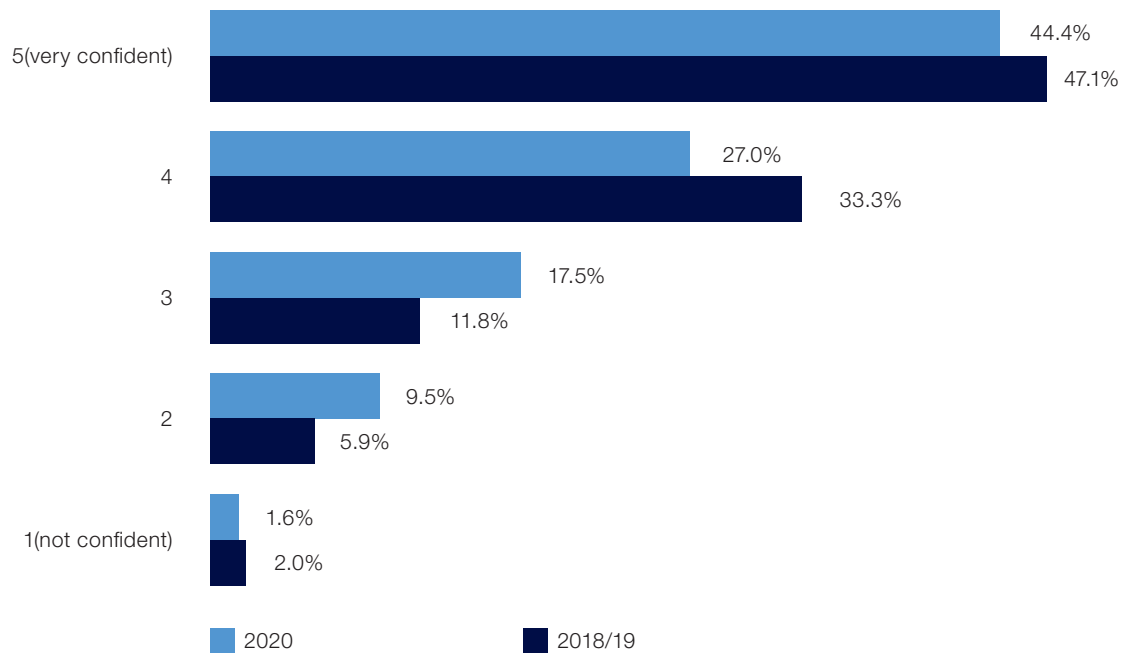
How do you expect returns at your firm to fare over the next two years?



3

Career prospects

On a scale of 1-5 (where 5 is very confident), how confident are you in your long-term career prospects at your current firm?

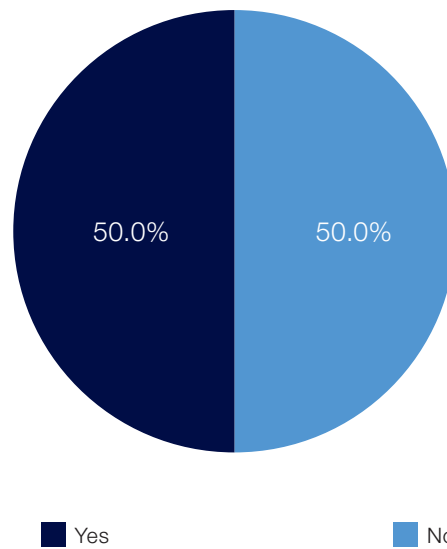


Over the past year, confidence in career prospects has dropped slightly, but still remains relatively high, amongst US and Canadian respondents. Indeed, since the coronavirus outbreak, the percentage of respondents from the region electing the highest level of confidence has risen to 54%, up from 31%.

4

Diversity

Do you feel you would be paid more for doing the same job if you were male?



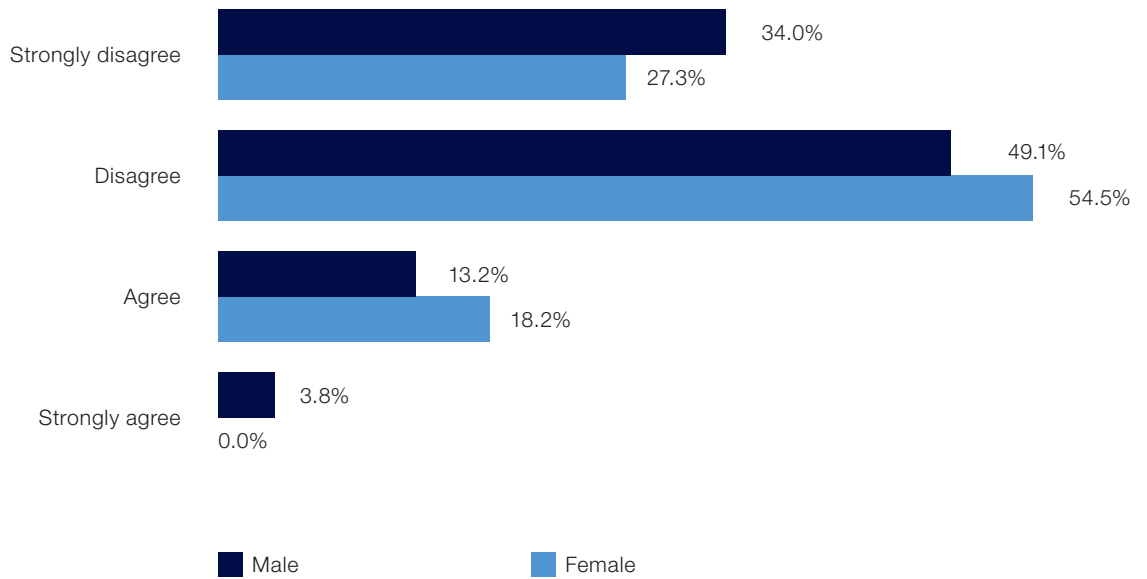
When female GPs were asked if they felt like they would get paid more for doing the same job if they were male, there was no consensus. However, it's worth stating that the only managing partner who answered this question answered 'No', and all respondents below partner level answered 'yes'. Evidently, in junior ranks at GPs, there is suspicion at the level of equality provided.

Whilst there remains much to be done, firms are making some progress. Apax's CEO in Paris,

Eddie Misrahi sees gender equality as a strong trend:

"In our firm, men and women in the same position are paid exactly the same. You have very significant forces going towards diversity, in general – not just male/female diversity. The pressure will continue and force firms that are not acting on this to do so."

“My firm considers diversity and equal opportunities to be key in building a successful business with longevity.”



With the majority of respondents believing their firm considers diversity and equal opportunities to be key in building a successful business with longevity, it is clear that this is being taken more seriously. However, still nearly one in five (18%) North American female GPs believes that progress still needs to be made.

As Dave Novak, Co-President of Clayton, Dubilier & Rice reminds us:

“With regards to gender equality and diversity, in more general terms, the data is pretty clear: very few industries have dealt with this well and private equity is no different”.

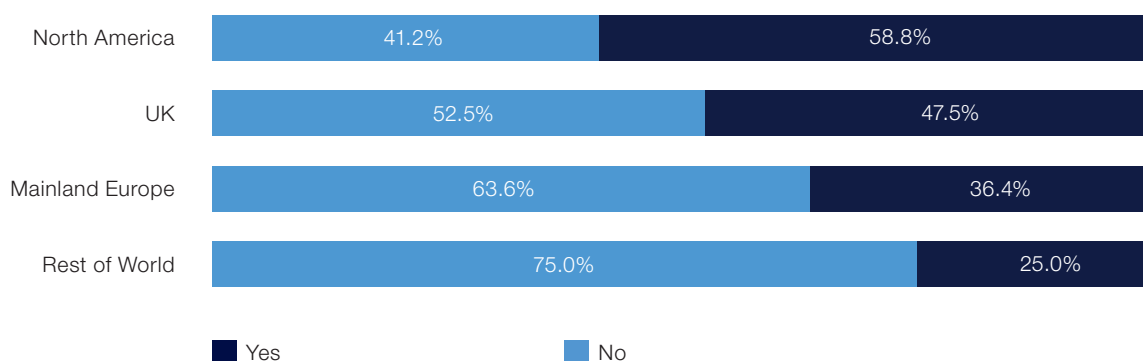
Dave Novak
Co-President of
Clayton, Dubilier & Rice

“With regards to gender equality and diversity, in more general terms, the data is pretty clear: very few industries have dealt with this well and private equity is no different”.

5

ESG

In the last 12 months, have ESG or ethical factors been a significant contributor to the decision not to invest in one or more companies?

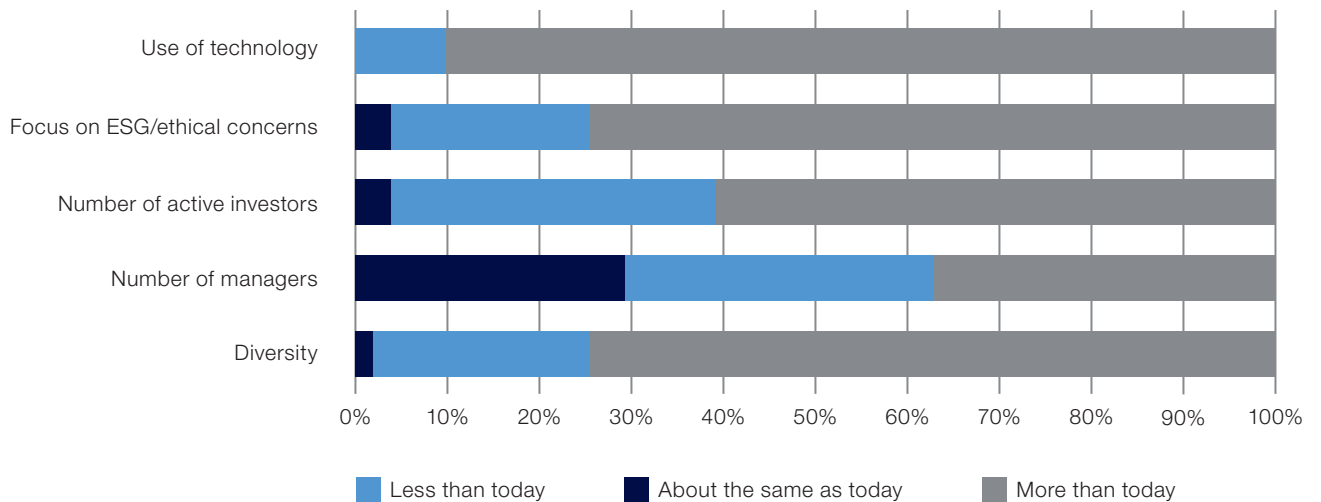


Across all the regions, respondents based in North America are the least concerned about ESG and ethical factors when making an investment decision, with only 41% saying that it had been a significant contributor to the decision to reject an investment opportunity. Of course, this remains a significant proportion. As we shall see, US and Canadian GPs expect ESG to be an important trend for the coming 10 years.

6

The next ten years

Relative to the industry today, how will the private equity industry look in 10 years' time?



90%

of US and Canadian GPs believe that the industry will make greater use of technology in the next 10 years

We can see that 90% of US and Canadian GPs believe that the industry will make greater use of technology in the next 10 years and that the focus on ESG and diversity will continue, unabated. There remains confidence that the number of active investors in the asset class will continue to rise, but the jury is out on how many fund managers there will be to service them. In 10 years, we will know who was right...

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Final thought

Thank you for taking the time to read the North American overview of our latest GP Trends report, our 10th edition. We hope you found it a useful commentary on the state of the industry, from the GP perspective.

If you would like to read the full version of the report, including the responses of all participants, globally, please visit investec.com/gptrends to download it.

Acknowledgments and methodology

We would like to thank the 79 North American GPs that took part in this year's research. In addition, we are particularly grateful to Whitney Krutulis of Sterling Partners, Eddie

Misrahi of Apax Partners and Dave Novak of Clayton Dubilier & Rice, who took extra time out to take part in longer form interviews.

Research for this project was conducted by MJ Hudson, primarily via an online questionnaire. You can find out more about MJ Hudson at mjhudson.com.

About Investec

Investec's Fund Solutions team is one of the fund finance industry's pioneers. Our team has grown to 30 members across 5 continents, delivering over 500 lending facilities and \$12bn of loans. We are known for our creativity and for an exceptionally broad range of capabilities to both private equity funds and their management companies. The value of our insights and capital is ever more important in these volatile times.

In North America, we are widely considered one of the leaders in the dynamic NAV finance space, providing strategic capital to both concentrated single fund portfolios and diverse pools of secondary LP positions. Our solutions provide fund managers with the keys to unlock compelling value creation opportunities in mid-life and older funds. We deliver cutting edge

terms and attractive pricing that accurately reflects risk.

An ever-broader set of strategic tools is available to private equity fund managers ("GPs"). Investec pioneered a number of these strategic tools, starting with GP-level financing over a decade ago. Today, Investec continues to deliver first-of-kind strategic GP financings, ranging from back-levering single GP Stakes transactions and entire GP Stakes portfolios to providing strategic capital that empowers GPs to buy back cornerstone stakes in their management companies.

Investec understands every level of the private equity stack, from portfolio companies to management companies, to the GPs themselves. You can trust us to partner with you to solve your most strategic and important challenges.

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