

PRESS RELEASE:**With virtual underwriting processes here to stay, global LPs show a more relaxed and progressive attitude to backing new relationships**

Capstone's annual LP survey explores current underwriting trends and their impact on commitments to private equity

2 March, 2022 - Virtual underwriting has become a permanent fixture in private equity fundraising according to a new survey of global LPs, conducted by placement agent Capstone Partners.

The survey, which seeks to explore how current underwriting trends impact LP's ability to make commitments to private equity funds, shows that virtual underwriting has been fully adopted by LPs, with the vast majority virtually underwriting re-ups in 2021, and a comfortable majority virtually backing managers they know well or had met pre-COVID. Just 9% of the 130 global investors said that they had not used virtual processes to underwrite re-ups in 2021.

North America

Dallas, Texas

New York, New York

Europe

Nyon, Switzerland

London, United Kingdom

Asia

Singapore

Moreover, the survey highlights how virtual underwriting is now also a valid option for backing new GP relationships, with just 14% of global investors expressing reluctance to use it. North American and European LPs are the most comfortable, with just 3% and 12% respectively unwilling to use virtual processes in new relationships. Although Asia Pacific remains the most conservative region with 33% of investors still uncomfortable with virtual processes to back new relationships, LPs across the world are clearly adopting a more relaxed and progressive attitude than they were 12 months ago.

In 2020, 37% of global investors expressed discomfort with the use of a virtual process to back new GP relationships. The US was more bullish in outlook but strong pockets of caution existed among investors in Europe (80%) and Asia Pacific (82%).

Investors appear to have been reassured by familiarity and re-up levels in 2021 exceeded their own expectations. The last 14 months have seen big funds return to market earlier than expected, offering LPs a trusted and familiar means to deploy capital. This trend is expected to continue, with LPs expecting more than 60% of their allocations to go to re-ups in 2022 (62% in the US, 59% in Europe and 69% in Asia Pacific).

This flight to familiarity extends to ticket size with Capstone's survey showing that commitment levels did not markedly change in 2021 versus pre-Covid levels. Investors expect this trend to continue into 2022. North America is the region where the most LPs (33% vs 19% in Europe and 8% in Asia Pacific) plan to increase their ticket size.

Despite investors' gravitation to the familiar, Capstone's survey highlights how new GP relationships have not lost out as a result of the Covid pandemic. The level of LP commitments to new relationships remains fairly consistent, with nearly half of the investors surveyed entering into the same number of new relationships in 2021 as they did pre-Covid. 34% reported a decrease and 20% an increase, with an average of four new GP relationships invested in during 2021.

European investors were the most confident in backing new GP relationships in 2021, with nearly 60% in line with their pre-Covid levels and just 28% experiencing a decrease. The US is not far behind with about half reporting the same number of new relationships in 2021 versus pre-Covid and one third decreasing their new relationships. The highest level of conservatism towards new GP relationships is found in Asia Pacific, where 28% of investors saw commitments remain the same as before Covid and 48% experienced a decrease.

The outlook for 2022 is similarly optimistic for new relationships. European investors show the most openness to new GP relationships in 2022 (with 41% of their allocation expected to go to new relationships vs 38% in North America and 31% in Asia Pacific).

However, life remains challenging for first time funds. In 2021, only one third of new LP relationships were with first time institutional funds. Half of the North American LPs surveyed count no first-time institutional funds in their relationships, and this is even higher in Asia Pacific (62%) and Europe (82%).

With the COVID pandemic receding out of view, Capstone's survey looks ahead to 2022 and to an increase in direct communication and business travel in the year head.

Before the Omicron variant hit at the end of 2021, most LPs were open to in-person meetings with GPs, with North American investors the most bullish about a return to normality (75% expected this in H1 2022). Asia Pacific investors were more cautious with 63% expecting a return to normal in the second half of 2022. More than 70% of the respondents anticipated that travel restrictions would be lifted in H1 2022 allowing more face to face GP/LP interaction.

However, a return to normality does not herald the end of the virtual process, with the majority of investors (77%) expecting many of the changes implemented in virtual underwriting to remain for the long term. These include increased background checks and references and more team members required on the GP side. In North America in particular, increased references and a slower process was reported by LPs.

Steve Standbridge, co-Managing Partner at Capstone Partners, commented: *"In a context where virtual is no longer a new normal and the pandemic not yet out of view, it is no great surprise to see that LPs across the global remain relatively conservative for the second year in a row. However, it is clear to see that their attitudes have relaxed towards backing new relationships. Despite a concern that these relationships might have lost out when face to face interaction stopped, our survey shows that in fact LP commitments to new relationships have remained consistent with pre-Covid levels over the last year, particularly in Europe with the US not far behind. The fact that investors have been more open to using virtual underwriting to back new relationships is a strong contributor to this trend."*

He added: *"While many of the positive features of virtual underwriting are here to stay, private equity is a people business and our survey shows that investors are preparing for more direct GP interaction as business travel picks up in the second half of 2022."*

Ends

Notes to Editors

For more information please contact:

Equity Dynamics PR

Emily Weston - T +44 7967 838205 - emily@equitydynamics.co.uk

Corinna Vere Nicoll - T +44 7825 326 440 - corinna@equitydynamics.co.uk

About Capstone Partners

Founded in 2001, Capstone Partners is a leading global placement agent focused on raising capital for private equity, credit, real asset and infrastructure firms. The Capstone team includes 40 experienced professionals in North America, Europe and Asia Pacific.

For additional information about Capstone Partners, please visit www.csplp.com.