RedePARTNERS

FOR IMMEDIATE RELEASE

Slowdown in growth in investor appetite for private equity with North American investors showing the sharpest downswing in sentiment – Rede Liquidity Index (RLI®)

- **Overall 1H2019 RLI® score of 59 marks a slowdown in growth in LP deployment expectations and sees the RLI® drop below 60 for the first time**
- **North American investor sentiment falls by 13 points to a score of 51 vs 64 in 2H2018**
- **European LP sentiment stabilises following previous Brexit uncertainty with a score of 64 vs 61 in 2H2018**
- **Distribution expectations are down significantly (47 in 1H2019 versus 59 in 2H2018) with LPs in North America turning most negative with a drop of 21 points**
- **Co-investments increasingly popular amongst LPs with a strong score of 70 while enthusiasm for secondaries remains flat with score of 49**
- **Index represents views of LPs with over €5 trillion in assets under management and over €800 billion in capital allocated to Private Equity**

London/New York, 19 March 2019: Investor appetite across Europe and North America towards private equity shows signs of reaching a plateau, according to the 1H2019 edition of the Rede Liquidity Index ("RLI®"), an industry benchmark assessing investor sentiment towards the asset class.

For the first time ever, the overall RLI® score has fallen below 60 – standing at 59 for 1H2019.

Similar to the Purchasing Managers Index (PMI), a baseline score of 50 represents no change, whilst a score above 50 indicates an expectation to increase private equity commitment over the next 12 months. A score beneath indicates an expectation to deploy less.

Sharp downswing in sentiment amongst North American investors

The decline in overall RLI® score was North America, with the local score for North America dropping 13 points to 50. This score means that for the first time North American LPs are expecting to hold their commitments to private equity steady rather than growing them. In addition, of the North American investors surveyed, endowments and foundations were typically the most bearish.

In contrast, the picture in Europe has remained more stable. Six months ago there was a clear fall in sentiment amongst LPs in Britain and across Europe – this was likely a reaction to Brexit, as LPs began to adjust their investment programmes in the face of uncertainty. However, six months later sentiment has stabilized and with a local RLI® score of 64 this points towards modest growth in deployment to private equity funds by European investors during 2019.

Scott Church, Partner and Co-Founder at Rede Partners commented: "The divergence in attitudes towards private equity between North American and European based investors can perhaps be attributed to a more heightened awareness of cycle by the Americans, tied to their more bearish outlook on distributions."

"With the decline of North American sentiment being driven by the endowments and foundations -- among the most sophisticated investors in the asset class -- it is reasonable to suggest that other LPs may be expected to follow over time. With tighter budgets for new allocations, private equity managers will have to work harder, and smarter, to break into the ranks of institutional portfolios."

LPs expect significantly less capital to be returned to them via distributions

Following a period of consistently strong exit activity for the private equity industry, a slowdown now appears to be on the horizon. Specifically, the RLI® subindicator for distributions dropped 12 points to 47 in the six months to H1 2019 – this means that LPs expect to see less capital returned to them in the 12 months ahead. Once again, this trend is most pronounced amongst North American LPs with a local score of 45 representing a fall of 21 points versus six months prior.

European LPs favour new relationships as North American LPs maintain existing relationships

With a score of 63, European LPs are expecting to increase deployment to new managers. This is likely to be a case of adding emerging or more specialist managers to their maturing investment programmes.

At the same time and with a score of 50, North American LPs expect to hold deployment to existing managers steady. With the aforementioned reduction in private equity allocations on the horizon, this may be a reflection of North American investors prioritizing their scheduled re-ups during 2019 rather than seeking to broaden their portfolios.

Co-investment opportunities remain highly attractive as enthusiasm for secondaries levels off

Despite overall sentiment towards private equity showing a downwards trend, co-investments remain an area of significant growth – for instance, 96% of RLI® Panelists intend to maintain or expand co-investment activity.

Conversely, while the 1H2019 survey shows a fractional increase in secondaries investment compared to 2H2018, the RLI score still remains below 50 at 49, indicating they expect to deploy less in 2019.

Adam Turtle, Partner and Co-Founder at Rede Partners added: "Although sentiment towards private equity amongst North American and European investors may be slightly muted versus six months ago, a score of 59 indicates continued growth for our asset class. Private equity unquestionably remains an attractive and resilient option for investors. Looking ahead, as private equity continues to evolve, the overall long term outlook for private equity as an asset class remains positive."

Ends

Notes to Editor

Contacts

Instinctif Partners
Ross Gillam – ross.gillam@instinctif.com – 020 7457 2035
Justine Crestois – justine.crestois@instinctif.com – 020 7457 1427

Rede Liquidity Index methodology

The survey was sent out to a select group of global institutional LPs, chosen to provide geographic and source of capital diversification. 166 LPs participated in the survey representing over €5 trillion in assets under management and approx. €800 billion in capital allocated to private equity.

The overall RLI has representation from all over the world, including Europe, North America, Asia, Middle East and Australia. In the more detailed analysis, only the categories which had enough respondents to be statistically relevant were included.

For each question LPs were asked if they were expecting to deploy MORE, SAME or LESS during the upcoming 12 months compared to the previous 12 months.

RLI data is presented in the form of a diffusion index, which is calculated as follows:

RLI = $(P_1 x1) + (P_2 x0.5) + (P_3 x0)$

where:

P_1 = Percentage number of answers that reported an increase

P_2 = Percentage number of answers that reported no change

P_3 = Percentage number of answers that reported a decrease

Thus, if 100% of the respondents reported an increase, the index would be 100.0. If 100% reported a decrease, the index would be zero. If 100% of the panel saw no change, the index would be 50.0. Therefore, an index reading of 50.0 means that the variable is unchanged, a number over 50.0 indicates an improvement, while anything below 50.0 suggests a decline.

About Rede Partners

Rede Partners is a leading independent fundraising advisor to the private equity industry, which since inception in 2011 has advised clients on €25 billion of primary capital raising and €2 billion of GP-led transactional volume. With a well-resourced (44) person team based in London and New York, Rede has a rigorously implemented approach combining focus, a comprehensive service offering across the entire spectrum of investor-facing activities, and a long term business development perspective. The Firm's business model is underpinned by an unwavering commitment to delivering against its client's objectives, helping them tackle the challenges and opportunities of today's capital raising environment.

For more information please visit: https://www.rede-partners.com/