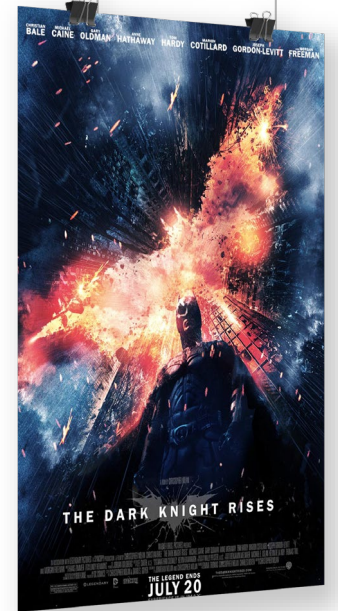
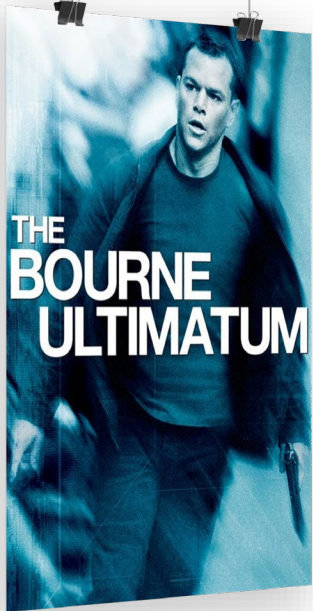


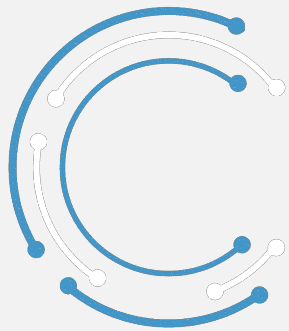
A silhouette of a person standing on a mountain peak, looking through a telescope. The sun is low on the horizon, creating a bright glow and lens flare. The background is a mix of orange and blue tones.

# The Rede View

September 2023



# RedeConnect 2023: third time's a charm



**919**

Registrations



**5**

Webinars



**27**

Rede GPs



**61**

Small group  
LP-GP meetings



**502**

LP-GP meeting seats  
allocated

# Introducing our speakers for today's webinar



**Scott Church**

Senior Partner  
Rede Partners



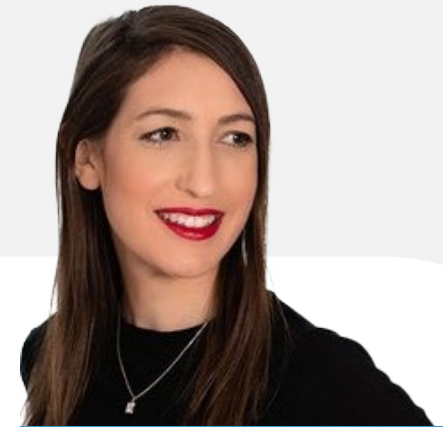
**Adam Turtle**

Senior Partner & CEO  
Rede Partners



**Alexandra Bazarewski**

Partner  
Rede Partners



**Gabrielle Joseph**

Head of Due Diligence  
Rede Partners

# The RedeConnect<sup>®</sup> Webinar Series | Friday, 8 September



## Beyond GP-Leds

What's next in the world of secondaries and fund management transactions?

13:00 - 13:45 (BST) | 8:00 - 8:45 (ET)

Rede Moderator: Magnus Goodlad, Partner - Transactions



Charlotte Morris  
Partner,  
Pantheon



Augustin Duhamel  
Managing Partner,  
17Capital



Matthew Rees  
Managing Director,  
Blue Owl



## The Evolution of Impact

Where next for the rapidly evolving Impact / Sustainability megatrend?

14:00 - 14:45 (BST) | 9:00 - 9:45 (ET)

Rede Moderator: Jeremy Smith, Head of Impact



Liqian Ma  
Head - Sustainable  
& Impact Research,  
Cambridge  
Associates



John Euers  
Managing  
Director, M&G  
Alternatives



Persefoni  
Noulika  
Senior  
Investment  
Professional,  
Blackrock PE



Laura  
Alberga-  
Berendsen  
Director, Fund and  
Co-Investments,  
Rabo Investments



## Credit's Wild Ride

How has the last year affected the private credit opportunity?

15:00 - 15:45 (BST) | 10:00 - 10:45 (ET)

Rede Moderator: Brendan Foley, Director - Credit



Penny Cochrane  
Senior Research  
Consultant,  
Hymans Robertson



Hans-Jörg  
Baumann  
Partner,  
Stepstone



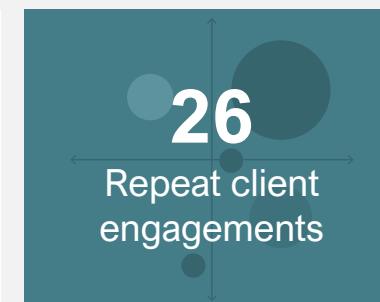
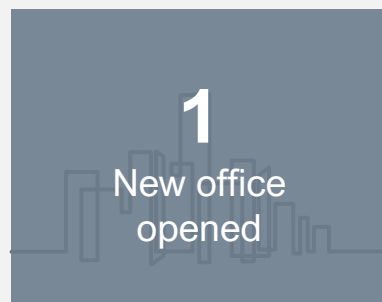
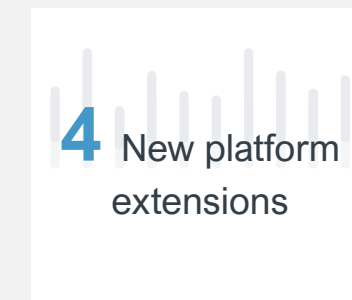
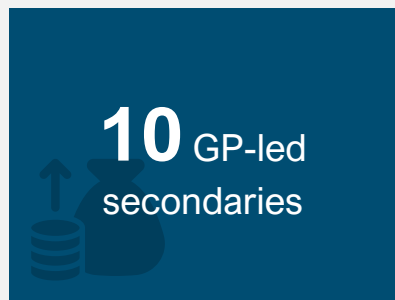
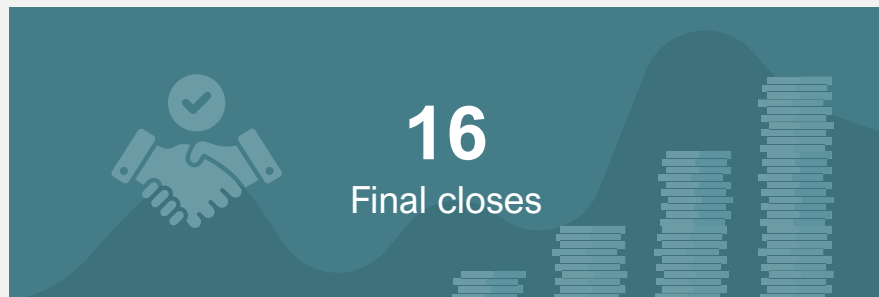
Joe  
Abrams  
Partner,  
Mercer



Leo  
Fletcher-Smith  
Managing Director,  
Head - EU Private  
Credit, Aksia



# A quick look at the last 15 months at Rede Partners



# Continuing to build out in the real world...



NYC



UK



Amsterdam



Hong Kong



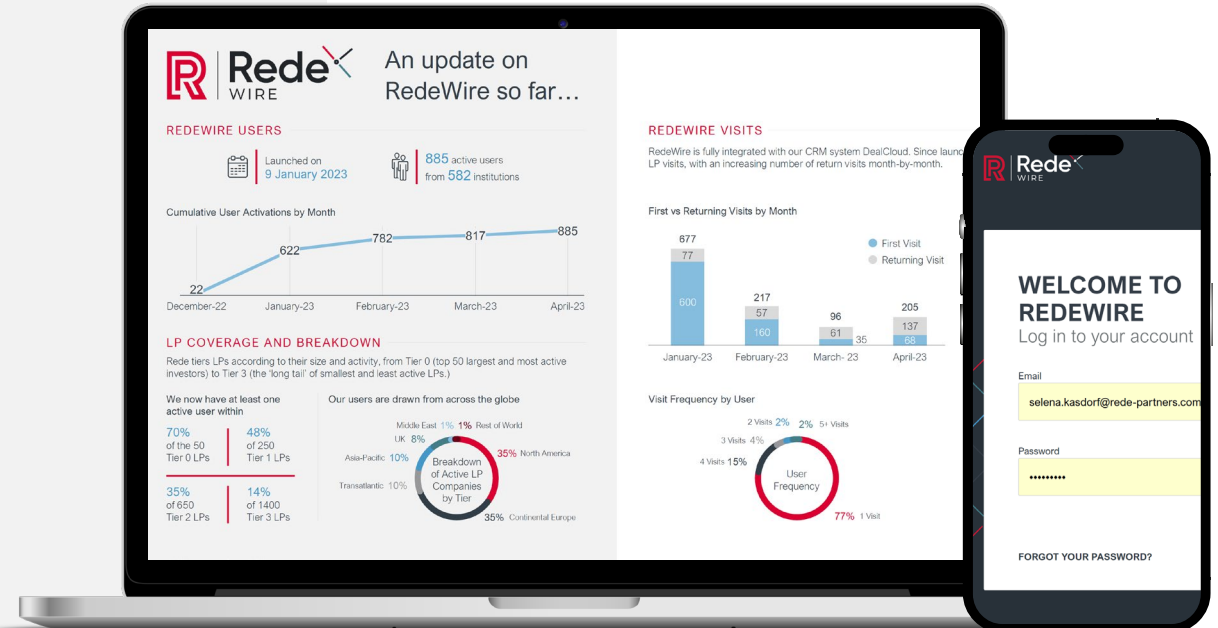
Private Equity, Credit, Impact, Transactions

# ...and the virtual one



**943**  
Active Users

**180** Average  
visits per month





Since we last met



We eagerly await some *precedented* times...





# ...as we continue to oscillate between hope and despair

**Covid-19: WHO declares end of global health emergency**

**Peak Policy Rates in Sight**

**Unemployment hits record low**

**Nasdaq record best start to year in four decades**

**Artificial Intelligence Will Double Economic Growth**

**84% of LPs upbeat on private equity allocations**



**Surging U.S. Corporate Bankruptcies Already Surpass Total for All 2022**

**Food Price Inflation is proving Stubbornly Persistent**

**Wall St bank job cuts set to surpass 11,000 as CEOs unwind hiring binge**

**IPO market Plummet**

**Alarmed tech leaders call for AI research pause**

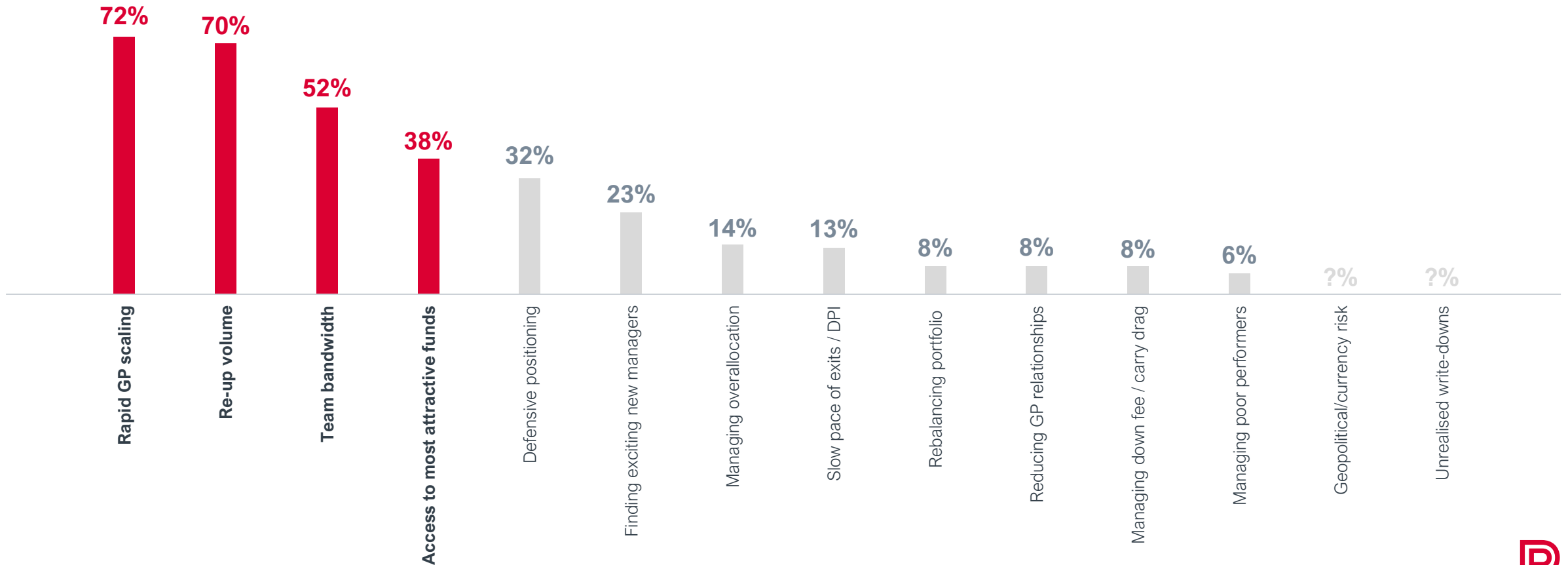
**Private equity firms offer sweeteners to lure reluctant investors**

# What a difference a year makes



“What are the key concerns for your deployment programme?”

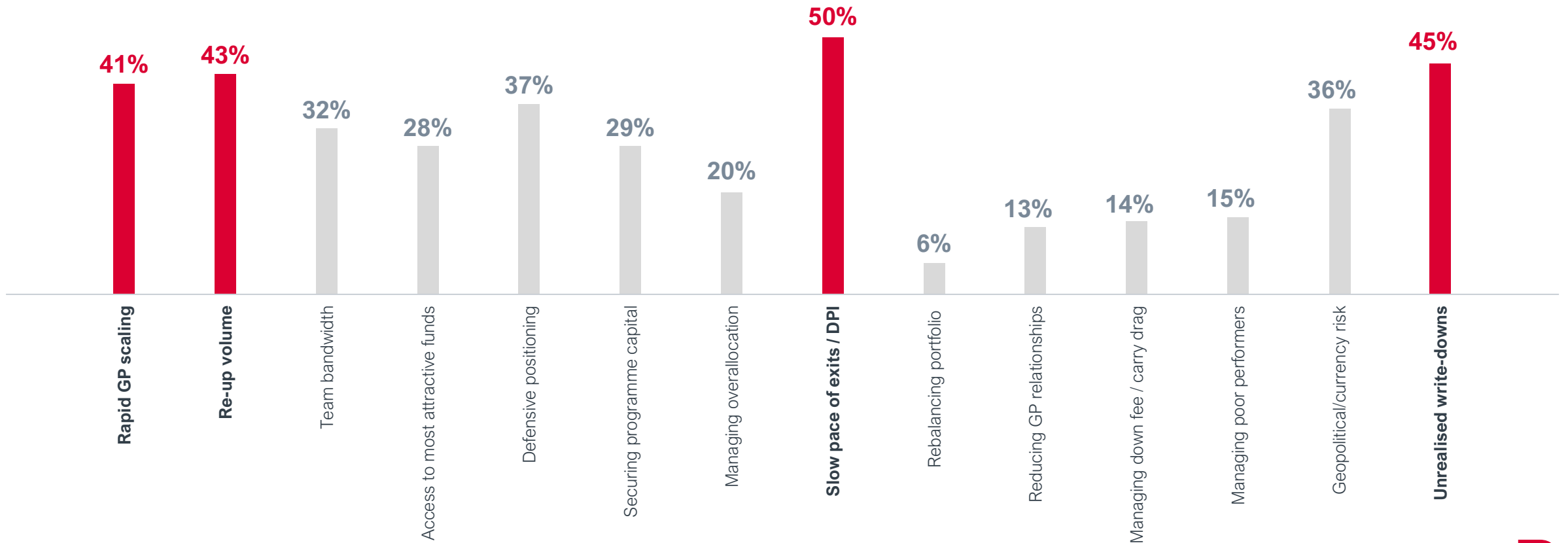
2H 2021



# What a difference a year makes

“What are the key concerns for your deployment programme?”

2H 2022





THE  
HUNGER  
GAMES

3:1 Supply:demand





A close-up photograph of a man with dark, wavy hair, wearing a brown jacket over a light blue shirt. He is smiling slightly and looking towards the camera. In the foreground, a marmot is visible, looking towards the right. The background is a plain, light-colored wall.

**UP TO 11  
MEETINGS FOR  
A NEW LP  
COMMITMENT**

*(don't worry, we won't  
name and shame)*



A conceptual image featuring a metal bucket with several holes, from which water is leaking out. A red line graph is overlaid on the scene, showing a general downward trend with some minor fluctuations. The bucket is positioned in the center-left, and the red line starts high on the left and ends low on the right. The overall composition suggests a loss or decrease in value.

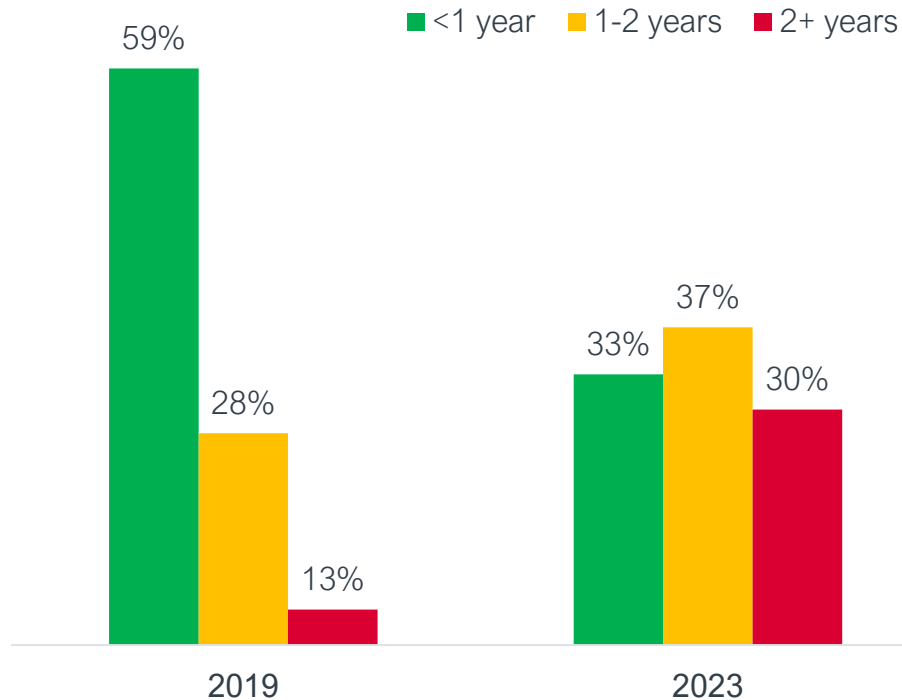
**-9%**

avg. ticket size  
decrease vs prior fund

# The result: a dramatic decline in overall fundraising momentum across the board

Many more fundraises are now taking 2+ years...

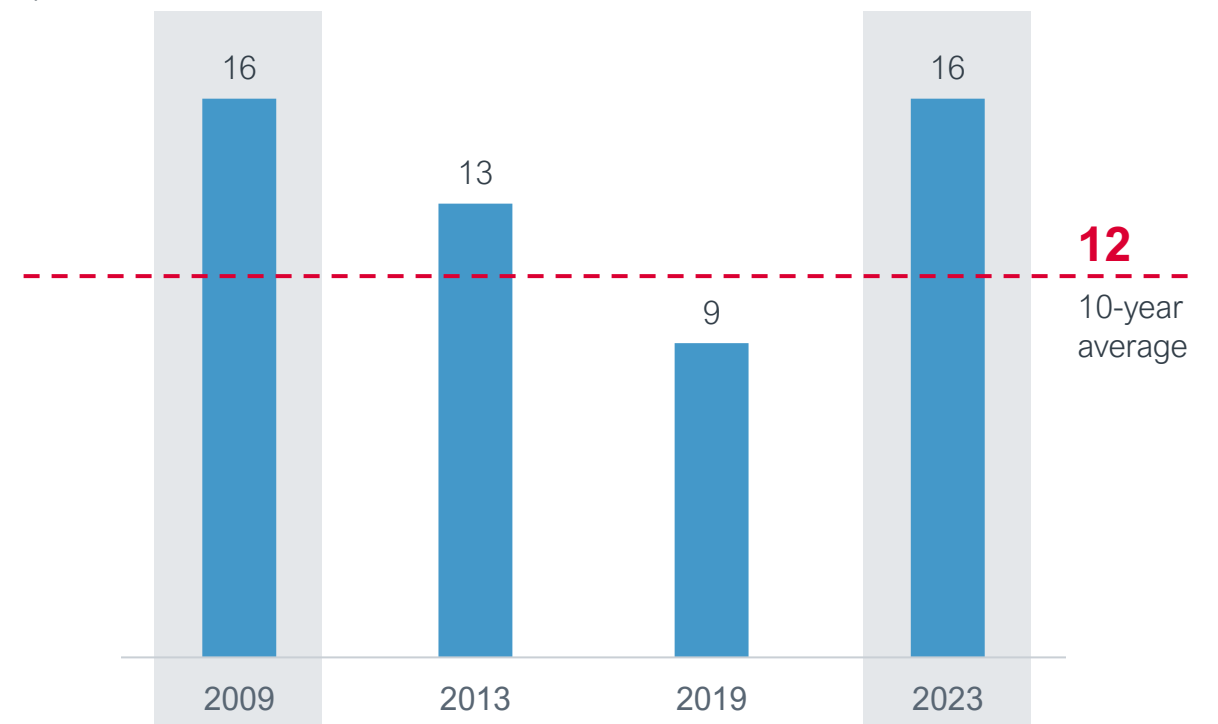
PE funds closed by time spent in market<sup>1</sup>



...and the average fundraise now takes as long as it did in 2009

Months to Final Close<sup>2</sup>

Europe & North America PE funds, >\$500m fund sizes



1. Source: Preqin

2. Source: Preqin. Europe & North America, PE funds, >\$500m fund size. Year refers to year in which final close was held. PE funds include buyouts, growth equity, VC, other equity strategies, excludes funds-of-funds and secondaries funds. Excludes SMAs and single deal vehicles.





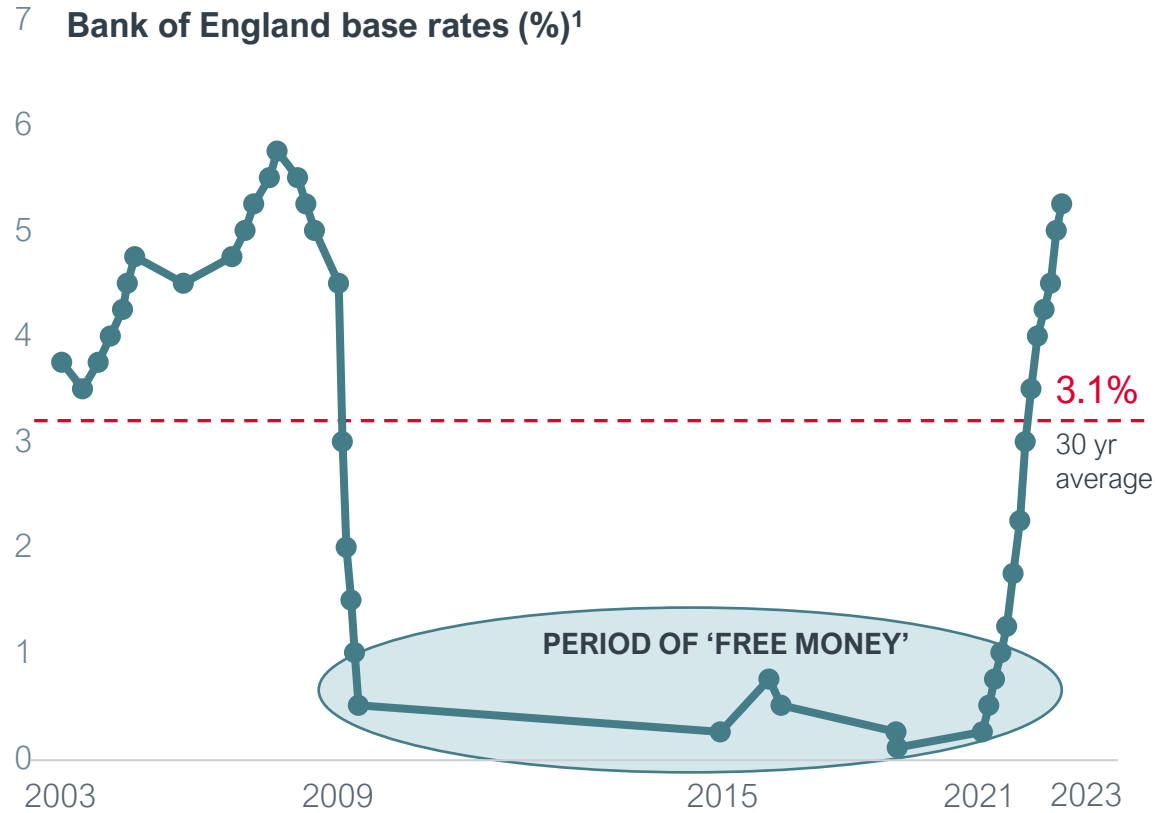
So how did we get here?





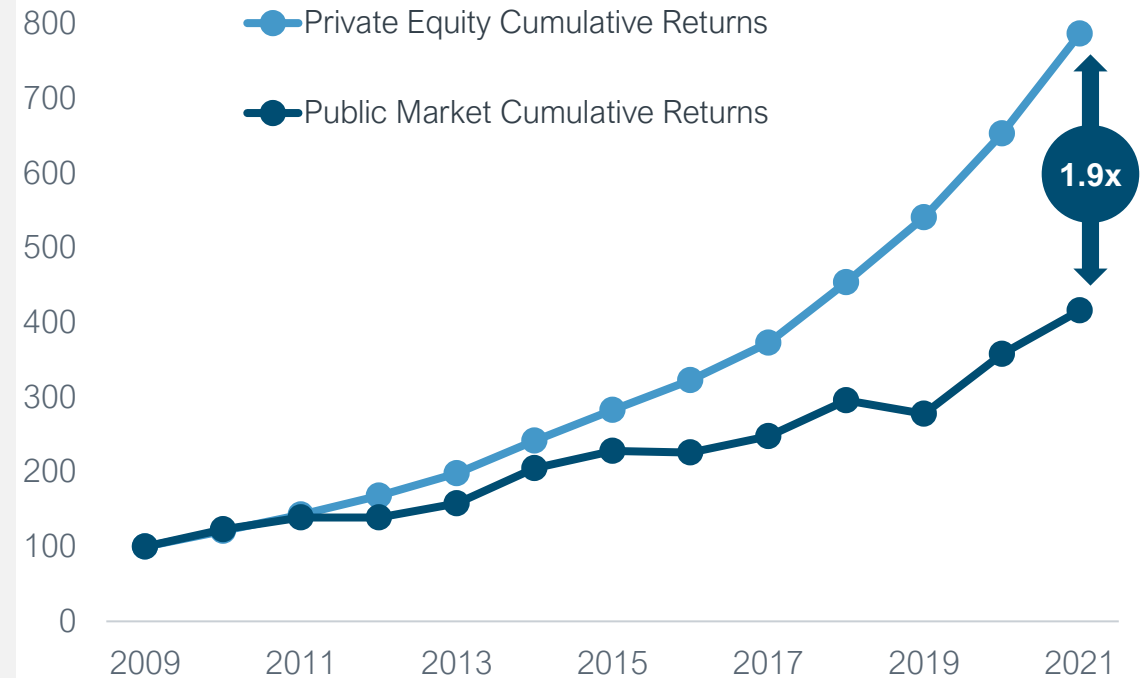
# Our asset class has lived through a period of exceptional conditions...

We've experienced 13 years of free money and endless liquidity...



...and when it came to performance, these extended, unique monetary conditions normalised the exceptional

**Median Private Equity performance vs public market returns <sup>2, 3</sup>**  
2009 = 100

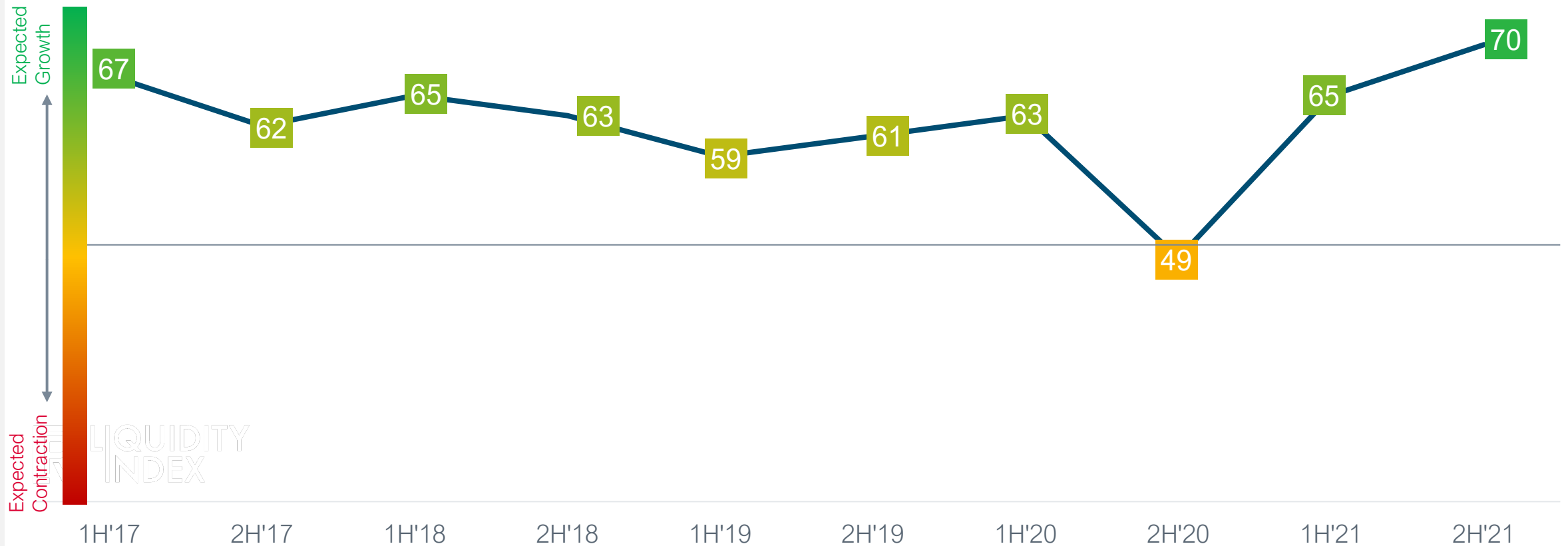


1. Source: Bank of England  
 2. Private Equity performance taken as the median IRR of US Private Equity from Cambridge Associates Benchmarks  
 3. Public market performance is annual return of the S&P 500



...culminating in the deafening crescendo of 2021...

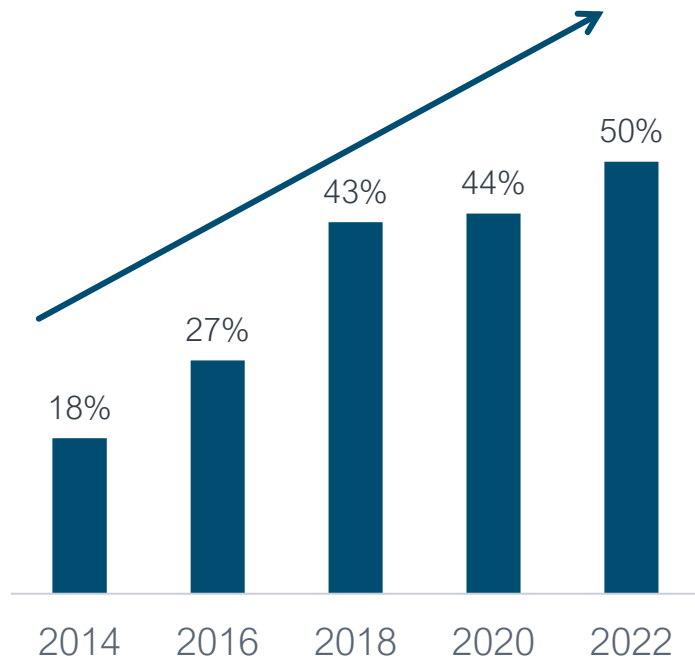
## 2H'21: highest RLI since records began! (2017)



# ...with fundraising seeming to defy the laws of gravity...

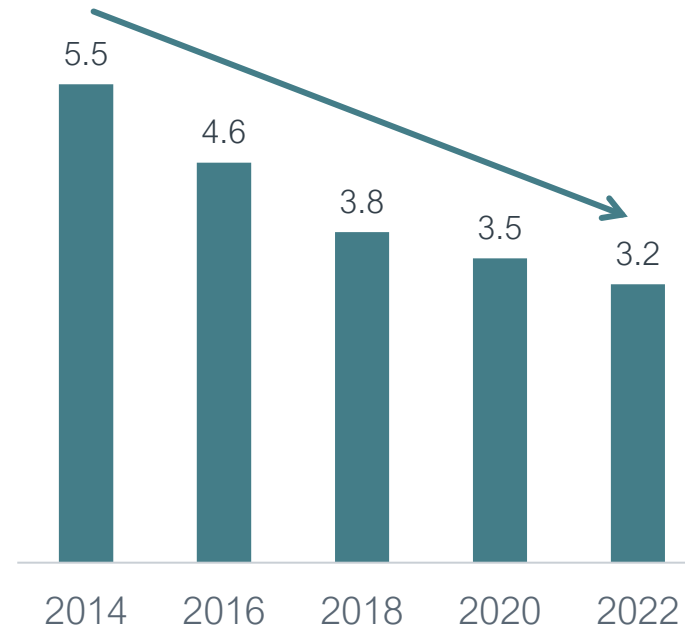
## GP's came back bigger and bigger...

Median increase in size vs predecessor<sup>1</sup>



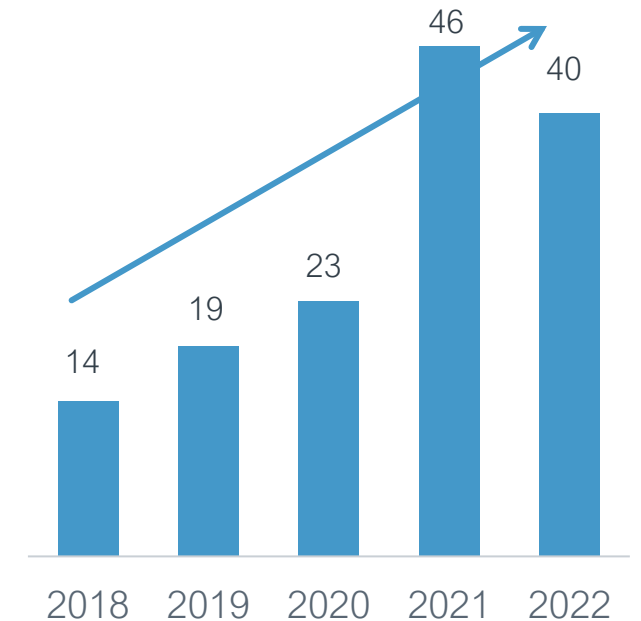
## ...faster and faster...

Average years between predecessor & successor funds<sup>1</sup>



## ...launching products left and right

New platform extension final closes<sup>1,2</sup>

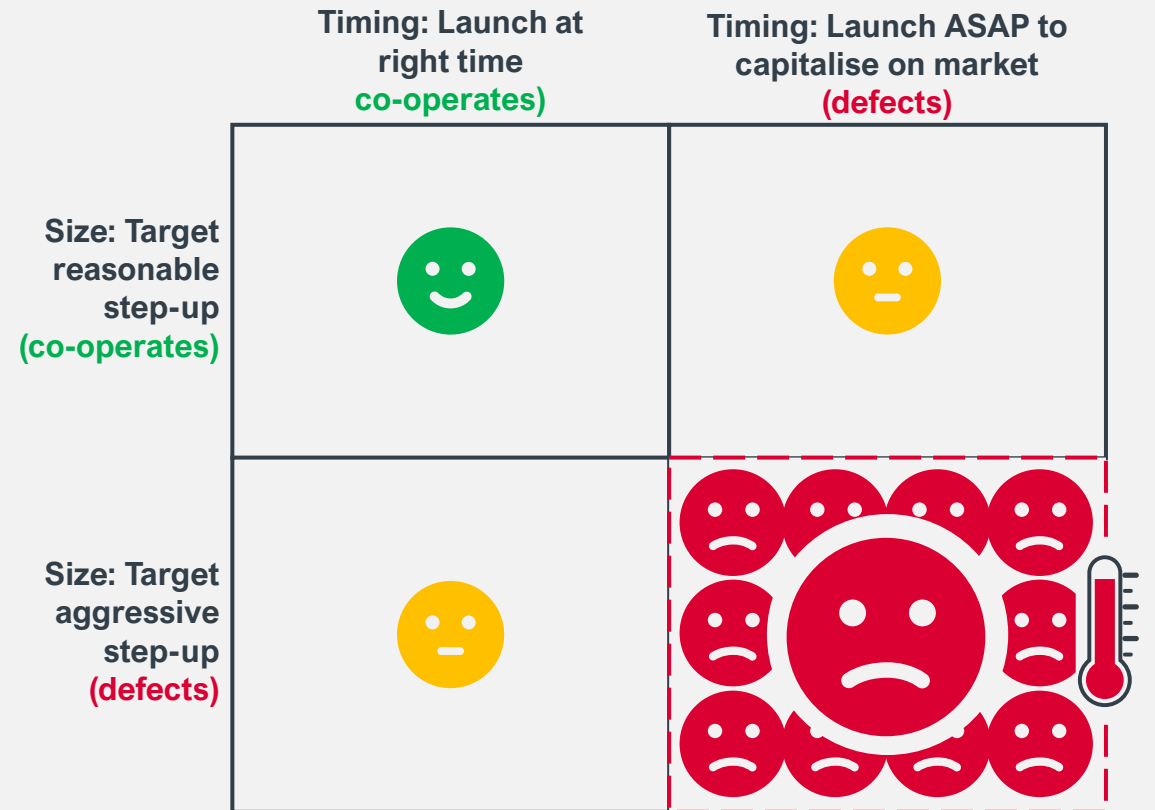


1. Source: Preqin. Year refers to year in which final close was held. PE funds include buyouts, growth equity, VC, other equity strategies, excludes funds-of-funds and secondaries funds. Excludes SMAs and single deal vehicles.  
2. \$500-5bn fund sizes, Europe and North American PE.



# ...explaining the massive increase in supply we saw by early 2022

## “The GPs’ Dilemma”



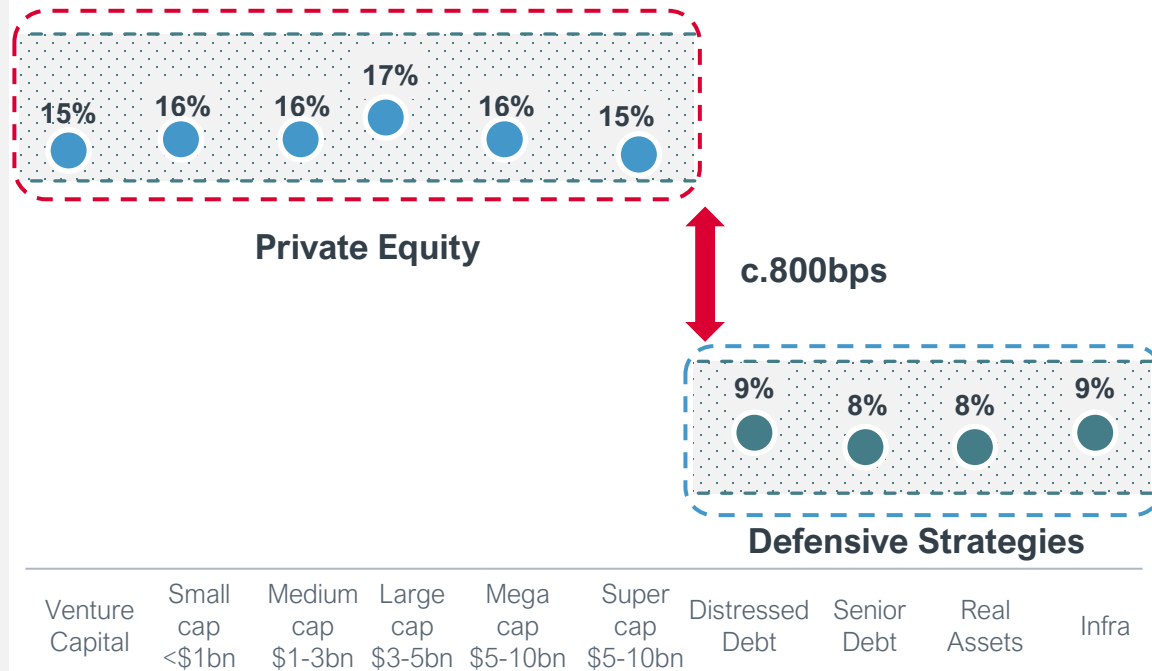
1. Includes European buyout managers targeting or recently closed >€5bn



# For LPs, the traditional risk/return spectrum evaporated completely...

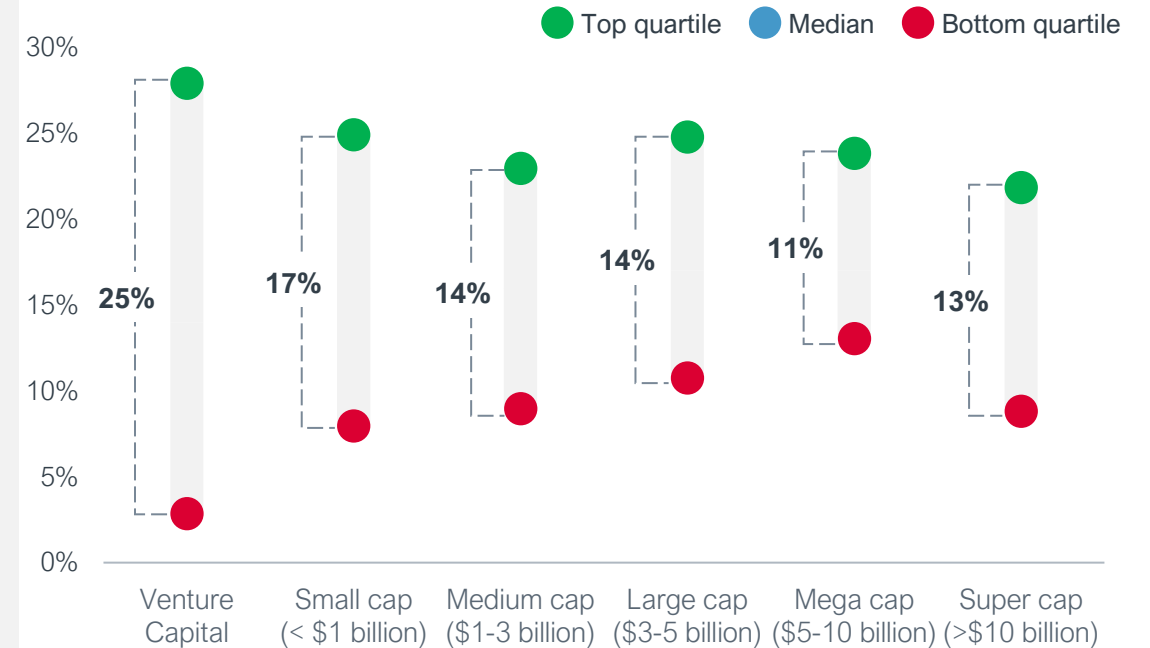
Median performance has been remarkably similar across PE segments, with a significant premium over more defensive strategies...

**Median fund performance,<sup>1</sup>**  
IRR for 2000-19 vintage funds



...and within buyouts, return dispersion has also been surprisingly uniform

**Top and bottom quartile global buyout fund performance,<sup>1</sup>**  
IRR for 2000-19 vintage funds



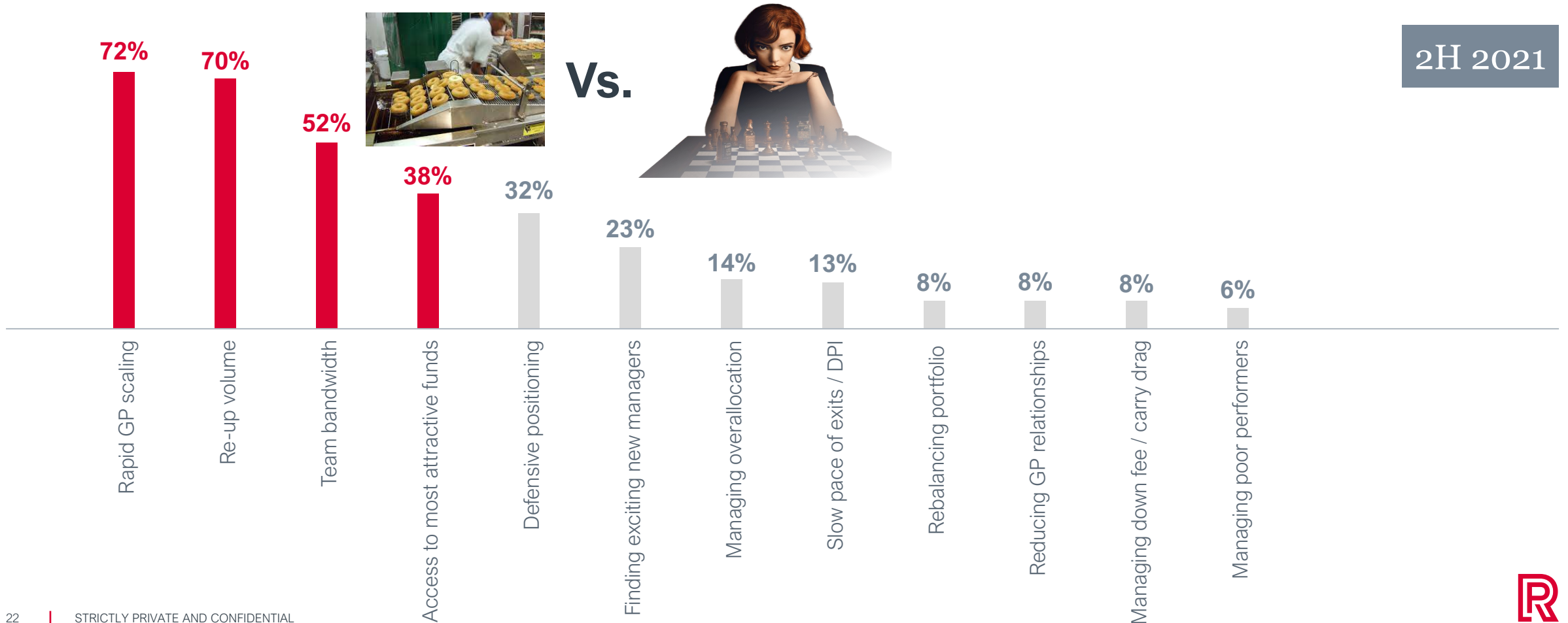
1. Fund performance assessed using IRR calculated by grouping performance of 2000-19 vintage buyout funds during 2000-22. Some data not available for certain periods



...incentivising LPs to focus on securing allocations to upside-focused funds of any type rather than obsess over forensic diligence or portfolio construction



“What are the key concerns for your *deployment* programme?”



2H 2021



The fundraising market was hit by a 'one-two punch'...

**Huge amounts**



**of supply**

**Contraction**



**in demand**

...although we could at least console ourselves that our predictions from last year's webinar all came true



1. Fundraising will be slower, for most



2. Winner takes more environment



3. There is no good time to come back to market



4. LP power in the ascendency



5. Changing demand patterns



Back to normal...

...or a brave  
new normal?

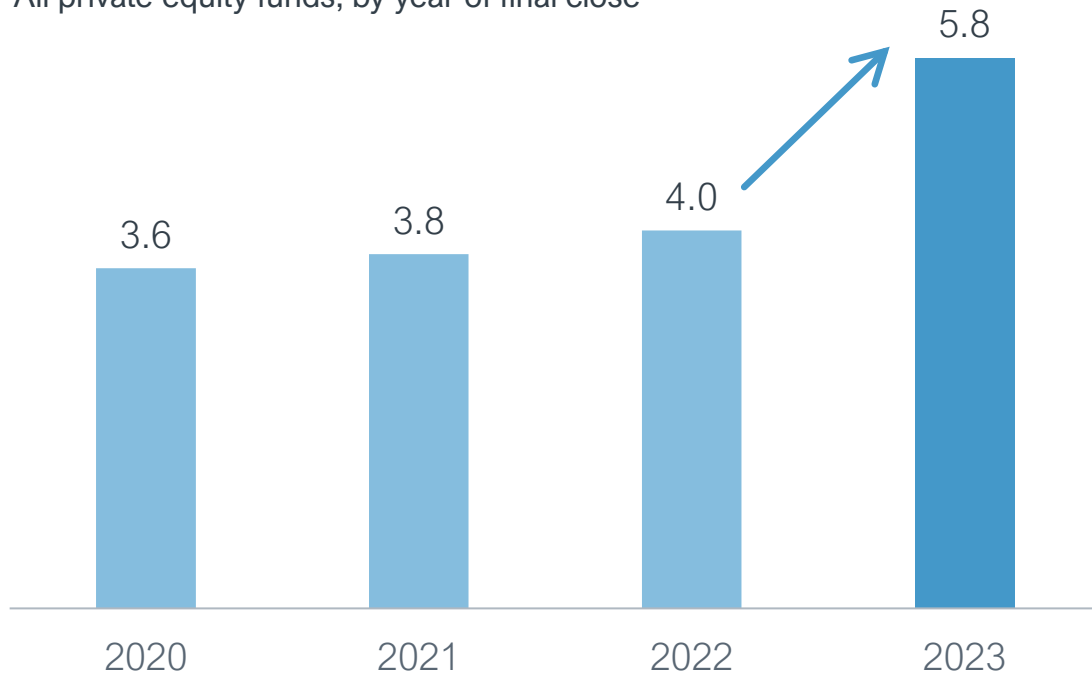


# We are back to multi-stage fundraisings...

Across PE as a whole, the average number of closes per fund increased dramatically...

## Average number of closes held<sup>1</sup>

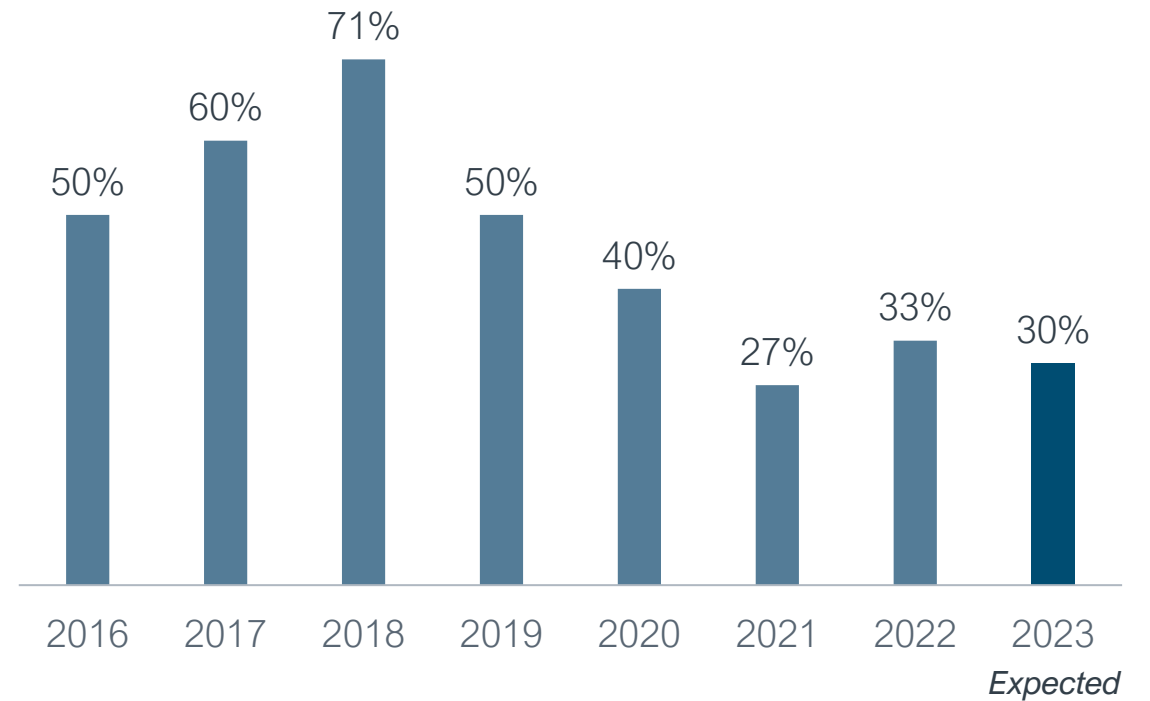
All private equity funds, by year of final close



...and even within Rede's client base, there's been a drop in 'one and done' closes

## Percent of funds achieving 'one and done' fund closes<sup>2</sup>

Rede funds, by year of final close



1. Source: Preqin. Year refers to year in which final close was held. PE funds include buyouts, growth equity, VC, other equity strategies, excludes funds-of-funds and secondaries funds. Excludes SMAs and single deal vehicles.  
2. Rede engagements, by close vintage.

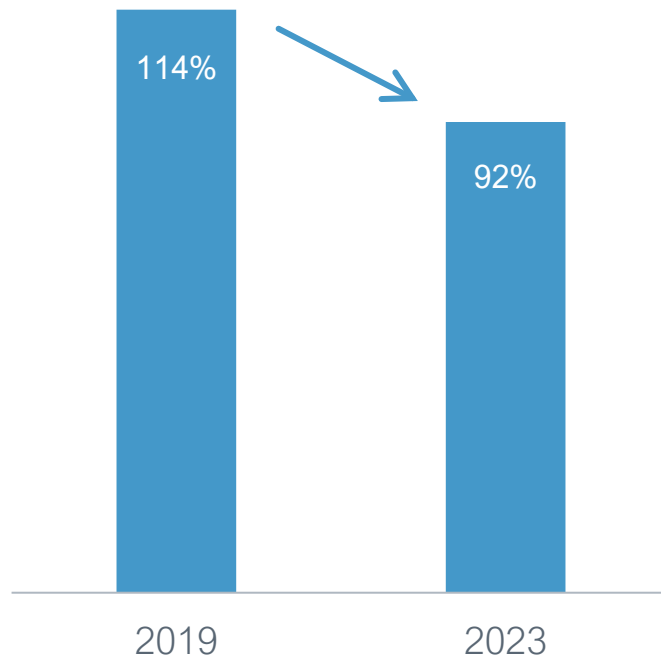


...with fundraising velocity slowing on a number of fronts...

### Existings no longer a guarantee

#### Average re-up rates<sup>1</sup>

Rede funds, excluding first time funds or new platform extensions, by year of final close



### Smaller first closes

#### % of fund closed at 1<sup>st</sup> close<sup>1</sup>

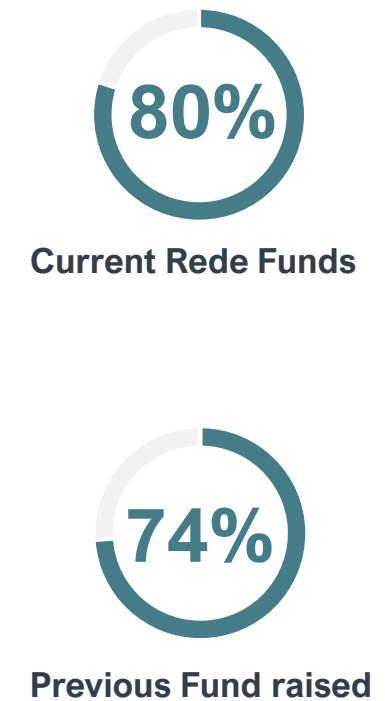
Rede funds, by year of final close



### Lengthier fund cycles

#### % of predecessor fund deployed at first close:<sup>1</sup>

Rede funds, by year of final close



# ...which means a return to classic tactics to get fundraisings over the line

While headline terms remain largely stable, we are seeing a major increase in discounting...

1. **First close discounts** typically c.10bps
2. **Size discounts expected** for c.10%+ of Fund
3. **Increased co-invest offerings** increasingly used as a sweetener

*Importance of incentives to LPs when committing at 1<sup>st</sup> close – next two years<sup>1</sup>*

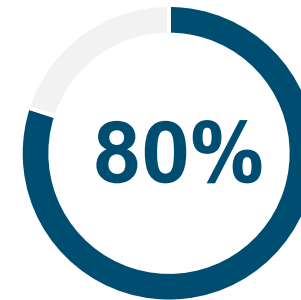
44% Not important

56% Important

**50%**

of funds in market currently offering 1<sup>st</sup> close discounts<sup>2</sup>

...as well as the return of the aged primary



GPs in market with seeded portfolios<sup>2</sup>

**2-3**

Seeded deals on average<sup>3</sup>

1. Source: Collier Global PE Barometer, Summer 2023

2. Rede funds and market intel

3. Rede funds

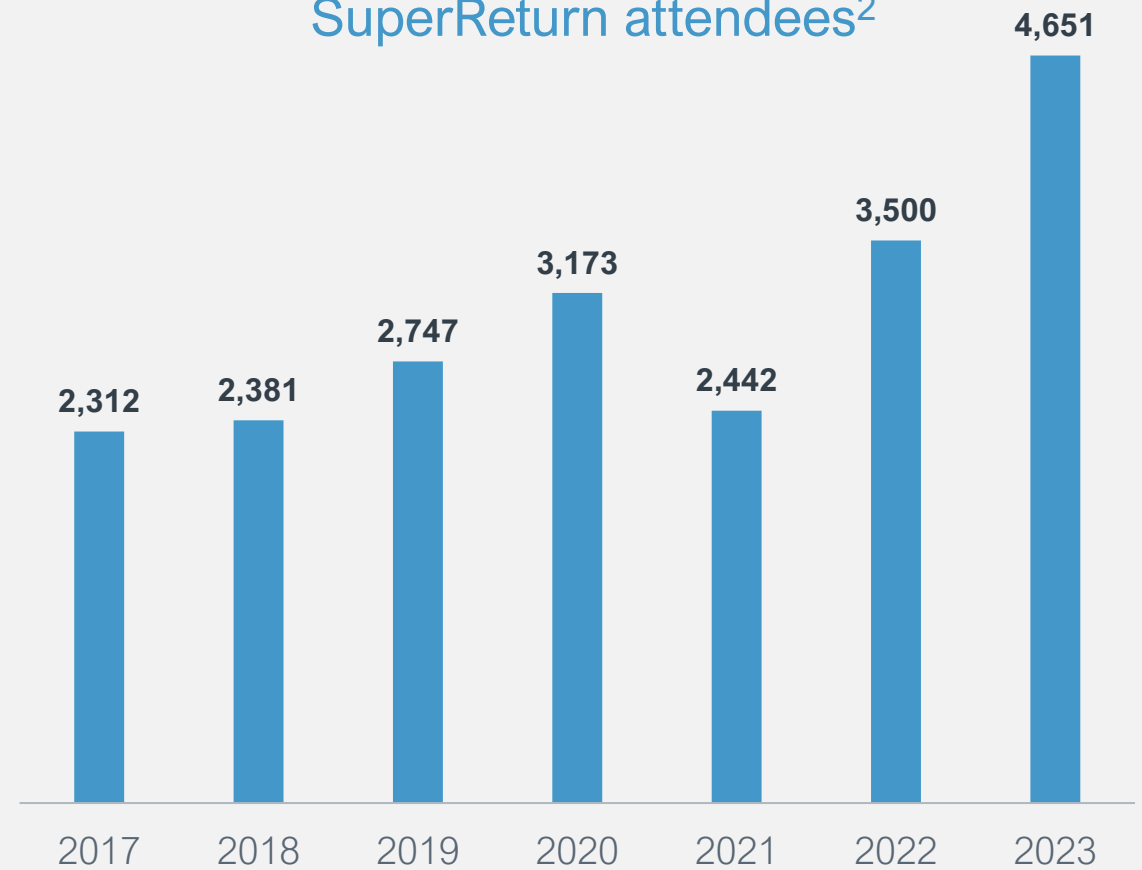
The life of the PE road warrior is certainly back to the ‘bad old days’

# 2.5 days

Avg. per week RMs spent on the road (LTM)<sup>1</sup>



SuperReturn attendees<sup>2</sup>



1. Source: Rede data for a typical senior RM

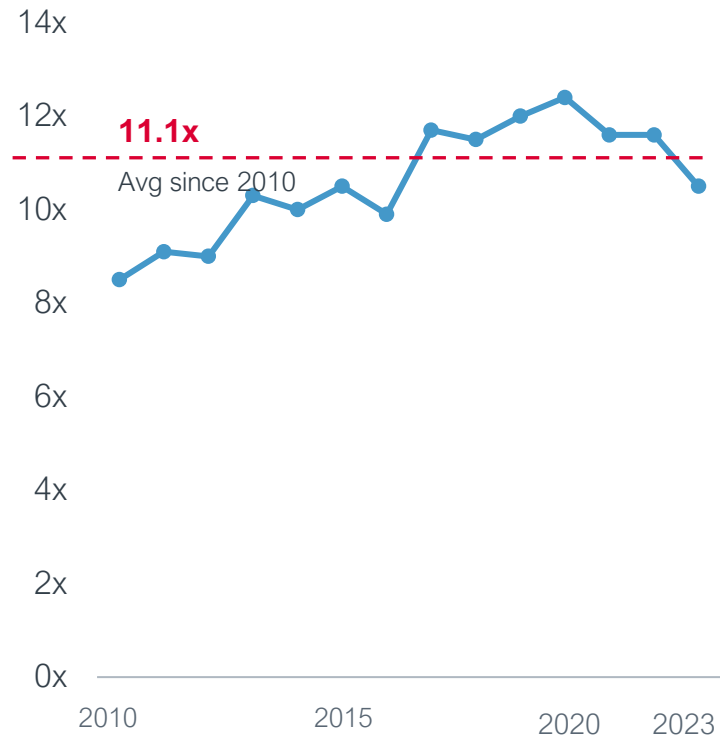
2. Source: Informa Connect



# When it comes to the nuts and bolts of investing, today's chart toppers are all yesterday's hits

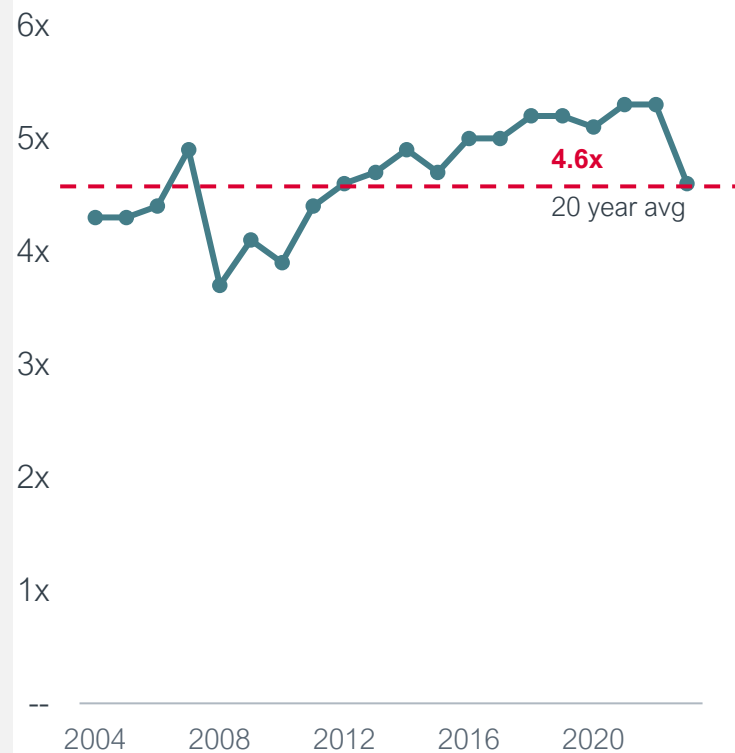
## Focus on price discipline and value strategies

### Entry EV/EBITDA<sup>1</sup>



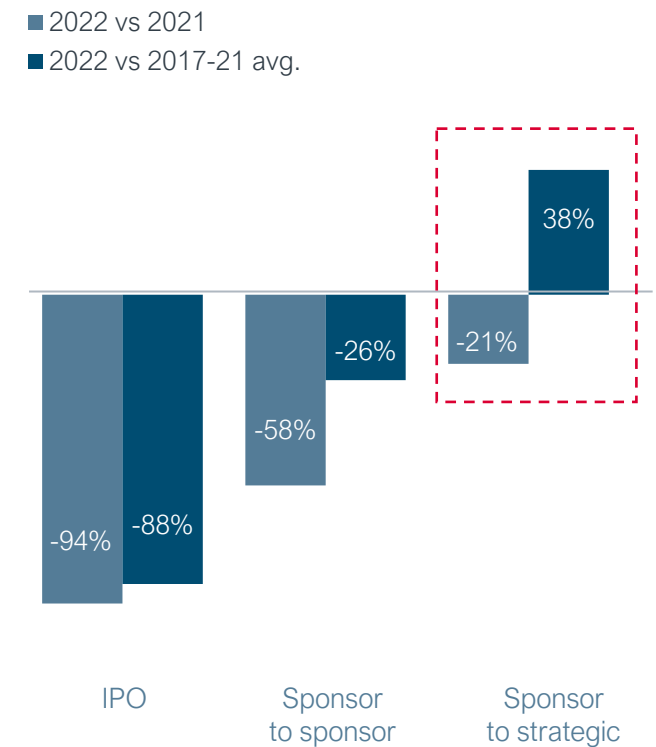
## Ability to deliver returns without cheap, abundant leverage

### Debt/EBITDA ratio of leveraged loans<sup>2</sup>



## Selling to strategics = the new SPAC

### Change in exit value<sup>3</sup>



1. Source: PitchBook Q2 2023 Global M&A Report. NAM & Europe entry multiples. Data as at 30/06/2023.

2. Source: PitchBook LCD, based on issuers with EBITDA of \$50m or greater, Q1 23.

3. Source: Bain Capital 2023



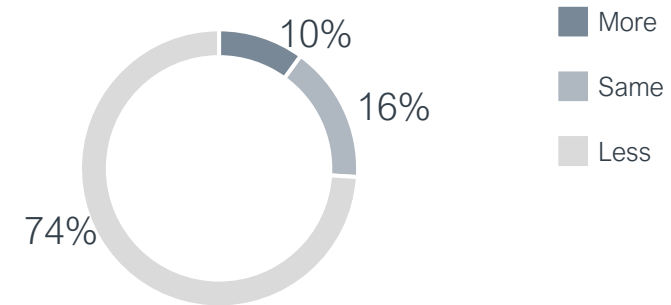
# For LPs, ~~un~~realised performance is king again...

## LPs have record capital tied up...

**\$2.8tn** Unrealised buyout assets

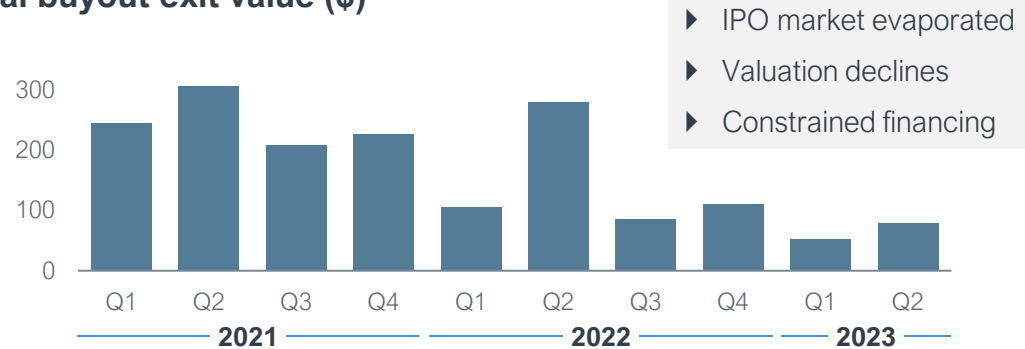
## LPs expectations for exit flows remain gloomy

“How much capital do you expect back through distributions?”



## ...which will take some time to clear the market at this rate

### Global buyout exit value (\$)<sup>1</sup>



## Resulting in LPs revising their perspectives on what constitutes a good exit



1. Source: Bain Capital Private Equity Report

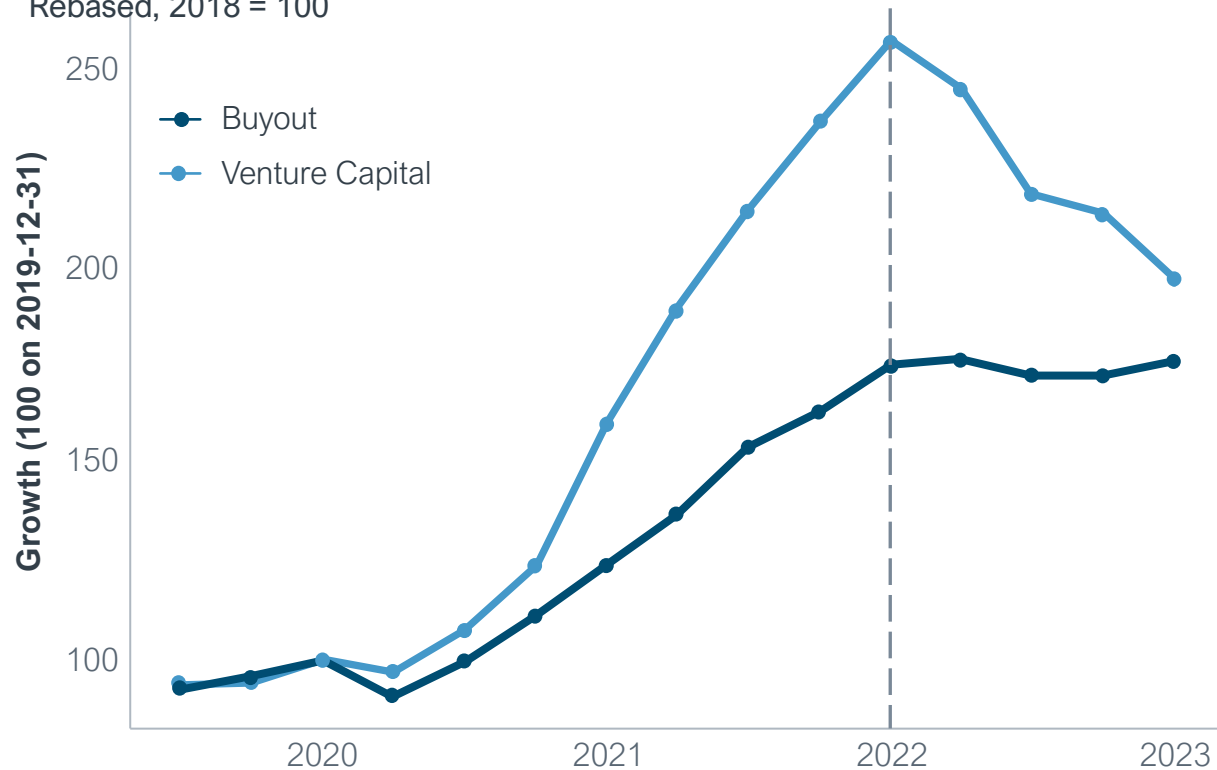


# ...and we probably shouldn't anticipate a flood of exits any time soon

Burgiss' analysis of unrealised valuation growth shows buyout flatlining and the VC bubble bursting in early 2022...

## Valuation growth of unrealized assets<sup>1</sup>

Rebased, 2018 = 100



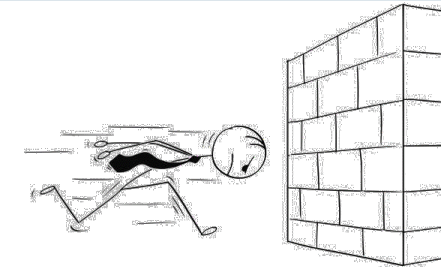
...and we now find ourselves at an impasse, with GPs opting to wait and grow into their valuations

Sluggish macro impacting companies

Poor IPO momentum

Expensive leverage for M&A

**Weaker exit market**



**Unwillingness to accept lower exit pricing**

High unrealized valuations

Need to offset poor performers

Belief things will improve

1. Source: Burgess

# All in all, issues are BACK



Portfolio company underperformance

---



(Negative) valuation re-rating

---



Succession issues

---



Dissipated exit market

---



Team departures



# A brave new normal



# We expect some important differences going forward



Major expansion of asset classes offering risk-adjusted return



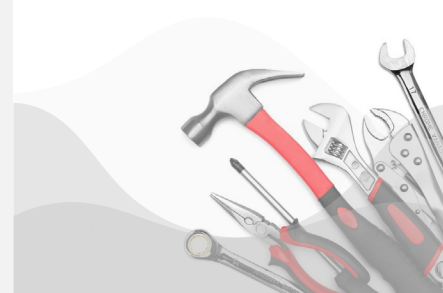
Period of creative destruction with distinct winners and losers



Investment style will be as important as sector specialisation



Ever more intensive fund management



GPs need to be both strategic and creative to achieve fundraising success





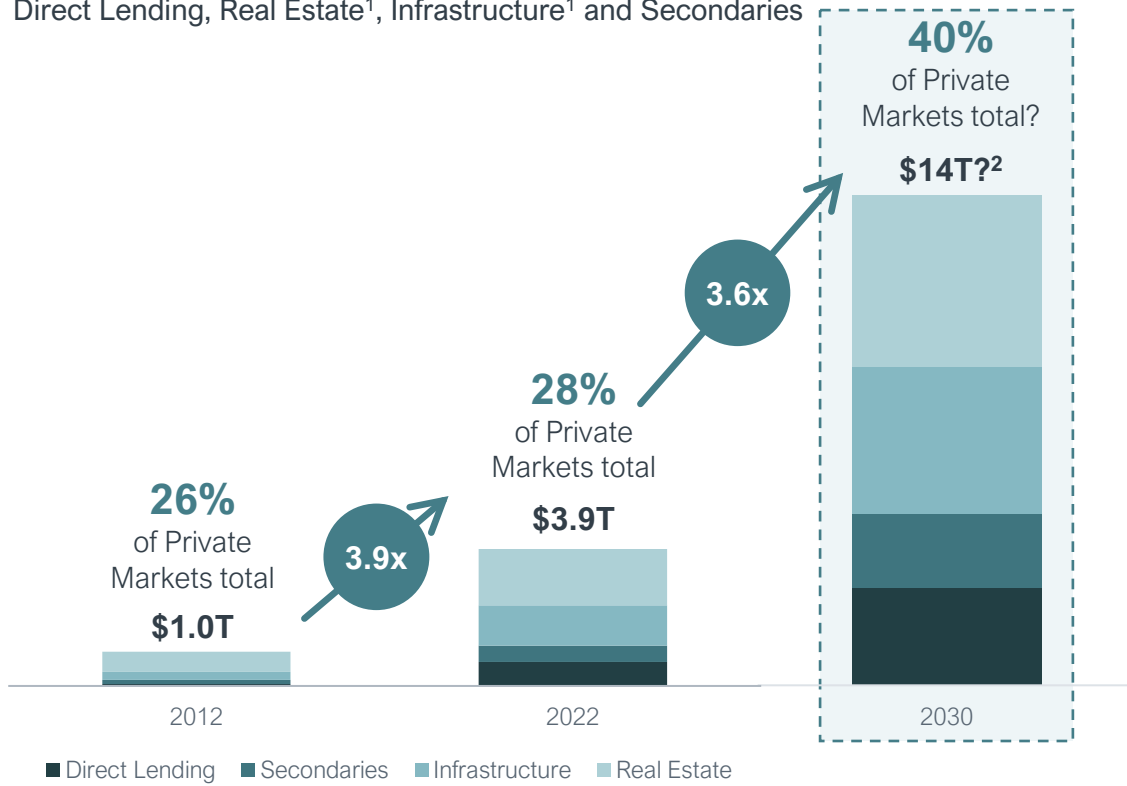


# As returns on risk-adjusted strategies become increasingly attractive on a relative basis, we see enormous headroom for these segments to grow further...

AUM for risk-adjusted strategies has tripled in a decade, but still represents only 28% of private markets total...

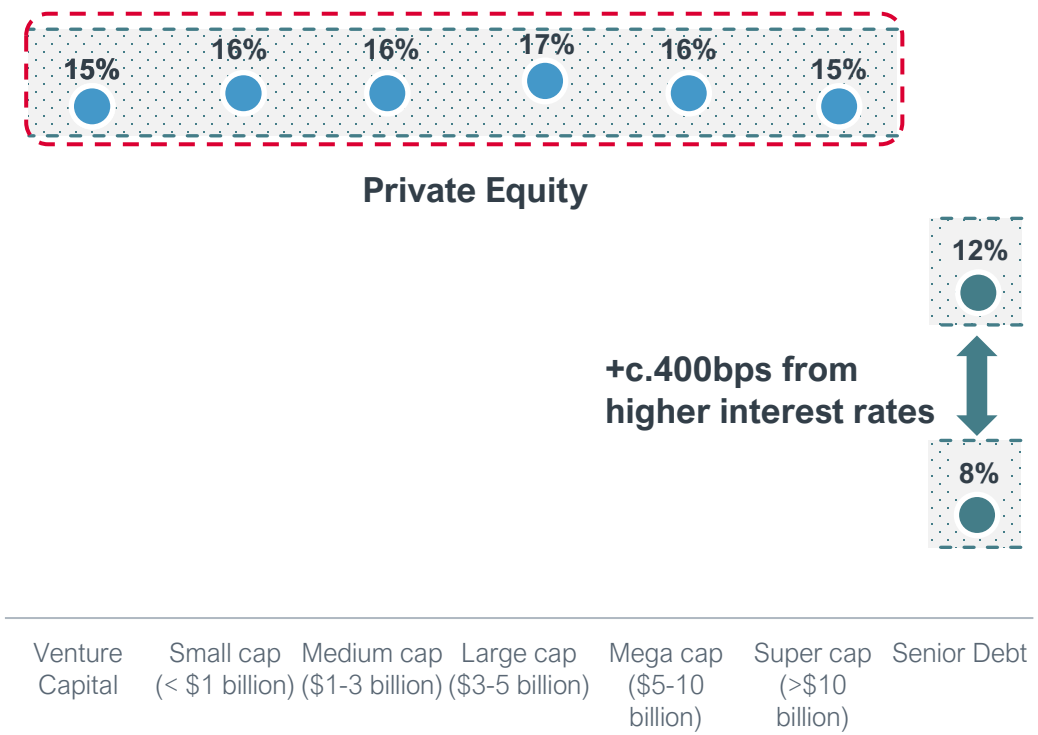
### AUM by asset classes (\$T)

Direct Lending, Real Estate<sup>1</sup>, Infrastructure<sup>1</sup> and Secondaries



... and increasingly attractive relative returns will help to boost this growth

### Indicative median fund performance in a rising rate environment,<sup>1</sup> IRR for 2000-19 vintage funds



Sources: Preqin, New York Fed

1. Excludes secondaries and fund of funds to avoid double counting  
 2. Assumes Private Markets AUM growth is equivalent to CAGR of last 10 years, and 'defensive' strategies make up 40% of the portfolio

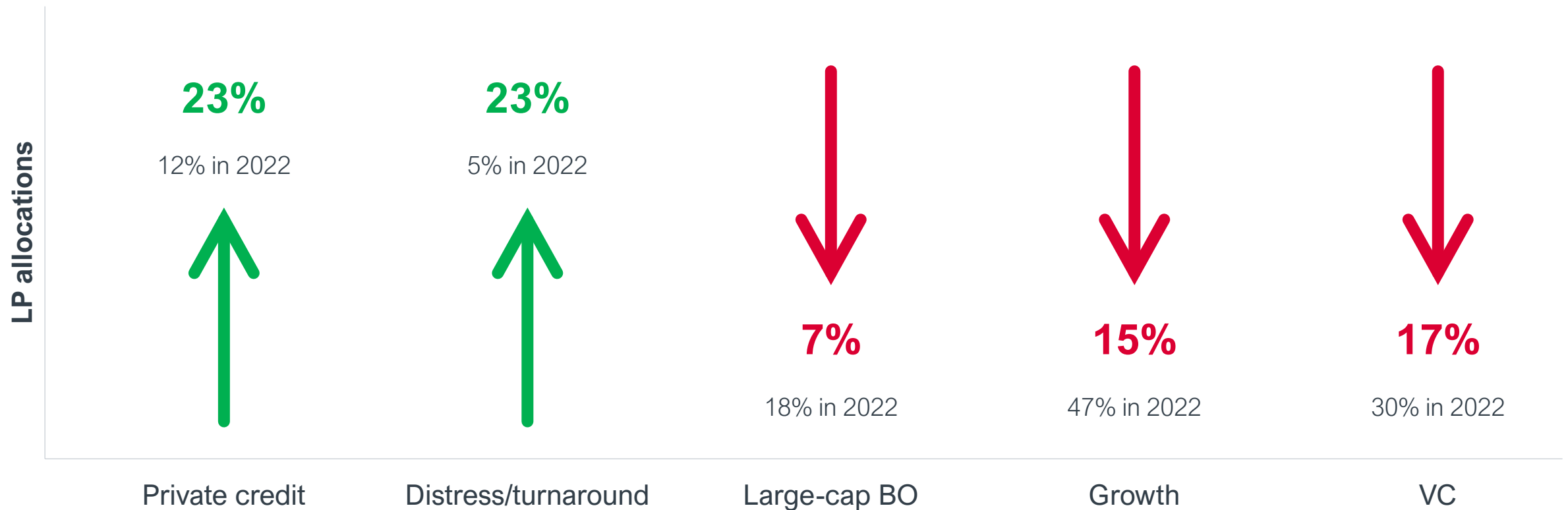




...and we are now seeing LPs showing a real interest in risk-adjusted allocation strategies



“Where do you plan to increase allocation in 2023?”

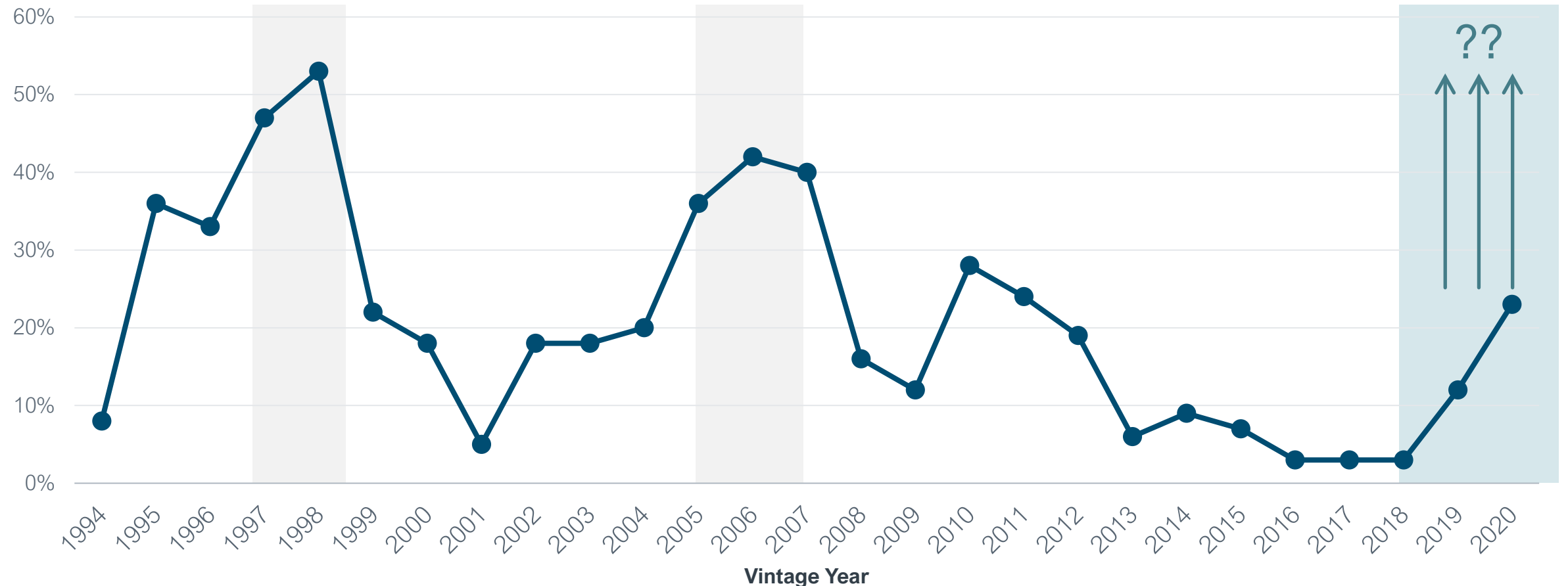




# We expect a major shake-up in the industry landscape in coming years

It's likely that the 2018-2020 vintages will include a high proportion of funds that never make carry

% of \$500m+ buyout funds failing to achieve 8% Net IRR<sup>1</sup>



1. Source: Preqin, Rede analysis. Note: includes only buyout funds of size \$500m+, focused on investing in North America and Europe



In an environment more focused on asset allocation and risk-adjusted returns, we see three ways for GPs to 'win'...



### Be good in an in-favour category

A rising tide floats many boats



### Be the best in any category

Even in less in-favour niches, the best of the best will have a place in a well-constructed portfolio allocation programme



### Be existentially flexible

GPs able to adapt to chase excellent risk-adjusted opportunities

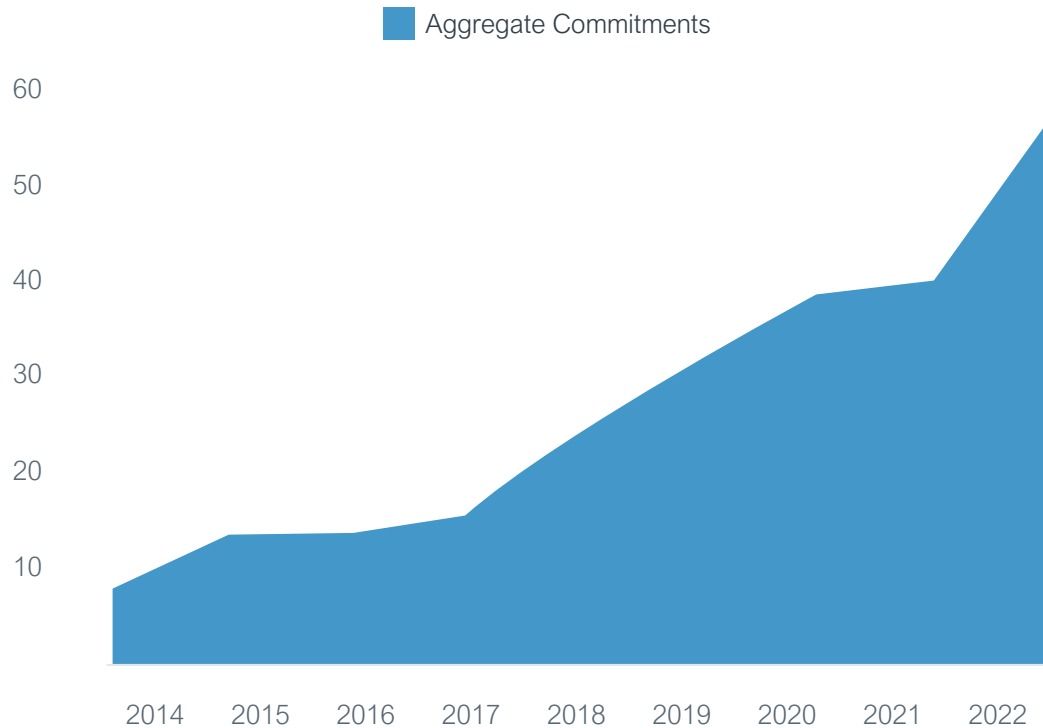




# ...and the winners can double down even further on their success by tapping into the growing market for GP stakes...

The market for GP stakes has grown significantly<sup>1</sup>...

**GP stakes fundraising<sup>1</sup>**  
USD billions



...and we think it's just the beginning

**42%** Large-cap PE firms have sold GP stakes<sup>2</sup> **VS** **9%** Mid-cap PE firms<sup>2</sup>

**GP stakes fund market map<sup>1</sup>**



1. Source: Preqin, as of April 2023

2. Source: Pitchbook. Large cap defined as \$8bn+; mid-market defined as \$1.5-\$8bn.



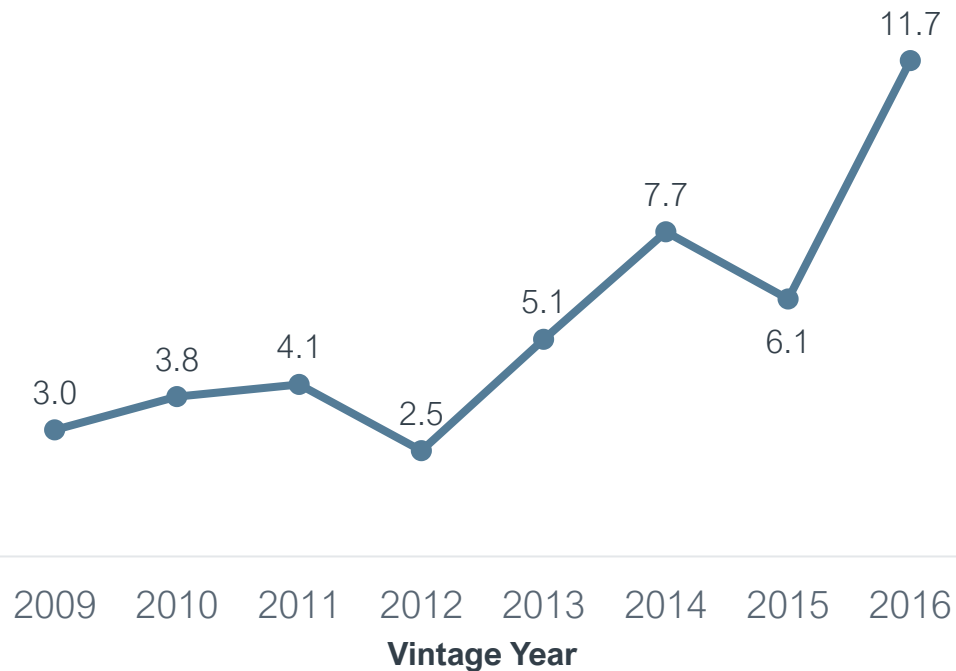


# ...while first time funds also stand to benefit from increased financial support

We often see an acceleration in FTF activity in the wake of a downturn

## Capital raised for first time funds<sup>1</sup>

US and European buyout funds \$300m+, USD billions



These days it takes much more to start a FTF...



Today's FTF is likely to include a substantive team, in-house value creation specialists, IR / operations / financial control, detailed ESG policies...



...while LPs' operational dd requirements for FTFs have become seriously onerous

...but financial support for FTFs has also proliferated



Sponsors / seeders



Warehousing



Emerging manager programmes



Co-investors backing fundless sponsors

1. Source: Preqin, Rede analysis. Note: includes only buyout funds of size \$300m+, focused on investing in North America and Europe

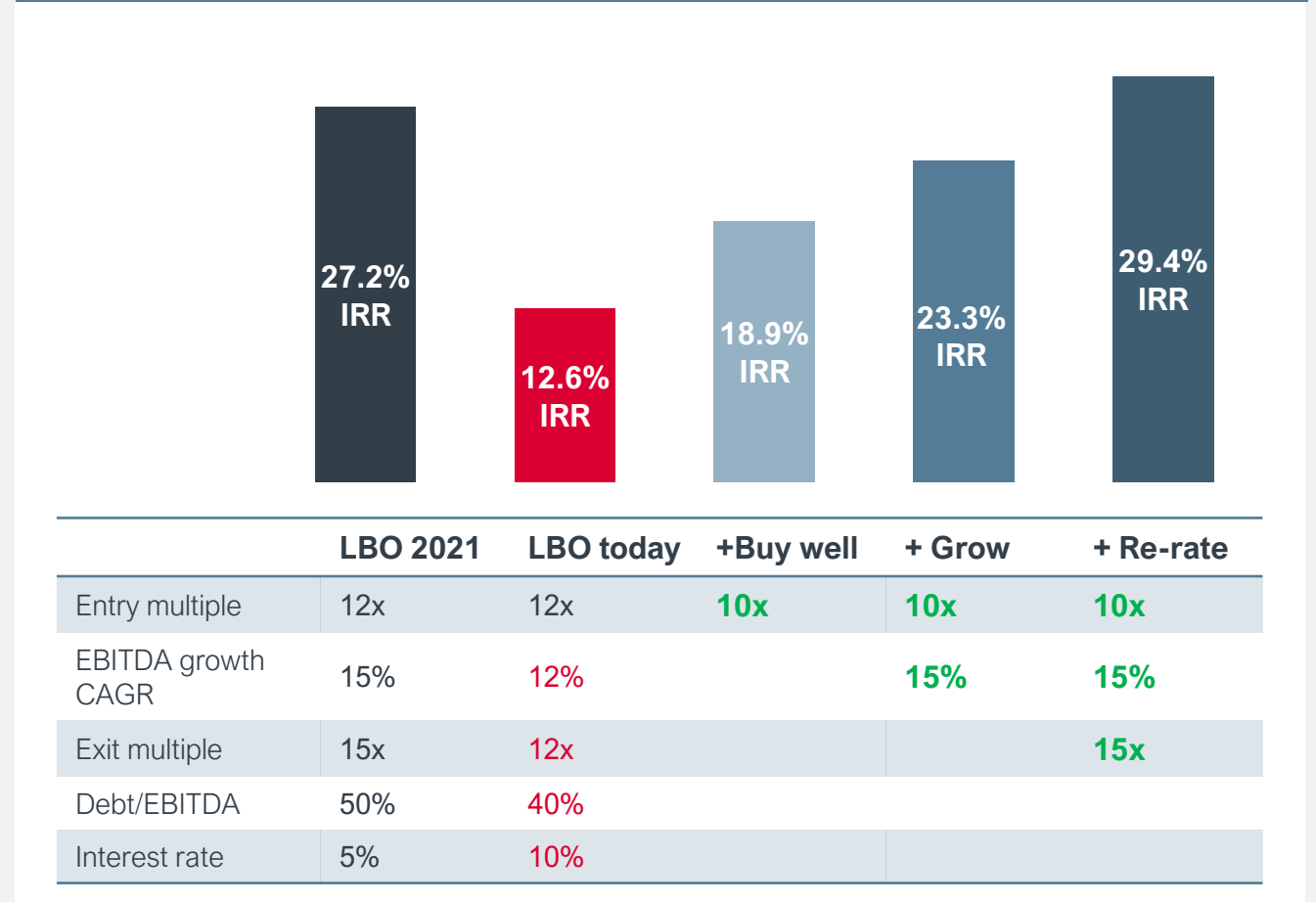


# The new LBO math leaves no place to hide when it comes to value creation

## LBOs in today's macro: wither the value creation?

- Leverage** Significantly more expensive, eroding returns ↓
- EBITDA growth** Flatlining underlying GDP, tougher trading environment ↓
- Multiple expansion** End of the automatic valuation expansion escalator ↔

## The new LBO math: a worked example





# Investment style specialisation will become as highly prized as sector expertise

## Ways to build a replicable 'multiple expansion machine'



**Carve Outs**



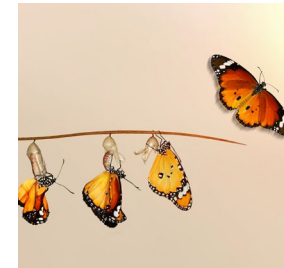
**Partnership Capital**



**Distress for Control**



**Industrial-Scale Buy and Build**



**Transformative Re-Rating**



**Complex situations**



# Meanwhile, on the operational value creation side, the race is on to harness AI for 'PE 5.0'

## PE 1.0 - Generalists

'80s/'90s

LBO Mania



## PE 3.0 – Operational Enhancement

'10s/'20s

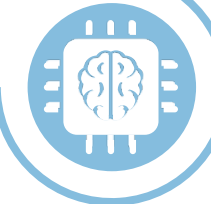
Specialist operational professionals brought into the GP



## PE 5.0 – AI...?

Late '20s

A new dawn of AI and data-driven value creation?



## PE 2.0 - Specialists

Late '00s

Growth of GP-level sector specialisms and multi-sector specialists



'20s

Capabilities and tools focused on specific areas of value creation across the portfolio



## PE 4.0 – Transversal Functions



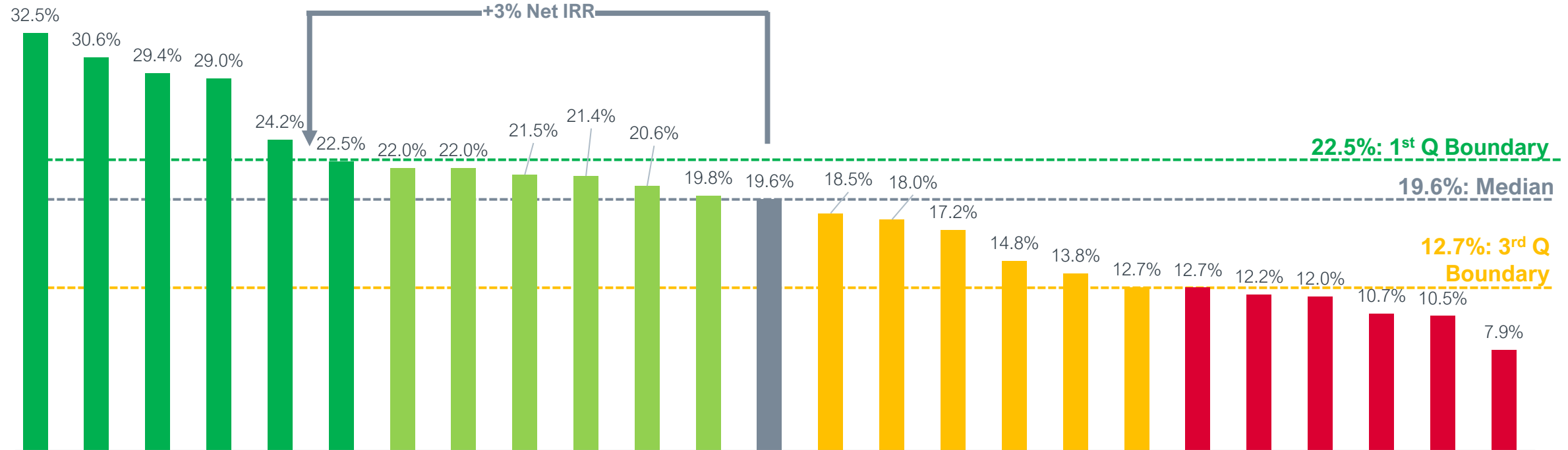


# Sophisticated fund management is now more important than ever...

Marginal gains through best-in-class portfolio management can turn a middling fund into a top performer

## Net IRRs of midcap buyout funds investing in Europe vintage 2012-15<sup>1</sup>

Fund sizes \$2.5bn - \$10bn, latest data as of Q3 2023





...with multiple levers available to smart fund managers

GPs should be considering all of the below to optimise their gross/net spreads



**Portfolio construction and timing**



**Recycling**



**Subscription credit lines**



**Continuation vehicles**



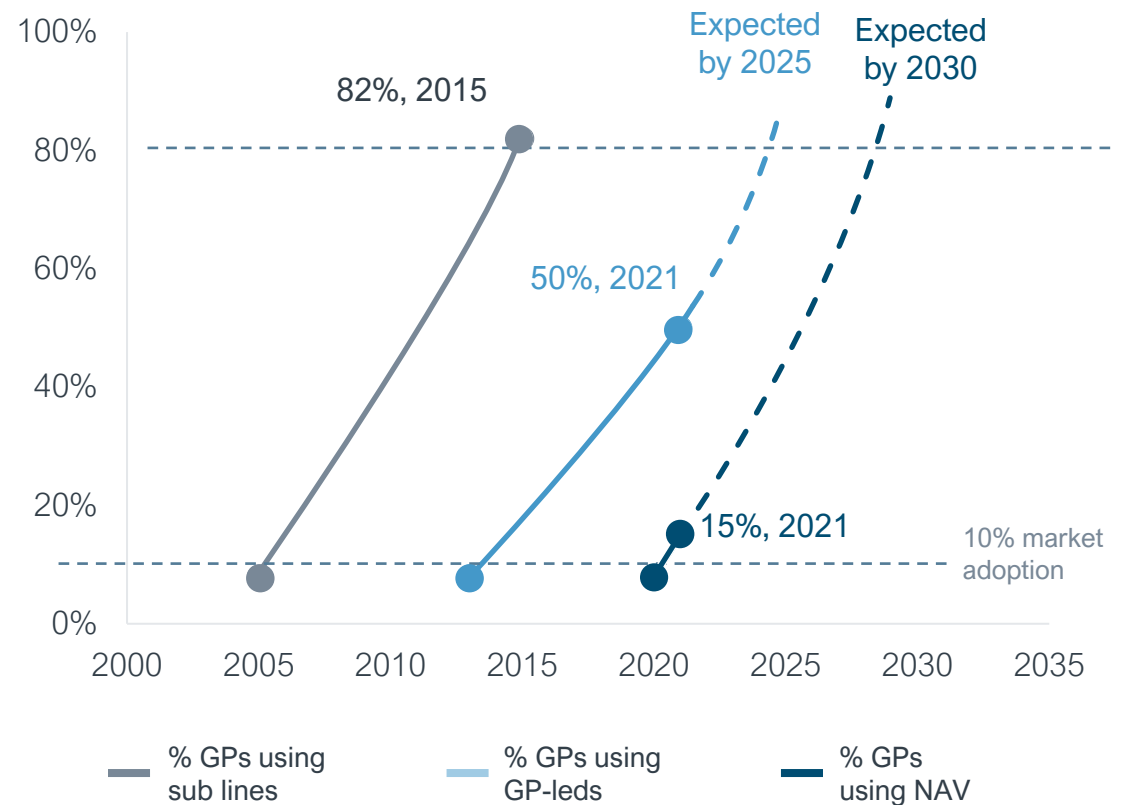
**NAV financing**



**Exit / sell-down management**

17 Capital's analysis shows NAV Financings following the same trend as subscription facilities and GP-leds did previously

**Adoption of various fund management techniques<sup>1</sup>**



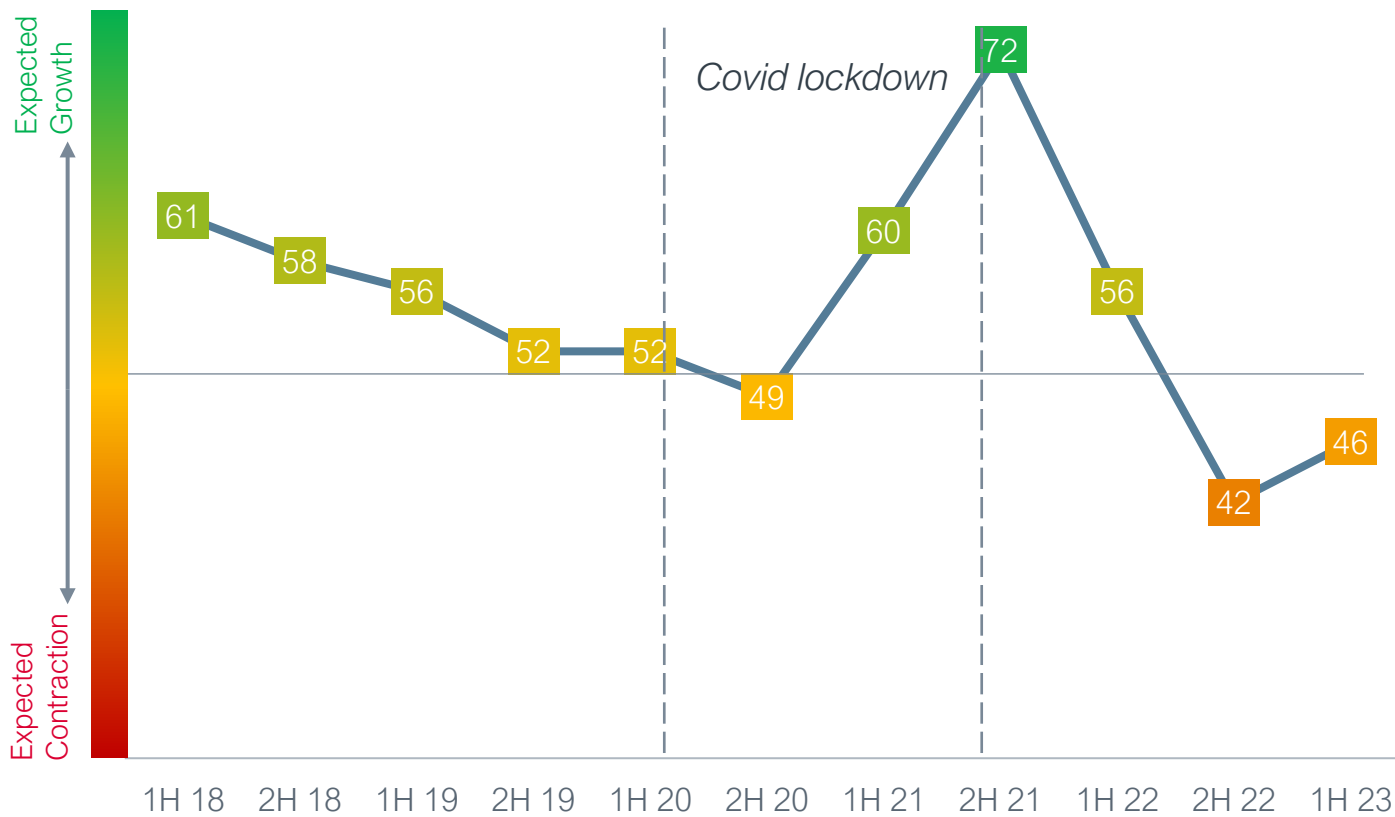
1, Source: 17 Capital, Rede market analysis



# Re-ups: Flat is the new up

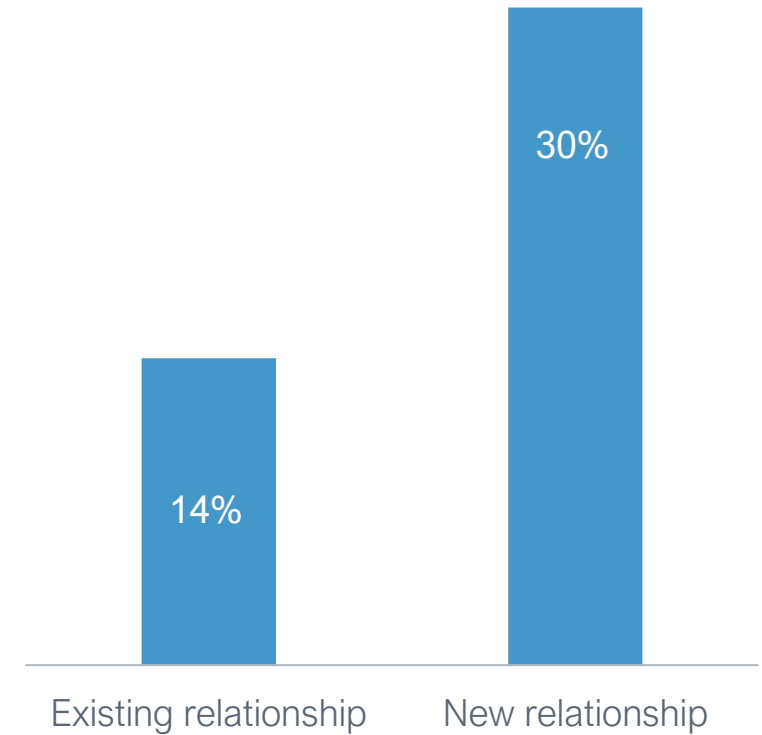
With in-person relationship building back on the agenda, LPs have become more critical about their re-ups ...

RLI for existing relationships: development over time<sup>1</sup>



...and more open to new investments

RLI: Where LPs expect to deploy MORE capital over the next 12 months<sup>1</sup>



1. Source: Rede Liquidity Index 1H 2023





# LP relationships are now as critical as deal doing...and GPs need to act on it, fast...



“Our study concludes that this is the percentage of our customers who will buy from us without any effort whatsoever on our part”

## Successful GPs are investing in IR at record levels...

**+27%** Increase in IR hires (2022 vs 2021)<sup>1</sup>



Quarterly webinars



Regular in-person, off-cycle meetings



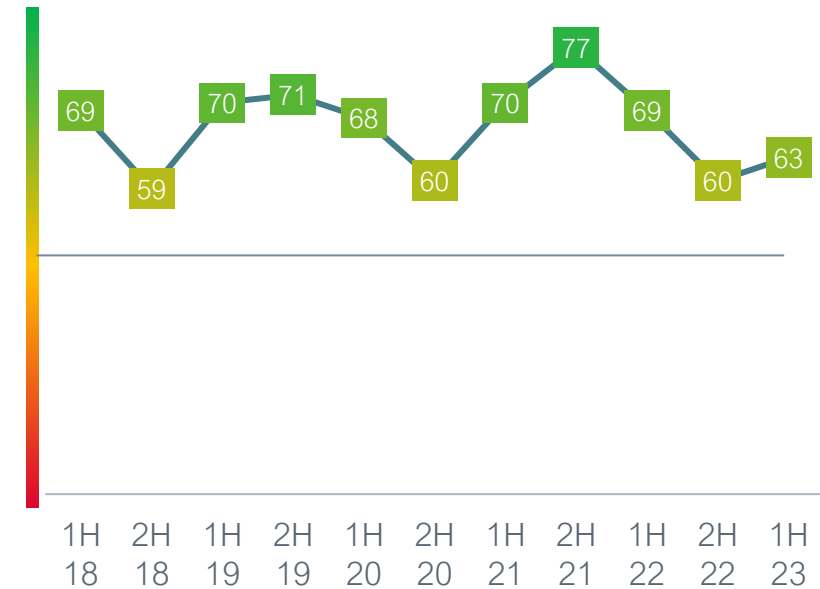
Digital comms. & online platforms



Next level AGMs

## ...and coinvest is now a vital component of LP-GP relationships

### RLI for coinvest over time<sup>2</sup>



**2:1**

Viewed as a 'good' coinvest ratio

1. Source: Jensen Partners

2. Source: Rede Liquidity Index 1H 2023



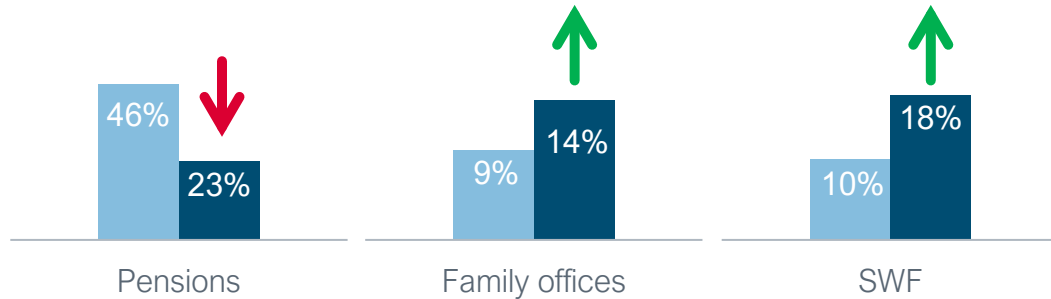


# ...but even with strong existing relationships, GPs need to look further afield to get fundraises across the line

GPs must go beyond the traditional institutional wells to expand reach and connectivity...

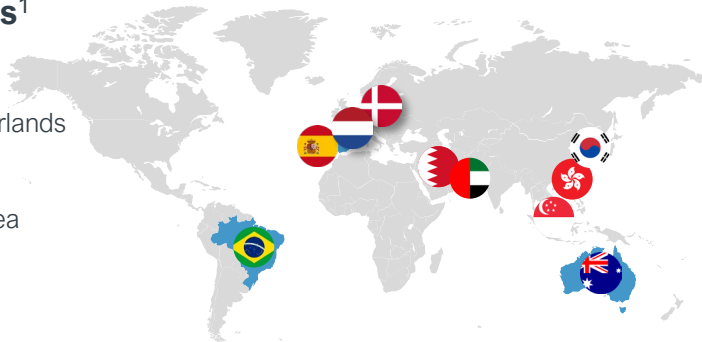
**% of all money raised by LP type<sup>1</sup>**  
Capital closed for Rede funds by year

■ 2020 ■ 2023



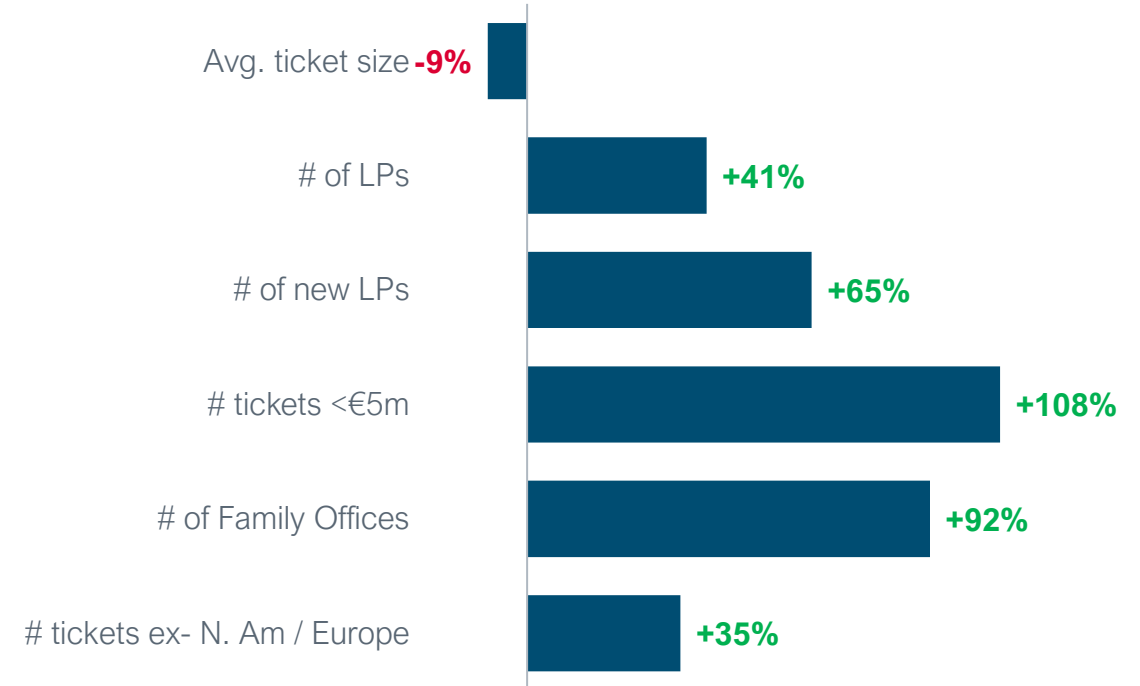
**100%+ increase in tickets<sup>1</sup>**  
2021-23 vs 2018-20

- ▶ Australia
- ▶ Bahrain
- ▶ Brazil
- ▶ Denmark
- ▶ Hong Kong
- ▶ The Netherlands
- ▶ Singapore
- ▶ South Korea
- ▶ Spain
- ▶ UAE



...as illustrated in recent fundraisings

**Change in profile of recent funds closed**  
Rede funds. % change, current vs predecessor fund<sup>1</sup>



1. Rede primary fundraising engagements. 'Recent funds closed' since October 2022.



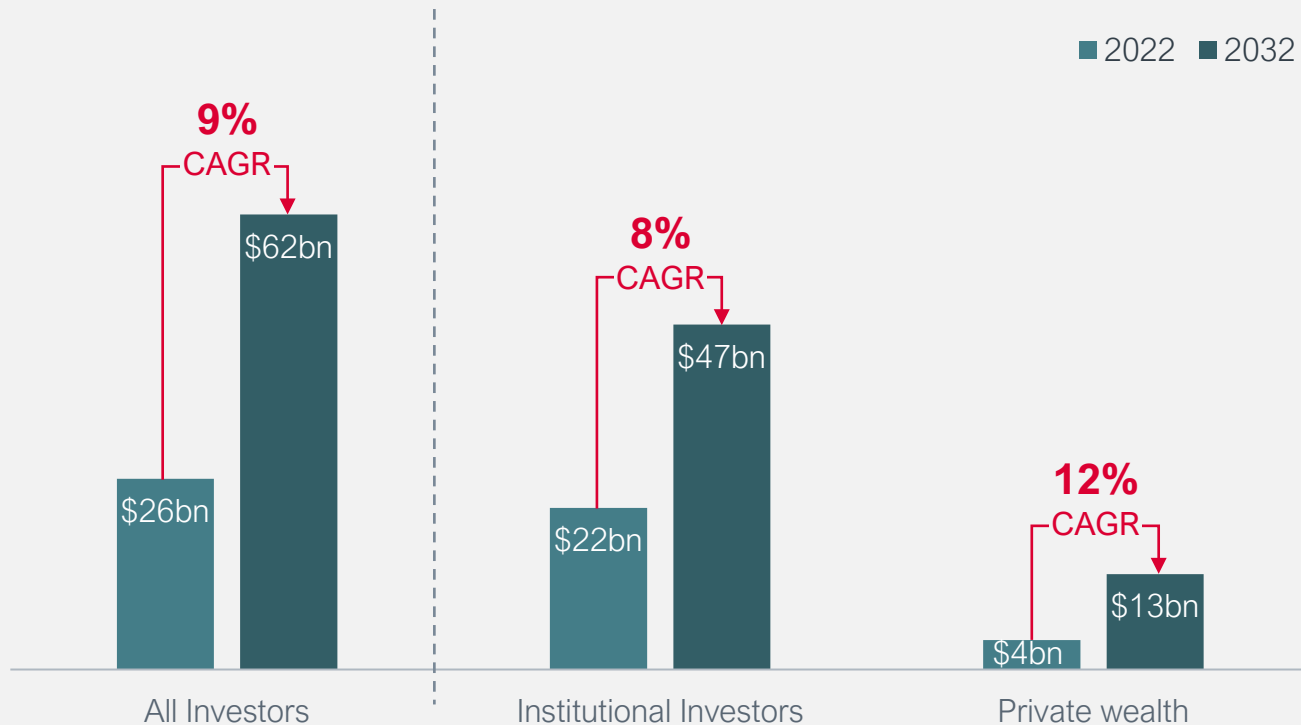




While we haven't yet given up hope on the 'retail revolution', closing the gap on the HNW channel will take some time

## Retail: the single largest area for increased exposure to alternatives

Estimated global alternatives AUM by investor type<sup>1</sup>



## Key Channels

### Private banks

Goldman Sachs

J.P.Morgan

### Wirehouses

Morgan Stanley

UBS

OCIO, RIA,  
FO, DTC

E V O K E

IEQ  
CAPITAL

Liquid retail  
structures

Blackstone

KKR

1. Bain Global Private Equity Reports 2023.



In conclusion

# The Rede View for 2023



**We've come out of an exceptional period**

and it will take some time to find a new equilibrium



**The growth of private markets will continue**

but a greater proportion will be dedicated to risk-adjusted strategies



**LPs will continue to become more discerning**

across both portfolio construction and GP selection



**Competition for LP capital will remain fierce**

with GP evolution never more important



# Questions?



rede /rēd/

Chiefly British dialect, old English

-verb (used with object)

1. to counsel; advise

2. to explain; interpret

-noun

3. counsel; advice

4. a plan

5. a story

[rede-partners.com](http://rede-partners.com)