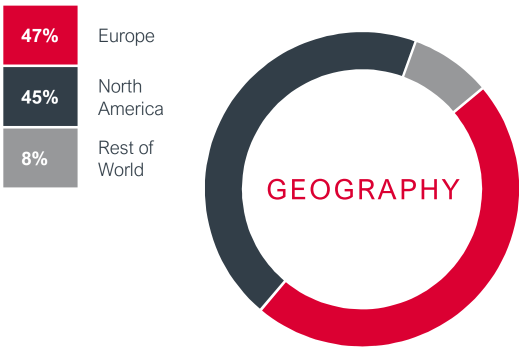
Rede PARTNERS

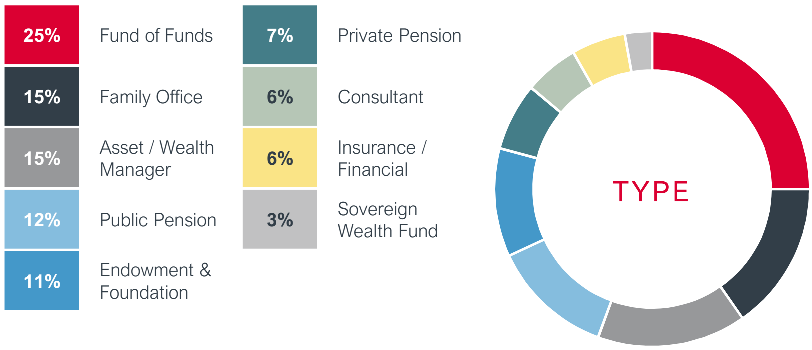
# Rede Partners COVID-19
# PULSE REPORT

ISSUE THREE
24th APRIL 2020

The Rede Partners COVID-19 Pulse Report is a regular publication aggregating *short term* feedback from LPs on their response to the unfolding Coronavirus crisis. This issue of the Pulse Report is based on a series of questions addressed in conversations with approximately 72 institutional investors from 4th – 20th April, representing > €2.3 trillion in AUM. Note that not all conversations addressed each question. Additional data on the respondents by LP type and geography is depicted below.

## BREAKDOWN OF LIMITED PARTNERS SURVEYED




## KEY FINDINGS FOR ISSUE THREE

- Only **33% of LPs are expecting their investment programmes to continue with 'business as usual,'** while the majority of LPs (64%) assume investment activity to be modified during 2020. We are seeing LPs focus on well-progressed fundraises, prioritizing existing relationships, or simply reigning in allocations across the board. This poses **a challenge for many upcoming fundraise launches and for emerging managers**.

- **50% of respondents are preparing for a 'U-shaped' recovery**, with only 5% planning for the milder 'V-shaped' recession. Expectations around duration appear to rest heavily on rates of infection, path to vaccine and impact of government unemployment support.

- Most respondents are modeling for significant portfolio impact into Q3, **with 70% noting expectations for 'zero/significantly reduced revenue' days across the next 3-12 months**. Within their portfolios, many LPs have highlighted that their primary focus right now is close monitoring of each company's 'cash runway' to service debt and stay afloat until we reach this eventual rebound.

- Looking ahead, on average, investors expect to be back in office by the end of Q2, but don't expect to be travelling internationally until Q3. It's clear that a return to face-to-face meetings and international travel will be vital to boosting LP deployment pace with **49% of LPs indicating that travel restrictions will hinder their deployment in 2020**.

- As awareness rises that lock-down conditions may persist in many markets well into Q2, LPs' views on quarterly portfolio valuations are evolving. **While 64% of LPs have indicated confidence in the Q1 valuations that they will receive from GPs, the remainder are considering applying additional valuation haircuts**, either to portray a more realistic portrait or to smooth the valuation curve into Q2 and beyond.

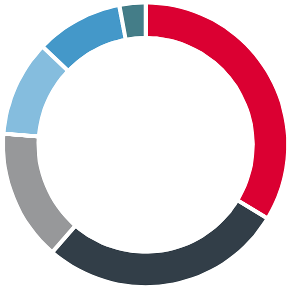
- Outside of traditional fund structures, we see **an uptick in interest from LPs in 'creative' investment opportunities** whether it is interest in buying distressed LP portfolios, stepping into co-invest with non-GP partners or preferred equity financing solutions to allow for LP cash distributions or equity cures and follow-on investments.

- Currently, our data indicates **higher demand for these 'creative' investment opportunities than supply**. For example we have received many inquiries about distressed LP sellers, but only 11% of respondents indicated that they would consider a portfolio management exercise in the near-term.

- Following an initial deluge of information regarding the anticipated impact of COVID-19 across portfolios, **LPs are indicating a desire for more periodic pandemic-related communication with their GPs**, with 47% of LPs preferring a monthly update and 41% preferring to hear only when there is meaningful news to share. LPs typically express preference for written, structured updates on a detailed company-by-company basis.

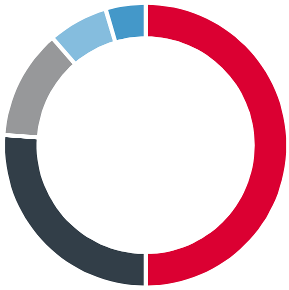
## Q1: HOW HAVE YOUR INVESTMENT PROCESS AND ALLOCATION PLANS BEEN IMPACTED BY RECENT EVENTS? [1]

| | |
|---|---|
| 33% | Business as usual |
| 28% | Will close on commitments that are very far along, that is it |
| 15% | Business as usual, but expect reduced allocations in the medium term |
| 11% | Program is completely on hold |
| 10% | Will close on commitments that are very far along, and proceed with re-ups |
| 3% | Anticipate an increase in activity due to market dislocation |



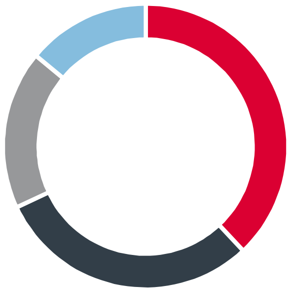
## Q2: WHAT "TYPE" OF RECESSION ARE YOU MODELING FOR?

| | |
|---|---|
| 50% | U Shape |
| 26% | No clear sense |
| 12% | L shape |
| 7% | W shape |
| 5% | V shape |



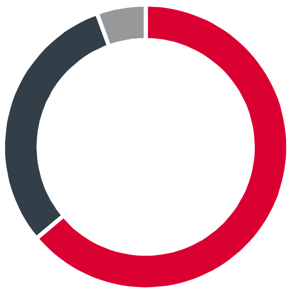
## Q3: HOW LONG ARE YOU MODELING "ZERO/SIGNIFICANTLY REDUCED REVENUE DAYS" FOR UNDERLYING PORTFOLIO COMPANIES?

| | |
|---|---|
| 38% | 3-6 months |
| 30% | Highly dependent on company/sector |
| 18% | 6-12 months |
| 14% | < 3 months |



## Q4: DO YOU PLAN TO APPLY A FURTHER HAIRCUT TO THE Q1 VALUATIONS YOU ARE GIVEN?

| | |
|---|---|
| 64% | No |
| 31% | Yes, amount TBD |
| 5% | Yes, c.10% |

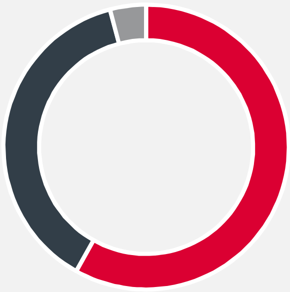


1. Question One depicts aggregate data gathered from LP conversations held across Issues One, Two and Three. All other questions in this report depict results based on conversations held with approximately 72 institutional investors from Issue Three, only.

## SPOTLIGHT ON INTERNATIONAL TRAVEL AND IMPACT ON LP COMMITMENTS

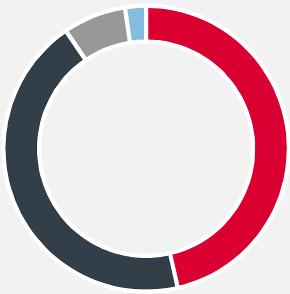
### Q5: WHAT IS YOUR BASE CASE ESTIMATE FOR WHEN YOUR OFFICE WILL BE UP AND RUNNING AS NORMAL?

| | |
|---|---|
| 58% | Q2 |
| 38% | Q3 |
| 4% | Q4 |



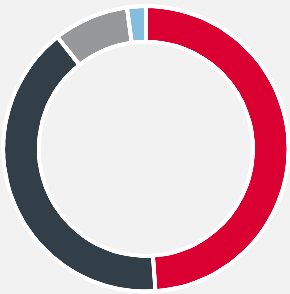
### Q6: WHAT IS YOUR BASE CASE ESTIMATE FOR WHEN YOUR TEAM WILL RESUME TRAVELLING INTERNATIONALLY?

| | |
|---|---|
| 47% | Q3 |
| 44% | Q4 |
| 7% | A later date |
| 2% | Q2 |



### Q7: WILL INTERNATIONAL TRAVEL RESTRICTIONS IMPACT YOUR ABILITY TO COMMIT TO OTHER GEOGRAPHIES IN 2020?

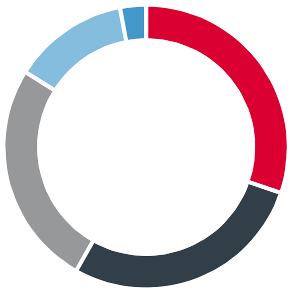
| | |
|---|---|
| 49% | No |
| 40% | Yes, for new commitments but will still do re-ups |
| 9% | Yes, for new commitments and re-ups |
| 2% | N/A - Don't invest outside my country |



- Most LPs **expect a return to office-based working by the end of Q2 (58%) or Q3 (38%)**. This return, however, is expected to be on a modified schedule, with many indicating expectations **for a 'split system'** with half the team alternating working from home with the other half of the team.
- Assuming no massive 'second wave' of infections and/or lock-downs, 47% respondents indicated that it would likely be **an additional quarter lag** from when they are back in the office until they expect to travel internationally again. In addition to formal restrictions, we have also heard anecdotes of tightened LP travel budgets given the economic hit.
- 49% of respondents indicated that this **lack of international travel will hinder their ability to make inter-continental commitments in 2020** given the lack of ability to meet face-to-face.

## Q8: WHAT ARE SOME OF THE “KNOCK ON” EFFECTS OF THE COVID-19 CRISIS TO YOUR PRIVATE EQUITY PORTFOLIO THAT ARE KEEPING YOU AWAKE AT NIGHT?

| | |
|---|---|
| 30% | Portfolio company liquidity |
| 28% | Economic impact of higher unemployment |
| 26% | Supply chain issues |
| 13% | Consumer debt burdens |
| 3% | Lack of financing for platform and add-on deals |

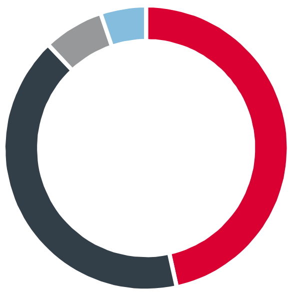


## Q9: WOULD YOU CONSIDER ANY PORTFOLIO MANAGEMENT EXERCISES (E.G. SECONDARY SALES) IN THE NEAR TERM?

| | |
|---|---|
| 89% | No |
| 11% | Yes |

## Q10: HOW OFTEN WOULD YOU LIKE TO HEAR FROM YOUR GPS REGARDING COVID IMPACT UPDATES?

| | |
|---|---|
| 47% | Monthly |
| 41% | When there is news |
| 7% | Quarterly |
| 5% | Weekly |



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