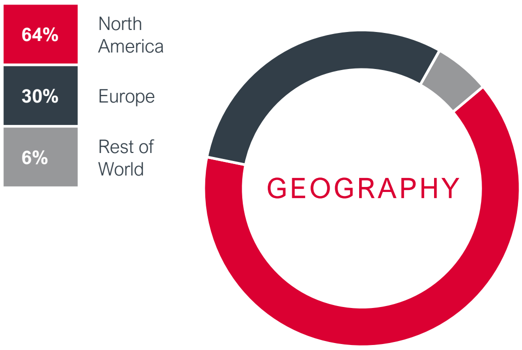
Rede Partners COVID-19

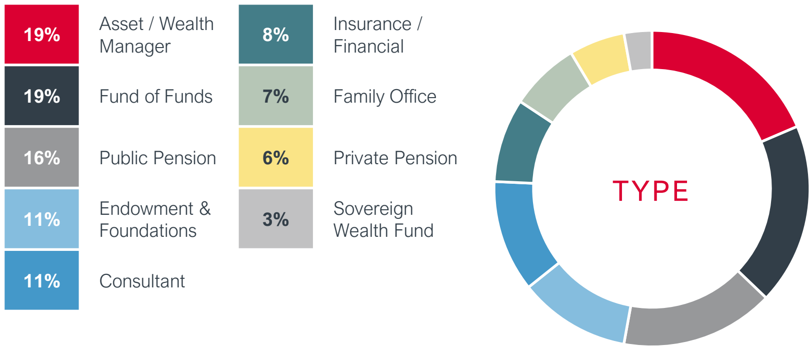
PULSE REPORT

ISSUE SIX
06th JULY 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 70 institutional investors from 27th May – 26th June, representing > €3.5 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 SIX

- By June, **the number of LP programs reporting investment activity as 'business as usual' had grown to 55%,** accounting for the majority of responses for the first time - a stark contrast to late March, when less than a quarter of LPs provided this response. In our view, it is no coincidence that the S&P 500 has also increased by 39% over this period[1].
- **GP investment activity is picking up.** 26% of LPs now expect their underlying GPs' deployment pace at '2019 run rate' for the remainder of 2020, with another 69% seeing their GPs engage in limited investment activity, mainly add-on investments.
- **Q1 valuations appear to have come in better than expected, with an average drop in valuation of c.10%[2].** 98% of LPs report Q1 valuation decreases of under 15%, a much more limited haircut than LPs had feared in April when 44% of LPs expected to see Q1 valuations fall by 11-25%.
- While some businesses are emerging healthily from the maelstrom, some sectors remain severely impacted. LPs are waiting expectantly for Q2 valuations to better understand the severity of those losses. Government-backed business rescue schemes continue to play a key role in keeping many of these businesses afloat**. The majority of LPs (68%) agree that PE-backed companies should accept government crisis loans**, with European LPs more supportive than US investors.
- LPs' investment preferences continue to evolve. We note that **60% of LPs indicate increased interest in credit-related fund investments**, particularly higher returning strategies such as distressed and special situations lending, while **54% are expecting increased allocations to infrastructure funds** in the near term.
- The PE industry has shown remarkable resilience to the crisis, carrying on and adapting in ways that would have been hard to conceive of just six months ago. We are now seeing a steady trickle of staff back to offices and boardrooms, **with 83% of LPs expecting to have their HQ open to staff by the end of September.**
- We expect to see some longer lasting changes in working practices within our industry. Flexible and remote working have been normalised for many, and **92% of LPs believe remote working will be more readily accepted in their organization in the long term.** We expect this to have knock-on implications for private equity fundraising with reduced emphasis on the annual conference cycle and a continued focus on improving live-streaming of AGMs and diligence meetings.

SPECIAL NOTE

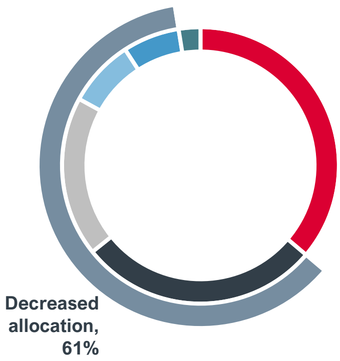
With this issue we conclude our series of regular COVID-19 Pulse Reports. *The series was designed to address an urgent need for frequently updated, high quality data in very uncertain times. While the ultimate trajectory of the pandemic remains unclear, we are seeing a return to greater stability within the private equity industry.* ***Although we will no longer be issuing regular pulse check reports, we will continue to publish our biannual Rede Liquidity Index (RLI), with the next edition published in September.*** *The RLI is an analysis that serves as an indicator for private equity liquidity projections and is a bellwether for the overall health of the private equity asset class.*

1. Time period: 23rd March – 30th June 2020
2. Median = 10%, Mean = 9%

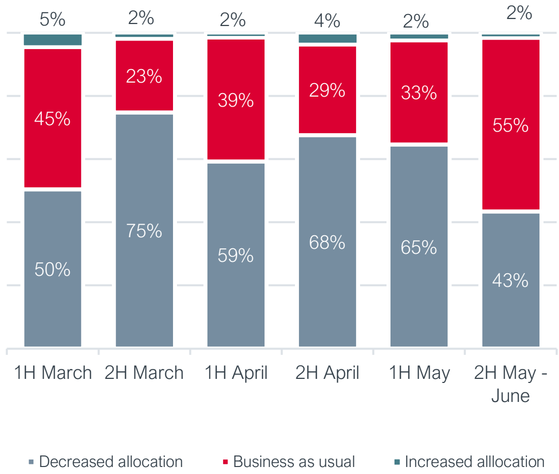
Q1: HOW HAVE YOUR INVESTMENT PROCESS AND ALLOCATION PLANS BEEN IMPACTED BY RECENT EVENTS? [1]

	36%	Business as usual
Decreased allocation	28%	Will close on commitments that are very far along, and proceed with re-ups
Decreased allocation	19%	Business as usual, but expect reduced allocations in the medium term
Decreased allocation	8%	Programme is completely on hold
Decreased allocation	7%	Will close on commitments that are very far along, that is it
	2%	Anticipate an increase in activity because of dislocation

AGGREGATE DATA

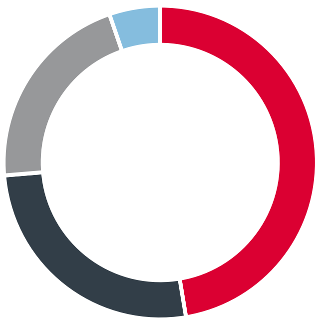


TIME SERIES BREAKDOWN



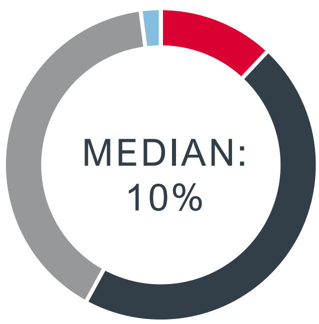
Q2: WHAT ARE YOUR EXPECTATIONS FOR YOUR GPS' INVESTMENT PACE THROUGH THE REMAINDER OF 2020?

48%	Limited but have started to see some platform and add-on activity
26%	'Run rate' GP activity
21%	Limited but have started to see some add-on activity
5%	Increased GP activity overall



Q3: WHAT IS THE ACTUAL VALUATION CHANGE YOUR PORTFOLIO EXPERIENCED IN Q1?

12%	0 - 5%
46%	5 - 10%
40%	10 - 15%
2%	15 - 20%



1. Question One depicts time series data gathered from LP conversations held across Issues One, Two, Three, Four, Five and Six of the Pulse Survey. All other questions in this report depict results based on conversations held with approximately 70 institutional investors from Issue Six, only.

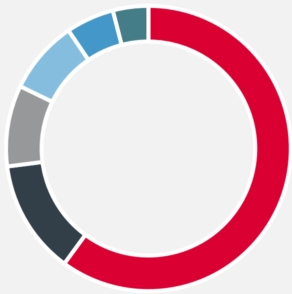
SPOTLIGHT ON CREDIT AND INFRASTRUCTURE

Q4: IS YOUR PROGRAM MORE INTERESTED IN CREDIT-RELATED FUNDS GOING FORWARD?

43%	Yes, actively investing
40%	No
17%	Yes, but still figuring it out

Q5: WITHIN CREDIT, WHAT IS MOST INTERESTING?

60%	Special situations/distressed (c. 20+% IRR)
13%	Specialty lending (c. 10-14% gross IRR)
9%	Structured credit/equity (c. 15-20% IRR)
8%	Senior secured (c. 6-8% gross IRR)
6%	Mezzanine (c. 13-15% gross IRR)
4%	Unitranche (c. 8-10% gross IRR)



Q6: IS YOUR PROGRAM MORE INTERESTED IN INFRASTRUCTURE FUND INVESTMENTS GOING FORWARD?

48%	No
36%	Yes, actively investing
16%	Yes, but still figuring it out

- LPs' investment interests continue to evolve in response to the pandemic, with an **uptick in interest in the downside protection afforded by fund investments in credit and infrastructure.**
- While approximately **60% of LPs have indicated increased interest in credit related funds**, only 40% of LPs cited a contractual return as their preferred credit strategy in the current environment. Indeed, the majority of LPs (60%) are still most attracted to special situations or distressed related strategies.
- **Just over half of respondents reported increased interest in infrastructure fund investments** going forward, although for many this remains in the early stages of consideration.

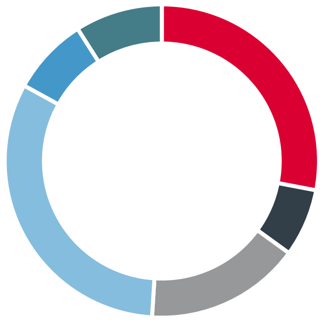
Q7: WHAT IS YOUR VIEW ON PRIVATE EQUITY BACKED COMPANIES ACCEPTING GOVERNMENT LOANS?

88%	Positive
13%	Negative

42%	Positive
58%	Negative

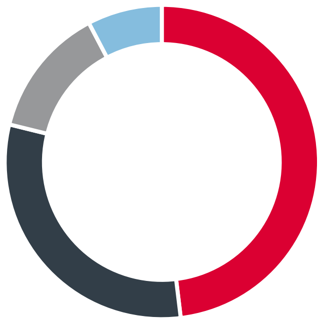
Q8: WHEN DO YOU EXPECT YOUR HEAD OFFICE WILL OPEN TO STAFF?

28%	June 2020
7%	July 2020
16%	August 2020
32%	September 2020
8%	Q4 2020
9%	2021



Q9: WILL YOUR OFFICE CONTINUE TO ALLOW EMPLOYEES TO WORK FROM HOME BEYOND THIS DATE?

48%	Yes, we plan to offer more flexibility to employees for the remainder of the year
31%	Yes, but only to limit office capacity in order to maintain social distancing
13%	Yes, we plan to offer more flexibility indefinitely
8%	No



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