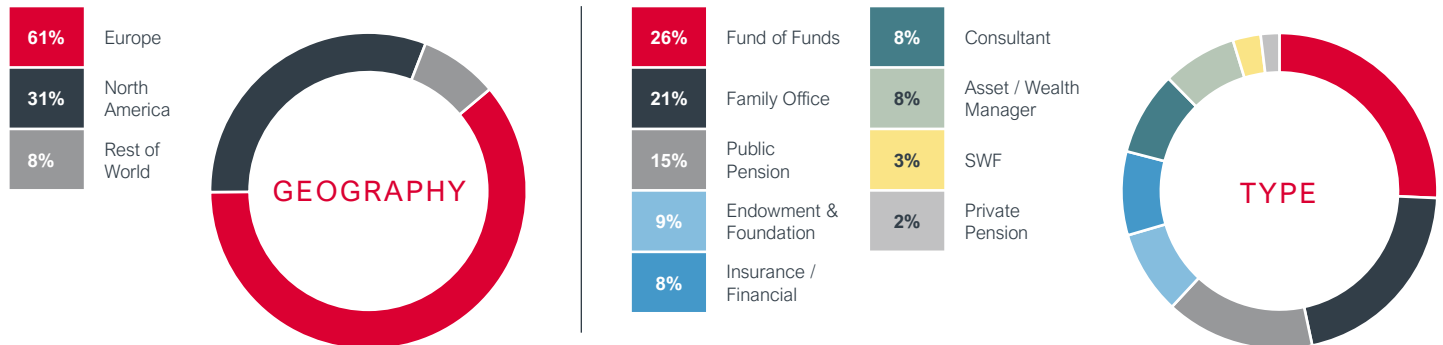


# Rede Partners COVID-19 PULSE REPORT

ISSUE TWO  
08th 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 off a series of questions addressed in conversations with approximately 105 institutional investors from 23<sup>rd</sup> March – 3<sup>rd</sup> April, representing > €8 trillion in AUM. Note that not all conversations addressed each question. Additional data on the respondents by LP type and geography is depicted below.

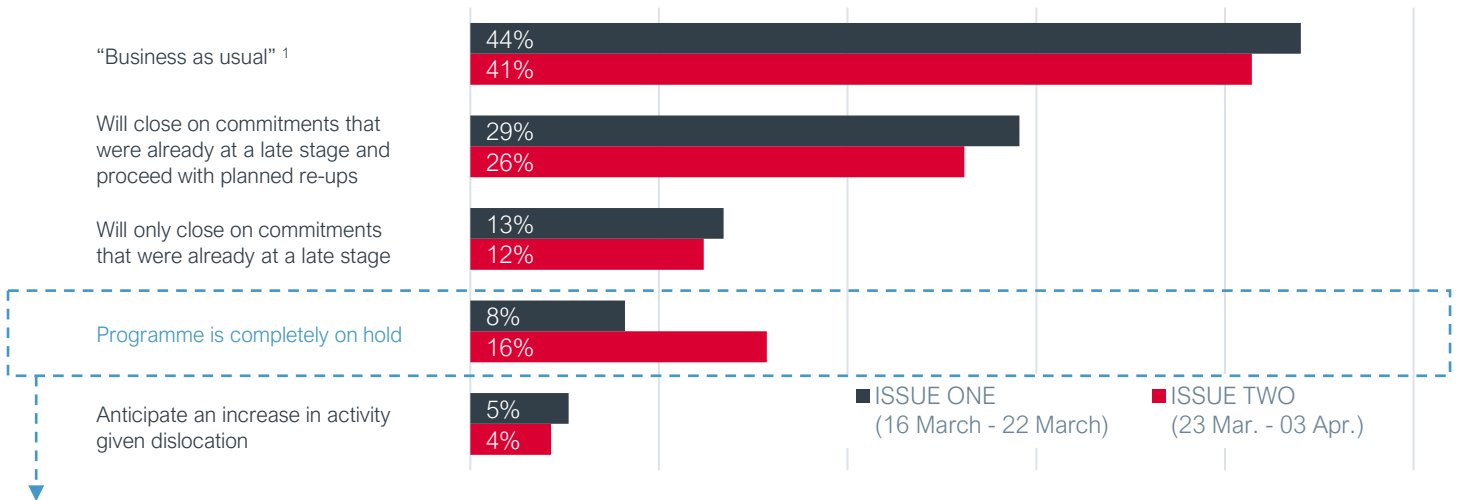
## BREAKDOWN OF LIMITED PARTNERS SURVEYED



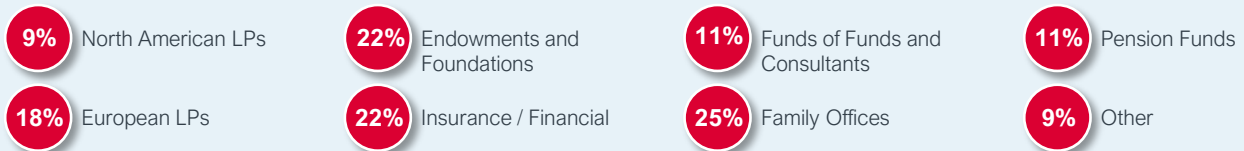
## KEY FINDINGS FOR ISSUE TWO

- ▶ Although 41% of LPs remain in 'business as usual' mode versus two weeks ago, **we saw a doubling in the proportion of investors reporting that their programme is completely on hold** (increasing from 8% in Issue One to 16% in Issue Two). Overall, **European LPs tended to be more cautious** in their approach compared to their North American counterparts. This is likely influenced by Europe being further down the 'pandemic' curve than North America.
- ▶ We saw an uptick in respondents who have tempered expectations for distributions in 2020 over the two periods (from 61% in Issue One to 84% in Issue Two), while the majority expect capital calls to remain roughly at "run rate" levels, with clear implications for LP liquidity and allocations in coming months.
- ▶ Specific trends are starting to emerge relating to individual LP types. **Funds of funds and consultants tend to be most bullish** on maintaining investment pace, while LPs with larger exposure to the public markets such as family offices tend to be more acutely impacted. **Endowments and hospital systems have faced unique challenges as they grapple with liquidity issues** resulting from the combination of tumbling valuations, high fixed costs and questions on donations, as well as more traditional revenue streams, such as sporting revenue for universities and elective surgery revenues for hospital systems.
- ▶ Where programmes remain active, approximately **74% of LPs have embraced the use of video conferencing to complete their due diligence processes**, including new relationships in half of those cases. However, in the world of remote diligence, all GPs are not created equal. With in person meetings off the table, LPs generally **feel more comfortable using video technology for confirmatory diligence on reups or GPs they have known for an extended period** pre-crisis rather than new relationships. LPs also plan to **intensify their referencing processes** to help bridge the diligence gap for new GP relationships. Some LPs have also **noted a closer scrutiny of legal documentation**, with a focus on determining the start of the 'fee clock' for recently closed funds.
- ▶ Despite the challenges, many LPs feel strongly that they must **heed the lessons of 2008-2009 and continue making commitments in 2020-2021** to avoid missing out on what could prove to be an outstanding vintage. Many are fighting to maintain allocations in the face of the denominator effect, including in one notable case where the investor is seeking to mitigate this by pushing out its fiscal year end.
- ▶ There is an increasing view amongst LPs that **fundraising will slow considerably with many GPs looking to push fundraising out into 2021**. Those launching in 2020 are being urged by LPs to avoid overly aggressive fundraising timetables. These sentiments depict a likely end to the previous rapid acceleration in fundraising cycles, which has occurred over the last few years.
- ▶ While we have seen an upswing in interest in counter-cyclical strategies, **the majority of LPs (57%) plan to maintain a consistent approach to portfolio construction**, citing a continued desire to build long-term relationships with managers who can perform across cycles. From a sector perspective, we see **continued appetite for of strategies such as mission-critical technology and healthcare**. Meanwhile, the dual impact of COVID-19 and the oil price war is accelerating the pre-existing **structural decline in LP sentiment toward oil-related strategies**.
- ▶ LPs report a strong focus on assessing portfolio impact (with the recognition that this is still largely unknown). They have prioritised analysis of their liquidity position, with a **focus on how credit facilities will be used, expectations for capital calls and potential for any realisations/distributions**. GP COVID-19 reporting is becoming increasingly sophisticated, with detailed cashflow analyses and scenario planning starting to emerge.
- ▶ **We see an increasing focus from both GPs and LPs regarding the best approach to Q1 valuations**. At this time, no real consensus on methodology has emerged. However, given an overall lack of certainty as to the shape of the crisis and subsequent recovery, many LPs expressed a preference to avoid strong movements in valuation across quarters – preferring a pragmatic, smoother approach to valuations across the next two to three quarters. Many LPs expect clarity in valuations only to emerge substantially after the Q2 reporting cycle.

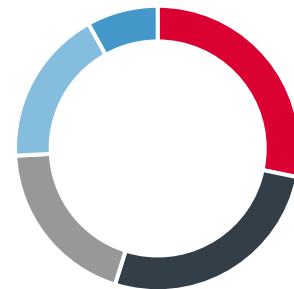
## Q1: HOW HAVE YOUR INVESTMENT PROCESS AND ALLOCATION PLANS BEEN IMPACTED BY RECENT EVENTS?



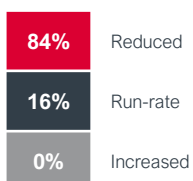
### PROPORTION OF INVESTORS REPORTING PROGRAMME IS COMPLETELY ON HOLD<sup>2</sup>



## Q2: HAS YOUR ORGANISATION BEEN ABLE TO COMPLETE DUE DILIGENCE AND GAIN INVESTMENT APPROVAL VIA VIDEO CONFERENCING?



## Q3: WHAT ARE YOUR CURRENT EXPECTATIONS FOR DISTRIBUTIONS IN 2020?

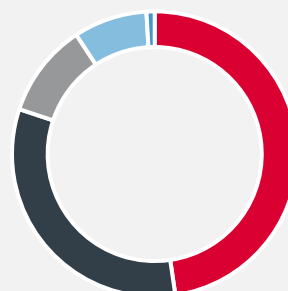
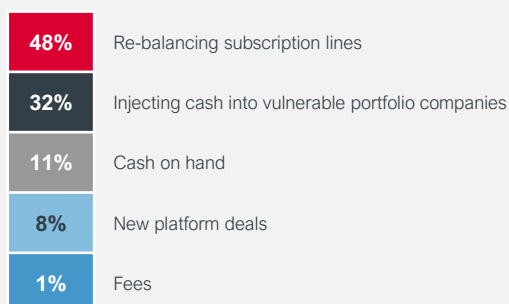


## SPOTLIGHT ON CAPITAL CALLS

**Q4: WHAT ARE YOUR CURRENT EXPECTATIONS FOR CAPITAL CALLS IN 2020?**

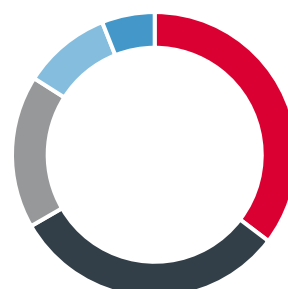


**Q5: IF YOU ARE SEEING INCREASED CAPITAL ACTIVITY, WHAT IS YOUR UNDERSTANDING OF THE REASONS BEHIND THIS?**

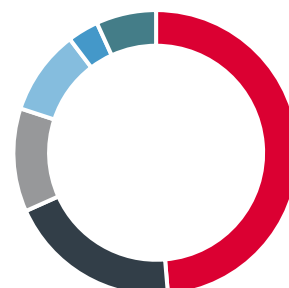


- ▶ **Near-term capital call activity seems to have eased slightly in the most recent fortnight** (decreasing from 56% in Issue One to 46% in Issue Two).
- ▶ 48% of LPs attributed near term capital calls to **GPs rebalancing subscription lines** while 32% cited the **need to inject capital into portfolio companies**. Very few LPs suggested new deal activity in their portfolios as a reason for near term capital calls, although we continue to see some **add-on activity** from GPs.
- ▶ Many LPs reported a **large amount of capital calls in their credit and public portfolios** as GPs seek to take advantage of the more immediate term repricing opportunity.
- ▶ Despite some market noise and GP concerns regarding **LP defaults**, we have not yet witnessed significant evidence of this.

**Q6: ARE THERE ANY SEGMENTS THAT YOU WILL NOW SHY AWAY FROM IN THE NEAR TERM?**

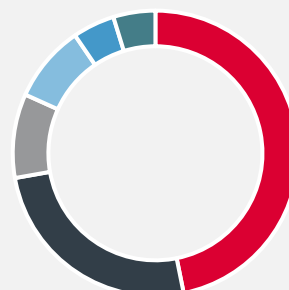
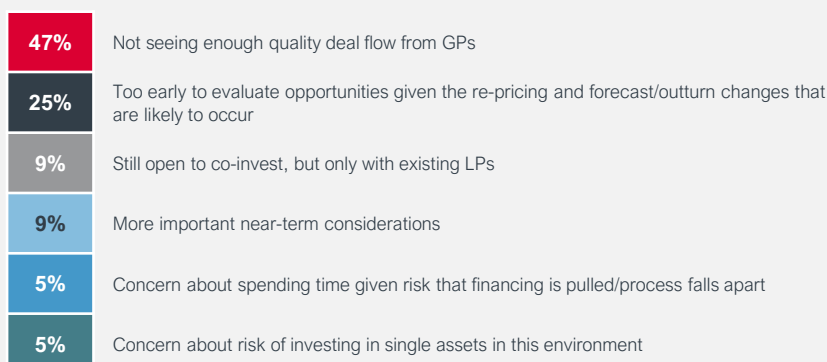


## Q7: ARE THERE ANY INVESTMENT STRATEGIES THAT YOU WILL NOW GRAVITATE TOWARDS?



## SPOTLIGHT ON CO-INVESTMENTS

### Q8: IF YOU ARE PUTTING OFF CO-INVESTMENTS, WHAT IS THE RATIONALE?



- ▶ Across the two periods roughly **half of all respondents reported a reduced appetite for co-investment**. Many LPs expect to see some co-invest pools that have more recently come online fall away as a result of mixed performance in their young portfolios and a reduced interest in exposure to single asset risk.
- ▶ The challenge of assessing valuation in this environment is the leading reason for this both as private equity buyers and portfolio company sellers cannot agree on price leading to a **lack of deal flow** and as LPs express concern over ability to gain conviction on outturn analysis or fair pricing.
- ▶ Certain LPs noted there may be an **opportunity to co-invest with GPs where they do not have a pre-existing relationship via a fund commitment**, as the previously increasing pools of available co-invest capital dry up.

# CONTACTS

## Scott Church

scott.church@rede-partners.com  
+1 (212) 224 8224

## Kristina Widegren

kristina.widegren@rede-partners.com  
+44 (0)20 7952 2463

## Alastair Baird

alastair.baird@rede-partners.com  
+44 (0)20 7952 2467

## Alexandra Bazarewski

alexandra.bazarewski@rede-partners.com  
+1 (212) 224 8227

## Michael Camacho

michael.camacho@rede-partners.com  
+44 (0)20 7952 2478

## Joseph Chow

joseph.chow@rede-partners.com  
+44 (0)20 7952 2464

## Ian Flavell

ian.flavell@rede-partners.com  
+1 (212) 224 8222

## Magnus Goodlad

magnus.goodlad@rede-partners.com  
+44 (0)20 7952 2477

## Hylke Hertoghs

hylke.hertoghs@rede-partners.com  
+44 (0)20 7952 2472

## Helen Jenkins

helen.jenkins@rede-partners.com  
+44 (0)20 7952 2485

## Gabrielle Joseph

gabrielle.joseph@rede-partners.com  
+44 (0)20 7952 2480

## Adam Turtle

adam.turtle@rede-partners.com  
+44 (0)20 7952 2488

## Marina Jovanovic

marina.jovanovic@rede-partners.com  
+44 (0)20 7952 2471

## Sonya Kalmin

sonya.kalmin@rede-partners.com  
+1 (212) 224 8229

## Claudia Levan

claudia.levan@rede-partners.com  
+44 (0)20 7952 2465

## Sabrina Malpas

sabrina.malpas@rede-partners.com  
+44 (0)20 7952 2473

## Chris Miller

chris.miller@rede-partners.com  
+44 (0)20 3019 7436

## Julie Prewer

julie.prewer@rede-partners.com  
+44 (0)20 7952 2479

## Charles Savinar

charles.savinar@rede-partners.com  
+1 (212) 224 8232

## Jeremy Smith

jeremy.smith@rede-partners.com  
+44 (0)20 7618 9843

## James Varela

james.varela@rede-partners.com  
+44 (0)20 7952 2476

**Rede Partners LLP** is a limited liability partnership registered in England and Wales with registered office at **110 Park Street, London W1K 6NX** (Registered No. OC361093). Rede Partners LLP is authorised and regulated by the Financial Conduct Authority in the U.K.

**Rede Partners (Americas) LLC** is a limited liability company registered in Delaware with registered office at **Suite 2601, 45 Rockefeller Plaza, New York 10011**. Rede Partners (Americas) LLC is a registered broker-dealer with the U.S. Securities and Exchange Commission and various U.S. state securities administrators and is a member in good standing of FINRA and the Securities Investor Protection Corporation. Check the background of this firm on [FINRA's BrokerCheck](#).

Learn more at [www.rede-partners.com](http://www.rede-partners.com).

## IMPORTANT DISCLAIMER

**ADDRESSEE ONLY:** This document (the "**Document**") is issued by Rede Partners LLP ("**Rede**") and provided to you on a confidential basis. This Document is proprietary to Rede and is for the confidential use of only those persons to whom it is transmitted (and is not to be reproduced, distributed or used for any other purposes). Each recipient of this Document, by accepting delivery of this Document, is deemed to have agreed not to reproduce, distribute or use information contained within this Document or otherwise disclose any of its contents without the prior written consent of Rede.

**ACCURACY:** The information in this Document has not been audited or verified by any third party and is subject to change at any time, without notice. It is not intended to amount to advice on which you should rely. Neither Rede, its affiliates nor any of their respective directors, officers, employees, partners, shareholders or agents (each, a "**Rede Party**") accept any responsibility for, nor make any representation or warranty, express or implied, as to the truth, accuracy or completeness of the information contained in this Document. Certain information contained herein is based on or obtained or derived from third parties which may vary over time ("**Third Party Information**"). While such sources are believed to be reliable, no Rede Party assumes any responsibility for the accuracy of any Third-Party Information. No Rede Party shall have any liability or responsibility arising from any use of or reliance placed on the content of this Document to any recipient of this presentation or any other person. Unless otherwise specified herein, this Document speaks as of the date set forth on the cover. The delivery of this Document shall not, under any circumstances, create any implication that the information contained herein is correct as of any time after that date.

Copyright © 2020 Rede Partners LLP. All rights reserved.