

R LIQUIDITY INDEX

2H 2021



January 2022

INTRODUCTION

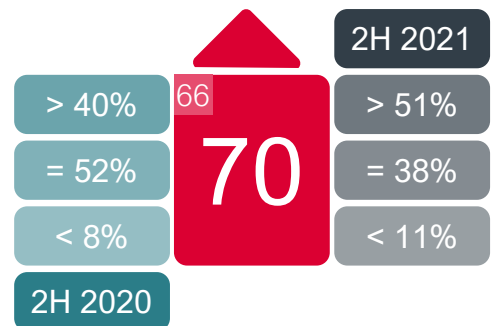
HEADLINE FIGURES

The overall Rede Liquidity Index (RLI) score for 2H 2021 of 70 means that, on average, LPs expect to significantly increase deployment of capital to PE funds over the next 12 months

“ Over the next 12 months do you expect to:

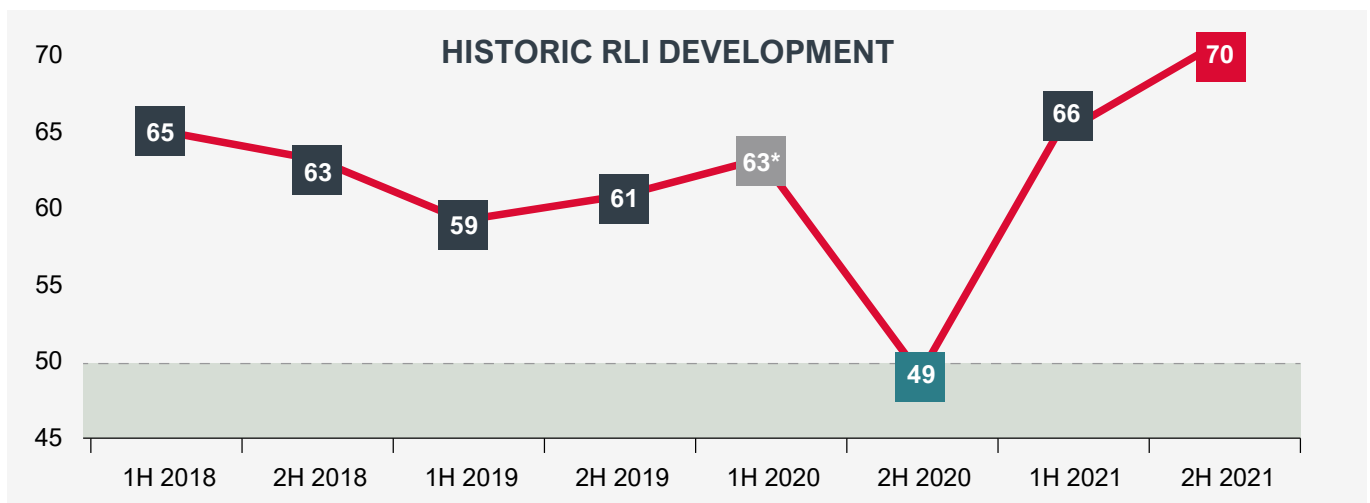
INCREASE (>) MAINTAIN (=)
DECREASE (<)

capital deployment to private equity? ”

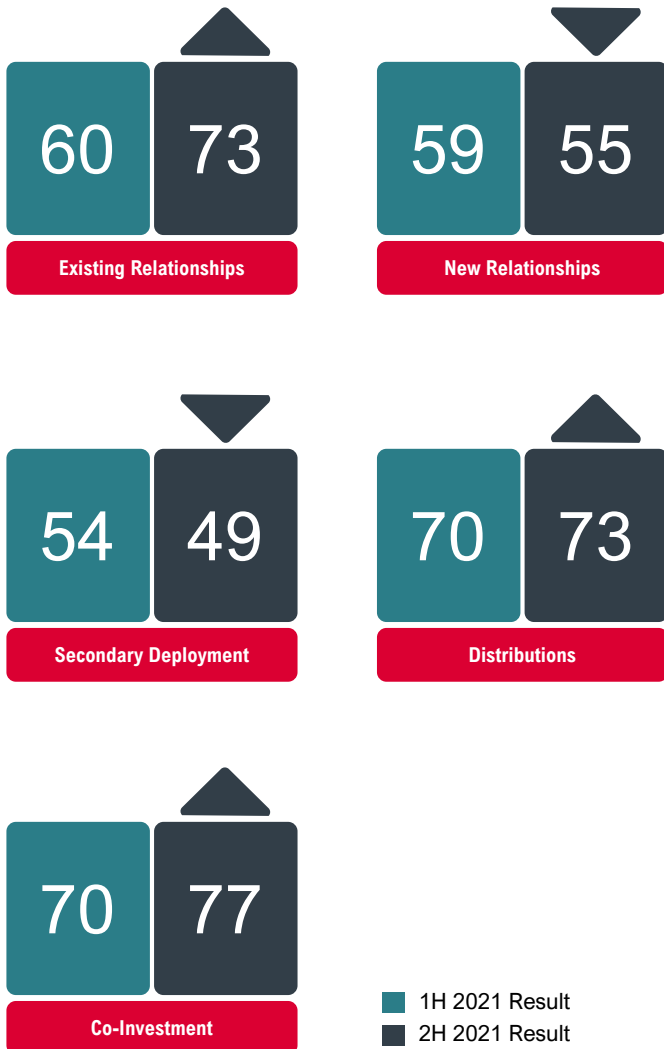


KEY FINDINGS

- 1 This report sees the RLI at a record high with very high deployment levels expected in 2022
- 2 However, with an unprecedented number of GPs coming to market, we see evidence of a real squeeze on fundraising with LPs looking to focus heavily on reups with existing managers
- 3 Healthcare and technology remain key themes, but with a strong challenge coming from the burgeoning sustainability/impact sector
- 4 LPs continue to chase alpha and are looking to expand allocations to growth equity and mid-market/lower mid-market buyouts over the next year



INTRODUCTION



Rede Partners is delighted to publish this report, the 8th edition of the Rede Liquidity Index (RLI), looking at institutional investor sentiment towards private equity (PE) for the second half of 2021 and into 2022.

While the survey which forms the basis for this report was undertaken prior to the Omicron variant of Covid spreading globally, anecdotal evidence indicates that the sentiment shown at the time still holds true.

Following a significant bounce back in 1H 2021, we anticipated LP sentiment to continue rising during the year, but the RLI for 2H 2021 demonstrated a stronger-than-expected intent towards deployment.

This was particularly true across certain sub-indicators – most notably existing relationships, co-investment and distributions.

Considering what proved to be a very strong year across global PE, we feel that the headline RLI is truly reflective of the current state of the industry. And it is against that backdrop – and as the world continues to emerge from the Covid-19 pandemic – that we present the findings of this report.

WHAT THE NUMBERS MEAN

The RLI is a twice-yearly measure of liquidity across the PE LP universe, comprising a composite index with five sub-indicators. It is based on liquidity projections for the year ahead, with participating LPs asked if they were expecting to deploy more, the same or less to PE during the upcoming 12 months compared to the previous 12 months.

If 100% of respondents reported an increase, the index would be 100. If 100% reported a decrease, the index would be zero. If 100% saw no change, the index would be 50. So, an index score of over 50 indicates an improvement and, therefore, positive sentiment.

INTRODUCTION

This report sees the RLI at a record high with huge liquidity expected in 2022

The RLI of 70 for 2H 2021 is far and away the highest figure for LP sentiment since Rede began publishing these reports – with 51% of respondents saying they expect to increase their capital deployment to private equity over the next 12 months compared with 11% who plan to decrease their allocation.

Setting this figure in context of the ongoing (albeit easing) Covid pandemic and broader market drivers, it is our belief at Rede that this record-breaking RLI is indicative of a continued post-pandemic bounce. Prior to Covid, there was a measure of cynicism in the market that a correction in PE was due, and the pandemic itself brought about considerable bearishness – yet PE continued to perform exceptionally well.

As government schemes supported businesses around the world, concerns about a structural economic depression were allayed. Indeed, deal-making picked up significantly during 2021. According to the latest data from Preqin, total private equity deal value reached \$804bn on an annualized basis – 70% more than the pre-pandemic figure for 2019 .

This level of deal-making not only aligned with buoyant private markets but also with high levels of exit activity. Total private equity exit value for 2021 reached \$767bn on an annualized basis – a 92% rise compared with 2019 – according to Preqin.

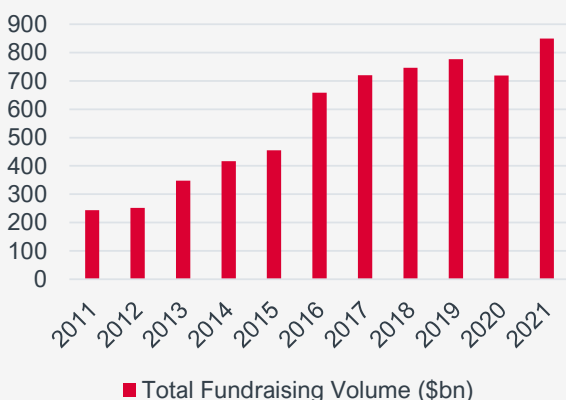
Not only are we seeing high levels of exit activity but proceeds from exits are significantly higher, with a number of ‘blow out’ returns – all resulting in higher average exit volumes.

Considering the figures for exit activity highlighted above, it’s unsurprising that LP expectations for distributions are so high, with the RLI for Distributions standing at a record figure of 73.

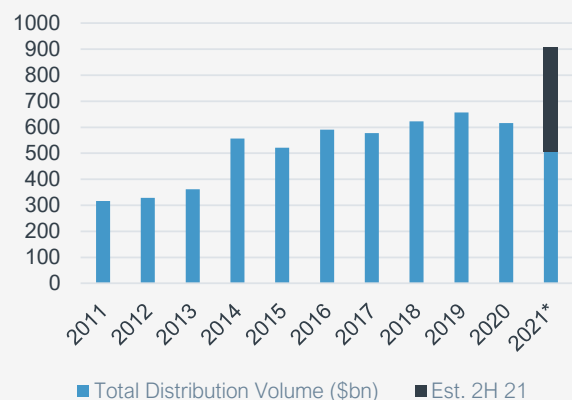
We see no reason for this to change in 2022 as there is a pipeline of exit activity to come. The strong positive sentiment among LPs has likely come from the knowledge that their investments are set to result in significant returns.

Taken together, these market dynamics create something of a positive feedback loop for private equity fundraising, with high levels of deployment and exit activity increasing confidence in an already robust market. As such, we are already seeing GPs coming back to market either with new funds or looking to scale existing ones.

TOTAL PE FUNDRAISING VOLUME (\$BN)

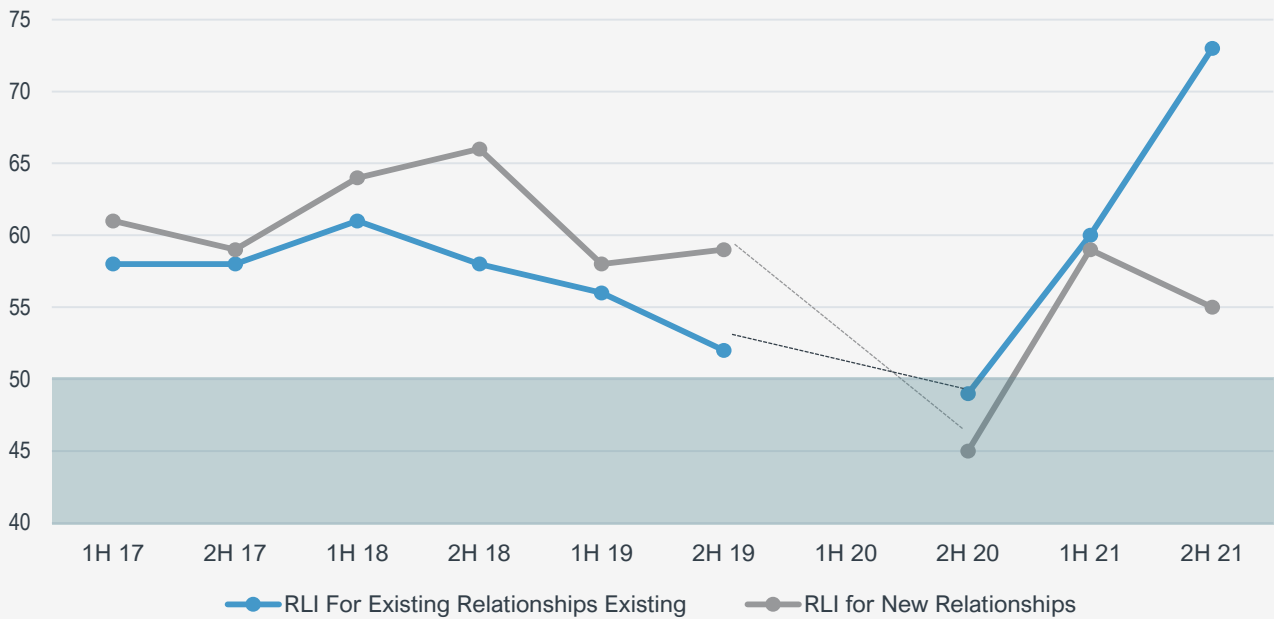


TOTAL PE DISTRIBUTION VOLUME (\$BN)



INTRODUCTION

DEVELOPMENT OF THE RLI FOR EXISTING AND NEW RELATIONSHIPS OVER TIME



However, with an unprecedented number of GPs coming to market, we see evidence of a real squeeze on fundraising with LPs looking to focus heavily on reups with existing managers

It is worth noting, however, that despite record deployment expectations, we believe that 2022 will be an extremely tough fundraising year with a real squeeze on 'new money'.

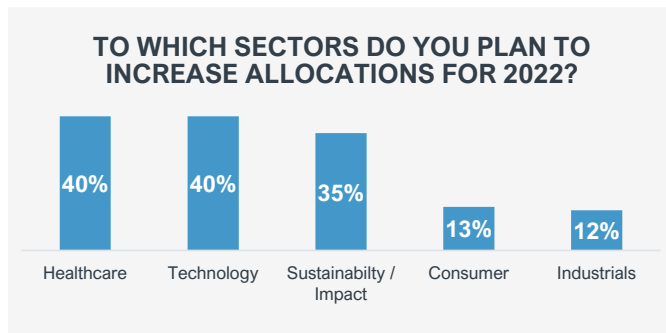
LPs are reporting an unprecedented re-up schedule for 2022 with a high number of their existing managers in the market, many with major fund size scale-up ambitions. As noted above, the majority of the GPs fundraising in 2022 have demonstrated strong recent performance, meaning that LPs will be typically presuming in favour of supporting reup, with fairly low churn expected.

Given the extreme pressure LPs will be under to support their existing GPs, with a squeeze on both capital allocations and LP workflow capacity, we are seeing a number of LPs scale back their ambitions for new relationship commitments in 2022.

This is highlighted by the major swings we have seen in the RLI subindicators for new and existing relationships. For existing relationships, the RLI is 73, indicating strong growth expectations. For new relationships it is 55, suggesting a much more modest growth. The 18-point difference between the two subindicators hints at the challenge of winning new LP investors in 2022, especially when compared with the subindicator scores of 60 and 59 respectively in 1H 2021.

INTRODUCTION

Healthcare and technology remain key themes, but with a strong challenge coming from the burgeoning sustainability/impact sector



Considering the current global pandemic, it is perhaps unsurprising that healthcare is an area to which LPs are looking to increase allocations. Yet this interest also needs to be seen within a much longer term context of broader advances in healthcare as well as increasing sophistication and toolkits of private equity healthcare specialists. LPs now have a greater universe of tenured healthcare specialist GPs to select from, many of whom have posted outstanding returns in recent years.

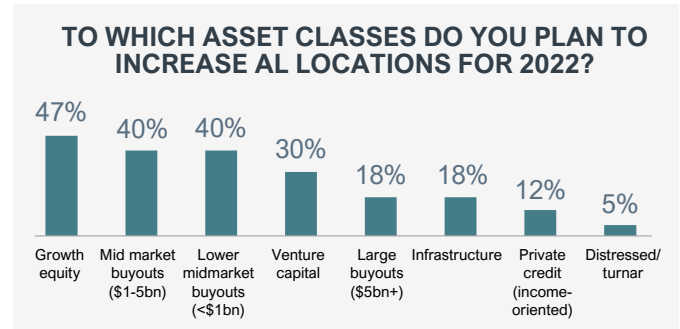
As we continue to progress through what some have termed the 'fourth industrial revolution', increased allocations to technology are similarly unsurprising. We see this across the board from early-stage venture investing to largest software buyouts. In particular, there has been rapid expansion in LP demand for growth equity within technology, leading to a number of recent record-breaking fundraises within this sector.

Beyond healthcare and technology, however, we are seeing that a real uptick in interest in impact and sustainability. LP demand for these strategies is now coming from across the board, rather than isolated pockets. Previously, investors in impact and sustainability were

typically more focussed on 'doing good', whereas now it has become a major megatrend and a value-driving trend for the future.

With countries around the world committing to net-zero targets, we expect that businesses that are helping reduce the carbon load within economies are going to be exponentially more valuable propositions in the years to come.

LPs are continuing to chase alpha and looking to expand allocations to growth equity and mid-market/lower mid-market buyouts over the next year



At the time of the survey, LPs remained very much 'risk-on' or growth-oriented. This has been a hallmark of LP activity over the last 18 months or so, through the continued strong interest in technology as well as the increased enthusiasm for growth equity and lower/mid-market buyouts.

However, our long-term experience of monitoring LP sentiment suggests that, while this trend was clearly still in place at the time our survey data was gathered, we may be reaching a tipping point. We expect our next survey to suggest something of a shift toward more defensive investment opportunities or value-oriented strategies.

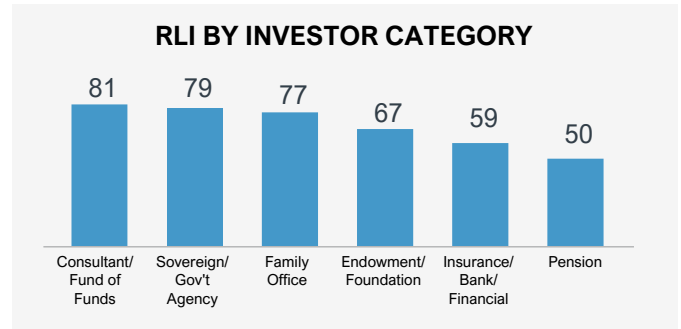
INTRODUCTION – OTHER KEY FINDINGS

INVESTOR TYPE

With regard to investor type, what is most notable is that the RLI for pensions fell significantly compared with 1H 2021. In the last survey, the RLI stood at 62, whereas for 2H 2021 that had fallen to 50, indicating, on average, a broadly neutral stance.

This reflects what Rede is hearing from pensions about their allocation limits, and links to what we call the ‘nominator effect’. The valuations of private equity in many pension portfolios have

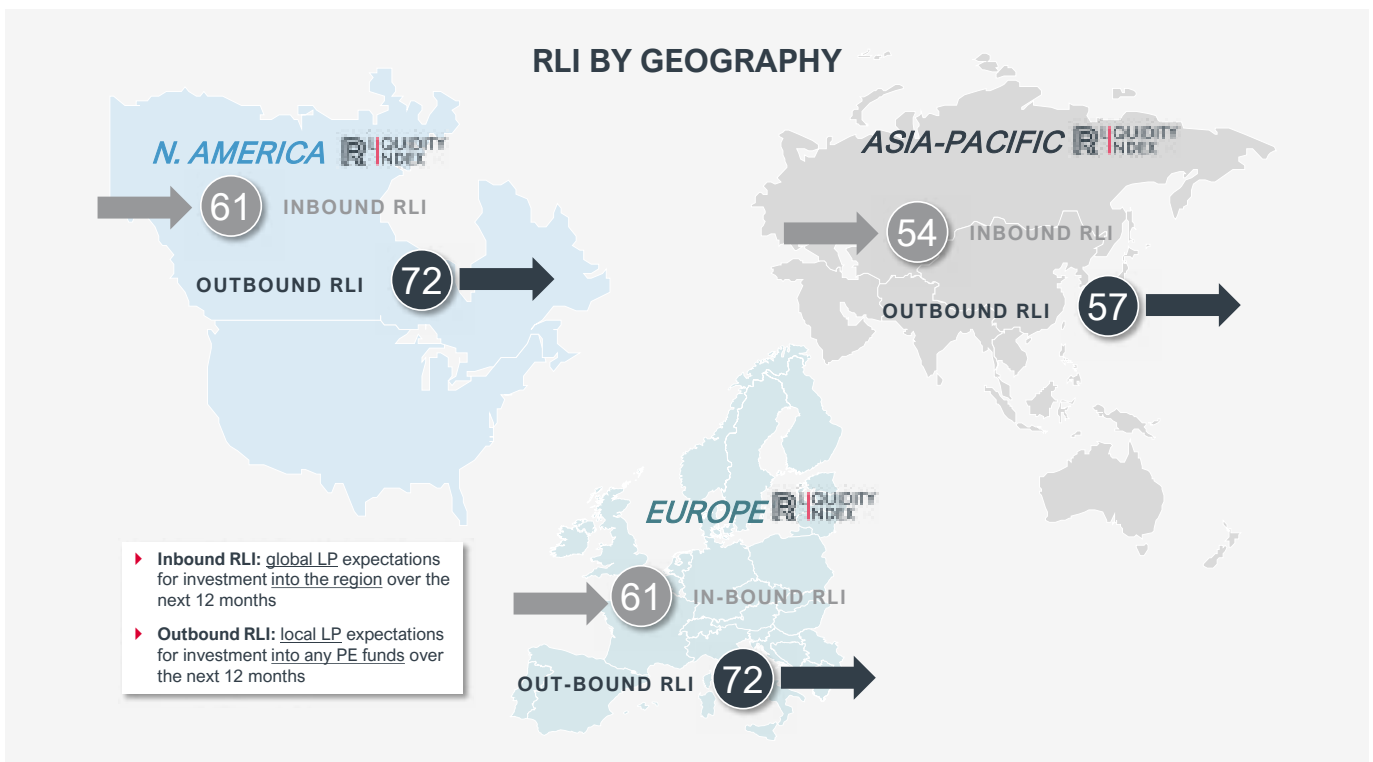
risen significantly and has outpaced public markets. As a result, they are hitting limits on PE exposure.



GEOGRAPHIC BREAKDOWN

From a geographical perspective, the inbound and outbound RLIs for North America, Europe and Asia-Pacific all indicate more enthusiasm for investing beyond borders – with the outbound RLI in all cases being higher than for inbound.

Similarly, at this time we continue to see stronger sentiment for investing into North America and Europe than there is into the Asia-Pacific region.

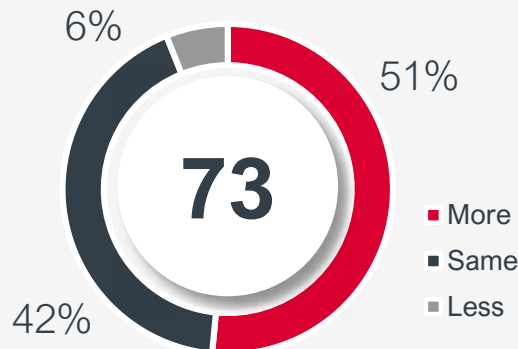


RLI SUBINDICATOR DETAIL

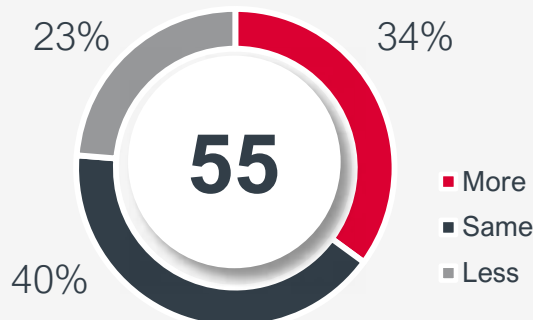
EXISTING / NEW MANAGERS

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY TO PE FUNDS OF GPs REPRESENTING...

AN EXISTING RELATIONSHIP

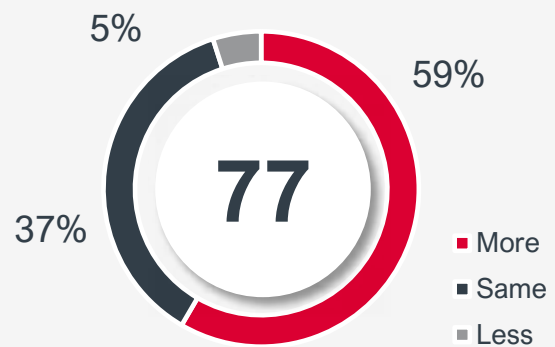


AN NEW RELATIONSHIP

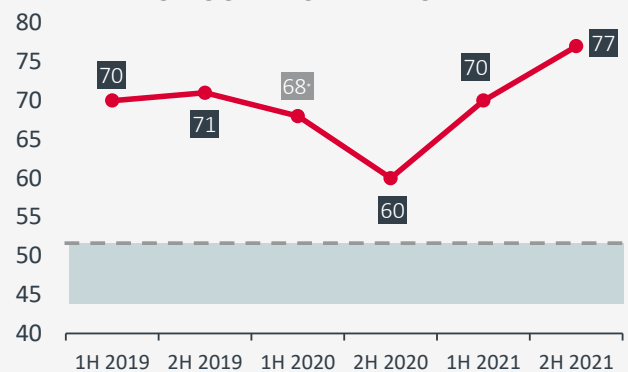


COINVESTMENTS

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY?



RLI FOR COINVESTMENT OVER TIME

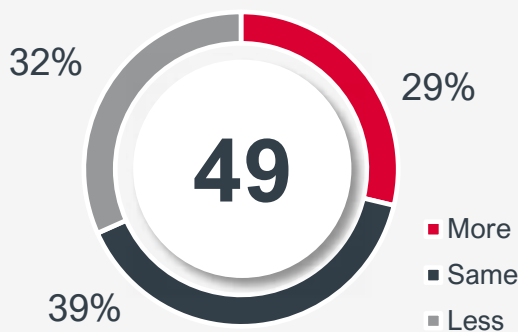


- ▶ There has been a huge shift in RLI sentiment regarding deployment towards existing (73) and new (55) relationships – an 18-point difference. This compares with RLIs of 60 and 59 respectively in 1H 2021.
- ▶ LPs are seeing a considerably higher percentage of existing relationships return to market in 2022 – with many GPs looking to scale funds because of strong performance. LPs are likely to want to support these relationships.
- ▶ Sentiment towards existing relationships is higher in North America than in Europe, with RLIs of 77 and 68 respectively.
- ▶ LP demand for co-investment has seen a huge leap, with the RLI reaching its highest ever figure of 77 – beating both 1H 2021 and pre-pandemic figures.
- ▶ 96% of LPs surveyed expect to maintain or increase allocations to co-investments in the year ahead, with only 5% expecting to decrease their deployment.
- ▶ Co-investments performed so well during 2021 that LPs clearly still have an appetite for them. We believe many GPs are in scale-up mode and have been deploying co-investments to boost their firepower before fundraising for larger funds.

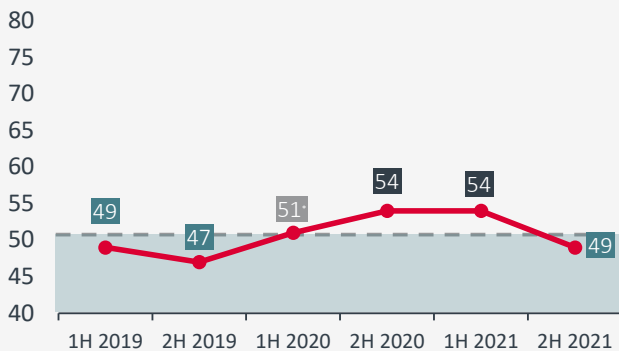
RLI SUBINDICATOR DETAIL

SECONDARIES

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY?

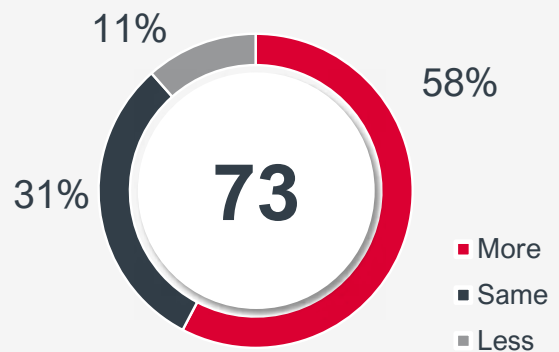


RLI FOR SECONDARIES OVER TIME

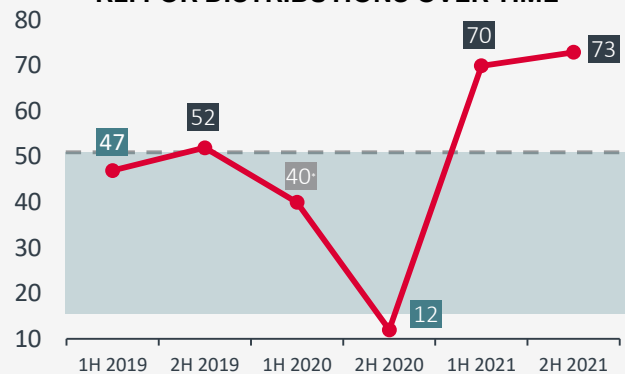


DISTRIBUTIONS

HOW MUCH CAPITAL DO YOU EXPECT BACK?



RLI FOR DISTRIBUTIONS OVER TIME



- ▶ The RLI for secondaries, at 49, has fallen back to pre-pandemic levels.
- ▶ There is, however, a significant regional difference – with the secondaries RLI for North America at 60, but considerably lower in Europe at 38.
- ▶ Similarly, there is a major disparity by investor type – with the highest RLI of 75 for Consultants/Funds of funds, and the lowest of 21 for Endowments/Foundations.

- ▶ Similar to co-investments, distributions have built on a previous high in 1H 2021 to reach an all-time high of 73.
- ▶ This is a massive bounce back from 2H 2020 when sentiment towards distributions bottomed out completely. Considering the record levels of exit activity in PE during 2021, this bounce back is not surprising.
- ▶ The global picture excluding North America and Europe is even more staggering, with the ‘rest of the world’ RLI standing at 90.

* 1H 2020 figures collected pre and post lockdown announcement influencing the dataset

THE OUTLOOK FOR 2022

Taken together, this data suggests an exciting, but potentially challenging, outlook for 2022. LPs are planning to significantly increase their exposure to PE across primary funds and co-investments and anticipating very strong distributions flows from successful exit activity.

Considering this exceptionally positive sentiment, it is natural to consider where our RLLs will stand in a year's time.

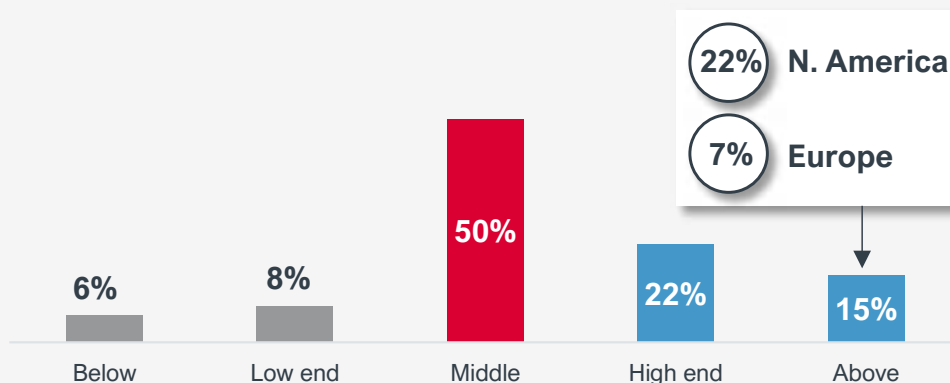
Broadly speaking, with such current high figures, there may well be a squeeze on the way. Our data already shows that LPs are planning to focus heavily on supporting existing managers rather than forging new relationships.

While LPs will be allocating more than ever before, they won't have access to an unlimited quantity of capital.

Anecdotally, we are seeing incidences of LPs switching off processes where they had been tracking a GP with a view to making an investment, because investment committees are putting moratoria on new investments. In our experience, this is indicative that we are moving into a market PE allocations are at the high end of their target range, or even exceeding allocation limits.

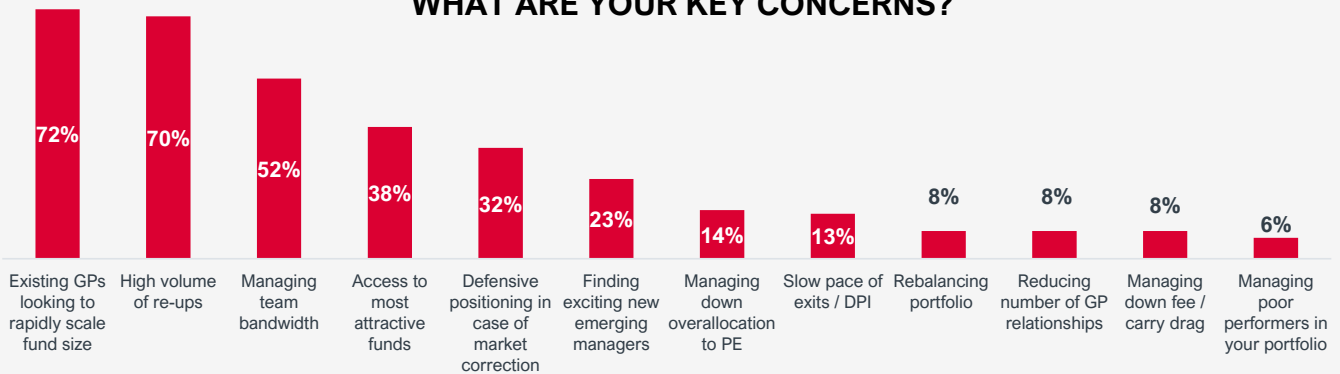
We are seeing that particularly in the US, where 22% of survey respondents indicated they have burst through their target range, as opposed to 7% in Europe.

WHERE IS YOUR PE ALLOCATION RELATIVE TO YOUR TARGET RANGE TODAY?



THE OUTLOOK FOR 2022

AS YOU PLAN YOUR DEPLOYMENT PROGRAMME FOR 2022 WHAT ARE YOUR KEY CONCERNS?



If the RLIs across this report are realised, it will be a record fundraising year. But it is clear to us that the market will not support unbridled growth. The market will ultimately put the brakes on – the question is how hard those brakes will be. There may be easing that will make it slightly less challenging – for instance, some of the larger allocators may make changes in allocation targets. But the market simply will not support unlimited fundraising ambitions, even for GPs with excellent performance.

These concerns are clearly at the forefront of LPs minds. Our survey respondents repeatedly referenced their worries about GPs looking to rapidly scale fund size and an expected high volume of re-ups mean, with knock-on difficulties in managing team bandwidth in 2022.

GP scaling, in particular, carries two separate risks for GPs. Firstly, supporting fund size expansion with a pro-rata ticket size increase eats up allocation and reduces the ability of the LP to back other attractive GPs. However, a broader concern is whether the GP will be able to scale effectively, maintaining the same levels of performance and differentiation while

doing so. For GPs to successfully scale in 2022 they will need to be proactive in addressing these concerns, demonstrating their institutional quality and the safeguards in place to protect performance.

Across the industry, managing team capacity in such a ‘hot’ market is proving problematic. The sheer workload in processing the deals that are expected to go through in 2022 is a natural by-product of the market and will put high levels of pressure on teams. Indeed, this is creating a talent squeeze across the sector both at GP and LP level.

Clearly, the enthusiasm that abounds in the market is already being tempered by a measure of caution. We expect that these unique market dynamics will foster a truly fascinating year for private equity fundraising in 2022. While we have no doubt we will see a continued stream of eye-catching headlines detailing record-breaking fund sizes, behind the scenes competition for capital will never have been fiercer – and we should not be surprised to see some high profile fundraising failures in the coming year.

BACKGROUND AND METHODOLOGY

When Rede Partners launched the RLI in the first half of 2017, the objective was to create an index/numerical value which would reliably show investor sentiment across the PE LP universe for the 12 months ahead and which could be tracked quantitatively over time.

To achieve this, we assembled the 'RLI Panel' – a stable of leading institutional investors from across the globe who consistently respond to the RLI survey every six months.

It is the RLI Panel's quality and consistency that lies behind the robustness of the index. For each edition, we look to maintain the integrity of the panel while selectively adding additional high-quality institutional investors in particular areas. We would like to thank all our RLI panelists and survey participants for their time and insights.

Undertaken twice yearly, the RLI is assessed through six basic questions. LPs are asked to project if their liquidity for the upcoming 12 months will increase, decrease or remain the same compared to the previous 12 months across six sub-indicators – all primary funds deployment; existing relationships deployment; new relationships deployment; co-investments; secondaries deployment (both funds and direct); and distributions.

METHODOLOGY

The RLI is based on the same concept as the Purchasing Managers' Index – an indicator of the economic health of the manufacturing sector.

The survey was sent out to a select group of 108 global institutional LPs, chosen to provide geographic and source of capital

diversification. The overall RLI has representation from all over the world. In the more detailed analysis, we have only included the categories which had enough respondents to be statistically relevant.

For each question, LPs were asked if they were expecting to deploy MORE (>), the 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:

$$\text{RLI} = (P_1 \times 1) + (P_2 \times 0.5) + (P_3 \times 0)$$

where:

P_1 = Percentage number of answers that reported an increase

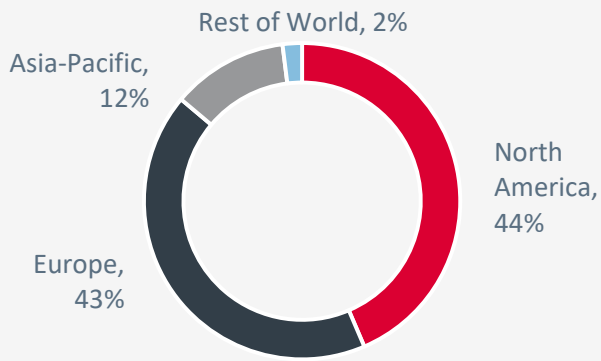
P_2 = Percentage number of answers that reported no change

P_3 = Percentage number of answers that reported a decrease

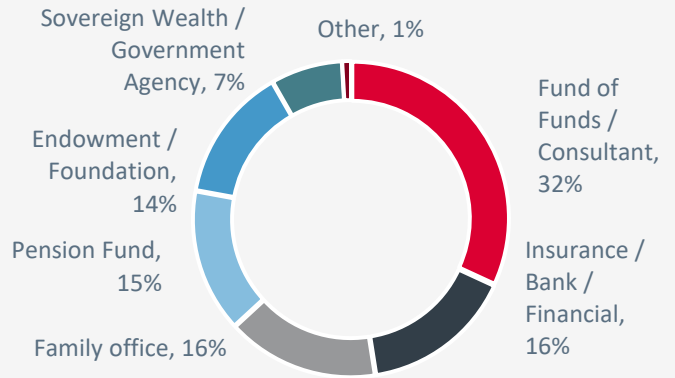
If 100% of the respondents reported an increase, the index would be 100.0. If 100% reported a decrease, the index would be zero. If 100% of the panel saw no change, the index would be 50.0. Therefore, an index reading of 50.0 means that the variable is unchanged, a number over 50.0 indicates an improvement,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

THE RLI PANEL

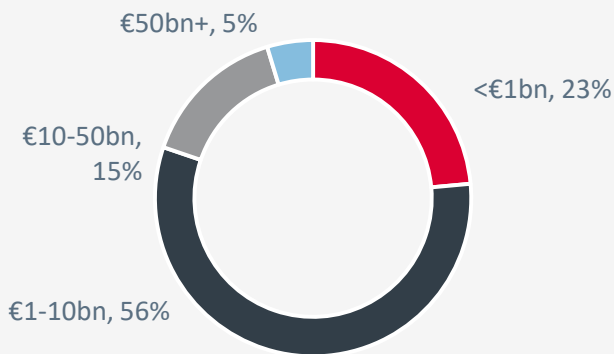
LP REGION



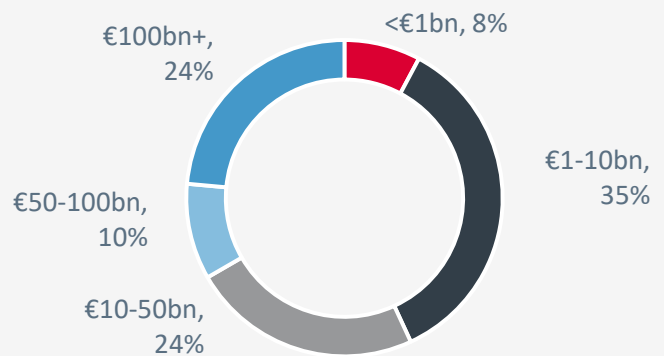
LP CATEGORY



PRIVATE EQUITY ALLOCATION SIZE



TOTAL AUM





For more information on the Rede Partners Liquidity Index, please email info@rede-partners.com or call +44 20 7952 2460

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