

**R** LIQUIDITY  
INDEX

2H 2019



NOVEMBER 2019

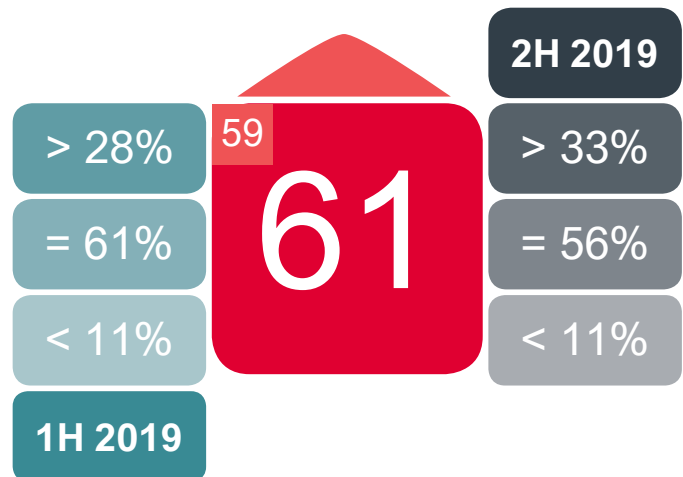
# Introduction

Rede Partners is delighted to publish this report, the sixth edition of the Rede Liquidity Index (“RLI®”), looking at institutional investor sentiment towards private equity for the second half of 2019 and into 2020.

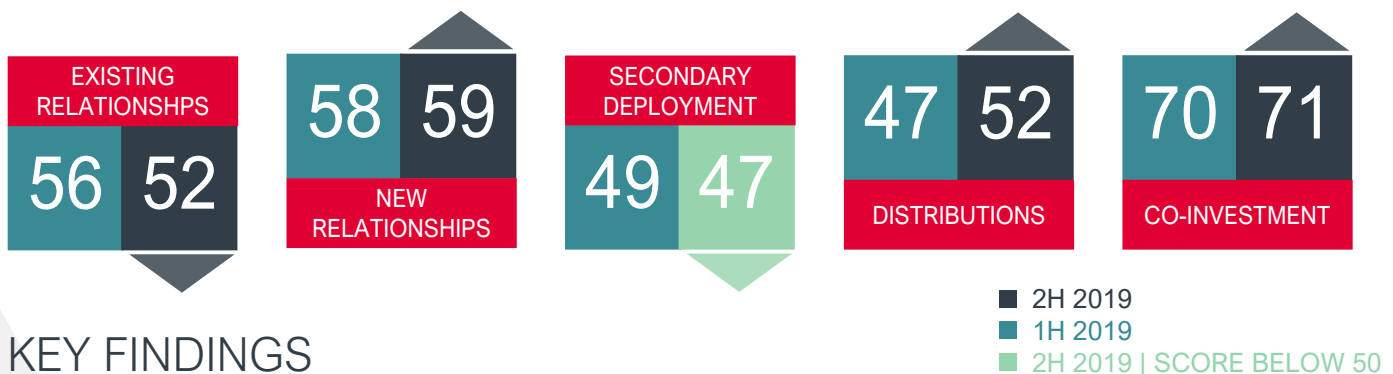
“ Over the next 12 months do you expect to:

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

capital deployment to private equity? ”



## SUBINDICATOR RESULTS



## KEY FINDINGS

- 1 LP liquidity holding up in the face of macro headwinds with continued growth in deployment expected
- 2 Exit activity expected to bounce back with increased expectations for capital flows back to investors
- 3 Upswing in sentiment amongst North American investors, endowments and foundations
- 4 RLI® for coinvestment reached a new high, as LP appetite to coinvest alongside private equity managers continues to grow

## Private equity liquidity holding up well as RLI® climbs to 61

The headline RLI® climbed 2 points after slipping to a record low in 1H 2019, indicating that on average institutional investors expect to increase deployment to private equity funds in the coming months – and confirming the ongoing commitment of LPs to the asset class. Despite a stall in global economic growth momentum, LPs remain consistently bullish on the private equity asset class as a whole. In particular, we see a strong upswing in sentiment amongst endowments and foundations, often viewed as the bellwethers of the private equity industry.

## North American LP liquidity growth expectations pick up

In the last edition of the RLI® we noted a sharp 13 point drop in the local score from 64 to 51 in market sentiment amongst North American investors. For 2H 2019 we report much stronger findings with the local score rising 7 points to 58.

## European LPs remain resilient in the face of wider economic gloom

In Europe the RLI® score remained fairly stable, dropping a point to 63, with 37% of LPs expecting to grow their overall deployment to private equity in the coming months. The local score for UK-based investors was up a point to 62, reflecting the robustness of private equity allocations despite an overall gloomy UK macro picture. In October 2019 the IHS Markit PMI™ diffusion index

(which is based on similar methodology to the RLI®) for the Eurozone economy fell to 50, described as “the darkest picture since the current period of expansion began in 2013”<sup>1</sup>. Meanwhile in the UK, the PMI for the economy as a whole slipped to 48, representing an overall contraction and consistent with GDP falling 0.1% in Q3 2019<sup>1</sup>. The RLI® however remained well above these levels, with no reduction in growth expected by LPs.

## Bounce back in expectations for exit activity

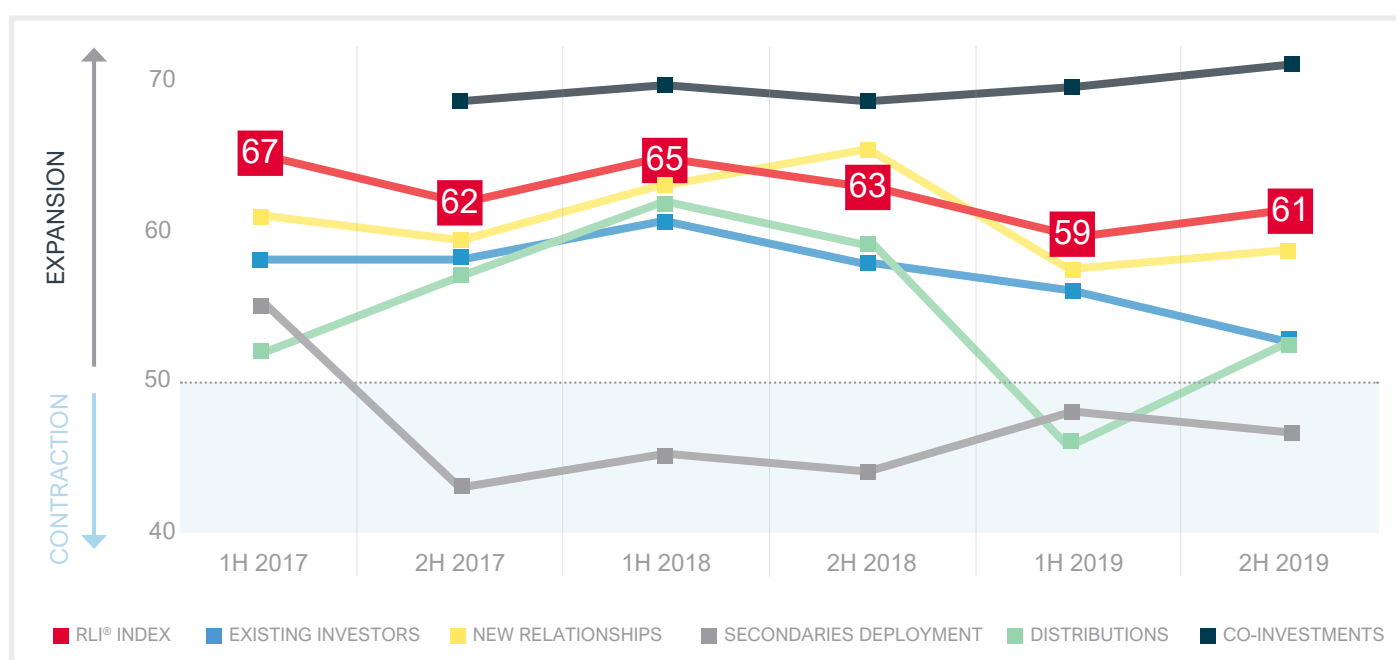
Observations from 1H revealed that LPs expected significantly less capital to be returned to them via distributions, and the RLI® for distributions dipped into contraction territory for the first time. Six months later published data on exits over 2019 YTD – show a clear drop in exit activity in both North America and Europe amid a choppy IPO environment and lingering uncertainty in the M&A exit market. Reports by Pitchbook<sup>2</sup> for the first 9 months of 2019 suggest a drop in total exit value compared to the same period in 2018 of 49% in North America and 20% in Europe.

However the latest edition of the RLI® shows that on average LPs are expecting a far rosier picture to emerge in coming months, with the RLI® subindicator for distributions up 5 points to 52 indicating a return to (modest) growth territory. This change is driven by North American investors, where the local score of 58 suggest LPs expect a clear pickup in distribution flow over the next 12 months.

<sup>1</sup> Source: IHS Markit Global PMI Report, 10 October 2019

<sup>2</sup> Source: Pitchbook, North American PE Breakdown Q3 2019; Pitchbook, European PE Breakdown Q3 2019

## RLI® INDEX DEVELOPMENT OVER TIME



# RLI® for Deployment to Primary Funds

## NORTH AMERICA RLI®

> MORE  
= SAME  
< LESS

■ 2H 2019  
■ 1H 2019  
■ 2H 2019 | SCORE BELOW 50

CANADA  
30 25

53 61  
US

> 19%

= 64%

< 17%

1H 2019

51  
**58**

2H 2019

> 27%

= 63%

< 10%

## EUROPE RLI®

2H 2019

> 34%

= 59%

< 7%

1H 2019

64

**63**

> 37%

= 52%

< 11%

61 62  
UK

BENELUX  
58 56

NORDICS  
67 65

DACH  
63 63

FRANCE  
69 71

S.EUROPE  
67 63

RLI SWING  
FOR 2H 2019

-7

+1

N. AMERICA

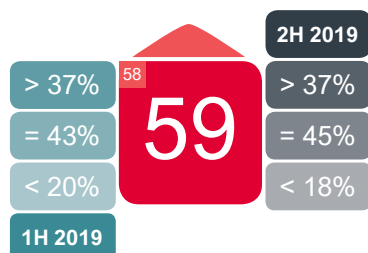
EUROPE

# RLI<sup>®</sup> Existing vs. New Relationships

## EXISTING RELATIONSHIPS



## NEW RELATIONSHIPS



### COMMENTARY

- ▶ European LPs are expecting fairly strong growth in deployment to new managers. They are seeking to build new relationships, for example by bolstering their maturing investment programmes with emerging or more specialist managers
- ▶ North American institutions, however, expect steady growth in deployment toward existing and new managers
- ▶ We expect to see particular growth in deployment to new managers amongst consultants and family offices
- ▶ Furthermore, we also expect significant growth in deployment to existing managers across LPs with the largest allocations to private equity

## EXISTING RELATIONSHIPS

## NEW RELATIONSHIPS

### BY GEOGRAPHY

55	▲	N.AMERICA	▲	55
49	▼	EUROPE	▼	62

### BY INVESTOR TYPE

67	▲	OTHER <sup>+</sup>	▲	53
60	▼	FAMILY OFFICES	▲	71
60	▼	INSURANCE	▼	40
52	▼	PENSION FUNDS	▼	55
46	▼	FUND OF FUNDS	▼	63
40	▼	ENDOWMENT/ FOUNDATION	▲	63
31	▼	CONSULTANTS	▲	75

### BY PE ALLOCATION

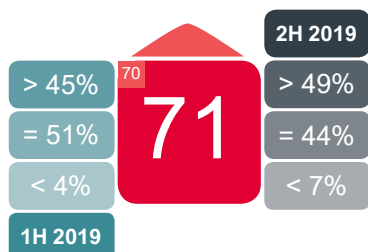
48	▼	< €1 BILLION	▲	67
55	▼	€1-5 BILLION	▲	56
45	▼	€5-10 BILLION	▼	52
55	▼	€10-30 BILLION*	▲	55
80	▲	> €30 BILLION*	=	50

▲ INCREASE    ■ 2H 2019  
 = SAME       ■ 2H 2019 | SCORE BELOW 50  
 ▼ DECREASE

<sup>+</sup> Other includes OCIOs, Government agencies, SWFs and other  
<sup>\*</sup> N.B. sample set of <10 respondents

# RLI® for Co-investments

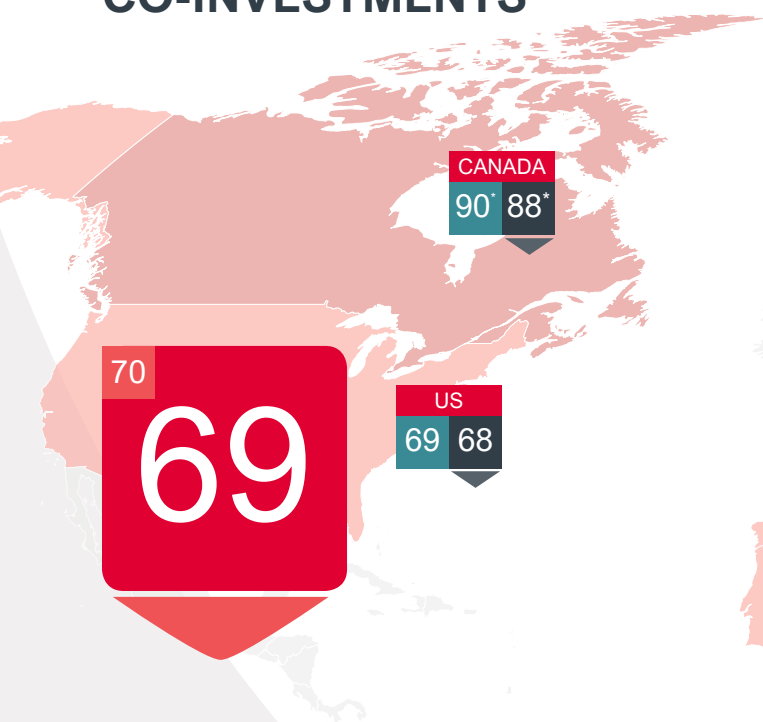
## CO-INVESTMENTS



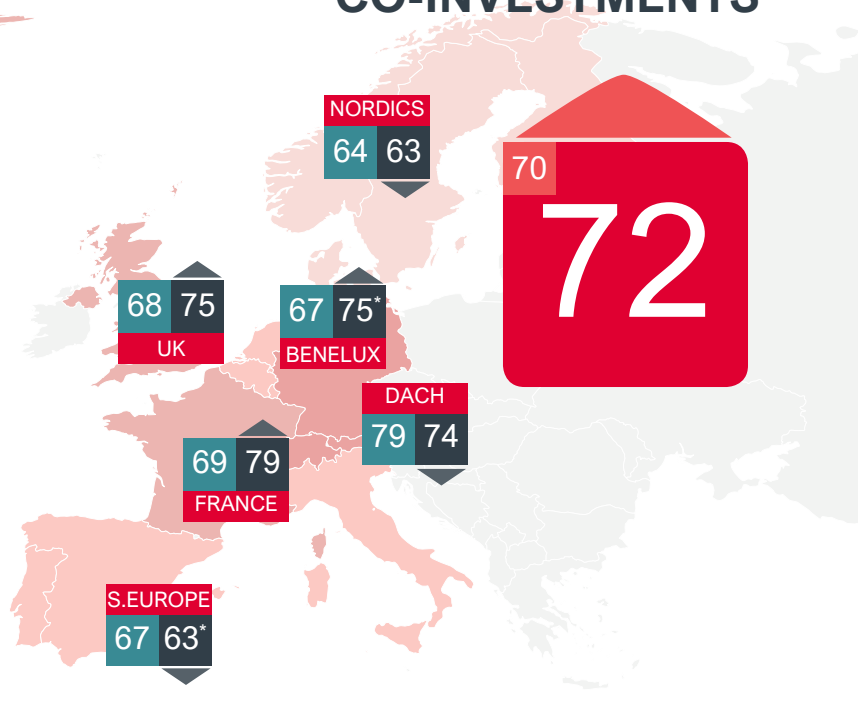
## COMMENTARY

- ▶ LP demand for co-investments remains strong with the RLI® for co-investment rising to a record high
- ▶ 93% of LPs surveyed expect to maintain or increase allocations to co-investments in the coming months
- ▶ The appetite for co-investment amongst the largest private equity investors is growing strongly. 100% of LPs with allocations to private equity greater than €30bn expect to increase deployment to co-investment.

## NORTH AMERICA CO-INVESTMENTS



## EUROPE CO-INVESTMENTS



## BY INVESTOR TYPE

FUND OF FUNDS	80	▲
PENSION FUNDS	76	▲
FAMILY OFFICES	70	▲
OTHER+*	67	▼
INSURANCE	67	▲
ENDOWMENT/FOUNDATION	61	▼
CONSULTANTS	50	▼

## BY ALLOCATION

< €1 BILLION	69	▲
€1-5 BILLION	67	▼
€5-10 BILLION	75	▲
€10-30 BILLION	82	▼
> €30 BILLION*	100	▲

\* N.B. sample set of <10 respondents

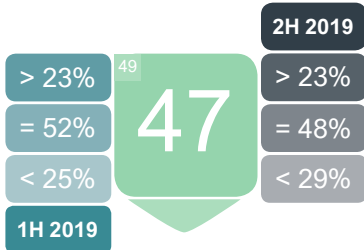
+ Other includes OCIOs, Government agencies, SWFs and other

▲ INCREASE    ■ 2H 2019  
 = SAME        ■ 1H 2019  
 ▼ DECREASE



# RLI® for Deployment to Secondary Funds & Investments

## SECONDARIES DEPLOYMENT



### COMMENTARY

- ▶ Overall sentiment towards the secondary market among LPs is still in decline and reflected in a two-point drop from 49 to 47
- ▶ Among European LPs, a slight softening appears to be taking place in relation to secondaries, with the RLI® score falling six points to 49
- ▶ A less positive outlook from North American LPs persists, who are still bearish on the private equity secondary market, with 79% of them expecting to maintain or decrease their deployment of capital to this market

### BY GEOGRAPHY

EUROPE	49	▼
N.AMERICA	45	▲

### BY PE ALLOCATION

<€1 BILLION	44	▼
€1-€5 BILLION	43	▼
€5-€10 BILLION	59	==
€10-€30 BILLION	50	==
>€30 BILLION	70	▲

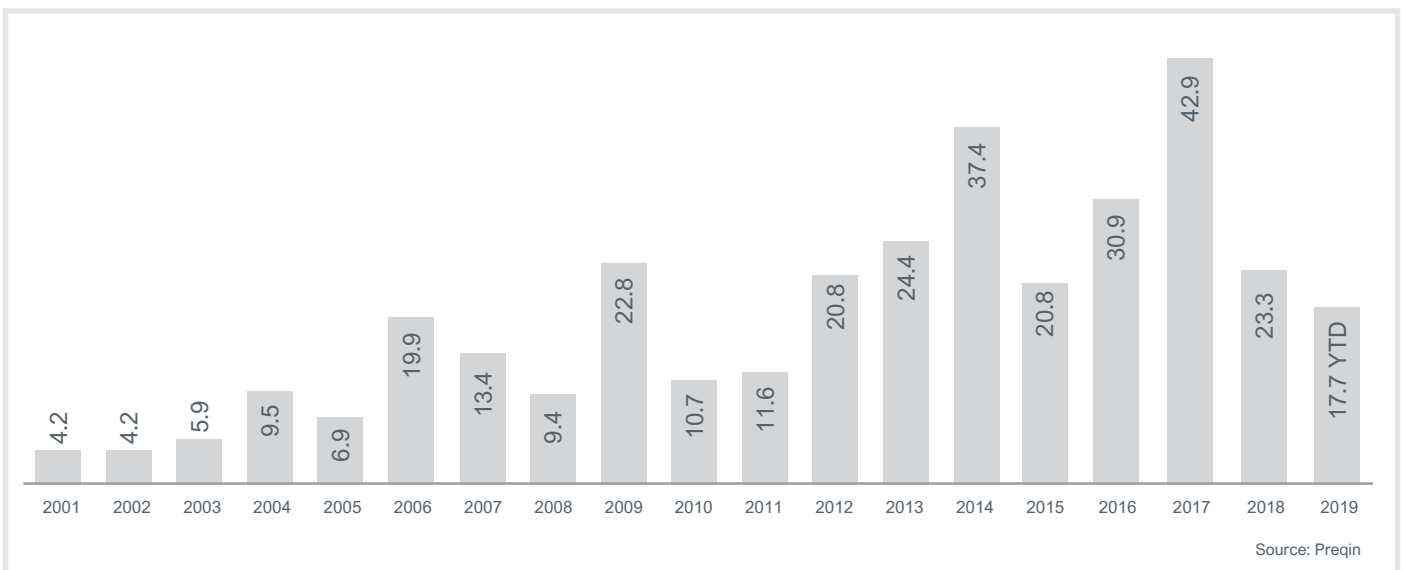
### BY INVESTOR TYPE

CONSULTANT	63	▲
FUND OF FUNDS	56	▼
OTHER	53	▲
FAMILY OFFICE	48	▲
PENSION	46	▼
INSURANCE	33	▲
ENDOWMENT/FOUNDATION	25	▼

▲ INCREASE  
 = SAME  
 ▼ DECREASE

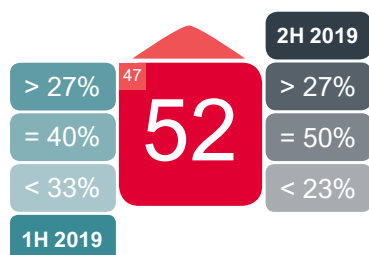
■ 2H 2019  
 ■ 1H 2019  
 ■ 2H 2019 | SCORE BELOW 50

## SECONDARIES FUNDS - AGGREGATE CAPITAL RAISED (\$BN)



# RLI® for Expected Distributions

## DISTRIBUTIONS



## COMMENTARY

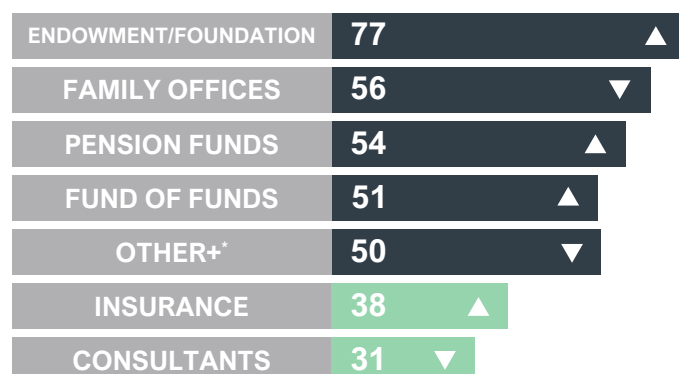
- ▶ In 1H, the RLI® for distributions dropped sharply, dipping into contraction territory for the first time. This has been borne out by recent exit figures for the US and Europe from Pitchbook
- ▶ However, the latest RLI® figures suggest a clear bounce back with modest growth expected for distribution flows, driven by an upswing in sentiment amongst North American LPs
- ▶ European LPs on average expect distribution flows to continue to decline in the coming months but at a slower pace

## BY GEOGRAPHY



▲ INCREASE    ■ 2H 2019  
 = SAME        ■ 1H 2019  
 ▼ DECREASE   ■ 2H 2019 | SCORE BELOW 50

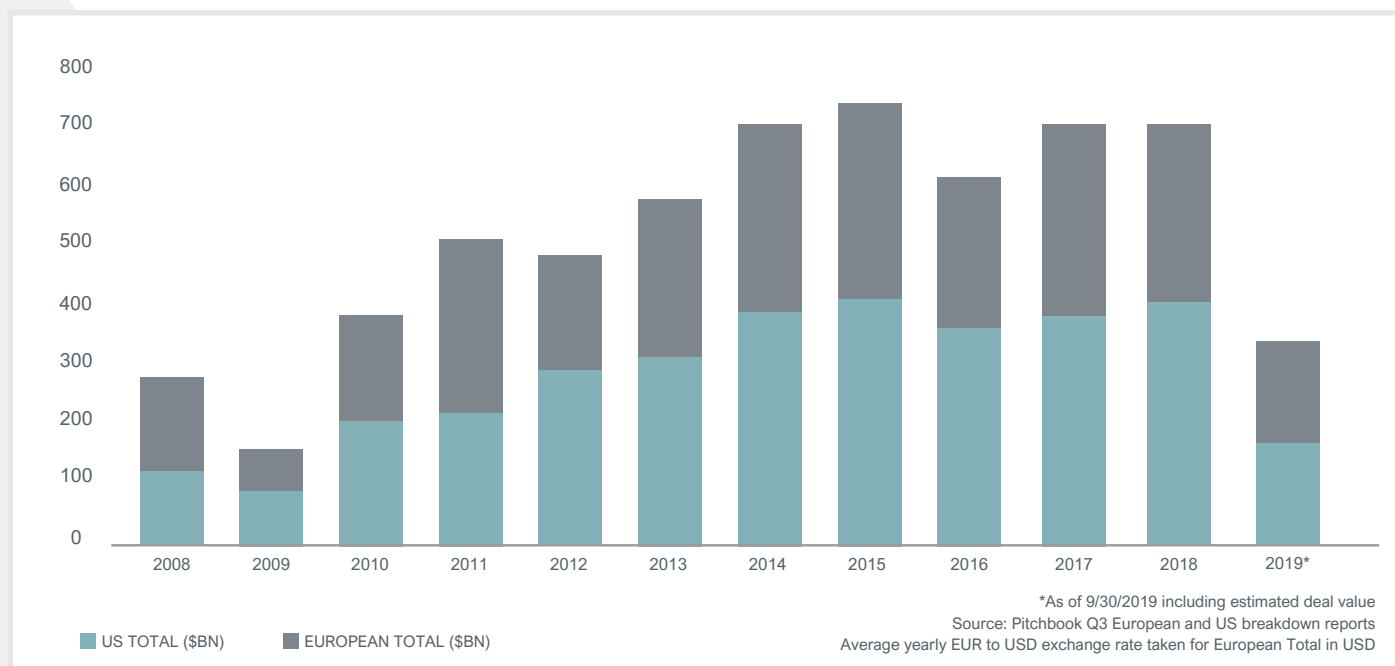
## BY INVESTOR TYPE



\* N.B. sample set of <10 respondents

\* Other includes OCIOs, Government agencies, SWFs and other

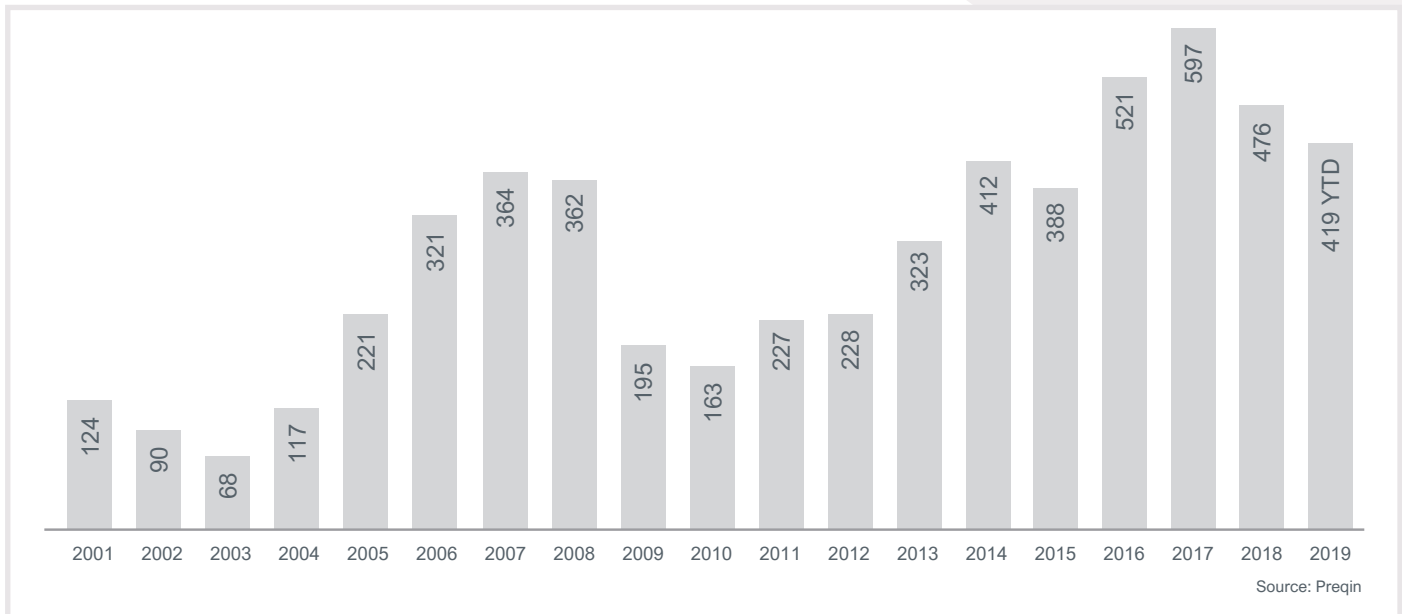
## US AND EUROPEAN EXIT ACTIVITY (\$BN)



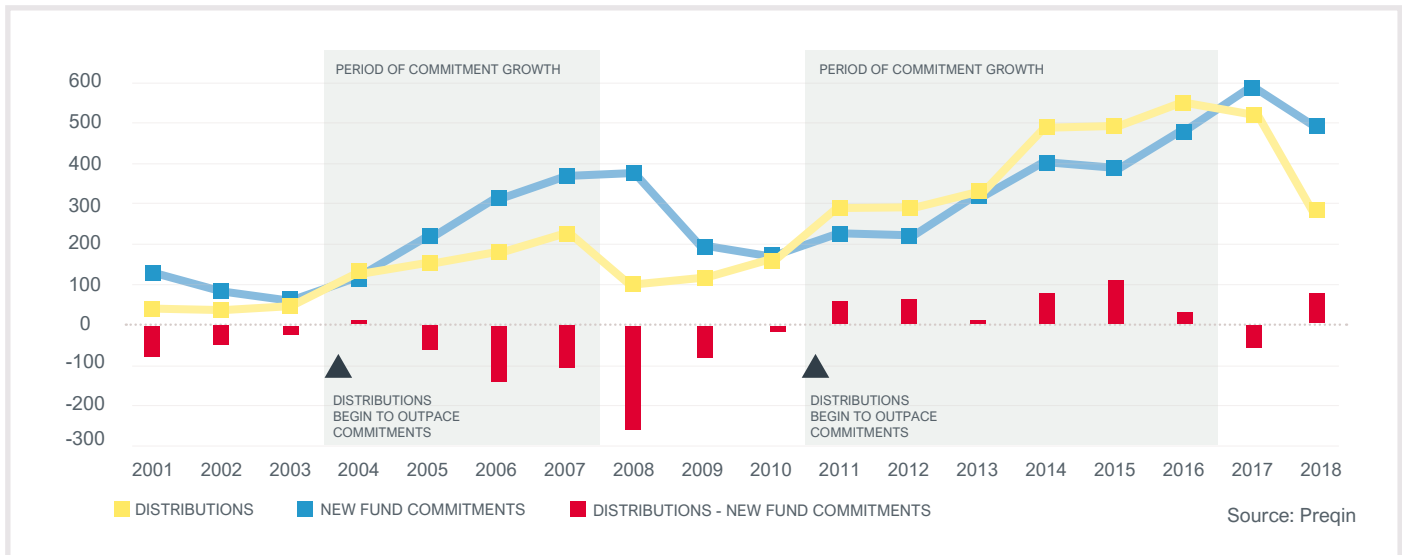


# Historical Fundraising Volumes

## PRIVATE EQUITY HISTORICAL FUNDRAISING VOLUMES (\$BN)



## DISTRIBUTIONS VS. NEW FUND COMMITMENTS (\$BN)



### COMMENTARY

- ▶ In the last edition of the RLI®, we highlighted that the unprecedented eight-year bull run for private equity fundraising was drawing to a close
- ▶ Historically these periods of steady growth in fundraising tend to be triggered by periods of growing distribution activity, as LPs flush with capital returned by GPs step up their investment activity, stimulating market expansion
- ▶ 2018 saw the decline in distributions failing to keep pace with new fund commitments – as private equity managers rushed back to market ever earlier in order to take advantage of the benign fundraising conditions. We believe the disparity between commitments and distributions is behind the cooling of LP sentiment toward new primary commitments we saw in 1H 2019
- ▶ However, with LPs now expecting an uptick in capital inflows from distributions, we can remain optimistic that liquidity for new commitments to private equity funds will pick up modestly in coming months

# Background

## HOW HEALTHY IS THE PRIVATE EQUITY INDUSTRY?

## ARE FUNDRAISING VOLUMES GOING TO RISE OR FALL?

## IS THE MARKET GETTING EASIER OR TOUGHER?

Everyone in the private equity industry has an anecdotal answer to these questions, based on a combination of direct experience and market gossip. With the **Rede Liquidity Index** (“RLI<sup>®</sup>”), the aim is to provide a numerical value of LP sentiment that can be tracked over time.

The **RLI<sup>®</sup>** is a twice yearly measure of liquidity across the private equity LP universe, 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 as 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).

The **RLI<sup>®</sup>** is based on the same concept as the Purchasing Managers’ Index an indicator of the economic health of the manufacturing sector, conducted by a survey of market leaders.

Through the **RLI<sup>®</sup>** we aim to provide an indicator of the health of the private equity sector and will be publishing a bi-yearly report based on the data.

In this sixth report, we look at the expected health of the second half 2019 and onward to 2020.

**Rede Partners** would like to thank all the LPs that participated in the survey.

## METHODOLOGY

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

**153** LPs participated in the survey, representing over **€5 trillion** in assets under management and over **€850 billion** in capital allocated to private equity.

The overall **RLI<sup>®</sup>** 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 (>)**, **SAME (=)** or **LESS (<)** during the upcoming 12 months compared to the previous 12 months.

**RLI<sup>®</sup>** data is presented in the form of a diffusion index, which is calculated as follows:

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

where:

**P<sub>1</sub>** = Percentage number of answers that reported an increase

**P<sub>2</sub>** = Percentage number of answers that reported no change

**P<sub>3</sub>** = Percentage number of answers that reported a decrease

Thus, 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

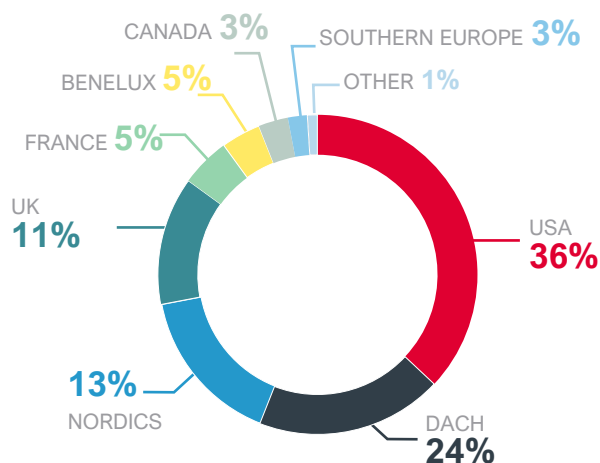
When we launched the RLI® in the first half of 2017, the objective was to create an index which would reliably show investor sentiment for the twelve months ahead and could be tracked quantitatively over time.

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

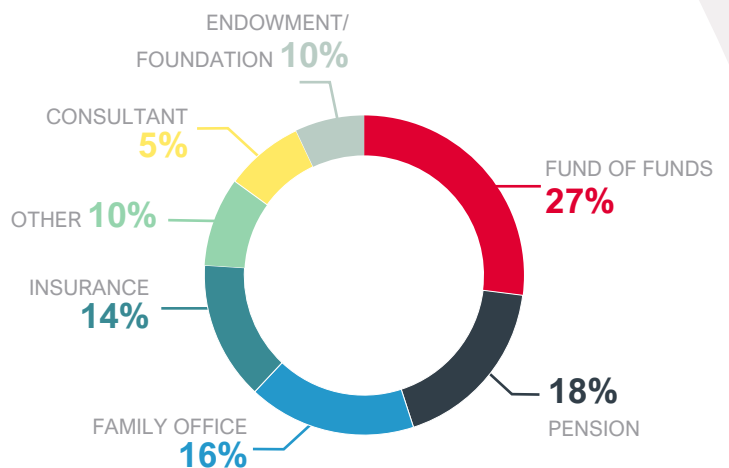
In aggregate, panelists included in this sixth edition of the RLI® hold over €5 trillion assets under management, with more than €850 billion of their assets allocated to investments in private equity.

It is the RLI® Panel's quality and consistency that lies behind the robustness of our index. For each edition, Rede Partners looks to maintain the integrity of our Panel while selectively adding additional high quality institutional investors in particular areas. Thank you once again to all of our RLI® Panelists for your time and insights.

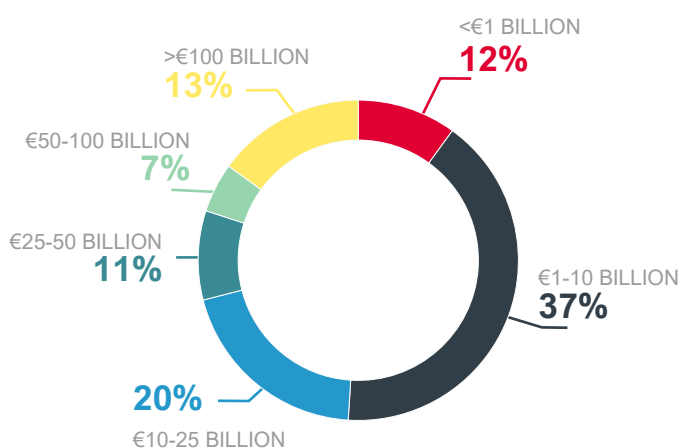
## BY HQ GEOGRAPHY



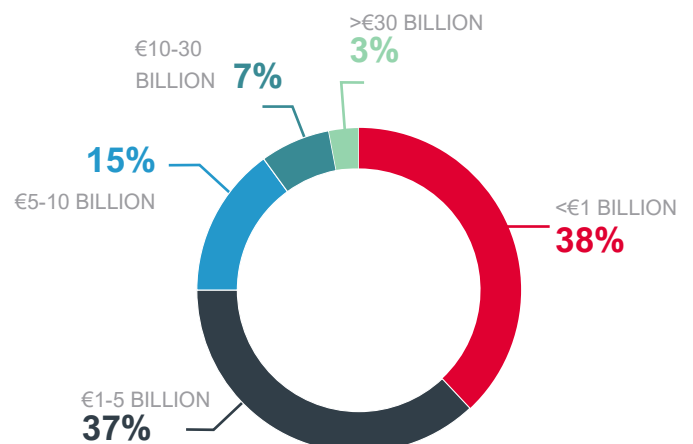
## BY INSTITUTION TYPE



## BY TOTAL ASSETS UNDER MANAGEMENT



## BY ALLOCATION TO PRIVATE EQUITY







For more information on the  
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