LIQUIDITY INDEX

1H 2019

Rede PARTNERS

MARCH 2019

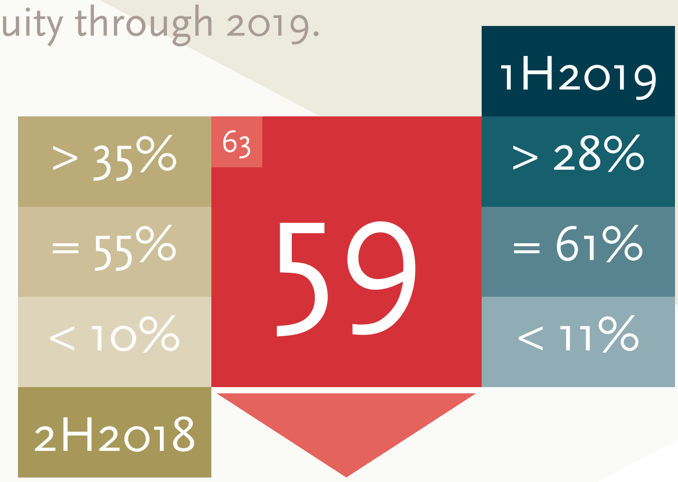
INTRODUCTION

Rede Partners is delighted to publish this report, the fifth edition of the Rede Liquidity Index ("RLI®"), looking at institutional investor sentiment towards private equity through 2019.

"Over the next 12 months do you expect to:

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

capital deployment to Private Equity?"

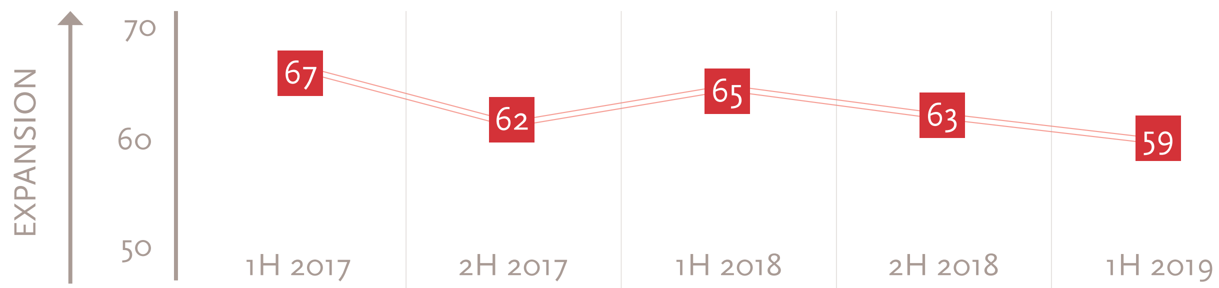


1H2019
2H2018
1H2019 | SCORE BELOW 50

SUBINDICATOR RESULTS

KEY FINDINGS

1. Slowdown in growth expected for private equity as the RLI drops below 60 for the first time, driven by a downswing in sentiment amongst North American investors.
2. Institutional investors expect a significant reduction in capital returned to them through distributions.
3. LPs continue to report very strong appetite to coinvest alongside private equity managers.



Investor jitters emerging? LP deployment expectations begin to level off as the RLI drops below 60 for the first time

As concerns grow around a possible market correction, we are seeing an increased nervousness amongst LPs. While institutional investors expect some modest growth in their deployment to private equity funds, the H1 2019 headline RLI® slide by 4 points to dip below 60 for the first time since the RLI's inception.

Downswing in sentiment amongst North American investors

The local RLI® score for North America dropped 13 points to 50, meaning that for the first time North American LPs are expecting to hold their commitments to private equity steady rather than growing them. Endowments and foundations were typically the most bearish. These groups are amongst the most sophisticated investors in the asset class – and where the endowments lead, other LPs may be expected to follow over time.

The picture in Europe has remained more stable. Six months ago we saw a precipitous fall in sentiment amongst LPs in Britain and across Europe, as LPs began to adjust their investment programmes in the face of uncertainty around Brexit. That decline has now stabilized and with a local RLI® score of 64 we expect to see some modest growth in deployment to private equity funds by European investors during 2019.

LPs expect significantly less capital to be returned to them via distributions

After a period of bumper exit activity for the private equity industry, the inevitable slowdown may now be around the corner. The RLI® subindicator for distributions dropped 12 points to 47 in the six months to H1 2019. On average LPs are expecting a decrease in distributions over the coming 12 months as market uncertainty hampers the flow of private equity exits. This is particularly pronounced for North American LPs with a local score of 45 and a precipitous fall of 20 points since the last edition of the RLI®.

Ever-increasing appetite for LPs to co-investment alongside private equity managers; while enthusiasm for secondaries levels off

We continue to see sustained enthusiasm amongst institutional investors to co-invest alongside private equity funds - 96% of RLI® Panelists intend to maintain or expand coinvestment activity. Conversely, the H2 survey shows an ongoing cooling in secondaries investment, with 77% of RLI Panelists saying they would either reduce or maintain their secondaries investment activity in coming months.

Europeans favouring new relationships; North Americans falling back on existing relationships

European LPs are expecting fairly strong growth in deployment to new managers. They will be seeking to build new relationships, for example by adding emerging or more specialist managers to their maturing investment programmes. North American institutions, however, expect to hold deployment to managers steady, but grow their deployment to existing relationships. With a potential squeeze on private equity allocations on the horizon, North American LPs may be prioritizing their scheduled re-ups during 2019 rather than seeking to broaden their portfolios.

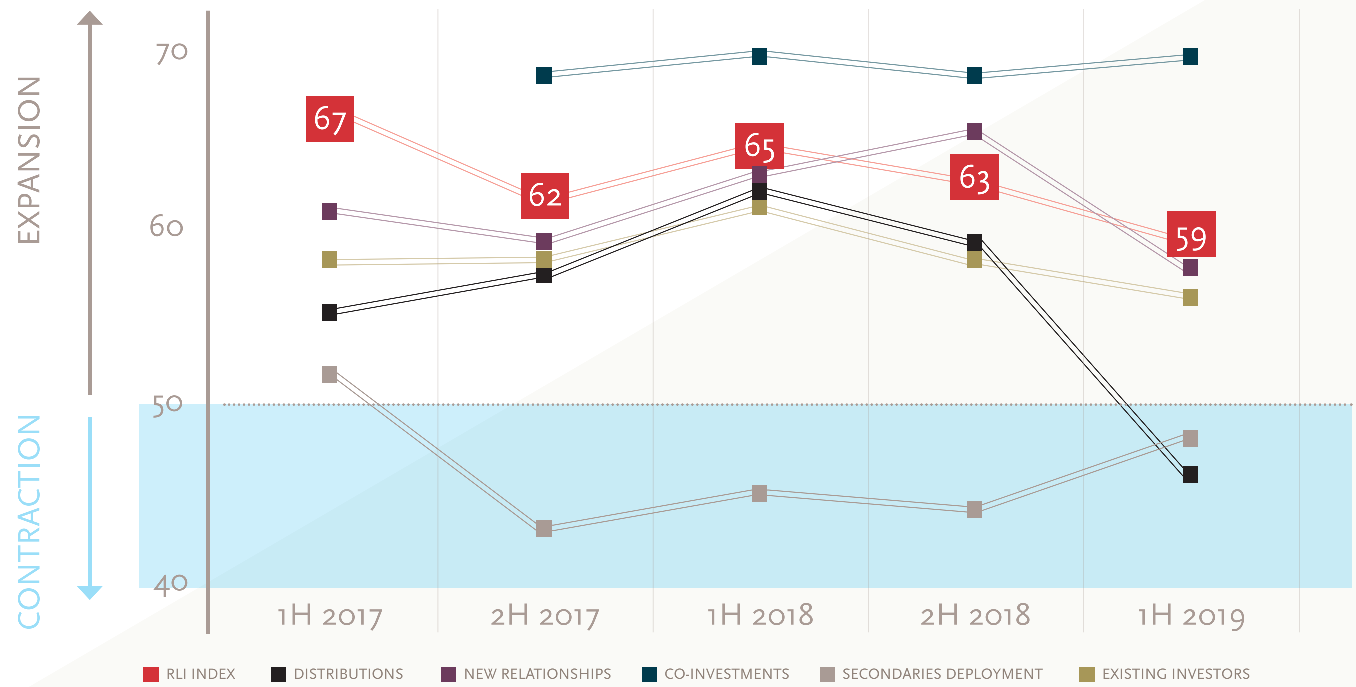
Private equity remains resilient when compared with the wider financials sector

Putting the RLI® into a wider context, private equity appears to remain significantly more resilient than the financial sector as a whole. In February 2019 the IHS Markit PMI™ diffusion index (which is based on similar methodology to the RLI) showed an overall fall in the European financials sector for the first time in six years to a score of 48[1], representing expectations for a modest contraction in European financials. The same index for the USA showed fell strongly from 53 to 49[2]. The RLI however remained well above these levels, at 64 for Europe and 51 for North America, with no dip into market contraction expected.

[1]IHS Markit European Sector PMI™ Press Release 07 February 2019

[2]HIS Markit US Sector PMI™ Press Release 07 February 2019

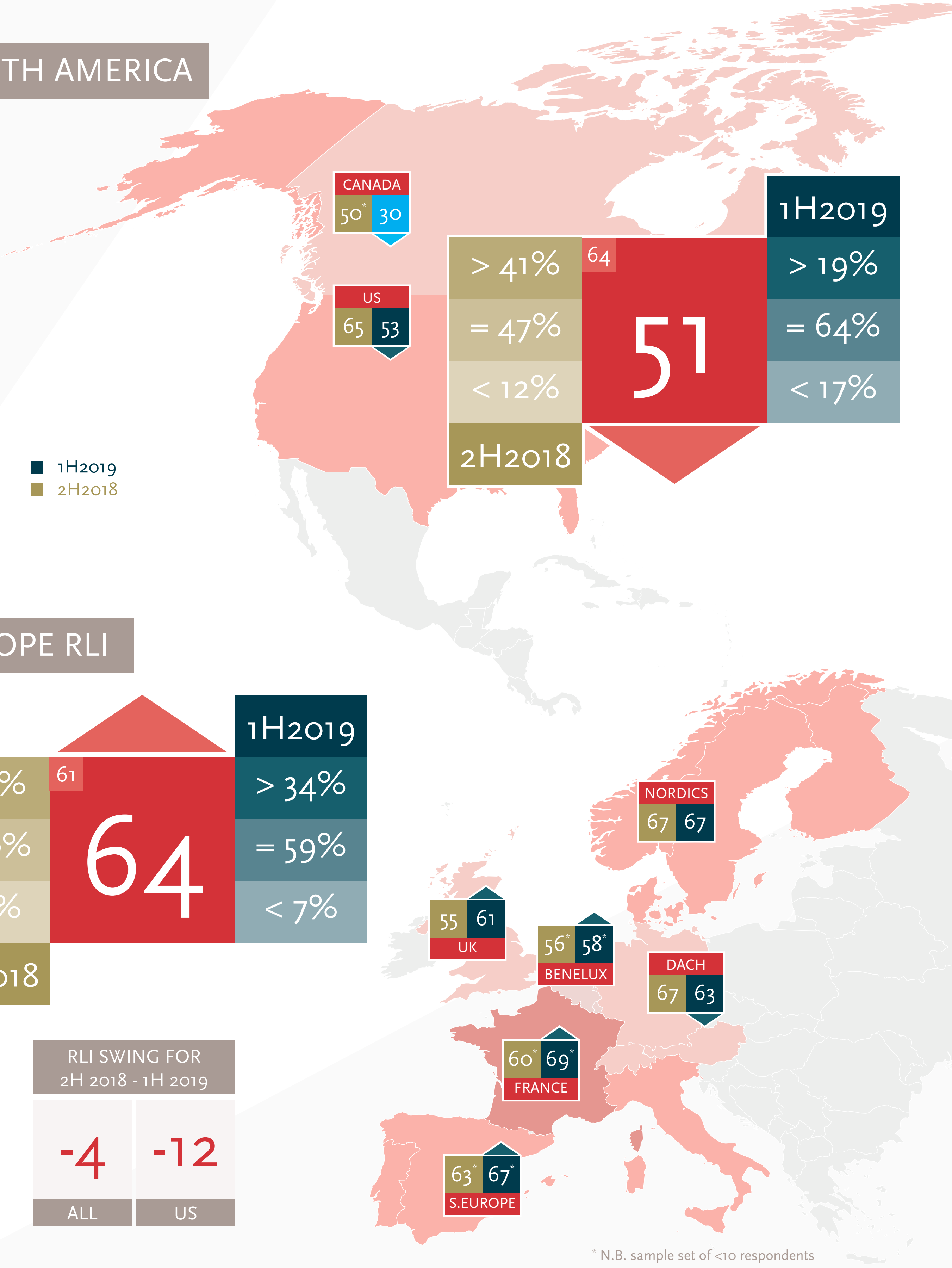
RLI INDEX DEVELOPMENT OVER TIME



RLI FOR DEPLOYMENT TO PRIMARY FUNDS

NORTH AMERICA RLI

2H2018	RLI	1H2019
> 41%	64 → **51**	> 19%
= 47%		= 64%
< 12%		< 17%



> MORE
= SAME
< LESS

■ 1H2019
■ 2H2018

EUROPE RLI

2H2018	RLI	1H2019
> 31%	61 → **64**	> 34%
= 60%		= 59%
< 9%		< 7%

RLI SWING FOR 2H 2018 - 1H 2019	
-4	-12
ALL	US

* N.B. sample set of <10 respondents

RLI EXISTING VS. NEW RELATIONSHIPS

EXISTING RELATIONSHIPS

	2H2018	1H2019
RLI	58	56
>	34%	29%
=	47%	53%
<	19%	18%

NEW RELATIONSHIPS

	2H2018	1H2019
RLI	66	58
>	43%	37%
=	45%	43%
<	12%	20%

COMMENTARY

- Over the last six months there has been a clear softening in LPs' appetite for expanding their private equity portfolios to new manager relationships, with the RLI for new relationships slipping 8 points to 58
- This change is driven by North American institutions, for whom the RLI score for new relationships slid 16 points to 50, meaning that on average North American LPs expect to hold their commitments to new managers steady over coming months. By contrast, European LPs are continuing to show enthusiasm for new managers with a strong score of 63

NEW RELATIONSHIPS / EXISTING RELATIONSHIPS

BY GEOGRAPHY

NEW				EXISTING
63	▲	EUROPE	▼	56
50	▼	N.AMERICA	▼	54

BY INVESTOR TYPE

NEW				EXISTING
67	▲	CONSULTANTS	▼	38
65	▼	FUND OF FUNDS	▼	48
60	▼	INSURANCE	▲	62
57	▼	FAMILY OFFICES	▲	68
56	▲	PENSION FUNDS	▼	58
50	▼	ENDOWMENT/FOUNDATION	▲	46
42	▼	OTHER+*	▲	65

BY PE ALLOCATION

NEW				EXISTING
62	▼	< €1 BILLION	▲	57
57	▼	€1-5 BILLION	▲	56
57	▼	€5-10 BILLION	▼	50
50	▼	€10-30 BILLION*	▼	64
50	=	> €30 BILLION*	▼	50

△ INCREASE
= SAME
▽ DECREASE

■ 1H2019
■ 1H2019 | SCORE BELOW 50

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

RLI FOR CO-INVESTMENTS

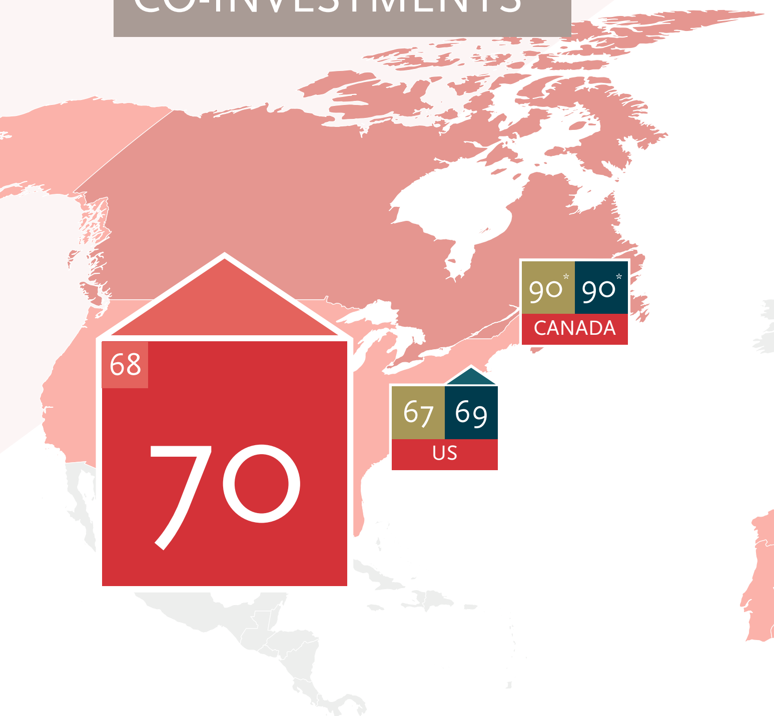
CO-INVESTMENTS

2H2018		1H2019
> 46%	69 → 70	> 45%
= 47%		= 51%
< 7%		< 4%

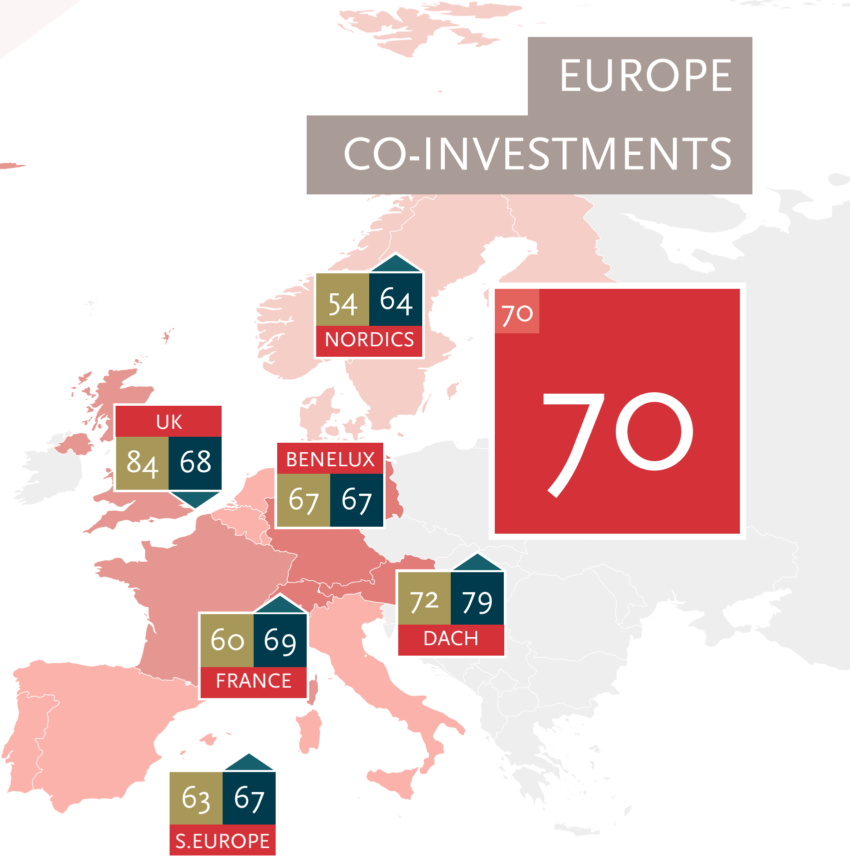
COMMENTARY

- Co-investments remain a key and increasing area of deployment for LPs investing in private equity
- 96% of LP's surveyed expect to maintain or increase allocations to co-investments in coming months
- Appetite for co-investment remains strong across the board with particular enthusiasm from investors in the DACH region, as well as funds-of-funds, pension funds and endowments / foundations

NORTH AMERICA CO-INVESTMENTS



EUROPE CO-INVESTMENTS



BY INVESTOR TYPE

FUND OF FUNDS	79	▼
OTHER*+	73	▼
PENSION FUNDS	70	▼
ENDOWMENT/FOUNDATION	70	▲
FAMILY OFFICES	66	▼
CONSULTANTS	63	▼
INSURANCE	62	▲

BY ALLOCATION

< €1 BILLION	66	▲
€1-5 BILLION	72	▲
€5-10 BILLION	70	▼
€10-30 BILLION	86	▲
> €30 BILLION*	70	▼

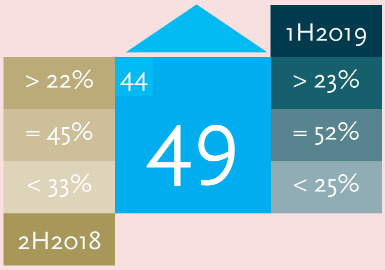
* N.B. sample set of <10 respondents
+ Other includes OCIOs, Government agencies, SWFs and other

△ INCREASE
= SAME
▽ DECREASE

■ 1H2019
■ 2H2018

RLI FOR DEPLOYMENT TO SECONDARY FUNDS & INVESTMENTS

SECONDARIES DEPLOYMENT



COMMENTARY

- We are continuing to see an ongoing cooling in sentiment amongst LPs toward the secondary market with a score of 49
- In Europe, this softening appears have plateaued, with the RLI score climbing by 4 four points to 55
- North American LPs, however, remain bearish on the secondary market, with 86% of North American LPs expecting to maintain or decrease their deployment of capital to the private equity secondaries market

BY GEOGRAPHY

EUROPE	55	▲
N.AMERICA	42	▲

BY PE ALLOCATION

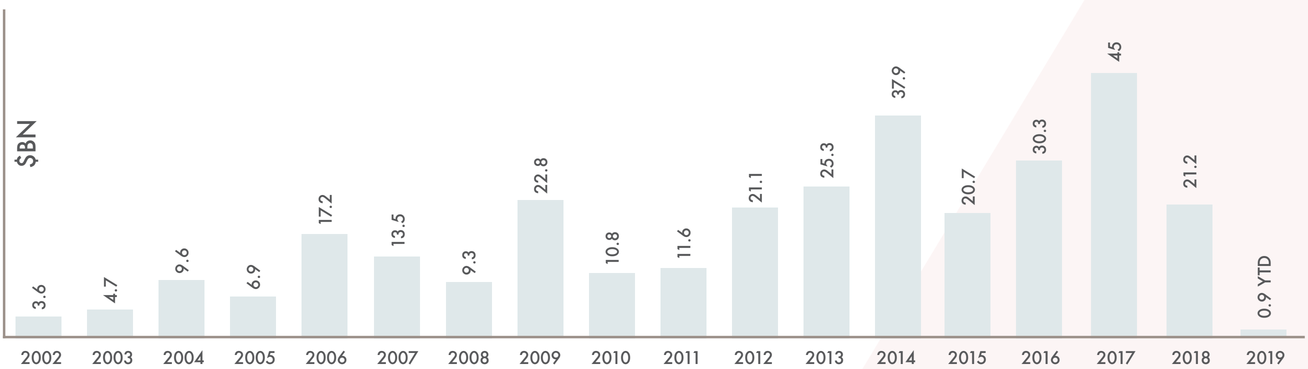
<€1 BILLION	50	▲
€1-€5 BILLION	45	▼
€5-€10 BILLION	59	▲
€10-€30 BILLION	50	▲
>€30 BILLION	50	▼

BY INVESTOR TYPE

FUND OF FUNDS	62	▼
CONSULTANT	58	▲
OTHER	50	▲
PENSION	48	▲
FAMILY OFFICE	44	▲
INSURANCE	31	▼
ENDOWMENT/ FOUNDATION	30	▲

△ INCREASE
= SAME
▽ DECREASE
■ 1H2019
■ 2H2018
■ 1H2019 | SCORE BELOW 50

SECONDARIES FUNDS - AGGREGATE CAPITAL RAISED



Source: Preqin

RLI FOR EXPECTED DISTRIBUTIONS

DISTRIBUTIONS

2H2018		1H2019
> 40%	59	> 27%
= 38%	47	= 40%
< 22%		< 33%

COMMENTARY

- We have seen a sharp drop in LP expectations regarding the level capital that will be returned to them via GP distributions, with the RLI for distributions dropping 12 points to 47
- This is driven by a steep decline in distribution expectations amongst North American LPs, where the local score dropped by 21 points to 45
- Overall 73% of LPs expect that distributions will remain stable or decline in coming months

BY GEOGRAPHY

EUROPE	48	▽
N.AMERICA	45	▽

△ INCREASE
= SAME
▽ DECREASE

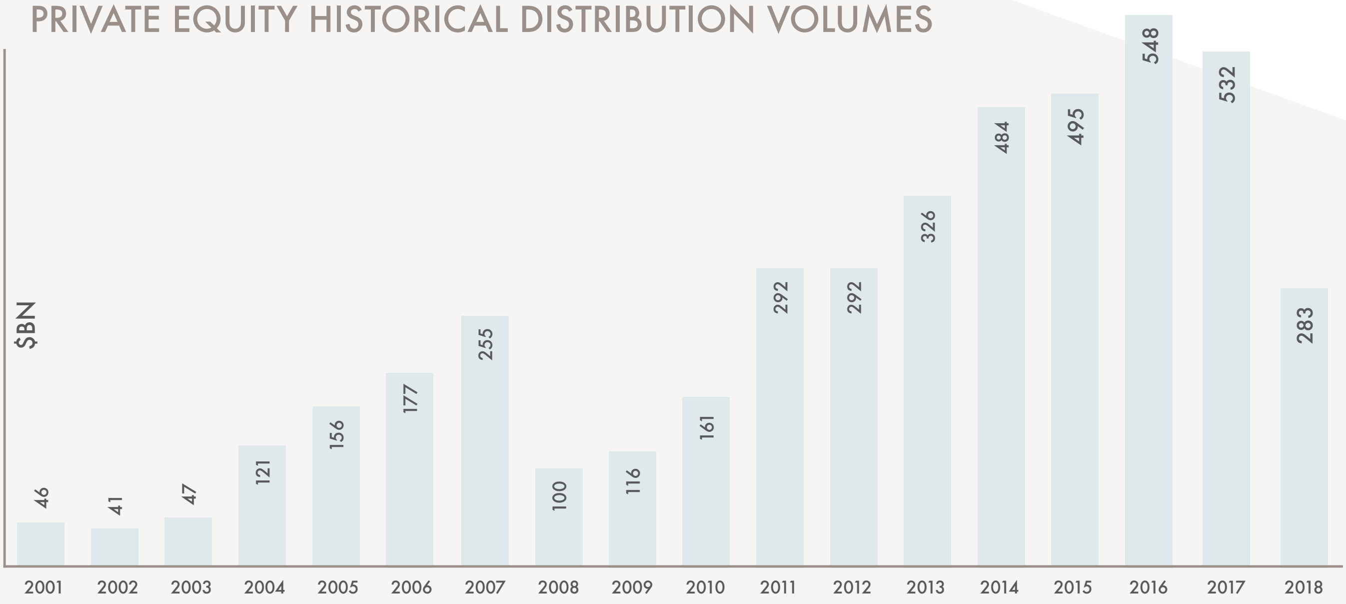
■ 1H2019
■ 2H2018
■ 1H2019 | SCORE BELOW 50

BY INVESTOR TYPE

OTHER**	62	△
FAMILY OFFICES	57	▽
PENSION FUNDS	52	▽
ENDOWMENT/FOUNDATION	45	▽
FUND OF FUNDS	43	▽
CONSULTANTS	42	▽
INSURANCE	31	▽

* N.B. sample set of <10 respondents

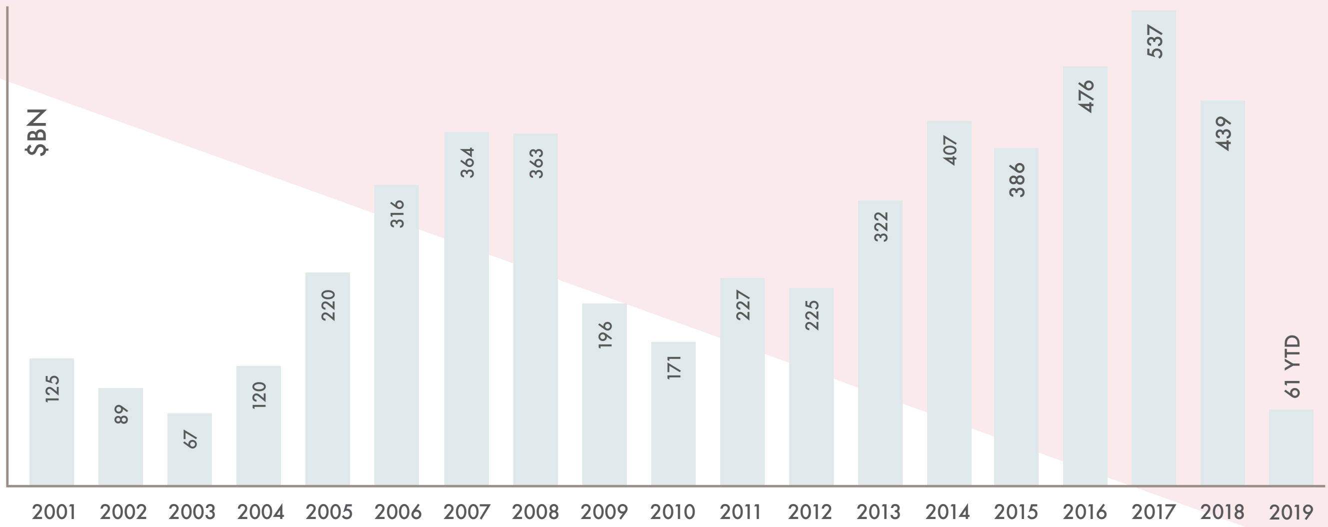
PRIVATE EQUITY HISTORICAL DISTRIBUTION VOLUMES



Source: Preqin

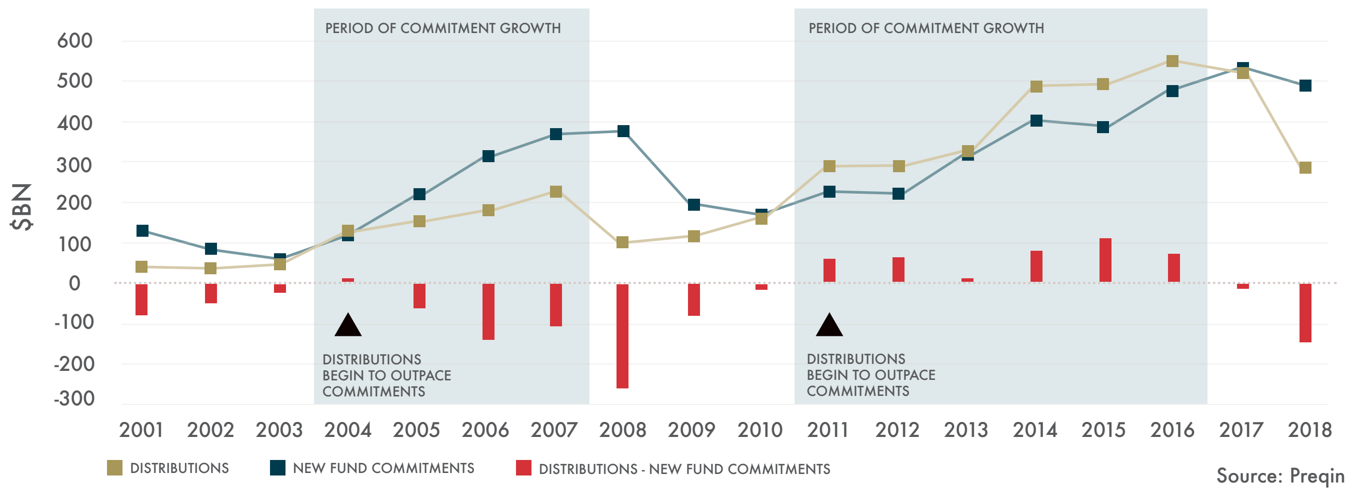
H ISTORICAL FUNDRAISING VOLUMES

PRIVATE EQUITY HISTORICAL FUNDRAISING VOLUMES



Source: Preqin

DISTRIBUTIONS VS. NEW FUND COMMITMENTS



Source: Preqin

COMMENTARY

- We appear to have reached the end of an unprecedented eight-year bull run for private equity fundraising
- Historically we see that periods of sustained growth in fundraising tend to be triggered by periods of growing distribution activity. LPs, flush with capital returned by GPs, step up their investment activity creating market expansion
- In 2018 we began to see 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 that this mismatch between commitments and distributions is behind the cooling of LP sentiment toward new primary commitments in 2019
- With LPs expecting an overall reduction in capital inflows from distributions, we can reasonable expect a period of fundraising contraction until exit activity picks up again

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"), the aim is to provide a numerical value of LP sentiment that can be tracked over time.

The RLI 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 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 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 fourth report, we look at the expected health of the second half 2018 and onward to 2019.

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.

152 LPs participated in the survey, representing over €5 trillion in assets under management and over €800 billion in capital allocated to Private Equity.

The overall RLI has representation from all over the world, including Europe, North America, Asia, Middle East and Australia. 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 data is presented in the form of a diffusion index, which is calculated as follows:

$$RLI = (P_1 x 1) + (P_2 x 0.5) + (P_3 x 0)$$

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

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

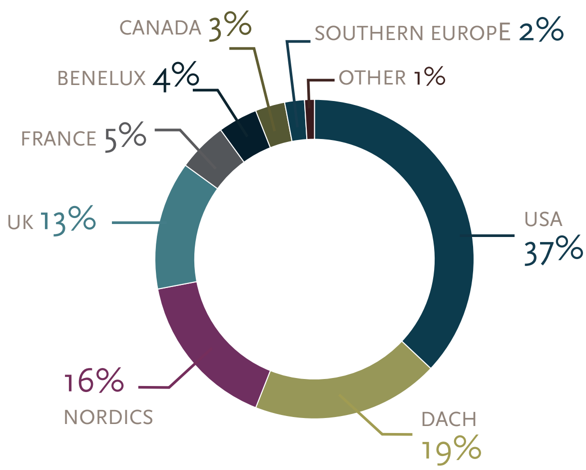
When we launched the RLI® in the first half of 2017, the objective was to create an index which would reliably show investor sentiment for the twelve months ahead and could be tracked quantitatively over time.

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.

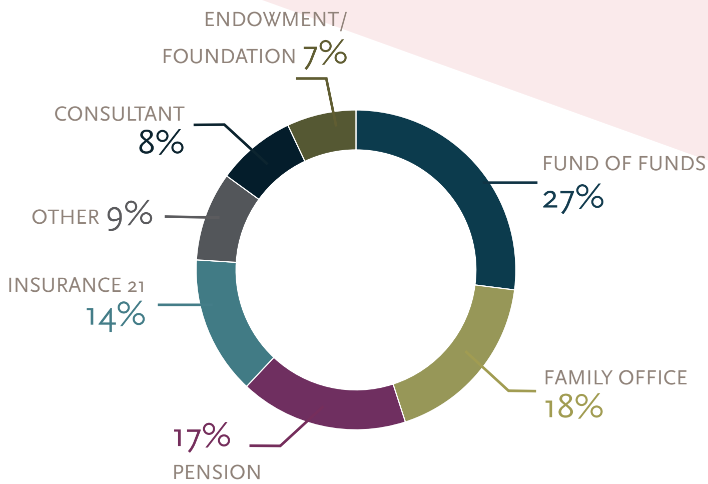
In aggregate, panelists included in this fifth edition of the RLI® hold over €5 trillion assets under management, with more than €800 billion of their assets allocated to investments in private equity.

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.

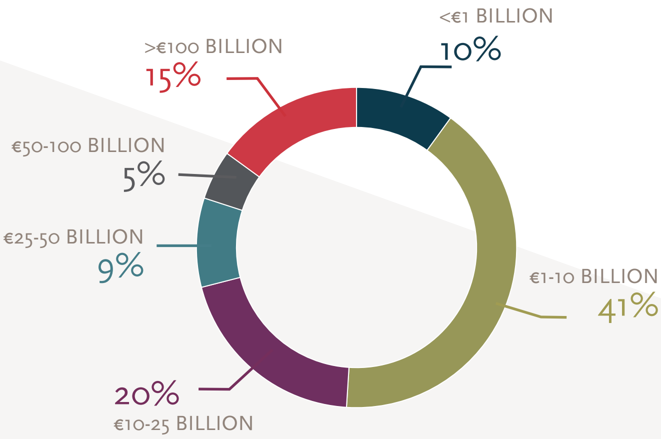
BY HQ GEOGRAPHY



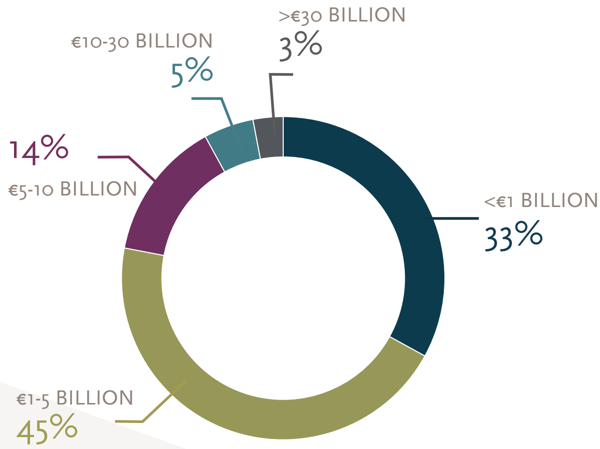
BY INSTITUTION TYPE

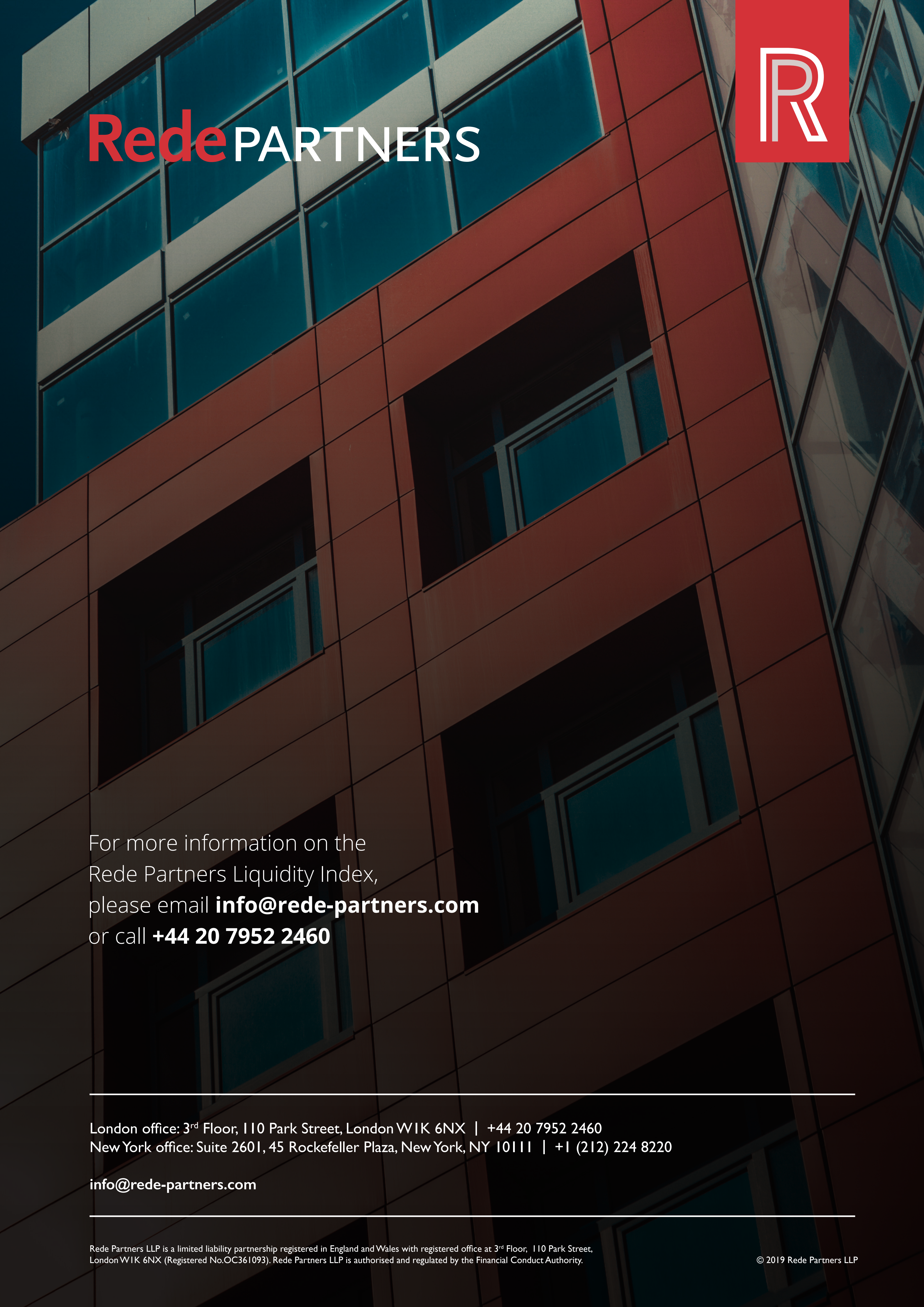


BY TOTAL ASSETS UNDER MANAGEMENT



BY ALLOCATION TO PRIVATE EQUITY





Rede PARTNERS

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