



LIQUIDITY
INDEX

1H 2018

RedePARTNERS

MARCH 2018

I NTRODUCTION

A year after we launched the **Rede Liquidity Index ("RLI")** we are happy to be publishing the third edition looking at investor sentiment towards private equity in 2018.

Despite fears at full valuations and a strong market, private equity remains a highly attractive asset class for investors, with a RLI score for 1H2018 at 65 versus 62 in 2H2017. Notably, 95% of LPs surveyed indicated they expect to increase or maintain how much capital they allocated to private equity in 2017.

Overall, the results see a bias towards new relationships in this 1H2018 RLI survey, following a year dominated by re-ups for many. The survey also shows a shift in sentiment by both UK and US LPs, who were the most cautious a year ago looking ahead at 2017 but are amongst the most bullish for how much they expect to deploy in 2018. Notably co-investments remain a significant and growing component of anticipated deployment with an RLI score of 70 (versus 69 in 2H2017).

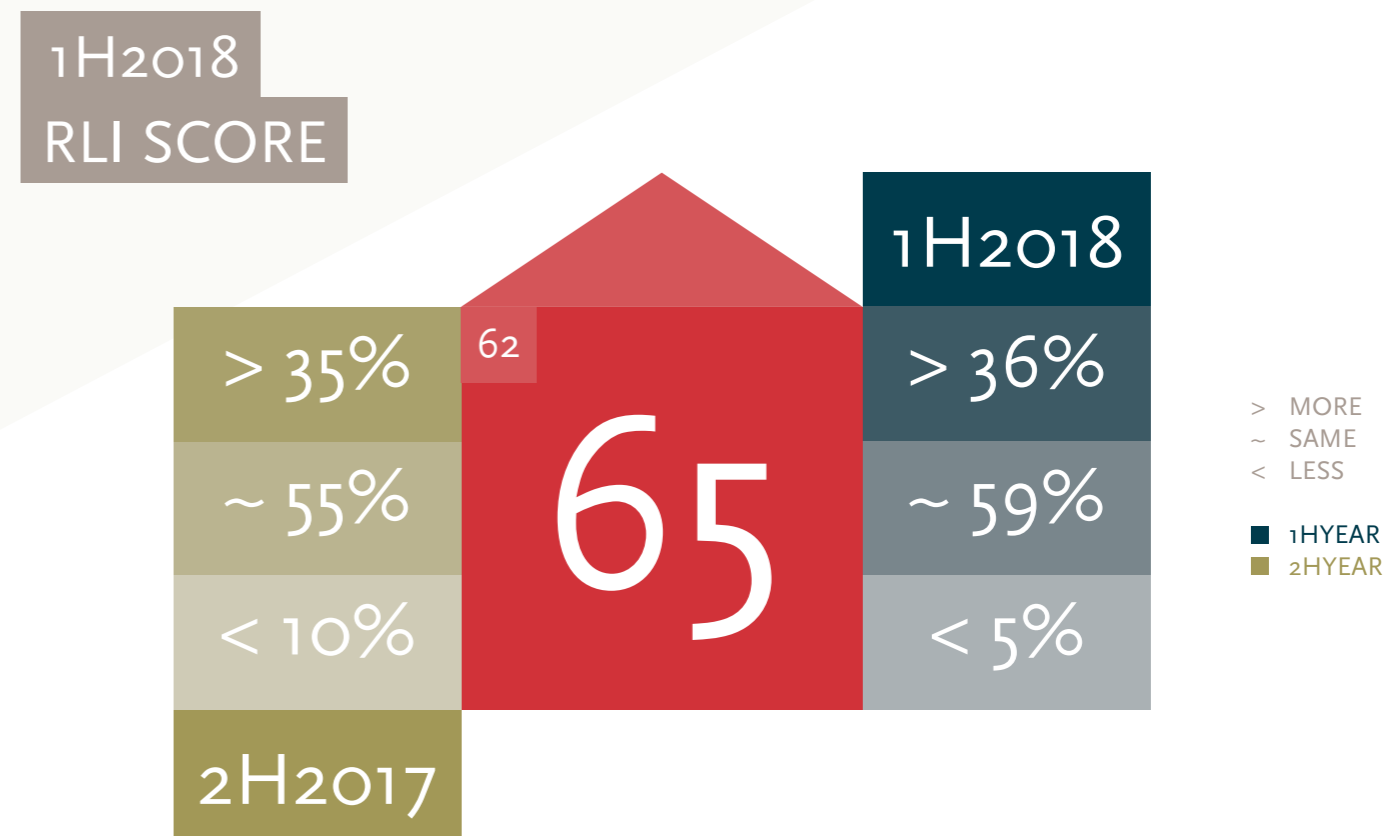
The positive sentiment is powered by distribution expectations which are up for the third half in a row (62 in 1H2018 versus 57 in 2H2017 and 55 in 1H2017). 2017 was another strong exit year for the industry and the survey shows that LPs expect to see this continuing in 2018. This return of capital coupled with allocations to the asset class increasing overall, provides a strong backdrop to the positive LP sentiment and fundraising market.

Given these strong results, we should expect another strong fundraising year in 2018. However, it is worth noting that although there is clearly significant capital inflow to the asset class, the market remains relatively binary, as LPs are struggling with resource constraints and increasingly short fundraising timetables. Funds in strong demand will continue to be able to shorten timetables and surpass their target fund size, but as investors are forced to prioritise these situations other funds will struggle to get the attention required and have longer raises as a consequence.

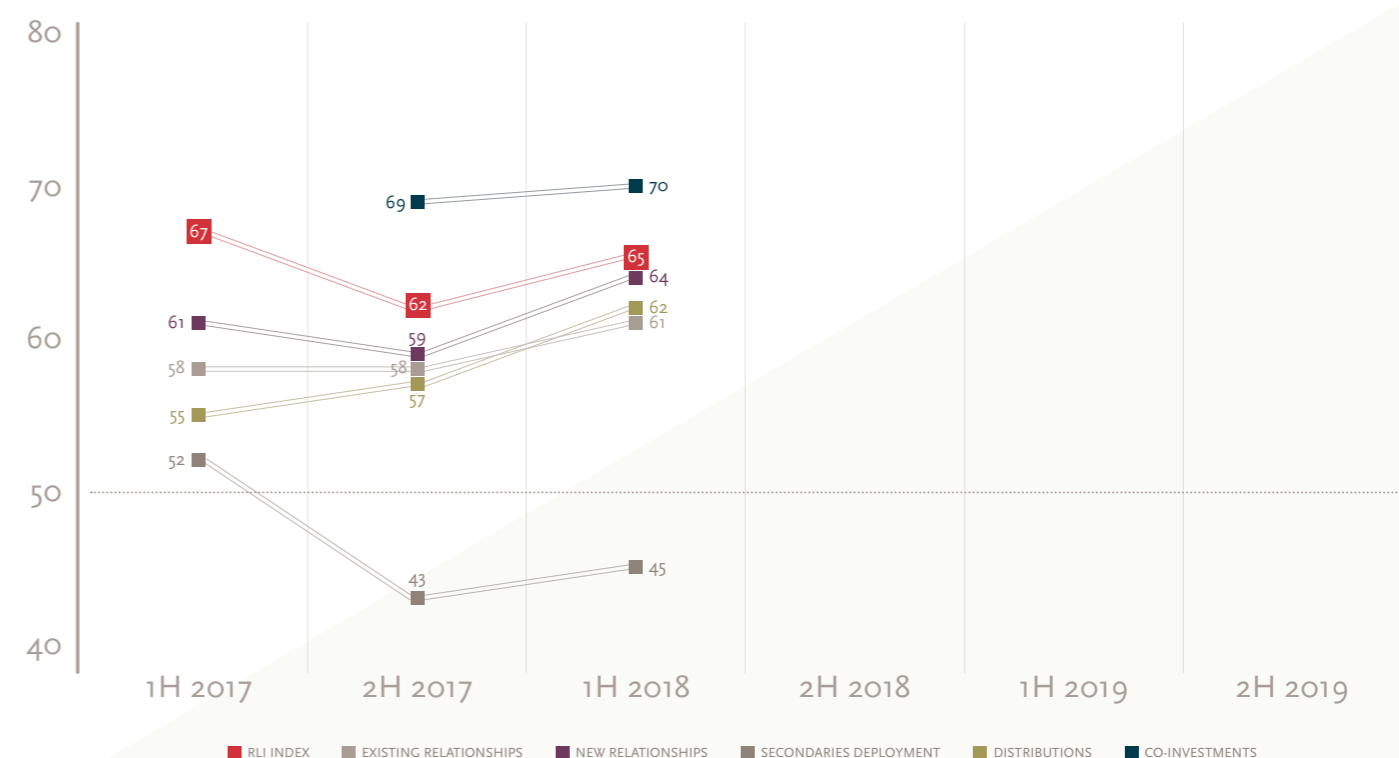
When we launched the RLI, the objective was to create an index which would reliably show investor sentiment for the twelve months ahead and give as a numerical value that could be tracked over time. In order to do so, we are aiming to build a consistent group of investors who respond to the survey every six months. We are happy to say that we now have over 60% repeat respondents in our survey and an overall sample size which has only varied by 5% between the first and last survey. We aim to continuously improve this whilst maintaining the consistency and comparability of the results.

Thank you once again to all the investors who participated in this survey and we hope you find the data interesting.

S UMMARY R ESULTS

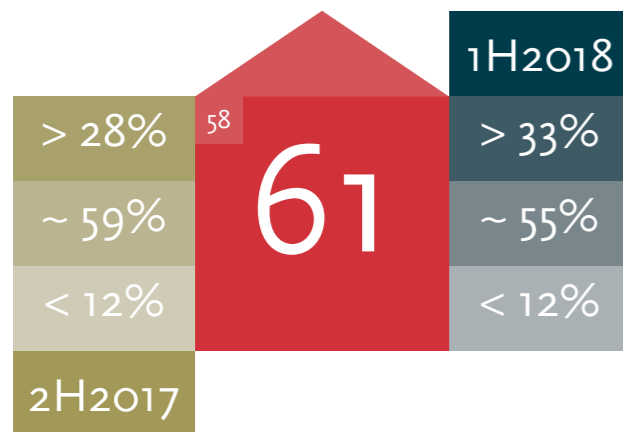


RLI INDEX DEVELOPMENT OVER TIME

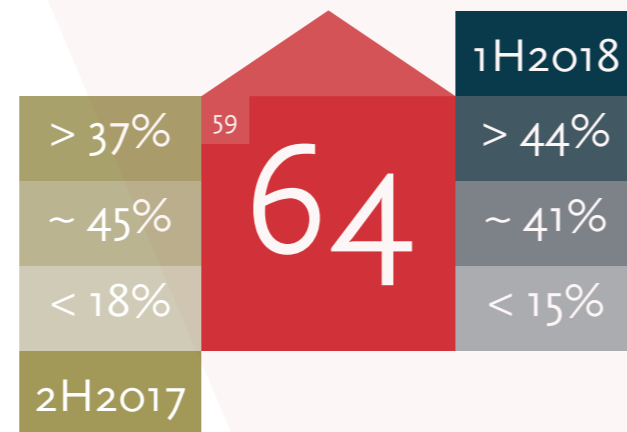


RLI LP SENTIMENT ACROSS SUB-INDICATORS

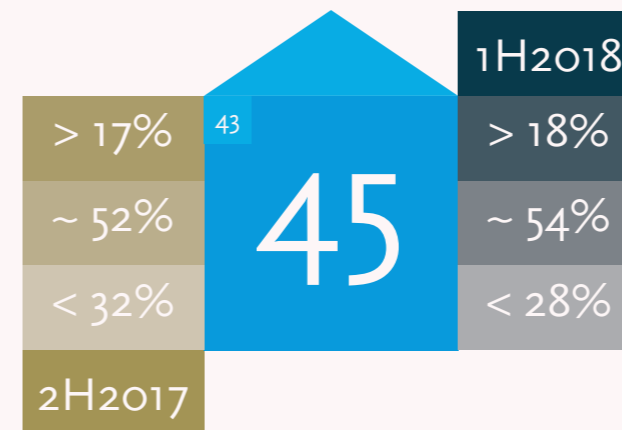
EXISTING RELATIONSHIPS



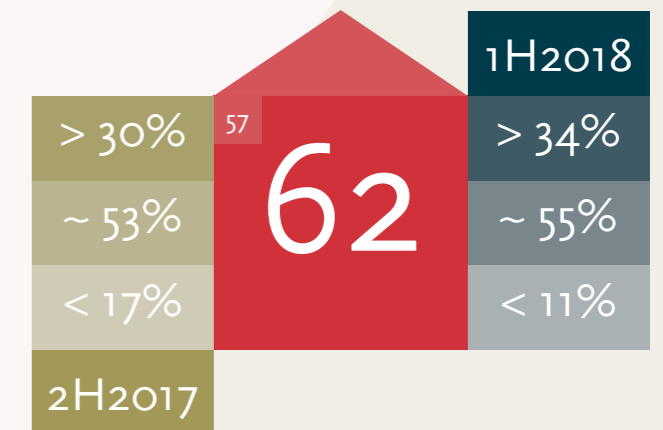
NEW RELATIONSHIPS



SECONDARIES DEPLOYMENT

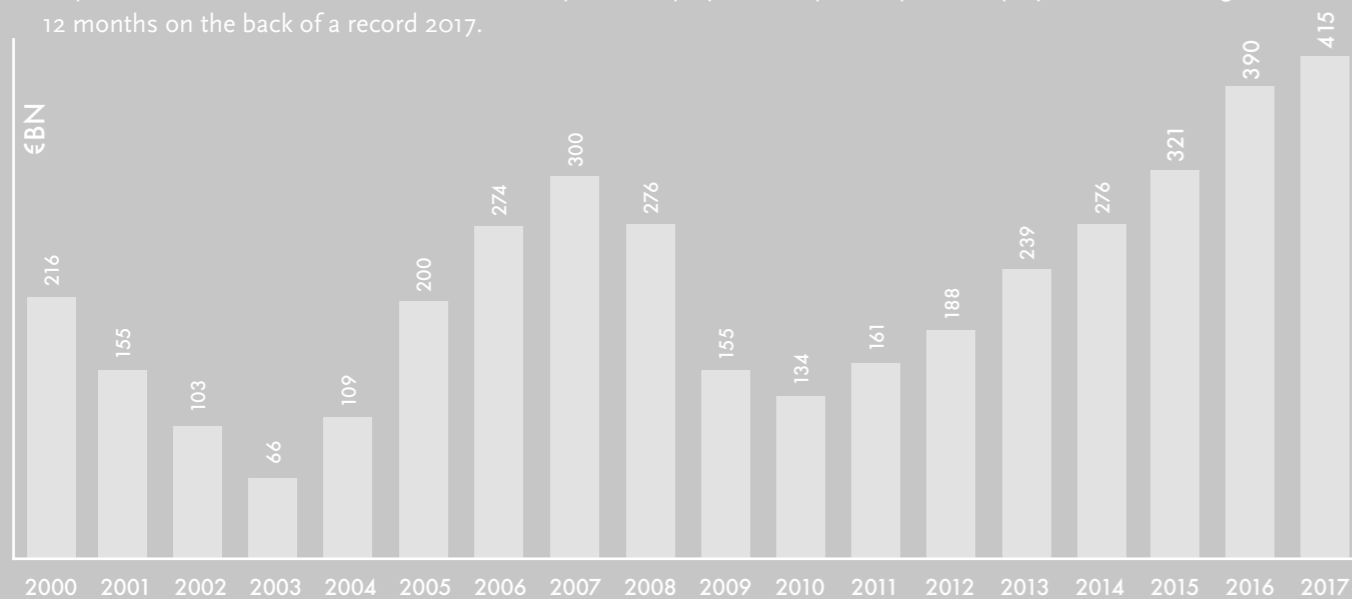


DISTRIBUTIONS

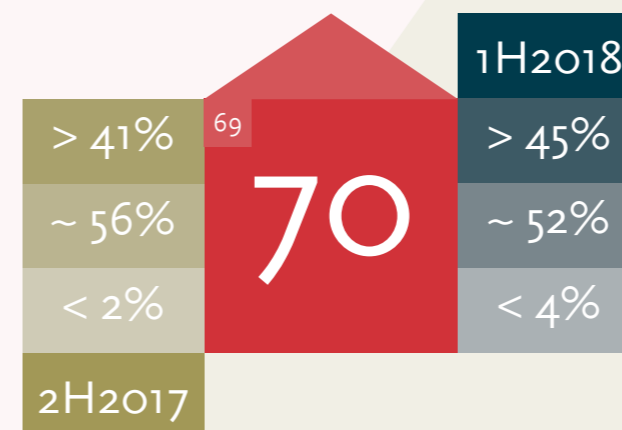


PRIVATE EQUITY HISTORICAL FUNDRAISING VOLUMES

The RLI is a relative measure where LPs are asked to look forward 12 months, relative to the last 12 months. To put the scores in context, LPs continue to expect to deploy more capital to private equity over the coming 12 months on the back of a record 2017.



CO-INVESTMENTS



COMMENTARY

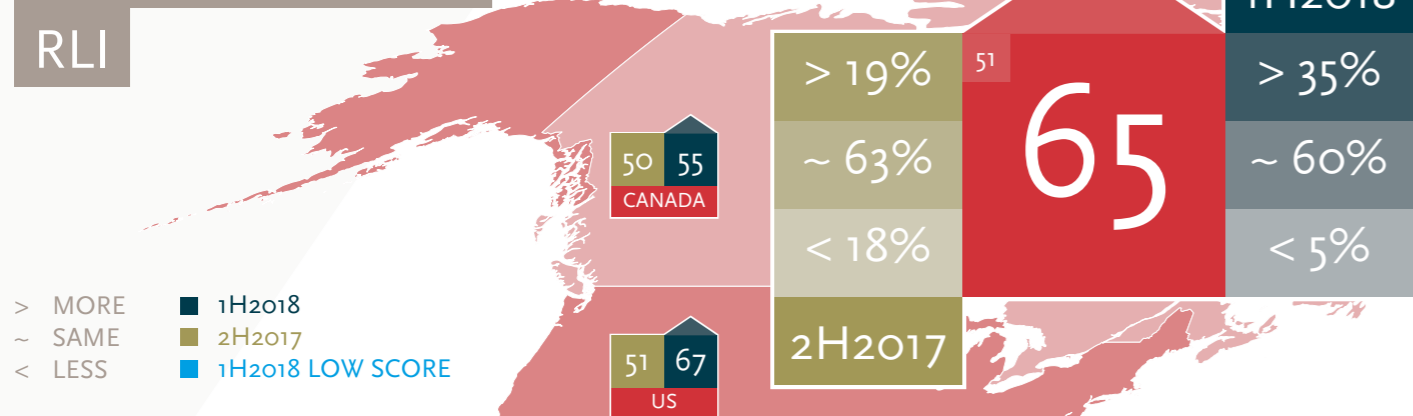
- The third edition of the RLI shows continued strong sentiment towards Private Equity with LPs expecting to deploy more capital to the asset class over the coming 12 months – this follows record volumes in 2017
- All sub-indicator scores are up compared with the survey done six months ago, with the biggest changes shown in sentiment towards distributions and deployment to new relationships
- This bias towards new relationships indicates that LPs in general are expecting to deploy more to new relationships in 2018 compared to 2017 which for many was dominated by re-ups
- Although the score for deployment to secondaries remains negative, this is also up compared with the score in H2 2017

> MORE
~ SAME
< LESS

■ 1HYEAR
■ 2HYEAR
■ 1H LOW SCORE

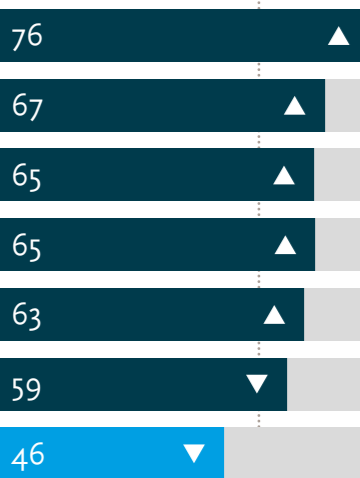
RLI FOR DEPLOYMENT TO PRIMARY FUNDS

NORTH AMERICA RLI

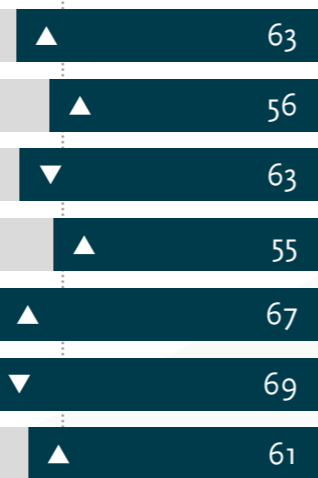


RLI BY INVESTOR TYPE

NEW RELATIONSHIPS

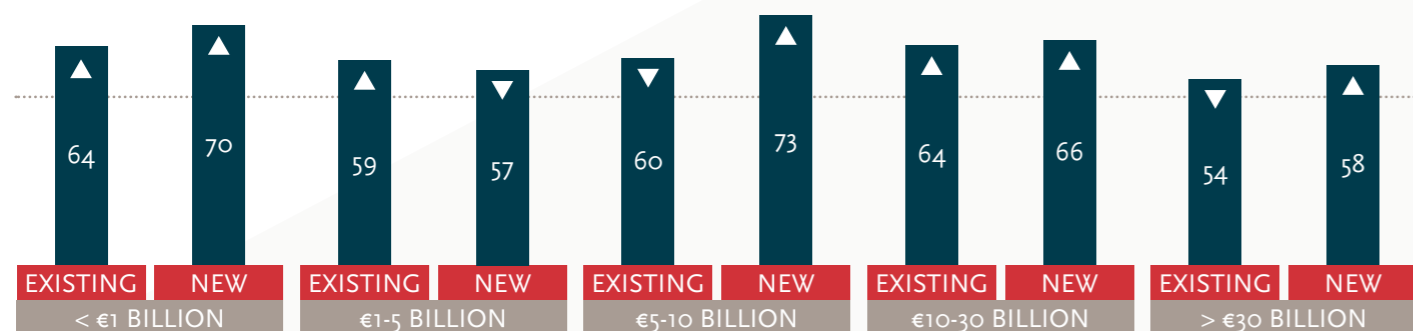


EXISTING RELATIONSHIPS

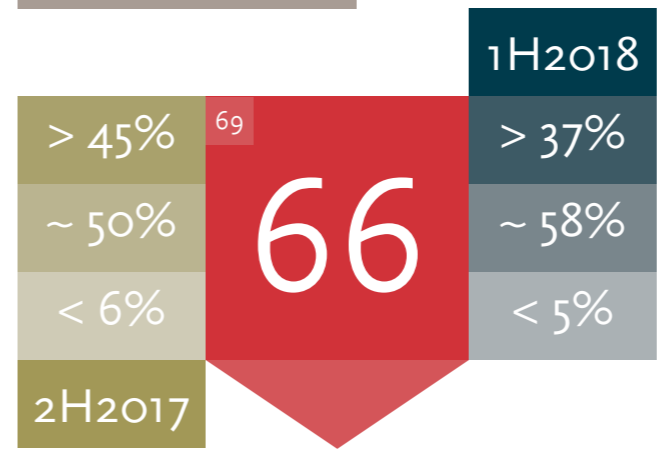


----- = RLI SCORE OF 50 * Other includes OCIOs, Government agencies, SWFs and other

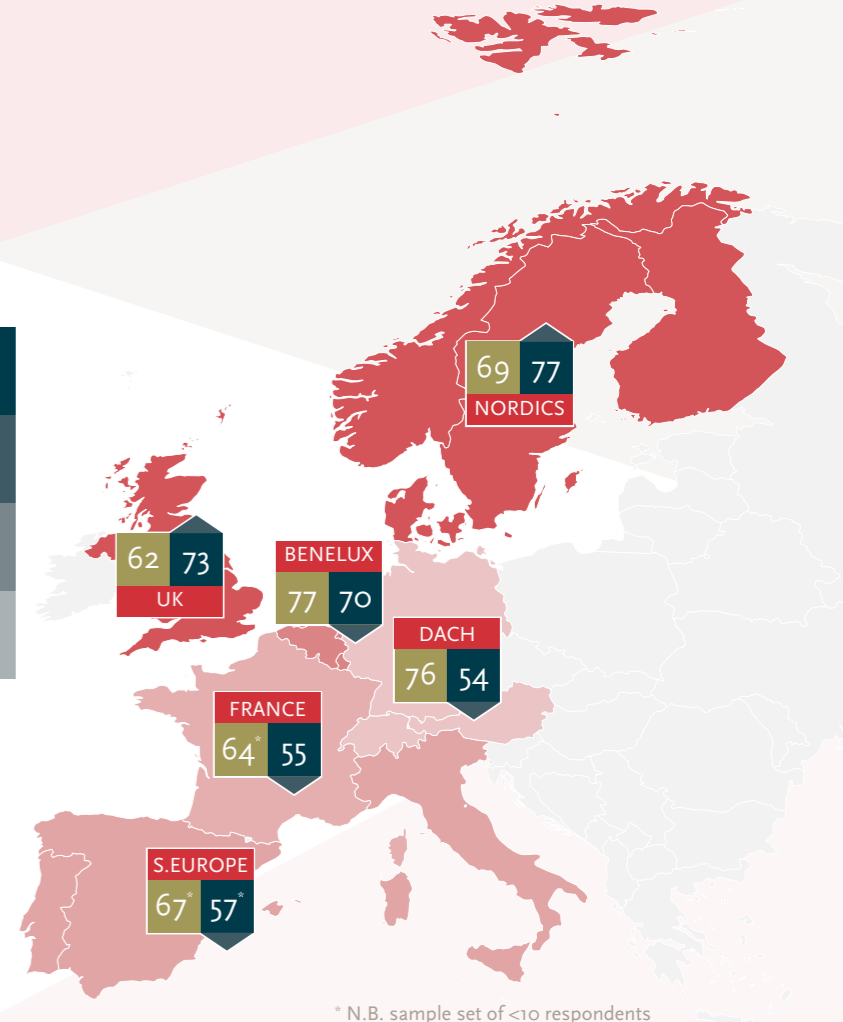
RLI BY PE ALLOCATION



EUROPE RLI



> MORE 1H2018
~ SAME 2H2017
< LESS

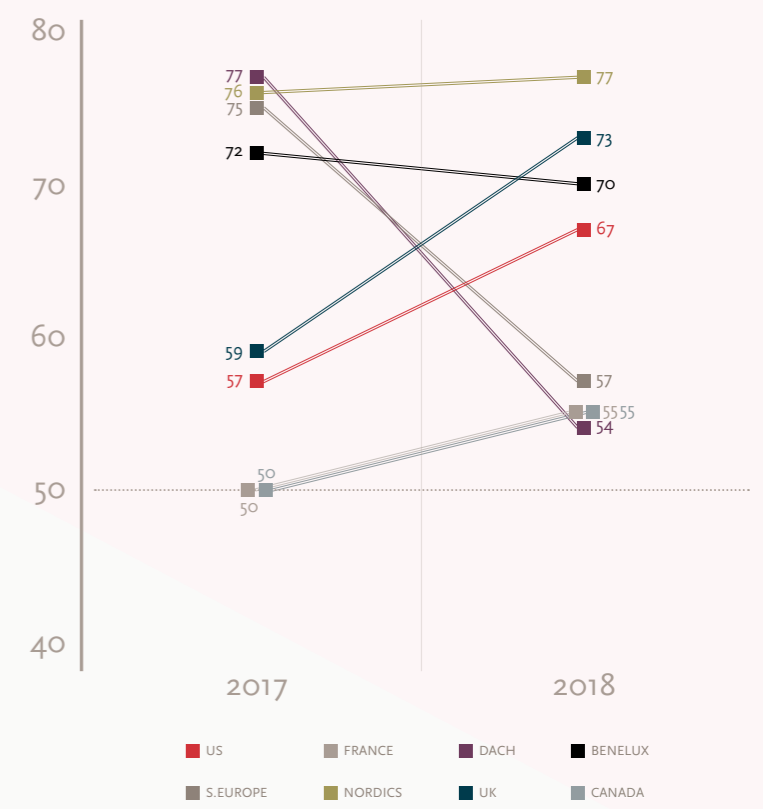


* N.B. sample set of <10 respondents

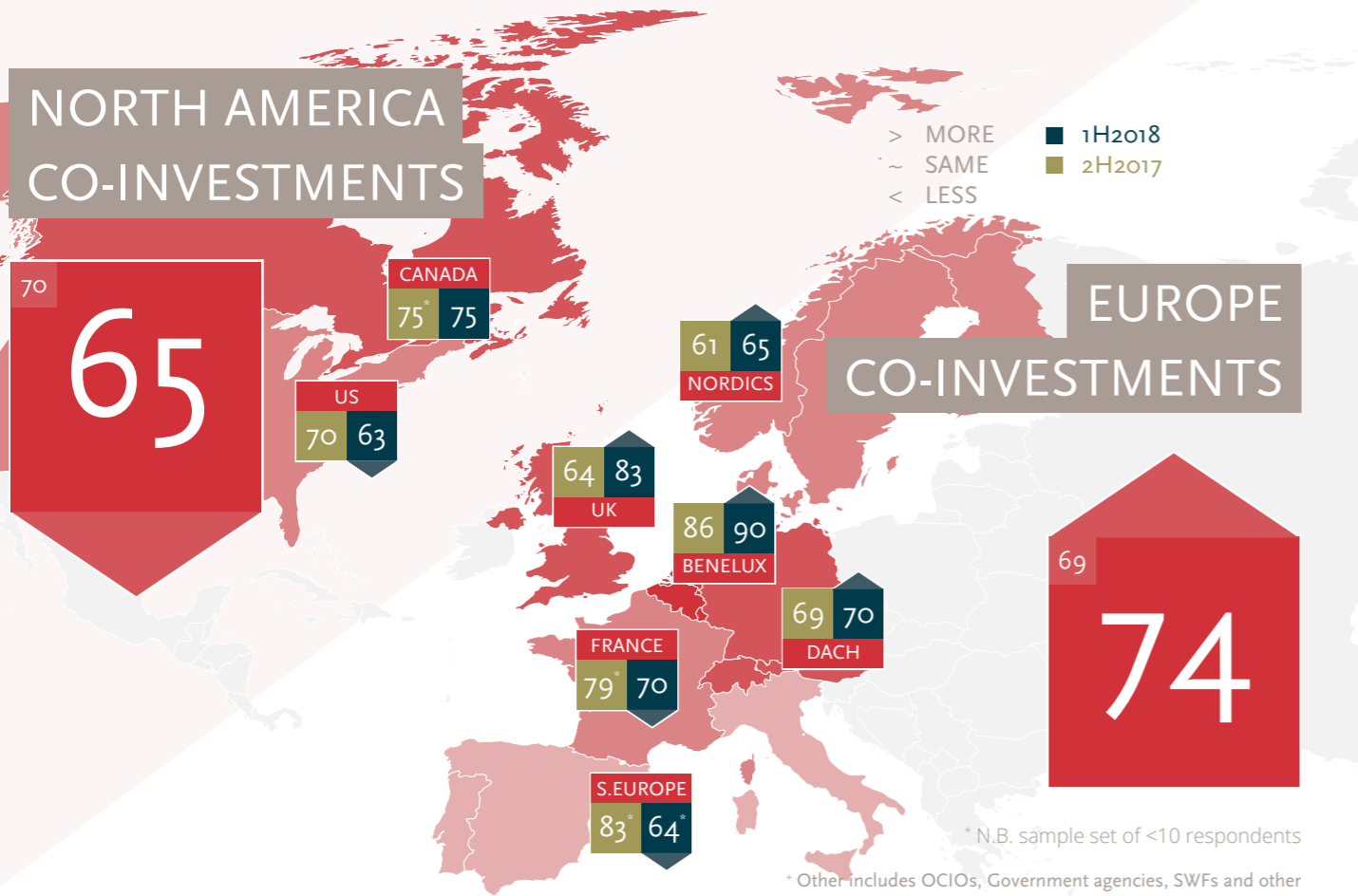
COMMENTARY

- 95% of LPs surveyed said they expect to increase or maintain their existing allocations to primary funds over the next year, leading to an overall RLI score of 65 vs 62 in H2 2017
- The largest positive swing in sentiment since the beginning of 2017 has been shown by UK investors, up 14 points from 59 in H1 2017 to 73 in H1 2018
- This is the most bullish score together with LPs in the Nordics and, significantly, no LP in these regions said they expect to deploy less
- On a 6-month basis, the largest swing has been shown by US-based LPs, up 16 points to 67. This represents a higher score than Europe and a marked change compared to sentiment in 2017, where European investors had a score that was 14 points higher than their US counterparts in 1H 2017 and 18 points higher in 2H 2017
- Other regions in Europe are showing a more cautious stance, but all still expecting to deploy more in 2018 than they did in 2017

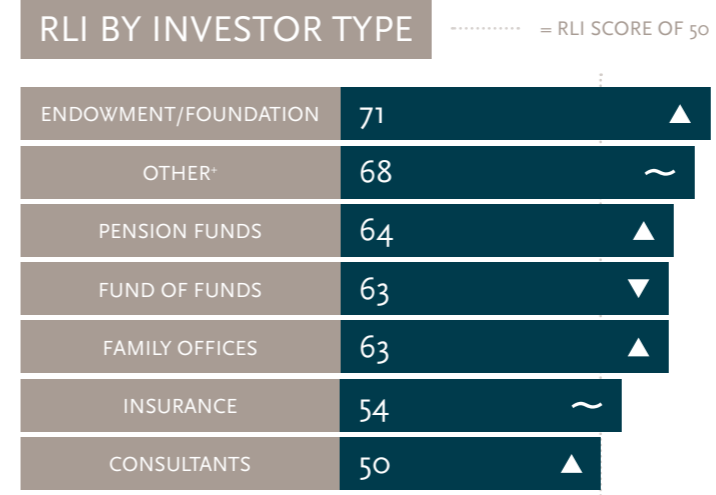
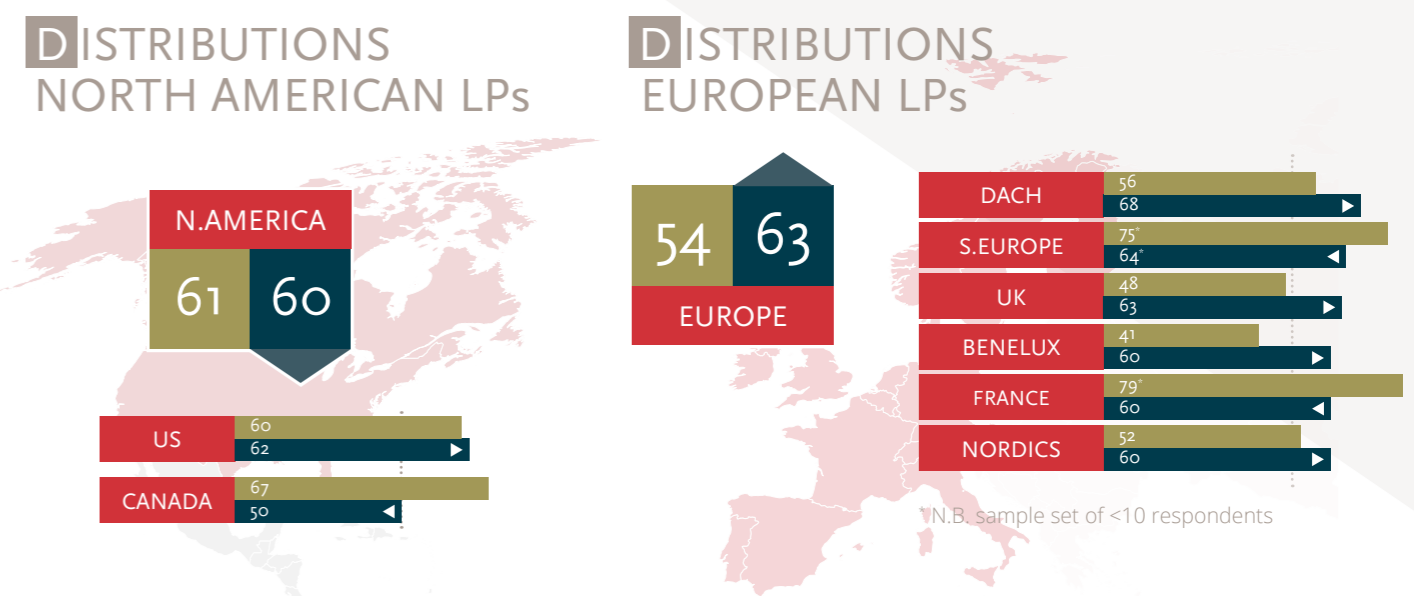
YEAR-ON-YEAR COMPARISON



RLI FOR CO-INVESTMENTS



RLI FOR EXPECTED DISTRIBUTIONS

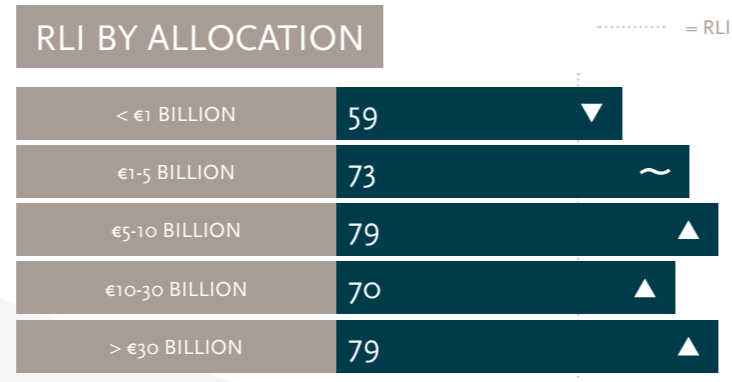
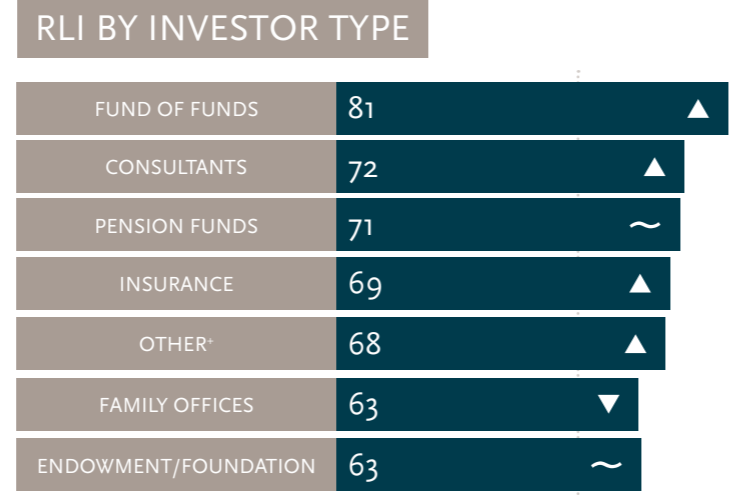


COMMENTARY

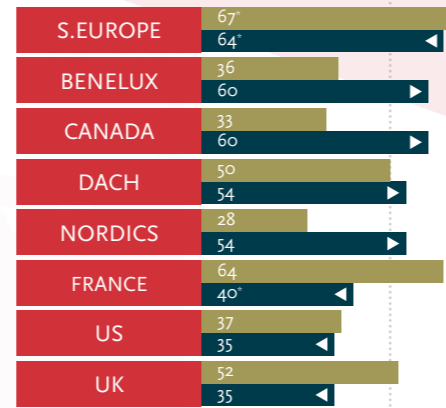
- LPs are expecting to receive significantly more back from managers via distributions over the next 12 months compared to when ask last year – 52 in H1 2017, 57 in H2 2017 and 62 in H1 2018
- This is on the back of a continued strong market
- UK LPs, in particular, continue to show a more positive sentiment, having increased their score from 30 in H1 2017 to 48 in H2 2017 and now up to 63, an increase of 33 points in 12 months

COMMENTARY

- Co-investments remain a key and increasing area of deployment for LPs investing in private equity
- On average, 45% of respondents expect to deploy more in co-investments over the coming 12 months, showing the continued pressure on GPs to deliver co-investments to their investors
- The strongest score of the whole survey at 90 was given by Benelux LPs, where 80% expect to deploy more to co-investments and none expect to deploy less

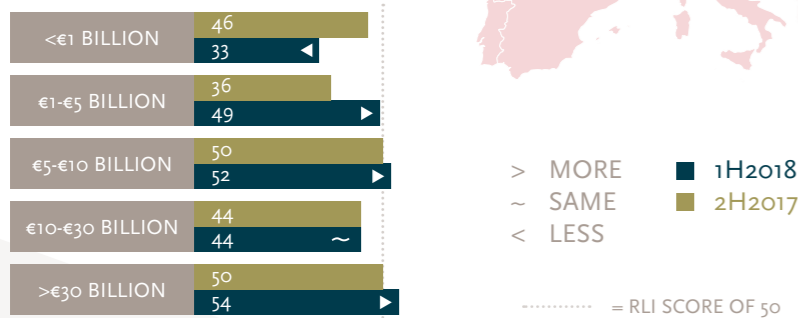


RLI FOR DEPLOYMENT TO SECONDARY FUNDS & INVESTMENTS

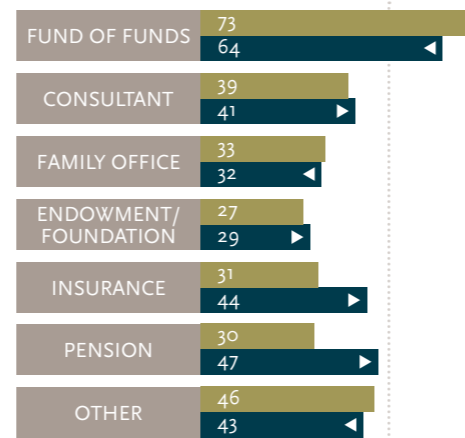


* N.B. sample set of <10 respondents

RLI BY PE ALLOCATION



RLI BY INVESTOR TYPE



COMMENTARY

- 2017 represented a record year in secondaries fundraising, with over \$38 billion raised during the year, up 33% from 2016 which was also a record year at \$29bn raised
- With a score of 45, the RLI is marginally up vs the score of 43 in 2H 2017, but still showing that LPs overall expect to deploy slightly less to secondaries in the 12 months ahead. Notably, 54% of all investors expect to deploy the same in 2018 as they did in 2017, with 28% indicating a reduction in deployment
- However, there is variance by geography, with Benelux, Nordic and Canadian LPs all looking to deploy more in 2018, up by over 20 points vs H2 2017 where they all had low scores of around 30
- By contrast, UK sentiment has fallen further with a low score of 35, compared with 52 in H2 2017 and 70 in H1 2017

SECONDARIES FUNDS - AGGREGATE CAPITAL RAISED



Source: Preqin

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 bi-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 (PMI), an indicator of the economic health of the manufacturing sector. The PMI is a composite index of five sub-indicators which are extracted through surveys of more than 400 purchasing managers, chosen to provide geographic and industry diversification.

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 third report, we look at the expected health of 2018 on the back of continued record fundraising volumes in 2017.

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.

165 LPs participated in the survey, representing over €6 trillion in assets under management and over €1 trillion 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:

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

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

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.



RedePARTNERS

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