LIQUIDITY INDEX

1H 2021

May 2021

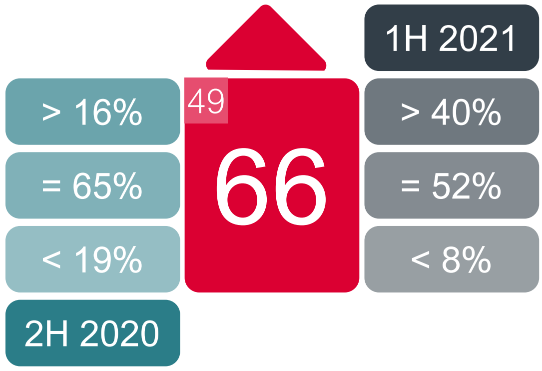
INTRODUCTION

Headline figures

"Over the next 12 months do you expect to:

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

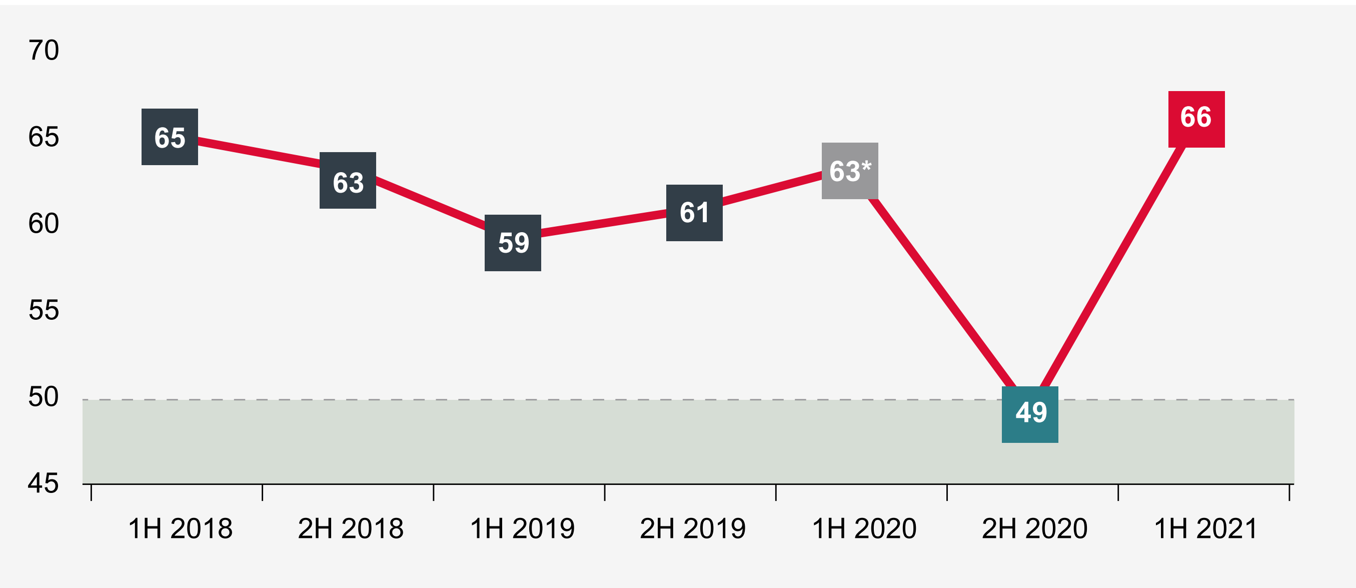
capital deployment to private equity?"



Key findings

1. This report sees the highest RLI score since 2017, driven by expectations for unprecedented exit velocity in 2021
2. There is a broad bullishness around allocation to North America and Europe – less so regarding other geographies
3. There is a divergence in sentiment depending on LP type with consultants endowments and foundations leading the way

Historic RLI Development



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

INTRODUCTION

Rede Partners is delighted to publish this report, the 7th edition of the Rede Liquidity Index (RLI), looking at institutional investor sentiment towards private equity (PE) for the first half of 2021 and into the remainder of the year.

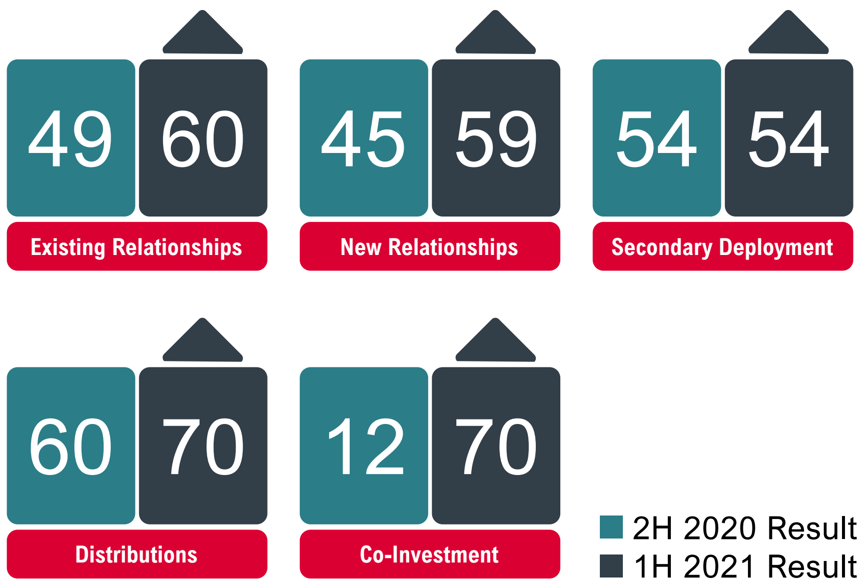
This is the first edition of the report since 2H 2019. In 2020, as the Covid-19 pandemic struck worldwide, we published a series of ‘pulses’ to capture, in real time, investor sentiment towards a PE landscape that was constantly shifting.

At the start of the pandemic in March 2020, we reported our findings that 64% of LPs were expecting to reduce their PE deployment for the remainder of the year, with many expressing concerns about near-term capital calls, pre-Covid valuations, zero revenue days and the pace of forward deal-making activity.

By the end of the year, however, it became clear that a bounce back had taken place across a number of paradigms – certainly among buyout exit volume and aggregate fundraising volume. And when looking at LP portfolios, 94% of LPs surveyed by Rede Partners had seen the value of their private equity holdings increase by the end 2020, compared with the end of 2019.

It is against this backdrop that we present the findings of this 1H 2021 report. More than a year since the start of the pandemic, and as the world continues to take steps towards a ‘new normal’, it is our first opportunity to set the impact of Covid-19 on LP sentiment in clear context.

Subindicator Results



This report sees the highest RLI score since 2017, driven by expectations for unprecedented exit velocity in 2021

The RLI of 66 for 1H 2021 is a four-year high and is only surpassed by a score of 67 in 1H 2017, the very first time the survey was conducted. It is instructive to consider this most recent figure in relation to the RLI for 2020.

The 1H 2020 survey was launched when Covid-19 was emerging as a serious threat and just before the first lockdowns were instigated. Our surveys typically remain open for six to eight weeks, and at the time we had initially seen record highs in responses, but these rapidly plummeted when the extent of the pandemic became clear.

This resulted in a composite score of 63, based on heterogenous data. By 2H 2020, there was much more robust homogenous data and the RLI fell significantly and dipped below 50, which meant that LPs overall expected to deploy less capital over the following 12 months.

The turnaround in 1H 2021 has been striking and is perhaps more reflective of the broader industry figures for 2020 as indicated in the introduction to this report. Indeed, only 8% of LPs surveyed felt that they would reduce their commitments to PE in the coming 12 months. Conversely, 40% are expecting to increase their commitments – another record high. This presents a strong picture overall for deployment in the year ahead.

Typically, LP liquidity depends on two factors – overall macro strength determining growth in top-down allocations, and the flow of capital coming back to the LP in fund distributions. We see the strength of the 1H 2021 RLI as driven by both the macro bullishness that is currently prevailing across financial services and a more specific trend of dramatically increased exit activity allowing LPs to recycle their commitments faster than usual.

There have been dramatic changes in LP expectations around distributions over the last 12 months and the current RLI for distributions is 70 - a record high. We have seen high levels of industry-wide exit activity in the latter half of 2020 and into early 2021 and our data suggests that LPs see no reason why that will slow down in coming months.

In particular, a number of new exit opportunities are opening up for GPs that are expected to further boost distribution flow back to LPs. In the last couple of years, there has been a huge expansion in the capital that has been raised for SPACs, for instance, notably among highly respected managers. At the time of this survey, there is a wall of SPAC capital seeking investment opportunities and this represents an interesting exit opportunity for PE managers.

> “…only 8% of LPs surveyed felt that they would reduce their commitments to PE in the coming 12 months.”

There is a broad bullishness around allocation to North America and Europe – less so regarding other geographies

We look at geographic variations along two axes – how overall sentiment varies between LPs located in different regions, and where LPs in general plan to increase their investment allocations.

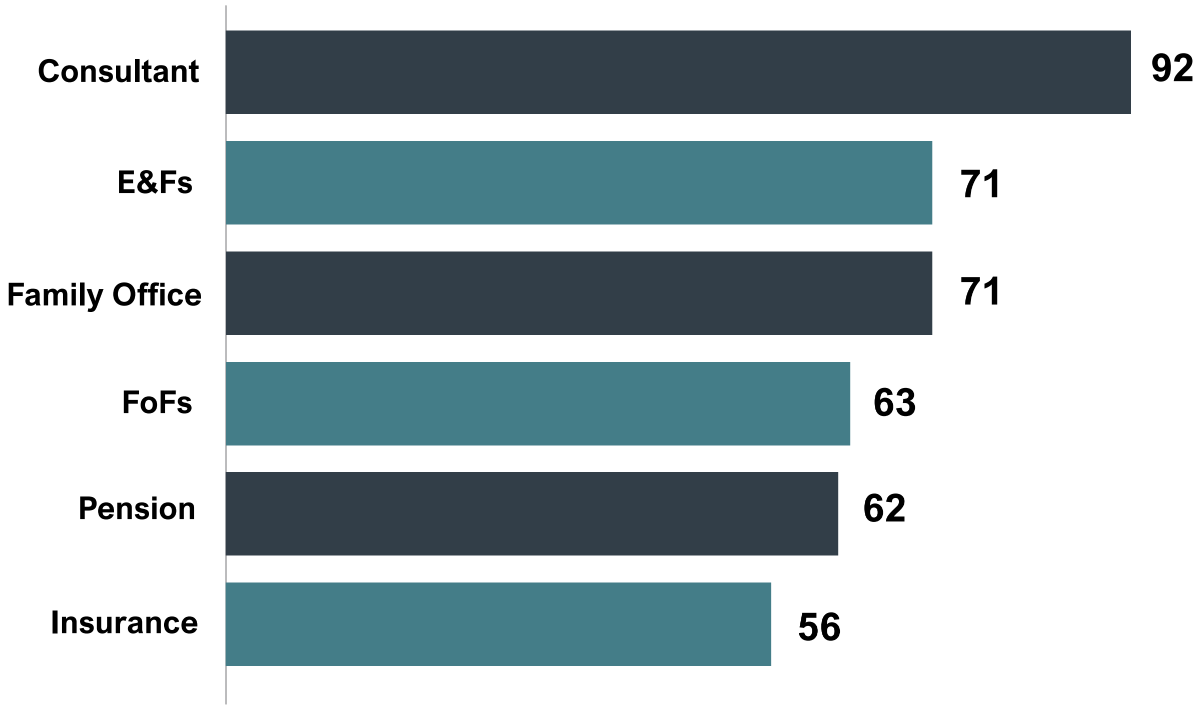
When looking at LPs by geography, we see that there is a particular bullishness about PE deployment among Europe-based investors – with an RLI of 68 – with North American investors not far behind on 64. LPs in other regions showed more muted enthusiasm with a score of 60.

Beyond that, across the globe, we are seeing that LPs as a whole are seeking to increase allocations to both North America and Europe-based funds over the next year, with just under a quarter of LPs planning to do so. This is in marked contrast to Asia, where only 10% of LPs expect to increase allocations.

There is a divergence in sentiment depending on LP type with consultants, endowments and foundations leading the way

When examining the data by LP type, there is particularly strong sentiment among consultants (RLI of 92) and endowments and foundations (71). At the other end of the scale, pensions (62) and insurance (56) still feel positively about deployment but not as strongly as other LP types. What is significant here is that endowments and foundations are generally viewed as a real bellwether of the industry, as they tend to be some of the most sophisticated investors within PE – and where they lead, other LPs tend to follow. So, when we see bullishness amongst endowments and foundations, we typically expect that there will be a highly liquid environment for fundraising.

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY TO DEPLOY TO PRIMARY FUNDS IN PRIVATE EQUITY?



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 50.0. So, an index score of over 50.0 indicates an improvement and, therefore, positive sentiment.

RLI FOR EXISTING AND NEW RELATIONSHIPS

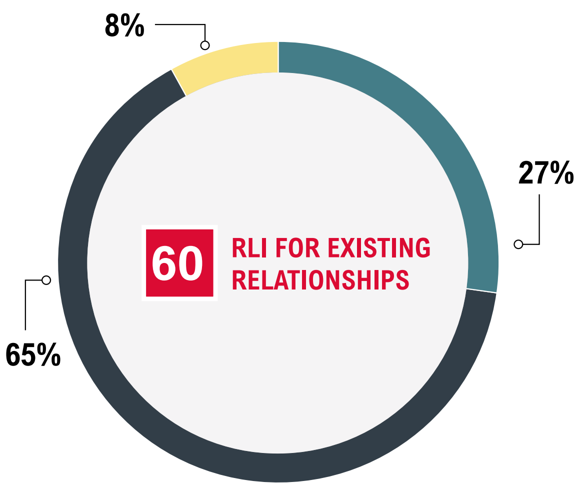
- Sentiment towards the type of relationship was almost equal with existing relationships having an RLI of 60, compared with 59 for new relationships.
- Regionally there is little difference, with Europe slightly favouring existing relationships and the US having a slight preference for new relationships.
- The most significant data point is that those respondents allocating more than $30 billion indicated they would be deploying considerably less to existing relationships, with an RLI falling from 57 to 42.

EXISTING RELATIONSHIPS		NEW RELATIONSHIPS
BY GEOGRAPHY		
61 ▲	EUROPE	▲ 59
56 ▲	NORTH AMERICA	▲ 61
BY INVESTOR TYPE		
67 ▲	CONSULTANT	▲ 58
57 ▲	ENDOWMENT / FOUNDATION	▲ 64
71 ▲	FAMILY OFFICE	▲ 65
67 ▲	FUND OF FUNDS	▲ 75
57	INSURANCE	▼ 46
71 ▲	PENSION	▲ 42
56	OTHER*	▼ 71
BY PE ALLOCATION		
67 ▲	<€1 BILLION	▲ 61
56 ▲	€1-5 BILLION	▲ 55
56 ▲	€5-10 BILLION	▲ 66
58 ▲	€10-30 BILLION**	▲ 58
42 ▼	>€30 BILLION**	▼ 58

■ 1H 2021
■ 1H 2021 score below 50
▲ Increase ▼ Decrease
relative to 2H 2020

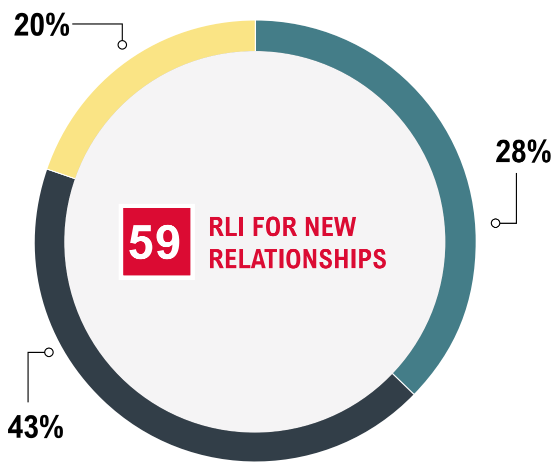
* includes OCIOs, Government agencies, SWFs and other
** N.B. sample set sample set of < 10 respondents

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY TO EXISITNG RELATIONSHIPS?



% of respondents MORE
% of respondents SAME
% of respondents LESS

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY TO NEW RELATIONSHIPS?

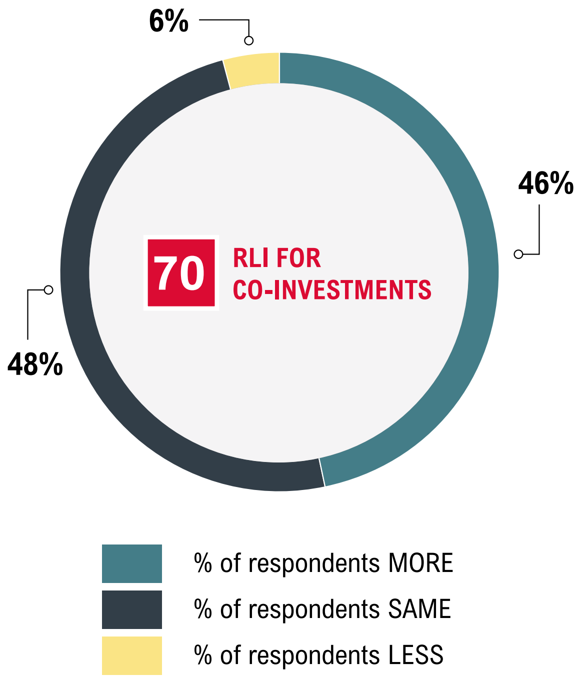


% of respondents MORE
% of respondents SAME
% of respondents LESS

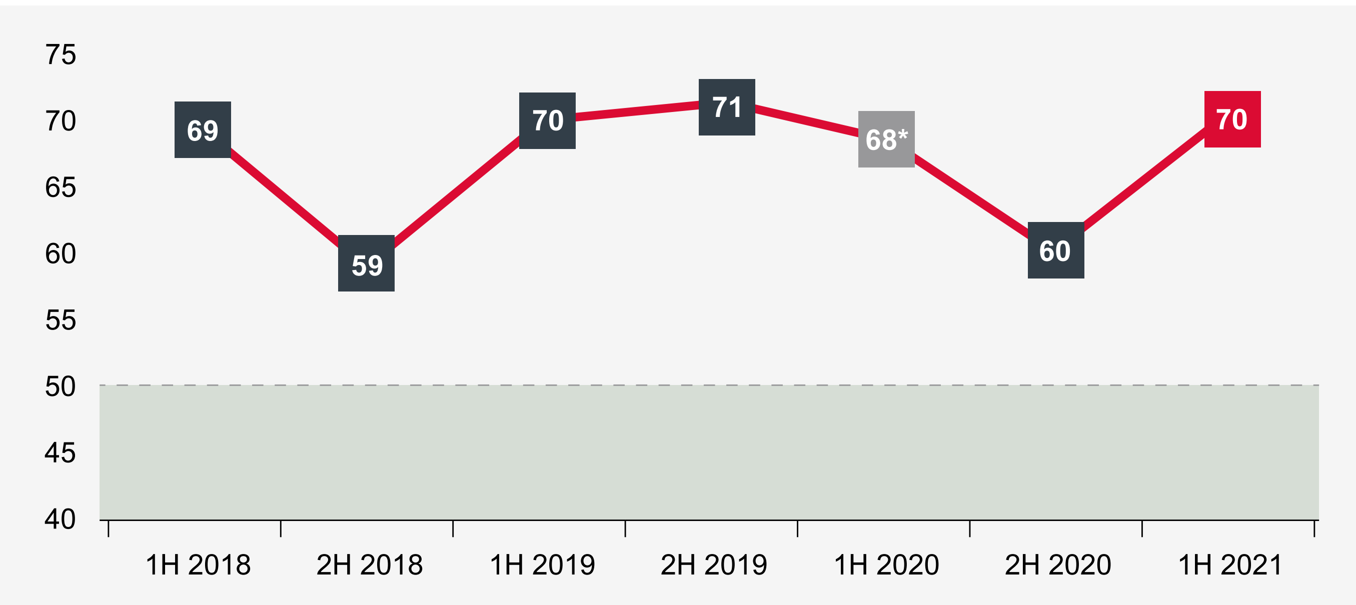
RLI FOR CO-INVESTMENTS

- LP demand for co-investment – having fallen during 2020 as certain processes were put on hold – has bounced back to the high levels previously seen in the years up to 2019.
- 94% of LPs surveyed expect to maintain or increase allocations to co-investments in the coming months.
- The appetite for co-investment has returned significantly faster in Europe than in North America. In Europe, an RLI of 75 shows a 15-point increase on H2 2020, whereas the RLI of 63 for North America indicates only a three-point rise.

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY TO CO-INVESTMENTS



RLI FOR CO-INVESTMENT OVER TIME



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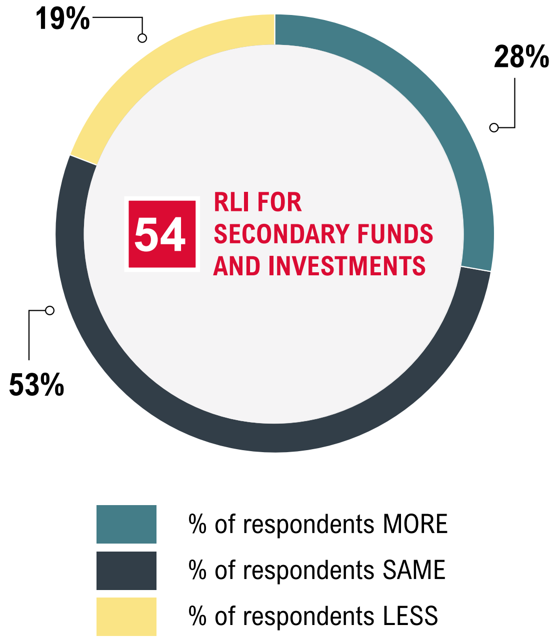
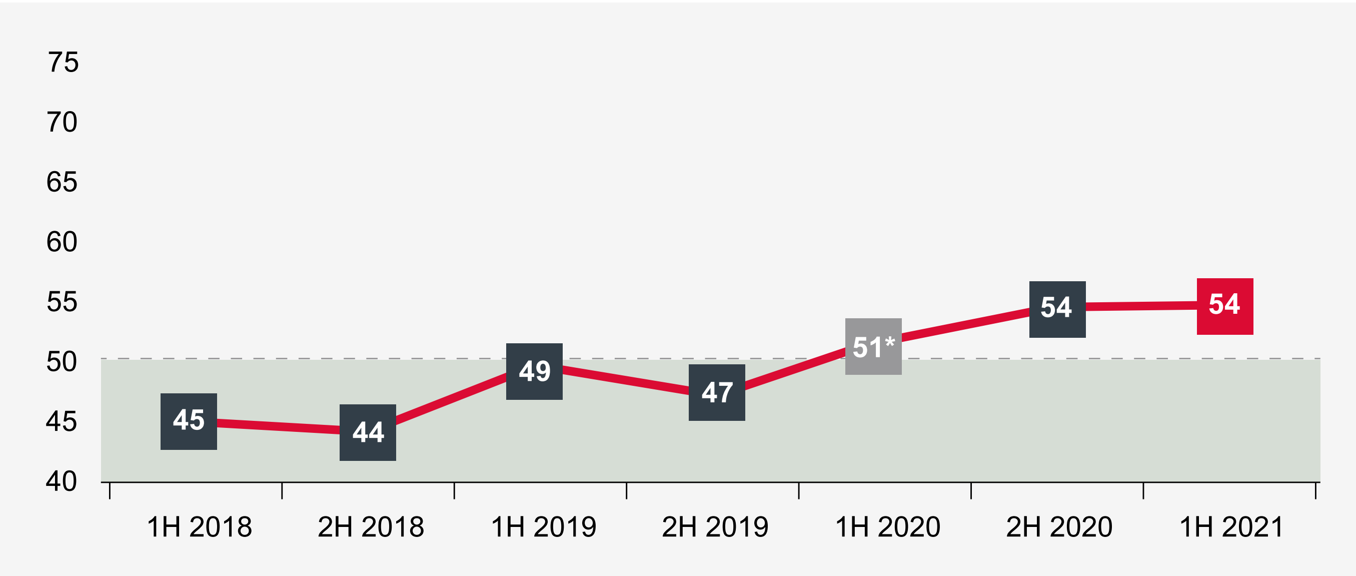
RLI FOR SECONDARY FUNDS AND INVESTMENTS

- The RLI for secondaries was the only area to buck the Covid-related falls seen in 2020 across other measures. Having risen slowly over recent years, the RLI remained steady at 54 for 1H 2021.
- Secondaries are typically seen as countercyclical – when primary fundraising expands, we generally expect secondaries to fall.
- However, this seems to be changing, with real interest across the cycle despite strong liquidity on the primary side. Much of this is driven by the rise of more creative GP-led transactions which are now typically undertaken by GPs looking to maintain control of high performing assets for longer.

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY TO SECONDARIES



RLI FOR SECONDARIES OVER TIME



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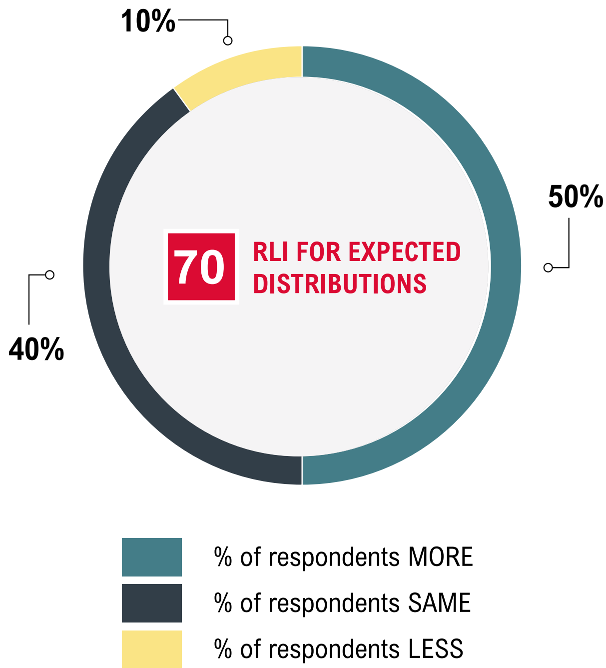
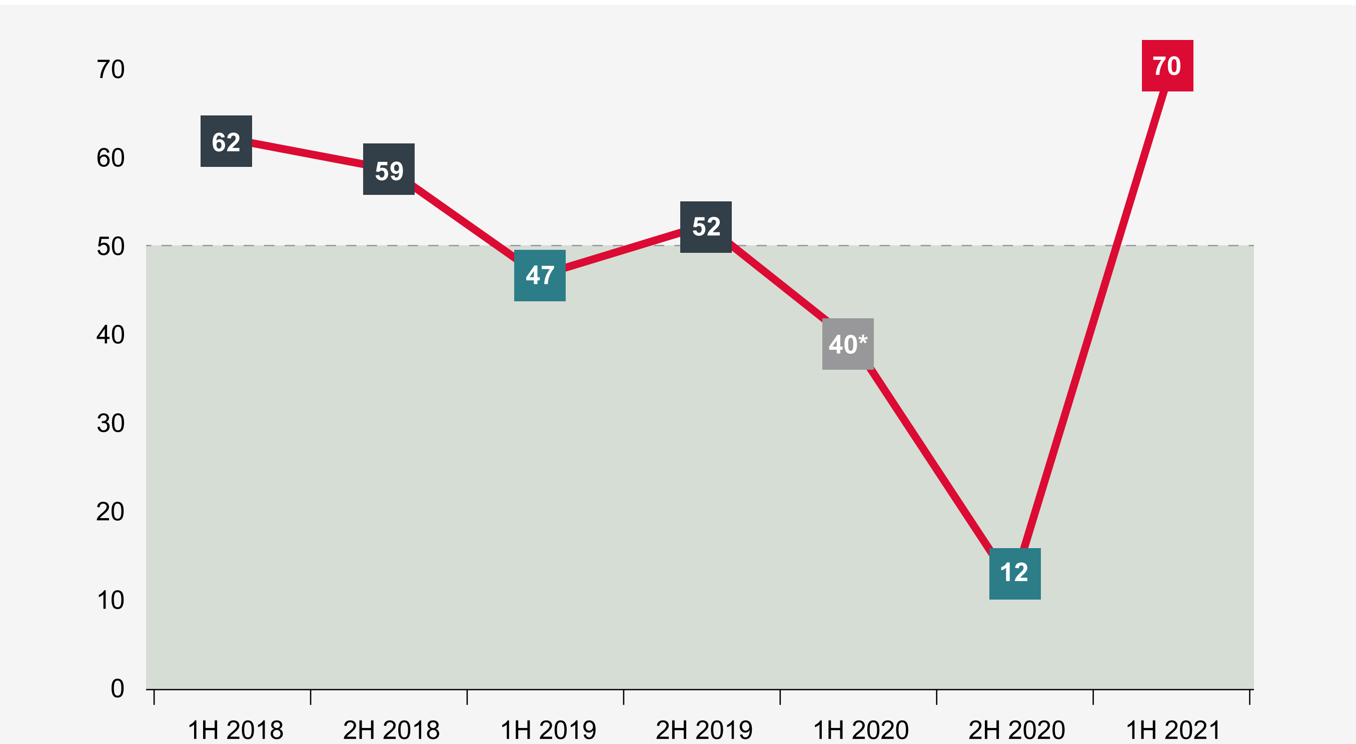
RLI FOR EXPECTED DISTRIBUTIONS

- There have been dramatic changes in LP expectations around distributions over the last 12 months and the current RLI of 70 is a record high.
- This is perhaps unsurprising in light of high levels of industry-wide exit activity in the latter half of 2020 and into early 2021.
- This positive sentiment is reflected in 90% of LPs expecting either the same or more money to come back to them as distributions in the coming months.

HOW MUCH CAPITAL DO YOU EXPECT TO DEPLOY TO DISTRIBUTIONS



RLI FOR DISTRIBUTIONS



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RLI AND COVID-19 IN CONTEXT

The pandemic had a significant impact on the RLI during 2020. As part of this 1H 2021 report, we wanted to examine how Covid had specifically affected LPs both during this time and their intentions for the coming months.

At the start of the pandemic, there were widespread fears that fundraising would be paralysed by an inability to hold introductory meetings, due diligence sessions and investment committees in person. These concerns proved less serious than expected, and by H1 2021 61% of LPs surveyed said they made commitments to funds for which they had never met the manager in person. For an industry that has previously relied heavily on face-to-face meetings, this is a major change, and one that looks set to continue as the trend for home working and restrictions on travel will remain in place for some time.

Indeed, going forward, 87% of respondents said they expect more introductory meetings via video conference rather than in-person, whereas 83% said there will be more webinars by GPs to keep LPs updated on portfolio performance.

Another key area of concern at the start of the pandemic was the ability of first time funds to successfully raise capital in a virtual world. Although it is clear that maiden fundraisings have become more difficult, it is heartening to see that 46% of LPs said that they made commitments to first-time funds, which would appear to indicate confidence in doing so, even amid Covid-related uncertainty.

When asked if there are any areas in which they plan to increase allocations in light of the pandemic, it is perhaps unsurprising that 52% of LPs cited the healthcare sector – the most popular area. This is indicative of a broader appetite for secular growth sectors, with other key areas being technology and impact funds.

This appetite for healthcare and technology is something that has certainly been mirrored in the public market, but the increased interest in impact funds is an area that has been gaining traction in recent years. At Rede, we are certainly seeing a lot of interest in this area and expect to see this continue going forward.

Finally, as a proof point for the general positive sentiment in the overall RLI, it is significant that 96% of respondents expect the pacing of new GP relationships will either remain the same or increase during 2022.

% LPS EXPECTING A LASTING INCREASE IN...	
INTRO MEETINGS VIA VC	**87%**
WEBINARS FOR PORTFOLIO UPDATES	**83%**
LIVE-STREAMED AGMS	**68%**
DD SESSIONS VIA VC	**61%**

% LPS EXPECTING A LASTING DECREASE IN...	
CONFERENCE ATTENDANCE	**64%**
IN-PERSON UPDATE MEETINGS WITH EXISTING MANAGERS	**55%**

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 138 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:

$RLI = (P_1 x1) + (P_2 x0.5) + (P_3 x0)$

where:

P_1 = Percentage number of answers that reported an increase

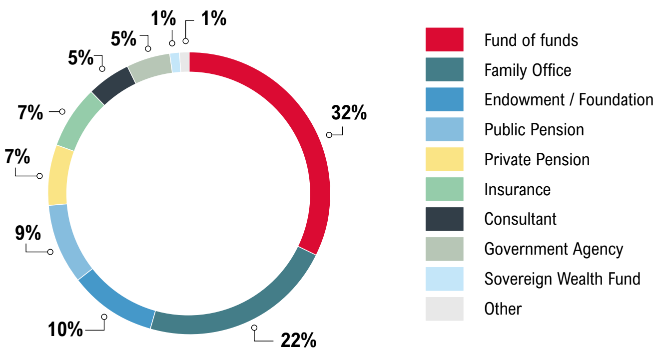
P_2 = Percentage number of answers that reported no change

P_3 = Percentage number of answers that reported a decrease

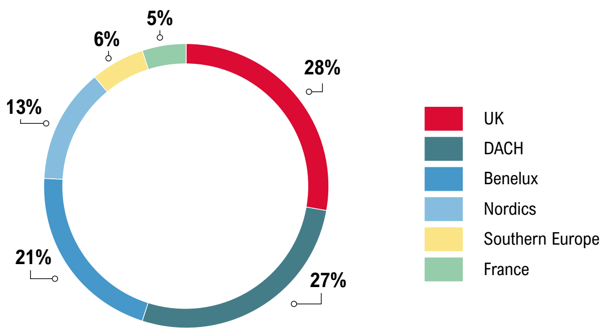
If 100% of the respondents reported an increase, the index would be 100.0. If 100% reported a decrease, the index would be zero. If 100% of the panel saw no change, the index would be 50.0. Therefore, an index reading of 50.0 means that the variable is unchanged, a number over 50.0 indicates an improvement,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

THE RLI PANEL

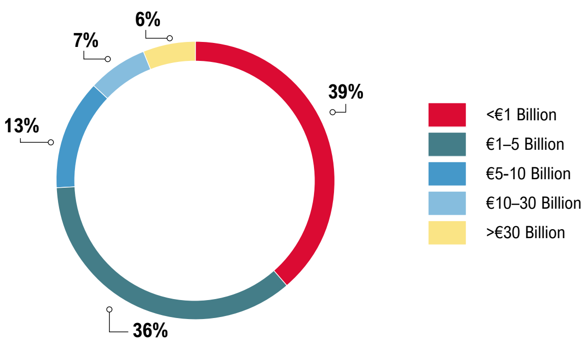
BY INSTITUTION TYPE



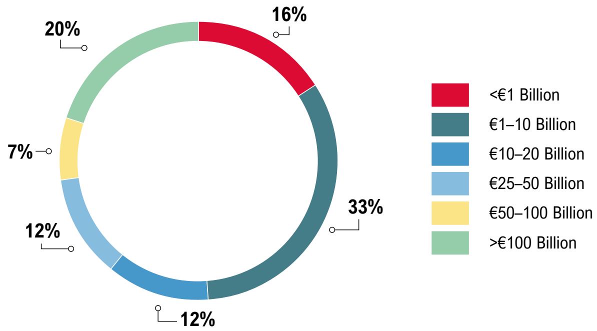
BY HQ GEOGRAPHY



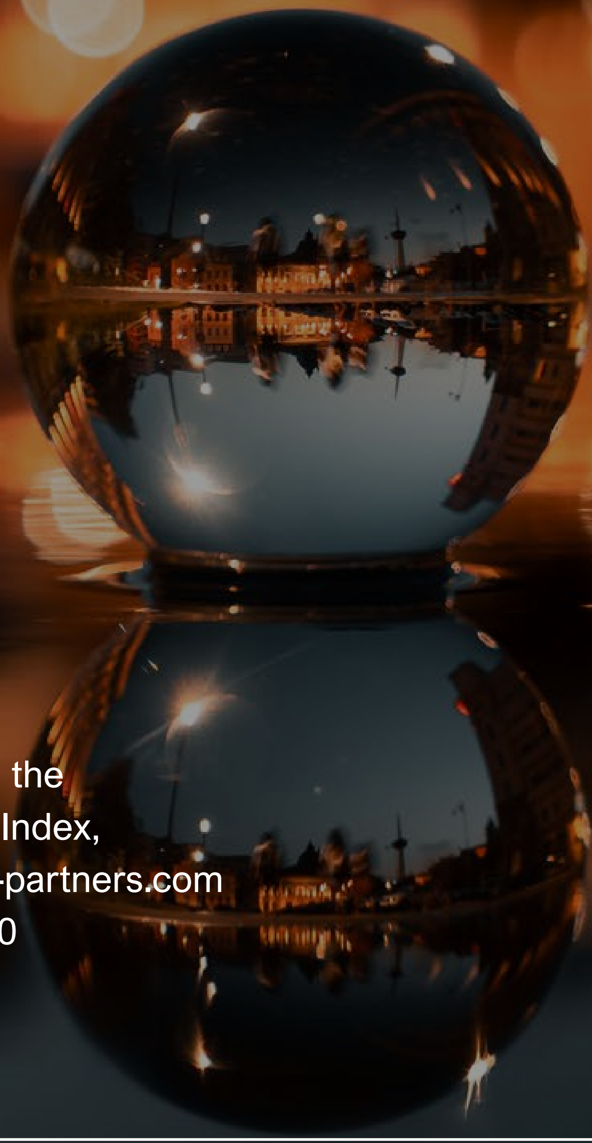
BY TOTAL ALLOCATION TO PRIVATE EQUITY



BY TOTAL ASSETS UNDER MANAGEMENT



Rede
PARTNERS



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