LIQUIDITY INDEX

2H 2018

Rede PARTNERS

SEPTEMBER 2018

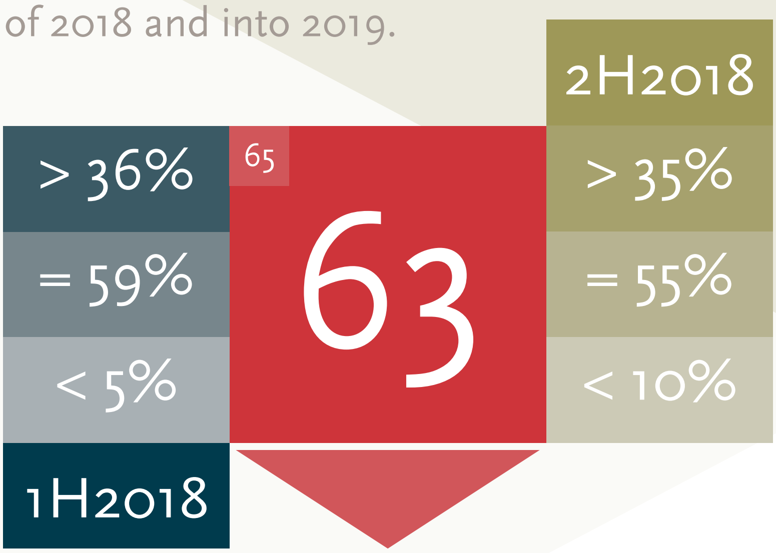
INTRODUCTION

We are delighted to publish the fourth edition of the Rede Liquidity Index ("RLI®"), looking at institutional investor sentiment towards private equity for the second half of 2018 and into 2019.

"Over the next 12 months do you expect to:

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

capital deployment to Private Equity?"



Continued growth expected across the asset class as a whole

Private equity remains in growth mode with 90% of RLI Panellists indicating they expect to increase or maintain levels of capital deployment to PE over the coming 12 months. After an unprecedented eight year run of market expansion[1], growth in the asset class appears set to continue. The RLI® currently stands at 63, down slightly by 2 points since the H1 2018 edition.

While growth expectations for the asset class remain very strong in North America, the score in Europe has dropped 5 points from 66 to 61 perhaps indicating some fears of Brexit contagion.

Putting the RLI® into a wider context, these figures imply a materially faster rate of expansion for private equity when compared with the global financials sector, based on the similar Purchasing Managers' indices which show significantly lower scores.

Sharp downswing in sentiment amongst UK institutions

In the UK, as bogged-down Brexit negotiations fuel investor uncertainty, we report a sharp downswing in sentiment – the UK score is down a record 18 points. This can be linked directly with RLI Panellists in the UK expecting a softening in the flow of capital back from their existing private equity investments, with the current UK RLI® for Distributions now standing at just 42.

Despite this, investment activity amongst UK panellists remains resilient. At 55, the UK score continues to signify overall expectations for market growth. This compares favourably with other indicators of market confidence for the UK as a whole, such as the Institute of Directors' Confidence Tracker which fell to its most pessimistic of 2018 in August with an overall negative outlook for the upcoming 12 months[2].

Investors churning relationships, replacing existing fund managers with new

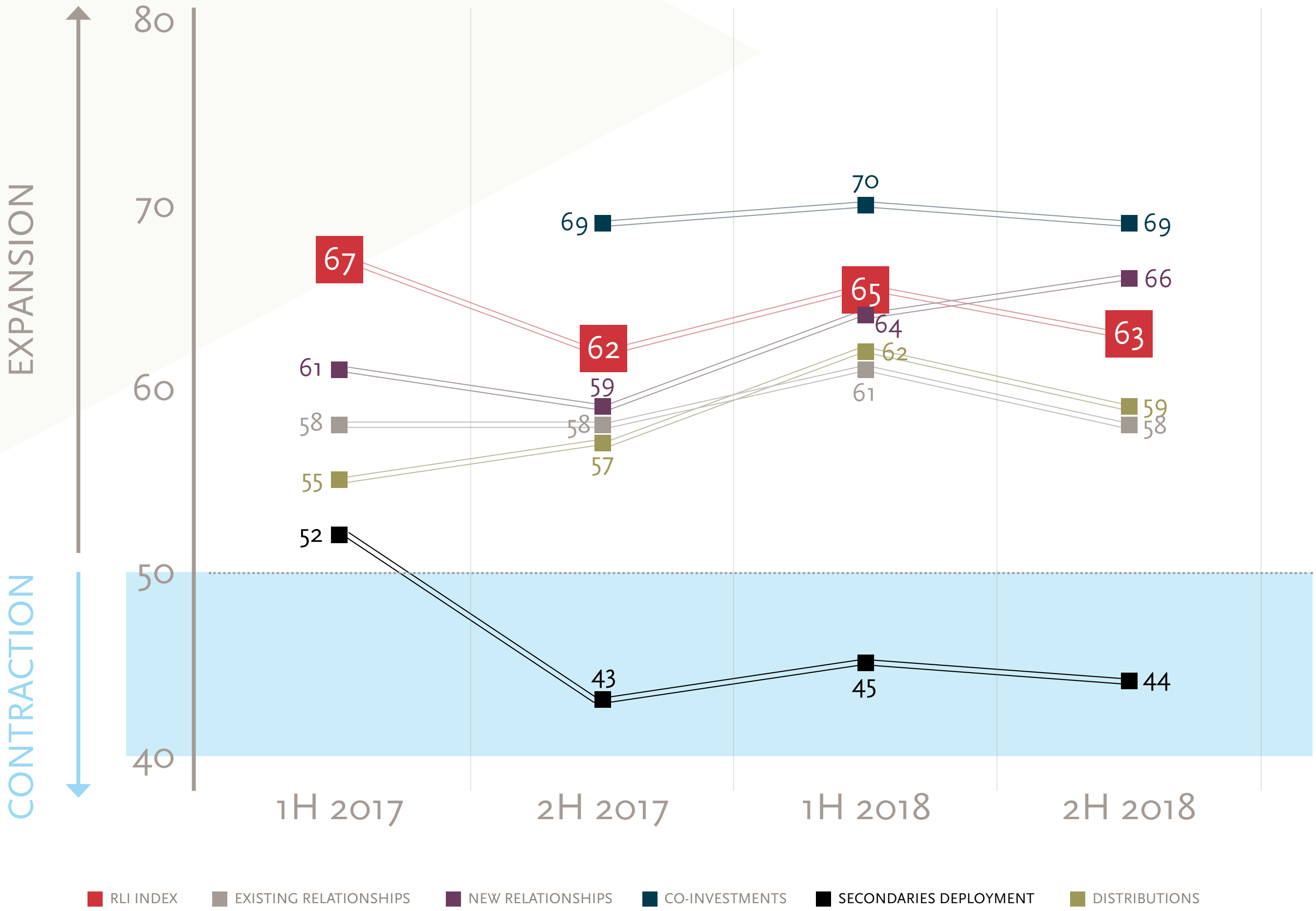
After 2017 was dominated by existing manager re-ups, much of the anticipated growth in private equity deployment is now likely to be driven by institutional investors churning relationships, replacing existing investee platforms with new managers – although the very largest LPs are bucking this trend with a strong preference for re-committing to existing relationships.

Major expansion in co-investment alongside private equity managers; slowdown in appetite for secondaries continues

The latest RLI® highlights the contrasting fortunes of two key areas viewed as complementary to primary PE fund investment activity – secondaries and coinvestment. We see sustained enthusiasm amongst institutional investors to coinvest alongside private equity funds - 93% of RLI Panellists intend to maintain or expand coinvestment activity.

1 Source: Preqin, Private Equity historical fundraising volumes. Since 2010 there has been a strong trend towards growth in fundraising volumes, although there was a slight dip in fundraising in 2015.
2 Institute of Directors Confidence Tracker Summer 2018 released 20 Aug 2018

RLI INDEX DEVELOPMENT OVER TIME



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.

Source: Preqin

RLI LP SENTIMENT ACROSS SUB-INDICATORS

EXISTING RELATIONSHIPS

	1H2018	2H2018
Score	61	58
>	33%	34%
=	55%	47%
<	12%	19%

NEW RELATIONSHIPS

	1H2018	2H2018
Score	64	66
>	44%	43%
=	41%	45%
<	15%	12%

COMMENTARY

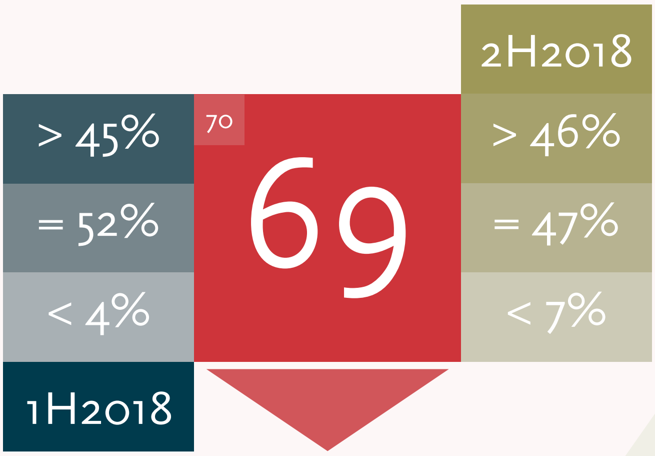
- RLI Panellists continue to expect growth in all areas of private equity investment, with the exception of secondary funds and investments where the subindicator score remains below 50 for the third straight edition of the RLI®
- Headline growth in PE activity is powered by continued strong expectations for capital distributions in the Panellists' current portfolios.
  78% of RLI Panellists are expecting distribution levels to be maintained or increased over the next 12 months
- There is now a clear bias toward investors replacing existing private equity relationships with new managers

DISTRIBUTIONS

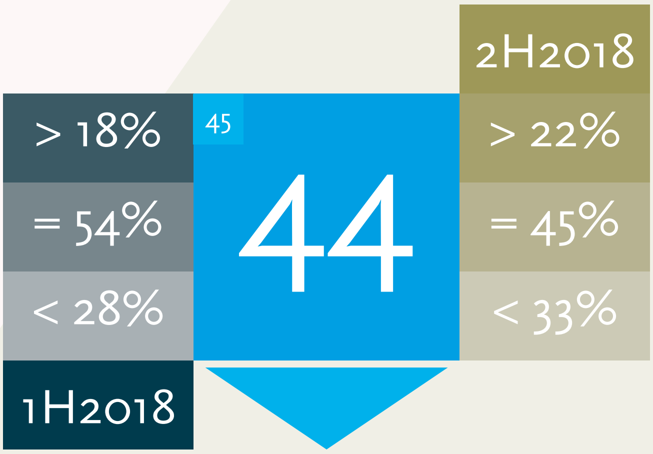
	1H2018	2H2018
Score	62	59
>	34%	40%
=	55%	38%
<	11%	22%

> MORE ■ 1H2018
= SAME ■ 2H2018
< LESS ■ 2H2018 LOW SCORE

CO-INVESTMENTS



SECONDARIES DEPLOYMENT



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.

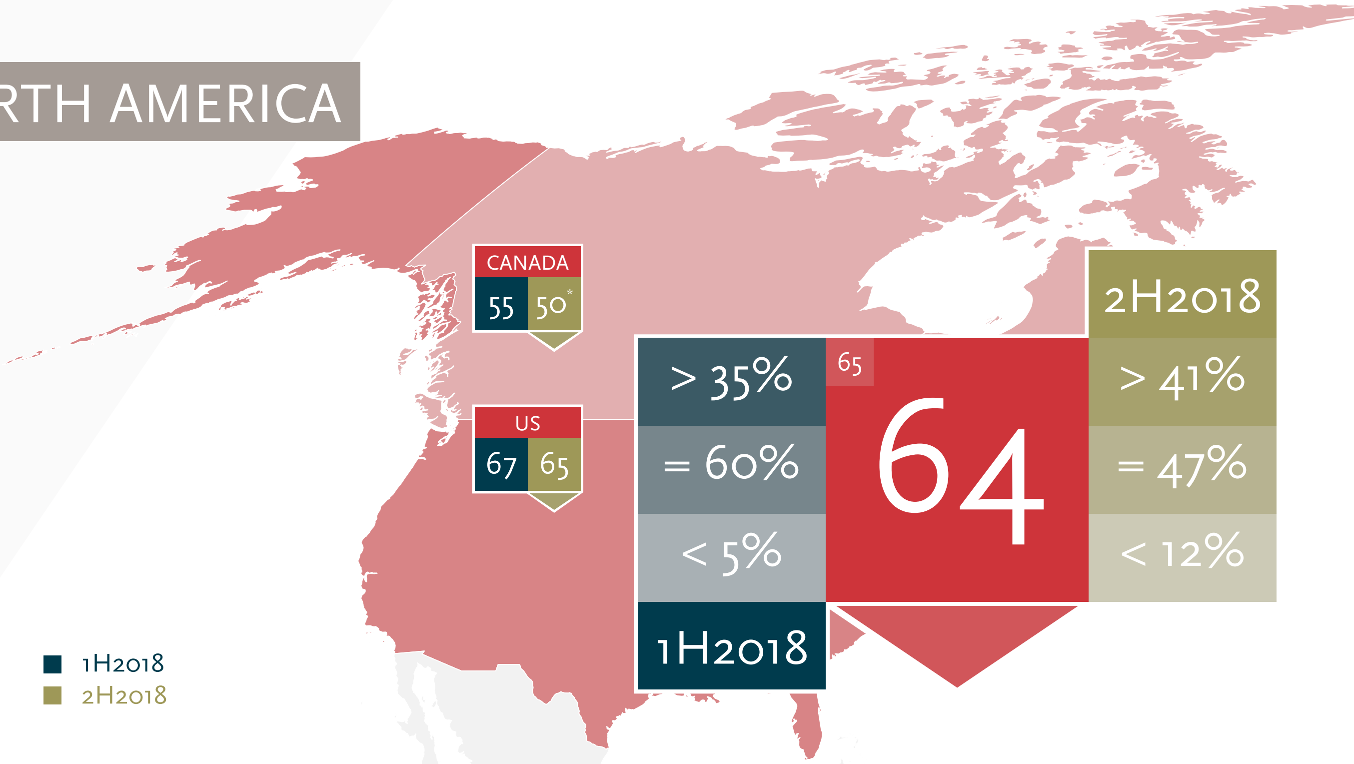
To achieve this, we have assembled the 'RLI Panel' – a stable of leading institutional investors from across the globe who consistently respond to the RLI® survey every six months.

In aggregate, panellists included in this fourth 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 Panellists for your time and insights.

RLI FOR DEPLOYMENT TO PRIMARY FUNDS

NORTH AMERICA RLI



1H2018		2H2018
> 35%	65	> 41%
= 60%	64	= 47%
< 5%		< 12%

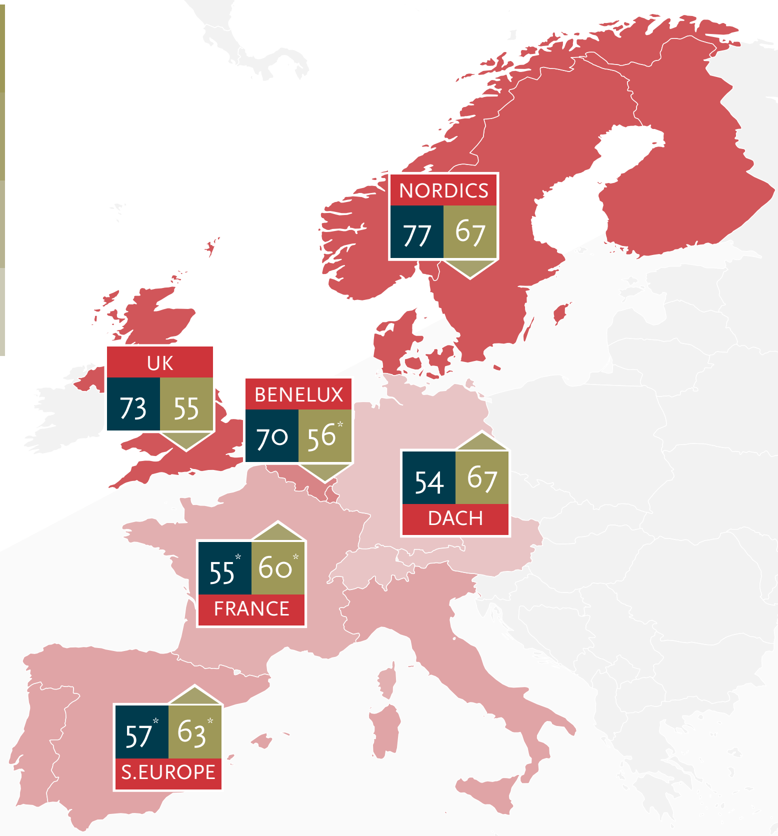
> MORE
= SAME
< LESS

1H2018
2H2018

EUROPE RLI

1H2018		2H2018
> 37%	66	> 31%
= 58%	61	= 60%
< 5%		< 9%

RLI SWING FOR H1 - H2 2018	
-2	-18
ALL	UK



* N.B. sample set of <10 respondents

COMMENTARY

- The decline in the headline RLI® figure is driven by an overall softening in market sentiment across Europe
- The UK has suffered a sharp downswing, with the local score down 18 points from 73 in H1 2018 to 55 in H2
- Globally, however, all regions expected continued growth in deployment to private equity, with scores of 50 and above for all subregions surveyed
- Overall, we expect to see a shift from investors supporting existing relationships towards new managers. However, the largest LPs buck this trend, with the largest investors expecting strong growth in deployment to existing managers over coming months
- Funds of Funds, often seen as key bellwethers of the private equity market, showed strong expectations for growth in deployment to primary private equity funds with a score of 70 buoyed by particularly high expectations for investments with new managers

RLI FOR DEPLOYMENT TO PRIMARY FUNDS

BY INVESTOR TYPE

> MORE
= SAME
< LESS

■ 1H2018
■ 2H2018
■ 2H2018 LOW SCORE

NEW RELATIONSHIPS			EXISTING RELATIONSHIPS	
82	▲	ENDOWMENT/FOUNDATION	▼	42
76	▲	FUND OF FUNDS	▲	57
64	▼	FAMILY OFFICES	▼	52
63	▲	CONSULTANTS	▲	70
61	▼	INSURANCE	▼	61
52	▼	PENSION FUNDS	▲	63
44	▼	OTHER+*	=	61

············ = RLI SCORE OF 50

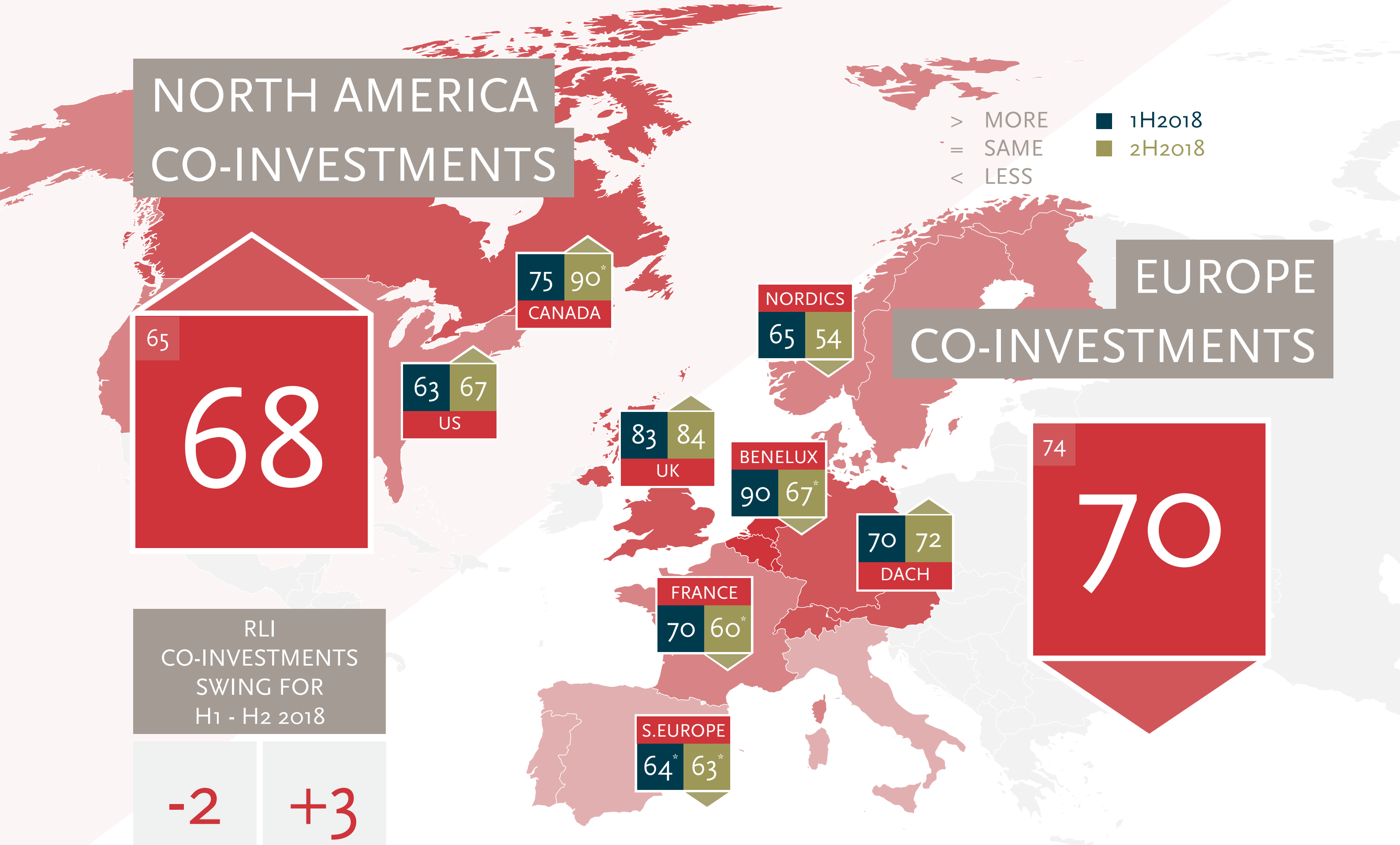
+ Other includes OCIOs, Government agencies, SWFs and other

* N.B. sample set of <10 respondents

BY PE ALLOCATION

NEW RELATIONSHIPS			EXISTING RELATIONSHIPS	
74	▲	< €1 BILLION	▼	55
60	▲	€1-5 BILLION	▼	50
65	▼	€5-10 BILLION	▲	67
63	▼	€10-30 BILLION	▲	69
50	▼	> €30 BILLION*	▲	80

RLI FOR CO-INVESTMENTS



RLI CO-INVESTMENTS SWING FOR H1 - H2 2018

ALL	N.AMERICA
-2	+3

COMMENTARY

- Co-investments remain a key and increasing area of deployment for LPs investing in private equity, especially in North America, which is up 3 points, and in the UK, which reached a high of 84
- 100% of LPs surveyed expect to maintain or increase allocations to co-investments in coming months
- Despite the fact that the overall sentiment in the UK has shown a strong downward shift, appetite for co-investments amongst UK investors remains very high with a sub-indicator score of 84

BY INVESTOR TYPE

FUND OF FUNDS	81	=
OTHER+*	78	▲
PENSION FUNDS	71	=
CONSULTANTS	70	▼
FAMILY OFFICES	67	▲
ENDOWMENT/FOUNDATION	58	▼
INSURANCE	56	▼

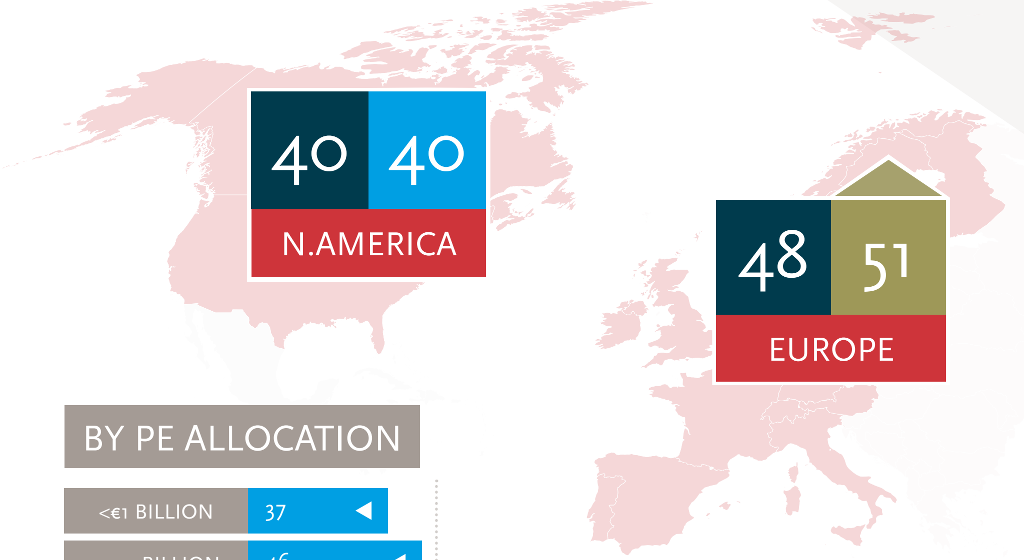
BY ALLOCATION

= RLI SCORE OF 50

< €1 BILLION	62	▲
€1-5 BILLION	70	▼
€5-10 BILLION	71	▼
€10-30 BILLION	84	▲
> €30 BILLION*	80	▲

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

RLI FOR DEPLOYMENT TO SECONDARY FUNDS & INVESTMENTS



S.EUROPE	63*	◀
NORDICS	63	▶
CANADA	60*	=
DACH	56	▶
BENELUX	50*	◀
FRANCE	50*	▶
US	38	▶
UK	37	▶

* N.B. sample set of <10 respondents

BY PE ALLOCATION

<€1 BILLION	37	◀
€1-€5 BILLION	46	◀
€5-€10 BILLION	54	▶
€10-€30 BILLION	44	=
>€30 BILLION	60	▶

> MORE
= SAME
< LESS

1H2018
2H2018
2H2018 LOW SCORE

.... = RLI SCORE OF 50

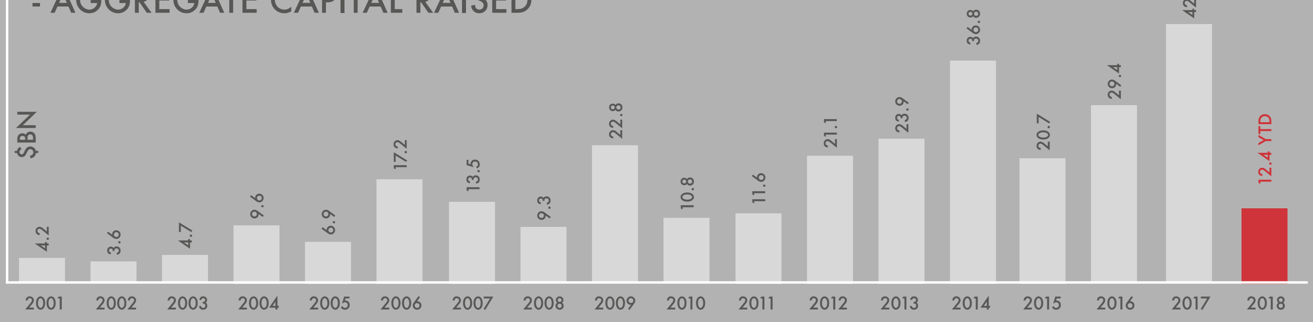
BY INVESTOR TYPE

FUND OF FUNDS	71	▶
FAMILY OFFICE	43	▶
CONSULTANT	40	◀
INSURANCE	39	◀
PENSION	38	◀
ENDOWMENT/ FOUNDATION	24	◀
OTHER	22	◀

COMMENTARY

- Enthusiasm for deployment to secondaries continues to cool with a score of 44
- 78% of investors expect to maintain or decrease their secondaries investment activity over coming months
- North America has an unchanged score of 40. However, Europe has seen an increase from 48 to 51 – crossing into expansion territory

SECONDARIES FUNDS - AGGREGATE CAPITAL RAISED



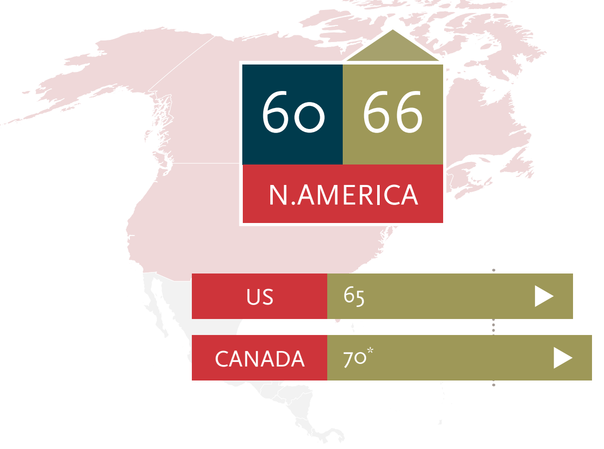
Source: Preqin

RLI FOR EXPECTED DISTRIBUTIONS

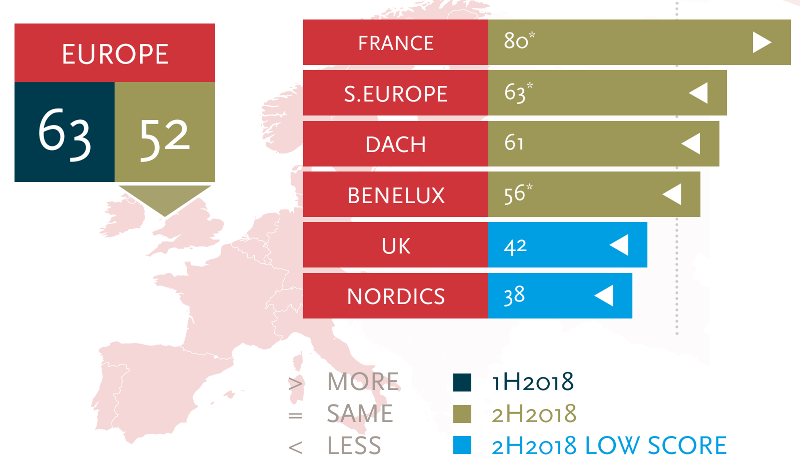
RLI DISTRIBUTIONS SWING FOR H1 - H2 2018

ALL	N.AMERICA
-2	+6

DISTRIBUTIONS NORTH AMERICAN LPs



DISTRIBUTIONS EUROPEAN LPs



> MORE
= SAME
< LESS

1H2018
2H2018
2H2018 LOW SCORE

* N.B. sample set of <10 respondents

BY INVESTOR TYPE

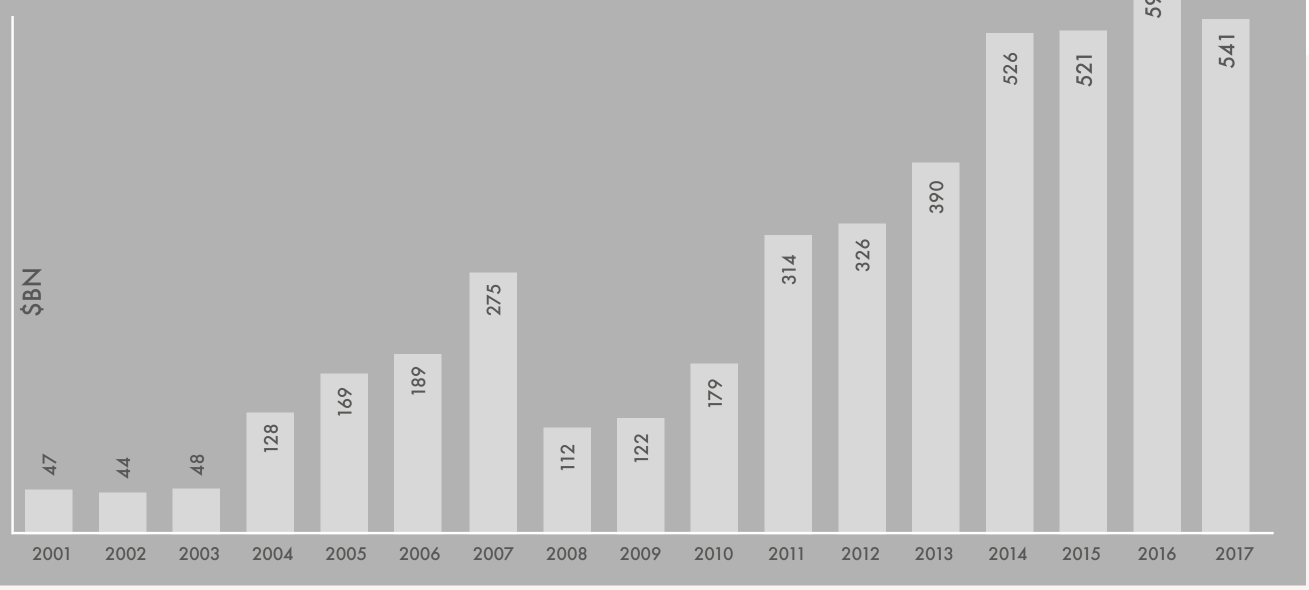
= RLI SCORE OF 50

ENDOWMENT/FOUNDATION	66	▼
FAMILY OFFICES	64	▲
PENSION FUNDS	63	▼
FUND OF FUNDS	58	▼
OTHER+*	56	▼
CONSULTANTS	53	▲
INSURANCE	50	▼

COMMENTARY

- LPs expect to see a strong flow of returned capital over the coming 12 months with a score of 59
- In North America, this indicator is up 6 points to 66, while Europe is down by 11 points to 52
- The slowdown in European growth driven by the UK, which swings down by 20 points to 44 – dipping into contraction territory for the first time since the RLI®'s inception

PRIVATE EQUITY HISTORICAL DISTRIBUTION VOLUMES



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 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.

144 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.

Rede PARTNERS

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