

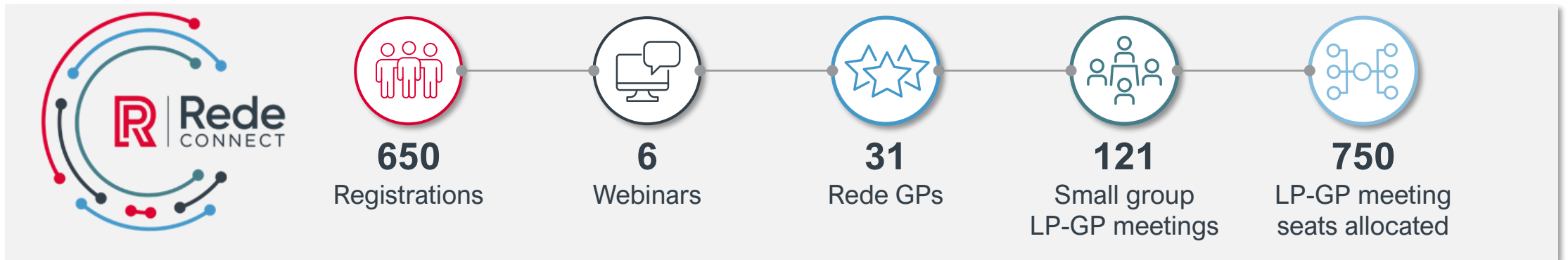
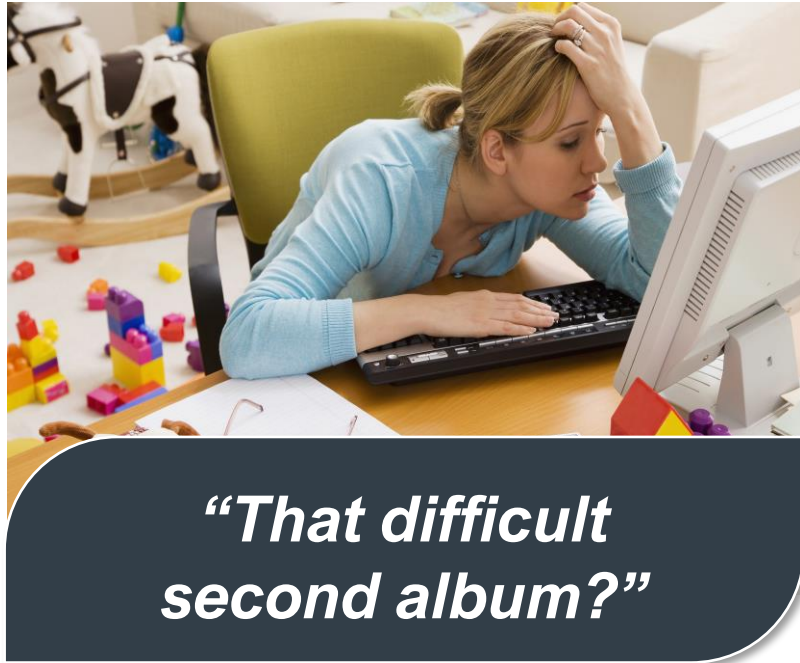
April 2022



# THE REDE VIEW

## LP sentiment and the fundraising market in 2022

# Welcome to RedeConnect 2022, our second annual virtual conference



## Introducing our speakers for today's webinar



**SCOTT CHURCH**  
Founding Partner  
Global Head of  
Coverage



**ADAM TURTLE**  
Founding Partner  
Global Head of  
Advisory



**ALEXANDRA  
BAZAREWSKI**  
Partner  
Head of North  
American Coverage



**GABRIELLE JOSEPH**  
Head of Due Diligence  
and Client Development

# Our programme for the rest of RedeConnect 2022

## WEDNESDAY, 27<sup>TH</sup> APRIL

13:00 BST /  
08:00 EDT

### **FIRESIDE CHAT:** The Secondaries Opportunity Today

**HOST: MAGNUS GOODLAD**  
PARTNER, HEAD OF TRANSACTIONS



14:00 BST /  
09:00 EDT

### **IMPACT GP SHOWCASE:** Dispatches From The Front Line

**HOST: JEREMY SMITH**  
MANAGING DIRECTOR, HEAD OF IMPACT



14:45 BST /  
09:45 EDT

### **LATEST MARKET DEVELOPMENTS:** Implications for Real Economy Investors

**HOST: KRISTINA WIDEGREN**  
PARTNER, HEAD OF EUROPEAN COVERAGE



## THURSDAY, 28<sup>TH</sup> APRIL

### **NAVIGATING NAV FINANCINGS:** A Rede Masterclass

**PRESENTER: MICHAEL CAMACHO**  
PRINCIPAL, TRANSACTIONS

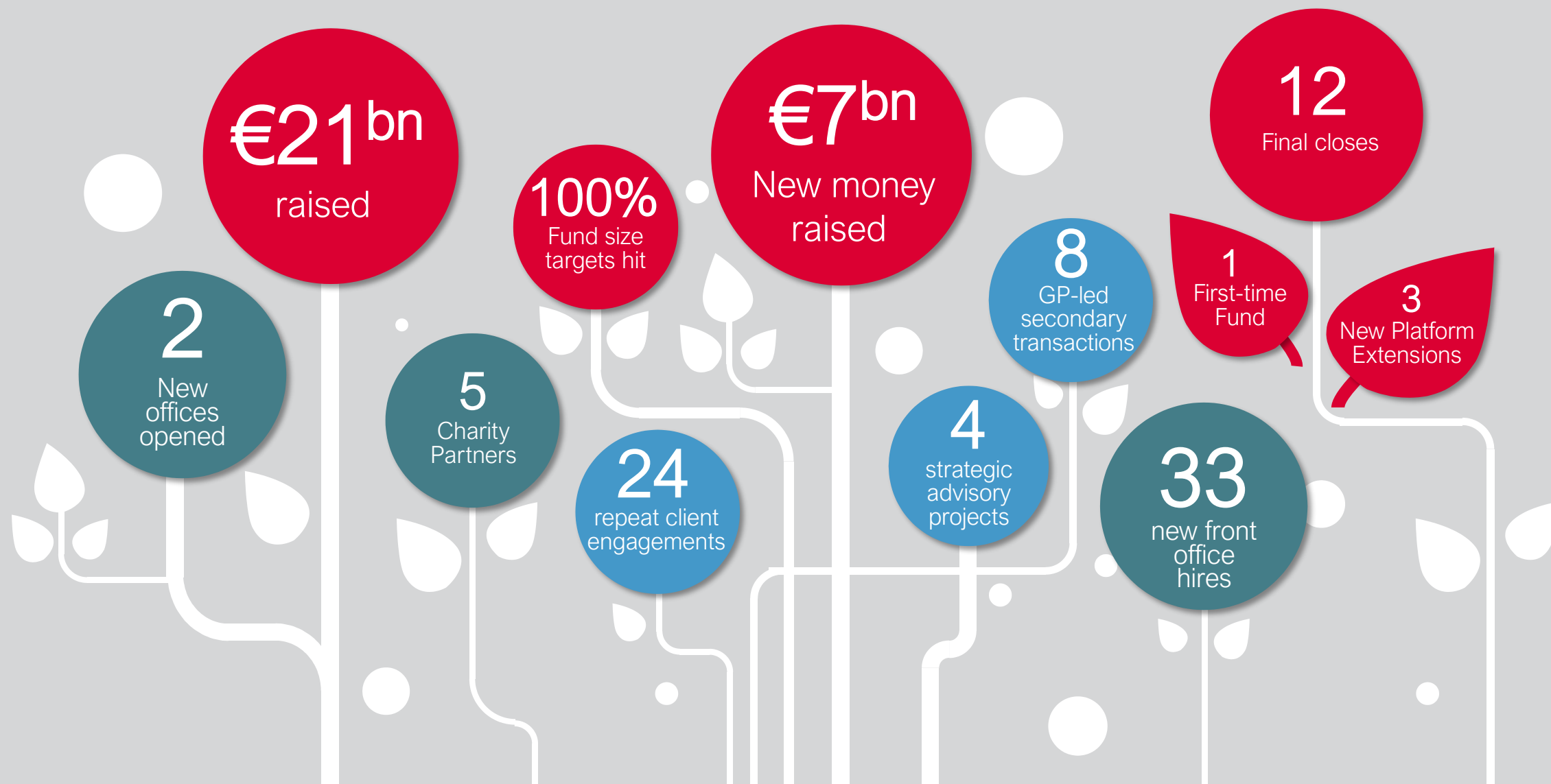


### **THE REDE PRIVATE CREDIT REPORT:** Key Findings

**HOST: ALASTAIR BAIRD**  
PRINCIPAL, CREDIT



## Some brief highlights of the last twelve months at Rede Partners





# The Outlook for 2022



*Please submit your questions via the Chat function and we will endeavour to answer as many as possible during the concluding Q&A session*

# A year on, our 10-year predictions are on track...

***We are living through a great rotation***

\$1.4 trillion raised for private equity funds in 2021<sup>1</sup>

***Moats will become oceans***

Triple the amount of capital was closed in 2021 for strategies outside the flagship strategy, at \$73bn, up from \$24bn in 2020<sup>2</sup>

***End of the 10 year blind pool but not as expected***

GPLT's total transaction volume grew by 94% in 2021 to \$68bn<sup>3</sup>

***It's the climate, stupid***

72% of LPs plan to increase their allocation targets to sustainability and impact investing within the next two years<sup>4</sup>

***With great success comes great responsibility***

US regulators to boost enforcement against private fund failings<sup>5</sup>

1. Source: Preqin data

2. Source: Preqin data

3. Source: Jefferies

4. Source: HarbourVest's 2021 ESG, Sustainability, and Impact Investing Survey of LPs

5. Source: U.S Securities and Exchange commission

...but the  
short-term  
is decidedly  
less clear...





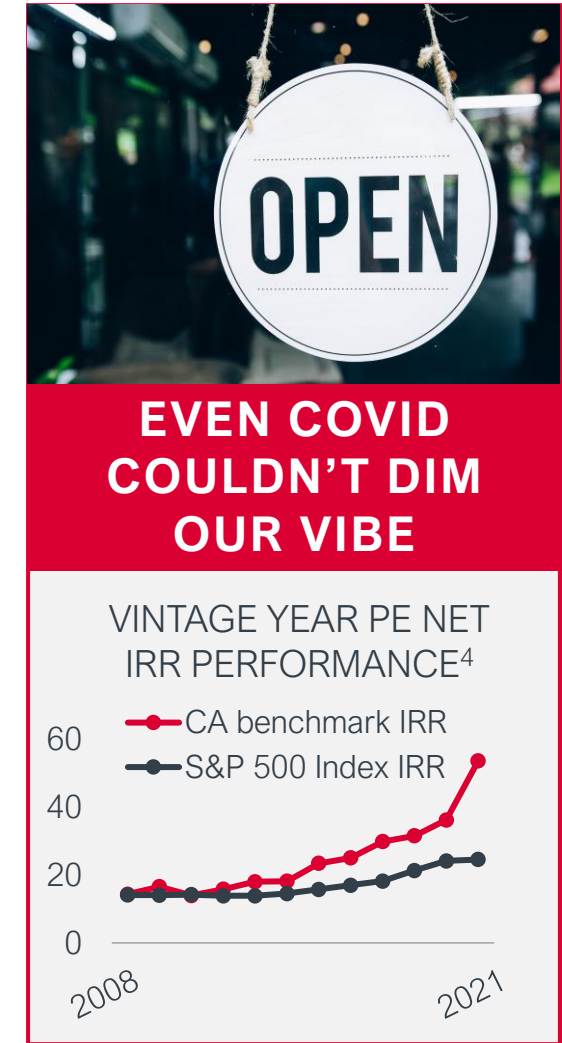
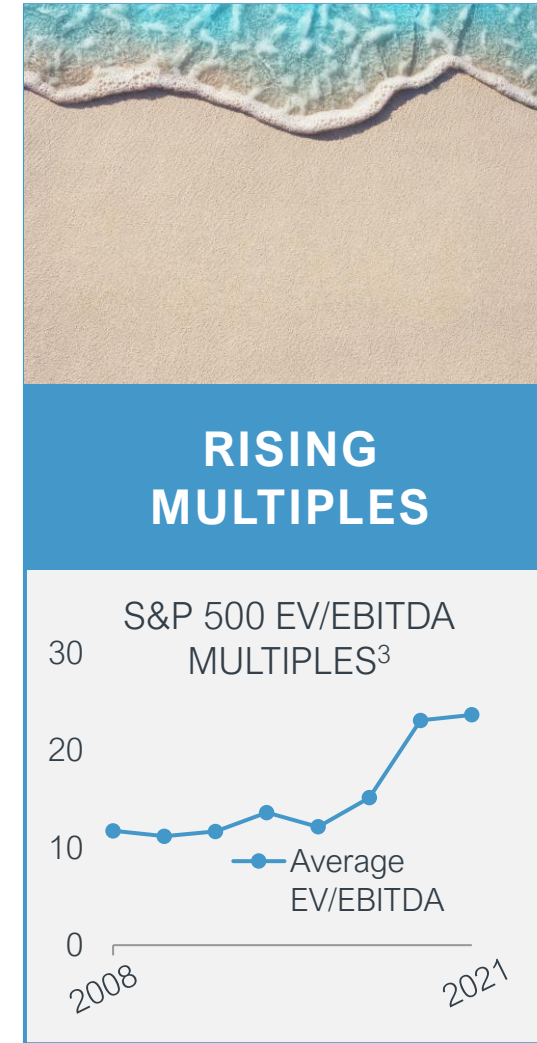
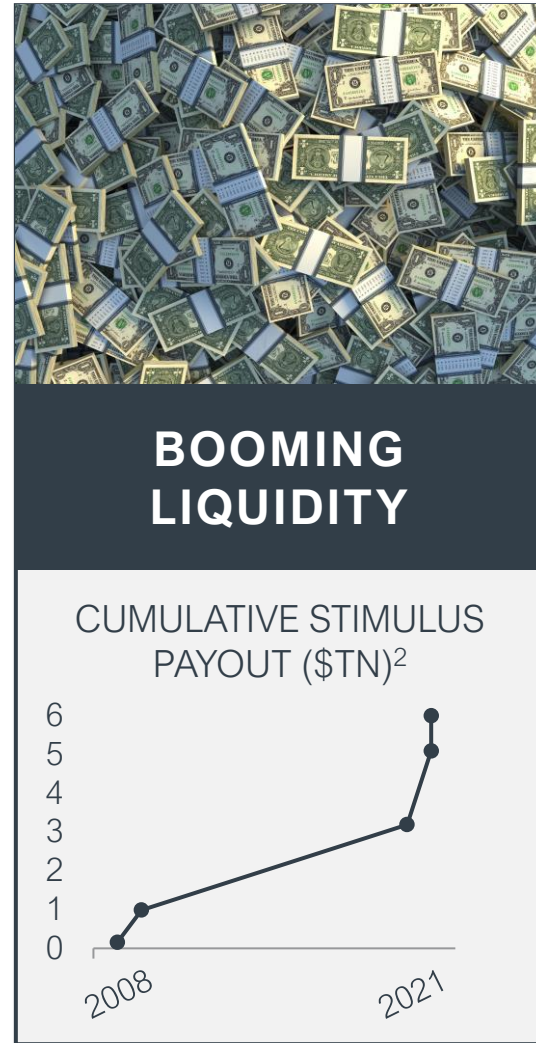
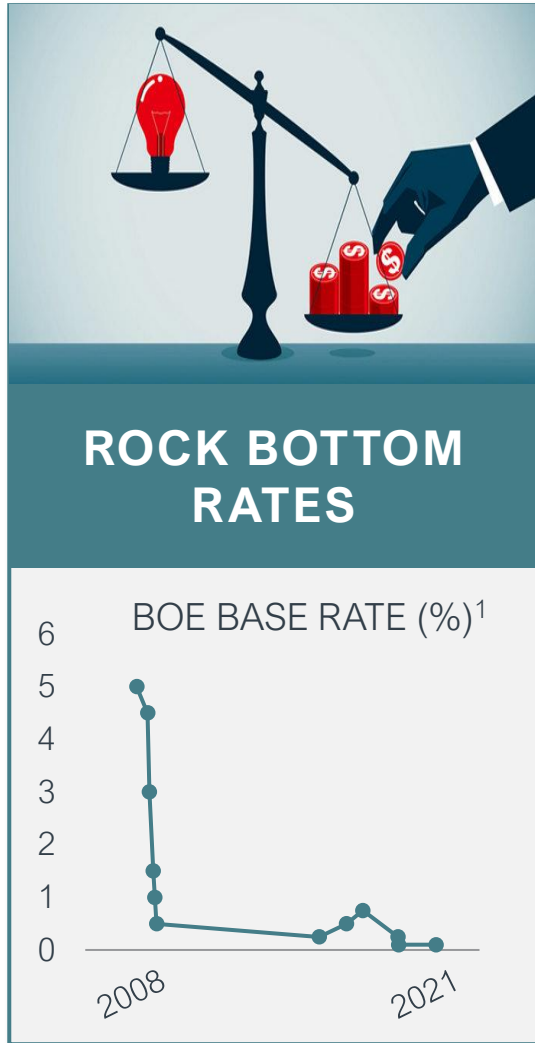
...so this year we've set ourselves a riskier challenge – short-term predictions

"I continue to believe that short-term market forecasts are poison and should be kept locked up in a safe place, away from children"

***Warren Buffett, 2013***



# We have been living through a gilded age...



1. Source: Bank of England  
 2. Source: Investopedia.  
 3. Source: Statista  
 4. Source: Cambridge Associates Q3 2021 benchmarking, all private equity. S&P 500 IRR calculated through modified PME methodology

...reflected in the seemingly unstoppable rise of fundraising volumes...

### GLOBAL PRIVATE EQUITY FUNDRAISING (AGGREGATE CAPITAL RAISED \$ BN)



...and culminating in unprecedented highs in LP sentiment at the end of 2021...



## 2H 2021 RLI<sup>®</sup> SCORE

**70**

<b>51</b>	% of respondents MORE
<b>38</b>	% of respondents SAME
<b>11</b>	% of respondents LESS

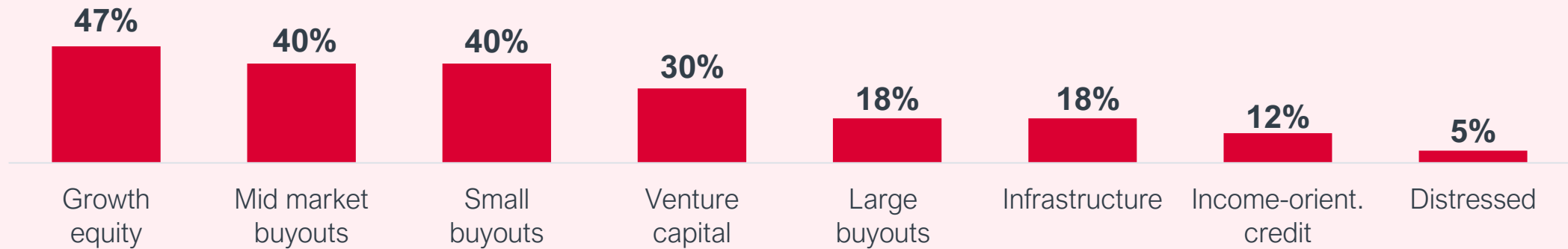
### HISTORICAL RLI DEVELOPMENT



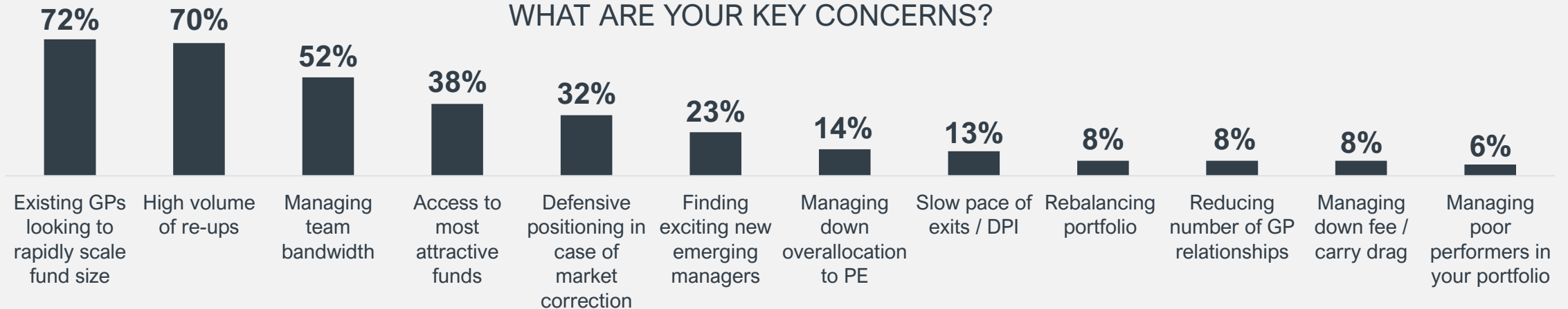
Source: Rede Liquidity Index  
 \* Denotes results collected as covid-19 hit

## ...with LP interests and concerns characteristic of a booming market

### TO WHICH ASSET CLASSES DO YOU PLAN TO INCREASE ALLOCATIONS FOR 2022?



### AS YOU PLAN YOUR DEPLOYMENT PROGRAMME FOR 2022 WHAT ARE YOUR KEY CONCERNS?



To us, it was all beginning to feel a bit unsustainable....



“For buyouts,  
4x is the new 3x”

“13 of 15 European-focused GPs  
with funds over €4bn  
will be in the market in 2022”

“They’re coming back to market  
after two years and doubling  
fund size...again”

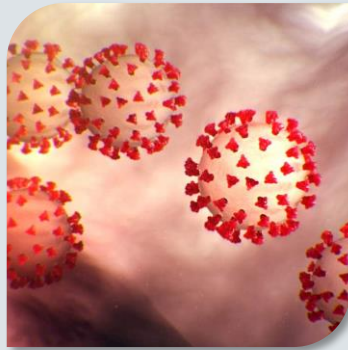
“Shall we raise a SPAC?”

The tumultuous start to 2022 brought with it a realisation that we may not be able to insulate ourselves indefinitely from externalities...



### GEOPOLITICAL SCHISMS

- ▶ Brexit
- ▶ China
- ▶ Culture wars



### GLOBAL PANDEMIC

- ▶ Global shutdown
- ▶ Tech transition
- ▶ Sustainability



### BOUNCEBACK

- ▶ Stock boom
- ▶ Consumer confidence



### STRUCTURAL CHALLENGES

- ▶ Labour force
- ▶ Supply chain
- ▶ Inflation



### TECH SELL-OFF

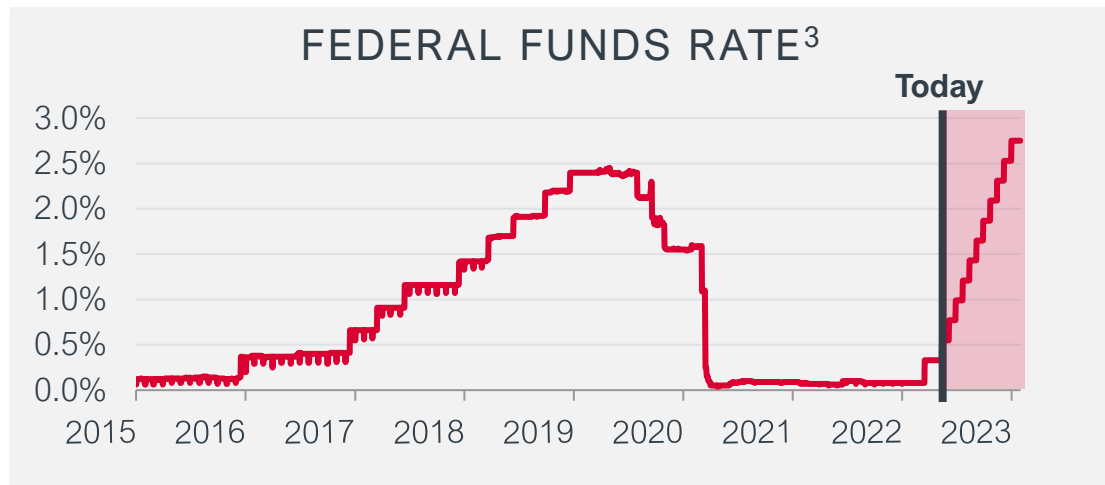
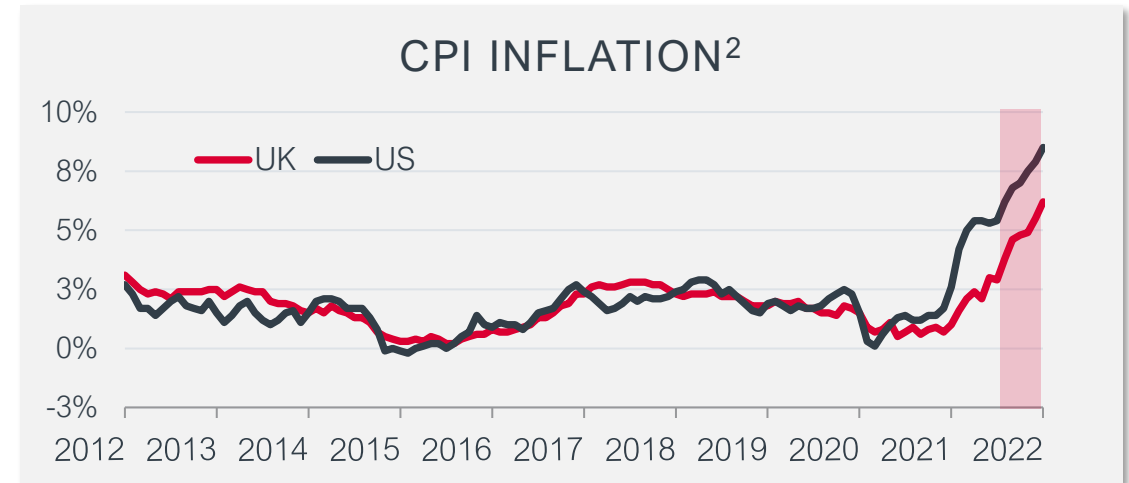
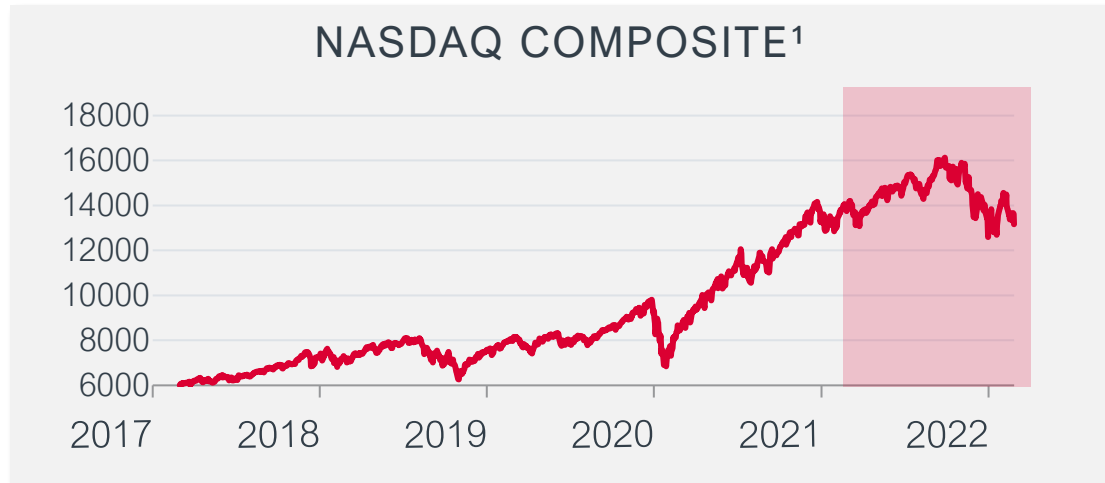
- ▶ Market volatility
- ▶ “Growth cynicism”



### UKRAINE

????

...with economic instability caused by geopolitical strife starting to bite...

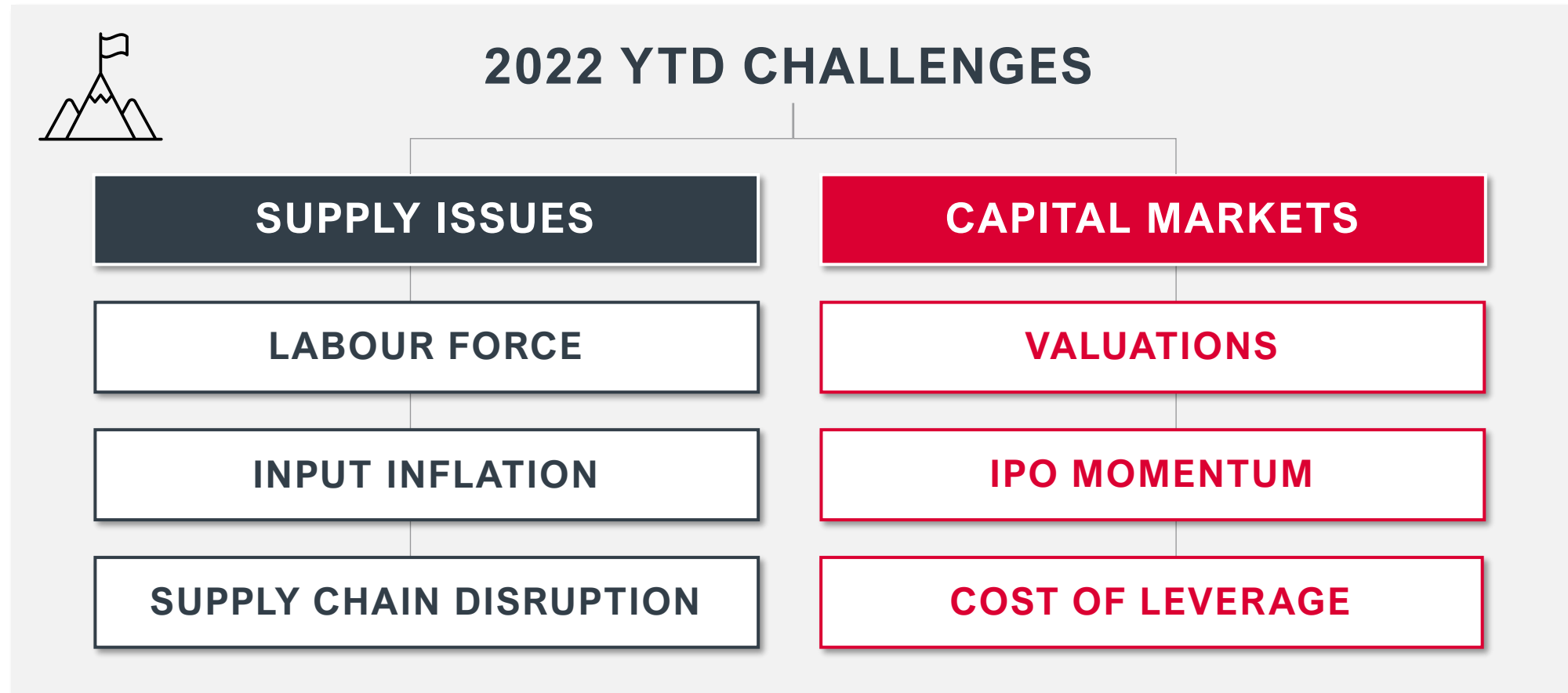


**“Global growth is projected to slow from an estimated 6.1% in 2021 to 3.6% in 2022 and 2023”**  
*IMF World Economic Outlook, April 2022<sup>4</sup>*

1. Source: NASDAQ Composite daily opening value last five years – Yahoo Finance  
 2. Source: UK - Office for National Statistics. US – Historical inflation rates macrotrends.net.  
 3. Source: FED funds historical rates macrotrends.net.  
 4. Source: IMF World Economic Outlook, April 2022

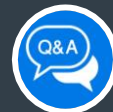


...now solidifying into a defined set of challenges facing private markets in 2022





So, what are the ramifications for the year ahead?



*Please submit your questions via the Chat function and we will endeavour to answer as many as possible during the concluding Q&A session*

# We see five key trends for the next year in private markets fundraising



**1. FUNDRAISING WILL BE SLOWER, FOR MOST**



**2. WINNER TAKES MORE ENVIRONMENT**



**3. THERE IS NO GOOD TIME TO COME BACK TO MARKET**



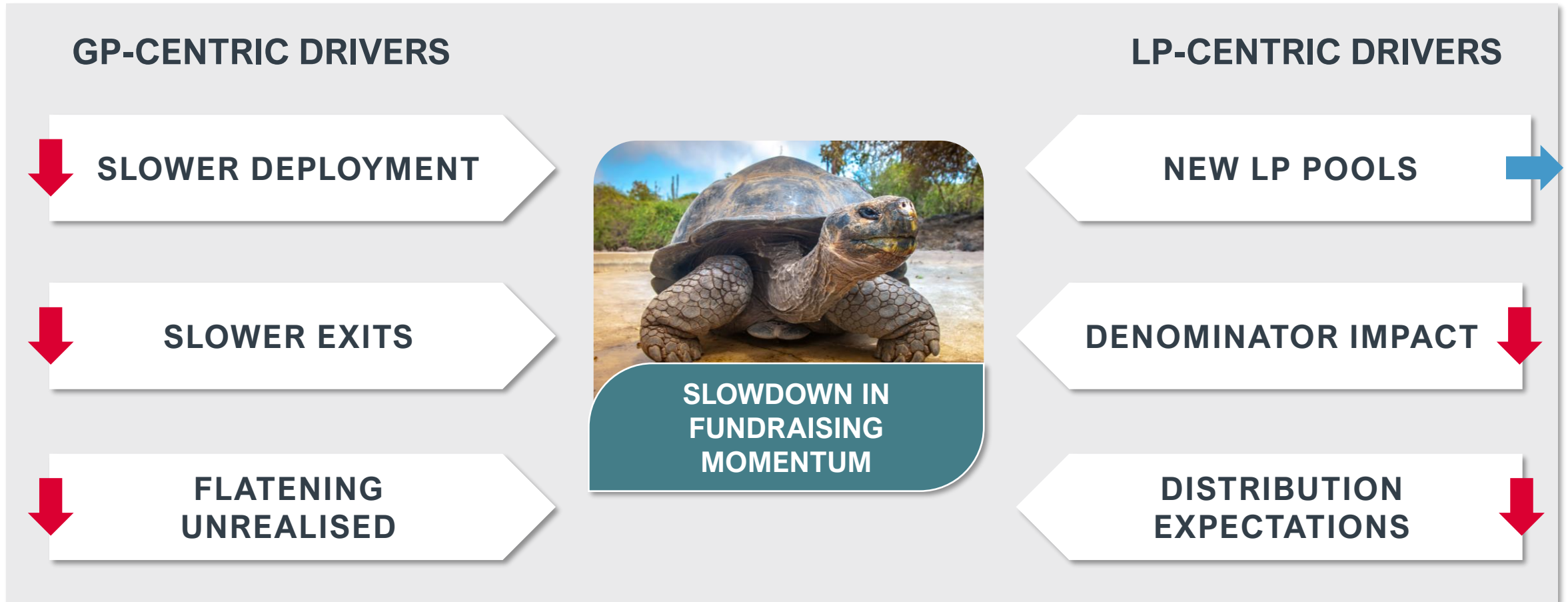
**4. LP POWER IN THE ASCENDENCY**



**5. CHANGING DEMAND PATTERNS**

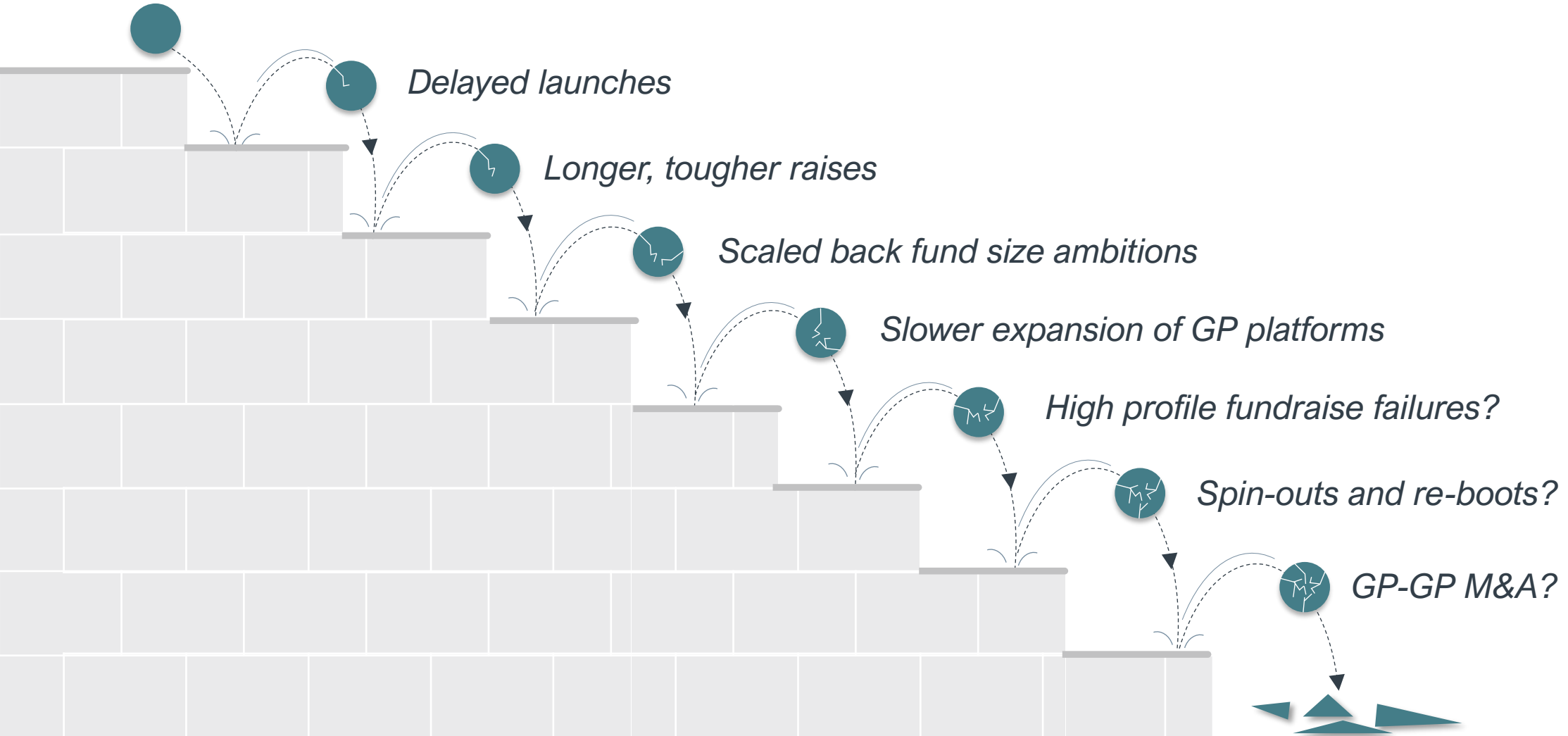


With all most fundamental drivers of fundraising momentum expected to show downward trends, we expect fundraising momentum to slow...





...with a wide range of possible consequences for many GPs





Meanwhile, after several years where LPs have had to grapple with ever-increasing demands from existing GPs....

**A CHANGING PICTURE:  
2022 VS 2016<sup>1</sup>**

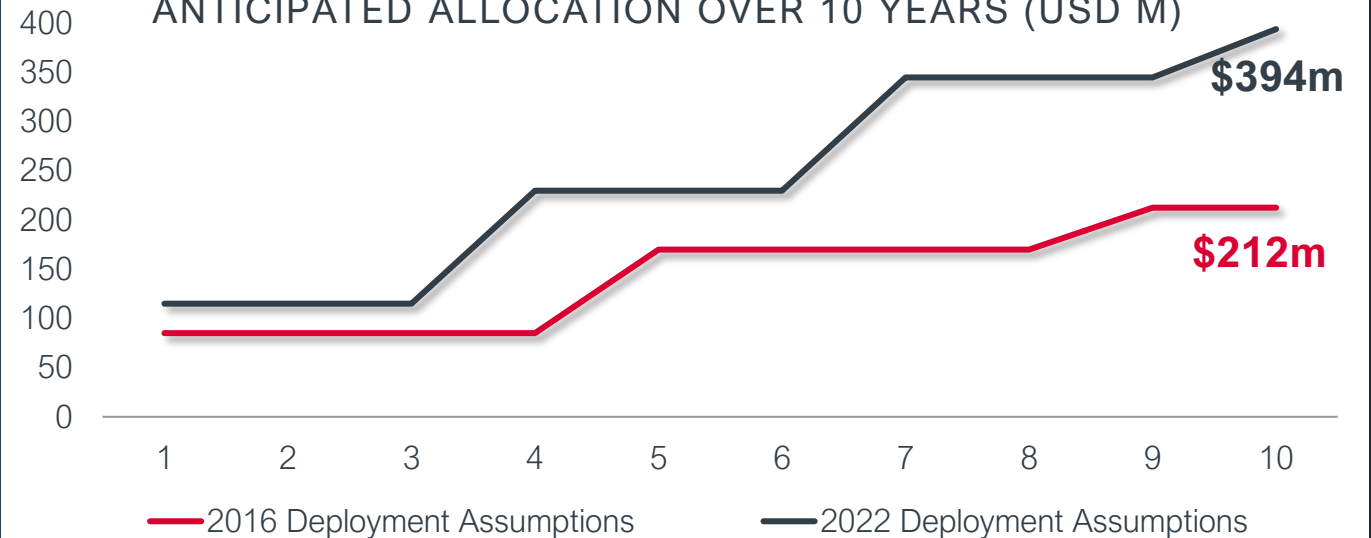
**+100%**  
AVERAGE INCREASE  
IN FLAGSHIP SIZE

**35 vs. 60**  
MONTHS TO COME BACK  
TO MARKET

**2.3 from 1.7**  
PRODUCT FAMILY  
PROLIFERATION

**THE NEW LP MATH...<sup>2</sup>**

ANTICIPATED ALLOCATION OVER 10 YEARS (USD M)

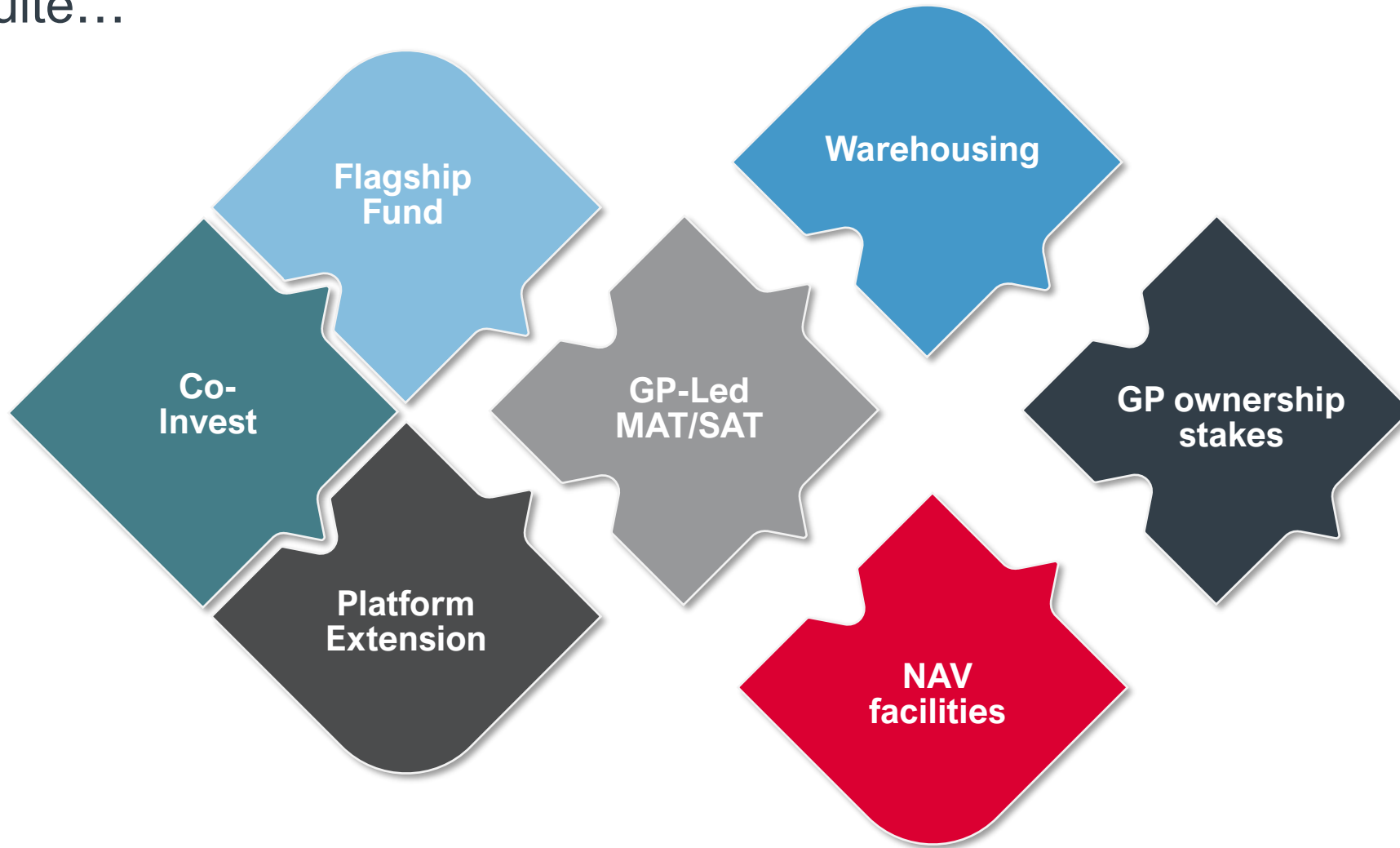


1. Source: McKinsey 2022 Report The average flagship fund size of the top 20 fundraising share gainers7 more than doubled to \$10.7 billion since 2016. As they expanded, they raised funds almost twice as quickly (35 months compared with 60 months) over the last five years compared with the previous five. Their product families proliferated from 1.7 to 2.3, on average.

2. New LP math assumes average commitment of \$50 million, and allocation to all available funds and pro-rata increases



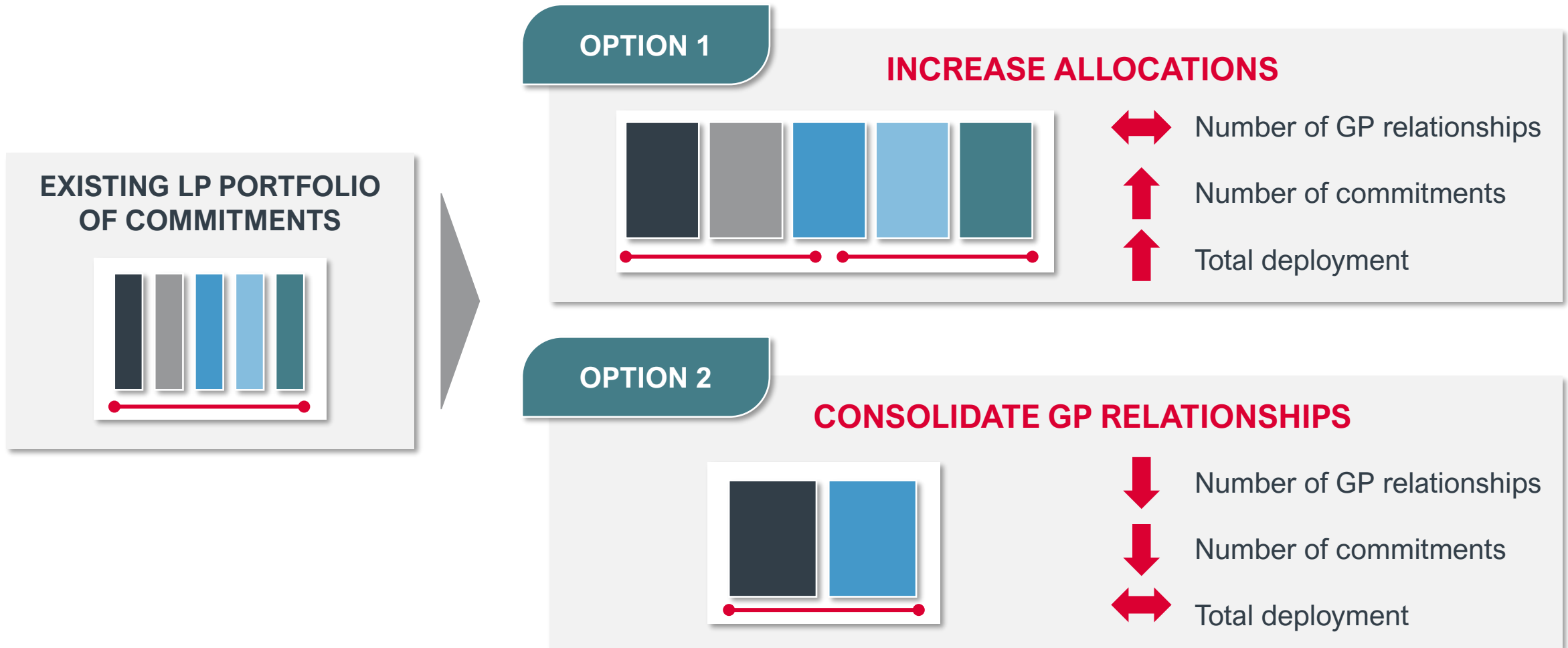
... and some may radically alter their approach to GP relationships, by choosing to set a desired commitment range over a defined period across the full product suite...



**TARGET  
COMMITMENT TO GP  
SPREAD ACROSS  
FULL SUITE OF GP  
PRODUCTS AND  
SEVERAL VINTAGES**



We expect this will increase total dollars an LP allocated to a given GP, and that it will make it even more imperative for LPs to consolidate their GP relationships







With so many moving parts, it's tough to work out when LPs will finally be able to come up for air...





...so with no 'good' time to launch, a strong case to raise capital will need to be made, period

CROWDED, HUNGOVER  
MARKET MEANS...



....LPS ARE DELAYING  
DECISIONS IF AT ALL  
POSSIBLE

+

TIGHT LP BUDGETS MEAN...



... LPS ARE LOOKING FOR  
REASONS TO SAY NO

=



INCREASED DD SCRUTINY



MUST DEMONSTRATE CLEAR  
NEED IN PORTFOLIO



MORE DECLINES AT IC



After several years in a sellers' market, Rede Partners is seeing the dynamic start to shift in LPs' favour in real-time

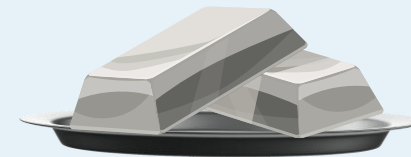
### SHIFT IN THE BALANCE OF POWER TO LPs...

- ▶ LPs closing according to their own timeline
- ▶ Fee discounts and intense legal negotiations
- ▶ Promise of increased co-investment
- ▶ Transaction fee tightening



### ...WITH ONLY THE TOP PERFORMING GPs ABLE TO CALL THE SHOTS

- ▶ Accelerated fundraise timelines
- ▶ Premium terms
- ▶ Outsized fund scaling
- ▶ Other fees chargeable to the fund



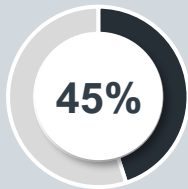


...with LPs already having made substantial progress in a few key areas



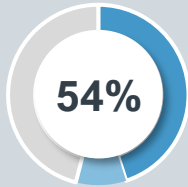
### FOCUS ON DIVERSITY<sup>1</sup>

2019



of junior-level roles at US PE firms were held by women

2020



of junior-level roles at US PE firms were held by women



### PUSH FOR STANDARDISED ESG METRICS<sup>2</sup>

*Fragmented current landscape with multiple non-comparable frameworks*



### HEIGHTENED OPERATIONAL SCRUTINY<sup>3</sup>

*Operational due diligence becoming omni-present and onerous. Recent increase in focus on:*

- CYBERSECURITY**
- BUSINESS CONTINUITY**
- FUND-LEVEL LEVERAGE**



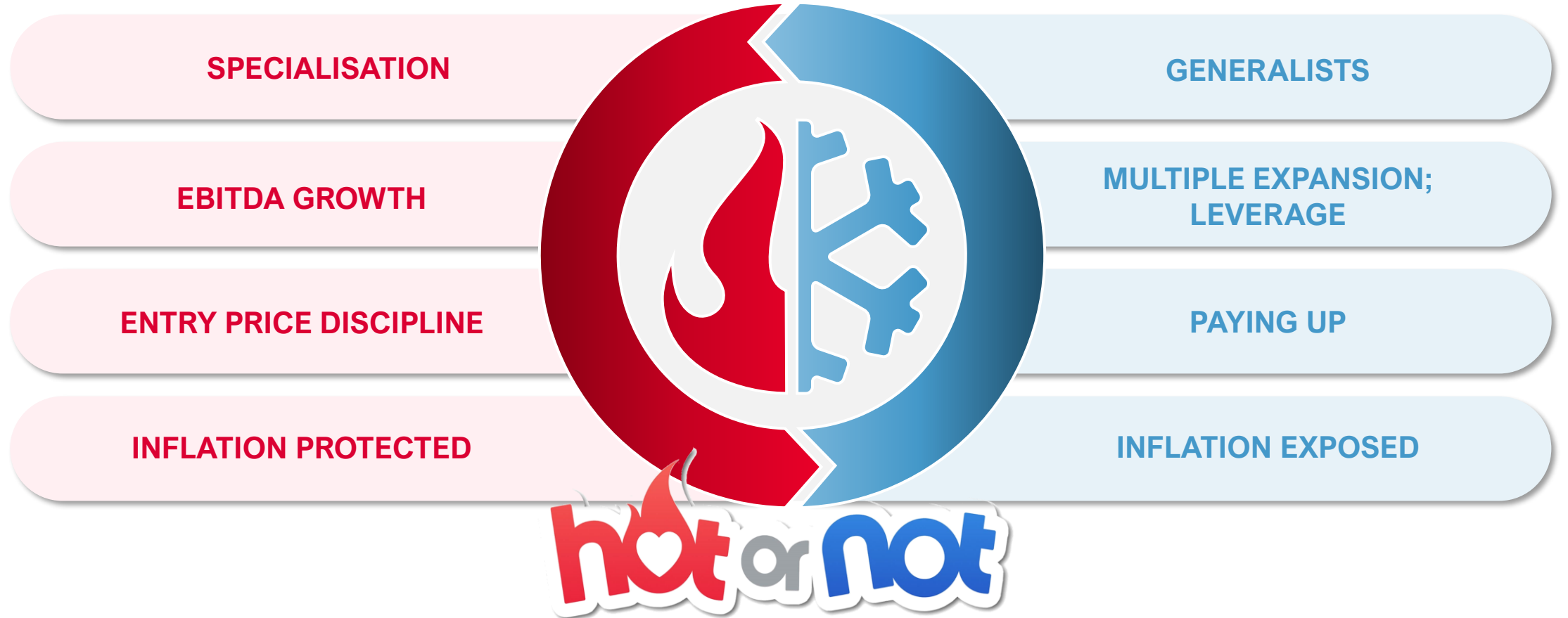
### INCREASE IN NON-HEADLINE LEGAL COMMENTS

- NO-FAULT DIVORCE**
- KEY EXECUTIVE**
- LPAC RIGHTS**
- INVESTMENT RESTRICTIONS**

1. McKinsey – The state of diversity in US PE. 30 March 2022  
 2. “SEC Proposes Broad Disclosure Rules for Private Investment Funds,” WSJ, Feb 9, 2022.  
 3. “As Regulators Scrutinize Private-Equity Performance Reporting, Researchers See Value in Alternative Metrics,” WSJ, Apr 14, 2022.



Macro challenges are affecting LP demand patterns across the asset class...



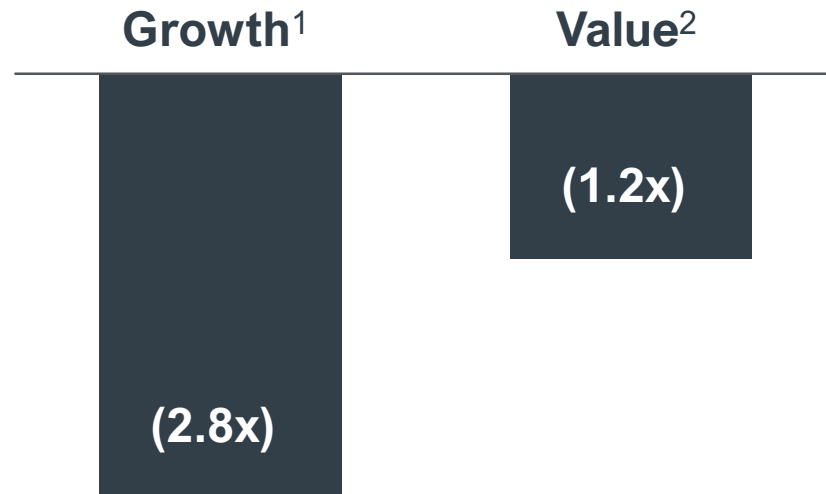


...with volatility driving renewed appreciation for a broad range of downside protected and income-oriented strategies

**VALUE STOCKS HAVE HISTORICALLY SHOWN LOWER SENSITIVITY TO RISING RATES AND INFLATION...**

**P/E IMPACT OF 1% RATE INCREASE**

*Based on relationship between rates & valuations*

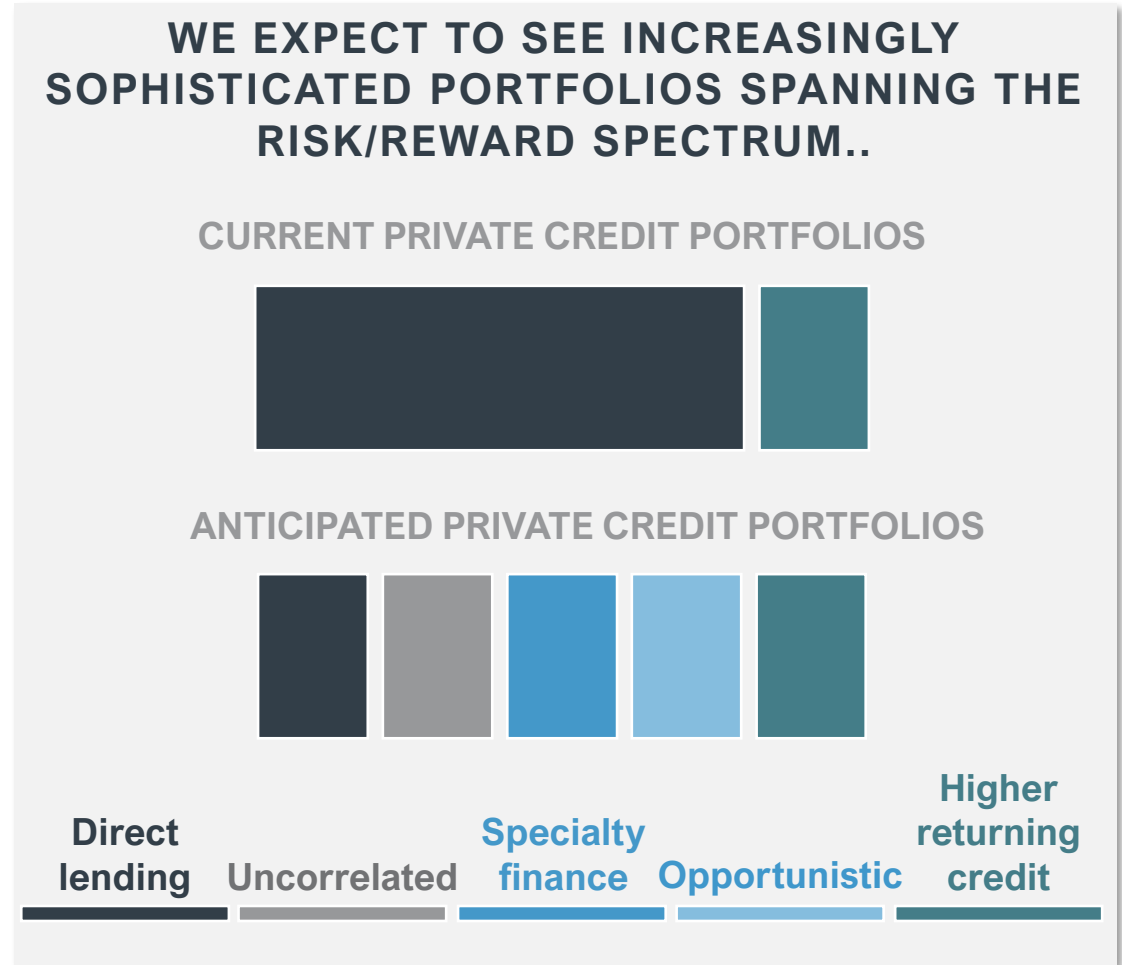
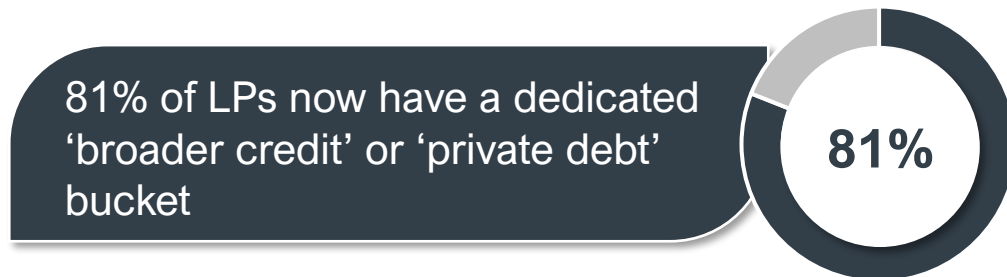


**...AND AN ENTIRE SPECTRUM OF INVESTMENTS MAY BENEFIT FROM RENEWED INTEREST**





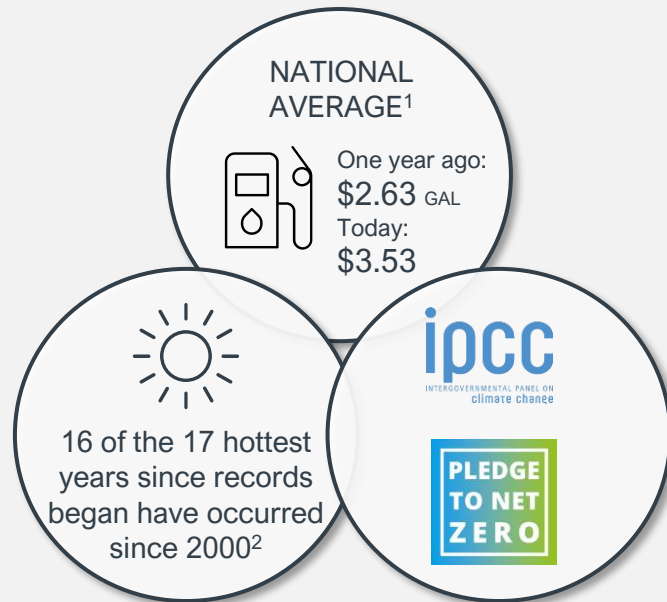
Private credit is poised to benefit as portfolios increase in size and sophistication, underpinned by the build out of dedicated buckets and specialist LP teams





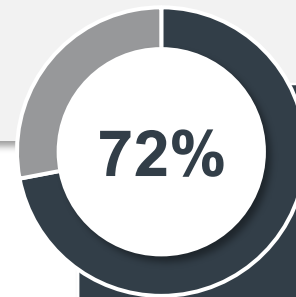
Decarbonisation and sustainability have come of age as the new secular opportunity to invest behind, serving as a microcosm of increased interest in impact...

### A PERFECT STORM OF DRIVERS...



+

### ...AND REAL PERFORMANCE IS STARTING TO COME THROUGH...



**72% of LPs plan to increase their allocation targets to sustainability and impact investing within the next two years<sup>3</sup>**

1. Source: wgrz  
2. Source: CNN weather  
3. Source: HarbourVest LP survey October 2021

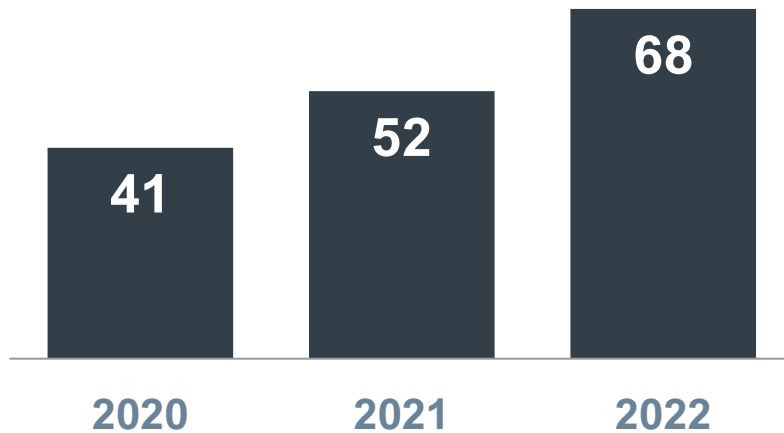




... inevitably this attention is attracting 'bandwagon jumpers' and is forcing LPs to tighten their screen for quality

## WE ARE SEEING INCREASED INTEREST IN ACTIVITY ACROSS IMPACT...

GPS RAISING DEDICATED IMPACT PE FUNDS<sup>1</sup>



## ...BUT ONLY THOSE MEETING LP REQUIREMENTS WILL BE SUCCESSFUL



**Strong investment capabilities**



**Not a tourist**



**Clear, measurable impact**

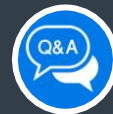


**Carry linked to impact?**

1. Source: Preqin, as at 12 April 2022



... and what are GPs  
to do about it?



*Please submit your questions via the Chat function and we will endeavour to answer as many as possible during the concluding Q&A session*

As the LP screen tightens, GPs will need to work harder to make a compelling case during diligence...



**WHAT'S THE REPLICABLE  
MODEL FOR SUCCESS?**



**WHY THIS STRATEGY  
AND WHY NOW?**



**LIMITED MARGIN FOR  
ERROR WITH  
TRACK RECORD & TEAM**

...and the bar for "differentiation" continues to rise...

## THE NEW 'ULTRA-SPECIALISTS'



**NICHE SEGMENTS WITHIN  
SPECIFIC VERTICALS**

*"Health-tech"*  
*"Cybersecurity"*



**HYPER-SPECIFIC  
INVESTMENT STYLE**

*"Mega-rollups"*  
*"Carve-out specialist"*



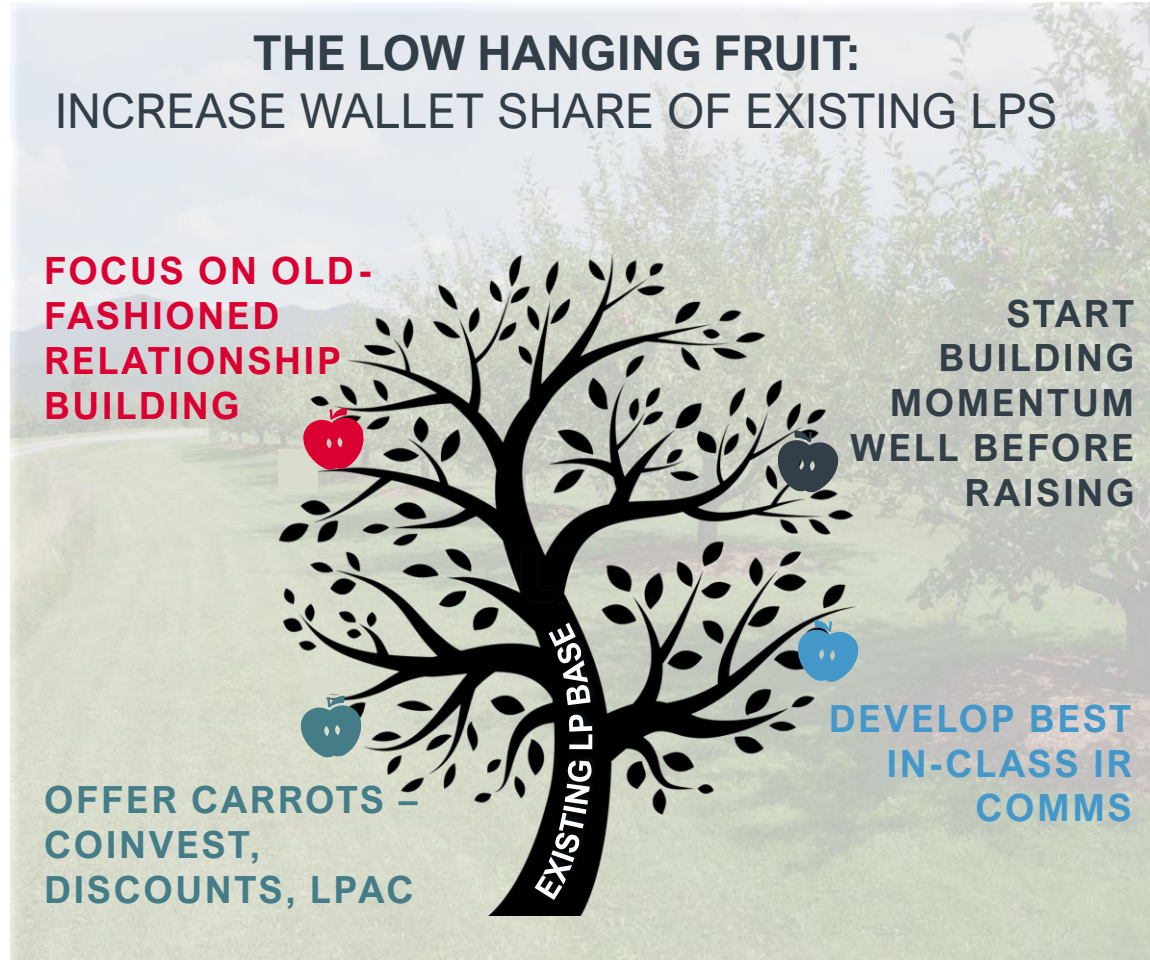
**UNIQUE IN-HOUSE GP  
CAPABILITIES**

*"In-house software development"*  
*"Our own brand agency"*

...GPs will need all the tools available as both fund and asset managers to maintain a return premium...

	DEALMAKING	EXITING	FINANCING
VERSION 1.0	Buy a company with other GPs	Run an auction	Leverage at the portfolio level only
VERSION 2.0	Buy a company and syndicate to your LPs	Multi-track processes (trade, sponsor, IPO)	Subscription credit line
VERSION 3.0	Buy a company with your LPs	Spectrum of avenues, including SAT/MAT, cross fund, partial sale	NAV financing options
			

...and a smart LP strategy starts at home and then gets creative



**BLUE-SKY OPTIONS:  
EXPLORE NEW AVENUES TO ACCESS CAPITAL**

Target projected high-growth LP AUM regions  
e.g. Korea, Latam

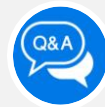
Get on the radar of new LP pools focused on the  
nascent HNW market

Participate in the lobbying effort to unlock DC  
pension / 401(k) capital

Explore GP-GP M&A / alliances to access multi-  
asset managers' funding bases



# Conclusions



*Please submit your questions via the Chat function and we will endeavour to answer as many as possible during the concluding Q&A session*

It seems likely that we will see something of a correction over coming months...



### A WILD RIDE

Low interest rates

Booming liquidity

Tech acceleration

Outstanding performance



### HARBINGERS OF DOOM

SPACS

Public-to-privates

Retail access to PE



### A CORRECTION ON THE HORIZON

*Potentially tough period ahead with some pockets of underperformance*



...but, the fundamental advantages of the private markets approach to investment and asset ownership remain...

### POSITIVE SELECTION

GPs and LPs can actively select most attractive verticals, sub-segments and, ultimately, businesses

### LONG TERM, PATIENT CAPITAL

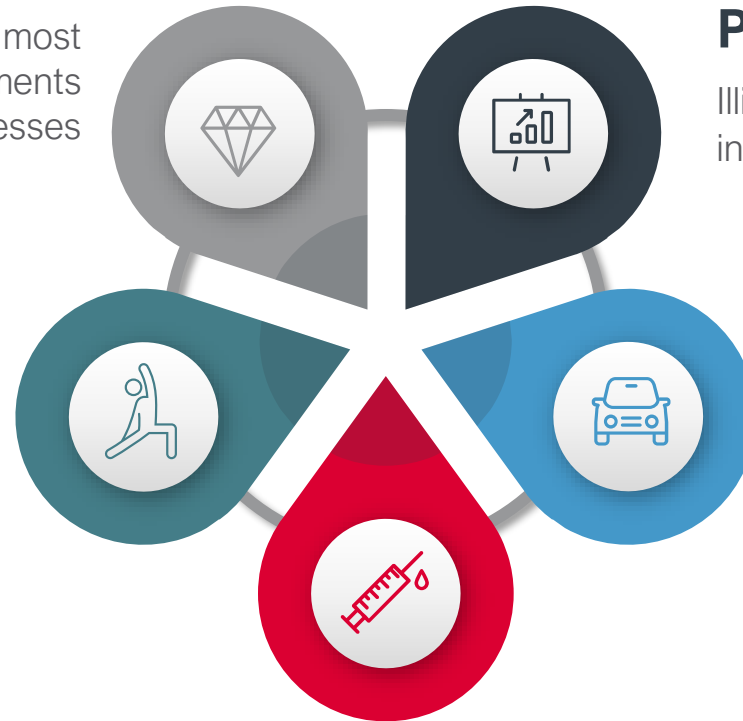
Illiquid structures and private ownership insulate GPs from short term market volatility

### FLEXIBILITY TO THRIVE IN VARIED MARKETS

Mandates typically flexible enough to take advantage of value opportunities during downturns

### INFLUENCE THE OUTCOME

Control / influential stakes, plus hands-on operational expertise, put GPs in the driving seat to optimise portfolio outcomes



### EQUITY CURE

GPs can rescue ailing companies with capital injections on favourable terms from their own vehicles

...and ultimately, the Darwinian nature of private markets drives an ability to reposition, reinvent and adapt to changing environments



Questions?





rede /rēd/

Chiefly British dialect, old English

**-verb** (used with object)

1. to counsel; advise
2. to explain; interpret

**-noun**

3. counsel; advice
4. a plan
5. a story