# LIQUIDITY INDEX

1H 2023

# Introduction

The Rede Liquidity Index score for 1H 2023 is 50, meaning that on average, LPs expect a flattening in their deployment of capital to PE funds over the next 12 months. The RLI score climbed nine points from a record low of 41 in 2H 2022, halting the downward trajectory of the last year, but our latest data indicates that fundraising momentum will remain muted for some time to come.

LIQUIDITY INDEX

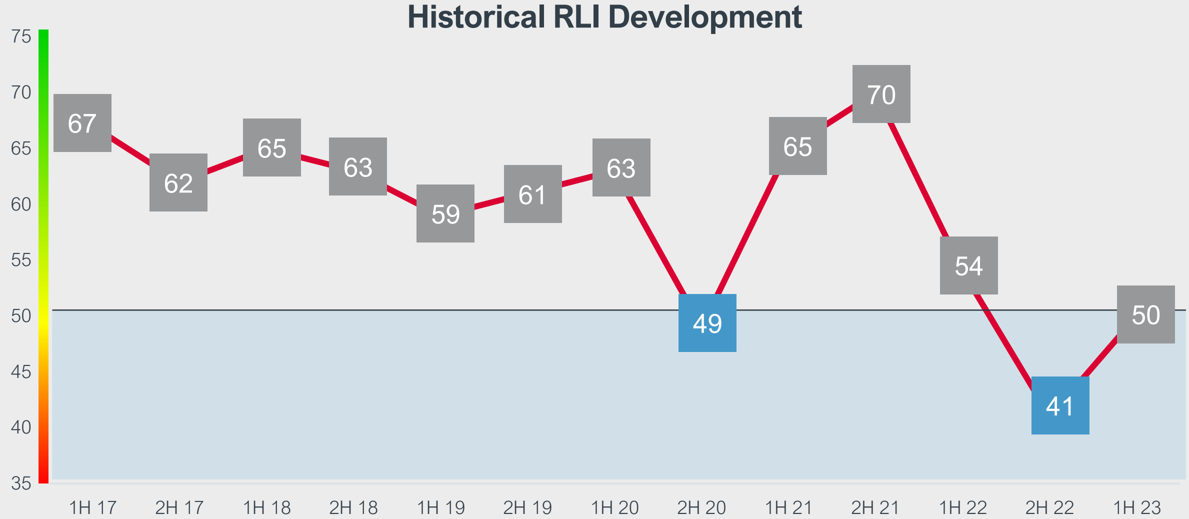
## 1H 2023 RLI Score


“Over the next 12 months do you expect to:
**INCREASE (>) MAINTAIN (=) DECREASE (<)**
capital deployment to private equity?”

The overall Rede Liquidity Index score for 1H 2023 suggests that on average, LPs expect a slight uptick in deployment of capital to PE funds over the next 12 months

| 26 | 48 | 26 |
|---|---|---|
| % of respondents MORE | % of respondents SAME | % of respondents LESS |

### Historical RLI Development




**149** **Survey Responses**

**5** **Weeks in 1Q 2023** during which data was collected

# Key Findings

1

## After a year of free-fall, LP liquidity flattens out

After reaching a peak in the second half of 2021, the RLI declined sharply, bottoming out at 41 in 2H 2022. For 1H 2023, the RLI climbed by 9 points to 50, arresting this downward trajectory and indicating a flattening in LP liquidity. Poor fundraising momentum will likely continue to persist for some time to come, largely spurred by low distribution expectations and flat valuations.

2

## While North American GPs are in demand, North American LPs are feeling the squeeze more than others

North American GPs are in demand with investors in all geographies expressing strong appetite to deploy capital into North American-focused funds. However, while European and Asian LPs report strong liquidity with local RLIs of 57 and 55 respectively, North American LPs are expecting a continued decrease in deployment, with a very low RLI score of 42.

3

## LPs opt for smaller sized buyouts, secondaries, credit, and distressed strategies amid macro volatility

Smaller sized buyout strategies continue to be favoured by investors, while a combination of offensive and defensive benefits mean that secondaries, income-oriented credit and distressed/turnaround funds are rising up LPs' agendas.

4

## LPs continue to signal strong appetite for Healthcare and Impact funds

Investor appetite for Healthcare is rising, with 37% planning to increase allocations to the investment theme, while Impact and Sustainability cements its position as the second most in-demand area for LPs.

5

## Investor interest in secondaries strategies shifts

LP demand for classical secondary transactions has risen at the expense of GP-led transactions. A spike in enthusiasm for purchasing secondary stakes in PE funds can be viewed as a signal that LPs believe that we have 'reached the bottom' and are expecting valuations and performance to pick up in the medium term.

# Introduction

## Introduction

Rede Partners is delighted to publish the 11th edition of the Rede Liquidity Index (RLI), looking at institutional investor sentiment towards private equity (PE) in the first half of 2023. Amid a volatile macroeconomic background, our research highlights a continued challenging picture for private markets fundraising. Poor fundraising momentum has meant that LPs have seen a larger number of fund extensions, delayed or cancelled launches and GPs' inability to reach targeted hard-caps. Amid this liquidity squeeze, LPs are exercising greater caution and being highly selective about the funds to which they choose to commit capital.

Nonetheless, our research indicates pockets of rising interest within the asset class. Specifically, there is increased investor appetite for investment into North American-focused funds, as well as smaller sized buyouts, secondaries, income-oriented credit and distressed/turnaround focused managers. Meanwhile, Rede's research has uncovered a significant rebound in LP appetite for traditional LP secondaries - a further marker of a considerable shift in sentiment, potentially indicating that LPs expect to see a significant uptick in performance in the near-term.

## What the numbers mean

The RLI is a twice-yearly measure of liquidity across the PE LP universe, comprising a composite index with several 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. So, an index score of over 50 indicates an improvement and, therefore, positive sentiment.

# 1 After a year of free-fall, LP liquidity flattens out

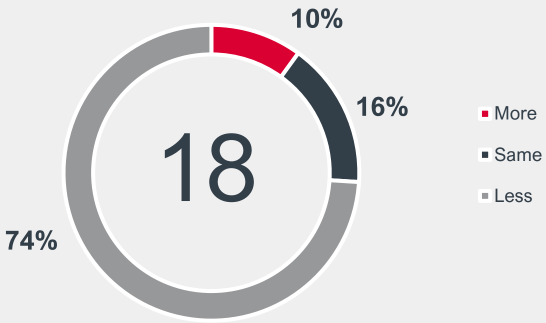
**The RLI declined sharply after reaching a peak in the second half of 2021, bottoming out at 41 in 2H 2022. For 1H 2023, the RLI climbed by 9 points to 50, putting a halt to this downward trajectory and indicating a flattening in LP liquidity. Poor fundraising momentum will likely continue to persist for some time to come, largely spurred by low distributions and flat valuations.**

Following a year of sharp decline in the RLI, culminating in a record low score of 41 in 2H 2022, LP appetite for private equity fundraising in 1H 2023 has flattened out. The score of 50 indicates a steady state has been achieved – so while the market may no longer be in freefall, fundraising momentum will remain muted for some time to come. On average, LPs expect to hold commitments to new funds steady over the next 12 months, with just over a quarter (26%) of investors surveyed by Rede planning to decrease their capital deployment to PE and 48% of LPs' deployment levels being unchanged.

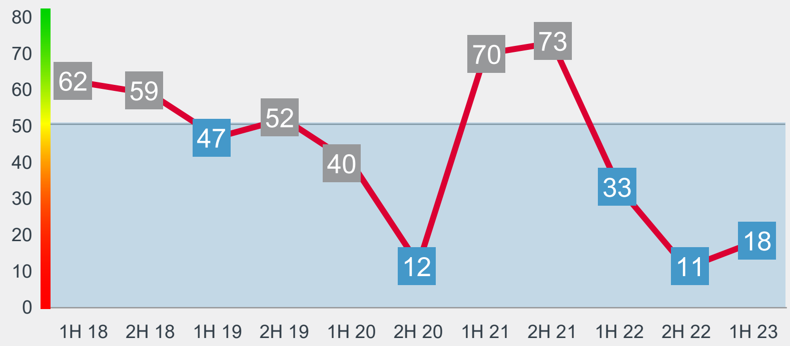
Indeed, the deployment picture suggested by our data is not much changed from the latter half of 2022, when LPs faced significant uncertainty precipitated by uncontrolled inflation, rising interest rates, the war in Ukraine, geopolitical tensions, labour market dislocations and recession fears. Despite progress in addressing many of these issues, few have been solved decisively. Their persistence continues to have a chilling effect on the fundraising market across geographies, asset classes and sectors.

How exactly does the macro malaise play out to impact PE fundraising momentum? In Rede's view there are four key drivers of changes in market momentum: performance; distribution flows back to LPs; top-down LP allocations; and LP confidence in general. All of these are affected, to various extents, by macro-economic weakness.

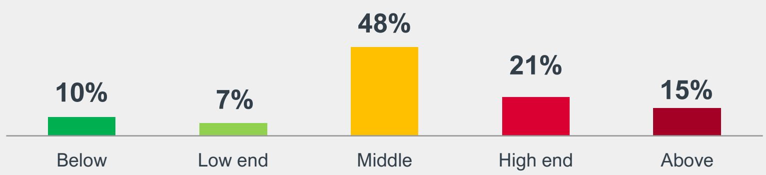
**How much capital do you except back through distributions?**



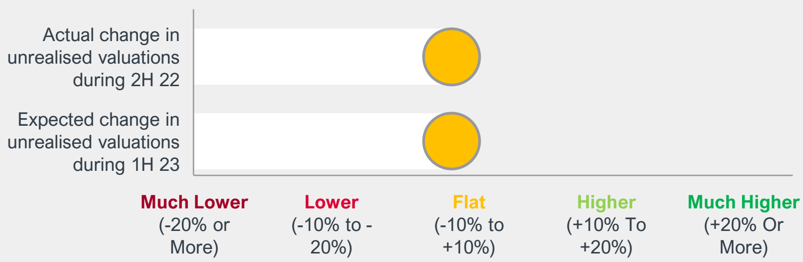

**RLI for distributions over time**




**Where is your portfolio valuation today versus your target private markets allocation?**




**Please comment on the overall movement in unrealised portfolio valuations**

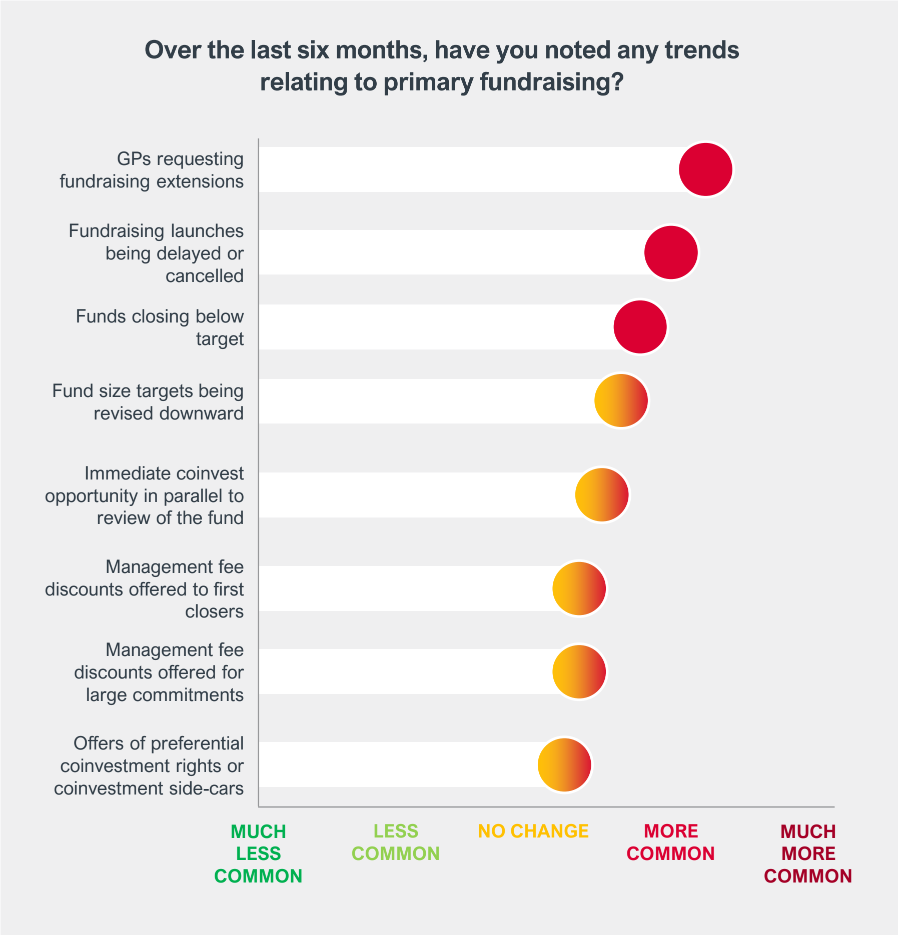


# 1 After a year of free-fall, LP liquidity flattens out

Our survey results suggest that at present the most important of these factors is LP distribution flows. The RLI for distributions in 1H 2023 remains extremely low at 18, only slightly better than 11 recorded in 2H 2022, indicating that LPs expect continued scarcity of exit flow in the market. Likely drivers of this include concern around an ongoing lack of IPO activity; specific challenges in securing financing packages for large acquisitions; and continued economic softness overall – often translating into weaker portfolio trading, making companies less attractive as acquisition targets. Moreover, a tendency for GPs to time exit activity around the top of market cycles to maximise performance can lead to distribution flows slowing even further in less buoyant markets.

With less capital returning to LPs to be recycled into new commitments, investors require robust top-down allocations if they are to deploy more capital into new PE funds. While our survey data suggests that the majority of LPs (65%) are not facing severe allocation squeezes, only 10% of investors are currently below target allocation. It is also important to note that there are particular groups of LPs where overallocation is a more significant problem. In particular, many larger US public pension funds reported being at the top end or above their allocation targets. Given their size a liquidity squeeze within US public pensions has a disproportionate impact on the fundraising market as a whole.

The final piece of the puzzle is performance. LPs surveyed for Rede's RLI in 2H 2022 reported flat unrealised portfolio valuations and on average are expecting a very slight decrease in valuations during 2023. This is a clear departure from the strongly rising valuations seen in recent years and further contributes to the overall demand picture for PE fundraising.

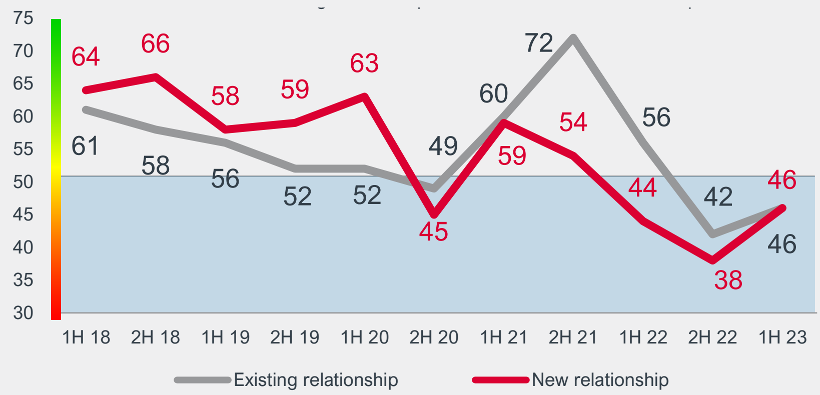



# 1 After a year of free-fall, LP liquidity flattens out

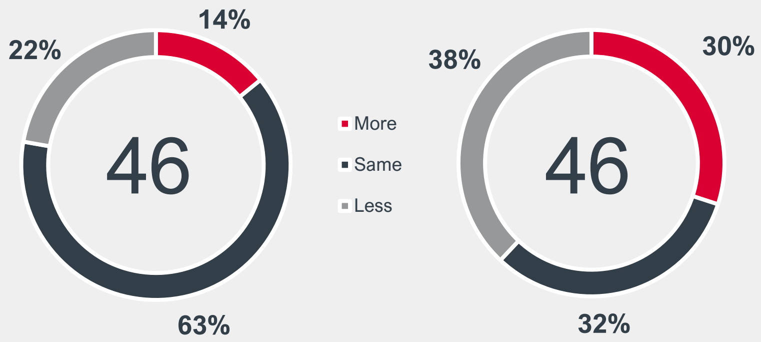
Taken together, these individual factors converge to build an overall picture of a challenging environment for GPs seeking to raise new funds. Our data shows a rise in multiple indicators of poor fundraising momentum, particularly relating to fundraise timelines and amounts raised. LPs reported that they are more commonly seeing GPs requesting fundraising extensions, launches being delayed or cancelled, funds closing below target and fund size targets being revised downward.

Interestingly, we are now seeing LPs take an ‘equal opportunities’ approach to manager selection – favouring neither existing nor new relationships. For 1H 2023, the RLI scores for existing relationships and new relationships have reached parity. Since early 2020, LPs had reported stronger appetite to deploy capital to existing GP relationships than to forge new ones. The practical restrictions of the pandemic reduced LPs ability to build trust through in-person interactions with new GPs, and LPs felt more comfortable reupping with managers they already knew well. Now that business travel has largely returned to pre-pandemic norms, it appears that we have reached the end of this trend and LP sentiment toward new GP relationships is finally bouncing back.

**RLI development over time for existing vs new realationships**




**Over the next 12 months, how much capital do you expect to deploy to PE funds of GPs representing...**



# 2 While North American GPs are in demand, North American LPs are feeling the squeeze more than others

**North American GPs are in demand, with investors in all geographies expressing strong appetite to deploy capital into North American-focused funds. However, while European and Asian LPs report strong liquidity with local RLIs of 57 and 55 respectively, North American LPs are expecting a continued decrease in deployment, with a very low RLI score of 42.**

The RLI survey for 1H 2023 highlights some stark regional differences when it comes to LP liquidity and appetite for deployment. North American GPs find themselves in high demand from LPs across the globe. The inbound RLI for North America is 57, meaning that on average, LPs across the globe intend to increase their deployment to funds focused on North America. It is possible that this is due to both stronger historical returns recorded for US GPs and a more robust go-forward outlook. It is also possible that investors have been more inclined to opt for US funds due to concerns about the state for the European economy, energy prices and inflation, and the ongoing impact of the Ukraine war, in addition to a 'stay local' attitude amongst US LPs.

The picture is markedly different when we examine the outbound RLI scores by region. These measure the overall deployment expectations of LPs based in each geography. While European and Asian LPs report improving liquidity with outbound RLIs of 57 and 55 respectively, North American LPs are expecting a more gloomy outlook for their deployment programmes, with a very low RLI score of 42 (unchanged from 2H 2022).

It is notable that both inbound and outbound RLI scores for Europe have shown significant improvement. Following the initial shock caused by the Ukraine conflict the RLI for inbound investment into Europe has risen by 13 points while the outbound RLI for Europe climbed 15 points. The rise in inbound sentiment suggests that foreign investors are exercising less caution around the impact of geopolitical tensions, with attitudes beginning to normalise for funds in Europe.

Interestingly, Rede's survey data highlights a significant jump in sentiment in the outbound RLI for the Asia-Pacific region. While there isn't necessarily more capital to deploy, this rise suggests that there is slightly less caution among LPs in the region than in 2H 2022, where appetite was previously dampened by a risk-off approach. Another driver for uptick in the outbound RLI in Asia could be a result of some low-performing local managers in Asia, which is leading investors to look overseas for better-performing managers and funds.

**RLI by Geography**

**N. America**

57 Inbound RLI

Outbound RLI 42

**Europe**

54 Inbound RLI

Outbound RLI 57

**Asia-Pacific**

30 Inbound RLI

Outbound RLI 55

**Rest of World**

26 Inbound RLI

**Inbound RLI:** global LP expectations for investment into the region over the next 12 months

**Outbound RLI:** local LP expectations for investment into any PE funds over the next 12 months

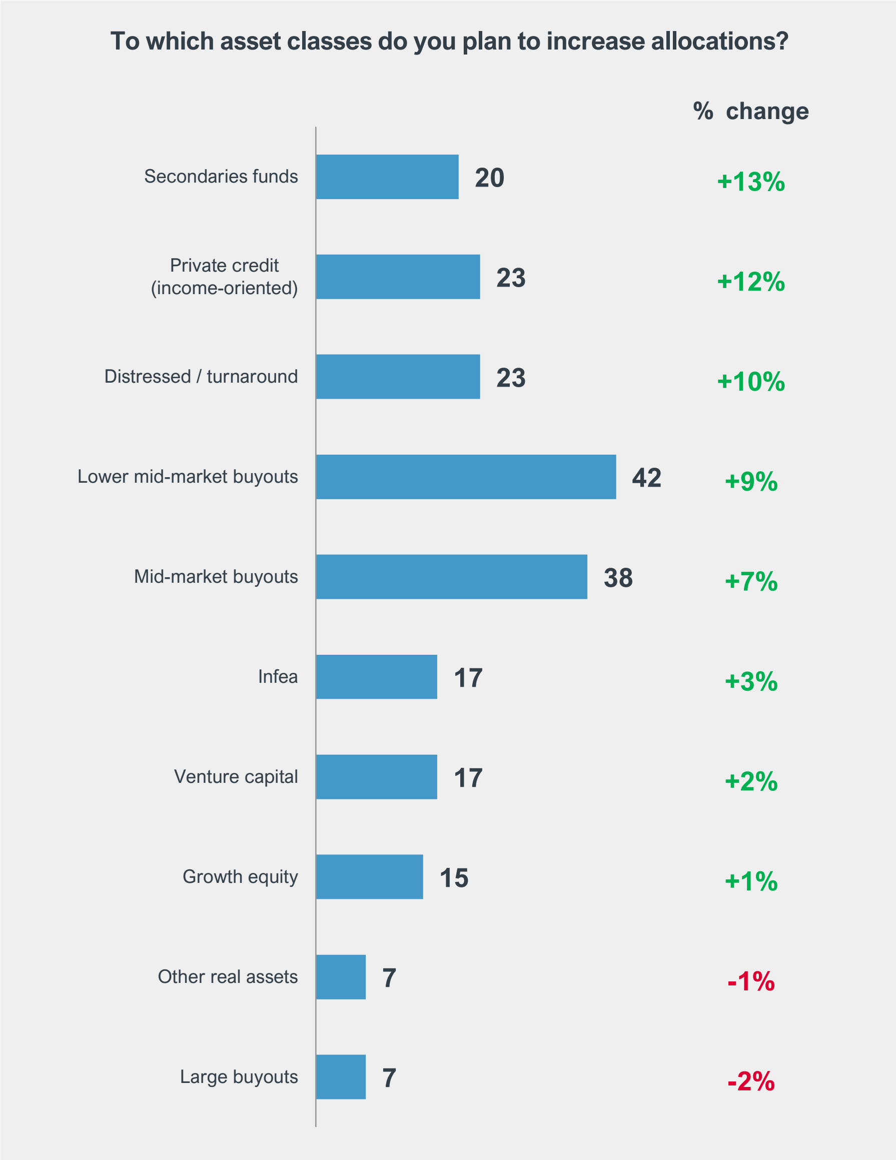
# 3

# LPs opt for smaller sized buyouts, secondaries, credit, and distressed strategies amid macro volatility

**Smaller buyouts continue to be favoured by investors, while a combination of offensive and defensive benefits mean that secondaries, income-oriented credit and distressed/ turnaround funds are rising up LPs' agendas.**

While LP deployment overall has lost pace, investor interest in smaller buyouts remains robust. A total of 42% of LPs expressed an intention to increase their exposure to lower midmarket buyout funds and a further 38% plan to add more capital to midmarket buyout funds in the next 12 months. We are seeing an ongoing focus on the smaller end of the control buyout market since 2022. During downcycles, LPs often see these strategies as able to buck macro-economic trends due to hands-on value creation, less reliance on leverage, and a perceived ability to buy at attractive valuations.

A newer development is a heightened interest in private credit and distressed/ turnaround strategies. LPs are increasingly focused on risk/return trade-offs and downside protection; and are looking to strategies that have historically outperformed during downcycles. 23% of LPs plan to increase exposure to private credit. Private credit is viewed as having potential to deliver consistent premium returns amidst volatile public fixed income markets and bank retrenchment. Within rising rate environments, credit funds that invest in floating rate securities are able to offer greater protection and can deliver attractive rates of return. Rede has also noted increased LP appetite for capital solutions or hybrid credit strategies that take advantage of illiquidity in capital markets.



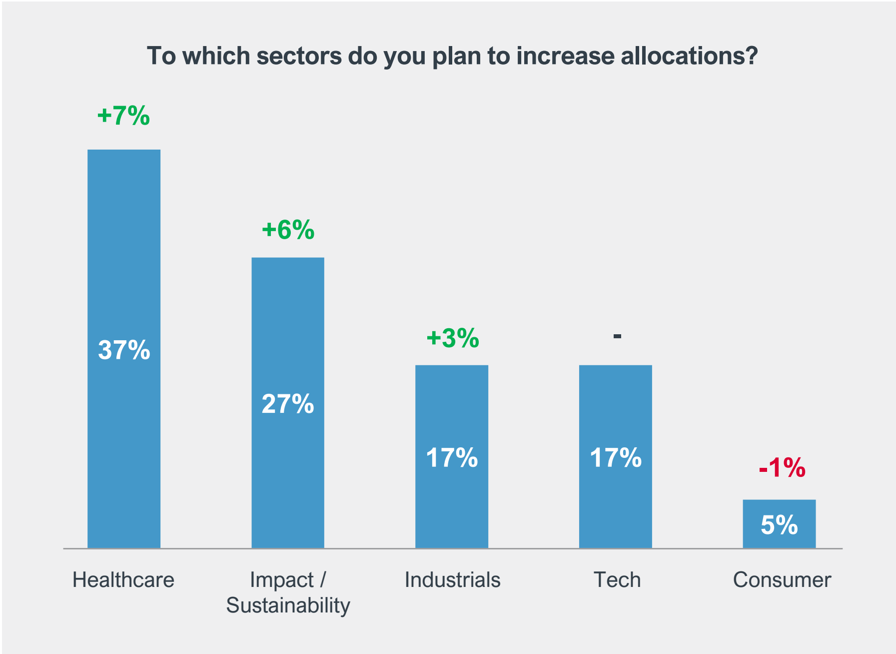

Meanwhile, it is no surprise that distressed and turnaround strategies are rising up LPs' agendas, with 23% of LPs planning to expand exposure to this end of the market over coming months. These funds offer the promise of counter-cyclical performance and the ability to profit from market turbulence.

Interest in secondaries funds has rebounded significantly, showing the largest growth in terms of LP interest since 2H 2022. This is a telling marker of LPs' view of where we stand within the cycle. Traditional LP secondaries can be purchased at a significant discount in tougher economic climates, and offer opportunity for strong performance if and when the market bounces back. A spike in enthusiasm for purchasing secondary stakes in PE funds can therefore be viewed as a signal that LPs believe we have "reached the bottom" and are expecting valuations and performance to pick up in the medium term.

4

# LPs continue to signal strong appetite for Healthcare and Impact funds

**Investor appetite for Healthcare is rising, with 37% planning to increase allocations to the investment theme, while Impact and Sustainability cements its position as the second most in-demand area for LPs.**




Our survey asked LPs to identify sectors to which they plan to increase allocations over the next 12 months. Unsurprisingly, Healthcare remains in the top spot. Healthcare offers a unique combination of both offensive and defensive opportunities for private markets investors, which is especially valued and sought after in the current macroeconomic environment. Investors are attracted to the sector's resilience as well as to the huge upside opportunities and pricing power that healthcare investments can provide. Furthermore, demographic trends such as a growing focus on wellness and health related technologies continue to draw LP interest and enthusiasm.

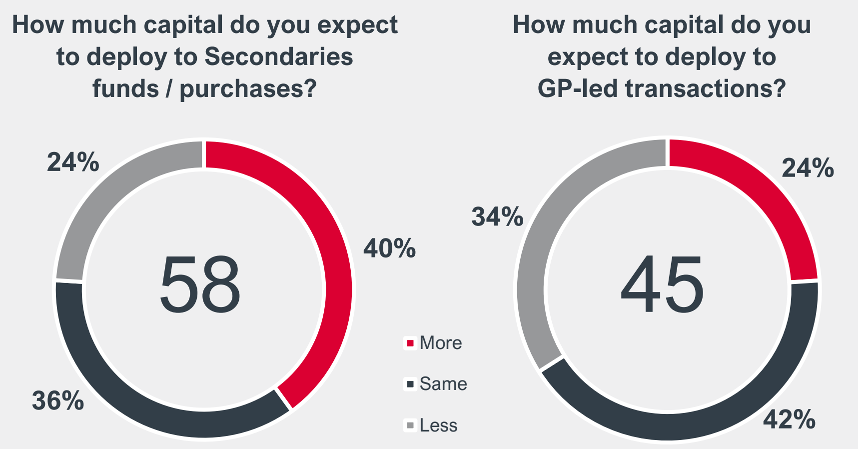
Meanwhile, the Impact and Sustainability sector has cemented its position as a highly desired investment segment for investors – 27% of LPs plan to expand deployment to Sustainability / Impact in coming months. Rede's RLI report for 2H 2022 showed similar results, with Sustainability and Impact also being highlighted as the second most attractive sector. It is clear that there is currently real momentum behind Impact, with an increasing quantity and quality of funds for investors to select from and deploy capital to and a broad groundswell of enthusiasm from LPs to engage with the sector.

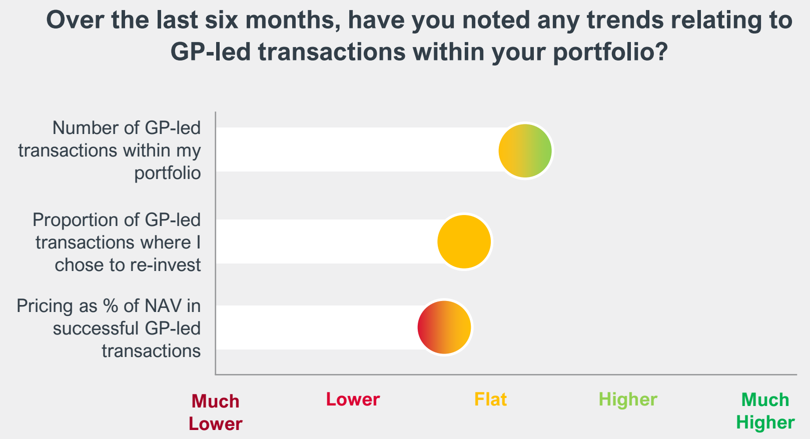
The Sustainability megatrend has now truly arrived within the private markets, with an increasing recognition of its potential to deliver at least market rate financial returns alongside non-financial benefits. LP perceptions have shifted significantly over recent years, with investors no longer considering Sustainability and Impact as a 'nice to have', lower performing bucket within asset allocations where there is a trade-off between non-financial and financial benefit. Instead, it has become a sector that is also being included in generalist private markets programmes and could become the second major investment thematic of the 21st century following digitalisation. Continued appetite in this space will depend upon Impact funds' ability deliver strong, long-term financial returns and that they are able to do this across economic cycles.

It should be noted, however, that LP sentiment toward Impact shows strong regional differences. Amongst North American LPs, only 10% plan to increase deployment to Impact, compared with 39% of European LPs. Differing perceptions surrounding investing in the sector has resulted in Sustainability and Impact holding a more prominent position in Europe than in the US. In Europe, there is an increasing number of quality Impact and Sustainability-focused managers that have attracted considerable LP attention. More broadly, there has been a growing engagement with and acknowledgment of Net Zero targets and a focus on decarbonization in the region, which could be a reason for European investors' growing interest in the sector. In the US, however, there has been a recent movement that argues against the prioritisation of ESG and Impact, based on the belief that it comes at the expense of financial performance or is biased toward promoting elitist political beliefs. Legislation in certain states in the US is limiting business with ESG-related investment funds, partly to protect the energy industry from decarbonisation of investment portfolios.

# 5 Investor interest in secondaries strategies shifts

**LP demand for classical secondary transactions has risen at the expense of GP-led transactions. A spike in enthusiasm for purchasing secondary stakes in PE funds can be viewed as a signal that LPs believe we have 'reached the bottom' and are expecting valuations and performance to pick up in the medium term.**




Despite the subdued fundraising environment at present, investor interest in secondaries remains strong. LP appetite for secondaries overall has risen considerably since the last edition of the RLI in 2H 2022. Where previously the RLI for secondaries had fallen in line with the overall appetite for private markets, Rede's data now highlights a marked shift in favour of deployment into secondaries over the next 12 months.

This comes in parallel with a marked increase in the volume of LP stake secondaries in the market. With reduced distribution flows and stagnating valuations, many LPs are more open than previously to selling their fund commitments – providing much needed liquidity and rebalancing portfolios in light of the new macroeconomic environment. With more LP stakes available for sale and reduced bullishness on final outturns, pricing for these secondary sales has started to fall, after years of premium pricing. Our survey data suggests that investors are viewing these prices as representing an attractive arbitrage opportunity and they are indicating strong appetite to expand their buying activity over coming months.

This may be indicative that investors are "calling" the bottom of the cycle and expect to see significant improvement in both valuations and performance over the next two to three years. It may also signify investors' desire to mitigate the lengthening J-curves typically associated with tougher macro environments. Similarly, as exit time-frames lengthen, the average fund portfolio becomes more mature, offering greater visibility and analytical opportunity for secondaries investors.

In contrast, Rede's survey data highlights that appetite for GP-led transactions has slowed. While the overall RLI for GP-leds has increased slightly from 37 in 2H 2022 to 45 in 1H 2023, the results still suggest that LPs plan to reduce deployment of capital to these opportunities over the next 12 months. In parallel, LPs reported a flattening in the number of GP-led transactions in their portfolio, the proportion of GP-led transactions where the investor has chosen to re-invest and the pricing as a percentage of NAV in successful GP-led transactions. Overall, we should expect a tightening of the market for GP-led transactions over coming months, with only the most attractive opportunities achieving successful outcomes. GPs will need to think carefully before embarking on such transactions and will need to liaise closely with their LPs to avoid reputational damage.

## Further RLI Analysis

### RLI by Investor Type and Size

- The RLI scores across most investor types have risen since 2H 2022. Notably, the RLIs for Fund of Funds/Consultants, Family Offices, and Insurance/Banks rose by 13, 8 and 17, respectively. This indicates an increased appetite to deploy to private markets among these LPs in the next 12 months

- In contrast, the RLI for Endowments and Foundations stayed the same, increasing only by 1. Pension Funds were the only investor type that has indicated a continued reduced appetite to deploy capital to private equity over the next 12 months, (falling from 36 to 25).

- In terms of RLI by allocation….. (RLI by investor size – not shown on RLI analysis data)

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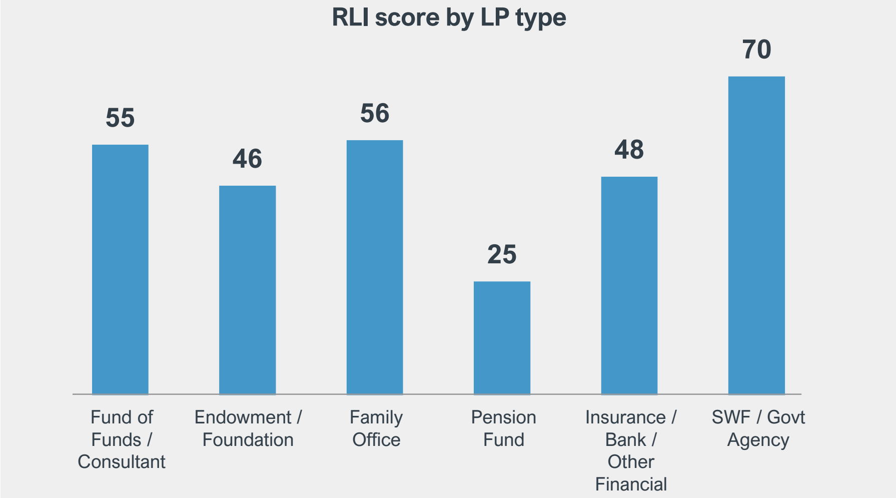
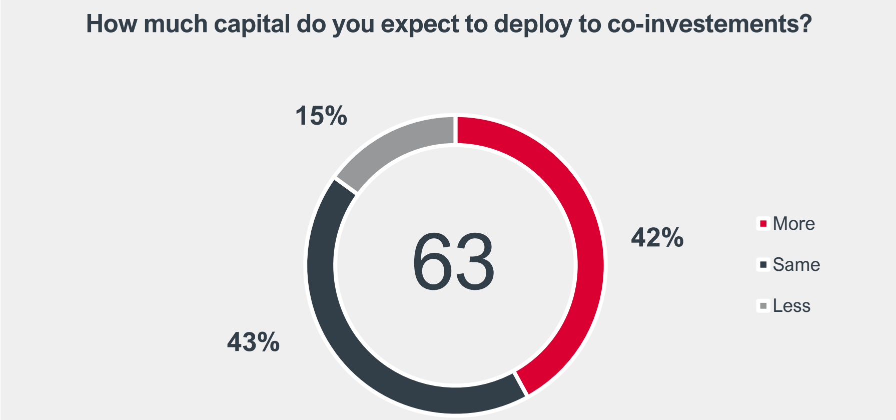
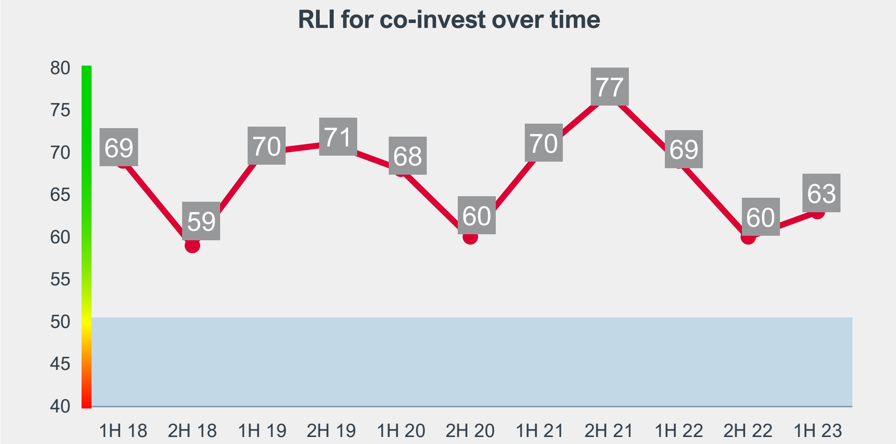
- The 1H 2023 RLI for co-investments of 63 highlights continued investor appetite for this type of allocation. The number of investors planning to deploy less capital to co-investments has continued to fall from 18% in 2H 2022 to 15% in 1H 2023, while a considerable 85% plan to deploy the same or more to these investments

- As the fundraising market slows, GPs would benefit from taking advantage of LP interest in co-investment opportunities to reach their fund targets. Given the current macroeconomic environment, however, it would be unsurprising to see investors being considerably more selective with the funds to which they allocate their co-invest capital.



# 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 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 = (P1 x1) + (P2 x0.5) + (P3 x0)**

where:

$P_1$ = Percentage number of answers that reported an increase

$P_2$ = Percentage number of answers that reported no change

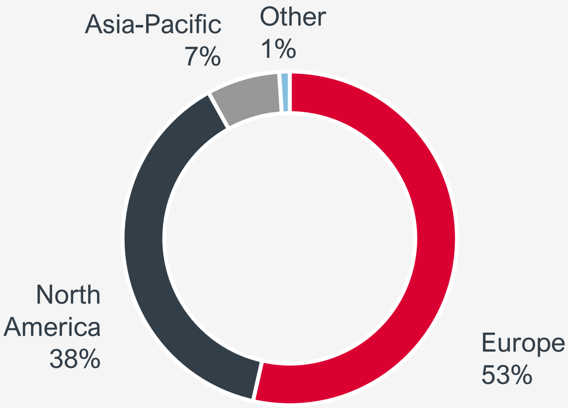
$P_3$ = Percentage number of answers that reported a decrease

If 100% of the respondents reported an increase, the index would be 100. If 100% reported a decrease, the index would be zero. If 100% of the panel saw no change, the index would be 50. Therefore, an index reading of 50 means that the variable is unchanged, a number over 50 indicates an improvement, while anything below 50 suggests a decline.

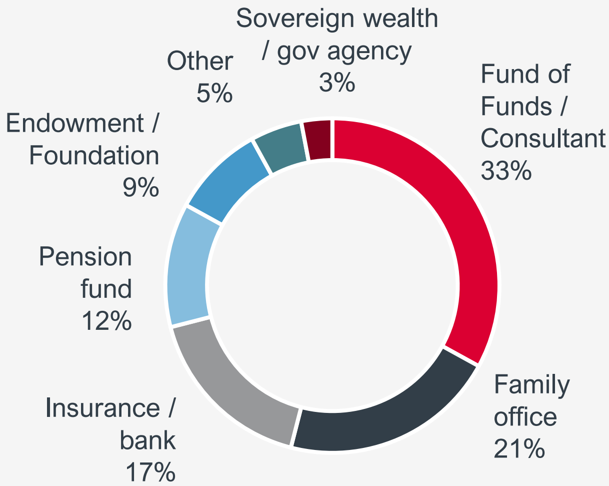
# The RLI Panel

**We surveyed 149 institutional LPs from across the globe, representing a broad range of investor categories, geographic locations and allocation sizes.**

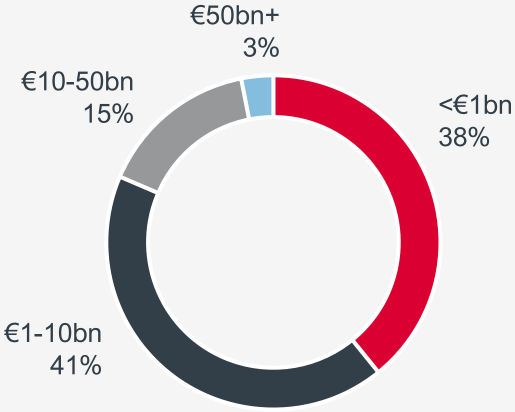
**LP REGION**



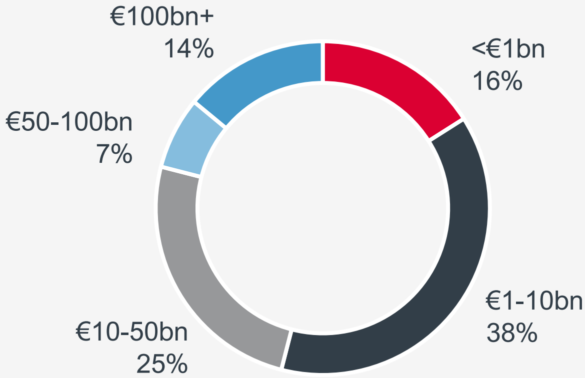

**LP CATEGORY**




**PRIVATE EQUITY ALLOCATION SIZE**




**TOTAL AUM**




## About Rede Partners

Rede Partners is a leading independent fundraising advisor to the private markets industry. Founded in 2011, Rede has raised over €100 billion in total across primary fundraising and GP-led transactions, as well as completing multiple high-value strategic advisory assignments.

With a well-resourced 100-strong team based in London, New York, Hong Kong and Amsterdam, Rede has a rigorously implemented, focused approach combining a comprehensive service offering across the entire spectrum of investor-facing activities, and a long-term business development perspective. The Firm's business model is underpinned by an unwavering commitment to delivering against its clients' objectives, helping them tackle the challenges and seize the opportunities of today's capital raising environment. Focusing on quality over quantity, Rede engages only with firms after establishing strong conviction in the manager's calibre, values, and future potential. Institutional investors around the globe trust Rede to seek out and bring them the market's most compelling investment opportunities.



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