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Emerging Manager Survey

September 2024

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Rede surveyed **68** of the most active emerging manager investors

Survey Creation

Defined emerging GP criteria:
Fund I-III, <$1bn fund size

Determined investment timeframe for LPs:
Over the next 12 months

Compiled question list of the "top 10 most asked questions" from emerging GPs

Targeted Distribution

Developed target list of 75 LPs considered to be the most active investors in emerging GPs

Administered survey (July 22 – August 19) through both targeted outreach and during live conversations with target LPs

Analysis of Results

Determined key takeaways by quantifying and analyzing 68 responses

Generated a comprehensive outlook on fundraising considerations and LP expectations for emerging managers over the next 12 months

Demand for emerging GPs is robust…

100% of investors are either **maintaining or increasing deployment** to emerging GPs

47% of respondents **INCREASE**

53% of respondents **MAINTAIN**

0% of respondents **DECREASE**

> *Expect to at least maintain. Increase depending on fresh capital raised.*

> *We expect to have fresh capital with a blank slate portfolio to which to deploy capital.*

… with survey participants most focused on identifying talent in the United States

Canada

“Have taken meetings here, but don’t like currency conversion”

15%

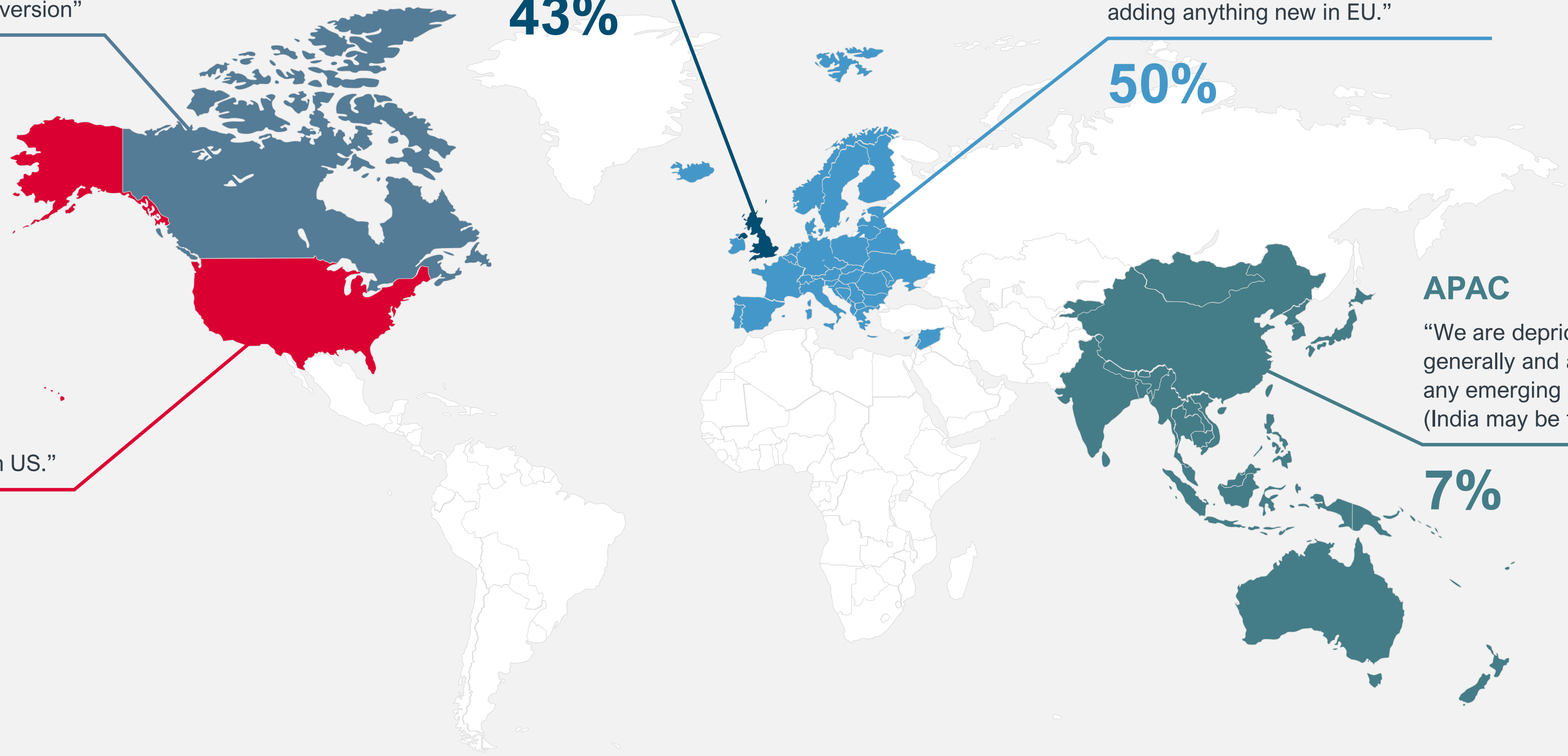
UK

43%

Europe (ex-UK)

“Just added a UK LMM group so not adding anything new in EU.”

50%



APAC

“We are deprioritizing Asia more generally and are unlikely to focus on any emerging managers in the region (India may be the exception).”

7%

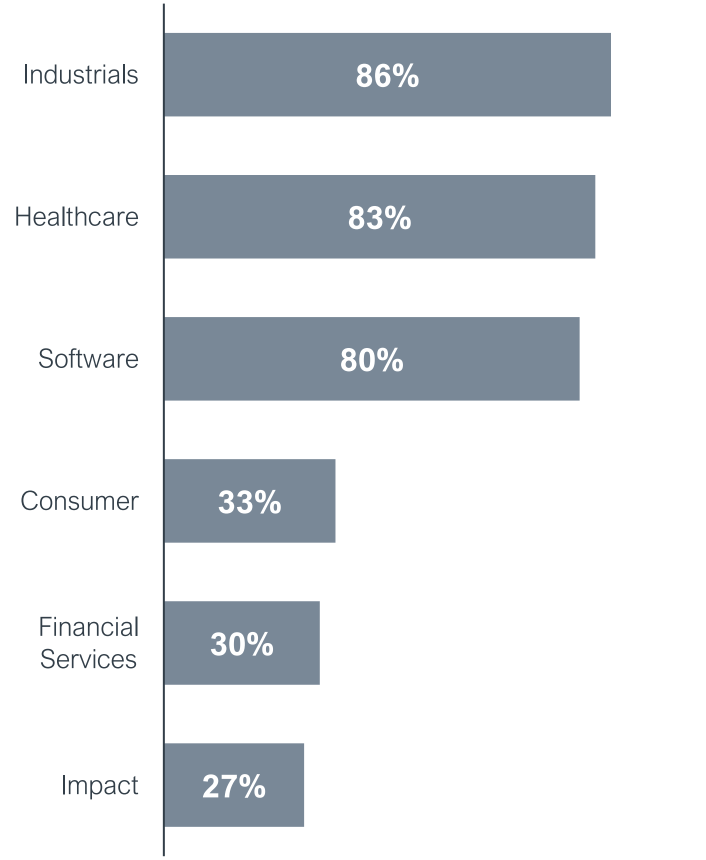
United States

“.. but really focus is on US.”

100%

While most are focused on identifying the best overall talent, industrials, healthcare and software buyout GPs are most in demand…

To which sectors do you plan to increase allocations?



No sustainability, everything else will maintain/increase. HC may be a decrease. Biotech/pharma services increased in the last 12 months

ANY - best managers

Don't need tech, but in general love sector specialists and open to all.

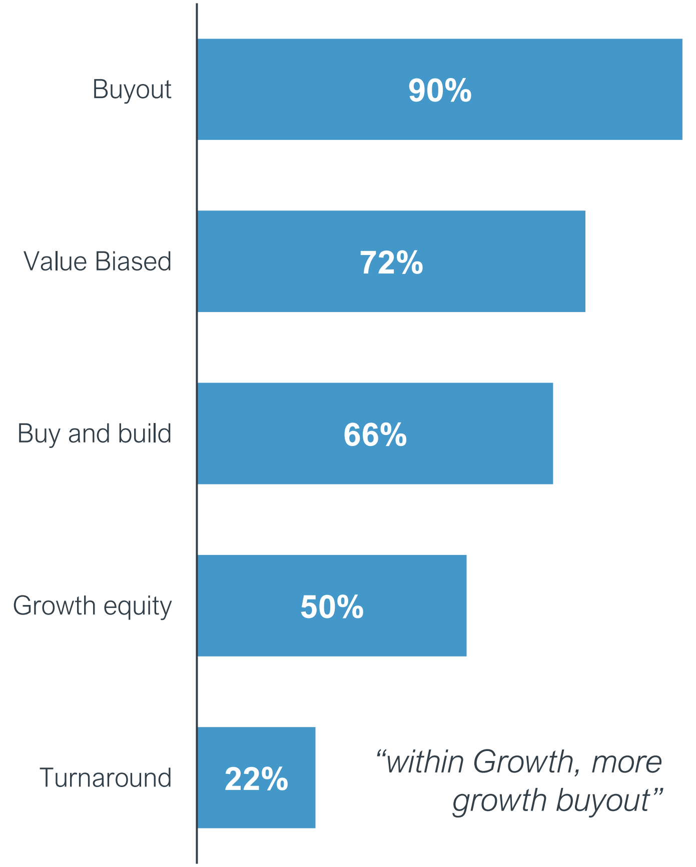
Will continue to add across all metrics, strategies and sectors - portfolio is so new. Turnaround distressed may not add, but everywhere else for sure.

No targets or buckets for sectors; open minded.

We are not dogmatic on sector - open to anything so long as we get high quality co-invest (where we can max out the MOIC)

No particular focus - invest opportunistically across all..

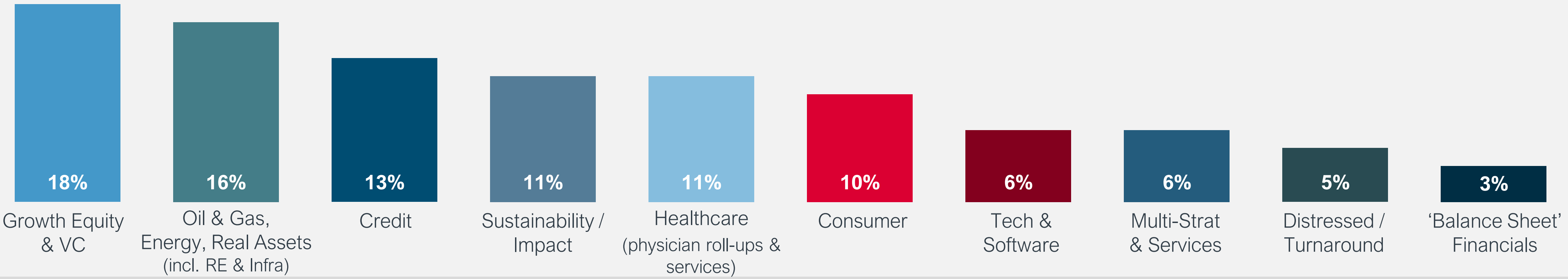
To which strategies do you plan to increase allocations?



"within Growth, more growth buyout"

… and no obvious consensus on strategies or sectors to avoid - though all want to avoid perceived 'lack of differentiation'

In the next 12 months are there any emerging GP strategies that you will avoid?



*"We **will shy away from brand new teams** with little connectivity, **traditional healthcare roll ups** (feels crowded), and **buyout strategies with high emphasis on leverage** given current interest rate environment"*

*"We're **most skeptical of buy-and-build strategies** without any other value creation angle."*

*"…**don't want broad sector focused buyout funds** with no clear distinction"*

*"**Not looking for growth equity managers**, and on the margin, do not need more business services exposure, but we would add exceptional managers in these categories, the bar is just much higher.."*

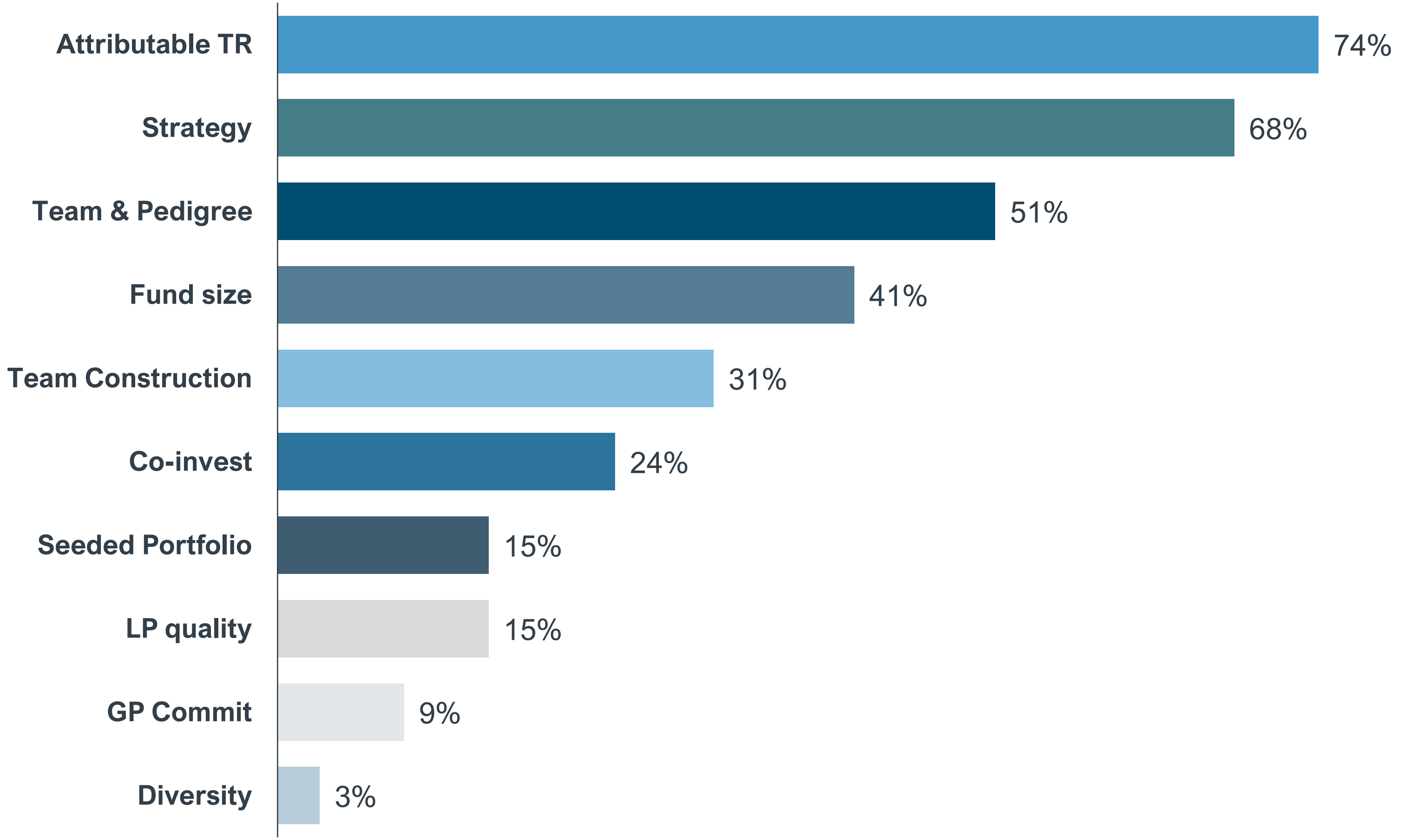
*"…**unlikely to allocate to a new software specialist**, given we continue to have a meaningful overallocation to the sector."*

*"**Dislike GPs who have given away economics** and stay clear of **large FTFs ($750m+)**"*

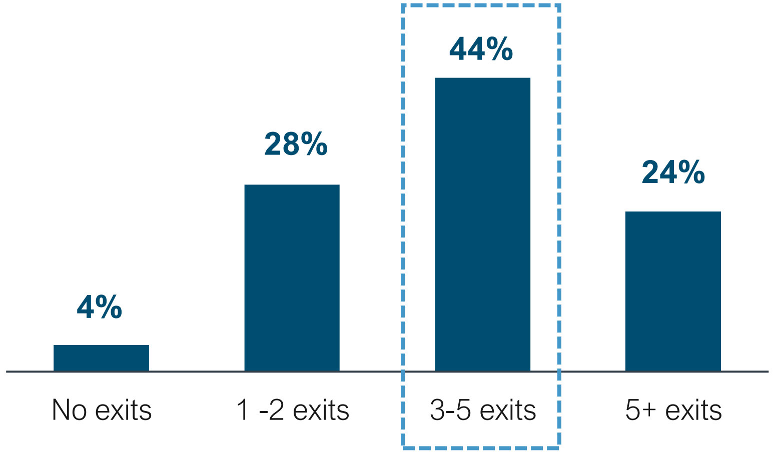
*"**Value-tech is an area we don't like** philosophically"*

Most LPs surveyed prioritized their assessment of an emerging GP’s track record and/or seed assets, strategy and the team structure and pedigree

What would be your top three considerations when investing in an emerging GP?[1]



Minimum round-trip exits (from current firm, prior firm or as a fundless sponsor) required by LPs when investing in an emerging GP



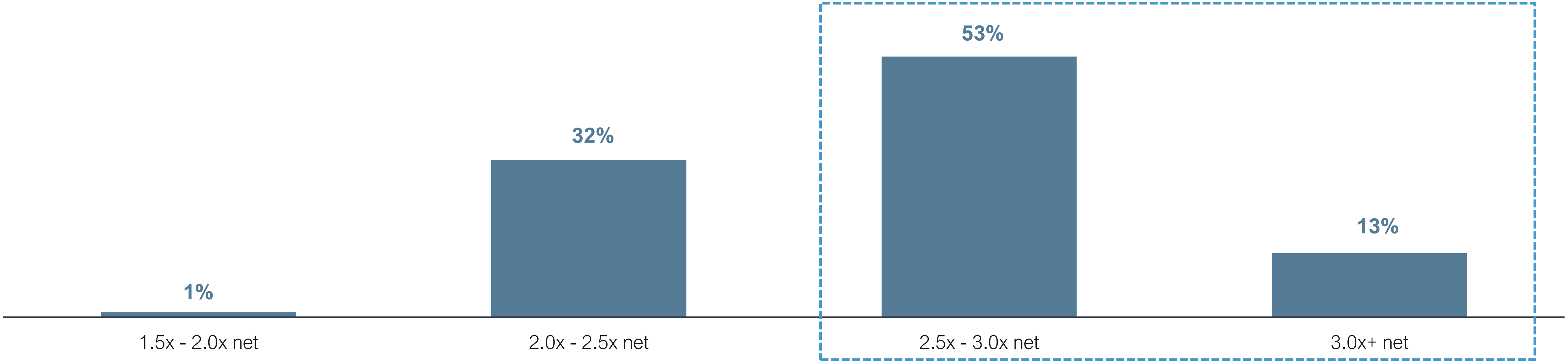
“… We’d prefer as many as possible, of course, but we’ve underwritten folks with zero.

Not strict; we would count a company that is on rails to an exit…”

1. As a % of total 68 LPs surveyed.

66% of surveyed LPs are underwriting their emerging GPs to at least a 2.5x net return

What returns are you underwriting your emerging GPs to?



> … We need to see a realistic expectation of a 2.5x net, but also how a fund could deliver a 3x net without heroic assumptions.

> Higher risk potentially, hence higher reward needed…

Key takeaways for emerging managers in the year ahead

Appetite will continue to proliferate into 2025

- **100%** of LPs surveyed are either **increasing or maintaining** their exposure to emerging GPs (sub-$1bn, Fund I-III)

US: the most attractive hunting ground

- All LPs surveyed are **looking to the US** for emerging GPs, while selectively adding in Europe and Canada
- For most LPs surveyed APAC emerging managers are a lower priority

Clear differentiation is critical in a competitive market

- **Industrials, healthcare,** and **software** are the top sectors that surveyed LPs are interested in, with a preference for **buyout** from a strategy perspective
- In nearly all cases LPs are looking for a **definable edge** and exposure that is complementary to their current line up

Winning emerging GPs will need strong fundamentals

- **Attributable track record, pedigree,** and **team** are the most relevant considerations for LPs when assessing emerging GPs

LPs are investing in emerging GPs for alpha

- LPs prefer to see **multiple strong proof points** (exits) before investing in emerging GPs
- 66% of LPs are underwriting their new emerging manager commitments to **at least a 2.5x net return**

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rede /rēd/
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-verb (used with object)
1. to counsel; advise
2. to explain; interpret

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

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