



Harvard Sale of Private Equity Said to Be Stymied by Price Drop

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Jan. 23 (Bloomberg) -- Harvard University didn't sell most of the \$1.5 billion of stakes in private-equity funds it put on the market last year because offers were too low, said three people familiar with the matter.

The university's \$28.8 billion endowment, the richest in higher education, rejected deals as sellers, including schools and pension funds, flooded the market and pushed down prices, said the people, who asked not to be identified because the bidding is private. The Cambridge, Massachusetts, university remains interested in unloading the private-equity investments.

Harvard, **Duke University** and Columbia University were among institutions that last year put buyout and venture capital stakes up for sale on the secondary market, where middlemen broker deals. Schools are looking to raise cash as distributions from fund managers dry up and losses on stocks and bonds mount. As much as \$40 billion in private-equity interests may go unsold this year as sellers hold out for higher prices, according to Nypdex Holdings LLC, a firm that trades stakes in buyout pools.

"The discounts were too big to get approved in the sellers' investment committees," said **Laurence Allen**, managing member of Greenwich, Connecticut-based Nypdex, which advises endowments. Endowments and other nonprofits make up 5 percent to 10 percent of secondary-market sellers, down from as much as 20 percent at the end of last year, Allen said.

A Harvard spokesman, **John Longbrake**, said the school doesn't discuss individual investments or investment strategies.

Wait and See

Some private-equity funds have been trading for 10 to 40 cents on the dollar on the secondary market, depending on their quality, said Allen, declining to name any.

Potential buyers are waiting to see year-end statements from private-equity managers that will show the value of their fund assets and whether they have taken writedowns in line with declines in public markets, said **Craig Marmar**, a partner at San Francisco-based Probitas Partners Inc., which advises investors on selling their limited-partnership stakes. Transactions may pick up later this year, he said.

"We just don't know what the correct valuations are," said **Alice Handy**, founder of Investure LLC in Charlottesville, Virginia, which manages more than \$5 billion for endowments. She says she hasn't bought or sold funds on the secondary market. "That's the problem with private equity. There are so many moving parts that aren't transparent."

In December, officials at Harvard were in talks to sell limited-partnership holdings in leveraged-buyout funds including one run by Boston-based Bain Capital LLC, a person briefed on the situation said at the time. Harvard's endowment fell 22 percent to \$28.8 billion from July through October, the school said Dec. 2.

Buyout Slump

Harvard is freezing salaries at the Kennedy School of Government and the Faculty of Arts and Sciences to offset endowment losses. The university last month sold \$1.5 billion in taxable bonds to repay commercial paper.

Private equity includes funds that pursue leveraged buyouts, finance startup companies and buy assets including real estate. Firms including **Blackstone Group LP** and KKR & Co. LP raised \$1.2 trillion from investors in the past two years, according to London-based research firm Private Equity Intelligence, on the strength of industry returns of

more than 20 percent a year.

Those gains have fallen. Announced private-equity deals dropped more than 60 percent to \$297.9 billion last year after financing for new transactions evaporated amid the global credit crunch, according to data compiled by Bloomberg.

Denominator Effect

The lack of money coming out of funds, combined with endowments' own financial woes, may be stoking the desire to sell into the secondary market. Some endowments are also facing the denominator effect, where holdings of private equity have become too big a percentage of their portfolios after public equities slid. The **Standard & Poor's 500 Index** lost 38.5 percent last year.

Endowments that invest in private-equity funds are suffering through a dearth of distributions -- the profits funds pass on to investors after successfully selling or taking a holding public. Private-equity managers are coping with the worst initial public offering market in at least four years, and mergers and acquisitions activity dropped 38 percent last year to \$2.51 trillion, according to Bloomberg data.

The hardest stakes to sell are in funds with more than \$10 billion in assets that made investments at the peak of the buyout boom in 2006 and 2007 and still have the right to ask their investors to make good on their commitments, said Colin McGrady, the Dallas, Texas-based managing director of Cogent Partners, which trades secondary interests.

Record Year

Secondary-market sales, spurred by the growth of the private-equity industry, doubled last year to a record \$35 billion from 2007, said **Bondurant French**, chief executive officer of Chicago-based Adams Street Partners LLC, which advises clients on buyout investments.

"If you're not obliged to be a forced seller, it's better to hold on to your long-term holdings," said **John Griswold**, executive director of the Commonfund Institute, a Wilton, Connecticut-based organization that seeks to improve investment management practices in non-profit groups. "The secondary market is overburdened with supply."

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