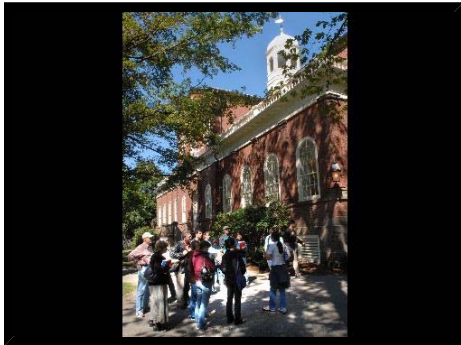




## Harvard-Led Sale of Private-Equity Stakes Hits Values (Update1)

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Dec. 1 (Bloomberg) -- A push by the richest U.S. universities to unload their stakes in private-equity funds is flooding the market, driving down prices for the world's best-known buyout firms.

Investors led by Harvard University, which manages the largest U.S. endowment at \$36.9 billion, may increase so-called secondary sales of private-equity funds to more than \$100 billion during the next year, overwhelming available pools of capital. Interests in funds managed by **KKR & Co.**, Madison Dearborn LLC and Terra Firma Capital Partners Ltd. all are being offered at discounts of at least 50 percent, according to people familiar with the sales.

Crippled financial firms such as **American International Group Inc.** and bankrupt Lehman Brothers Holdings Inc. are joining strapped endowments such as the ones at Columbia University in New York and Duke University in Durham, North Carolina, in trying to sell private-equity stakes. A deepening global recession that is crimping the value of buyout firms' holdings is forcing further price cuts in a market where buyers already are scarce.

"There's a huge supply-demand imbalance," said **David De Weese**, a general partner at **Paul Capital Partners** in New York, which manages \$6.6 billion. As much as 10 percent of the world's \$1.2 trillion of private-equity interests may change hands next year in the so-called secondary market, up from an average turnover of about 1 percent, De Weese said.

### Harvard's Holdings

Officials at Harvard are in talks to sell \$1.5 billion of limited-partnership holdings in leveraged buyout funds, including one run by Boston-based Bain Capital LLC, according to a person briefed on the situation. Harvard and other endowments have suffered lower returns this year and face further writedowns on their private-equity stakes when the funds report their third-quarter valuations.

"It's fair to assume these stakes will be revalued to mirror the publicly traded proxies," said **Steven Kaplan**, a professor of finance at the University of Chicago Graduate School of Business who studies private equity. "Many endowments overcommitted to private equity, believing the drawdowns would be slower and payouts faster."

Shares of **KKR Private Equity Investors LP**, which invests in KKR's funds and trades on Euronext Amsterdam, lost about 25 percent of their value during the third quarter. Blackstone shares lost about 13 percent of their value during that period.

### KKR, Terra Firma

The University of Virginia in Charlottesville said in a **statement** posted on its Web site that it may sell some of the \$1.6 billion it has invested in buyout funds, noting that proceeds "may be far below face value."

"I don't know of any institution that's not looking at its portfolio and saying, 'What can we do?'" said **Frank Morgan**, a partner at **Collier Capital Ltd.**, a London-based firm that invests in buyout and venture capital funds.

One financial institution recently held discussions about selling more than \$100 million in private-equity stakes in a fund run by New York-based KKR at a discount of about 50 percent, a person briefed on the talks said. A sale hasn't yet been completed. A \$50 million investment in a fund run by Terra Firma, the London-based LBO firm led by **Guy**

**Hands**, is also for sale, with bids implying a discount of about 50 percent, said a person involved in the process.

Spokesmen for KKR and Terra Firma declined to comment.

#### 'Unprecedented' Losses

Even well-diversified investment funds are experiencing major setbacks, Harvard President **Drew Faust** said in a letter to faculty, students and staff last month. "We need to be prepared to absorb unprecedented endowment losses and plan for a period of greater financial constraint," Faust wrote.

Harvard has about \$4.5 billion invested in buyout funds, according to Greenwich, Connecticut-based NYPPEX Holdings LLC, which advises on private-equity sales.

"Harvard is likely expecting a substantial loss for its endowment in the quarter a sale is made," said **Laurence Allen**, the firm's managing member.

The Harvard fund provided about \$1.6 billion to the university in fiscal 2008, more than a third of the school's operating expenses. **John Longbrake**, a spokesman for Harvard declined to comment, as did officials at Duke and Columbia.

The endowments want to pare private-equity holdings to free up cash for new investments and to reduce the number of managers they have to monitor, people familiar with the situation said. Current prices may be so low that endowments may decide to wait for the market to recover.

#### Secondary Market

The California Public Employees' Retirement System, the largest U.S. public pension fund, has sold private-equity partnerships and opted instead to invest in secondary funds. Calpers, based in Sacramento, disclosed last month that it has disposed of \$2 billion of private-equity partnerships this year.

**Leon Shahinian**, senior investment officer for alternative asset management at Calpers, said the pension fund started buying secondary stakes after negotiating favorable prices for its primary holdings late in 2007. Calpers is an investor in New York-based **Lexington Partners Inc.** and Collier Capital.

The availability of private-equity stakes at discounted prices may be an attractive alternative to investments in funds themselves, which can't be bought at less than their original value. Commitments to private-equity funds fell to a three-and-a-half year low of \$82.3 billion in the third quarter, according to data compiled by London-based research firm Preqin Ltd.

#### Denominator Effect

Also squeezing limited partners is the so-called denominator effect. With the Standard & Poor's 500 Index down 39 percent this year, institutional investors' public equity holdings are suffering. When the value of those holdings (the denominator) is lower, the percentage of the overall pool devoted to private equity (the numerator) rises, pushing the percentage of illiquid asset classes like private equity too high.

"Public equity and other parts of the portfolio have fallen, while private equity is just beginning to reprice," Marmer said. "A number of institutions are facing the denominator effect."

The amount of money available to buy investors' interests in private-equity partnerships more than doubled during the past year. Firms have raised or plan to amass about \$40 billion for secondary funds, according to data compiled by Probitas.

**Credit Suisse Group AG**, **Goldman Sachs Group Inc.**, **Pantheon Ventures Ltd.** and Lexington Partners are seeking about \$16 billion between them for secondary funds, according to people with knowledge of the firms.

#### Lehman, AIG

Sales will be driven next year by institutions such as New York-based Lehman, which filed for bankruptcy in September and had more than \$1 billion invested in private-equity funds. **AIG**, which must repay a \$60 billion federal loan, has about \$28 billion in alternative assets, including private-equity stakes.

Officials at New York-based AIG and Lehman declined to comment on potential sales.

