

Preqin Research Report Survey of Endowments Investing in Private Equity

October 2009



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Endowments are prominent investors in private equity, with an average target allocation of 11.8% to the asset class. This is above the average allocation for all types of institutional investor, which stands at 8.8%.

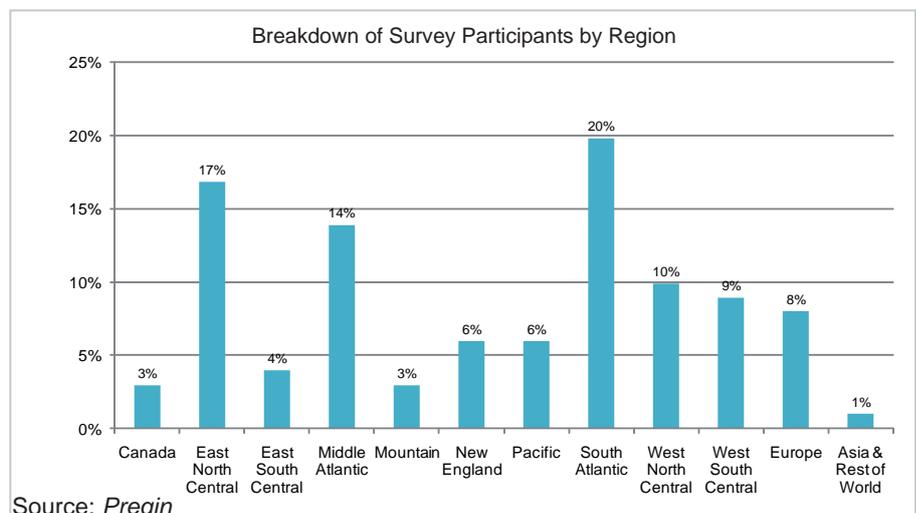
In our latest survey of institutional investors we wanted to gauge how the private equity activity of endowments has changed over the past year, to what extent they have been affected by the global financial crisis and to find out what their future plans for the asset class were.

Using Investor Intelligence, Preqin's industry leading database containing profiles for over 4,000 investors (including 368 endowments), we conducted a survey of 100 endowments from across the globe, to gain an insight into their views on the industry.

Survey Participants

As illustrated by Fig. 1, 91% of the participants in our survey are based in North America. This is broadly representative of

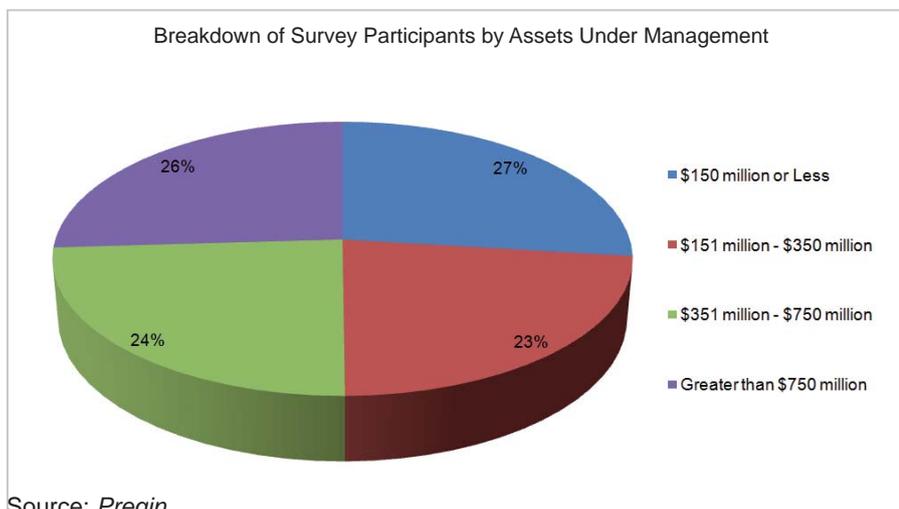
Fig. 1:



Source: Preqin

the regional breakdown of all endowments on Preqin's Investor Intelligence database, with the large majority of this type of investor based in North America. The region with the most respondents is South Atlantic, where 20% of participants are based. 12% of respondents are located outside of the US; these endowments were based in Canada, Europe and Asia and Rest of World.

Fig. 2:



Source: Preqin

In general, endowments vary greatly in size and this is true of the participants of our survey; 27% fall into the lowest assets under management bracket of \$150 million or less, and 26% fall into the upper bracket of more than \$750 million, as shown in Fig. 2.

Private Equity Allocations

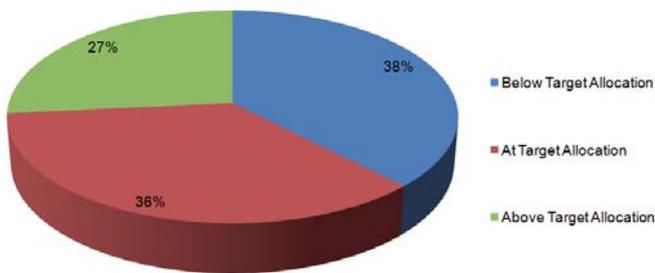
In recent months, several reports have suggested that many endowments are being forced to sell their interests on the secondary market as a result of being above their target allocations to private equity. As illustrated by Fig. 3, 74% of respondents are either at or below their target allocation to private equity, with just

Preqin Research Report: Survey of Endowments

October 2009

Fig. 3:

Current Private Equity Allocation Compared to Target Allocation



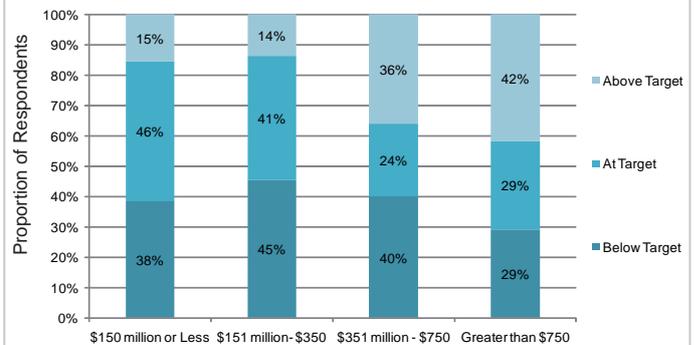
Source: *Preqin*

over a quarter stating that they are above their target.

A large proportion of the endowments that reported being above their target allocations to private equity have total assets in excess of \$500 million, which would suggest that it is the larger, more high-profile funds, which tend to employ

Fig. 4:

Current Private Equity Allocation Compared to Target Allocation by Fund Size



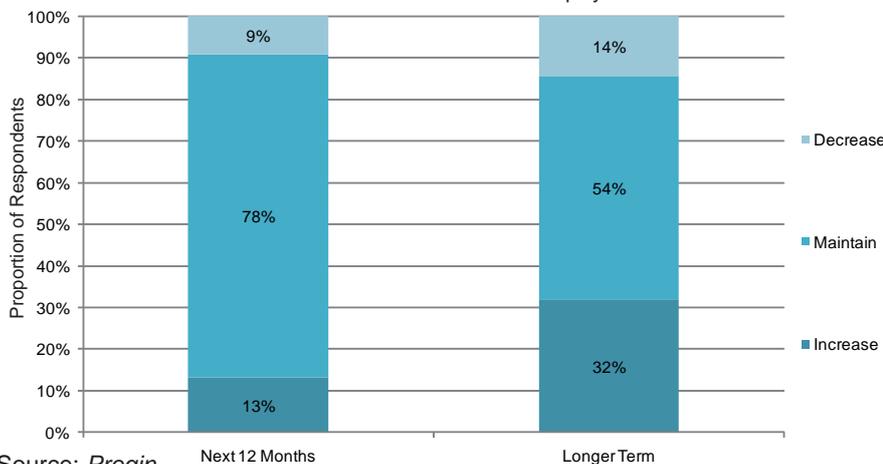
Source: *Preqin*

significant over-commitment strategies, that are most affected. As Fig. 4 demonstrates, 42% of endowments with assets under management of \$750 million or more reported that they are above their target allocation to private equity.

As shown in Fig. 5, the majority of respondents planned on maintaining their allocations to private equity over the next 12 months. 13% of participants said that they were looking to increase their exposure to the asset class in the next year and this figure more than doubled when respondents were asked about their intentions for the long-term: 32% of participants plan to increase their private equity allocations over the next three to five years. However, a significant minority of endowments will be decreasing their allocations to private equity: 9% over the next 12 months, and 14% over the longer term.

Fig. 5:

Endowments' Future Plans for Private Equity Allocations



Source: *Preqin*

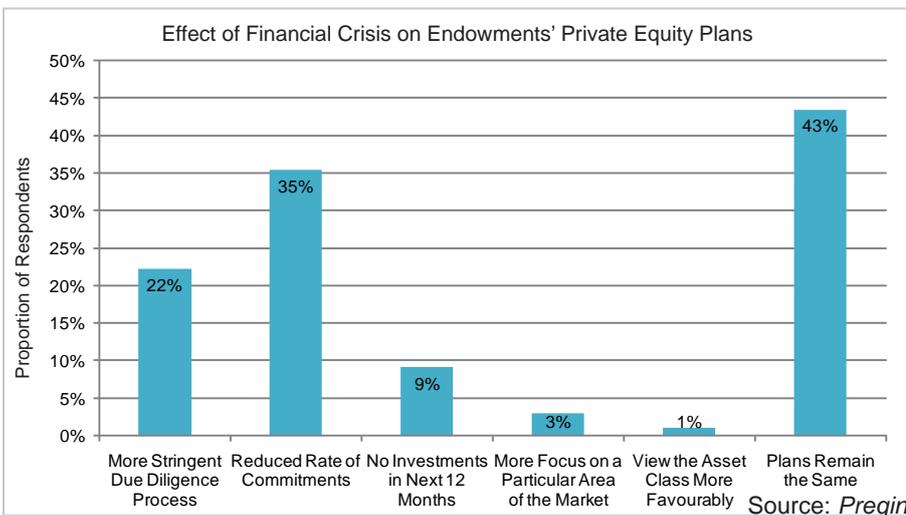
Change of Plans

As Fig. 6 shows, 57% of respondents have altered their private equity strategies in some manner as a result of the financial crisis, with 9% postponing investment in the asset class altogether for the next year.

Preqin Research Report: Survey of Endowments

October 2009

Fig. 6:



Of the endowments still actively investing in the asset class, a number cited multiple changes in their approach to investing in the asset class. 35% are reducing the rate of commitments they make to private equity and 22% are exercising greater caution, stating that they will be conducting more stringent due diligence on new investments. One endowment explained that “there are

opportunities to be had but because of the nature of the market, we have to tread carefully.”

43% of respondents stated that their plans for private equity have remained unchanged. One endowment was of the opinion that “the market is at a stage where it is ideal to invest. Historically, good opportunities exist when investments are made in funds raised at the bottom of a cycle. They can give very good returns.” A sentiment shared by the 1% of respondents that stated the downturn has led them to view the private equity asset class more favourably.

Fig. 7 illustrates the effect that the financial crisis has had on endowments of different sizes. The smaller endowments, those in the \$150 million or less bracket, had the largest proportion of respondents citing that their plans for private equity remain unchanged. The larger endowments, those in the \$750 million or more bracket, had the largest proportion of respondents planning to reduce their commitments. The proportion of respondents that were putting all private equity investments on hold was approximately the same for all

Fig. 7:

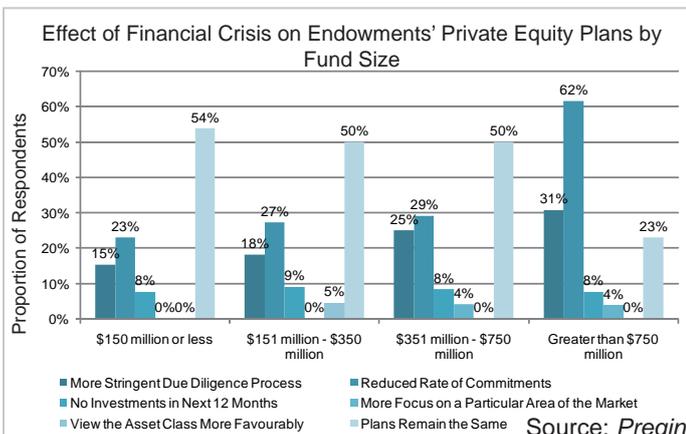
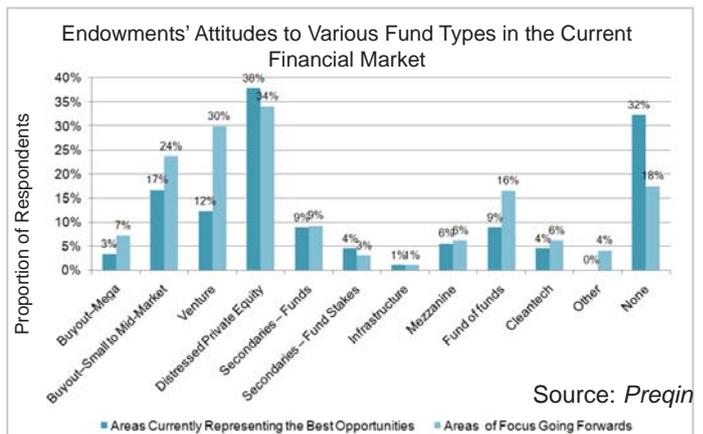


Fig. 8:



Preqin Research Report: Survey of Endowments

October 2009

endowment sizes.

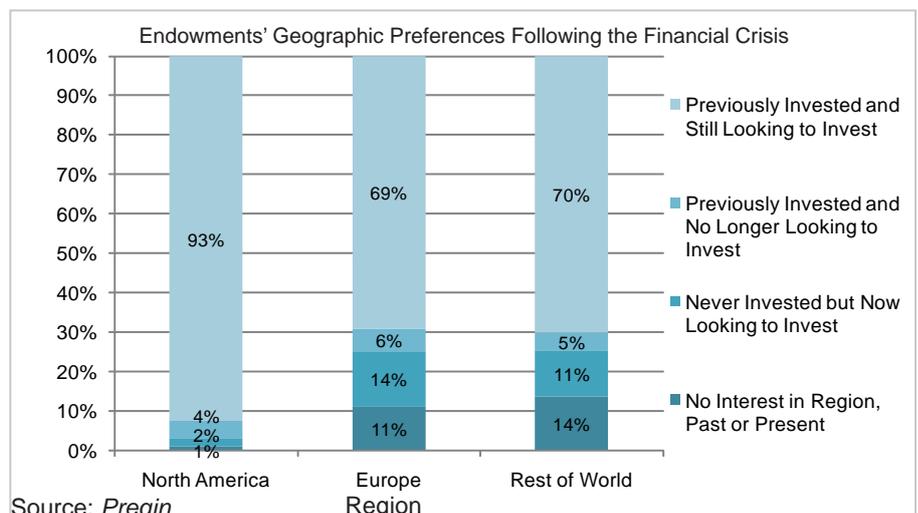
Areas of Focus

The private equity fund preferences of many endowments have changed in light of the recent economic conditions, with many adjusting their strategies to suit the current market. As shown by Fig. 8, 34% of respondents plan to include distressed private equity in their investment preferences in the future, with 38% of respondents believing that good opportunities exist within this area.

30% of endowments are planning to focus on venture funds in the future, despite the fact that only 12% of respondents consider this area to currently represent the best opportunities. Similarly 16% of respondents plan to focus on fund of funds in the future, even though only 9% recognised this area as representative of the best opportunities today.

Looking at the geographic preferences of the endowments that participated in the survey, we found that North America is the

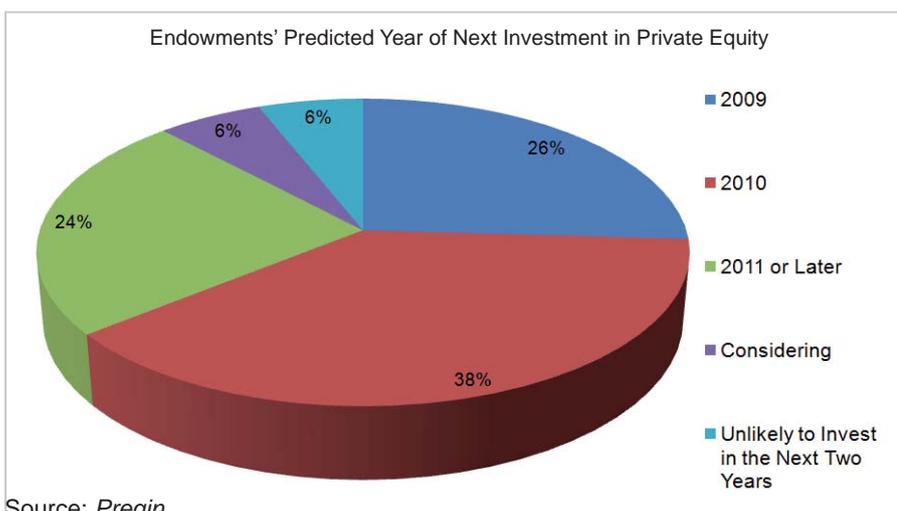
Fig. 9:



Source: Preqin

most preferred region for investment. As shown in Fig.9, 93% of endowments have previously invested there and are still looking to invest in the region and a further 1% that have never invested in the region but are looking to do so in the future.

Fig. 10:



Source: Preqin

A total of 83% of respondents are looking to invest in Europe focused private equity funds in the future, and 81% are planning to invest in Asia and Rest of World focused funds. These figures show that most endowments now invest on a global scale.

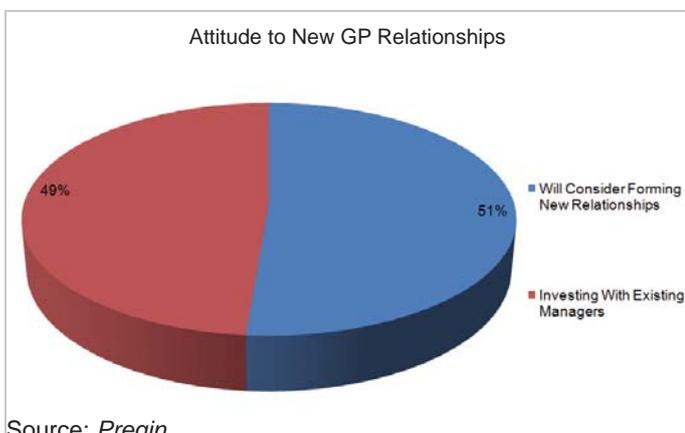
Next Commitments

Nearly two-thirds of respondents stated that they will be investing in private equity before the end of next year, with 26% looking to invest before the end of 2009 and 38% planning to invest in 2010. One New York-based endowment stated that "the next 6 - 18 months will be a great time to invest, as credit is starting to come back into the market, making investments in the asset class more appealing." 6% of respondents were undecided as to when they would make their next commitment to private equity, with many investors waiting

Preqin Research Report: Survey of Endowments

October 2009

Fig. 11:



to see when the market will improve. A further 7% stated that they were unlikely to invest in the asset class in the next two years; one European endowment reasoned that the private equity market was “currently overcrowded and full of problems”.

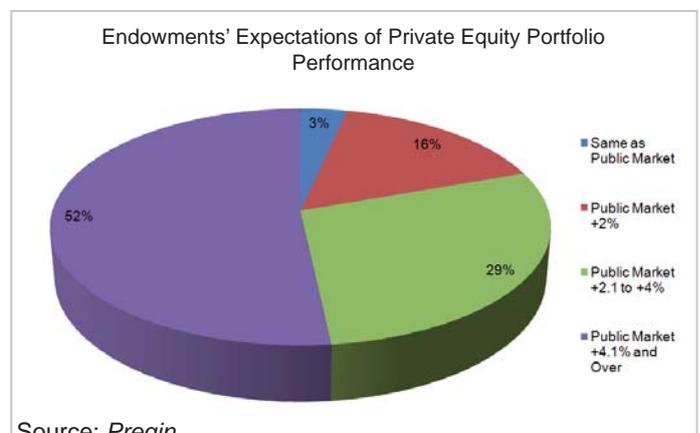
New Relationships

Of the endowments that plan on investing in the asset class within the next 12 months, 51% stated that they would consider investing with general partners that they have never invested with in the past, as illustrated by Fig. 11. Some endowments are using the current state of the market to their advantage and believe that now is the time to invest with new managers and push for more favourable terms. One Georgia-based endowment stated that “there needs to be an alignment of interest between general partners and limited partners, especially when negotiating the terms of contracts.” The remaining 49% of endowments stated that they would be looking to invest only with managers that they have previously invested with.

Performance Expectations

As expected, the majority of endowments (97%) expect the performance of their private equity investments to be better than that of the public markets. 52% expect their returns to be more than four percentage points higher than those of the public markets. One endowment stated that “capitalisations will stabilise, and private equity still offers a better return than the public market.”

Fig. 12



Our survey indicates that although endowments' attitudes towards private equity have been significantly affected by the global financial crisis, in general, they are still seeking to invest in the asset class. However, future investments will be reviewed under a more stringent due diligence process, and there is likely to be a slightly reduced level of investment in the short term.

If you have any comments on this report, please contact:
info@preqin.com

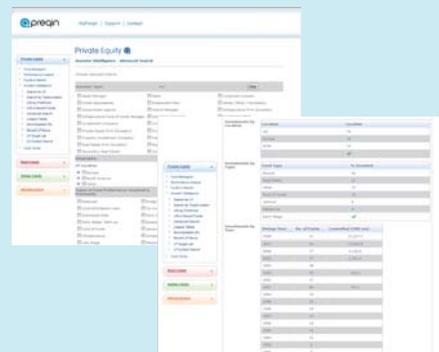
Preqin Research Report: Survey of Endowments

October 2009

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