
When we began drafting the first edition of this paper in the summer of 2008, we had little idea of the extent of the challenges private equity (or financial markets more broadly) would face over the following years.

Indeed, these have been trying times for private equity investors — some still find themselves over-allocated to the asset class as a result of their commitment strategy while others are ramping up their private equity exposure and beginning to make new commitments.

Acknowledging the struggles that many LPs have been facing over the past few years, an obvious question arises: “Do we stand by the core messages contained in this paper in light of the outcome of the financial crisis?” The answer is yes.

We continue to believe, now as much as ever, that achieving the benefits of private equity investing requires a long-term investment horizon.

We also feel investors are best served by employing a commitment strategy consistent with this time horizon and the dynamics of the asset class.

Harvey Lambert

*Managing Director, Head of Private Equity
Secondary Investments*

Ethan Stambler

*Vice President, Product Development
Alternative Investments*

Derek Snyder

*Associate
PineBridge Secondary Partners*

Achieving Private Equity Allocation Targets: Eliminating The Guesswork

Executive Summary

A commitment strategy that allows an investor to consistently achieve and maintain a specific, targeted private equity exposure can be just as important as deciding on the initial allocation.

Commit too little, and the asset class may never deliver its intended impact. Commit too much, and you may face liquidity pressures in funding prior commitments or need to liquidate otherwise attractive positions.

Private equity investors have spent significant effort in recent periods setting or re-setting their “optimized” target PE allocations. However, too few may be developing sound approaches to ensure that their targets are actually realized and maintained over time.¹

“Optimized” private equity target allocations are designed to reduce portfolio risk through diversification and boost performance. But if these allocations are not achieved and maintained, investors may not fully realize the benefits of adding private equity to a portfolio.

This white paper explores the challenges of estimating future private equity exposure and addresses three central questions commonly faced by new and experienced private equity investors alike:

- As a new private equity investor, how should I size and pace my commitments to reach my target allocation?
- What future commitments will I need to make to maintain my proportional private equity exposure over time?
- How should I manage my long-term private equity commitments in the face of short-term market volatility across the rest of my portfolio?

The discussion and case studies that follow draw on our 20+ years of experience in managing the private equity exposure of our affiliates and other clients. It is also derived from proprietary tools and research developed to address these common challenges.

While we realize that each investor’s situation is unique, we also hope that by exploring these scenarios—and outlining a clear framework for addressing them—investors will be better able to achieve their private equity investment objectives.

¹ Diversification does not insure against market loss.

Moving from Allocation Target to Commitment Strategy

Institutional investors in search of improved returns and greater diversification are increasingly turning to private equity investments as they shuffle and refine their portfolio allocations. Once the decision to invest in private equity is made, investors typically develop an appropriate target allocation based on their liquidity, risk tolerance and performance needs.

It's easy to understand why commitment planning has been overlooked. Unlike traditional investments, where capital is put to work immediately, private equity investments function as a highly variable series of cash flows.

Estimating the future exposure or net asset value (NAV) of private equity investments continues to be very difficult. That's because investors have no control over the timing of the contributions towards their commitment that will build NAV. Nor can they control distributions from underlying investments that will reduce NAV.

This lack of control results from private equity funds typically calling capital from investors as portfolio company acquisitions are made, and then distributing capital back to investors as investments are exited.

The majority of capital calls occur early in the life of a fund (typically years one through three), while most

distributions occur later in the fund's life (typically years four through ten). Over time, these cash flows form a pattern that is often referred to as the "J-curve," as seen in **Figure 1**.

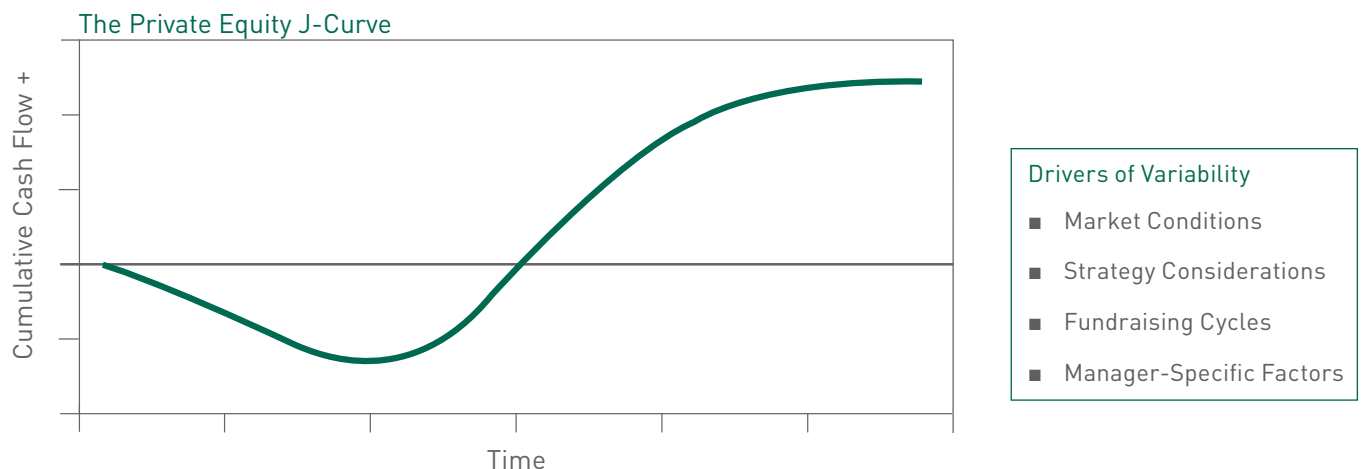
An investor seeking to reach or maintain a specified allocation to private equity needs to understand exactly where their portfolio sits on the J-curve. In other words, the investor must understand the maturity of the portfolio relative to its overall lifecycle. Only if investors are armed with this essential information can they make effective future commitment decisions.

Commitment decisions are important in an effort to achieve strategic targeted private equity exposure. This could mean reducing that exposure by liquidating private equity interests on the secondary market, or increasing it by ramping up commitments (potentially via a secondary purchase).

Estimating Future Exposure: More Easily Said Than Done

Many investors and consultants have acknowledged the importance of accurately estimating future private equity exposure in developing a commitment strategy. However, few are able to accurately forecast how their exposure — based on prior or future commitments — will actually evolve over time.

FIGURE 1 Private Equity Cash Flow Can Be Highly Variable



Note: For illustrative purposes only. Market cycles can exaggerate or minimize the "J" effect in any vintage year. There is no industry standard for valuing private companies, and valuations of similar companies may vary from fund to fund based on a subjective measure of value. Please refer to the J-Curve endnotes.

One reason is that private equity cash flows can prove unpredictable based on many factors:

- **Market Conditions:** Cash flows may be influenced by the market for private equity transactions in general. If markets are strong, and deals can be exited quickly, private equity investors may experience sooner-than-expected capital calls and distributions, while sluggish markets may delay portfolio company investments and/or require managers to hold portfolio companies for longer than expected time periods. This can delay both capital calls and distributions.
- **Strategy Considerations:** The strategy of a private equity fund may also affect cash-flow timing. For example, venture capital managers often must put substantial time into their portfolio companies over a series of investment rounds. Consequently, these investments often have longer lives and a greater time horizon from capital calls to distribution than their buyout counterparts.
- **Fundraising Cycles:** The timing of fundraising cycles for individual managers, and the market as a whole, can also impact when private equity investors have the ability to make commitments. This can affect the overall timing of future cash flows.
- **Manager-Specific Factors:** Each manager and each fund are impacted by numerous market- and transaction-specific variables that impact cash-flow timing. This idiosyncratic element leads to different cash-flow patterns among funds—even for the same or similar managers.

These and other variables make predicting individual private-equity-fund cash flows a difficult task. Unfortunately, investors' commitment-planning efforts can stall as a result.

Our Approach

Because of the need to ensure that private equity exposure targets are reliably achieved over time, forecasting private equity cash-flow patterns is critical to the strategic asset-allocation process.

To aid in developing an effective commitment strategy, we invested significant resources over six months to design an effective methodology to move beyond the common challenges involved in forecasting future private equity exposure.

We studied a broad pool of thousands of private equity funds and determined that while individual fund cash flows are unpredictable, when examined in aggregate, a discernable and quantifiable cash-flow pattern emerges for diversified private equity portfolios.

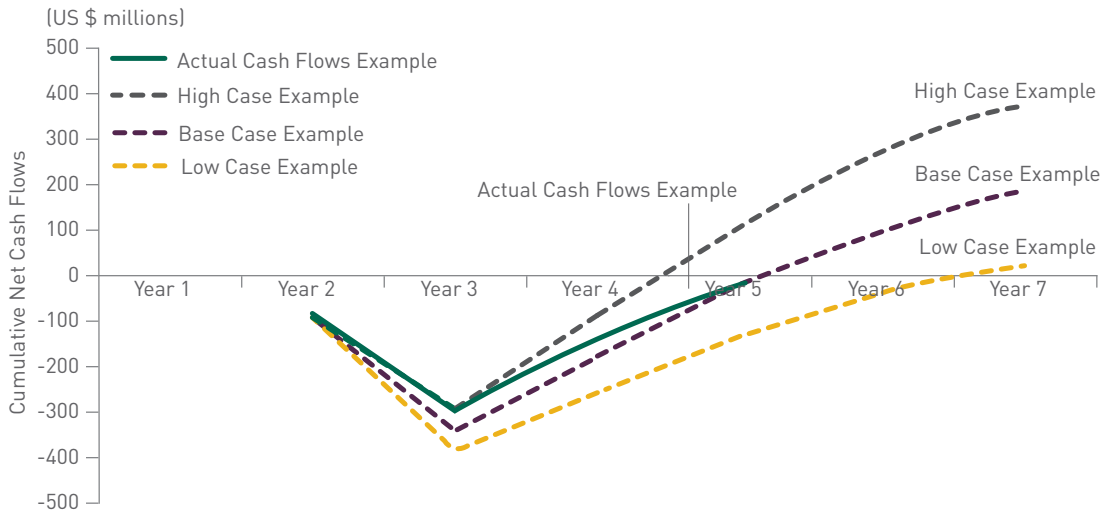
Based on this study, and through rigorous back testing, we developed a proprietary tool and methodology that illustrates potential private equity cash flows and NAV. The results can be used to estimate the evolution of a private equity portfolio over time and assist in developing a commitment strategy to achieve portfolio-allocation goals.

A Three-Step Illustrative Process for Projecting Private Equity Cash Flows

1. Our approach begins by developing performance assumptions for a portfolio of existing private equity sets or anticipated future commitments based on qualitative evaluations of the underlying managers and industry benchmarks.
2. Monte Carlo simulations, which randomly generate tens of thousands of cash-flow patterns, are then utilized to model multiple J-curves in a series of confidence intervals based on a broad set of historical and potential private equity fund cash-flow data.

The confidence intervals are then statistically summarized to arrive at a J-curve for the aggregate portfolio defined by base-, low- and high-case cash-flow, spanning roughly one standard deviation of the median or base case.

FIGURE 2 Estimating Future Portfolio Cash Flows



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Figure 2 depicts an illustrative portfolio. As indicated by the green line, the portfolio’s actual cash flows are very close to the “base case” as originally reflected by the model (the charcoal gray dotted line).

Practical Implications and Case Studies

To illustrate how this model and approach can be applied to day-to-day challenges, we have developed four case studies. Each asks a “real-world” question faced by today’s private equity investors.

Case Study A: As a new investor, how should I size and pace my private equity commitments to reach my target allocation?

Case Study B: What future commitments will I need to make to maintain my proportional private equity exposure over time?

Case Study C: How should I manage my long-term private equity commitments in the face of short-term market volatility across the rest of my portfolio?

Case Study D (Added October 2009): How do you manage private equity exposure amid severe market volatility?

The Value of Monte Carlo Simulations

The benefit of using Monte Carlo analysis in each of these case studies is the broad range of outcomes generated by each simulation. The results are high, low and base cases that can be set at any level of statistical significance depending on the desired outcome. For the case studies discussed within this paper, the high and low cases span roughly one standard deviation of the median. While it is uncertain what the future cash flow implications of any private equity commitment strategy will be, for a targeted a level of certainty, monte carlo simulations illustrate the historical range of statistically weighted probabilities. Informed commitment decisions can then be made knowing the likelihood that the actual outcome will fall within a desired range.

Case Study A: Developing a New Private Equity Program

Applying this cash-flow and forecasting process can be invaluable for an investor seeking to begin a private equity investment program. The following case study assumes a normal investment environment and does not account for significant anomalies in market cycles.

Case Study A involves a representative public pension seeking to diversify into private equity with no prior exposure. While the plan's staff may be able to roughly estimate a future commitment schedule based on capital availability, without careful planning the pension risks being over- or under-exposed to private equity. Using the same model introduced earlier, we may be able to develop a commitment strategy to more reliably achieve exposure within the desired timeframe.

Specifically, the pension currently has US \$10 billion in assets and is seeking to develop a US \$500 million private equity investment program. This reflects their desired 5% portfolio allocation target based on its current portfolio size.

If the staff simply commits US \$100 million to private equity funds over each of the next five years, they will likely fall well short of the pension's goal of US \$500 million of exposure.

Because timing of both contributions and distributions is at the private equity fund manager's discretion, commitments do not necessarily translate into money at work (i.e. actual

investment exposure). In fact, even if they commit US \$500 million upfront in the first year, the pension will likely never reach US \$500 million of exposure.

Instead, the staff would have to commit in excess of the stated goal to reach the pension's target, and frontload their commitments to ensure they reach 5% in actual exposure within the stated timeframe.

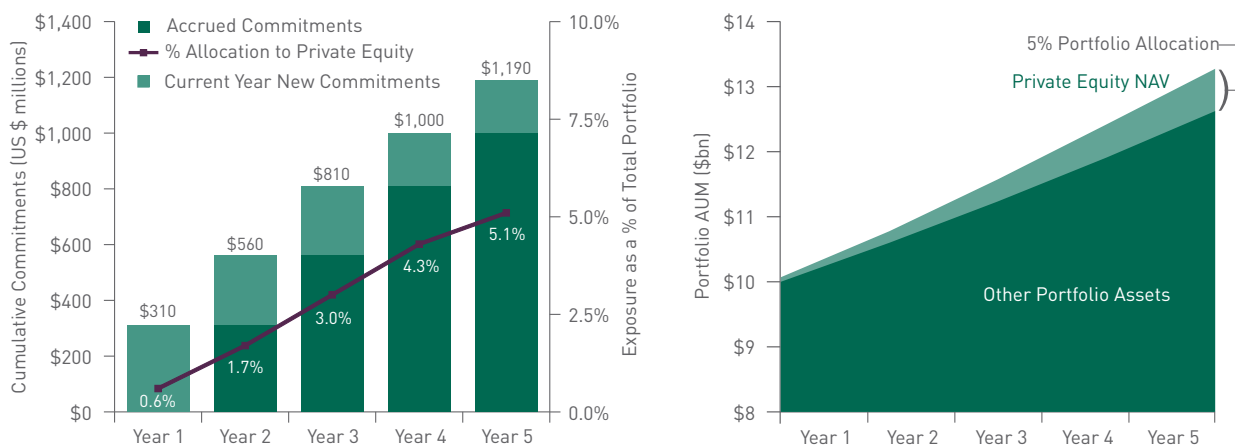
As depicted in **Figure 3**, our model estimates that the pension would need to pursue an "overcommitment strategy," committing a total of US \$1.2 billion to achieve the pension's US \$500 million target exposure.

Commitment amounts would also need to vary ranging from US \$310 million in year one to US \$190 million in the fifth year. Given anticipated growth of the pension plan's other investments (as depicted in the graphic on the right side of Figure 3), by the fifth year, the required target exposure would be roughly US \$650 million to achieve the 5% target allocation.

In other words, both frontloading and "over-committing" would likely be necessary to hit the pension fund's target within five years. Investors should however be aware of the risks involved in employing this approach.

If the pension is seeking to further accelerate its private equity exposure, making a secondary investment (buying into a mature and diversified pool of private equity assets that are further along their J-curves) can provide a valuable "kick-start" to get its program off the ground even faster.

FIGURE 3 Case Study A: Developing a New Private Equity Program — One Example



Note: Case Assumptions — 16.9% buyout IRR/25.6% venture IRR performance; 80% buyout/20% venture portfolio split; PE limited partnerships have a life span of 12 years. For illustrative purposes only. Past performance would not be indicative of future results, and there can be no assurance that the cash flows will be achieved. The information set forth above is theoretical in nature and is not indicative of future results. We are not recommending or soliciting any action based upon this material. The charts shown above charts are provided for illustrative, hypothetical purposes only and do not reflect actual results of investments using any client assets. Such illustration does not take into account unanticipated material changes in market and/or other economic conditions affecting the investments, transaction costs that may arise in any realization of values from the investments, the imposition of taxes, the impact of the human judgment factor and the actual timing of any exits from the underlying investments. Accordingly, PineBridge does not guarantee that it could actually create a portfolio based on the hypothetical portfolio underlying the above table or, if such portfolio(s) were created, that it would achieve the results implied above, or be profitable to any investor.

To demonstrate this point on an illustrative basis, if the staff made a secondary fund investment in addition to frontloading commitments, they could reduce the time required to reach the pension’s 5% exposure target. If seeded with US \$150 million of private equity NAV in the first year via a secondary investment—while reducing the first-year primary fund commitments by US \$150 million (so the same US \$1.2 billion is committed over the next five years in both examples)—the pension could potentially achieve its targeted 5% exposure within four years.

This is one full year shorter than the five required if they had made only primary fund commitments.

Case Study B: Maintaining a Target Allocation within an Existing Private Equity Portfolio

How to maintain a target private equity allocation over time is a problem often faced by even the most seasoned of private equity investors. Future commitment decisions may be influenced by the strategy composition, maturity and performance expectations of the current and future expected portfolio.

The first step in developing or refining a commitment strategy with respect to an existing private equity portfolio is to assess the factors that will drive the development of the portfolio’s future exposure.

The best approach is for investors to ask themselves the following questions:

- What is the current strategy composition of the private equity portfolio? Will it be maintained? And how will this composition impact future cash flows?

- How mature is the portfolio and what level and direction of portfolio “momentum” is anticipated over the near term?
- How strong is the current roster of managers, and are they expected to maintain their prior historical performance?

Case Study B involves an endowment with US \$5 billion in assets and currently US \$500 million in private equity exposure, in line with its 10% allocation target. The strategy composition is 80% buyout /20% venture capital and is expected to hold steady.

The endowment has a rather mature portfolio, as it has been investing in private equity for 10 years.

To help illustrate the questions faced by this endowment, we developed a synthetic portfolio and attempted to address the critical factors listed in **Figure 4**.

Once the endowment has assessed these underlying factors, it can then address the primary question: What commitments are necessary over the next five years to maintain this 10% allocation?

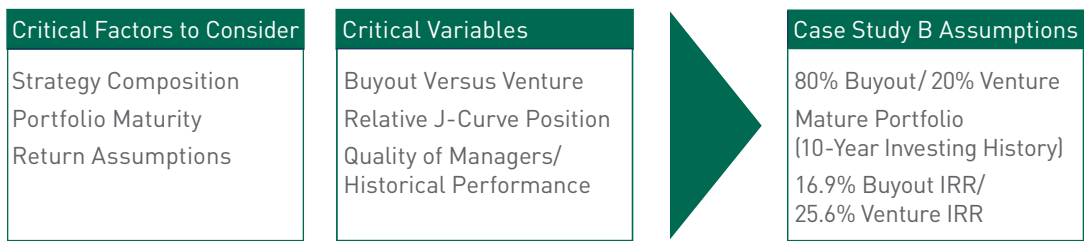
While this investor’s situation is quite different than in Case Study A, we can use the same cash-flow tool to estimate the future commitments necessary to hold the endowment’s allocation steady at 10%.

Specifically, the model forecasts that Investor B will need to commit US \$160–US \$220 million annually to private equity funds over the next five years to maintain its target allocation (shown in **Figure 5**).

FIGURE 4 Critical Questions in Maintaining a 10% Exposure to Private Equity

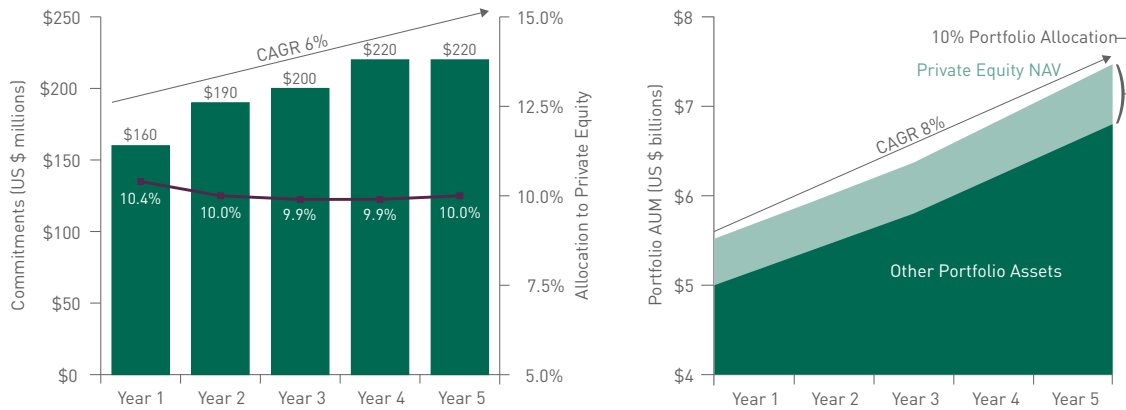
Objective: US \$5 billion endowment is seeking to maintain 10% exposure to private equity, given an 8% growth rate across the rest of its (non-private equity) portfolio.

Question: What annual commitments are necessary over the next 5 years to maintain this allocation?



Source: PineBridge Investments. For illustrative purposes only.

FIGURE 5 Case Study B: Maintaining a Target Allocation



Note: Case Assumptions — 16.9% buyout IRR/25.6% venture IRR performance; 80% buyout/20% venture portfolio split; PE limited partnerships have a life span of 12 year For illustrative purposes only. Past performance would not be indicative of future results, and there can be no assurance that the cash flows will be achieved. The information set forth above is theoretical in nature and is not indicative of future results. We are not recommending or soliciting any action based upon this material. The charts shown above charts are provided for illustrative, hypothetical purposes only and do not reflect actual results of investments using any client assets. Such illustration does not take into account unanticipated material changes in market and/or other economic conditions affecting the investments, transaction costs that may arise in any realization of values from the investments, the imposition of taxes, the impact of the human judgment factor and the actual timing of any exits from the underlying investments. Accordingly, PineBridge does not guarantee that it could actually create a portfolio based on the hypothetical portfolio underlying the above table or, if such portfolio(s) were created, that it would achieve the results implied above, or be profitable to any investor.

Interestingly, in this example, the endowment need only increase its annual private equity commitments at a 6% rate, while in contrast, its total portfolio is growing at 8%.

How can this be? Shouldn't future commitments grow more in line with the aggregate portfolio's growth?

The underlying reason for this asymmetric growth in commitments is that—based on our assumptions—the endowment has a mature private equity portfolio with large outstanding commitments that will be called over the near term.

These private equity commitments will result in near-term capital contributions that provide what we refer to as “significant positive portfolio momentum.” This momentum will accelerate the endowment’s private equity exposure over the next five years as money “goes to work.”

Given a different scenario and set of assumptions, however, the results might be different or perhaps even reversed.

For example, an investor with a much more mature portfolio with limited recent commitments might be faced with significant distributions and limited capital calls over the next five years, resulting in “significant negative portfolio momentum.” These distributions and limited capital calls could quickly erode the investor’s

exposure. Such a scenario would require the investor to accelerate its new commitments at a pace exceeding portfolio growth.

In summary, in order to maintain a target allocation, investors cannot simply grow their commitments at the same rate they expect their total portfolio to grow. They must instead assess the composition, maturity and return expectations of their portfolio to accurately develop a future commitment strategy.

Case Study C: The “Denominator Effect”

As the value of traditional portfolio assets fluctuates with normal business cycles, investors may temporarily find their private equity exposure exceeding or falling short of their target allocation—often known as the “denominator effect.”

The automatic reaction to these market movements may be for investors to adjust their commitment strategy in an effort to meet allocation targets in the short run by either reducing or accelerating commitments. While this may seem like a prudent strategy, market-timing private equity commitments can have consequences for investors in terms of achieving long-term exposure, increasing volatility and altering performance.

When beginning a private equity program, investors must accept that private equity, by nature, is a long-term asset class and must distance their investment decisions from short-term bias.

To illustrate this further, let's explore the same endowment featured in Case Study B (a US \$5 billion endowment with a 10% target private equity allocation), but under different circumstances.

Instead of assuming 8% portfolio growth over the next five years as we did in the prior case study, let's assume the endowment's asset base declines by 2% in 2008 due to poor performance in public markets. The endowment expects to lose another 2% in 2009 as well.

Brighter years are forecasted, however, as the fund expects recovery to growth of 10% from 2010–2012, eventually returning it to its long-term growth expectation of 8%.

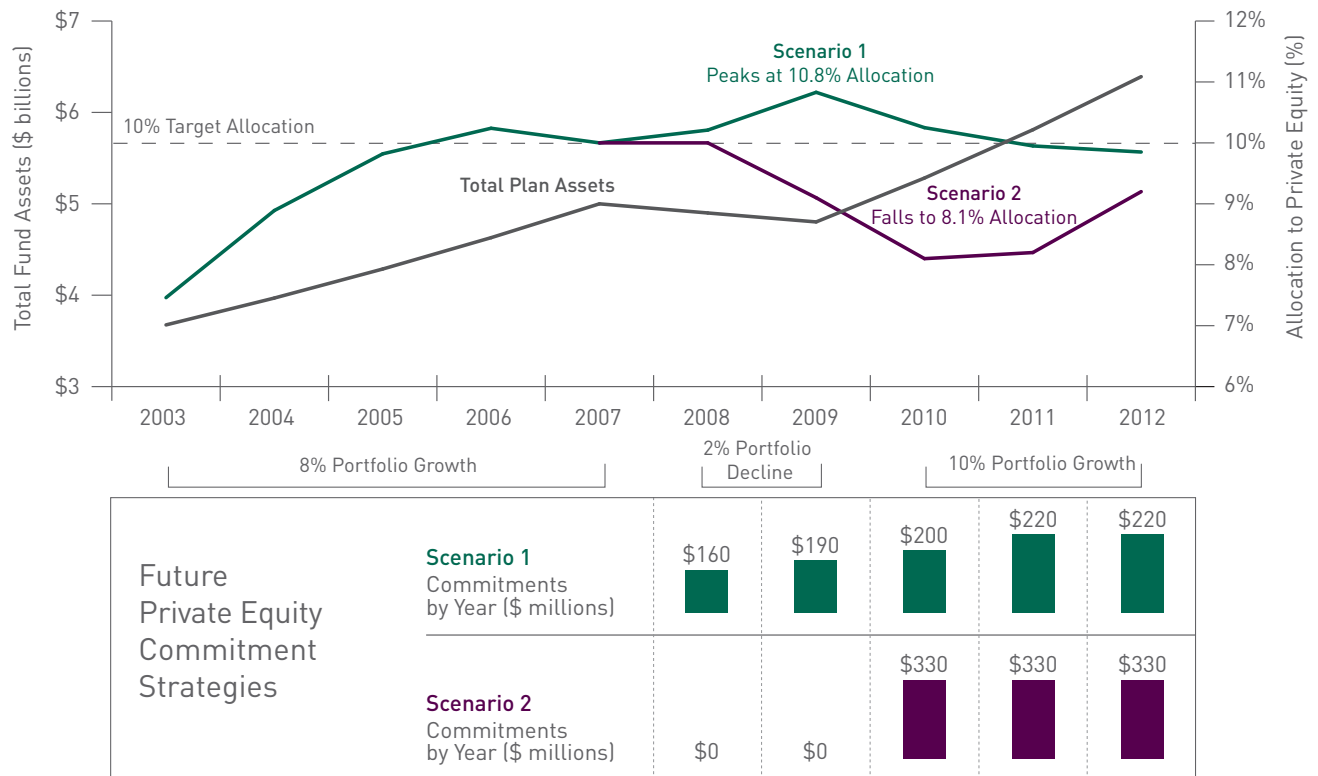
Given this climate, the endowment's staff faces a decision. While its asset base has declined in 2008, its private equity exposure has continued to grow as exits have slowed and managers have continued to call capital.

Should the endowment continue to make new commitments to private equity even if new commitments will push the fund's exposure temporarily beyond its target?

To address that question, let's examine two scenarios. In Scenario 1, we assume the endowment pursues the same commitment plan provided in Case Study B to maintain its 10% private equity allocation—commitments ranging from US \$160 million in the first year to US \$220 million in the fifth year.

In Scenario 2, we assume that the endowment makes no commitments to private equity in years 2008 and 2009 in response to deteriorating market conditions across the rest of its portfolio.

FIGURE 6 Case Study C: "The Denominator Effect"



Note: Case Assumptions — 16.9% buyout IRR/25.6% venture IRR performance; 80% buyout/20% venture portfolio split; PE limited partnerships have a life span of 12 years.
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Case Study D: The “Denominator Effect” Added — October 2009

As markets recover in 2010, the endowment over-compensates for its reduced commitments in 2008 and 2009 by committing US \$330 million per year from 2010–2012. So, in both scenarios, the same US \$990 million is committed, but with very different timing, as detailed in **Figure 6**.

As expected, in Scenario 1 the endowment temporarily exceeds its target allocation as the value of the rest of its portfolio declines, peaking at 10.8% in private equity exposure in 2009.

As markets recover from 2010–2012, however, the endowment’s private equity allocation reverts back to its 10% target by 2011.

The results are quite different for Scenario 2. While the endowment will maintain its allocation for 2008 by not making new commitments, it will be grossly under-allocated by 2010, bottoming out at 8.1%. Despite making significant “catch up” commitments from 2010–2012, the endowment will still be well under its target allocation at 9.2% by 2012.

The consequences of Scenario 2 are two-fold. By not committing consistently to private equity year after year, the endowment experiences unintended private equity exposure volatility and delays a return to its target allocation until after 2012. In contrast, Scenario 1 forecasts the endowment will return to target by 2011.

Additionally, the endowment risks foregoing investments in potentially strong private equity vintage years. Historical data has shown that private equity funds making investments in years with poor public markets have provided comparably strong returns to other asset classes and other private equity “vintages.”² This is presumably part of the anticipated “diversification benefit” that this endowment sought in establishing a private equity allocation in the first place. By not making commitments in 2008–2009, the endowment could miss attractive investing opportunities.

If investors are highly concerned about short-term over-allocation to private equity, perhaps a middle-of-the road approach is best, where commitments in over-allocated years are trimmed, but not eliminated.

However, investors must be cautious not to trim too much, as shrinking commitments in one year can have cascading implications in the future, and investors may have to drastically over-commit to a narrow set of vintage years and maturities at that time to reach their allocation target.

In light of the events of the past few years, the portfolio growth assumptions in Case Study C pale in comparison to the market declines actually suffered by most private equity investors in 2008 and 2009. Many have in fact experienced substantial double digit declines across their portfolios, far exceeding those assumed in our Case Study C model.

In an effort to make Case Study C more applicable to the challenges LPs are currently facing, we have adjusted our assumptions to more closely approximate actual market dislocations in 2008 in a new scenario, Case Study D displayed below. In addition, we have also revisited the proposed future commitment schedules to better reflect many private equity investors’ current appetite for the asset class.

In Case Study D we again consider the same hypothetical endowment (US \$5 billion in assets, 10% target allocation to private equity) used previously. We assume the same 8% portfolio growth from 2003–2007 as we did previously in Case Study C. But instead of a mere 2% per year drop in assets in 2008 and 2009, we assume an asset decline of 35% in 2008 and no growth in 2009.

How does this change impact the endowment’s portfolio? Regardless of whether the endowment pursues commitment Scenario 1 or 2 (described previously in Case Study C) it is projected to be significantly above its target allocation to private equity for some time to come.

In Scenario 1 (commitments continue unabated), the endowment’s allocation peaks at 16% in 2009, eventually declining to 13.3% in 2012—both well above its 10% target.

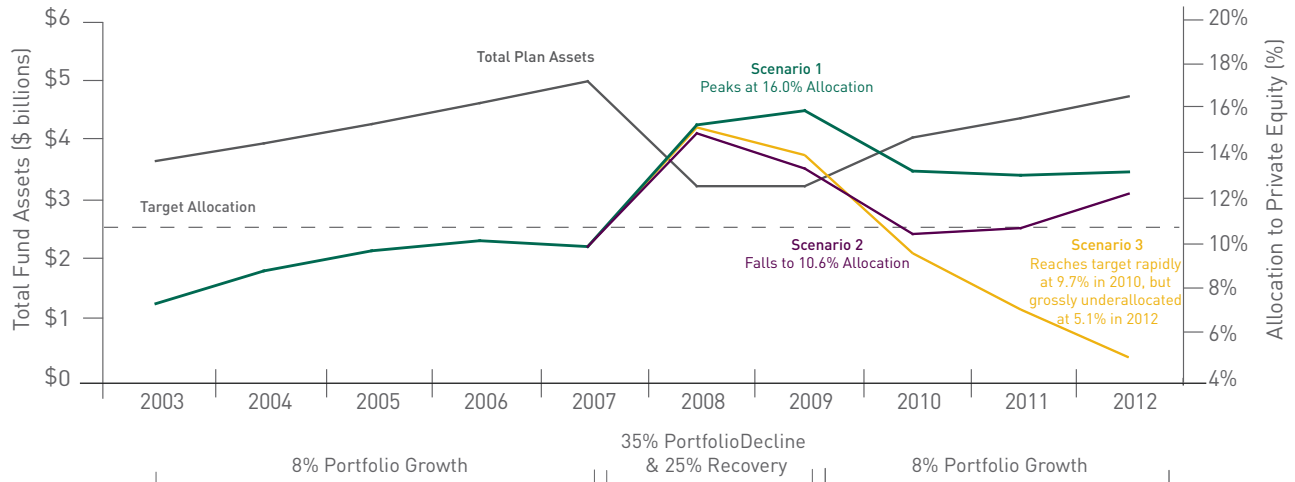
In Scenario 2 (commitments deferred 2 years), its allocation peaks at 15% in 2008, bottoming out at 10.6% in 2010 and then growing to 12.4% in 2012. Unlike in Case C, because of the significant portfolio declines in 2008, neither scenario brings the endowment back to target by 2012.

Given the post-crisis climate it might be likely that this endowment would consider stopping new private equity commitments all together over this period. Indeed, if the endowment pursues this strategy and makes no further commitments over the next 5 years, as seen in Scenario 3 (**Figure 7**), it would be projected to return to its target of roughly 10% by 2010.

² Past performance is not indicative of future results. Cambridge Associates U.S. Private Equity, pooled mean and median net IRR to limited partners by vintage year as of 30 September 2010.

FIGURE 7

Case Study D: “The Denominator Effect”



Future Private Equity Commitment Strategies	Scenario 1 Commitments by Year (\$ millions)	Scenario 2 Commitments by Year (\$ millions)	Scenario 3 Commitments by Year (\$ millions)
Scenario 1	\$160	\$190	\$200
Scenario 2	\$0	\$0	\$330
Scenario 3	\$0	\$0	\$0

Note: Case Assumptions — 16.9% buyout IRR/25.6% venture IRR performance; 80% buyout/20% venture portfolio split; PE limited partnerships have a life span of 12 years.

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Additionally, assuming the endowment is willing to accept market pricing, it could potentially conduct a secondary sale as well to rapidly return to its private equity allocation target.

However, there are consequences of completely suspending new commitments that will become apparent as the portfolio begins to recover. Because the endowment put no new capital to work, it will in fact be significantly under allocated by 2012 at 5.1% as distributions erode NAV while no additional capital is deployed.

Given these three scenarios, the best approach for an investor seeking to remain close to its target allocation would be to immediately reduce commitments following significant portfolio declines, and later increase commitments as markets begin to stabilize. However, a strategy like this is difficult to time correctly and also not

without consequences. By suspending commitments an investor potentially risks jeopardizing relationships with its GPs, foregoing additional vintage year diversification, missing a potential attractive investment environment and increasing the volatility of future private equity cash flows. These consequences are detailed in Figure 8.

Investors must also consider that making private equity commitments often requires a significant amount of lead time—further complicating the process of trying to remain on target by periodically stopping and starting commitments.

Ultimately, investors must weigh their tolerance for exceeding their exposure target for some period of time against the timing challenges and potential performance consequences of temporarily suspending commitments. Establishing private equity allocation targets in terms of “ranges” rather than as discrete targets may help to manage against these variables.

Advantages

- Investor is able to maintain target allocation to private equity

Disadvantages

- Potential loss of GP relationships
- Loss of vintage year diversity
- May forgo attractive markets
- Future cash flow volatility
- Difficult to time correctly



Conclusions

Several lessons can be drawn from this prior work and experience in managing clients' private equity exposure over time. Foremost, having a private equity commitment strategy designed to achieve a target allocation is critical to sound portfolio management.

- In developing a new private equity program as demonstrated in Case Study A, capital commitments to private equity must be "upsized" to achieve a targeted exposure. In addition, frontloading commitments and/or making a secondary investment can help to reach an allocation target much faster.
- As seen in Case Study B, maintaining a target private equity allocation is not simply a matter of increasing commitments at the growth rate of an investor's broader asset base.
- An ongoing assessment of the composition, maturity and performance expectations of the underlying private equity assets is required to develop an appropriate commitment plan.
- Finally, in Case Studies C & D, it's clear that adjusting a private equity commitment strategy on the basis of short-term market movements has consequences for investors. Inconsistency in commitments can lead to both greater volatility of projected exposure and potential performance losses.

Overall, the message is clear: Private equity investors need to consider a strategic commitment plan to achieve allocation targets as much as they consider setting the targets themselves.

While the challenges in establishing a commitment strategy are many, it is an endeavor well worth the attention, time and effort. ■

J-Curve Endnotes

The Cash Flow Analysis – Cumulative Net Cash Flows is being presented for illustrative purposes only. This material is not intended to demonstrate the performance of PineBridge Investments research nor should it be considered a recommendation to purchase or sell any particular security. This material contains simulated model performance results and may not represent the results of actual trading using client assets. These results illustrate only the potential results of applying a model retroactively to historical financial data. Simulations exclude trading costs, taxes and the impact of both the human judgment factor and trading timing. Simulations are not necessarily a guide to future performance.

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Investors could lose all or a substantial amount of their investment;

Interests may be illiquid and there may be significant restrictions in transfer. There is no secondary market for interests, and none is expected to develop;

They may be leveraged, and their performance may be volatile;

They have high fees and expenses that will reduce returns;

They may involve complex tax structures;

They may involve structures or strategies that may cause delays in important tax information being sent to investors;

They and their managers/advisers may be subject to various conflicts of interest;

They may hold concentrated positions with a limited number of investments;

They, or their underlying fund investments, may invest a substantial portion of their assets in emerging markets, which could mean higher risk;

The list set forth here is not a complete list of the risks and other important disclosures associated with such investments and is subject to the more complete risk and disclosures contained in the applicable confidential offering documents;

The investment manager has total trading authority over fund investments. The use of a single adviser applying generally similar trading programs could mean lack of diversification and, consequently, higher risk.

Investments in emerging markets involve a broad range of economic, foreign currency and exchange rate, political, legal, and financial risks. Many of these risks are not quantifiable or predictable and are not typically associated with investing in the securities of issuers in more developed and regulated economies. For a more complete discussion of risks relating to these types of investments, prospective investors should consult the Memorandum.

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