

Measuring Exposure for Limited Partnership Funds

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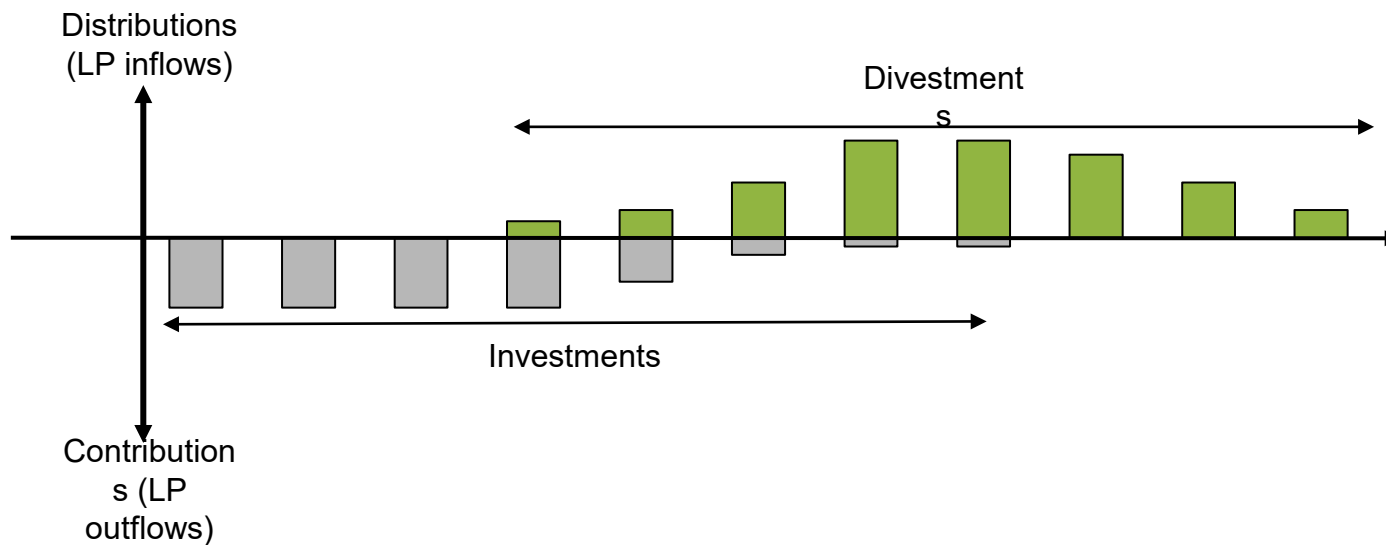
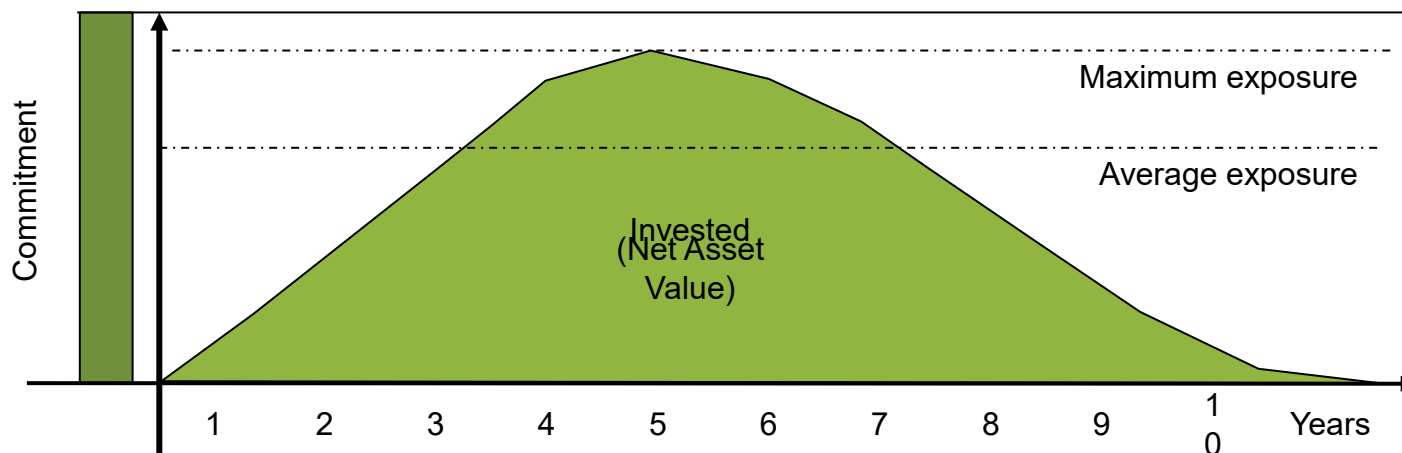
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Introduction

- Measuring the exposure to limited partnership funds investing in private assets is of high relevance, notably to multi-asset class investors.
- The term “exposure” appears to be so obvious that neither academic literature nor the industry has put forward a commonly accepted formal definition in the context of limited partnership funds
- But some definitions for exposure can lead to bad portfolio management decisions

Exhibit 1: Commitments, investments, and cash-flows



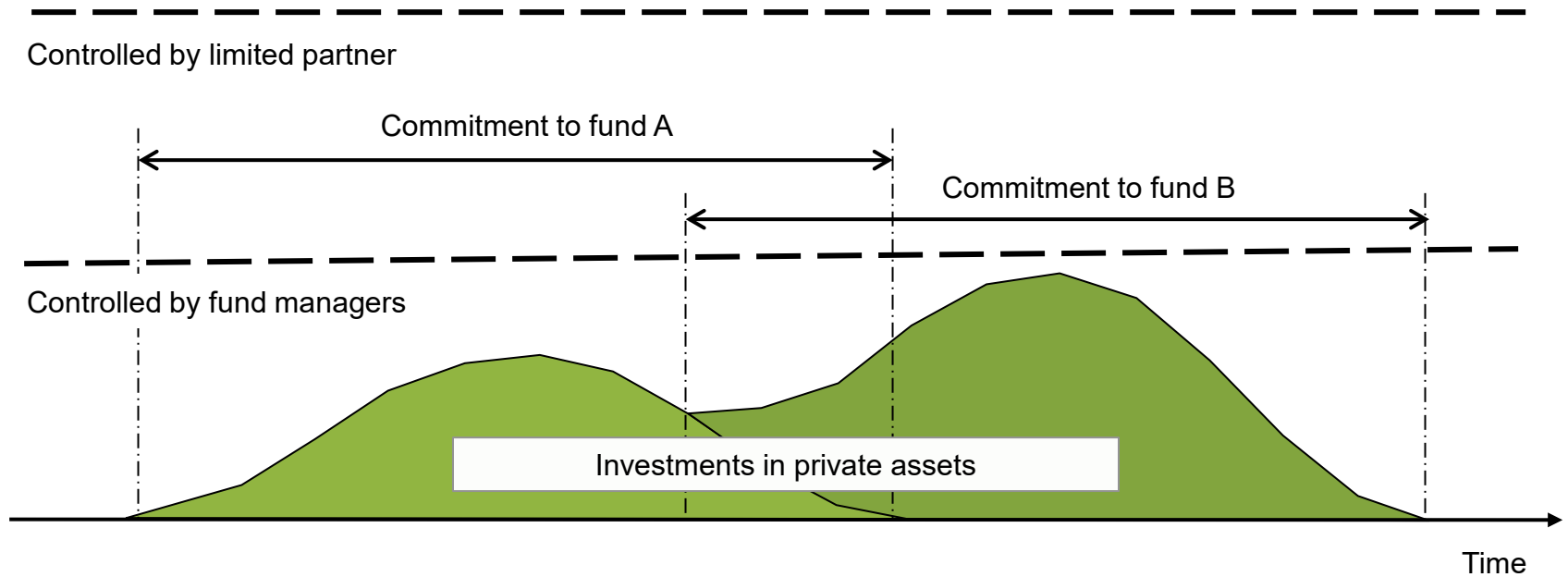
Definition

- Formal Definition
- Position
- Changing Position

Layers of Investment

- (Undrawn) Commitments – the LP committing to a fund
- Net Asset Value – the fund investing in private assets

Exhibit 2: LPs indirectly controlling investments in private assets



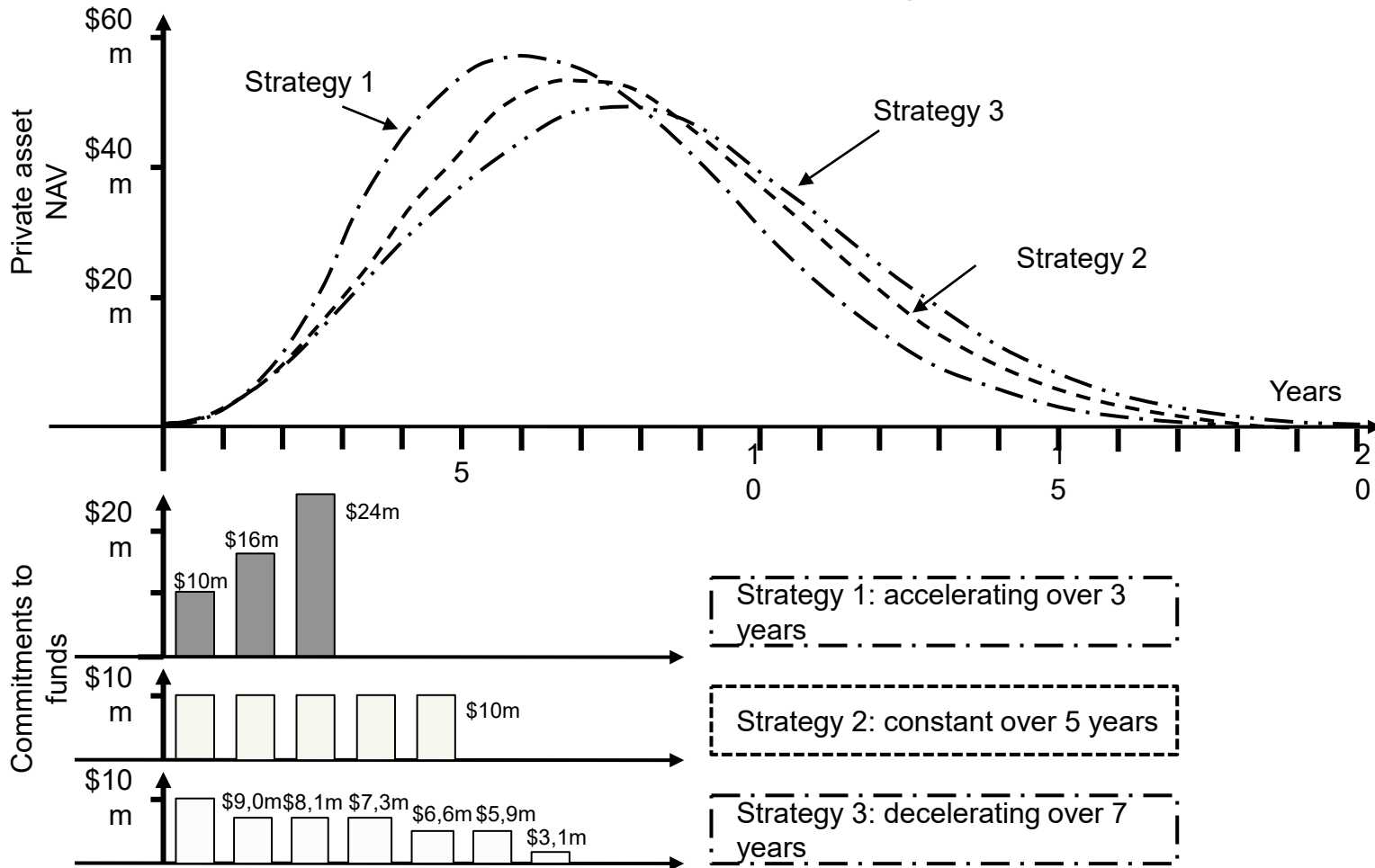
Commitment Risk

- Timing
- Classification

How can LPs Manage Exposure

- Secondary Market Transactions
- Co-Investments
- Liquid Asset Trading
- Commitment Pacing

Exhibit 3: Commitment pacing



Exposure Measures: LP Perspective

- Commitment
- Commitment minus Capital Repaid
- Repayment Age Adjusted Commitment

Exhibit 4: Commitment

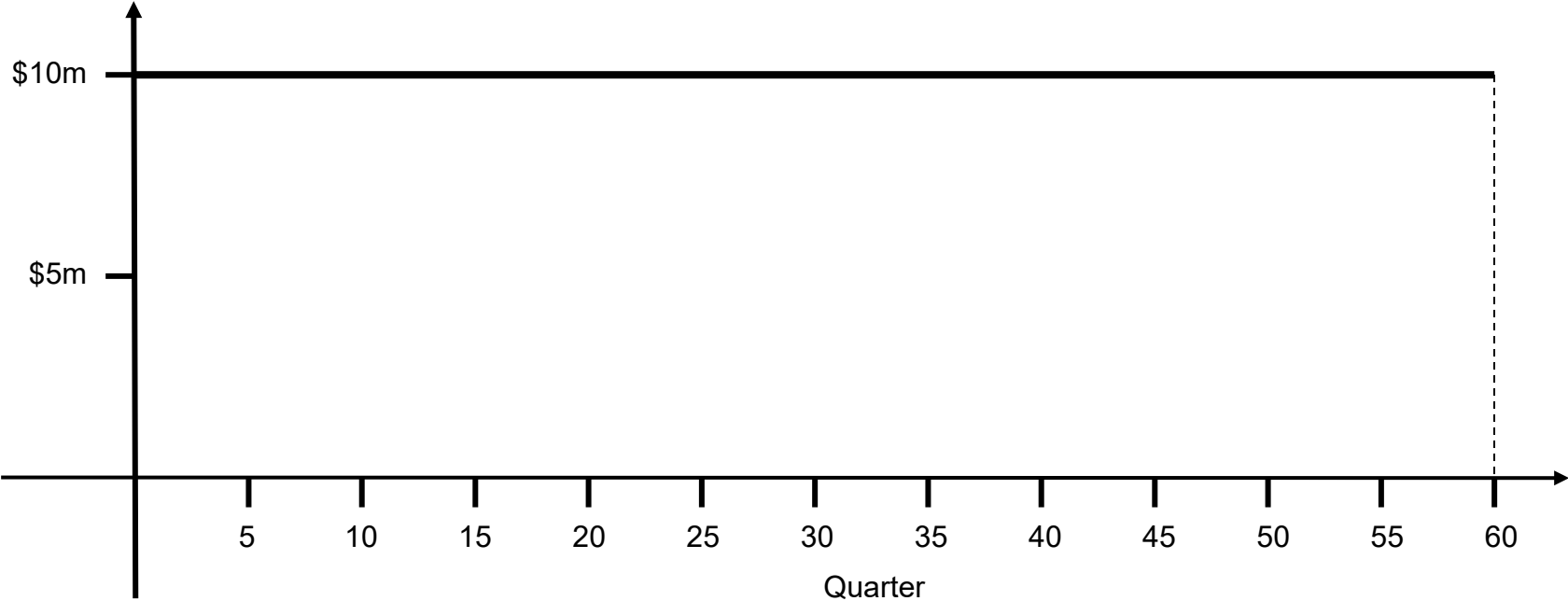


Exhibit 5: Commitment minus capital repaid

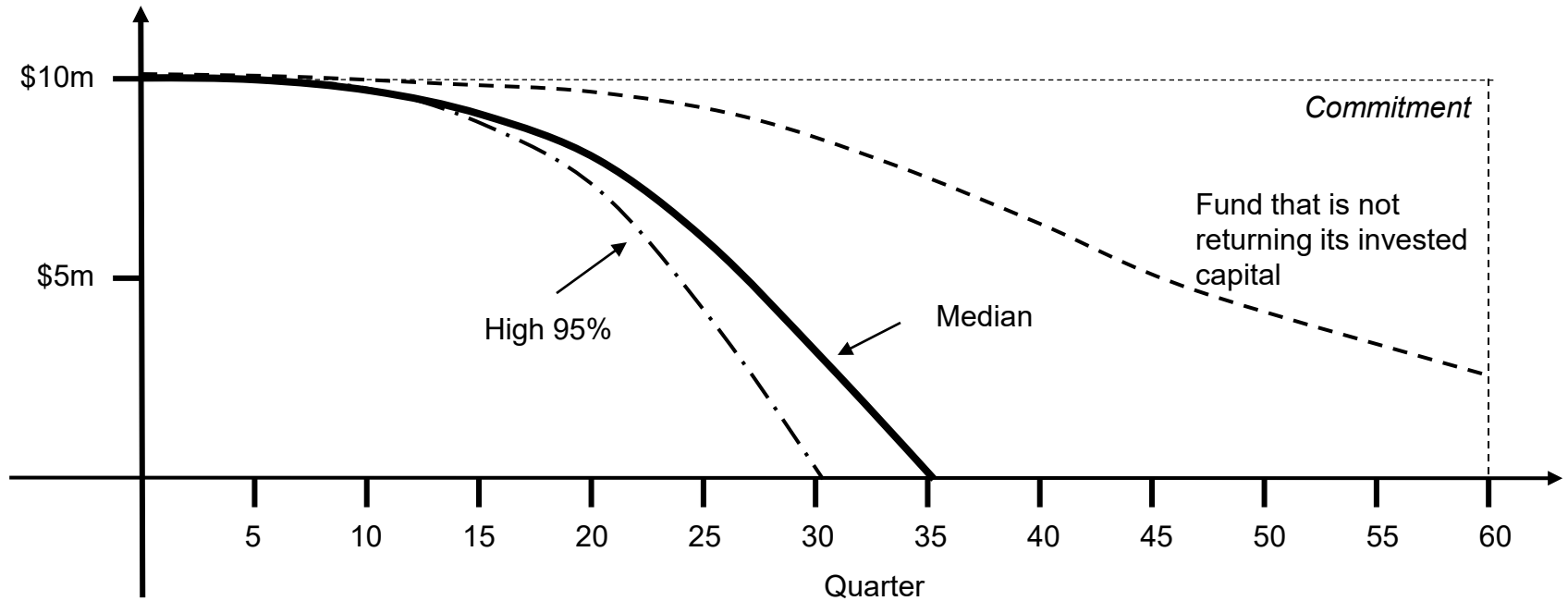
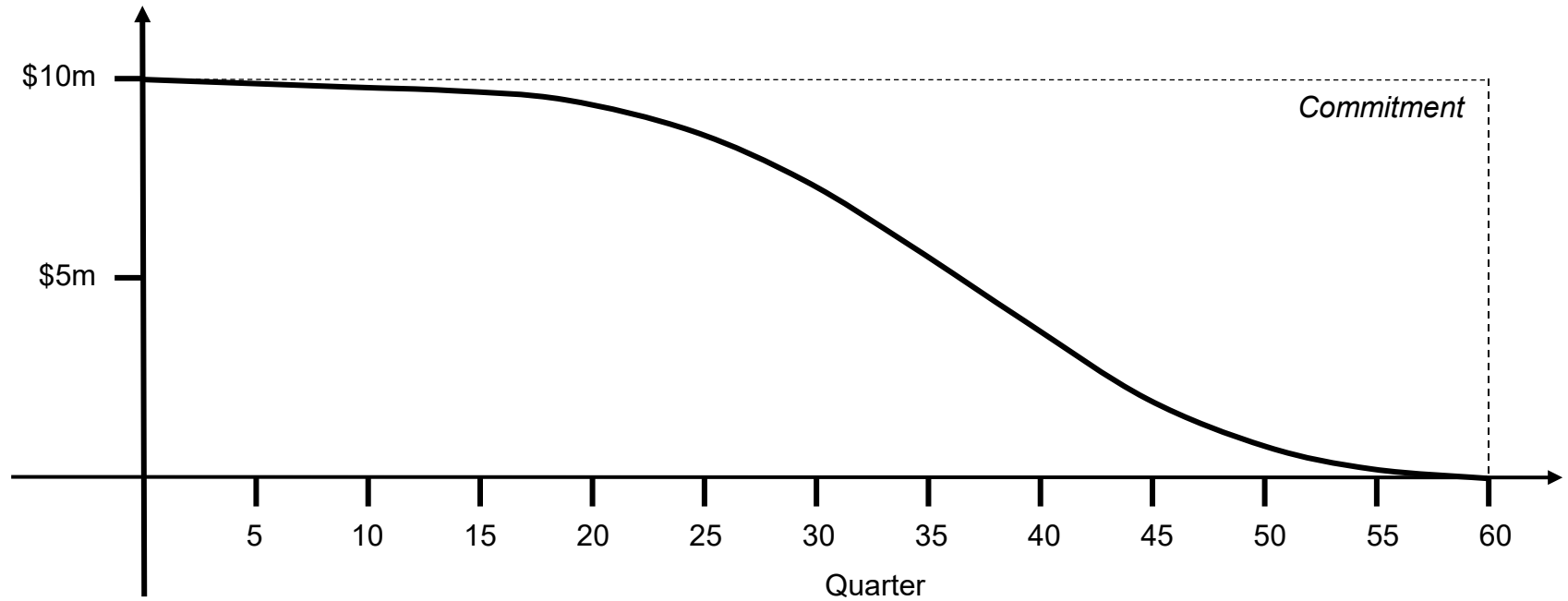


Exhibit 6: Repayment Age adjusted commitment



Exposure Measures: Fund Manager Perspective

- IPEV NAV
- IPEV NAV plus Uncalled Commitments
- Commitment Implied NAV
- Repayment Age Adjusted Accumulated Contributions

Exhibit 7: IPEV NAV

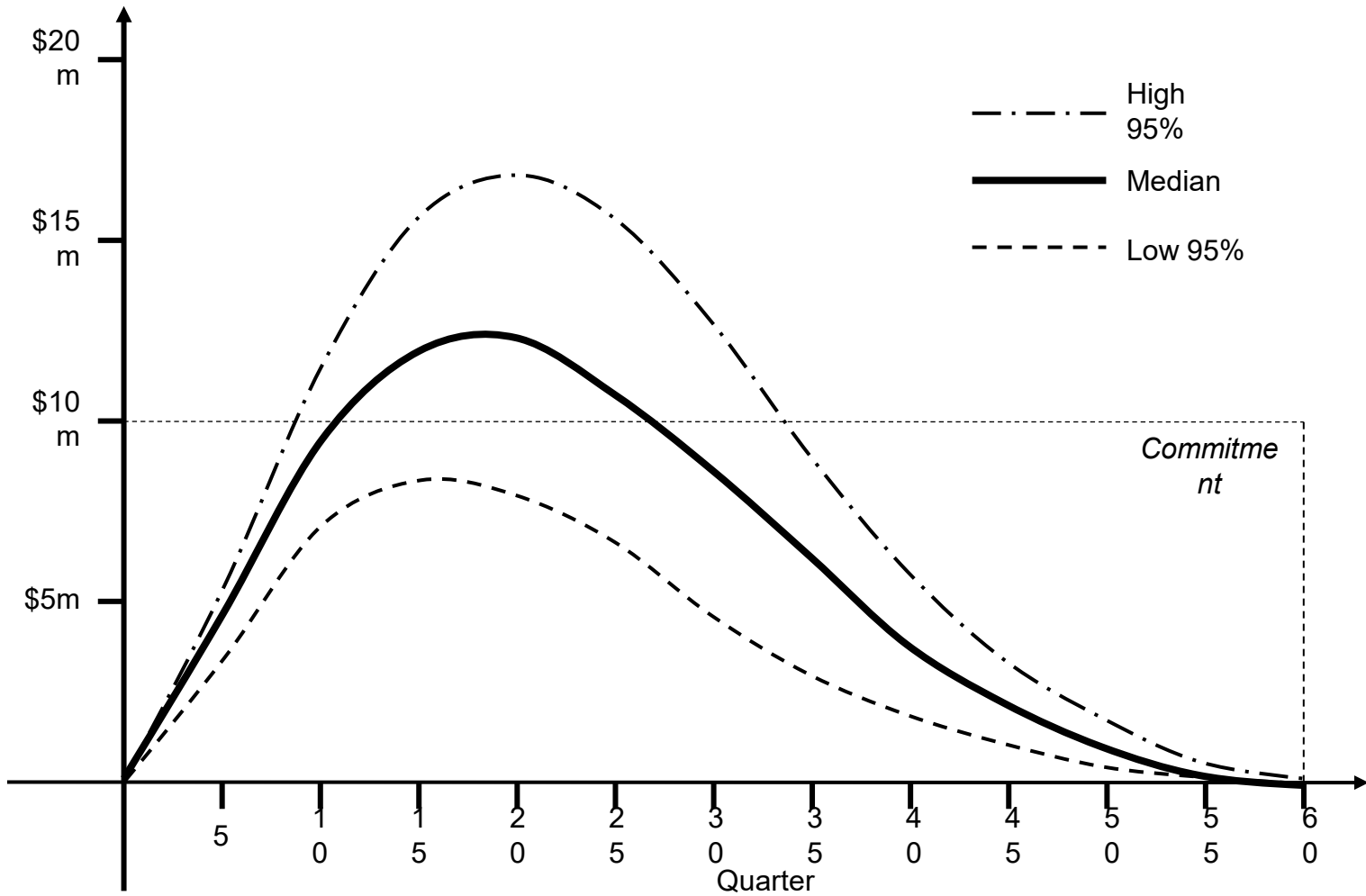


Exhibit 8: NAV and fund's age structure

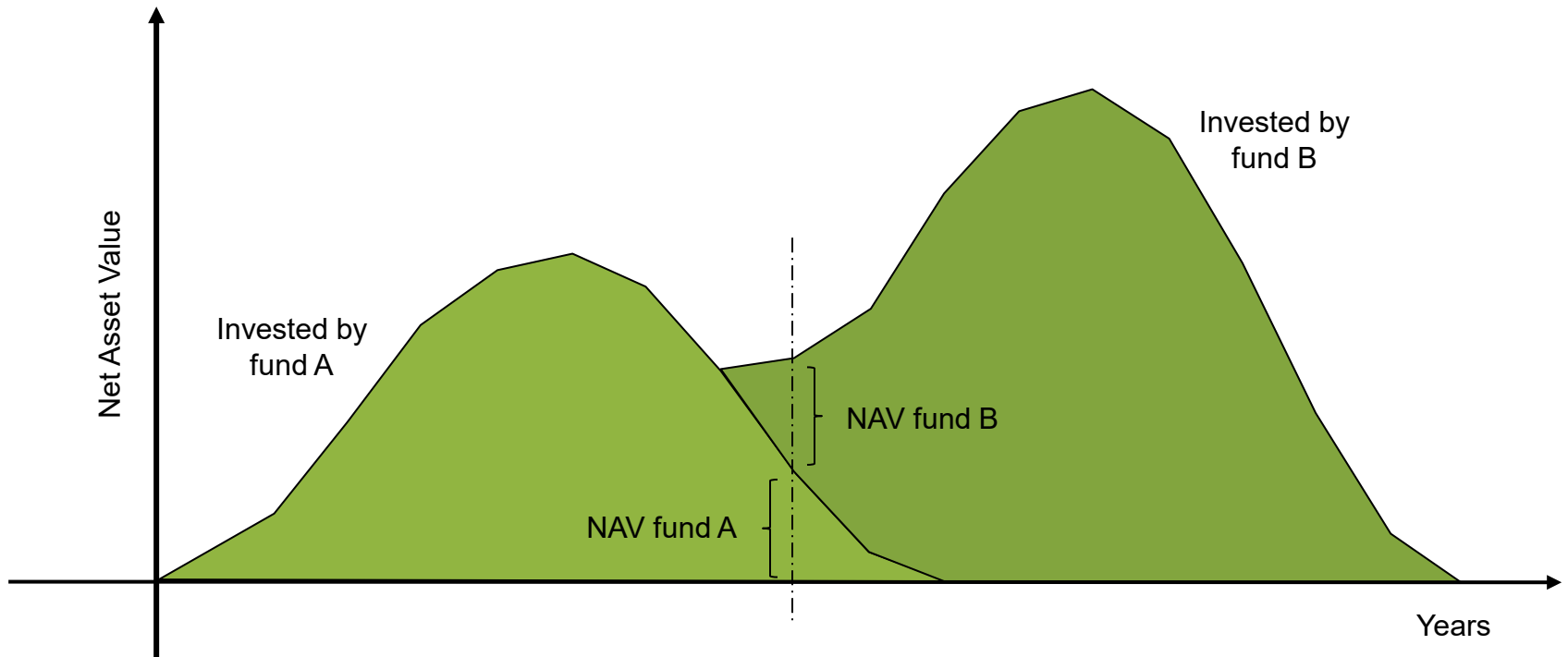


Exhibit 9: IPEV NAV plus uncalled commitment

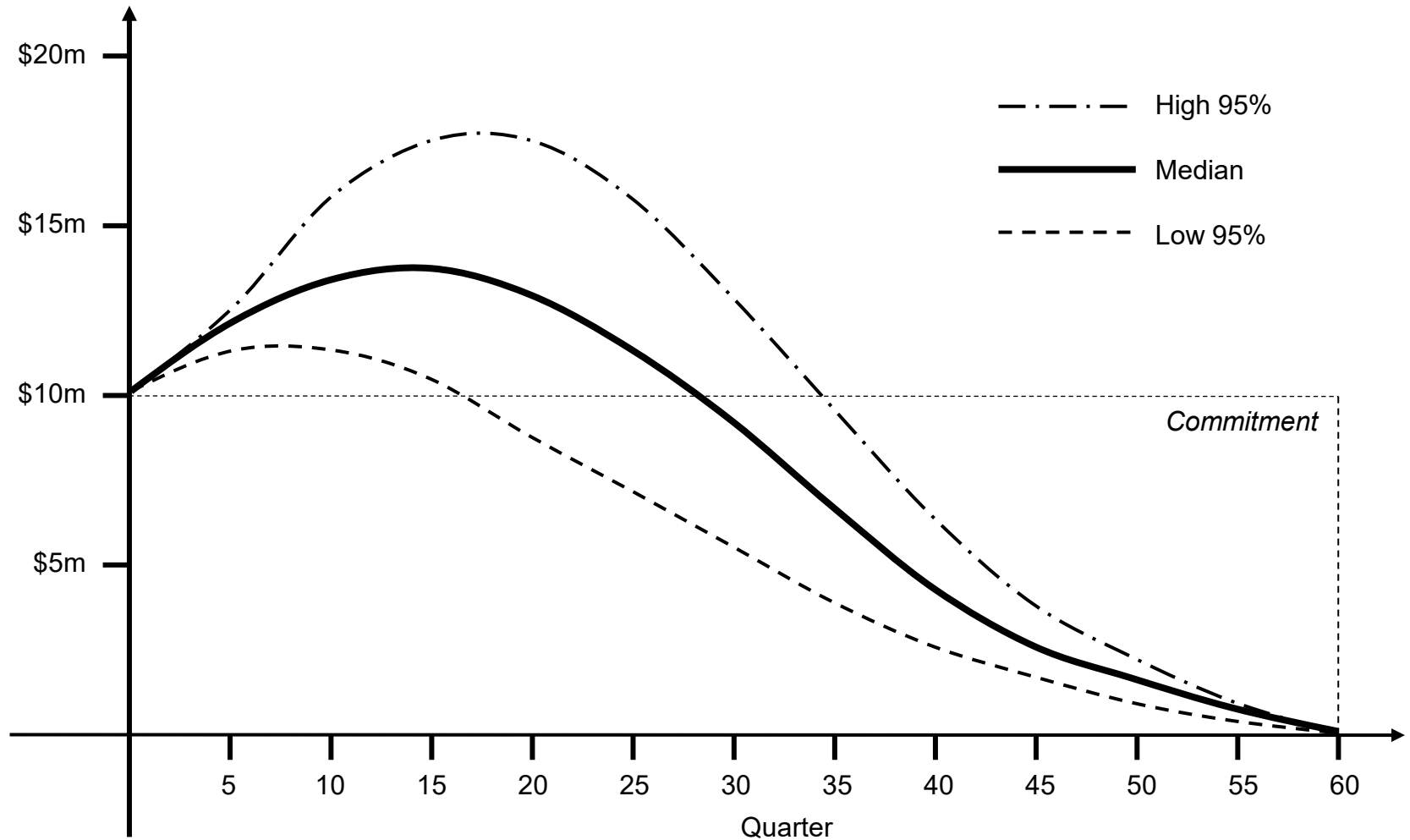


Exhibit 10: Commitment implied NAV

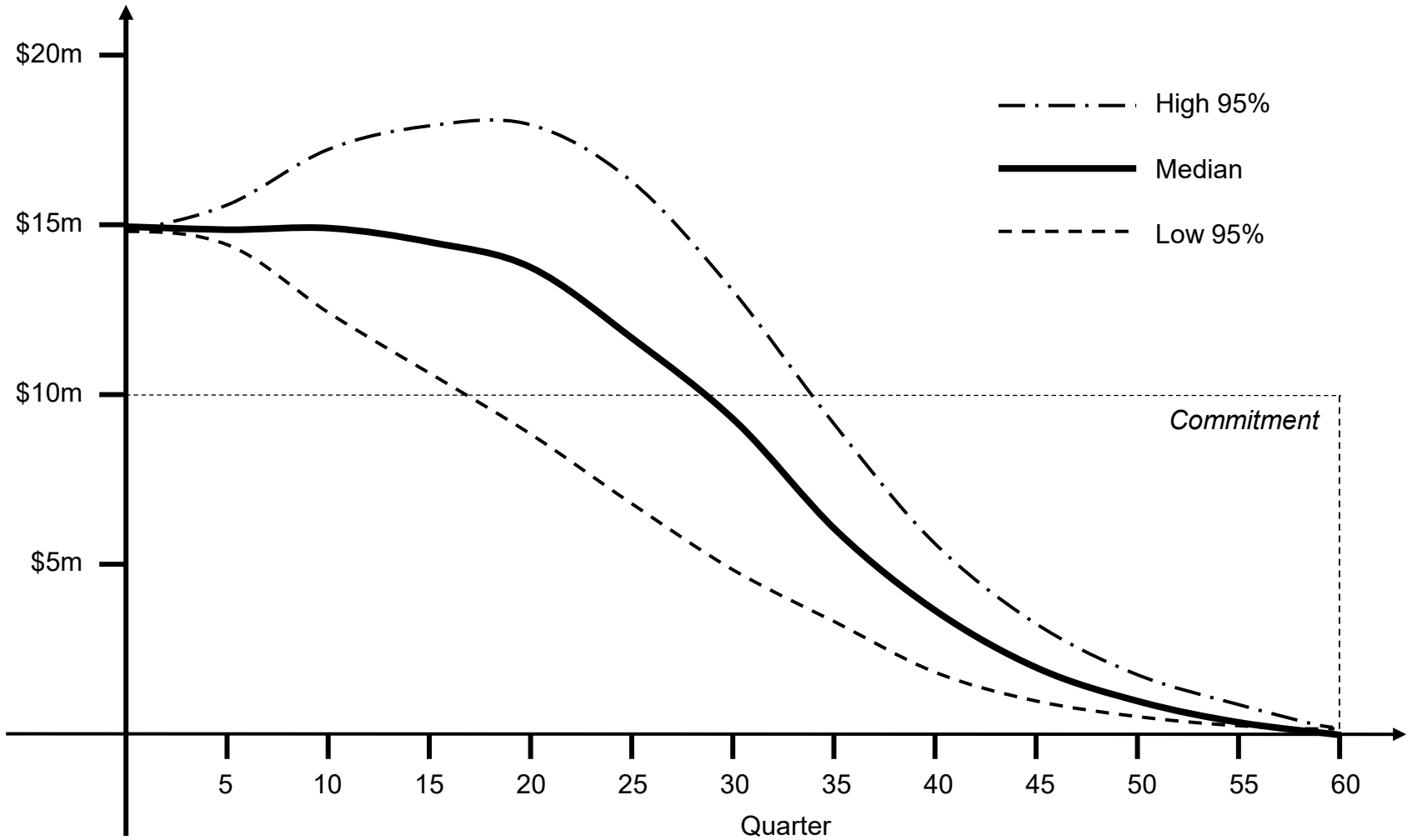


Exhibit 11: Repayment age adjusted accumulated Contributions

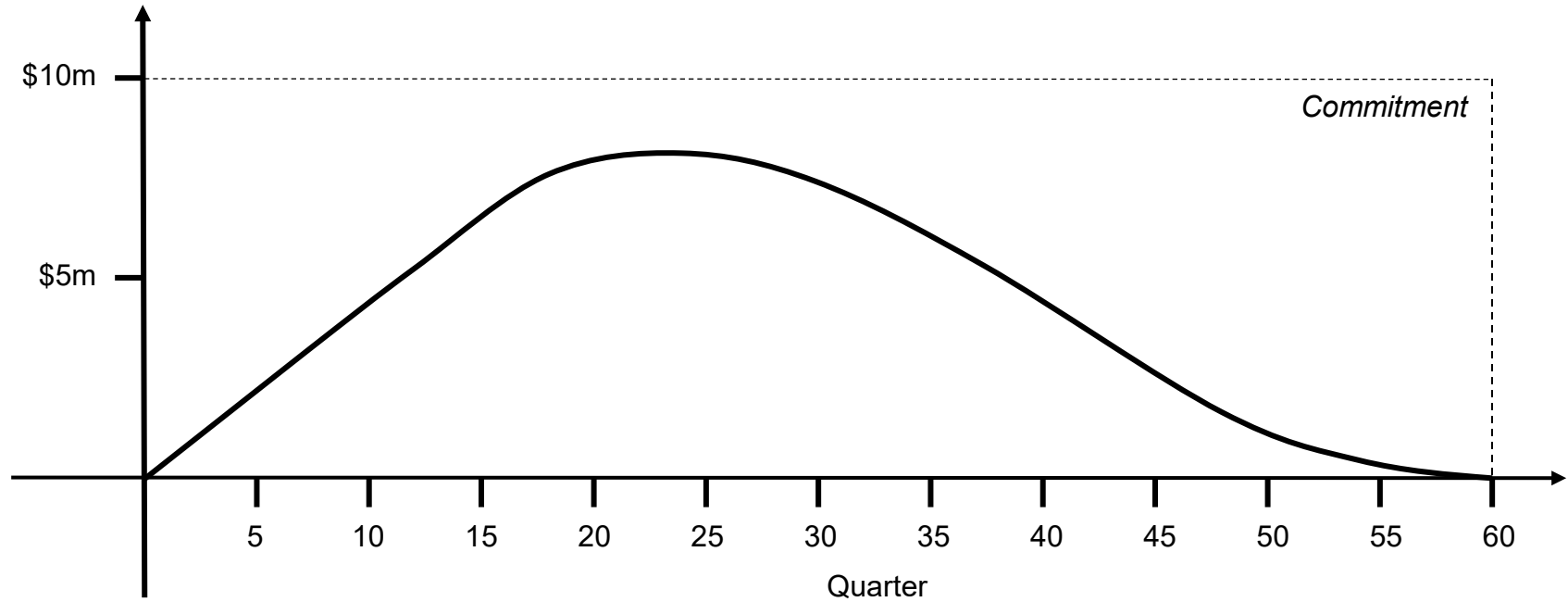
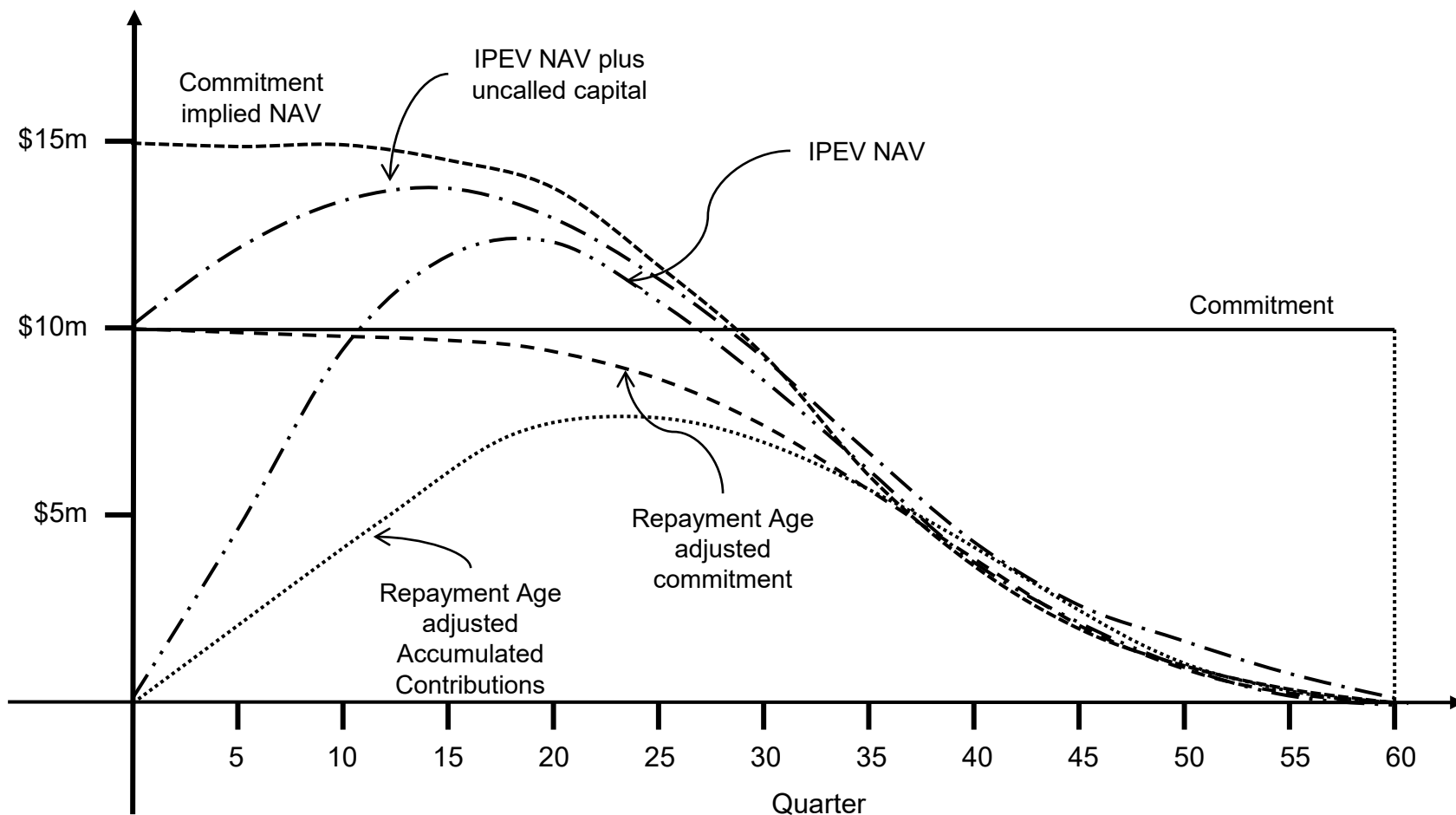


Table 1: Summary				
	Measurement	Reflecting uncalled capital?	Measuring capital invested	Comment
Commitment	Unambiguous	Yes	Upper bound for LP investment	Simple measure often used by LPs
Commitment minus capital repaid	Unambiguous	Yes	Upper bound for LP investment	Simple and often used by LPs
Repayment Age adjusted commitment	Model-based	Yes	Approximation for LP investment	Simple and robust but not commonly used
IPEV NAV	Valuation guidelines based	No	Can exceed capital invested by fund and LP	Most widely used exposure measure
IPEV NAV plus uncalled commitments	Valuation guidelines based	Yes	Can exceed capital invested by fund and by LP	Most widely used basis for secondary market pricing
Commitment implied NAV	Model-based	Yes	Can exceed capital invested by fund and by LP	Basis for secondary market pricing
Repayment Age adjusted Accumulated Contributions	Model-based	No	Approximation for fund investment	Simple and robust but not commonly used

Exhibit 12: Summary (median exposure)



Summary

- Investment decisions are based on exposures, so how exposure is defined has consequences
- Definitions should assure compatibility across assets, quoted and private
- The definitions of exposure discussed here lead to pronounced differences notably during the early years of a fund's life, where the exposure is also largest
- Commonly used exposure measures, notably that based on the fund's IPEV NAV, were found to be deficient
- Other exposure measures are more meaningful but have not found wide acceptance yet

Question and Answer Session

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