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SEI CASE STUDY

SEI's OCIO Solution Helps a University Foundation Create a Perpetual Private Equity Funding Plan

Organization: Large Public University Foundation

Endowed Assets: $250 million

Solution Provided: A perpetual private equity program that allows the foundation to grow and maintain its private equity program amid uncertainty

Key Benefits:

- An overall asset allocation that provides the highest likelihood the endowment's investment portfolio can achieve its long-term return and maintain liquidity
- Created a future private equity commitment schedule that allows the endowment to maintain an allocation to private equity within the comfort levels of the Investment Committee and staff

Organization

A large public university foundation in the Midwest with a fast-growing endowment had a desire to grow and maintain a large private equity investment program to enhance the endowment's returns. The foundation began investing in private equity in the early 2000s and, over time, had grown comfortable with private equity as an asset class that could enhance the endowment's risk-adjusted returns.

Challenge

Over the last 10 years, the foundation's endowment has more than doubled in size through a strong capital campaign. There is also an expectation for strong future donor support to grow its capital base. Over time, the investment committee of the foundation had grown frustrated because it was unable to create a perpetual plan to allow the endowment to grow and maintain its intended allocation to private equity due to uncertainty around the cash flows associated with the large number of private equity funds it had already invested in over the years, how much it should commit in the future to private equity funds, the potential for variability around donor gifts and the fluctuations in values of the non-private equity portion of the investment portfolio.

Solution

The investment committee and staff of the foundation worked with SEI as its OCIO to create a perpetual private equity funding plan which would allow it to grow and maintain its allocation to private equity despite the uncertainty of the multiple factors described above. SEI constructed an expectation of future cash flows and net asset values of the foundation's current private equity fund investments. It created an overall asset allocation that provided the highest likelihood the endowment's investment portfolio would achieve its targeted long-term return while maintaining its necessary liquidity and avoiding significant drawdown risk associated with negative economic outcomes. Finally, it created a future private equity commitment schedule diversified by vintage year, sub-strategy and underlying fund which gave the investment committee and staff at the foundation assurance the endowment's allocation to private equity would remain in a band the committee and staff would be comfortable with to ensure the endowment could be used to help the foundation meets its goals and objectives.

Conclusion

The plan for future private equity commitments allows the endowment to maintain a private equity program within the comfort levels of the Investment Committee and staff while eliminating some of the uncertainty around cash flows and variability in donor gifts and the valuation of the other portions of the investment portfolio.

Contact SEI at 866-SEI-2441 or institutions@seic.com for more information about how SEI can deliver a custom solution for your organization.

