



Goldman Sachs's Fund May Find Deeper Bargains Amid LBO Detritus

April 13 (Bloomberg) -- **Goldman Sachs Group Inc.** raised \$5.5 billion to buy interests in private-equity funds just as owners such as endowments and pensions are being forced to offer steeper discounts for their buyout holdings.

Median bids for the so-called secondary interests dropped to about 36 cents on the dollar, down from more than 80 cents last January, according to **NYPPEX, LLC**, which trades stakes in private-equity funds and tracks pricing.

Goldman Sachs gathered commitments for its fifth fund dedicated to secondary purchases that could range in value from \$1 million to more than \$1 billion, the New York-based company said in a statement today. The fund is designed to take advantage of distress at endowments such as Harvard University and pensions including the California Public Employees' Retirement System, which have sought to unload buyout stakes as their overall assets plunged.

"It's the most active part of the marketplace right now," said **John Morris**, a managing director at Harbourvest Partners LLC in Boston, which manages \$30 billion in private-equity and venture stakes. "You could look at something for 60 cents on the dollar today. But if you wait until next week you could be buying it for 50 cents on the dollar."

The falling prices have had a hand in stalling the market, Morris said. Would-be buyers, eyeing an estimated \$120 billion of interests that could come into the market, are wary that the underlying assets -- the companies owned by private-equity firms -- may fall further in value, driving down prices even more. That's keeping buyers on the sidelines.

Approaching Record

Potential sellers in need of cash are searching for alternative means of raising capital. Harvard, which failed to fetch acceptable prices for some of its private-equity holdings, sold \$2.5 billion in bonds to cope with losses in its endowment that could reach 30 percent by the end of its fiscal year in June.

The 64 percent median discount is nearing the all-time high of 2003, when buyers were able to command prices of 71 percent below par, according to the NYPPEX research.

"Goldman's timing is excellent," said **Laurence Allen**, managing member of Greenwich, Connecticut-based NYPPEX. "The returns of the top funds are substantially higher when the vintages are in recession."

The best-performing private-equity funds raised in the most recent recessionary periods of 2001 and 2002 produced returns of 40 percent and 32 percent respectively, compared with the gains of 17 percent and 11 percent for funds raised in the boom years of 2005 and 2006, Allen said.

20 Percent Gain

Secondary funds being raised this year will likely fare well even after factoring in writedowns of assets because of mark-to-market accounting, Allen said. The new Goldman Sachs fund will likely return at least 20 percent a year, he said.

Those sorts of returns are attractive to investors who've seen traditional leveraged buyouts evaporate amid the worldwide credit crisis. Announced private-equity deals dropped more than 60 percent last year to about \$211 billion, according to data compiled by Bloomberg.

Some buyout funds are being priced at zero, with sellers paying buyers to take over their future capital commitments, Allen said. Those funds were raised during the 2006 and 2007 years, where firms overpaid for purchases and are now the most vulnerable to writedowns, he said.

The Goldman Sachs fund is the firm's biggest in that area to date, following a \$3 billion fund raised in 2007. The firm

and some of its employees invested in this latest pool, comprising less than 10 percent of the total, according to a person familiar with the fund who declined to be named because those details weren't made public.

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