Private equity

Big investors look to sell out of private equity after market rout

Pensions and endowments seek exit from battered portfolios in blow to buyout industry

The shares of big private equity groups such as Blackstone, KKR and Carlyle have plunged by about a fifth in value last week © FT Montage: EPA/Shutterstock

Antoine Gara in New York and **Alexandra Heal** in London

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Large institutional investors are studying options to shed stakes in illiquid private equity funds after the rout in global financial markets pummelled their portfolios, according to top private capital advisers.

The calls by pensions and endowments seeking ways to exit their investments, probably at discounts to their stated value, are a bad sign for the $4tn buyout industry. Industry groups such as Blackstone, KKR and Carlyle all saw their stocks plunge between 15 per cent and more than 20 per cent on Thursday and Friday.

The race to find liquidity signals that investors in private equity funds increasingly expect to receive few cash profits from their holdings this year and may face liquidity pressures that cause them to further retrench from making new investments. Last year, the private equity industry's assets dropped for the first time in decades, according to Bain & Co, as fundraising plunged 23 per cent from 2023.

Executives had expected that a revival of dealmaking and initial public offerings under US President Donald Trump's administration would help firms return profits to their investors, bolstering a spurt of new investment activity. But the opposite has happened, leaving the private equity industry in one of its most vulnerable states ever.

The stresses in the industry are drawing parallels to the onset of the 2008 financial crisis, or the early days of the coronavirus pandemic.

"The amount of calls I've received from limited partners seeking liquidity in the past few days is the most since the first days of Covid," said Matthew Swain, head of Direct Placements and Secondaries at Houlihan Lokey. "People were banking on IPOs to meet their liquidity needs and now need to raise cash just to meet capital calls."

Many large investors in private equity funds entered the year with record levels of exposure to unlisted assets. While the exposures often stretched beyond investors' risk limits and even led to a wave of borrowing by many institutions, they had bet the situation was manageable and would be quickly resolved by a revival of dealmaking.

Now, after global stock markets dropped by trillions in value, these institutions face a double hit.

Dealmaking and IPO activity has ground to a halt, minimising cash returns. Moreover, pensions' exposure to unlisted assets swelled this week as the plunge in public markets has created a "denominator effect", in which private market holdings that are only marked quarterly rise as a percentage of their overall assets, skewing desired allocations.

"If the public market keeps going down and down, the denominator effect will become an issue again," said Oren Gertner, a partner specialising in secondaries at law firm Sidley Austin.

Many large investors are speaking to advisers and considering options to sell their stakes in funds at discounts on second-hand markets, top industry bankers told the Financial Times.

"The denominator effect is going to mean a lot of people are over-allocated," said one adviser, who forecast endowments would be the first to consider new sales of assets on second-hand markets.

"Everyone was hopeful the private machine would restart. But now the pressure is very real," said another adviser, referring to firms' ability to return cash to investors.

Both advisers expected endowments, already facing financial challenges from Trump's threats to tax such portfolios and cut federal funding grants, would be the first to dump assets.

Sunaina Sinha Haldea, global head of private capital advisory at Raymond James, expected an investor sell-off of fund stakes if public stocks continued to fall, or did not recover by the end of the month.

Investors that choose to sell their stakes will face a brutal marketplace, advisers warned.

The prices of second-hand private equity fund stakes, which had risen to nearly 100 cents on the dollar in recent quarters, could fall to levels below 80 cents on the dollar, they forecast.

"Most people don't want to sell below 80 per cent of a fund's net asset value or less, but this time could be different," said one top banker.

This article has been amended to correct Matthew Swain's job title

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