

European PE May Get Whacked By Currency

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Institutional investors, including many endowments and foundations, that have invested in European private equity funds could see their returns seriously diminished due to currency risk. In the next 12-24 months the Euro could decline roughly 20% versus the U.S. dollar and around 26% vis-à-vis the Canadian dollar, according to a recent report by **NYPPEX Markets**.

This will be problematic for U.S. and Canadian nonprofits exiting private equity positions over the next 12-24 months. Historically, currency volatility was not large enough for most institutions to hedge the risk, explained **Laurence Allen**, managing member. But with the debt crises in Europe weakening the Euro currency, the impact will be greater.

For example, a U.S. or Canadian nonprofit that earns 5-8% return on a private equity investment will incur a net loss if the Euro declines 20-26% relative to their respective currencies. "We now see a trend where the risk is significant," said Allen.

To avoid this scenario, nonprofits could sell their European private equity stakes but this is not a palatable option for those wanting to maintain a diversified portfolio. "The vast majority of LPs don't want to sell for this reason," said Allen. Instead, another solution could be to hedge the currency using some sort of overlay strategy, he added.