

# Buyouts

## Need to Meet: Laurence Allen, Managing Member, NYPPEX Private Markets

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Roughly one-third of U.S. based general partners that invest in the euro zone are offering currency hedging services to their domestic limited partners—a number that will likely grow as the credit crisis in Europe and the eroding value of the euro threaten returns, according to **Laurence Allen**, managing member of NYPPEX Private Markets.

NYPPEX is best known in LBO circles for its advisory work in the secondary market where it helps facilitate the sale of fund interests. But the market panic surrounding the debt issues of Greece and Hungary prompted Allen earlier this year to add a currency-hedging practice to his Greenwich, Conn.-based firm as well.

NYPPEX believes that the trend of the euro declining in value relative to the U.S. dollar and other currencies around the world will continue to play through the next one or two years. In a research note, NYPPEX said it expects the euro to trade one-for-one with the dollar within the next 12 to 24 months. That implies a 16 percent drop in the euro's value relative to the dollar from the June 7 exchange rate of \$1.19. Even greater euro-related exchange-rate depreciation is expected for 111vestors in Australia, Canada and China, according to NYPPEX. This could have a dire effect on LP returns, according to Allen, who founded NYPPEX in 1998. "Investors may realize negative net returns of -10 percent to -15 percent, if LBO funds with European companies generate gross returns of 5 percent to 10 percent," Allen said. "We can't afford another round of surprises."

NYPPEX's currency-hedging operation involves holding money from investors and managing that capital in ways that off set their currency risk. As the risk fades, the company returns the money. In 2011, if a global bear market takes hold, NYPPEX's currency-hedging business could be one of the firm's largest sources of revenue, alongside its principal investments business, in which it buys secondary interests in funds, Allen said. Speaking of the secondary front, pricing of fund interests has risen as the liquidity crisis continues to fade. As of June 1, 2010, the median secondary bid for interests in U.S. LBO funds was approximately 68.45 percent of their March 31 net asset value, Allen said. Median bids roughly a year earlier came in at about 42.68 percent of NAV.

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\* This article has been modified from its originally published version