



Setting the Geographic Allocation in a Global Private Equity Portfolio

The purpose of this paper is to determine the optimal geographic allocation for a global private equity portfolio. At Adams Street Partners we offer an annual global fund of funds vehicle that is comprised of a U.S. Partnership Fund, a Non-U.S. Partnership Fund and a Direct Investment Fund. The Global Offering represents our recommended mix between these three underlying funds. This paper will provide a recommendation for exposure to the various geographic regions, as well as a discussion of how the recommendation translates into the mix for our 2008 Global Offering.

Our goal is to generate long-term returns that out-perform private equity industry returns and are commensurate with the above average risks of the private equity asset class. To achieve this goal we employ a disciplined, balanced approach to portfolio construction that emphasizes diversification by time, subclass and manager. Above all, our investment philosophy focuses on identifying and investing in top-tier private equity managers, regardless of geography, with strong track records that have the potential to generate top-quartile returns.

Our recommended allocation for a global private equity portfolio is 60% to partnerships based in North America and 40% to partnerships based outside North America. This represents a 5% increase in our allocation to investments outside North America from our previous recommendation. In addition, this recommended allocation represents an overweight to funds based outside North America relative to a market benchmark. A number of factors lead us to this recommendation, but primarily it is a direct result of the continued globalization of the private equity industry as well as our desire to be underweight U.S. buyout managers relative to the market. Over the past several years the environment for private equity investing has improved in many markets around the world. Private equity deal activity outside the U.S. has increased steadily over the past decade. This trend has been enhanced by a growing number of talented, experienced general partners all over the world. The larger pool of "backable" general partners combined with the increasing acceptance of private equity has resulted in an ever-increasing opportunity set outside the U.S. for private equity investors. We believe the best evidence of this growing opportunity set can be found in our investment forecasts. We evaluate all funds regardless of location using one global investment hurdle. This analysis has resulted in an increasing percentage of our investments going to managers outside the U.S.

For a copy of this paper, qualified investors should contact Gary Fencik at gfencik@adamsstreetpartners.com