Princeton University

Princeton endowment chief sees 'worst ever' private equity climate

Outgoing Princo investment head says signs of improving liquidity could be 'just a blip'

The Princeton University Investment Company suffered a 1.7% loss last year, a product mainly of private equity underperformance © Getty Images

Sun Yu in New York 16 HOURS AGO

Princeton University's endowment, known for its aggressive bets on private equity, is facing the "worst ever environment" for the asset class as a slump in dealmaking and public listings weighs on returns, according to its outgoing chief investment officer.

"Until the last few weeks, I have seen very little liquidity coming out of the private equity and venture capital space," said Andrew Golden in an interview with the Financial Times.

"We have seen some potential thawing more recently, but we can't be sure whether or not that's really a start of a new trend or if that's just a blip." Signs of improving liquidity "can sometimes just be a head fake", he said, "that doesn't mean it's necessarily going to continue."

Golden will retire in June after almost 30 years running one of the world's largest endowments, where he now oversees a $34bn portfolio.

His remarks came after the Princeton University Investment Company suffered a 1.7 per cent loss last year, a product mainly of private equity underperformance, after growing by almost 10 times since he took office in 1995.

The departing CIO, however, said he was not worried about the endowment investment model featuring a push into the high-return yet illiquid alternative assets he championed for decades.

"Large endowments like us are in a much better position than [we] were in 2008," he said, referring to the global financial crisis when Princo made a 24 per cent loss for the year to June 2009: "We all learned our lessons."

The comments follow a mediocre year for leading US university endowments with heavy exposure to alternative assets, which underperformed smaller peers that focused on publicly traded stocks and bonds.

College endowments with more than $5bn in assets reported an average return of 2.8 per cent in the year to June 2023, according to the National Association of College and University Business Officers. That compared with 9.8 per cent for those with less than $50mn in assets.

As a big source of funding for one of the world's wealthiest universities, Princo has set an ambitious long-term return target of more than 10 per cent per year. The goal, said Golden, requires a "really aggressive" investment strategy that may bring "discomfort".

While the endowment has achieved double-digit annualised returns over the past three decades, it did so at the expense of a consistent over-allocation to private equity, which Golden blamed on it expanding too fast into the area.

"It wasn't that I was sorry about the target we set," he said, referring to the 30 per cent private equity allocation goal Princo has exceeded by a wide margin. "It turns out that our analysis was somewhat mistaken as to how much we should commit to get there, and we just committed too much."

At 39.9 per cent of assets by June 2023, Princo's investment in private equity was double the average allocation for large US university endowments.

The push into private equity, initially a driver of returns, became a drag on performance as dealmaking and initial public offerings collapsed after the Federal Reserve began raising interest rates in March 2022.

Golden acknowledged the problem, saying last year was “arguably the worst” in his time running Princo. Yet he said he expected the stress to be manageable as Princo had already taken measures to trim risks.

The endowment had reduced its uncalled commitments to private equity, or money that has been committed but not yet transferred, to less than half of its 2008 level, Golden noted, suggesting “much lower” liquidity pressure than during the financial crisis.

Another legacy Golden is leaving is a cautious attitude towards the campaign to divest from businesses that contribute to global warming. While Princeton announced in 2022 that its endowment would liquidate holdings in dozens of publicly listed fossil fuel companies, Princo has retained investments in privately owned traditional energy firms.

Golden admitted the divestment had undermined Princo’s returns, saying the endowment “would have been better off” otherwise. But he pointed to a bigger concern: the pressure to “keep adding things to divest from”.

“Fossil fuels are necessarily part of getting to where the overall economy needs to be [and] it would be impossible for the world to not use fossil fuels tomorrow,” he said. “Divestment is a pretty weak tool to change the economy.”

For this reason Princo has continued to invest in private fossil fuel companies, Golden said, dismissing concerns that this may not address the emissions problem given a lack of oversight on private businesses.

“There are some who would argue that private companies generally are worse stewards of the environment,” he said. “That may be true generally, but not our guys. They do things like testing well water at twice the distance from their own wells and required by regulation.”

Yet many members of the Princeton community are not convinced. Divest Princeton, an activist group joined by thousands of students, alumni and faculty, has repeatedly called on Princo to divest fully from fossil fuel companies.

“Princeton is still profiting from the fossil fuel industry and it’s super clear that the fossil fuel industry is the largest obstacle to combating the climate crisis,” said Lynne Archibald, a Princeton alumnus and an organiser of Divest Princeton. “It’s irrelevant if one of those companies is good at testing well water.”