Faculti Summary
https://faculti.net/capital-commitment/

Here are five key points from the video:

1. **Capital Commitment Risks**: The video discusses the unique risks associated with capital commitment in private equity, specifically commitment timing risk (uncertainty about when capital will be called) and commitment quantity risk (the risk that the ratio of committed capital to total wealth fluctuates, impacting the investor's portfolio).

2. **Model Complexity**: The author highlights the complexity of modeling these risks, which took over a decade to develop. The model involves stochastic processes to simulate the timing of capital calls and the distribution of proceeds from private equity investments.

3. **Investor Behavior**: It explains that investors typically under-commit to private equity to manage the potential risks. When capital is called, investors may wish to increase their commitment, but they face commitment quantity risk if the market environment has changed.

4. **Co-Investment Opportunities**: The video also mentions the popularity of co-investment opportunities offered by general partners to limited partners. These allow investors to adjust their commitments at the time of capital calls, helping mitigate commitment quantity risk.

5. **Liquidity and Allocation**: The discussion emphasizes that while liquidity risk is often stressed, it is the commitment quantity risk that significantly affects investor behavior and portfolio allocation. Investors are likely to keep their private equity allocations reasonable (generally around 15-20% of the portfolio) to maintain liquidity and manage risks effectively.

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