

Deloitte.



Alternative investment funds

Explore the value in winding down

Our wind down services

Investment fund wind down

A common challenge faced by fiduciaries in the alternative investment industry is winding down investment vehicles that have suspended operations but are prevented from closing due to illiquid asset holdings or other matters that need to be managed to a conclusion.

Whether it relates to illiquid investments or positions impacted by litigation or insolvency proceedings, a significant number of entities currently sit in a state of limbo and continue to incur unnecessary costs without an effective strategy for winding down.

There are a number of factors that motivate fund directors, investment managers and general partners to explore wind down alternatives, including:



Investor redemptions resulting in liquidity challenges and **suspension of redemptions**



Changes in circumstances, such as a manager shutting down its operations or converting into a family office



Extended timeline to realize illiquid assets for adequate value after the investment vehicle has ceased trading



Desire for **operating simplification** and **expense burn reductions**



Preference to **reallocate resources** to other tasks



Flat or disappointing performance against benchmark

In these circumstances Deloitte can tailor a solution that will address the needs of stakeholders while maximizing the value returned to investors.



Our wind down services

Our Financial Advisory team specializes in providing wind down and dispute resolution services to the investment fund industry acting in a variety of capacities, including as liquidators, advisors, or assuming a hybrid role as realization manager.



Realization Advisor

- In instances where management wishes to assess the value that may be obtained for an illiquid asset position, we have been retained as realization advisor
- This approach is relevant in situations where management has made the decision to liquidate or simply “clean up” an illiquid asset position or portfolio and wishes to leverage the expertise and experience of Deloitte while retaining responsibility for asset sale decisions
- In this role we have served as an advisor to (i) determine what value exists for an illiquid asset position, and (ii) facilitate a competitive sale process for a single or portfolio of illiquid positions
- These services assist management in understanding their alternatives and gives them the flexibility to dispose of legacy illiquid positions using a variety of strategies
- Engaging Deloitte as an independent third party to assist in facilitating a fully transparent and competitive asset sale process provides additional comfort to stakeholders in particular in relation to illiquid asset dispositions



Realization Manager

- In circumstances where management desires to maintain decision making authority and prefers not to place a fund into a formal liquidation process, we have been engaged as realization manager to perform specific wind down services
- One example is the strategy of restructuring and utilizing a scaled down, lower cost, run-off vehicle for managing the portfolio with a long term view of realization or recovery
- As realization manager we operate under a clear set of divestment guidelines tailored to the unique characteristics of the illiquid investment portfolio
- Former management expertise and oversight is retained in a limited capacity and our mandate may or may not require approval of the former manager to make investment disposition decisions
- Deloitte provides a tailored and scaled down suite of services for the fund during the wind down period achieving significant cost savings



Voluntary Liquidator

- A common approach taken is our appointment as voluntary liquidators of an investment fund which is effected in accordance with a fund's constitutional documents and governing law relevant in the jurisdiction of the fund
- For offshore vehicles domiciled in the Cayman Islands we are appointed as voluntary liquidators, and for onshore vehicles generally domiciled in the state of Delaware we are appointed as liquidating trustee
- Under both capacities we assume fiduciary responsibility and the ability to act with complete discretion on behalf of the investment fund
- Although the discretionary powers of the manager generally cease upon our appointment, if circumstances warrant, we would seek to retain the manager (in a reduced capacity) or consult with the manager to leverage existing knowledge and insight in realizing the investment portfolio
- We are knowledgeable about the challenges of realizing illiquid asset positions and have proven processes and experience that maximize value in doing so

Our experience

A summary of our credentials from a sample of recent engagements



Appointment as **voluntary liquidators** of a master/feeder fund structure with 120 illiquid positions and NAV of \$500 million.



Background

- Following the 2008 financial crisis the manager elected to suspend redemptions and shut down operations
- Partners of Deloitte were appointed as voluntary liquidators with a mandate to maximize value for underlying investors
- The master fund held over 120 illiquid positions in investment funds, with a combined value, net of 100% write downs for Madoff, of over \$500 million
- The fund structure employed leverage and was subject to payment demands and expectations from leverage providers



Key activities

- Secured the asset portfolio, monitored underlying positions and realized over \$400 million in the first year, enabling leverage providers to be paid in full and eliminating ongoing interest burden
- Deployed a long term timeline to return maximum value to investors from remaining holdings, which was comprised of highly illiquid side-pocket investments
- Continually evaluated the realization strategy, taking into account certainty of immediate receipts from a secondary market sale versus value of longer term hold to realization
- Executed a competitive auction process to sell the remaining portfolio once it was deemed uneconomical to continue the liquidation
- Provided regular updates to investors and executed periodic distributions to investors totaling \$523 million



Value added

- Balanced the short term “quick sale of the portfolio” objectives of lenders with the longer term “maximize value” objectives of investors
- Simplified the structure and reduced costs by assigning interests in the master fund to the underlying feeder fund investors via an in-specie distribution and completing the feeder funds’ liquidations on an expedited basis
- Realized significant value from a position in a Madoff feeder fund that had been written down to nil prior to appointment
- Total value returned to unredeemed investors represented 105% of the final pre-liquidation NAV

Appointment as **voluntary liquidators** to two fund structures with entities in multiple jurisdictions holding complex, illiquid assets with pending litigation.



Background

- Manager elected to return external investor capital and convert its operations into a family office
- Partners of Deloitte were appointed as voluntary liquidators with a mandate to wind down the remaining activities of the investment structures that included entities domiciled in the Cayman Islands, Delaware, UK, Guernsey and Germany
- The significant positions within the investment portfolio were illiquid in nature
- There were also various pending legal actions associated with the asset positions



Key activities

- Assumed responsibility for the day-to-day management of the structures, investment realization strategies, and investor communication
- Coordinated with advisors and legal counsel from various jurisdictions to oversee and provide instruction on various matters related to the assets
- Eliminated redundant service providers, or renegotiated a reduced scope of services and fees



Value added

- Utilized Deloitte's global network and coordinated with our colleagues from various jurisdictions to work towards the realization of the asset positions and the liquidation of the various intermediary holding companies and SPVs within the structures
- Established a dedicated email mailbox, monitored by qualified professionals, for the distribution and receipt of investor communication and requests



Appointment as **realization manager** with mandate to realize illiquid fund-of-fund portfolio. Reduced service provider fees by approximately 75% and paid final distributions to investors within a pre specified term of 3 years.



Background

- Manager elected to shut down operations to pursue other interests
- Deloitte was engaged as advisor to assist the manager in formulating a restructuring solution for an investment fund structure holding an illiquid fund-of-funds investment portfolio
- Solution was the incorporation of a low cost, fixed term (3 years) SPV
- Investors received an in-kind distribution from the legacy funds for interest in the SPV, which was structured to include six separate share classes to account for six individual portfolios and specific investor interests
- Deloitte was engaged as “Realization Manager” to oversee the activities of the SPV and the realization of the investment positions



Key activities

- Facilitated the transfer of over 50 underlying fund-of-funds investment positions to the SPV
- Undertook an initial auction process, offering investors an immediate liquidity option to realize their holdings in the SPV
- Calculated quarterly NAVs and issued statements to over 200 capital accounts, and provided dedicated investor support
- As sufficient asset realizations occurred, calculated and executed periodic distributions to the investors
- Realized five of the six share class portfolios naturally, and executed a competitive auction process for the sale of the portfolio of the last remaining share class at the conclusion of the SPV term
- Managed the SPV in accordance with its constitutional documents, and through a transparent and communicative approach with the board of directors of the SPV



Value added

- Adjusted the value of the investment portfolio based on secondary market indicative prices, and used the adjusted values in calculating the quarterly NAV to reflect the current market value of the portfolio
 - SPV reduced annual service provider fees by an estimated 75%
 - Realization Manager operated under the oversight of a board of directors, including a director who was a principal at the investment manager of the legacy investment fund structure
 - Facilitated periodic distributions to the investors over the life of the SPV
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Appointment as **official liquidators** of a fund-of-funds investment vehicle, realized investments in excess of \$46 million.



Background

- Manager's strategy was detrimentally impacted by the lack of liquidity caused by the 2008 financial crisis
- Partners of Deloitte were appointed as official liquidators to oversee the wind down of the investment portfolio and maximize the value returned to the investors
- Fund portfolio included 25 illiquid underlying positions, all of which were gated or suspended
- Investor group consisted of 45 separate stakeholders divided into different camps –leveraged, unleveraged, redeemed (partially paid) and unredeemed investors
- The divergence of interest of investors was accentuated by the position of the leverage provider, redemption payments that had been made based on overstated NAV calculations, and suspension of redemption issues



Key activities

- Continually monitored the investment portfolio and regularly met with underlying investment managers to evaluate the underlying reported NAV
- Realized the investment portfolio over time to maximize the value of investments
- Established a liquidation committee consisting of investor representatives to serve as a sounding board to the liquidators on key decisions related to the investment holdings and the liquidation
- Facilitated a compromise that was unanimously approved by the investor group which resulted in an agreed methodology to make distributions, and avoided the alternative, being lengthy and expensive litigation to determine each investors' financial interest in the estate



Value added

- Realized investments in excess of \$46 million, compared to a portfolio valuation of \$30 million (based on secondary market indicative prices) as of the liquidators' appointment date
 - Facilitated and executed a competitive secondary market auction process to successfully realize four investment positions
 - Oversaw the negotiation and implemented a compromise between the leverage provider and investors, this avoided the expense and uncertainty of litigation to determine investor and creditor financial interest in the estate
-

Appointment as **realization advisor** to a fund-of-funds manager seeking to sell a portfolio of illiquid positions with a NAV of \$23 million.



Background

- Fund-of-funds manager sought to realize various illiquid positions held across a number of investment vehicles under its management
- Deloitte engaged to serve as an advisor to facilitate competitive auction processes for the sale of the illiquid investments
- Illiquid investment positions were held across the portfolios of eight separate investment funds domiciled in the Cayman Islands and Delaware
- Combined fund-of-funds investment portfolio NAV totaled approximately \$23 million
- Also engaged to assist in identifying a buyer for a directly held private equity investment



Key activities

- Developed combined portfolio sale approaches and executed two separate side-by-side auction processes to account for the different geographic domicile of the offshore and onshore investment vehicles
- Ensured transferability of illiquid investment positions and identified other items requiring consideration while planning the auction processes
- Drafted auction overview documents including key information and terms and conditions of the auction processes
- Circulated the auction overview documents to a number of known secondary market buyers and reputable secondary market brokers of alternative investment funds
- Assisted the investment manager with (i) the negotiation of the sale and purchase agreements with the successful buyer, and (ii) the administrative work required to effect the legal transfer of the positions
- Undertook a separate process specific to the directly held private equity investment seeking interest from direct buyers, brokers, current investors, and the underlying company and/or its management
- This process resulted in an offer for the investment at a significant uplift from the marked value



Value added

- Auction processes resulted in six and four separate offers for the offshore and onshore investment portfolios respectively, thus providing comfort that the sale value achieved was the highest price available in the market
 - By leveraging existing relationships with secondary market buyers, transactions costs were significantly reduced as offers received from these parties were free of broker commissions (generally 1-2% of transacted NAV)
 - Utilized a Deloitte hosted online data room for the secure and efficient sharing of portfolio due diligence information with potential buyers
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Summary of stakeholder benefits

The implementation of an effective strategy for assets to be realized and proceeds paid to investors on a cost effective and timely basis, as well as;



Increased time and **resources** for manager to focus on new opportunities



Established timelines and **expectations** during the wind down phase



Availability of experienced professionals to manage a wind down strategy



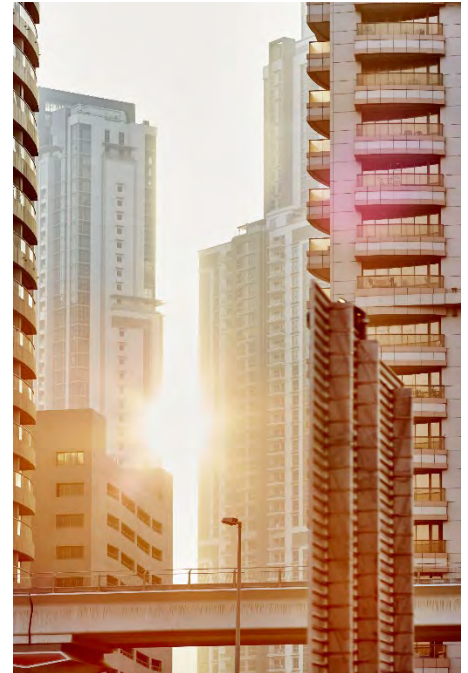
Operational efficiencies and **cost reductions** to increase the value returned to investors



Preservation of investor confidence through implementation of a plan of action



Potential reduction of regulatory requirements and the associated costs

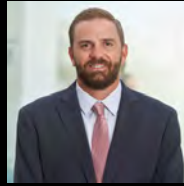


Contact us today for a free consultation

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