



# HEDGE FUND RESTRUCTURING

## Top Twenty Things to Do

*Hedge fund restructuring is tough under any conditions. It requires a massive amount of coordination, strategy, negotiation, and plain hard work. The challenge multiplies when restructuring occurs under less than ideal circumstances, and entire platforms can soon start to dissolve. In addition to managing the often significantly distressed assets of the fund, the fund manager must now deal with changing dynamics in his or her core team, often angry investors, jittery counterparties, a team of outside professionals, potentially negative press, and evaporating cash. The situation will almost always get worse before it gets better. However, there are a series of steps the fund manager should consider to improve the outcomes for all parties.*

### PREPARATION:

- 1. Review your fund documents.** If they were written well, the restructuring will be easier. Unless or until they are amended, your documents dictate the rules of the road. Understand the dynamics between on- and off-shore. They are guided by different rules and usually have different constituents. In times of crisis, it's natural to turn to the counsel most familiar to you. Widen your circle to include those with true on-shore and off-shore expertise on your team.
- 2. Do an independent asset valuation of your portfolio.** This will help you start to define the difference between the on-going concern value of your assets and the liquidation value of your assets. It will also address many investor concerns and give you an independent benchmark to work with.
- 3. Do a risk valuation of your portfolio.** The restructuring will take time, and the risk valuation of your portfolio will determine in large part how much time you have. It will also help prioritize your asset management efforts.
- 4. Assemble your core team.** Regardless of its strength, your existing in-house team will not be sufficient. Some will soon leave; others may no longer work with your best interests in mind. Those who do stay will work harder than ever before and still need reinforcements.
- 5. Hire a restructuring firm.** You need a core advisory firm that has been through this process before and whose interests are aligned with yours.

### STRATEGY:

- 6. Plan a strategy, and assume it will change.** You need to put a clear plan in place. Taking action without a comprehensive plan is like being stuck in quicksand; each movement causes you to sink further.
- 7. Make the tough decisions that assure cash will be available to implement the plan across all scenarios.** As long as you have sufficient cash, your efforts to restructure can continue. That may mean parsing out distributions more carefully and reducing costs more quickly than might appear to be needed under base case scenarios.

8. **Don't let outside professionals dominate the strategy.** You will know what is best for your fund and its investors. Outside professionals are there to help you make it happen, not to tell you what to do.
9. **Form an investor committee.** Maintaining good relations with investors through any restructuring is key. If you can help them organize, and if you communicate proactively, you're more likely to be able to work with them efficiently.
10. **Be prepared for surprises.** A typical fund restructuring is full of surprises, almost none of them positive. Embrace that truth early to allow for more robust scenario-based planning. Then work closely with the right team and advice to move your efforts forward.
11. **Look for new capital.** New capital creates opportunities, whether the fund is in an orderly wind down or remains an on-going concern. The process of looking for new capital itself often leads to unexpected opportunities.

#### COMMUNICATION:

12. **Maintain daily calls with your team.** While the frequency may change, structured communication is key. Begin with morning and afternoon calls with the core team, including on weekends.
13. **Communicate with directors early and often.** Rightly so, fund directors have a lot of responsibility. If they are included in your deliberations, they can add tremendous value to the process of reaching a fair and equitable outcome.
14. **Reach out to all counterparties.** Most managers try to hide the inevitable, from others and from themselves. If you're proactive about engaging your counterparties, they will be more cooperative in helping find solutions.
15. **Be proactive with PR.** If the world doesn't know what you're trying to do, they will assume the worst. Negative public relations surround restructuring processes and need to be countered aggressively.

#### IMPLEMENTATION:

16. **Prepare for a marathon, not a sprint.** There are ways to get out early, but a classic restructuring may take years. In one way or another, your investors will likely be tied to your fund for some time.
17. **Collaboration is key, but be willing to fight.** If you only fight, you'll never get through the process. If you only collaborate, you'll be eaten alive.
18. **Pace yourself.** A restructuring can feel like a prize fight with a heavy-weight champion. Know that going in. Pace yourself, and use the time between rounds to re-group with solid counsel and advisors who are truly in your corner.

#### THE END GAME:

19. **Consider rebranding opportunities.** Rebranding can be helpful for the market, for investors, and for your core team
20. **Think long term and persevere.** There is a way to do the right thing for you, for your investors, and for your team. It may take some time to work out, but the right solution will be worth the investment of time and effort.

Each fund restructuring is different. In some, the goal of the manager is to get out ethically, with minimal legal issues, deferred compensation, and reputation intact. In others, the goal is to emerge with a different fund structure, free of "bad assets." All restructurings, however, involve a significant departure from business as usual and the orchestrated coordination of some of the above mentioned advice. The sooner the fund manager comes to terms with this reality, the better the chances of a favorable outcome.

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