

HEDGE FUND RESTRUCTURING

Value resources for directors

The world has changed for hedge fund directors. Even the most savvy fund directors are unlikely to have predicted the 1,300 hedge fund liquidations in 2008, nor the estimate of more than twice that number in 2009. Exacerbated by a tumultuous global economy, skittish investors, and a lack of liquidity, guiding hedge funds through transition now requires far more effort, resources, and expertise than ever before, writes Patrick McWhimney, partner, The Aragon Group.

When a hedge fund manager finds him or herself in trouble, his or her first call should be to the fund directors. When the directors receive this call, their first calls should be to experienced attorneys, valuation experts, and a new resource, the hedge fund restructuring consultant. Each leg of this three legged stool of expertise provides advice essential for a hedge fund's successful transition:

ATTORNEYS – Managers need guidance from top institutional investing legal experts – many of whom reside in the Caymans – to navigate the complex web of investment terms, fund structures, litigation, and bankruptcy proceedings. Even the highest quality governing documents need a careful interpretation and review to determine the “rules of the road.”

VALUATION EXPERTS – Knowing asset values at all times is a given, but an extra level of focus may be needed to further evaluate and address overall investor share value. To develop a plan of action, managers need to fully understand the spread between liquidation value and going concern value of assets. These valuations also address many investor concerns and give managers independent benchmarks.

RESTRUCTURING CONSULTANT – Managing the gap between the ongoing concern value and the liquidation value of assets requires a newer resource in the industry. The restructuring consultant blends process management, conflict management, and asset management expertise to optimize value preservation for the fund.

The need for a restructuring consultant

A hedge fund managers' typical response to redemptions, loss of key personnel or other structural challenges to their business is to focus on what they know: managing the assets as best they can. Portfolio performance created their success, and it is usually viewed by the manager as the best path out. Yet in these times, it is typically not enough. In addition to managing assets in one of the most challenging markets ever, the fund manager often faces a perfect storm of increased dysfunction in his or her (remaining) core team, angry investors with different investment profiles, jittery counterparties, negative press, and diminishing cash.

Directors may find themselves frustrated by not having a resource that can help them manage and mitigate their risk in this middle ground between business-as-usual and liquidation. Managers may be reluctant to allow someone without asset management expertise to provide assistance.

Role of the restructuring consultant

An experienced restructuring consultant with both negotiation and asset management expertise can help to quickly stabilise the platform by optimising communication and collaboration among managers, directors, capital providers, and service providers to preserve value for all parties.

The restructuring consultant provides full service coordination of the entire restructuring process, including working closely with the legal team and valuation experts. These activities might include forming and negotiating with an investor

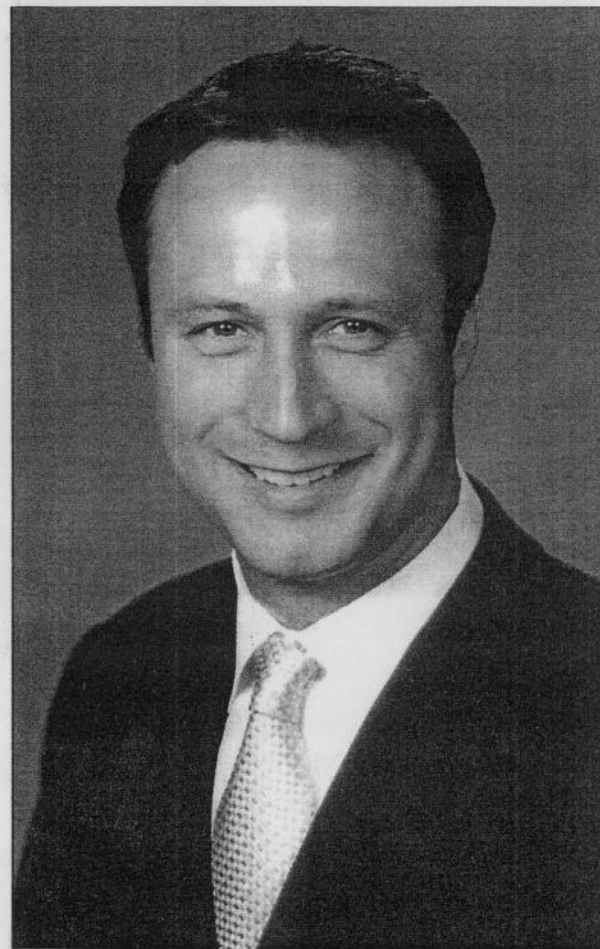
committee, negotiating new fund documents to give the fund manager a longer runway, helping coordinate and execute the legal or governance strategy, helping find and negotiate terms of new capital, selling distressed assets, or coordinating public relations.

It's not uncommon for a fund's “orphaned assets” to be left on the director's doorstep. Possessing a deep and broad network of highly experienced managers, the restructuring consultant can develop and implement strategies designed to maximise the value of such assets by providing custom portfolio and risk management solutions. The menu of solutions for all types and sizes of assets, including distressed asset pools and illiquid portfolios, may include purchasing assets directly or developing a market for assets and managing their sale or liquidation. The restructuring consultant's capabilities should therefore extend across all asset classes (equities, futures, derivatives, options, currencies, fixed income, distressed lending, real estate, private equity and venture capital).

At The Aragon Group, we offer a tool we call The Aragon Scorecard, which provides directors and managers with an efficient yet comprehensive analysis of a fund's status. The Aragon Scorecard analysis can typically be executed in a matter of weeks and provides an overview of challenges the fund faces, combined with a strategy for transition. New tools like these can be used to help a director and a fund manager develop a plan for optimal fund restructuring.

As a new strategy is implemented, managers inevitably need middle to back office solutions from an experienced team. Restructuring consultants also can quickly step in and provide valuable outsourced accounting, compliance, and investor reporting.

For directors looking to quickly assist their fund managers in transition, introducing the expertise of a restructuring consultant, in conjunction with legal and valuation expertise, may be the best thing you can do.



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