**No Sand Between Our Toes (2012)**

**But our LPs are very happy that we don't have summer tans.**

This is the fifth edition of our summer blast. OK, it should be titled "Some Sand Between Our Toes". We've actually had the fortune of enjoying both a busy period and a highly efficient back office, operations and professional mitigation staff that is running like a well-oiled and glowingly-tanned sunbather. After 11 years of taking over troubled fund assets and doing diligence on funds and deals, we have comfortably created an effective process that makes our clients more liquid and we, at Semaphore, smiling at both our good fortunes. In fact we've just spent this past month officially closing down a Venture Fund after intervening some five years ago.

It may not be a breezy beach read but here is the story. The North Shore Fund (name changed to protect the guilty) was a moderate sized venture fund with two General Partners investing from a syndicate that included many of America's most well-known banks and several larger state pension funds, each with approximately $40 million in committed capital. It was a second fund run by well-educated but under skilled managers. You'll have to wait for the movie but suffice it to say, returns were less than generous. More accurately, they were outright awful. While few get fired for poor performance alone, you will get fired for willful destruction of value, cutting governance corners along the way and playing just on the edge of fraud. The LPs had spent the better part of two years fighting with the GPs about their misbehavior while paying 2 full points in management fees. Litigation had been filed and discovery was ongoing. There was not a no-fault divorce clause in the Limited Partner Agreement and some several hundred thousand had already been spent on litigation. An LP who had previously worked with Semaphore introduced us to the syndicate. We promised three things: 1.) Get the GP out the door without litigation. 2.) Take control of the fund and let the partnership know what had gone wrong. 3.) Tell the truth about whether we could fix it.

We were not very welcome when we walked in the GPs door to introduce ourselves as the folks who were going to replace the very individuals who greeted us. Governance was a mess, portfolio companies had been wholly ignored during the protracted fight and fund values were, well, lower than the clams buried deep in the sand we hoped to be trodding this summer. In fact we ended up taking over Fund I as well, whose value had wholly eroded. We mercifully buried the fund and secured complete liability protection for the LPs.

Back to Fund II: Bottom line is, we fixed it. Semaphore walked the GPs out the door without further litigation; straightened out governance; righted portfolio businesses; sought and received third party reparation; and replaced a third of portfolio company management teams. Ultimately, Semaphore returned 3.1X of value – all without drawing down another nickel of the then available unfunded capital commitment when we intervened.

Oh yeah, we got paid a piece of the action – real carry from a fund destined to be written down to zero. This, of course, meant that our LPs received significant newly-found liquidity. For the rest of the story give us a ring. I will promise to call you back from the beach. Then again, the phone just rang and it's a client with a recalcitrant GP who is acting badly. Maybe next summer...

Hope summer is affording you some respite. If you have any fund worries keeping you from enjoying the surf, lake, forest cabin, poolside, living room or wherever it is you should be happily vacationing - then kick the problem to us.

Mark S. DiSalvo is the President and CEO of Sema4 Inc., dba Semaphore ([www.sema4usa.com](http://www.sema4usa.com)), a leading global professional services provider of Private Equity funds-under-management and technology diligence services. Semaphore currently holds fiduciary obligations as General Partner for six Private Equity and Venture Capital funds, a New Markets Tax Credit lender and advises General and Limited Partners as well as corporations around the world. Semaphore’s corporate offices are in Boston with principal offices in New York and London.