

# SBIA Forum

*Eight Questions:  
Turnaround  
Workout Strategies  
Lessons Learned*



# Real Life LP Portfolio Issues

- **“Barbara is stealing from you.”**
- **“Oh, that company never existed.”**
- **“The Controller didn’t graduate from High School.”**
- **“That’s his nephew.”**
- **“We’ve been hiding valuation from his wife’s divorce lawyer.”**
- **“He is with his other wife.”**
- **“I no longer care about that Fund.”**



# Mini-Cases

- **Three partners in two cities**
- **The 30 year GP**
- **Politically connected/pathetically prepared**
- **Incapacity**
- **Never capable**
- **Structural death**
- **LP inattention**



# Case: Mouse Capital Fund II

- \$175 Million SBIC fund
  - all things Disney, theme park support, retail, entertainment services
- 33 investments
  - \$4 Million available capital
- Valuations at cost –underwhelming handful of exits
- Few investments in syndicates – several control positions
- Flirt with SBA declared impairment periodically
- Stable GP profile
- Capable recruitment of new staff
- Partners fundraising for Fund III

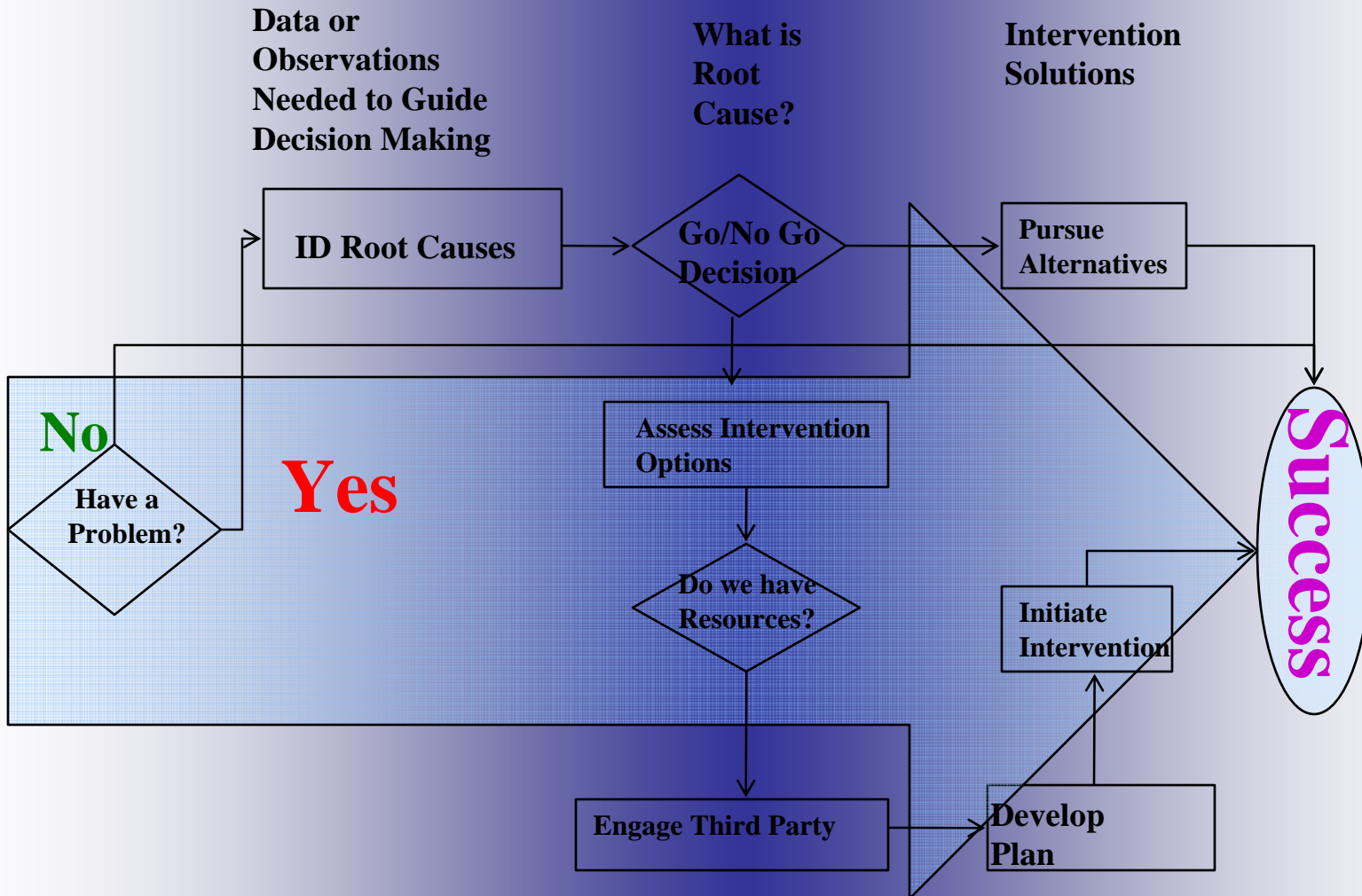


# Options Available

- Persuasion
- Secondary Sale
- Write Off/Write Down
- LP Enforcement/Action
- Takeover/Intervention



# Intervention Chart – Step by Step



# Eight Questions

## *1. What are the symptoms that a fund is experiencing distress?*

- Audit
  - Timeliness
  - Firm
- Valuation
  - Macro economic alignment
- Impairment
- Relationship
- Lack of contact
- Investment activity
- Off charter



# Eight Questions

## 2. *What are the right ways to talk to other LPs about problems at a fund?*

- Directly
- Immediately
- Dispassionately
- Collaboratively





# Eight Questions

## *3. When do you need to take action to make a change with a GP and the steps you could take beforehand?*

- Attempt to work with GP
- Independent evaluation of fund and/or partnership
- Mandate ILPA – QAP
- Protect reputation of LP
- Defensive purposes
- Value at risk
- Liability inoculation
- Portfolio obligation



# Eight Questions

## 4. *When do you bring in legal counsel?*

- Depends
- Privilege?
- Activity
  - Lawyer letter
  - Response
  - Outside influencer(s)
  - Negotiation
  - Equity court preparation
  - Execution of separation agreement
  - Engagement of intervention assistance



# Eight Questions

## *5. How does one legally engage a replacement GP? What is the form of the contract?*

- When is the key
- Prior to disengagement/Advisory
  - Fee for Service Contract
  - Letter Agreement
- Post Disengagement/Interim
  - Services Contract
  - Fee for Service only/ No incentive
  - Assumption of LPA



# Eight Questions

## *5. How does one legally engage a replacement GP? What is the form of the contract?*

- Permanent assignment
  - Services Contract
  - Assumption of LPA
- Terms
  - Management fee
  - Hurdle
  - Carry



# Eight Questions

## 6. *When a replacement GP is brought in how is it discussed with portfolio companies?*

- Responsibility of New GP
  - Letter of authority from LPs
  - Immediate conversation by phone
    - Not a monitor
  - Personal visit within month to entire portfolio
  - Open discussion as G2
  - Deal directly with problems raised w/o overpromising
  - Be able to operate entity
  - Come with operations mindset



# Eight Questions

## 7. *What should LPs' expectations be for their final economic outcome with a replacement GP?*

- Specific to considered LP interest
- Asset protection
- Absolute return
  - Post initial valuation
- Liability protection
  - Replaced GP
  - Portfolio
  - Investors
  - Reputation



# Eight Questions

8. *What are the lessons learned from being a replacement GP?*

- **Act – have a bias toward action**
- **Prevent**
  - **QAP**
- **Support**

