

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

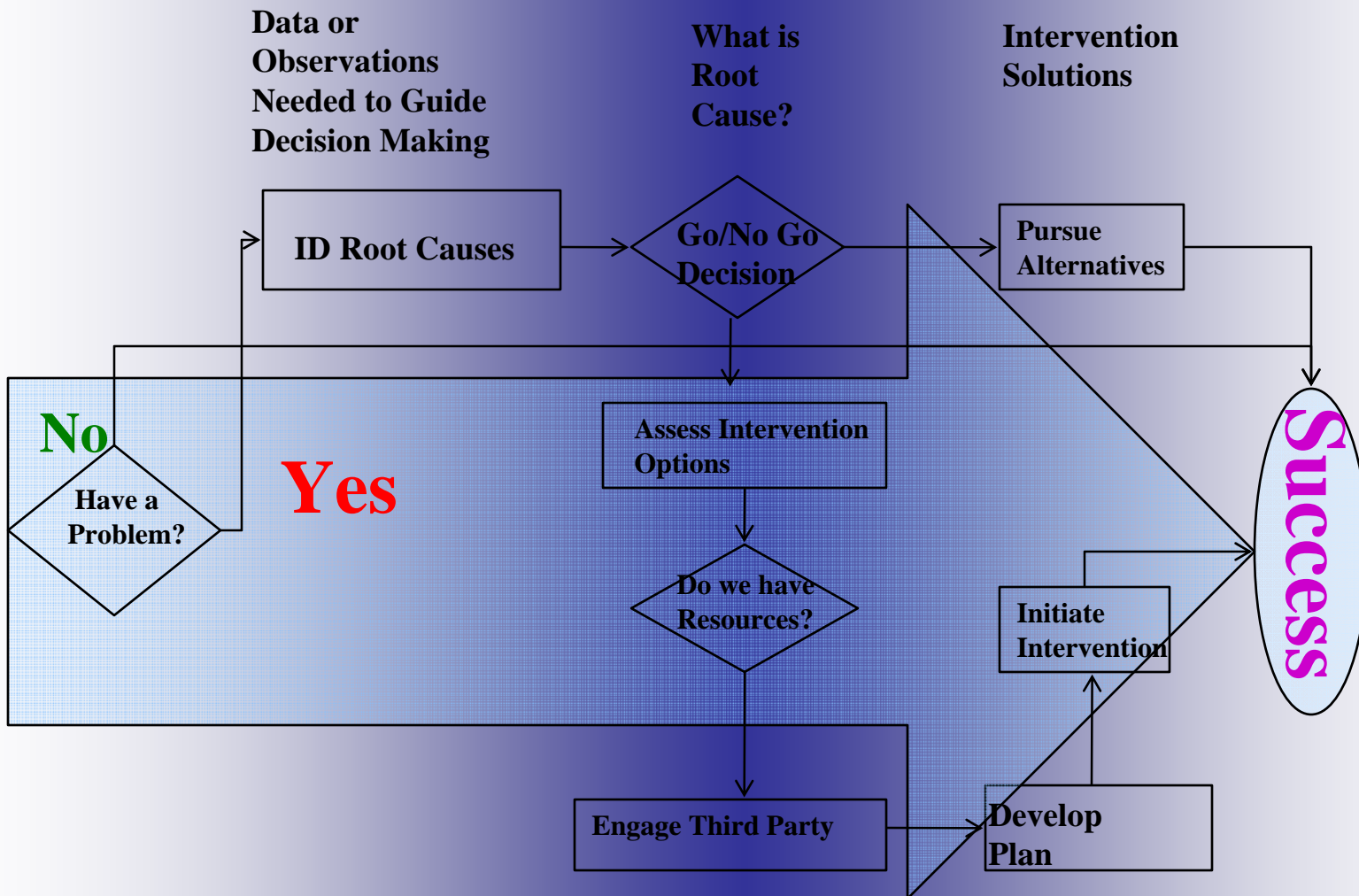


Options Available

- 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**