ACCRETIVE ADVISORS

Accretive Exit Capital Advisors, LLC (Accretive Advisors) assists institutions and substantial global private clients in ***rationalizing*** their private equity portfolios. Its incentive based compensation structure perfectly aligns with the goals of its advisory clients. Accretive's principals are uniquely proficient in attaining the maximum value for assets and optimizing residual portfolio value on behalf of clients by targeting the optimal set of buyers for each asset in a discreet and effective manner.

Portfolio Rationalization

What does it mean to "rationalize" a private equity portfolio? Of course one generally thinks of synonyms like "downsizing", "diminishing", and "decreasing". These simplistic definitions are indeed consistent with the "one size fits all" solution which currently dominates the private equity space: a simplistic, most often ineffective and less than ideal approach which, to be sure, downsizes the portfolio but fails to reposition the client and/or its lender to best meet their respective objectives.

Since mid-2008, leverage available for alternative investment portfolios has tightened tremendously, severely and negatively impacting private equity funds and investors. Many investors have explored liquidation or repositioning of existing investments and curbing unfunded commitments only to find what they consider to be unfavorable or unacceptable pricing for their illiquid assets in a down and chaotic market. Typical sellers have sought out the "usual suspects" among secondary market intermediaries or have gone directly to secondary buyers indiscriminately and without a clear and viable strategy. Of course, this traditional approach yielded not just unpalatable bids, but often harmful publicity as well.

Accretive takes a very different approach to the rationalization and reorganization of an alternative assets portfolio. It takes a unique sell side perspective which is utterly discreet, proprietary in strategy, and highly specialized in terms of matching each asset with a potential buyer's axe or vested interest. The Accretive approach has been tested and is proven with sizeable portfolios to yield not only a materially higher rate of net asset value recovery, but also, and most importantly, maximization of the value and construction of the residual portfolio left with the client at the end of the engagement.

CASE STUDY:

The Situation:

An ultra high net worth private wealth management client of one of the world's largest global banking institutions had borrowed heavily from the bank to help finance what would become substantial overinvestment in private equity. The portfolio of private equity assets had nearly $700mm in original commitments. As of May 2009 the portfolio had $240mm in unfunded commitments and about $200mm in net asset value (NAV). The loan was, according to the bank, seriously in default as a result of lowered September 20, 2008 PE valuations. Neither the bank nor the borrower appeared to be willing to continue and fund capital calls.

The parties solicited a Request for Proposal from numerous leading secondary intermediary firms. Concerned with the proposals received, the bank sought Accretive's advice as to which group and approach were best to suited to achieve the goals of the bank. After a preliminary assessment, Accretive determined that none of the proposals could conceivably provide a reasonable and appropriate outcome for either bank or borrower. With the bank's assent, the borrower/client then engaged Accretive to manage the rationalization process.

The Engagement:

In May 2009, Accretive began to evaluate the existing portfolio in more exhaustive detail. The portfolio was comprised of over 70 Limited Partnership (LP) interests, most of which were indirect limited partnership interests (i) in well known US and European based mega and/or middle market buyout funds; (ii) a small number of venture and direct investments made with large buyout sponsors; and (iii) several private equity real estate fund holdings. After spending considerable time with the client to understand the history of the investments, the relationships behind each investment and the sponsors, and the overall goals of the family (especially complex given internecine family and corporate conflict), Accretive set out to develop the best strategy for achieving the client's objectives. The client had diverse concerns and objectives and was in contention with the bank about the terms and covenants of the loan agreement. Under pressure from the bank to liquidate assets, Accretive began to work with the client to discreetly price out certain LP interests in the secondary market. Accretive also provided a fully transparent view of activity and efforts to the bank. Functioning as intermediary between the bank and the client, Accretive helped to defuse tensions. Upon careful review and planning, Accretive knew that certain LP interests were trading at lower discounts despite the meltdown in secondary pricing during the 2nd quarter of 2009. Within the first couple weeks of the engagement, Accretive arranged a buyer of a European buyout fund interest for 81% of its most recently reported NAV. This sale generated immediate liquidity in the several million of dollars, pared back $7mm from unfunded liability and demonstrated effectively to the bank that Accretive and the client were willing and able to sell assets and outperform current market pricing in the secondary market through a discreet, targeted and non-competitive sell side approach. Accretive then spent the next sixty days pricing each asset and meeting with and interviewing institutional LPs among the large insurance companies, pension funds, consultants, secondary funds and PE fund of funds. It was determined that there was little appetite for the assets at the price levels that were required to make a sale viable.

Finding the right combination of assets:

Accretive then began to package countless iterations of bundled assets together to yield higher bid prices. As expected, Accretive Advisors was able to show client and bank representatives that certain asset groupings were more attractive than single line item offerings. The more exclusivity provided the bidders, the higher the bids procured. By August 2009 Accretive had orchestrated the sale of several assets above 70% NAV, reduced the unfunded capital balance by $90mm and identified a group of assets that was well bid in the market, yet also favorable for the client to dispose given the respective commitment size and level of unfunded commitments. This was a group of about 25 LP interests representing $140mm of unfunded liabilities and $100mm of NAV on the June 30, 2009 valuation date. A group of buyers was identified for the various assets and Accretive proceeded to binding offers for the assets.

Complications:

Adding to the complexity from the potential sale of the optimal grouping of assets was the steadily deteriorating relationship between the client and the bank during this period. Other loan agreements pertaining to other groups of assets between the bank and our client began to flair up and impact the sell side engagement. An unexpected and imminent capital call in the amount of almost $9mm injected an added fly into the ointment. Neither the bank nor the client, given the state of affairs was agreeable to paying the call, yet both would suffer greatly from a fund default.

Completion:

With tensions high the client and Accretive worked together closely to assure a binding contract on the group of assets and that the best bid included the fund with the looming capital call. As a closing condition the buyer would have to fund the capital call within days of signing a letter of intent (allowing little time for due diligence on the particular fund). This meant finding a buyer who was either an existing LP of the fund or knew the fund well enough and really wanted the position. What had appeared plausible, namely the client selling the group's 25 LP interests to four distinct buyers (as Accretive had assembled two separate binding letters of intent and was in the process of securing two additional LOIs) changed instantly. A fortuitous interaction between the client and an institutional secondary buyer resulted in a solitary buyer for the entire pool of assets at an 11% price increase. Accretive, waiting for signatures on LOIs from two other buyers of 10 of the LP interest, was then called in to scrutinize the viability of the new single bidder solution (which was for 21 of the 25 LP interests being sold) and to ensure that the $9mm capital call, now due in just 5 business days, was to be paid as a condition to closing. This frenzied deal fever and the new found level of very high interest each bidder was showing were in stark contrast to what had been the case just weeks before this mid October week. The net result was a sale of 21 LP interests to the victorious single bidder (roughly $170mm total transaction value at 43% discount to NAV) who recognized the combination of interests that Accretive Advisors had engineered for sale was a very attractive group of assets at the price level being offered. More importantly, the sale price was compelling to the client. In a single transaction, Accretive was able to shed nearly $100mm of unfunded liabilities and enable the retention of almost $80mm of NAV with less than $15mm of unfunded liabilities in the residual portfolio left in the possession of client. This was an unexpectedly positive outcome compared to July estimates that there would be nearly no residual value left after the necessary amount cash was raised from secondary sales. The final result was positive for the bank as well. They were paid back a loan amount that put the loan agreement back into compliance, with more than enough headroom to meet the residual portfolio unfunded commitment level. Provided the client and bank are able to repair their relationship, they may even resume making new commitments, and help lay the groundwork for rebuilding the wealth which was washed away by the perfect storm of greed, easy money, and excessive leverage.

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