Providing Urgently Needed Liquidity

"In the frantic circumstances of the 2008 meltdown, I sought Alan's assistance in dealing with a massive problem of illiquidity that I experienced due to over investment in private equity. He attacked the situation with zeal and alacrity, and authored a study that showed a need for immediate financing to provide liquidity, which he was then instrumental in obtaining. A job well done with keen insight and accurate but conservative forecasting."

- Former Chief Operating Officer, Global Investment Bank

The Problem

The client, the former COO of a global investment bank, had the vast majority of his portfolio concentrated in private equity investments. His rationale for tolerating that exposure was his belief that private equity offered the best risk/reward ratio of any asset class.

Approximately one year prior to the onset of the recent financial crisis, Mr. Mantell was asked to peer review the portfolio. He concluded that the future client was erring on two fronts: he was making questionable assumptions about the reliability of the future distributions he could expect from his private equity holdings, and not keeping enough liquidity to protect against the possibility that those expectations would be disappointed. Alan respectfully challenged the client's overall asset allocation and urged him to immediately stop making further private equity commitments. In advocating for change, Alan also emphasized that the client's concentrated position in a single publicly traded stock heightened the client's vulnerability. The client nevertheless subsequently made additional private equity investments, in pursuit of double digit returns.

When the financial crisis hit a year later, the value of the client's liquid assets dropped swiftly and in one case vastly. Since the client was overly illiquid to begin with, those losses left him potentially unable to meet a series of upcoming capital calls on his private equity commitments.

The Request

Recalling the warnings from a year earlier, the client asked Mantell Advisory to quantify the liquidity problem and devise solutions to it.

The Analysis

Every asset and liability on the client's balance sheet was separately assessed. The client's private equity investments were with more than 30 different firms each of which was asked to provide an estimate of future capital calls and distributions, information that such firms typically refuse to divulge. To overcome their resistance, aided by an intimate understanding of the securities disclosure risks the firms would have to accept before providing the information, we took several key steps. We presented the scope of our client's liquidity

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The Analysis (continued)
problems with complete candor, we emphasized the common interest each firm shared with the client – to avoid default on future capital calls – and we gave each firm credible assurances that confidentiality would be strictly preserved. In all instances the firms involved were forthcoming with their best estimates in a timely manner.

Using the projections provided by the private equity executives and a qualitative understanding of their differing confidence levels in those figures, we compiled a series of scenarios to realistically anticipate the future liquidity needs of the client attributable to his private equity holdings. We also evaluated the client's personal and commercial real estate and the prospects for the sale or refinancing of each property.

We then modeled the client's future cash flows, including his routine living expenses, binding commitments to charity, and planned support for members of his extended family. Our analysis took into account projected income taxes on the asset sales that would be necessary as one step in enabling the client to meet his future obligations, as well as projected interest on the new debt we estimated would be needed to meet his future obligations. With the benefit of that modeling, we were able to make the necessary value judgments about how best to stabilize the client's financial situation.

In making our recommendations, we took into account that the client and his wife were distressed about the necessity of adjusting to their revised financial reality. Not only had they been prominent and wealthy members of their community for years, but they also were ongoing providers for many children and grandchildren. There was an opportunity and an obligation to help them make this adjustment in as respectful and sensitive a manner as possible.

The Solution
The financial crisis had not only decimated the client's readily marketable securities; it was rapidly diminishing the client's ability to cost-effectively liquidate any of his private equity holdings. In response, a combination of new borrowings and assets sales was proposed and rapidly implemented.

Steps taken:

- Two private equity holdings were immediately divested at minimal discounts to their carrying values, providing 750K of new liquidity and eliminating more than 3 million of future capital calls.
- Financings were arranged on two residences, providing net proceeds of 4 million and an additional 4 million line of credit.
- A bank line of credit in the amount of $1.25MM was arranged, secured by commercial real estate.

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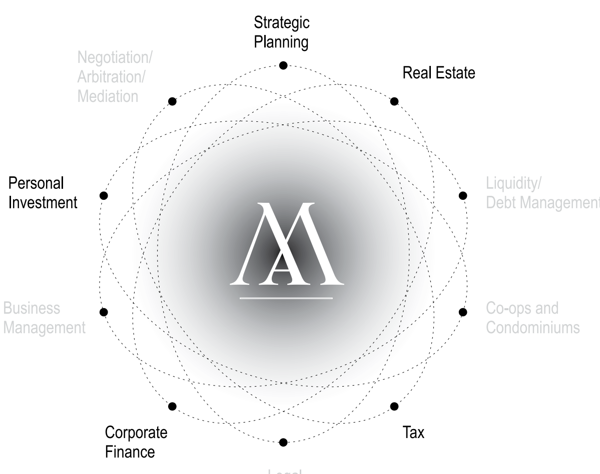
The Solution (continued)

- An unsecured credit line of 3 million was obtained from a commercial bank, approved largely as a result of the detail and credibility of the financial modeling prepared by Mantell Advisory.
- Tracing of the newly borrowed funds was arranged to maximize deductibility of future interest payments.
- The client was advised and agreed to sell one of his homes, having an eight figure value, and rent a replacement.
- To assist the client in monitoring and moderating risk in future, periodic reviews of his portfolio were instituted.
- Later, a shared family office organization was introduced to re-evaluate the client's estate planning and facilitate intra family discussions regarding the client's remaining wealth.

The Results

By responding rapidly, asset liquidations were accomplished at prices no longer available shortly thereafter. By further bolstering the client's liquidity, the client was enabled to weather a severe market downturn while maintaining the ability to provide for numerous children and grandchildren in substantial ways; and despite the scope of their reversals, the client and his wife were enabled to adjust to their new financial circumstances without unpalatable difficulty.

Areas of Expertise Applied



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