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# MULTIPLICITY CONVERSATIONS

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## THOMAS RITTER DISCUSSES MULTIPLICITY'S LIQUIDITY SOLUTIONS FOR PRIVATE BANKS AND THEIR LEGACY ASSETS

**Q: What are the typical issues for a private banking client with illiquid assets?**

It is important to distinguish between three main problems. First, there are assets that you would like to sell, for whatever reason, but there is no market for them. The asset is not in trouble, but the client wants an early exit. Second, there are assets that have run into problems and where the liquidation typically is a long-lasting process. Although the assets still have residual value with some expected recoveries, they are typically very illiquid until the liquidation or restructuring is complete. Also, a liquidation generally is a costly process, so time can eat away significant parts for the residual value. Madoff related products for example typically have very high (legal) liquidation costs in some cases more than 30% of recoveries. The third problem can be the time factor. If the time horizon of a client suddenly changes (divorce/inheritance etc.), solutions for illiquid assets must be found within a reasonable amount of time.

To summarize, the problems for a private banking client are situations where value is trapped in illiquid assets and the flexibility is not there. Typically, the 'problems' are the result of an asset allocation (decision) in the past, e.g. a move into private market investments. Accordingly, this asset allocation is no longer up to date, or the client's preferences and needs have changed. Thus, the situation can arise that one has illiquid assets in the portfolio that one would like to sell. Since these are often small and non-institutional position sizes, there is often no market for them.

**Q: Where do problems arise with illiquid/distressed assets?**

Analyzing a client relationship life-cycle, there are three distinct phases. Each phase poses different problems. The Onboarding Phase: When you have a prospect in the pipeline, it is always important to know if the client holds illiquid legacy positions with the old bank that may cause problems. Often there are situations where clients are no longer necessarily satisfied with their bank or asset manager, or there is just a more suitable provider for the client's currents needs. But because a substantial part of the wealth is seemingly not transferable, the clients stay with their old wealth managers.

During the Account Management Phase, it is important to be attentive and to identify potential problems at an early stage. In doing so, it is important to be proactive and not just wait and think for a potential problem to solve itself, they rarely do.

An example worthwhile mentioning is that investors who were invested with certain Madoff funds for example, who pro-actively put in redemption request, are being treated preferentially in the liquidation process compared to non-redeemers. We always recommend staying calm in such situations and to act rationally and well-considered. Looking away from a problem can cost the client a lot of money in the long run.

Liquidation phase: When a client wants to liquidate a portfolio, we often see that there are residual positions in the account that cannot be transferred. There is hardly any support from the banks, as they are not incentivized to support leaving clients. We have been in the business for over 10 years and know the usual suspect assets and were able to support in many account closures.

**Q: How can Multiplicity Partners' services be of help when financial assets are going through a transition?**

At Multiplicity Partners we have built our own ecosystem. There are currently close to 20 banks in Switzerland, and more are in the process of being integrated into our network. With our own accounts at the relevant banks, we often operate with so-called 'in-house transfers'. If a client of a bank or an external asset manager is looking for a liquidity solution, we can in many cases handle this in-house. This saves us and the client time, money and effort. In addition, we always strive for an alignment of interest. The customer is happy because we have solved a problem for him. The bank is happy, because it does not lose any AUM and we can use our capital to provide liquidity solutions.
In doing so, we often have to offer tailor-made solutions so that the outcome is satisfactory for all parties involved. We have a strong ‘get it done approach’. The fact that banks and asset managers increasingly use private markets and alternative investments in their offering is understandable in times of negative interest rates and appetite for yield. However, a huge drawback is that there are hardly any early exit opportunities in certain alternative assets during their life-cycle. This lack of a secondary market for private clients is often simply ignored. Private banks and wealth managers offer products without having solutions during and especially towards the end of the maturity of the asset.

**Q: ‘Portfolio Clean-Up’ – what does this mean for you?**

For clients above a certain size, it is of great importance to have clear structures and guidelines in the asset allocation. Over time it is important to remain dynamic and to adjust the overall portfolio. We help both at the level of individual clients, asset managers and banks when they are in the process of divesting from certain assets. This can happen on a regular basis or in the context of a larger one-off restructuring. We take over legacy positions that no longer have a raison d'être. We also frequently encounter situations when relationship managers approach us. Many of them see their clients regularly for a performance review. Often, conversations get bumpy on these very problematic assets. Instead of talking about the good overall performance, the focus lies on assets that have not developed as desired without being able to influence them. The client may have had the asset in his portfolio for so long that the current advisor has nothing to do with it.

Accordingly, these conversations can be frustrating. That's why we try to position ourselves in such a way that we can be of help with so-called 'portfolio clean ups'.

**Q: How is it possible that you can offer liquidity solutions across all asset classes?**

That is a very good question. It is important to understand is that our investment business, unlike many others, is not overly time sensitive. We have specialized in the market segment that focuses on late-stage, tail-end situations that are often in the final phase of a liquidation or other asset realization process. This often involves court decisions and other regulatory components or other complex asset disposal processes, which is why a final wind-down in most cases is a very slow process. For most of the cases that we monitor there are only updates once or twice a year, if at all. That gives us room for a wide coverage.

In addition, the patterns of illiquid/distressed assets across most of the asset classes tend to exhibit similarities. It only matters to a limited extent if it is a side pocket of an insurance linked product or a hedge fund, the underlying risks may differ, but the due diligence is similar. We can therefore analyze a tail-end real estate fund and a legacy PE portfolio using similar tools and models. For us, the analysis of the structure and the service providers involved is just as important as the effective underlying asset risk.

We also maintain an active and constructive exchange within our network. Remember, Multiplicity started as an intermediary before we entered the investment management business ourselves. In today's private markets world, there are a lot of specialized market participants whose help and opinion we consult when needed. Of course, this is mutual and we support our business partners wherever we can. Since we are strongly differentiated from the market, we do not really compete with anyone.

**Q: Where does Multiplicity Partners position itself in the private banking ecosystem?**

We see ourselves as a sparring partner of private banks and wealth managers. We are happy to assist during any phase of a client relationship (onboarding, maintenance and liquidation). We can offer a very efficient and target-oriented service. We see ourselves as experts in getting transactions settled, typically withing a short timeframe.
Depending on the asset, a transfer can quickly become very complex if different levels and custodians are involved.
We also position ourselves very clearly that we are not in competition with wealth managers and banks for their clients. We simply provide an additional service – an added value. We can work directly with the client or their RM at the bank or wealth manager, always looking for win-win situations.

**Q: How complex are the problems that Multiplicity Partners works on?**

As you can imagine, there is a wide range from a single position in a small portfolio to the proprietary books or entire run-off portfolios of international banks. Whether a problem is complex or not depends on many factors. Seemingly straightforward lines can be troublesome while others are the opposite. After 11 years in the market, we have established a large library of special situations and are very well documented. This treasure trove of data helps us every day to provide a good service to our business partners. As an example, I would like to mention a transaction we have implemented 2020. We were approached by a client of a Swiss Private Bank that needed to sell a hedge fund side pocket portfolio valued at roughly 8.0 million USD. The portfolio consisted of 150-line different items. For large investors the ticket size was too small and therefore out of question and for smaller secondary market participants it was too complex to execute. Because we were well documented, we were able to submit a qualified pricing and furthermore were able to execute and close the transaction in a short time. There were two main challenges

in regard to this portfolio. On the one hand the valuation was not that simple and on the other hand the execution and settlement were everything but straightforward. We managed to find a price, take over the portfolio and satisfy all parties.
At Multiplicity Partners, we have a motto that we must incorporate into our work every day: For every problem there is a solution.

**Q: 13 years after the Great Financial Crisis, isn't the work slowly coming to an end?**

It might seem that way, but we can assure you that the 2008 crisis is not yet fully over. We regularly get inquiries about bank claims (e.g. Lehman, Icelandic banks), Madoff, and dozens of other assets that suffered.
In addition, large volumes of closed-end funds will reach or exceed their contractual maturity in the coming years (typically 10 years plus extension), thus requiring liquidity solutions. Already before and in the aftermath of the GFC, the alternative space has experienced a boom. Accordingly, the volume of assets which will have to be liquidated in the next years will increase continuously. Further, history tends to repeat itself, accidents happen all the time and fraud or bad underwriting are prevalent, especially in booming sectors or asset classes such as private debt. Lastly, the impact of the Corona-pandemic is only slowly starting to show in the real economy now that government lifelines are slowly receding. To summarise, solutions must be found, we are comfortable that we will not run out of work any time soon.

**Q: What is your outlook for your business?**

We are satisfied with the business performance in H1. We were able to add more banks with large reach to our ecosystem and have signed and executed close to USD 15 million in secondary transactions. Of course, we are always interested to expand our network and cooperate with additional banks. The more banks we have a direct exchange with, the better our service will be. We are on a mission and want investors to enjoy maximum flexibility with their assets. At Multiplicity Partners, we believe that clients should be able to move their assets according to their needs and preferences and not be constrained by the asset allocation from the past. We strive to use the capital at our disposal in the interest of all – the client, the wealth manager and last but not least Multiplicity Partners and our investors.

**Do you have any questions or feedback for us? Please contact Thomas at tr@mpag.com, or call him on +41 44 500 4553.**

Thomas Ritter is a founding partner of Multiplicity Partners. His responsibilities include the sourcing, analysis and execution of distressed investments. He co-founded the firm in 2010 and built up the firm’s execution capabilities in insolvency and fraud claims as well as in illiquid open-end funds. Thomas has more than 20 years of experience in the alternative investment industry with focus on secondary markets, portfolio management and structuring.

# ABOUT MULTIPLICITY PARTNERS

Multiplicity Partners is an investment firm specialised in providing liquidity solutions to holders of private market funds and distressed assets. The firm also offers a range of advisory and governance services across alternative assets.

Multiplicity Partners has been an active participant in the secondary market for fund interests and distressed assets since 2010. The team has successfully completed more than a hundred transactions across a wide range of illiquid and complex financial assets. Each partner contributes more than 15 years of relevant experience, giving us the collective capabilities to effectively identify, analyse and execute attractive investment opportunities in hard-to-value assets. Multiplicity Partners was founded in 2010 and is based in Zurich, Switzerland.

# CONTACT

Multiplicity Partners AG
Bodmerstrasse 5
8002 Zurich
Switzerland

+41 44 500 4550
info@mpag.com
www.mpag.com

For enquiries:
Andres Hefti,  Partner

+41 44 500 4555
ah@mpag.com

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