



LPs can't be complacent about need to replace GP

Trilyn managing director Mark Antoncic has warned limited partners to band together and be assertive when trying to preserve their investments. In some cases, this could involve replacing the GP.

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Limited partners in private equity real estate funds need to face up to the reality that they may need to replace their GPs in some funds if they are to protect their capital.

Managing director of real estate advisory firm Trilyn, Mark Antoncic, warned LPs not to be complacent in dealing with general partner sponsors severely hurt by the credit crisis, but to be "proactive" and not accept "spoon-fed answers at face value under any circumstances".

While many GPs would "husband" as much value as possible out of investments in a bid to protect their franchises and reputations, Antoncic said: "Some GPs have lost any opportunity to make their promote fees and some are ready to bail on their investors without any profit incentives to keep going."

In a white paper first published by Pensions & Investments, Antoncic went on to argue that it was "imperative" for LPs to take greater control by banding together, and potentially exercising their rights to replace the GP, once their general partner started to falter.

The "red flags", he said, include key personnel leaving, when the firm's fiscal viability seems shaky, fund operating partners fail and investor communications "turn sketchy". "When it's hard to get straight answers or worse yet GPs don't return calls, the odds grow dramatically that bad news lurks ahead," he added.

LPs would, Antoncic conceded, likely be at loggerheads as to how to proceed, but being caught "flat-footed" could jeopardize a limited partner's capital. It was therefore vital LPs sought help from companies with a track record in asset management.

"Complicated debt-equity structures will need attention from executives who not only can negotiate loan workouts and issues like debtor-in-possession financing, but also have property level experience and can oversee leasing strategies and building operations. Crisis situations aren't well-suited for on-the-job training and start-ups."