

CORONAVIRUS RESOURCE CENTER

GPs/LPs Weigh Up Options in Face of Liquidity Crunch

April 14, 2020

As significant economic sectors grind to a halt around the world due to coronavirus-related lockdowns and travel restrictions, many portfolio companies will face liquidity crunches, raising concerns for private equity fund managers and their investors. Uncertainty around the duration and extent of coronavirus-related business interruptions presents a further challenge for sponsors trying to manage financing needs across their portfolio. In this hazardous environment, many sponsors are considering how to preserve financial flexibility for present and future needs, including:

- amending limitations on follow-on investments in the fund's governing documents;
- amending recycling provisions in the fund's governing documents to permit additional re-investment;
- entering into or expanding NAV facilities;
- conducting strip sales of portfolio companies to secondary buyers (which can be done synthetically) and reinvesting proceeds into the portfolio; and
- issuing a preferred equity interest in the fund's portfolio (or some of it) to secondary buyers and reinvesting proceeds into the portfolio and/or distributing the proceeds to investors.

At the same time, investors in private equity may soon be deluged with requests for capital infusions and other accommodations across their private equity portfolios. Some of these may be defensive in nature (e.g., hoarding reserves to protect portfolio companies), while others may be more opportunistic, raising a "war chest" to take advantage of opportunities that may arise. Against this backdrop, some investors may

be looking to reduce their exposure to private equity or to find creative ways to bridge their own potential liquidity issues, while others may see opportunity ahead.

The issues facing private equity sponsors and investors in the current environment cut across a range of areas, including GP/LP relations, fiduciary duties, conflicts of interest and reputation, and require creative solutions and sound commercial judgment. While the current situation and eventual recovery present unique challenges, there is an array of lenders and specialized private equity investors (including pension plans, sovereign wealth funds and secondary, fund-of-funds, special situations and credit funds) prepared to provide sophisticated liquidity solutions based on experiences and tools they have developed over the past decade. As a long-term advisor to private equity, Debevoise has deep experience in all aspects of fund- and portfolio-level financing and liquidity transactions, and we look forward to guiding our clients as they prepare for the challenges and opportunities ahead.

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For more information regarding the coronavirus, please visit our [Coronavirus Resource Center](#).

Please do not hesitate to contact us with any questions.

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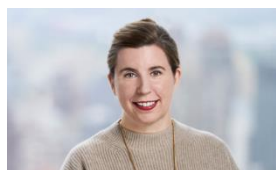
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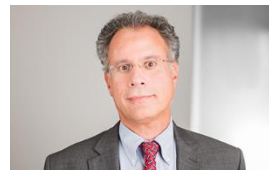
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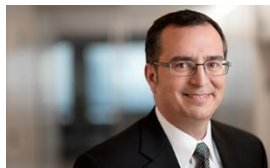


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