

Fund of Funds in Focus - Navigating GP-led restructurings

A GP-led restructure is an increasingly common strategy within private equity. As the financial landscape evolves, and the demands of investors become more diverse, general partners (GPs) and fund managers are turning to restructuring to maximize returns, manage liquidity, and provide more flexibility to investors. These restructurings are typically complex, requiring skillful navigation to address the myriad challenges that come with it, including operational, legal, tax and regulatory considerations and investor management hurdles.

In this article, we'll dive into the intricacies of GP-led restructurings, offering best practices to help fund managers and their administrators navigate them effectively.

GP-led restructuring explained

A GP-led restructuring is a process in which the GP of a private equity fund initiates changes to the structure or terms of an existing fund, typically to extend its life, reallocate assets, or raise new capital. This process is commonly seen in the context of liquidity solutions, often driven by the need to address the issue of mature portfolio companies. The most typical examples of GP-led restructurings are fund life extensions or secondaries, where assets from the fund are restructured and sold to new investors, or in some cases, giving options to existing investors to extend their investments.

The general goal is often to create more value for all stakeholders: GPs, limited partners (LPs), and portfolio companies. However, due to its complexity and the array of stakeholders involved, this restructuring process can be a difficult path to navigate.

What makes GP-led restructurings complex

While GP-led restructurings are an important tool, they come with a variety of complexities that can create significant operational challenges.

Legal and regulatory complexity

The legal framework and complying with regulatory environments make GP-led restructurings complex. Different jurisdictions have different rules regarding fund structures, investor rights, and the process for transferring assets or altering fund terms. These regulations must be navigated carefully to ensure that all legal requirements are met.

1. **Investor consent** - in most GP-led restructurings, investor consent is required for significant changes. This could include changes to the term of the fund, amendments to fee structures, or agreeing to the sale of assets. Securing consent from investors -often with differing interests and risk appetites - can be challenging. A lack of transparency or poor communication can create delays or even resistance to the restructuring.
2. **Tax implications** - changes to the structure of the fund or asset transfers could trigger tax liabilities for investors. For example, capital gains tax and other transaction-related taxes may apply when assets are sold or restructured. This requires careful planning to mitigate any unintended consequences.
3. **Jurisdictional differences** - given that funds managers often deal with investors and assets across various jurisdictions, ensuring compliance with cross-border regulations is another layer of complexity. The [AIFMD](#) (Alternative Investment Fund Managers Directive), DAC6, FATCA (Foreign Account Tax Compliance Act), and CRS (Common Reporting Standard), among others, must be considered, especially when restructuring cross-border investments.

Stakeholder alignment and communication

Alignment of interests is crucial in a GP-led restructuring, and this can be difficult to achieve. GPs, LPs, and other stakeholders (such as co-investors, debt holders, or portfolio company management) often have differing incentives, objectives, and timelines.

1. **LP interests** - existing LPs may be wary of restructuring proposals, especially if they do not align with their investment horizons, liquidity preferences, or return expectations. Some LPs may want to exit or liquidate their positions quickly, while others may prefer a longer hold to

capitalize on future growth.

2. **GP objectives** - GPs are often looking to extend the life of their fund to maximize value, but this extension may not always align with the exit strategies or liquidity needs of the LPs. GPs need to manage their relationships with LPs to ensure buy-in and avoid alienating investors who might want to exit.
3. **Co-investors and other stakeholders** - in some cases, co-investors or portfolio company management may also be involved in the restructuring process. Managing these relationships and expectations can complicate the process further, especially if these parties are not fully aligned with the goals of the GP or LPs.

Financial and operational management

Restructuring a fund's financial model is another significant challenge. From the valuation of assets to the re-allocation of capital and restructuring of fees, fund managers must skillfully handle the process to avoid unnecessary risks.

1. **Valuation challenges** - accurate and fair valuations are critical to ensuring a deal is fair to all parties involved. Whether assets are sold to secondary investors or retained within the existing fund, agreeing on the right price can often be contentious. Having a robust and transparent valuation process is key to mitigating disputes.
2. **Fees and terms** - reworking the fee structure can be a delicate issue. For example, the GP may seek to change or extend the carried interest structure to account for the additional time or work involved in managing the portfolio. Similarly, management fees may be revisited if the duration of the fund is extended. A failure to manage these changes effectively can lead to push back from investors.
3. **Operational complexity** - restructuring requires significant work around the allocation of assets, restructuring the portfolio, and managing reporting and compliance in line with the new structure. A specialized fund administrator can provide invaluable assistance in managing these transitions smoothly.

The role of a fund administrator

In an increasingly complex market environment, partnering with a knowledgeable and experienced fund administrator can help ensure that GP-led restructurings are successful, fair to all stakeholders, and positioned for long-term value creation.

Fund administrators play a critical role in managing the operational, legal, tax, regulatory, and reporting aspects of a GP-led restructuring. Their expertise ensures the restructuring process is seamless and efficient, mitigating the challenges and complexities involved.

1. Due diligence and compliance management

Fund administrators ensure compliance with regulatory frameworks and assist in the due diligence process. They help to navigate the legal landscape of different jurisdictions and assist in securing the necessary investor consent, confirming that restructuring terms comply with fund agreements, leverage their experience in establishing continuation vehicles and local laws.

2. Streamlining investor communication

Administrators provide regular updates to investors and manage queries to provide clear and transparent communication. They also play a central role in the coordination and execution of side letters, ensuring that the terms and conditions agreed upon during the restructuring are tracked and enforced.

Digital platforms provide real-time access to data, enabling administrators to streamline communication between GPs and investors, ensuring all parties are aligned and informed throughout the process.

3. Portfolio valuations and financial reporting

Fund administrators help to validate valuations of portfolio assets, ensuring that the prices are fair and consistent with market conditions. In addition, administrators assist in generating accurate and transparent performance

reporting, maintaining investor confidence and trust during the process.

Administrators also help manage cash flows, track capital calls and distributions, and ensure that funds are allocated in line with the new terms of the restructuring.

4. Managing secondary transactions and liquidity events

Administrators play an essential role in managing transactions that involve secondary market transactions and liquidity events. This includes providing investors with accurate pricing, handling the mechanics of secondary sales, and ensuring that all necessary documentation and compliance checks are in place.

5. Post-restructuring management

Once the restructuring has been completed, administrators continue to add value by helping to manage the post-restructure process. This includes ensuring that new fund structures are properly administered, that all new investor commitments are tracked, and that ongoing reporting and regulatory compliance requirements are met.

How Aztec can help

Whether it's managing large volumes of unstructured and unstandardized data from multiple sources or navigating highly nuanced and complex structuring, investor management and governance requirements specific to fund of funds managers - your fund operations deserve more than a standard administrative approach.

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To learn more about how we can support your fund of funds administrative needs,

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