Fund Termination Study **2016**

Snapshot Research

Significant fund terminations over the coming two years

- There will be €6.4 billion hitting the market in 2017
- Funds terminating in 2017 performed better than their peers
- Liquidation remains the preferred termination option

Over the coming two years 72 funds have their termination dates scheduled putting €11.0 billion of the NAV into the market. Of those funds which are due to terminate between 2016 and 2018, 29 funds are terminating in each of 2016 and 2017 and 14 the year after. The majority of funds terminating in 2016 are value added (41.4%) followed by opportunity (31.0%) and core (27.6%) funds. In 2017, the trend changes with more core funds (41.4%) being terminated, followed by opportunity (31.0%) and value added vehicles (27.6%).

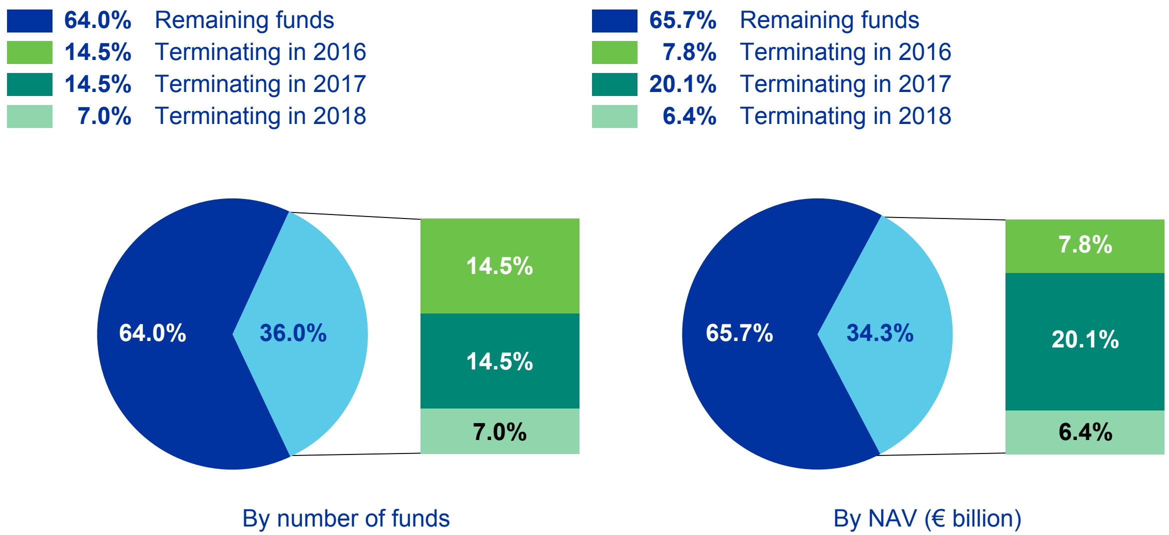
‘Over the coming two years 72 funds have their termination dates scheduled’

The majority of funds terminating in 2018 are value added (57.1%) followed by core (35.7%) and opportunity (7.1%) vehicles. With regards to country strategy, fund terminations are almost evenly split between multi-country and single country vehicles.

In terms of size, 2016 will see some large multi-country funds terminating.

When looking at fund terminations by sector strategy, the 2016 to 2018 period will see more multi-sector than single sector funds being terminated. Size wise, the sample varies year by year. In 2016, multi-sector vehicles will comprise the largest share of the total NAV. Conversely, over the next two years the sample will mostly be dominated by single sector funds.

Figure 1: Funds terminating between 2016 and 2018 by number of vehicles and size



In the period 2016 to 2018 approximately one third of the universe of closed end funds with termination dates between 2009 and 2019 will terminate.

Turning to termination decisions, the survey suggests that an imminent termination date increases the probability of a decision being made. Of funds terminating in 2016, 77.8% have made the decision. For funds with a termination date of 2017, 66.7% have decided on termination options. Compared to 2015 levels, the corresponding numbers were as follows: 82.4% had made their termination decision for 2015, and 80.0% had agreed on termination options the year after.

Moving on to issues affecting termination decisions, around half (47.8%) of respondents indicated that current market circumstances are the key determinant. This follows the pattern in 2015, when circumstances also occupied the top spot. Quality of the portfolio and terms set for termination options in fund documentation were seen as the second most important driver, each factor being identified by 43.5% of respondents.

> 'Liquidation remains the most likely termination strategy '

When asked which termination strategy was finally chosen or most likely to be chosen, 72.2% opted for liquidation as the preferred termination strategy. Liquidation remains the dominant approach, just as it was in 2015 and 2014.

There is evidence of a connection between termination status and performance. This was not the case in the period over 2007 to 2009 when extending funds and liquidating funds moved in the same direction. But since then a gap in returns has become evident. In 2015 it stood at 14.2%, with extending funds delivering 8.0% return and liquidating funds delivering -6.2%.

For further details contact research@inrev.org

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Figure 2: Performance by liquidation status