



CASE STUDY

Hedge Fund Portfolio Valuation and Liquidation

An FTI Consulting (“FTI”) expert was appointed as a testifying expert by the liquidator of a Cayman hedge fund in a dispute involving a derivatives market-neutral hedge fund strategy.

SITUATION

A leading global fund services firm (the “Administrator”) had been contracted to act as the administrator of a derivatives market-neutral hedge fund (the “Fund”), and to provide certain middle office services to it.

The Fund alleged that the Administrator acted in breach of contract, negligently calculated the net asset value (“NAV”) from June 2008 and misreported incurred losses.

An FTI’s expert was retained to value the Fund’s holdings of complex equity derivatives and illiquid fixed-income assets using FTI’s proprietary technology Quantum and to calculate independently the Fund’s NAV from June 2008 to November 2008 (the “Period of Analysis”).

OUR ROLE

An FTI expert was appointed to provide investment and valuation expertise in the litigation through a comprehensive expert report and oral testimony.

We first priced a 2 billion notional sub-portfolio of 54 over-the-counter (“OTC”) exotic derivatives and our valuation matched closely with the one provided by the broker-dealers who underwrote the derivatives (e.g., Goldman Sachs, BNP, Morgan Stanley).

The FTI expert was then asked to value the other complex Fund’s investments (for which no broker-dealer’s valuation was available), including more than 150 exotic OTC options.

We valued other illiquid instruments held in the Fund (including convertible bonds) and estimated the applicable discount for lack of marketability using option-based models.

We calculated the restated month-end NAVs of the Fund over the Period of Analysis.

We opined on whether the misstatement of the NAV would have triggered an earlier liquidation of the Fund.

OUR IMPACT



Using our proprietary Quantum technology and our trading and quantitative expertise, the FTI expert provided an accurate calculation of the Fund’s NAV (an ability which couldn’t be replicated by the opposite expert).



Our client reached a settlement in mediation and felt that the FTI expert testimony at the mediation was of considerable assistance in this successful outcome.



The client commented about FTI’s expert report that they “greatly appreciated the work you have done which is excellent.”

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FRANCK RISLER, Ph.D.

Senior Managing Director & Leader
Securities, Commodities and Derivatives
212.841.9348
franck.risler@fticonsulting.com