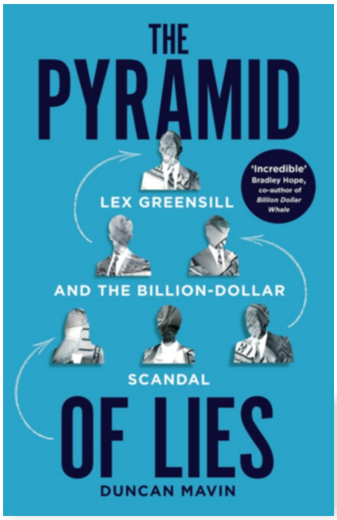
MULTIPLICITY MUST READ

Q3 / 2022

HOT OFF THE PRESS – THE PYRAMID OF LIES: LEX GREENSILL AND THE BILLION-DOLLAR SCANDAL



[Check it out on Amazon]

Check out this remarkable story about Lex Greensill's rise and fall and learn about some of the fallacies in alternative credit investing.

Multiplicity Partners is a secondary buyer of illiquid fund interests, with a particular interest in "troubled" investment funds. Over the past few years, we did a lot of work on funds in the supply chain finance space that failed. Some of them pursued trade finance strategies, some factoring, others provided so-called working capital solutions. But they all ran similar investment strategies to Greensill. Hence you can imagine our interest in the Greensill story and how eager we were to get our hands on Duncan Mavin's book on that scandal.

We highly recommend this well researched book about the uber-ambitious Lex Greensill desperately wanting to become a billionaire and part of the British upper class, at any cost. It is astonishing how large fund managers, such as GAM and Credit Suisse, ignored plenty of red flags and how evident conflicts of interests can play out. How little due diligence Softbank did before writing a huge check and how unscrupulously they then used the Greensill platform to support their portfolio companies. What's most fascinating to me is how Greensill's bad loans could be covered up for so long despite all the digging and reporting of brave journalists such as Duncan Mavin.

Based in Switzerland, we observed from close up how investors were pushed into more and more esoteric fixed income products over the past years as a result of record low interest rates. The desperation to generate some positive yield, and doing so net of all fees, without taking on too much volatility risk, led in particular private bankers and independent financial advisors to recommend alternative credit funds that promised to exploit previously untapped return opportunities. That demand created its own supply, and more and more private debt niche strategies, such as factoring, trade finance or peer-to-peer lending, became available as open-end funds. We became more and more concerned about the liquidity mismatches and underwriting standards of this particular breed of private debt funds. Greensill is the biggest of them all, but we analysed a good two dozen of similar blow-ups over recent years.

KEY TAKE-AWAYS

We see a number of valuable lessons for investors from the Greensill story:

1 IF IT'S TOO GOOD TO BE TRUE, IT PROBABLY IS

With the credit insurance Greensill's proposition sounded like a total "no-brainer". But why haven't other investors picked it up already? As it became clear in the Greensill saga, there was a hook and the guarantees didn't work as advertised. In the long run it pays for investors to keep a certain degree of scepticism, in particular so if they are looking at fixed income opportunities where the upside is limited and it's all about assessing the downside risk.

2 GROWTH AND QUALITY TEND TO BE NEGATIVELY CORRELATED

In some businesses, including credit investing, it's hard to grow fast and maintain your quality standards. We often see that private debt funds attract more capital than they can deploy without jeopardizing underwriting standards. Writing more and bigger checks is the easy part, insisting on sufficient covenants and trustworthy counterparties is the hard part. Doubling the size of your business every year like Greensill was shooting for, this certainly wasn't in the interest of their funds' investors.

3 AVOID BLING-BLING

Yes, there are also financial shenanigans that use subtle techniques such as FOMO (fear of missing out) and playing hard-to-get; Madoff was one of them. But nothing really beats a proper flashing of wealth and associating yourselves with celebrities. So watch out carefully next time a business counterpart invites you on his private jet. Or how about having David Cameron on your yacht? Too much bling-bling means you should better run for the hills.

4 BEWARE OF THE BUZZWORDS

Lex Greensill claimed he was *disrupting* a *trillion* dollar industry by *democratising* supply chain finance using highly innovative *AI* technology (artificial intelligence). Well probably he wasn't, but it's these buzzwords that got into investors' heads and probably shied them away from asking too many questions. If it's so sophisticated, who could possibly understand it? In our experience, solid investment propositions don't need to be touted with too much en vogue lingo.

5 WATCH OUT FOR A BANK RUN

If you invest into a fund that offers redemptions at a weekly notice (as was the case for the Credit Suisse Greensill funds), ask yourself how this liquidity can be generated under adverse circumstances. Yes, they labelled long-term loans as supply chain financing and Greensill rolled over plenty of loans as they came due, but even in the absence of such practices the funds were running a huge liquidity mismatch, a risk that is hard to quantify and typically not well compensated in our experience. If investors want the liquidity figure on the label, give it to them…

6 CONFLICTS OF INTEREST GALORE

From David Solo's introduction of Lex Greensill to Tim Haywood at GAM, to Greensill's dealing with Sanjeev Gupta at GFG Alliance, to Softbank's "Cluster Number 1" strategy and its bail out of the Credit Suisse Greensill funds, it just doesn't smell right…

All in all, a well-researched book telling the fascinating story of one of the biggest investment fiascos of our time.

Do you have any questions or feedback for us? Please contact Christoph at cl@mpag.com, or call him on +41 44 500 4554.

Christoph is an investment manager with Multiplicity Partners and manages the firm's secondary investments in private credit funds and niche strategies. His further responsibilities are in deal origination.
Upon joining Multiplicity in 2019, he expanded the company's sourcing and analytical capacity in private debt and niche strategies such as litigation funding and trade finance. Christoph has more than 20 years of experience in the financial industry and as a private investor.

ABOUT MULTIPLICITY PARTNERS

Multiplicity Partners is an investment firm specialised in providing liquidity solutions to holders of private market funds and distressed assets. The firm also offers a range of advisory and governance services across alternative assets.

Multiplicity Partners has been an active participant in the secondary market for fund interests and distressed assets since 2010. The team has successfully completed more than a hundred transactions across a wide range of illiquid and complex financial assets. Each partner contributes more than 15 years of relevant experience, giving us the collective capabilities to effectively identify, analyse and execute attractive investment opportunities in hard-to-value assets. Multiplicity Partners was founded in 2010 and is based in Zurich, Switzerland.

CONTACT

Multiplicity Partners AG
Bodmerstrasse 5
8002 Zurich
Switzerland

+41 44 500 4550
info@mpag.com
www.mpag.com

For enquiries:
Andres Hefti, Partner

+41 44 500 4555
ah@mpag.com

LEGAL INFORMATION

This communication is from Multiplicity Partners AG ("MPAG") and is for information purposes only. The information contained in this communication, including any attachment or enclosure, is intended only for the person or entity to which it is addressed and may contain confidential, privileged and/or insider material. Any unauthorized use, review, retransmissions, dissemination, copying or other use of, or taking of any action in reliance upon this information by persons or entities other than the intended recipient is prohibited. If you received this in error, please contact the sender and delete or shred the material immediately. This communication does not and is not intended to constitute investment advice or an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. No partner of MPAG gives any warranty as to the security, accuracy or completeness of this communication after it is sent or published. MPAG accepts no responsibility for changes made to this communication after it was sent or published. Any liability for viruses distributed via electronic media is excluded to the fullest extent permitted by law. Any opinion expressed in this communication may be personal to the sender and may not necessarily reflect the opinion of MPAG or any of their respective partners.