Liquidation continues to be the preferred form of termination

> Current market conditions is the biggest driver of a termination strategy
> Funds in liquidation underperform funds in extension
> Rollovers are considered for core and value added funds, not for opportunity

For the second year running liquidation has been cited as the preferred form of termination for the majority of funds, especially so for core and for half of the value added funds in the sample.

Whereas the most selected termination strategy for opportunity funds is extension as well as liquidation, which is also the second most preferred termination option for core and value added funds.

Other strategies such as an IPO, sale or merger have only been selected for value added and opportunity funds, while rollovers were chosen only for core and value added funds.

'A termination decision has been made for the majority of funds due to termination this year or next'

Not only is liquidation the most preferred form of termination it is also the most considered option among fund managers of core funds before a final decision is made on a fund's termination strategy.
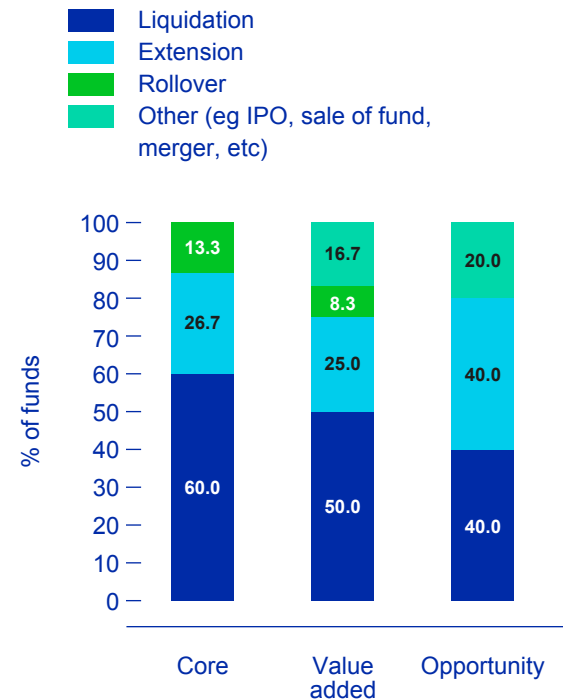
Other strategies, such as an IPO, sale of fund or merger are the second most considered termination option for these funds.

While for opportunity funds a fund extension is the most considered option before a final decision is made.

Fund managers of value added funds consider both extensions and other strategies which can include an IPO, sale of fund or merger in equal measure before making a final decision on a fund's termination.

The main drivers affecting the decision on whether to liquidate or extend are current market circumstances and the quality of the underlying portfolio. Next are the investors' liquidity requirements followed by the terms set for termination options in the fund documentation.

Figure 1: Termination option chosen or most likely to be chosen by style

- Liquidation
- Extension
- Rollover
- Other (eg IPO, sale of fund, merger, etc)

% of funds	Core	Value added	Opportunity
Other	13.3	16.7	20.0
Rollover		8.3	
Extension	26.7	25.0	40.0
Liquidation	60.0	50.0	40.0

Meanwhile the factors that are least likely to influence a termination decision are scarcity of assets available and the track record of the fund manager. Performance of a fund, in particular current versus target, is the next least likely factor to influence a termination decision.

Despite this, funds in liquidation have underperformed funds in extension in the run up to end 2014, delivering an annual return of 4.1% compared with 18.7% over the year. The divergence in returns has grown considerably since 2009 when it was funds in extension which were marginally underperforming funds in liquation back then. From 2010 onwards funds in extension have consistently outperformed funds in liquidation. The biggest difference between the two was in 2014 when the performance gap was 14.6%.

Over the five year period to end 2014, funds in liquidation delivered an average annual return of -2.3% while funds in extension delivered 4.1% on average.

In terms of early decision making, a decision on a termination strategy has been made for the majority, 82.4%, of funds due to terminate in 2015, with only 17.6% yet to make a decision before the year ends. For funds with an original planned termination year of 2016 a decision on whether to terminate or not has been made on 80.0% of these; meanwhile just over half of the funds due to terminate in 2017 have had their termination strategy determined. Termination certainty generally reduces the further out the original planned termination year is.

For funds in extension, structural or strategic changes are not expected for the majority of these. For the 37.5% that have indicated a change in structure or strategy, the fee structure is cited as the main reason for the change. It is a similar story for funds that will most likely be extended, where the majority of these will not undergo a structural or strategic change.

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Figure 2: Performance by liquidation status