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Lessons from Deccan

Castle Hall Client Webinar

August 10, 2022

The Case

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 6079 / August 3, 2022

ADMINISTRATIVE PROCEEDING
File No. 3-20944

In the Matter of	ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER
DECCAN VALUE INVESTORS LP	
and	
VINIT BODAS,	
Respondents.	

The Firm

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DECCAN VALUE INVESTORS L.P. (the "Advisor") is an investment advisor registered with the United States Securities and Exchange Commission since 2011-11-28.The Advisor's primary office is in GREENWICH, CT, United States. The Advisor, per their most recent ADV filing (2022-03-31) had regulatory assets under management of $3.7 billion, reporting 7 private funds. The firm had 12 employees. The firm has updated its form ADV 7 time(s) since October 1, 2017.

The Funds

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Deccan Value Investors L.P. > Funds And Accounts

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Funds And Accounts

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Fund Name		Fund Type	RAUM
A/D INVESTORS FUND L.P.	Follow	hedge fund	473.76 million
C/D INVESTORS FUND L.P.	Follow	hedge fund	341.15 million
DECCAN VALUE INVESTORS BPI FUND, L.P.	Follow	hedge fund	133.04 million
DECCAN VALUE INVESTORS FUND, L.P.	Follow	hedge fund	1.17 billion
DVG 1740 FUND L.P.	Follow	hedge fund	331.98 million
H/D INVESTORS FUND L.P.	Follow	hedge fund	261.27 million
VEDA INVESTORS FUND L.P.	Follow	hedge fund	943.49 million

NB – all funds are partnerships: there is no external governance from third party directors.

The Funds

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Audit

FINANCIAL STATEMENTS SUBJECT TO ANNUAL AUDIT: Yes

AUDITING FIRM	AUDIT LOCATION	INDEPENDENT PUBLIC ACCOUNTANT	PCAOB REGISTERED	PCAOB ASSIGNED NUMBER (2017)	PCAOB INSPECTED
BDO USA, LLP	NEW YORK (New York), United States	Yes	Yes	243	Yes

Prime Brokers

FUND USES ONE OR MORE PRIME BROKERS: No

Custodians

FUND USES ONE OR MORE CUSTODIANS: Yes

CUSTODIAN	OFFICE LOCATION	SEC NUMBER	CRD NUMBER	LEGAL IDENTIFIER NUMBER (2017)	RELATED PERSON
J.P. MORGAN SECURITIES LLC	NEW YORK (New York), United States				No

Administrators

FUND USES ONE OR MORE ADMINISTRATORS: Yes

ADMINISTRATOR	OFFICE LOCATION	RELATED PERSON	PREPARES AND SENDS INVESTOR ACCOUNT STATEMENTS TO PRIVATE FUND INVESTORS
CITCO FUND ADMINISTRATION (CAYMAN ISLANDS) LIMITED	GRAND CAYMAN , Cayman Islands	No	Yes (Provided To All Investors)

The Principal

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Vinit Bodas

Managing Partner & CIO

Deccan Value Investors

Greenwich, CT, USA

NB – Vinit does not appear to have a LinkedIn biography

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- Source: SEC Order https://www.sec.gov/litigation/admin/2022/ia-6079.pdf
- These proceedings arise out of the failure of Deccan Value Investors LP, a registered investment advisory firm, to satisfy its fiduciary duties by favoring nonredeeming clients and investors when handling full redemptions in 2019 for "University One," one of the largest investors in Deccan's private fund and the sole investor in a Liquidating Special Purpose Vehicle ("LSPV" or "University One LSPV") created in connection with its redemption, and "University Two," one of Deccan's largest and oldest clients. These redemptions together totaled approximately $566 million or nearly 18.5% of Deccan's more than $3 billion in assets under management at the time.
- Deccan is principally owned and controlled by Vinit Bodas and manages assets for some of the largest higher education endowments in the world.

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7. On April 26, 2019, one of Deccan's largest investors in its Commingled Fund, University One, timely notified Deccan that it wanted to redeem its entire $146 million investment by June 30.

8. The day Bodas learned of University One's redemption, he reacted with the following text message to the head of trading and operations with directions on how to handle the redemption (the "April Text"):

> "Use everything to hold [University One] back in the [L]SPV. Anything mildly illiquid. We don't want their withdrawal to impact our other investors . . . And then take our sweet time. Hopefully 2 or 3 years . . . And if [University One] hassle[s] us we can tell them we can liquidate immediately at a 20% discount and have the rest of our funds buy it.... So basically whatever cannot be sold the that (sic) one day 6/30 goes into the SPV. Why should we sell in advance and have other investors bear the cost of these fools. And then sell 5% of [average daily volume]...So figure this out...."

This would be the first and only time that Deccan had employed an LSPV. While Deccan had discretion to utilize an LSPV under the Commingled Fund's January 2019 Limited Partnership Agreement ("LPA") and its 2016 Fund subscription agreement with University One, the LPA required that in exercising its discretion Deccan ". . . shall act consistent with its fiduciary duties to the Limited Partners."

Segregation of duties issue

Manager thinks an Ivy League University are "fools"

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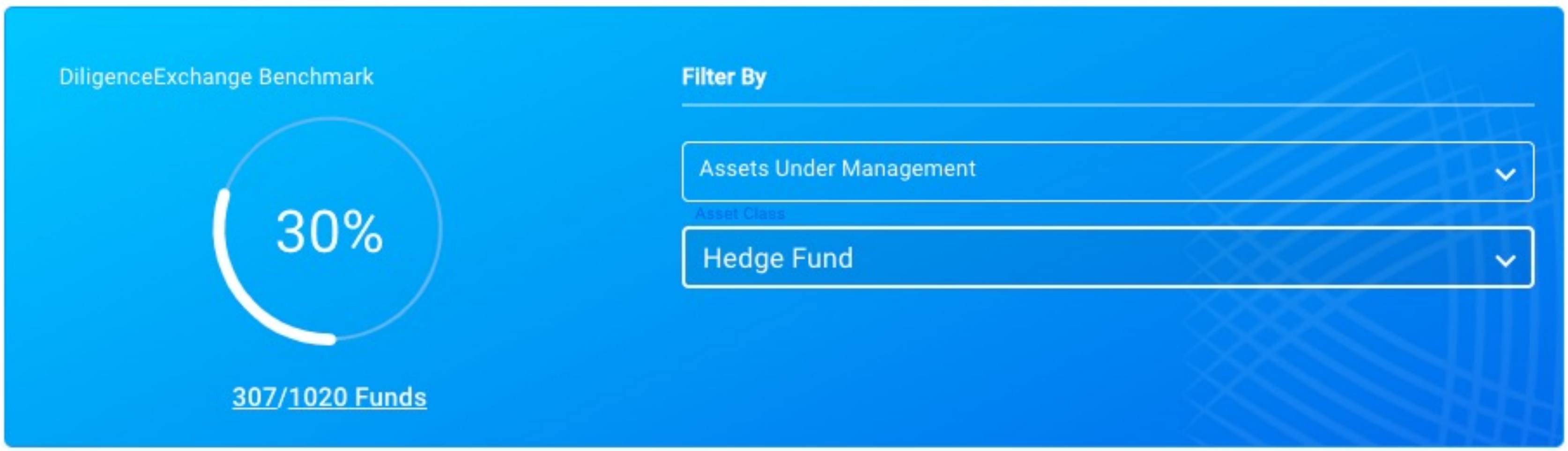
Fund may satisfy redemption requests through creation of a liquidating trust or similar mechanism.



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9. At University One's June 30, 2019 redemption date, Deccan redeemed approximately 90% of the value of University One's interest in the Commingled Fund with cash, and created an LSPV for University One's *pro rata* interest in four less liquid, foreign portfolio securities ("LSPV Securities"). The LSPV was an advisory client of Deccan and is referred to here as a redeeming client. These LSPV Securities were then-valued at approximately $14.1 million, constituting nearly 10% of University One's total redemption amount, and less than 2% of the Commingled Fund's net asset value ("NAV"). University

One's redemption was the largest single redemption from Deccan's Commingled Fund in its history, and the first time Deccan did not redeem an investor in full on that investor's requested redemption date. While various other of Deccan's Commingled Fund investors redeemed at June 30 and later in 2019, Deccan did not use an LSPV in connection with those significantly smaller redemptions, and Deccan only ever used an LSPV for University One.

Other investors were not treated in the same manner with their (albeit smaller) redemptions.

Clear lack of a culture of compliance to ensure that investors are treated equally and equitably.

Need strong COO and CCO independent of CIO / Founder

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10. Before creating the LSPV for University One in July 2019, and consistent with Bodas' April Text, Deccan did not seek to generate cash for University One's redemption by selling any LSPV Securities between University One's April redemption notice and its June 30, 2019 redemption date. This included Deccan declining to sell in response to a broker's bid on May 13, 2019 for a block of 16% of one of the LSPV Securities that traded on the London Exchange ("LSPV Security A"). Bodas and Deccan's trading department understood that trading securities in a "block," *i.e.*, an off-exchange transaction with a single counterparty interested in purchasing a large quantity of shares at a negotiated price, could allow for the sale of securities without as much adverse price impact as one would experience if one attempted to sell the same quantity on an exchange.

11. Nor did Deccan generate cash for University One's June 30, 2019 redemption from the Commingled Fund by rebalancing any of the LSPV Securities among non-redeeming Deccan clients. While Deccan had no obligation to cause non-redeeming clients to purchase the interests of a redeeming client or investor, Deccan did so historically as a means of facilitating redemptions and Deccan did so to facilitate smaller, partial redemptions by other investors redeeming from the Commingled Fund at the same time as University One. In mid-July 2019, however, Bodas directed a $240 million cash distribution to Deccan's non-redeeming clients and investors, which included Bodas and other Deccan partners. None of this cash was used to purchase any of University One's interest in the LSPV Securities.

No effort to generate any liquidity before formal redemption date

Refused a bid for a block trade

Made a $240 million distribution two weeks later – but University still trapped in the liquidating SPV

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12. Deccan began liquidating University One's LSPV Securities on July 1, 2019. Consistent with Bodas' instructions in the April Text, Deccan's traders began selling LSPV Securities at approximately 5% of average daily volume. During the pertinent period, nobody at Deccan analyzed or tested whether selling at any rate faster than 5% of average daily volume would adversely impact the price of any of the individual LSPV Securities, either for the University One LSPV or for Deccan's non-redeeming clients—even though an internal Deccan trading guide explained its default practice of trading at 20% of average daily volume.

13. At no time did Deccan advise University One of its plan to liquidate the LSPV Securities at this rate of approximately 5% of average daily volume. The letter Deccan sent to University One in late June 2019 announcing the formation of its LSPV provided that illiquid securities were going "to be liquidated over time" and "[n]o assurances can be given as to when a final cash payment will be made."

5% volume limit was not tested for market impact – and contradicted 20% guidance

The University only found out about the liquidating trust in late June 2019 just days before the redemption date – despite Deccan having decided to use it as soon as the redemption was notified (April)

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15. In late November 2019, Bodas sent instructions to Deccan traders not to pursue a potential block transaction in LSPV Security A until Deccan had explored whether University One was willing to sell all its interest in the LSPV Securities to Deccan's non-redeeming investors at a "liquidity discount" of 25% less than the then-current market price. The Commingled Fund LPA provided that assets of an LSPV may be purchased by the Fund or other Deccan advisory client; "provided that any such transaction shall be effected in a fair and equitable manner." (Emphasis in original.)

16. Deccan made the 25% discount offer to University One in a November 20, 2019 letter that omitted: (1) the potential block opportunity Deccan had for shares of LSPV Security A; and (2) the fact that Deccan had generally been restricting the rate at which it sold the LSPV Securities to 5% of average daily volume. Instead, Deccan in the letter offered to purchase the remaining LSPV Securities "that have a relatively long liquidation period" and noted that the "[t]he discount presented to [University One] was in contemplation of a mutually beneficial transaction, whereby [University One] would be afforded immediate liquidity for securities that may otherwise take a year or more to liquidate." In rejecting Deccan's 25% discount offer, University One asked to take the remaining three LSPV Securities via in-kind distribution, which Deccan declined without explanation. Less than a month after its buyout offer, by December 17, 2019, Deccan had liquidated University One's remaining interest in LSPV Security A by selling shares in a block transaction at an average price of approximately 15% more than the discounted price Deccan had offered to University One in November.

Tried to buy back shares at 25% discount – without talking about other sales options

Deccan ignored University's request to get out via redemption in kind

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17. Deccan made no real efforts to liquidate the LSPV's interest in an unlisted Indian company in 2019, which it did not disclose to University One. Bodas "loved" the Indian company investment and expected it to pay off greatly if and when it went public, and Deccan did not pursue various indications of interest it received from brokers for the unlisted Indian company in the second half of 2019. Accordingly, University One and its LSPV received no cash for any of their interest in this LSPV Security until December 31, 2019, when Deccan elected to redeem the interest in cash by "crossing" the LSPV's interest (and those of other redeeming clients and investors) to non-redeeming clients—drawing mostly on funds from another university, which was then investing its first $100 million with Deccan.

Bodas "loved" a stock and didn't want to sell it

The story finally ends with University 1 getting out thanks to new capital coming in from a new investor

But what about University 2 – the Yale Endowment?

Facts and Lessons

19. By June 2019, one of Deccan's largest and longest-standing clients, University Two, had notified Deccan of its intent to fully redeem its separately managed account—then valued at approximately $470 million. University Two requested and received its first redemption—in the amount $180 million—on June 30, 2019, and gave notice to receive the balance by December 31, 2019. In explaining its decision to leave Deccan, University Two informed Deccan in late April 2019 that it disfavored emerging-market private investments: "we are reducing our foreign equity allocation for fiscal 2020, are in the process of funding some new managers, and are relatively less excited about Deccan's activities in emerging markets, particularly on the private side." By December 27, 2019, Deccan and University Two had executed an agreement to extend their advisory relationship into January 2020 solely for Deccan to dispose of certain illiquid holdings remaining in the SMA.

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20. University Two, like Deccan's other clients, had exposure to the unlisted Indian company, which by December 2019 was approximately $17.4 million, or 6% of the value of its SMA. On December 17, as University Two's final year-end redemption date approached, Bodas learned from Deccan's head of trading and operations that Deccan had received bids at 875 Rupee and 880 Rupee for shares sufficient to liquidate most if not all of University Two's interest in the Indian company. If accepted, Deccan would have needed to obtain approval for the transaction from the company's board of directors to complete the trade. By that time, however, Bodas and Deccan had learned from the third party valuation agent that it expected the shares would be marked at 840 Rupee at December 31. As with the indications of interest Deccan received earlier in 2019 discussed above, Deccan did not seek to pursue these potential opportunities to sell the Indian security for the benefit of University Two.

Could have sold the stock but decided not to….

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21. Instead, Bodas and Deccan offered to sell University Two's interest in the Indian security as part of the same transaction it would utilize to liquidate the interest of University One and its LSPV. To encourage University Two to accept that offer, on December 17 Bodas texted Deccan's head of trading and operations handling the discussions, "[s]hould you tell [University 2] that if we don't sell we may have to side pocket [the investment in the Indian Company] as that's what we'll be doing for others?" Deccan's head of trading and operations, understanding that a side pocket likely would have significantly delayed University Two's final redemption, replied, "Interesting idea would make selling more compelling right?" Bodas responded, "Yes. And you could say there is a likelihood. So make it vague enough." After the head of trading and operations did so, he reported to Bodas, who had not participated in the discussions, that University Two "pretty much immediately" agreed to the proposed transaction. On December 20, Bodas directed Deccan's head of trading and operations, "[a]ll I want is max price for portfolio and min price to [University Two for shares of the Indian company]. Figure it out . . . Get [University Two] done at 840."

Threatening a side pocket to try and get Yale to accept 840 rupees, despite Deccan having had higher offers.

It doesn't seem as if Bodas is a Yale graduate!

And just if we hadn't had enough….

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22. Throughout December 2019, Deccan was preparing to bid for a bankrupt Indian company as an investment on behalf of certain of its clients. The potential investment, if made, would have been Deccan's first-ever "Special Investment," which the operative advisory agreement with University Two defined as an investment that "lack[ed] a readily ascertainable market value or should be held in the Account until the resolution of a special event or circumstance." By the second half of December 2019, Deccan personnel rushed to complete the documentation, authorizations, and administrative steps necessary for this "Special Investment" – which included segregating $31 million of University Two's SMA cash —into an illiquid "side pocket" account. Without University Two's money, Bodas and Deccan faced having to bid less for the Special Investment, or requiring more from its other participating clients.

23. Deccan did not alert University Two in December of its plan to side pocket nearly 13% of the value of its SMA for the Special Investment. This despite that University Two had informed Deccan in April 2019 that its decision to redeem fully from Deccan was based at least in part on Deccan's pursuit of investments "in emerging markets, particularly on the private side." Deccan omitted any mention of Deccan's intended bid, side pocket, or Special Investment between December 19 and December 27 when negotiating, drafting, and signing a letter agreement with University Two to extend their advisory relationship into 2020 to provide additional time for Deccan to liquidate certain SMA holdings. The letter agreement, dated December 19, 2019, included Deccan's acknowledgement that, among other things, "[a]s of the date of this Letter, there are no Special Investments in the Account."

What can we even say!!!

What’s the outcome?

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The SEC’s order finds that Deccan willfully violated the antifraud, recordkeeping, and compliance provisions of Sections 206(2), 204(a) and Rule 204-2(a)(7) thereunder, and 206(4) and Rules 206(4)-7 and 206(4)-8 thereunder of the Investment Advisers Act of 1940, and that Bodas caused Deccan’s violations. Without admitting or denying the SEC’s findings, Deccan and Bodas consented to a cease-and-desist order and to a censure for Deccan and agreed to pay civil money penalties of $1,139,501 and $500,000, respectively. Deccan also agreed to certain undertakings including the retention of an independent compliance consultant.

- This seems to be relatively modest – focuses on the direct monetary loss to the two universities
- Without admitting or denying; no ban from the investment industry
- The overall scale of the controls failure appears more significant than the fines involved (1.5% on $3 billion of assets would generate $45m of fees each year before incentive fees)
- (Unclear as to whether this type of loss would be covered by insurance)
- Key issue is evidently reputational

But how would you find this?

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Markets

SEC Probes Whistle-Blower's Claims That Hedge Fund Harmed Yale

- Regulator questions Deccan fund about university's investment
- Firm hasn't been accused of wrongdoing; review is preliminary

By Matt Robinson and Janet Lorin
March 2, 2021 at 8:00 AM EST

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U.S. regulators are examining a whistle-blower's claims that Deccan Value Investors harmed Yale University's multibillion-dollar endowment when the Ivy League school pulled about $400 million from the hedge fund in 2019, said two people familiar with the matter.

The Securities and Exchange Commission started asking Deccan general questions -- including queries about how it handled Yale's investment -- last year after the tipster alleged that securities managed on the college's behalf were sold at prices below the best available in the market, said the people who asked not to be named because the request was private. Information on how Yale's position was unwound were among details sought by officials in the SEC's enforcement division, the people said.

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Conclusions

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- It is hard to think of a more incredible story around managing redemptions (especially given the prestige and reputation of the investors involved)
- The PM was clearly unchecked – very small firm headcount (12), no external governance, unclear about compliance officer. At $3 billion plus far more institutional resources should have been in place – this needed to be a larger firm with institutional controls.
- The CIO seems to be fundamentally unwilling to manage his portfolio (in an open-ended fund) in a way to generate liquidity for investors who have the audacity to redeem their capital.
- Numerous pieces of information concealed from investors – the PM appears to have believed he was far smarter than his investors
- Could potentially have been discovered during an SEC review if the SEC had reviewed all emails and text messages; overall was materially reliant on the whistleblower complaint which allowed a targeted investigation.
- It is very unlikely that a “standard” ODD review would have found these events: the manager would not have provided transparency and would very likely have lied (e.g. history of how they refused to accept block trade offers etc).
- The ”prestige” of the firm’s university endowment investors clearly did not in any way permeate the culture of the firm
- Overall – is this type of firm really worth it? Just because other major investors are already allocated – does the firm demonstrate the resources and culture to be a secure fiduciary of your capital?

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