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Crisis of the Week: Third Avenue Seeks Redemption After Fund Fiasco

David Barse, who resigned as CEO of Third Avenue Management on Dec. 14, shown here during a Bloomberg Television interview in August 2015.

Chris Goodney/Bloomberg News

This week's crisis looks at how well mutual fund firm Third Avenue Management LLC responded after it announced it was liquidating one of its funds and preventing investors from withdrawing their money, saying it didn't have enough cash to meet redemption demands and didn't want to have to sell assets at fire-sale prices. The firm's decision spooked the bond market and created concern for a possible run on mutual funds.

The company's actions prompted the Securities and Exchange Commission to launch an investigation, and resulted in the resignation of the company's chief executive, David Barse. Third Avenue issued two statements, one announcing the decision to prevent redemptions and another announcing the departure of Mr. Barse. The company then settled with the SEC.

Looking solely at the public statements made by the company and its senior executives, the experts evaluated how well the firm has handled this crisis situation. What actions did they take that worked well, which ones fell short and what should they do next?

Lanny Davis, executive vice president, Levick: "Third Avenue appears to have violated basic rules of crisis management. However, I am unfamiliar with all the facts, And thus, I am not aware of possible legal concerns and advice that might have limited following these rules.

"The basic rule is, regarding the bad news: Tell it early, tell it all, tell it yourself. Here, from at least the facts reported in the media, Third Avenue still hasn't told the full story as to why and how it came up so short in the liquidity crisis and its inability to stand up to a large redemption demand, admittedly on short notice. Telling the full narrative in context during a crisis as early as possible is critical, especially if third Avenue expects to continue it business, as has been reported.

"Secondly, at least from press reports, the reader and future investors have little idea why this happened. Aside from the resignation of the CEO, the market has not received assurances as to why it won't happen again. Telling the full story is usually not enough even if done early when a financial organization is involved that aims to attract future investors. The market needs better information about why this crisis will not be repeated in the future.

"Going forward, investor and market confidence means everything. It is curious why there has been so little communication strategy that I can discern from Third Avenue. Perhaps they will offer a better explanation going forward, upon the advice of legal and communications of counsel."

Ira Kalb, assistant professor of clinical marketing, USC Marshall School of Business: "In a letter to shareholders on Dec. 9, David Barse, chief executive of Third Avenue Management, rattled investors and bond markets by announcing it was liquidating its FCF fund and prohibiting redemptions because of insufficient cash. Perhaps nothing creates more panic than taking a fund 'out of business' while prohibiting redemption of its shares. Adding fuel to the fire, it did not forewarn the SEC of these unorthodox moves or put in perspective typical risks associated with junk-bond investments.

"To mitigate the situation, the firm issued a Dec. 14 press release announcing the replacement of Mr. Barse by a management committee of insiders. It included statements by the founder making the case that the business is in good hands. While these moves represent steps in the right direction, they do not inspire confidence because executives with the firm for an average of 10 years are still running the business. What would help is adding an 'outsider' with impeccable credentials to help run the management team.

"On Dec. 16, Third Avenue announced it reached an 'exemptive relief' deal with the SEC to shift assets back into the junk-bond fund and allow investors to see daily updates of their holdings. While this assist from the SEC should help allay fears, it does not go far enough to calm the jitters of investors and bond markets. Third Avenue should create a plan, approved by the SEC, for a way forward that protects the image of the firm and gives investors reasonable, acceptable redemption options."

Nick Kalm, president, Reputation Partners: "The movie 'It's A Wonderful Life' offers a timely reminder of what customers do when they're worried their financial institution might fail. To be sure, a high-yield junk bond fund is a far cry from Bailey Brothers Building & Loan, but there are several clear parallels nonetheless. Just like George Bailey after Uncle Billy lost his deposit, Third Avenue Management probably felt they had few options when a run started on their Focused Credit Fund. However, like Mary Bailey, several of the decisions Third Avenue Management made were the right ones.

"They were right to stop redemptions and set up a liquidation fund rather than risk having all of their fund investors lose everything. It was also right to have their lawyers soft-sound the SEC on a 'no-names' basis and then meet with the regulator to discuss their plan. And, given the firestorm, they were right to sacrifice their CEO.

“Where they missed the mark was their two announcements. In the first, they should have done more to explain why they decided to liquidate the fund. For a numbers business, it’s curious they don’t cite a single one. In the CEO departure announcement, they should have reassured investors in their other funds that the issues were isolated.”

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