

# PIMCO

Mr. Kieran Lenihan  
Clerk to the Committee of Public Accounts  
Committee of Public Accounts  
Leinster House  
Dublin 2

## By Email and Post

8 November 2016

Dear Mr. Lenihan,

Thank you for your letter of 17 October 2016 addressed to Mr. Douglas M. Hodge, CEO.

PIMCO recognises the importance of the Committee's function and wishes to be helpful in providing the Committee with an understanding of PIMCO's role in Project Eagle, prior to the company's withdrawal from the pending transaction. We are, however, mindful of the ongoing NCA and U.S. investigations and for a number of reasons, including our desire to avoid taking any action which might prejudice those ongoing investigations, we respectfully decline your invitation for a representative to attend before the Committee. However, we note in your letter the Committee's areas of interest and we provide the following information which we hope is helpful.

We would note that, whilst the correct legal entity that considered Project Eagle as a potential transaction was PIMCO's BRAVO II Fund, in this letter we generally refer, for simplicity and ease of reference, to PIMCO.

## 1. Origin of the PIMCO approach to NAMA

In April 2013, PIMCO was approached by Mr. Tuvi Keinan, a partner at the law firm Brown Rudnick who then introduced PIMCO to Mr. Ian Coulter of Tughans and Mr. Frank Cushnahan, with whom Brown Rudnick appeared to be working to identify potential purchasers for the NAMA Northern Irish loan portfolio (which later became known as Project Eagle). As we understood it, PIMCO was one of three firms who were approached at the time by these three parties.

PIMCO saw the transaction as one which may be of interest to its BRAVO II Fund, subject of course to further investment analysis and due diligence.

PIMCO was informed by these parties that the Northern Ireland Government wanted to ensure that there would not be a "fire sale" of Northern Irish homes and businesses once the portfolio was sold, but rather that a longer term approach, investing in and developing the assets, would be taken by any eventual purchaser. PIMCO was advised that the sale of the loan portfolio was a sensitive political matter and would have a major impact on the Northern Irish economy.

PIMCO was told that the Northern Ireland Government wanted to seek to ensure that a reputable and responsible purchaser would be found, that would manage the assets in a sensitive way post-completion, and this was the basis for interested parties being invited to meet with Northern Ireland Government Ministers. This desire for a reputable longer term investor seemed to be a good fit for PIMCO, given its usual investment approach.

Following a meeting organised by the three parties with the First Minister Peter Robinson and Minister for Finance Sammy Wilson, which took place in May 2013, PIMCO was informed by Brown Rudnick that it was the Northern Irish Government's preferred purchaser for NAMA's Northern Irish loan portfolio.

As reflected in documents made public in the course of the Northern Irish parliamentary inquiry, we understand that Brown Rudnick wrote to Minister Wilson in June 2013, purporting to act on behalf of two 'clients' and advising that both may be interested in purchasing the portfolio. This letter stated that proceeding with one party on a limited exclusivity would ensure a focused, expedient process with guaranteed confidentiality, which Brown Rudnick saw as vital to the process. Minister Wilson then wrote to Minister Noonan enclosing that letter from Brown Rudnick.

That approach made to the Department of Finance by Brown Rudnick was made by Brown Rudnick acting in a deal-making capacity having identified (seemingly more than one) potentially interested prospective buyers. At no stage in the Project Eagle process did PIMCO conclude an agreement to be advised or represented by any of the three parties mentioned earlier.

From public sources, we have now seen that Minister Noonan replied to Minister Wilson advising that parties with an interest in NAMA-held loans should make contact directly with NAMA and specifying that Brown Rudnick should enter a dialogue with NAMA so that any interest in the loan portfolio could be fully assessed. As noted in the recent Committee hearings, the Comptroller and Auditor General Report indicates that NAMA was made aware of this approach no later than early July 2013.

In September 2013, PIMCO sent a non-binding letter of interest to NAMA indicating an interest in purchasing the portfolio reflective of the approach suggested in the Brown Rudnick letter. Based on publicly available information at the time, PIMCO stated that it would be willing to submit an indicative total purchase price of €1.1bn in cash for the portfolio.

## **2. The basis for making the initial bid for the Northern Irish loan portfolio**

Following receipt of the non-binding letter of interest, NAMA entered a dialogue with PIMCO regarding the portfolio. In November 2013, NAMA opened a data room for PIMCO, and made documentation available relating to the assets comprising the loan portfolio.

With the assistance of property advisors, Cushman & Wakefield and New River Retail, PIMCO carried out preliminary due diligence on the assets comprising the portfolio. This due diligence was enabled by documentation provided by NAMA in the exclusive data room which included

- NAMA-commissioned valuation reports from 2009;
- up to date tenancy schedules in respect of the top 55 assets; and
- basic details such as addresses in respect of the remainder of the assets.

In December 2013, PIMCO sent a further non-binding letter of interest to NAMA. This letter of interest outlined the rationale behind the revised offer and set a range of £1.1bn to £1.3bn as the estimated purchase price that PIMCO would be willing to pay.

The following month, NAMA advised that it could not proceed with an exclusive process with PIMCO and proceeded to appoint Lazard to institute an open-tender.

## **3. The circumstances of PIMCO's withdrawal from Project Eagle**

In June 2013, PIMCO was approached by Brown Rudnick with a request for a proposed success fee. However, there was little progress in the potential transaction across the summer period and the proposal was not reviewed in detail until September 2013. The proposed success fee was initially expressed as a percentage of portfolio value and was within a typical range for a brokerage fee.

The Brown Rudnick proposal indicated that the success fee would be split equally three ways between Brown Rudnick and other parties, which led to enquiries by PIMCO as to whom the fee would be paid on to. PIMCO was advised by

Brown Rudnick that the fee (later advised by Brown Rudnick to total €16million) was to be paid to Brown Rudnick and then split in equal one-third shares between Brown Rudnick, Tughans and Mr. Cushnahan. PIMCO was later advised that Tughans' one third share was to be paid to Mr. Coulter, personally, rather than to the law firm Tughans.

PIMCO did not agree to this fee proposal. PIMCO also sought various confirmations from Brown Rudnick including, whether NAMA had been informed and had approved of Mr. Cushnahan's potential involvement in the proposed transaction. After PIMCO raised these concerns around this fee proposal, no further request was made to PIMCO, at that time, to agree any fee.

In February 2014, a new fee proposal was received by PIMCO from Brown Rudnick (under which the same parties were to benefit in a similar amount). At this point, it appeared to PIMCO that disclosures still had not been made by relevant parties to NAMA. Accordingly, PIMCO decided to contact NAMA directly and take it upon itself to disclose full details of the success fee arrangements that had been proposed by Brown Rudnick, including the amount and intended recipients. In particular, PIMCO sought clarification on NAMA's awareness of Mr. Cushnahan's role in Project Eagle.

#### **March 2014 Withdrawal calls with NAMA**

As the Committee has heard from various parties, PIMCO provided details of these matters to NAMA in a series of calls in March 2014.

PIMCO has been disappointed that PIMCO's withdrawal from Project Eagle has been repeatedly mischaracterised by NAMA. We would suggest that NAMA has conflated what may or may not have been discussed at the NAMA Board level (upon which we cannot comment), and the reality of the calls that PIMCO made to NAMA and PIMCO's own decision to withdraw.

The reality of PIMCO's decision to withdraw was reflected more accurately by Mr Stewart in his evidence to the Committee on 25 October 2016. PIMCO welcomes his confirmation that PIMCO withdrew from Project Eagle, and was not at any stage asked to leave the process by NAMA.

PIMCO is largely in agreement with the summarised call notes appended to the report of the Comptroller and Auditor General at Appendix E of the report entitled, "National Asset Management Agency's sale of Project Eagle", dated August 2016, although certain points are clarified below.

It should be noted that the reference to "a success fee arrangement (being) in place between PIMCO and Brown Rudnick" noted in the report is inaccurate. Whilst an arrangement was proposed by Brown Rudnick, it was never agreed to by PIMCO.

As described in the notes, following a request by PIMCO for a call on 7 March 2014, PIMCO Legal spoke to NAMA on 10 March 2014 and informed NAMA about the proposed success fee arrangement. PIMCO wanted to understand whether, and ensure that, NAMA was aware of Mr. Cushnahan's role and the fee arrangement that had been proposed to PIMCO. PIMCO stated that it would not proceed unless and until it was clear to PIMCO that NAMA was aware of Mr. Cushnahan's role in Project Eagle (including his potential interest as a beneficiary of a fee arrangement as had been proposed to PIMCO). PIMCO described details of the fee that had been proposed and the reasons for its concerns.

The NAMA attendees confirmed that they were not aware of the proposal but enquired as to whether PIMCO would proceed in Project Eagle should Mr. Cushnahan's involvement, or the fee proposal to PIMCO, be an issue for NAMA. PIMCO confirmed that it was not currently proceeding with the transaction and that any decision to proceed or not would be informed by NAMA's response. NAMA agreed to consider the matter further and revert to PIMCO.

We can confirm that in no way did PIMCO seek the acquiescence of NAMA to any fee arrangement, nor seek NAMA's agreement that any fee arrangement was appropriate. That is also clear from NAMA's own minutes of the calls and the evidence of Mr Stewart to the PAC, who confirmed that did not happen.

As the notes outline, NAMA contacted PIMCO the following day (11 March 2014) to advise that the NAMA Board considered the involvement of Mr. Cushnahan to be a very serious issue for NAMA. PIMCO agreed to revert to NAMA and on a further call, later that afternoon, PIMCO informed NAMA of its disappointment that disclosures had not been made by the relevant parties to NAMA. PIMCO informed NAMA that it did not want to be part of any process where there was any suggestion of impropriety and was willing to withdraw.

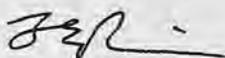
Whilst it is for NAMA to explain the reasons for the questions asked of PIMCO on the call (and we note Mr Stewart sought to address this topic in his evidence to the Committee), PIMCO can confirm that on that call we were asked by NAMA if we had considered "other options", such as proceeding without the three parties, and we were asked to consider, before closing any doors, whether every option was being considered. PIMCO agreed to give the matter final consideration and to revert again.

On 12 March, PIMCO advised NAMA that it had no option but to withdraw from Project Eagle. NAMA expressed its disappointment but accepted the decision.

PIMCO confirmed its decision to withdraw in writing on 13 March 2014.

We hope the above is helpful and provides some additional clarity for the Committee.

Yours sincerely,



Tom Rice  
Chief Legal Officer, EMEA  
PIMCO Europe Ltd