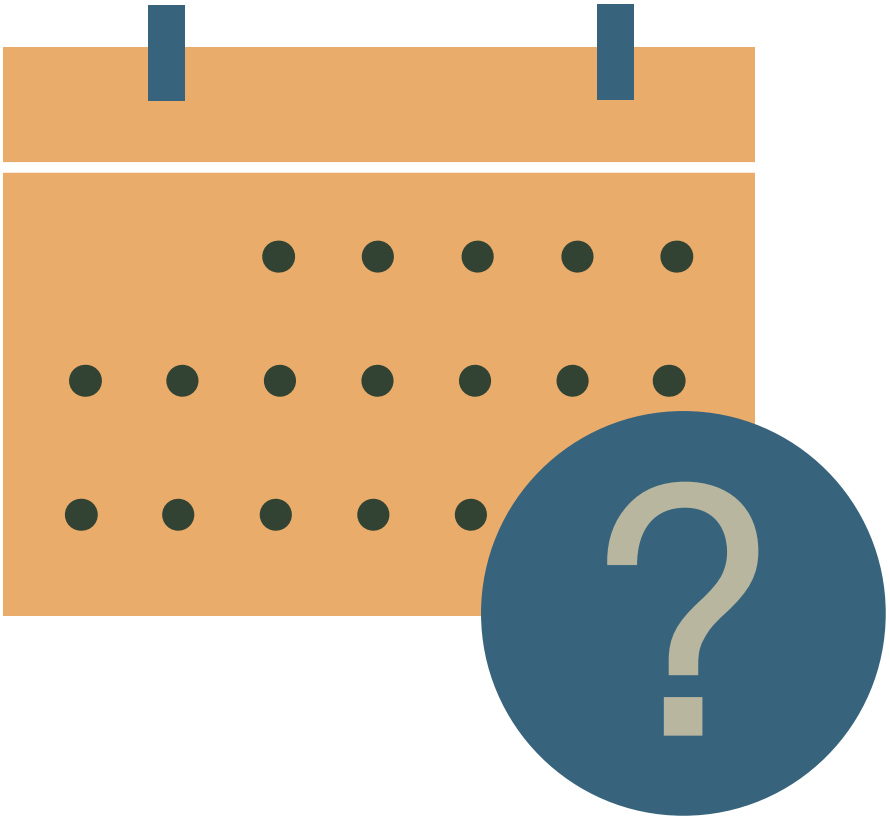
ZOMBIE FUNDS OR PATIENT CAPITAL



Elchanan Rosenheim
Founder and CEO
Profimex

Capital trapped without a credible purpose is a problem. Capital held for a defined period, under aligned economics and with active oversight, may simply be patient capital.

The term "zombie fund" has become common in private equity and real estate discussions. It describes a legitimate concern: a fund remains open beyond its expected life, investors are still waiting for distributions, valuations are difficult to verify, and the manager offers no convincing path to resolution.

The problem begins when the term is applied to every fund that has passed its original timetable. A fund that has returned little capital and still holds a large, impaired portfolio is not the same as one that has returned invested capital and profits and is left with a few assets that may produce better results if they are not sold under pressure.

Both may be old. But economically, they are not the same.

Over many years of investing in private real estate, I have seen "patience" create value in some situations, but merely delay a necessary decision in others. The distinction depends on what has been realized, what remains, why it remains, and especially how the manager is incentivized.

WHEN THE LABEL IS JUSTIFIED

A true zombie fund is defined less by age than by economic stagnation and weak accountability.

The warning signs are recognizable. A meaningful portion of investor capital remains outstanding. Distributions have been limited. The assets lack a credible business plan. Valuations are stale or poorly supported. Fees continue despite reduced activity. Investor updates refer broadly to difficult markets without explaining what is being done or when a decision will be made.

At some point, "more time" stops being a strategy.

Investors should then expect a formal resolution process, which may involve asset sales, independent valuation, governance changes, or a revised liquidation plan. The status quo should not continue by default.

Not every investment succeeds. Real estate carries operating, financing, development, regulatory, and market risk. The test is not whether a manager avoids every loss, but whether problems are recognized promptly, communicated honestly, and managed to protect the value that remains.

WHY REAL ESTATE REQUIRES A DIFFERENT LENS

Private real estate does not always fit neatly within a predetermined fund term. Properties mature according to leases, construction schedules, planning processes, financing conditions, and local demand—not because a fund has reached year eight, ten, or twelve.

A property may be close to completing a leasing program. A development may be approaching stabilization. In one case, refinancing may strengthen an asset's financial profile and attract more buyers. In another, an approaching debt maturity may make waiting too risky.

Consider a real estate fund that has diminished to hold one remaining logistics asset. Most investor capital has been returned, the remaining property is producing income, and a lease extension with a major tenant is under discussion. Selling before the extension may narrow the buyer universe and reduce the price. Waiting another nine or twelve months may improve both the income profile and the financing available to a purchaser.

Now consider a fund of the same age that still owns several assets, has returned little capital, faces recurring capital needs, and lacks a detailed realization plan. Its valuations remain high without much market evidence, while management fees continue.

The age is identical. The investment question is not.

Fund terms should therefore be treated as a governance discipline, not an automatic instruction to sell. They require the manager to justify continued ownership and obtain the necessary approvals. They should prevent open-ended discretion but not force a transaction that is plainly against investors' economic interests.

A buyer who knows that a seller must close a fund by a fixed date has a negotiating advantage. In a thin market, existing investors usually pay for that urgency.

Investors need a clear account of each asset, its path to realization, principal risks, expenses, compensation, and proposed duration.

WHAT INVESTORS SHOULD EXAMINE

One of the most useful questions in evaluating an aging fund is simple: how much cash has already been returned?

Private-market discussions often rely on net asset value, projected internal rates of return, and other assumption-based measures. Realized distributions show what investors have actually received.

A fund that has returned contributed capital and meaningful profit is in a different position from one whose performance still depends largely on selling the remaining portfolio. This does not give the first fund unlimited time or justify optimistic valuations, but it changes the economic context.

The size and concentration of the residual portfolio also matter. One asset representing a modest share of the original fund is not equivalent to a portfolio in which most value remains unrealized. Investors should examine distributions to paid-in capital, residual net asset value relative to original commitments, and the extent to which the final return depends on untested marks.

They should ask what supports the remaining value. Is the asset producing income? Are there third-party valuations, market bids, or comparable transactions? Is the business plan approaching a measurable milestone, or does it depend mainly on the hope that conditions will improve?

The manager's economics are equally important. At Profimex, we view alignment of interests as a practical requirement: a manager should succeed when investors succeed.

If substantial management fees continue while the portfolio has become small and relatively inactive, the structure may reward delay. That does not prove an extension is improper, but it creates a conflict requiring scrutiny.

The analysis changes when fees have ended or been materially reduced, investors have received capital and profits, and the manager's remaining compensation depends on a successful exit. Even then, investors should see senior involvement, controlled expenses, realistic valuations, and clear decision points. A fee-free fund can still be neglected.

PATIENCE, GOVERNANCE, AND INVESTOR CHOICE

"Patient capital" is a useful description only when patience is active, disciplined, and measurable.

An extension should be supported by a current hold-sell analysis. What price could be achieved today? What events are expected to improve value? How much additional capital will be required? What income will be earned, and what financing, tax, capital expenditure, and transaction costs will arise? What is the downside if the plan is delayed?

The manager should define the limits of the strategy. If a lease is not signed by a certain date, does the asset go to market? If refinancing terms deteriorate, is a sale required? If an approval is postponed, how does that affect value and timing?

Time carries a cost even when management fees have ceased. Investors lose flexibility, concentration increases, expenses continue, and undistributed capital cannot be redeployed. Debt maturities or new capital requirements can quickly turn a reasonable hold into a vulnerable position. Waiting should therefore be justified by the expected net benefit, not merely by the possibility of a higher sale price.

Some of the hardest exit decisions are decisions not to sell when doing so would satisfy the timetable but damage the result. There are also moments when a manager must accept that another year will add more risk than value.

An extension should involve meaningful governance. Investors need a clear account of each asset, its path to realization, principal risks, expenses, compensation, and proposed duration. Independent valuation input may be appropriate when pricing is difficult or conflicts are material.

Extensions should be limited and reviewable. A defined period with specific milestones creates more discipline than an indefinite continuation. The manager should later explain what was achieved, what changed, and whether the reasons for waiting remain valid.

Liquidity alternatives should also be considered. A partial sale may return capital while preserving selected upside. A secondary transaction may allow investors with liquidity needs to exit. A continuation vehicle may sometimes be appropriate, provided pricing is credible, conflicts are managed, and investors receive enough information and a genuine choice.

A MORE PRECISE STANDARD

The debate would improve if investors asked fewer questions about age in isolation and more about economic substance. How much capital and profit have been distributed? How large and concentrated is the residual value? What must happen for it to be realized? Who benefits from additional time? What is the cost of waiting? What would cause the manager to sell sooner?

Most importantly: is the delay part of a specific plan, or has delay itself become the plan?

The discussion around zombie funds is useful. It has focused attention on trapped capital, stale valuations, conflicts, and liquidity. But an imprecise label can produce poor decisions. A manager may sell at the wrong moment to avoid criticism, or an investment committee may prefer the appearance of closure to the economics of a better exit.

The discussion around zombie funds is useful. It has focused attention on trapped capital, stale valuations, conflicts, and liquidity. But an imprecise label can produce poor decisions.

Some long-dated funds are indeed zombies. Others are impaired funds being worked through under difficult conditions. Some are largely realized vehicles holding a small residual portfolio for a defensible reason.

A fund should be judged by the cash it has returned, the quality and scale of what remains, the credibility of the plan, the manager's incentives, and the governance applied to every additional period of ownership.

Capital trapped without a credible purpose is a problem. Capital held for a defined period, under aligned economics and active oversight, may simply be patient capital.

ABOUT THE AUTHOR

Elchanan (El) Rosenheim is the Founder and CEO of Profimex, a global real estate investment firm active in international CRE markets since 1997. He has extensive experience in cross-border real estate investment and in working with private and institutional investors through long-term partnerships with local operating partners. His investment approach emphasizes alignment of interests, transparency, disciplined decision-making, and responsible stewardship throughout the full life cycle of an investment.