



Morgan Lewis

**ADVANCED TOPICS IN
HEDGE FUND PRACTICES
CONFERENCE**

Manager and Investor Perspectives

NEW YORK

Tuesday, June 13, 2023

Alternative Lending

Speakers



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Lending Scenarios for Hedge Funds



**Hedge
funds as
borrowers**



**Hedge
funds as
lenders**

Lending to Hedge Funds

Typical reasons hedge funds are borrowers:

- Credit facility in place to cover investor redemptions
- Leverage (including “back leverage”)

Types of facilities:

- Prime broker facilities
- Traditional bank facilities (often secured by assets held in custodial account)
- “Back leverage” facilities
- Accessing institutional investor market

Hedge Fund as Lender



Hedge fund's decision to be a lender may be driven by circumstances of a particular transaction

- Necessary to protect underlying investment
- Potential investment opportunity where a combination of debt and equity is preferable



Hedge fund's decision to be a lender may be driven by economic or other factors

- Opportunity to take advantage of tight traditional bank market
- Act as bridge lender with opportunity for high returns

Hedge Fund as Lender

One of the hedge fund's investment strategies may be a "debt" strategy.

Common debt strategies are investing in syndicated loans and distressed loans.

- The fund should have a basic understanding of industry to evaluate credit risk and covenant package.
- If the underlying borrower is in a regulated industry or the underlying borrower is itself regulated, the fund likely needs to perform additional diligence to be sure there are no traps.
- Timing of purchase (at initial closing or secondary market) and type.
- Type of asset being purchased (term loan, revolver, or some combination? Does the underlying documentation permit a lender to hold only one type of loan?).
- Assignment vs. participation

Hedge Fund as Lender

Issues to contemplate if hedge fund intends to use some or all of a loan portfolio in a back leverage, or loan-on-loan, financing:

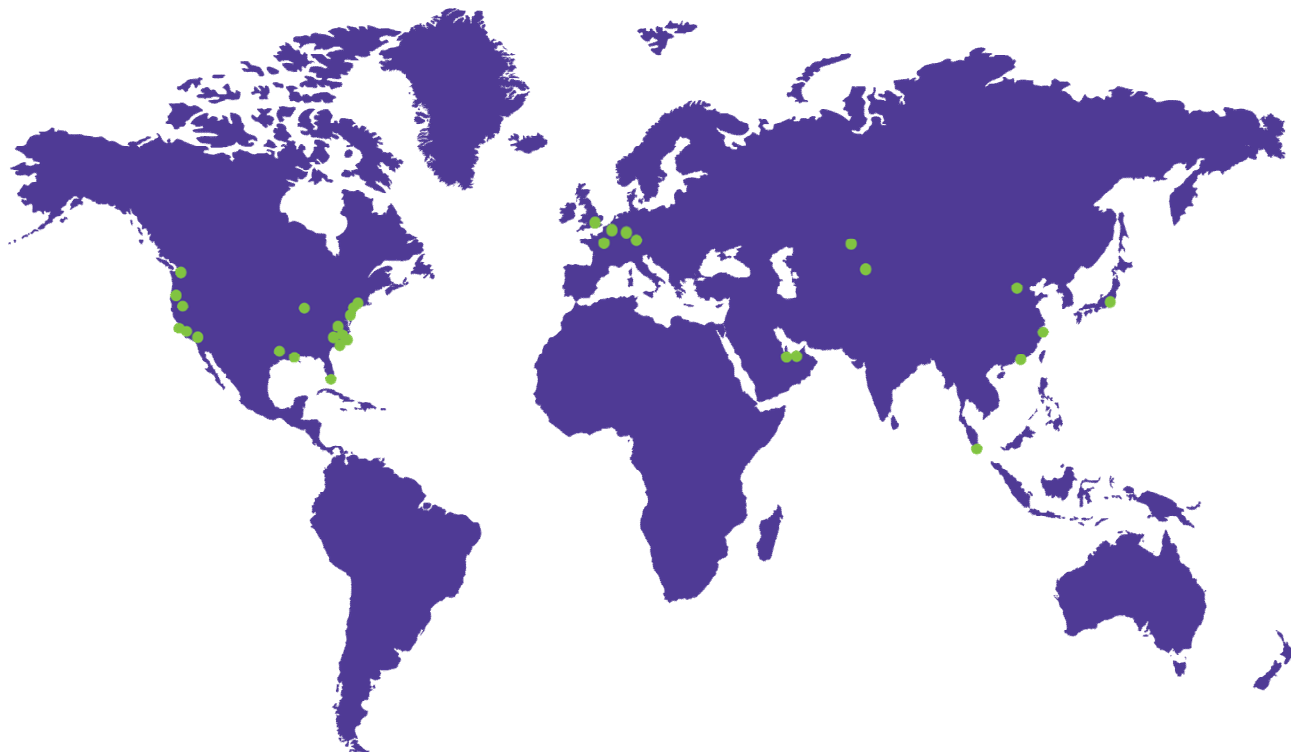
- Does the underlying loan agreement (where hedge fund is the lender) give the hedge fund the flexibility to use the loan asset as collateral?
- Will the loan position need to be transferred?
- How do amendments/modifications to an underlying loan impact the asset if it is used as collateral in the hedge fund's back leverage facility?
- Negotiating the terms of an underlying loan facility to make it more attractive to be used in a back-leverage facility.

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