



Morgan Lewis

ADVANCED TOPICS IN

**HEDGE FUND PRACTICES**

**CONFERENCE**

MANAGER AND INVESTOR PERSPECTIVES

**NEW YORK**

June 10, 2025

# Hedge Fund Lending

## Speakers



**Marion Giliberti Barish**

+1.617.951.8801

[marion.barish@  
morganlewis.com](mailto:marion.barish@morganlewis.com)



**Katherine G. Weinstein**

+1.212.309.6775

[katherine.weinstein@  
morganlewis.com](mailto:katherine.weinstein@morganlewis.com)

**Morgan Lewis**

# 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

# Lending to Hedge Funds

## Recent issues with margin facilities:

- In recent months hedge funds have seen a significant increase in margin calls; this has been the most significant increase since the beginning of the COVID-19 pandemic.
- The increase in the number of margin calls is tied to recent tariff related sell-offs (the announcement of sweeping tariffs resulted in massive decline of equity valuations).
- As a result, many prime brokers issued margin calls to their hedge fund clients which had a sharp decline in the value of the fund's portfolios.
- Some hedge funds maintained that prime brokers were overstepping their rights in making the margin calls and demanding additional collateral.

# Lending to Hedge Funds

## Recent issues with margin facilities:

- Some things to consider in light of the recent activity with respect to margin calls:
  1. Managers should ensure that any margin-call triggering provisions cited by their lenders are specifically spelled out in the applicable contracts. Some funds found that the lenders/prime brokers may not have been reviewing each fund's specific contracts and instead assumed the contract had a particular triggering position.
  2. Some investors are taking notice; managers should be prepared for investor inquiries about liquidity.

# 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 either all debt or a combination of debt and equity is preferable or required



**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 or alternative 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 the industry to evaluate credit risk and covenant packages
- 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 (typically to an SPV)?
- 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?
- Consider negotiating the terms of an underlying loan facility to make it more attractive to be used in a back-leverage facility.