

Hedge fund portfolio leverage

Area of expertise: Structured finance and lending

Theme: Structural solutions

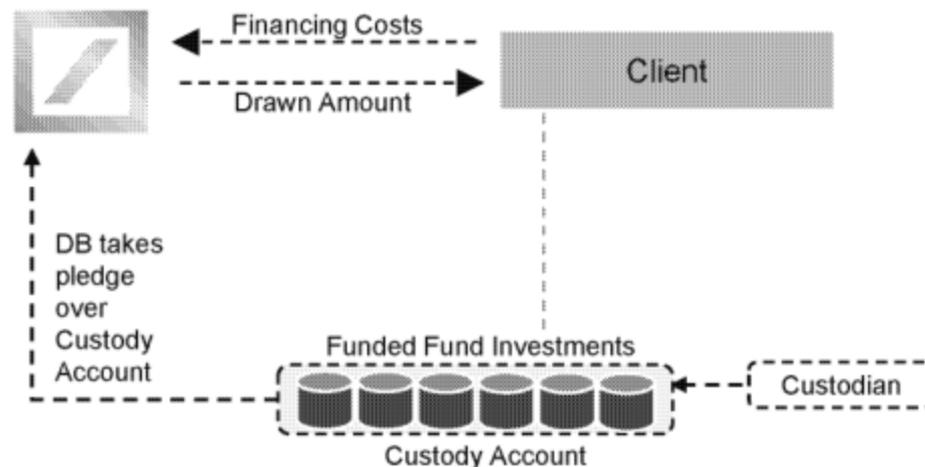


Overview

- Portfolio of diversified hedge fund shares serves as collateral for a leverage facility
- Additional capital through leverage boosts investor returns and allows for flexibility of capital deployment
- Risks: leverage may enhance losses and covenant breaches may result in the sale of the portfolio

Typical financing terms

Portfolio	<ul style="list-style-type: none"> — Diversified across strategies — 20+ individual managers — >\$50mm aggregate AUM
Loan to Value	<ul style="list-style-type: none"> — 10-50% LTV (typical notional is \$20mm+, with capacity at \$1bn)
Structure	<ul style="list-style-type: none"> — Variable funding note (VFN) — Usually structured as a minimum usage facility (~80% of total size) — If the outstanding borrowing amount is less than the minimum usage threshold, the borrower must make whole on the minimum amount
Pricing	<ul style="list-style-type: none"> — 3M Libor +250bps (on the greater of the outstanding borrowing and the minimum usage), depending on characteristics of the portfolio and creditworthiness of the borrower — Either undrawn fee or minimum usage — Upfront structuring fee



- Flexible drawdown and repayment – cash movement usually within 2 business days of notice
- Collateral for the facility is typically secured through a pledge of the Custody Account. No need for transfers or change of ownership of underlying fund shares, thus retaining original investment (e.g. fees, lockups, high watermarks)
- Dynamic haircutting process allows our clients to maintain a more flexible investment process. Haircut will be based on pre-agreed investment guidelines
- Investment guidelines are easily quantifiable rules and are set based on concentration limits, strategy diversification and liquidity profile