Hedge Fund Lending
A solution for liquidity

At U.S. Trust, we seek to tailor financing solutions to our clients’ specific goals and objectives. One example of these customized solutions is hedge fund lending. If you are considering expanding your business interests, hedge fund lending could be an attractive strategy.

Eligible Hedge Fund Strategies:
• Equity Long/Short
• Equity Market Neutral
• Event-driven
• Fund of Funds
• Global Macro
• Merger/Risk Arbitrage
• Multistrategy

At U.S. Trust, financial solutions can be tailored to each individual client’s short- and long-term objectives. Our advisors are seasoned professionals, drawing on decades of experience crafting highly customized financing solutions for clients. You’ll have access to this expertise as they work with you to develop an appropriate and cost-effective strategy for your unique situation.

One of the innovative solutions offered by our Customized Lending group is hedge fund lending. If hedge funds make up a significant portion of your balance sheet and you have sufficient liquidity, hedge fund lending may be a viable solution for you.

Borrowing against your hedge fund assets can help you pursue your financing objectives without having to sell assets, which could trigger capital gains. Your assets stay invested, which may also help keep your long-term goals on track.

CASE STUDY ONE: HIGH-NET-WORTH INVESTOR LEVERAGES HEDGE FUNDS TO PROVIDE LIQUIDITY WHILE GENERATING INVESTMENT RETURNS

The client, a high-net-worth individual who normally banks with the Commercial Bank for his operating company, wanted to leverage his personal investments in hedge funds. The hedge funds generate returns which are uncorrelated to the operating company but also are a hedge against large downward movements in the broader market.

Solution
• Using the client’s personal investments in his sizable hedge fund portfolio, the team created a line of credit for the client.
• By pledging a number of hedge funds that were generating the risk-adjusted returns he desired from his investment portfolio as collateral, the client was able to borrow $32.5 million without incurring a potential tax liability from selling the funds. (Clients should consult a tax advisor.)
• Since the Customized Lending team is integrated with business units throughout the organization, they had the resources available to develop a lending solution tailored to the client’s needs.

Results
The team was able to fill the client’s significant and complex liquidity need.

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<th>Investment products:</th>
<th>Are Not FDIC Insured</th>
<th>Are Not Bank Guaranteed</th>
<th>May Lose Value</th>
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CASE STUDY TWO: FINANCING A CO-OP AND A SPORTS FRANCHISE

Two hedge fund managers with concentrated positions in their respective hedge funds sought to develop liquidity from their holdings. One wanted to finance a New York co-op for $12 million; the other, minority ownership of a sports franchise for $20 million. Because of prohibitions against taking liens against the co-op and the franchise, and given that neither client held sufficient traditional securities to pledge as collateral, they needed to establish credit facilities using their hedge fund holdings as collateral to make their respective purchases.

Solution

• The private client advisor and team were able to help both clients by offering to create liquidity using their interests in the hedge funds as collateral.
• In addition to the credit facilities, additional accounts (mortgage and cash management accounts) were established.

Results

Two hedge fund managers were able to get credit facilities for very diverse, unique and complex transactions using their hedge fund assets as collateral.

CASE STUDY THREE: PAYING TAXES WITHOUT INTERRUPTING INVESTMENTS

A hedge fund manager for an established fund is having a good year. The manager has a large portion of his $50 million portfolio invested in the fund and is highly illiquid. The fund is set up to pay out his management fee and performance fee at year end, but the manager still needs to make quarterly seven-figure tax payments that would derail his other investments if he had to liquidate them to cover this cash need.

Solution

Working with a credit specialist, the team was able to structure a hedge fund lending facility that gives the client access to $10 million in credit, secured against $25 million of his hedge fund position.

Results

The hedge fund manager was able to access the liquidity he needed to make his tax payments while also keeping his investment strategy on track and continuing to progress toward his goals. He was also able to avoid the tax consequences associated with selling appreciated investments.