

Hedge Fund Business Development. An Opportunity For Prime Brokers.

Hedge funds and their prime brokers should get more creative with their business development.

One area is illiquid side pockets which can be used to house either illiquid assets or long gestation strategies. These strategies should ideally not be in the main liquid structure of the hedge fund but carved out as a side pocket. The side pocket would be capitalized separately by investors who opt in, and or be separately offered to investors at arm's length (that is to investors not investing in the main liquid fund.) The financing of such a side pocket would best be served by term financing or term securities lending. These liabilities might be offered to credit investors on a senior secured basis. Prime brokers could help in placing these liabilities for a fee.

Another area of development could be asset backed commercial paper issued by hedge funds. These would be shorter maturity secured paper backed by hedge fund assets. The maturities would need to be matched against the redemption frequencies and lock ups of the fund. Again, prime brokerage can facilitate the issue of these securities.

