

CADWALDER

Return of Portable Alpha Strategies

June 13, 2025



By **Brian Foster**
Partner | Fund Finance

In the past few years we have seen a resurgence of the use of portable alpha strategies tied to hedge fund investments (and the financing arrangements that accompany them), a trend that this old-timer last encountered more than 15 years ago prior to the global financial crisis. For those that are not familiar, the concept of portable alpha is simple. A manager that is charged with outperforming a specific market index will invest in two categories of assets: (a) the assets comprising that index and (b) an uncorrelated asset that the manager expects to outperform that index. The index assets provide the manager's "**beta**" return, and the uncorrelated assets (hopefully) provide the "**alpha**" return that enables the manager to beat the return of its benchmark index.

This strategy presents an opportunity for hedge fund managers to be the source of alpha, as the goal of many hedge funds is to provide absolute returns – positive returns regardless of market conditions – through the use of derivatives, arbitrage, short selling, leverage and other unconventional assets. We are increasingly seeing hedge funds offer investors (such as pensions, and endowments) that are seeking returns indexed to a benchmark a pre-packaged portable alpha strategy, that works something like this.

The hedge fund manager will set up a dedicated vehicle for the investor. The vehicle will invest in (1) a total return swap on the benchmark index and (2) one or more hedge funds managed by the hedge fund manager. Since investing in a swap provides the same exposure to the index, but requires much less capital than investing in the index assets themselves (a swap just requires a small amount of upfront margin), that frees up the majority of the vehicle's cash to invest in the hedge funds. As long as the net return on the investment in the hedge funds exceeds the financing cost embedded in the index swap, the strategy will provide a higher return than investing directly in the assets comprising the index.

Such vehicles often enter into a credit facility. The credit facility provides access to cash for the vehicle to meet variation margin requirements on the swap, and also provides capital to rebalance the targeted exposure between the index swap and the hedge fund investments. Such credit facilities are typically secured by a pledge over the interests in the hedge funds. Unlike private equity funds, hedge funds are semi-liquid due to the ability of investors to redeem their interests in the hedge fund periodically. In connection with underwriting a credit facility, it is important for lenders to understand the timeline for redemptions from the hedge funds that are pledged, as well as the ability of the hedge fund manager to suspend or delay redemptions or impose gates. The exact terms for redemptions in a default scenario are often detailed in side letters with each of the hedge funds.

Since the collateral may consist of a limited number of hedge funds (and sometimes just one fund), it is also important for lenders to look through to the trading strategy of, and assets owned by, the hedge funds. The hedge funds often provide detailed reporting as to the overall profile of their investment portfolio (detailing gross leverage, net leverage, amount of level three assets, VAR, volatility, etc.), and the value of the hedge fund interests for purposes of determining borrowing base compliance under the credit facility, may be subject to adjustment if the investment portfolio fails to stay within certain parameters.

Portable alpha vehicles can be beneficial both to the investor (helping the investor to beat its benchmark) and to the hedge funds (bringing in additional investment to the underlying funds). We often see periods of market volatility result in increased allocation of capital to hedge funds. In the current environment, it would not be surprising to see strong continued interest in these vehicles.

Fund Finance Series Webinar: Market Update & Due Diligence

June 13, 2025



Register now for the next session of the Fund Finance Webinar Series hosted by Praxio Head of Banking & Finance, Michael Mbayi: “Market Update & Due Diligence,” featuring Cadwalader’s own Leah Edelboim.

Michael, joined by experts in the industry, will have an in-depth discussion about the current market trends and due diligence on Tuesday, June 24 at 10 AM (EDT).

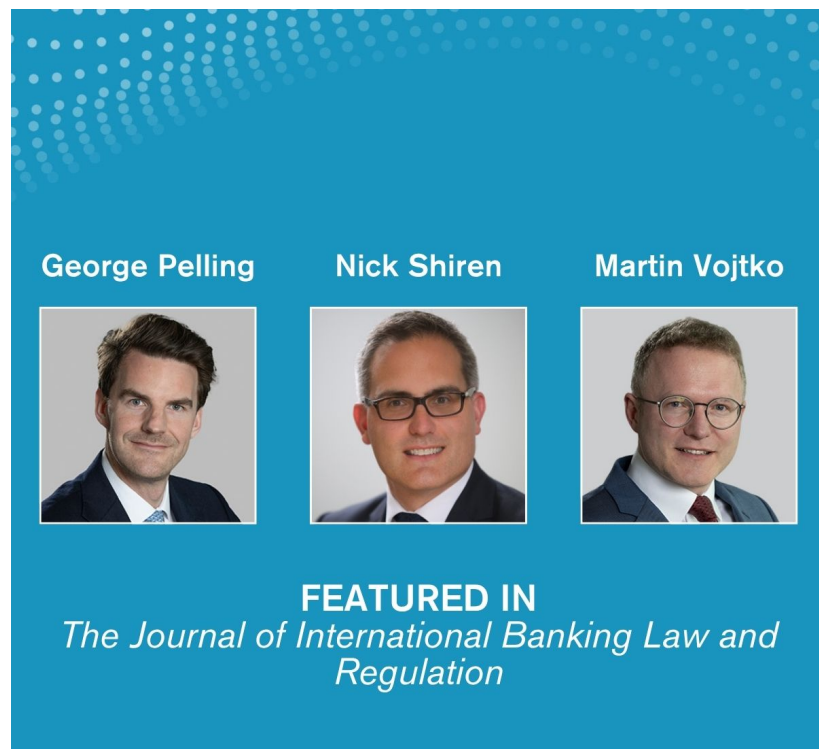
Do not miss the opportunity to get insights from industry experts including:

- Michael Mbayi, Head of Banking & Finance, Praxio Law & Tax
- Leah Edelboim, Partner, Cadwalader
- Russell Evans, Global Head of Funds, National Australia Bank
- Cameron Roper, Partner, Paul Weiss
- Agustin Saez Arnaiz, Executive Director, Santander

Learn more and register [here](#).

Cadwalader Fund Finance Team Featured in Thomson Reuters Journal of International Banking Law and Regulation

June 13, 2025



C A D W A L A D E R

Cadwalader's **George Pelling**, **Nick Shiren** and **Martin Vojtko** authored an article, "Securitisation and Fund Finance," published in the June 2025 issue of the *Journal of International Banking Law and Regulation*.

The article explores the rapid growth of the subscription finance market—now estimated at nearly \$1 trillion—and examines how securitisation is becoming a critical innovation to address capacity constraints faced by bank lenders.

The authors outline the fundamentals of subscription finance facilities and detail how securitisation can help banks manage regulatory capital requirements and expand lending capacity.

Read it [here](#) (subscription required).

DFF Presents: Seoulful Connections

June 13, 2025

The poster features a black header with the logos of Cadwalader, Fund Finance Association, and Lloyds. Below the header is a collage of vibrant, colorful images including a rainbow, a bar scene, a checkered pattern, and a NOFLEX sign. The main text is in blue and black, and the event details are in a light blue box on the right.

CADWALADER | **FUND FINANCE** association | **LLOYDS**

**Diversity in Fund Finance
Invites You to Seoulful
Connections: Our Third
Annual Summer Soirée**

 **Thursday,
June 26, 2025**

 **6:00 PM – 9:00 PM**

 **NOFLEX**
286 5th Avenue
New York, NY

Cadwalader is proud to sponsor the Diversity in Fund Finance Committee's Third Annual Summer Soirée: Seoulful Connections taking place on June 26th!

Join DFF for an evening of networking and Korean tapas as they look to invite everyone to make "seoulful" connections within the community.

In recognition of Pride month, they will be holding a fundraiser for The Trevor Project and a raffle with great prizes and more.

Space is limited; confirm your spot [here](#)!

Event Details:

Location: NOFLEX - 286 5th Ave, New York NY

Date: Thursday, June 26th, 2025

Time: 6:00-9:00PM EDT

Fund Finance Tidbits – On the Move

June 13, 2025

CADWALADER FUND FINANCE 'ON THE MOVE'



Dee Dee Sklar

Congratulations to **Dee Dee Sklar** who has joined Bayview Asset Management as a Senior Advisor in the firm's Insurance Asset Management business.

She brings deep expertise in fund finance, structured products and alternative investments, developed over a career spanning leadership roles at three global financial institutions. Including serving as Dee Dee served as Vice Chair, Fund Finance at Wells Fargo, where she led the Fund Finance business globally for nearly a decade.

Dee Dee is currently Global Co-Chair of Women in Fund Finance and a board member of the Nuveen Churchill Private Capital Income Fund. She also serves as a Senior Advisor to Coller Capital. Her prior board and advisory roles include Atalaya Capital Management (now part of Blue Owl Capital) and 17Capital (now part of Oaktree Capital).

Read the full announcement [here](#).

Fund Finance Hiring

June 13, 2025

Fund Finance Hiring

Here is who's hiring in Fund Finance:

Barings is seeking an Senior Associate to join its Portfolio Finance team out of Boston. The role will support the underwriting, execution and oversight of investment-grade, senior secured loans to asset managers and the investment vehicles across a range of asset classes, including private equity, private credit, and real estate debt. The Senior Associate will support the Portfolio Finance platform, working closely with Portfolio Managers, Directors, Structuring Leads and external partners. Learn more [here](#).

ATLAS SP is seeking an experienced Associate to join its growing Fund Finance business. The candidate will also have the opportunity to expand generalist background across other ABS asset classes. The ATLAS Fund Finance team provides financing to private equity funds and other asset managers through structured credit facilities, including subscription credit facilities, NAV lending, and GP/LP financing. The Fund Finance team is looking for a motivated and experienced Associate to help support the origination, structuring and execution of new Fund Finance credit facilities, as well as surveillance and maintenance of existing Fund Finance credit facilities. Learn more [here](#).

Cadwalader, Wickersham & Taft LLP is seeking associates with three to six years of relevant experience for its Fund Finance practice in New York, Charlotte or London. Qualified candidates will have experience in syndicated lending, commercial lending, leverage finance, fund formation, CLOs, asset-based lending, NAV financings or acquisition financings. Candidates must possess excellent academic credentials and solid legal experience. Selected candidates will get extensive interaction with preeminent bank, asset manager and lending clients. If interested, please reach out to Margaret Cart at Margaret.Cart@cwt.com.