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Recent Trends in Credit Funds

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The world of private fund formation is commonly divided into two buckets; private equity and hedge funds. Pursuant to this simplistic paradigm, private equity involves illiquid investments in a limited number of private companies or other illiquid assets to be held for some years while operational improvements are attempted followed by an exit through a strategic sale or initial public offering. Accordingly, funds have fixed terms and investors are locked in while assets are acquired, the strategy has time to be effected and exit is achieved. Hedge funds, in contrast, offer investors periodic liquidity on demand and therefore involve investments in marketable instruments that can be readily valued and sold and in which the fund sponsor will not engage actively with the business itself. However, there are certain strategies that are not a perfect match for either the private equity or hedge fund paradigm. Many of these strategies involve credit instruments. There has been a material increase in the number of credit funds recently, of which there are many types employing different structures and strategies. In this article, partner and co-head of the firm's Investment Management Group Stephanie Breslow discusses recent trends in credit funds.

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