

UCITS and Alternative Investment Strategies



What are UCITS?

Undertakings for Collective Investment in Transferable Securities (UCITS) are a harmonised European retail fund product that can be sold globally and within the European Union on a passporting basis. UCITS offer a robust and consistent level of investor protection and regulatory compliance combined with a high level of acceptance by regulators worldwide. UCITS can be marketed to both retail and institutional investors.

Benefits of UCITS:

- UCITS - global brand distributed in over fifty countries
- Transparent, tried and tested regulation
- Focus on risk management and investor protection
- Flexibility to accommodate alternative investment strategies, e.g. leverage and short exposure
- Continuous evolution – UCITS I/UCITS III and UCITS IV (2011)

UCITS Alternatives

The UCITS III package, implemented in 2003, provides investment managers with the opportunity to structure alternative type investment strategies within the framework of the UCITS product. UCITS III offers extended financial instrument scope which has seen significant convergence of the alternative industry with the long-only funds industry. Investors may opt for the traditional long-only investment approach packaged as a 'non-sophisticated' investment e.g. equities and bonds or use derivatives in a 'sophisticated' manner with leverage i.e. seeking enhanced absolute returns (increased product offerings can provide a more sophisticated fund approach e.g. fund of funds, index funds, ETFs and derivative funds).

UCITS Fund types:

- Equity
- Bond
- Money Market
- Multi-Manager
- Index Funds
- ETFs
- Fund of Funds
- REITs
- Securitised / Structured Products



UCITS Investment Possibilities

Short positions through derivatives	✓
Physical short selling	✗
Long/short 130/30 Funds	✓
Leverage	✓
Absolute Return	✓
Futures/Options	✓
Hedge Fund Indices/Financial Indices	✓
Repos and other derivatives used in efficient portfolio management	✓
OTC Derivatives (Subject to criteria)	✓
Derivatives on commodity indices	✓
Derivatives on commodities	✗

UCITS Risk Management

A non-sophisticated UCITS may measure its "global exposure" (i.e. leverage) using the commitment approach, which essentially aggregates the underlying notionals to determine the degree of leverage.

A sophisticated UCITS must measure its global exposure using 'Value at Risk' or a similar methodology approved by the Regulator.

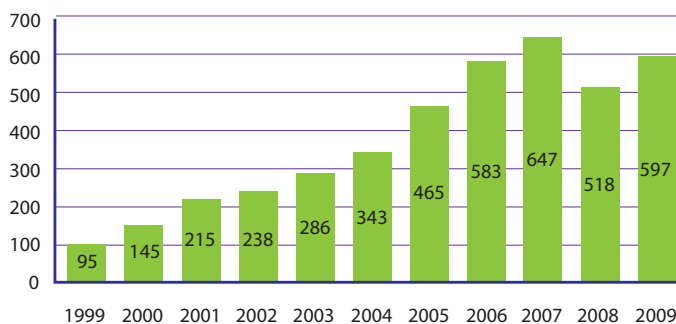


Key Features of UCITS III

- Under UCITS III financial derivative instruments (FDIs) may be used subject to certain limits.
- Cash settled derivative instruments must be covered at all times by liquid assets i.e. money market instruments and transferable securities that can be repurchased, redeemed or sold at limited cost, in terms of low fees and narrow bid/offer spread and with very short settlement delay.
- The aggregate credit risk exposure to each derivatives counterparty cannot exceed 10% of the net asset value
- ISDA/CSA agreements can be used to provide arrangements similar to those provided by a prime broker
- A fund is permitted to invest up to 100% in other UCITS funds and up to 30% in aggregate in non-UCITS funds provided that these funds meet certain criteria, i.e. must be regulated to a standard equivalent to a UCITS)
- Investment in both UCITS and non-UCITS funds is subject to certain exposure concentration and diversification rules (e.g. maximum 20% in a single investment).
- UCITS are also subject to rules regarding eligible assets, index replication, adequate benchmark and publication.

Total Assets of Irish Domiciled UCITS funds

Eur billion



Source: Central Bank of Ireland

Why Domicile a UCITS in Ireland?

- 80% of Irish domiciled funds are UCITS
- Largest administration centre in the world for hedge funds/alternatives (over 40% of global hedge fund assets are serviced in Ireland)
- Unrivalled expertise in servicing complex financial instruments, e.g. derivatives
- Robust, constructive regulation driven by an approachable, pragmatic Financial Regulator
- Over 20 years of experience as a fund administration centre
- Responsibilities of the trustee – providing an extra level of investor protection
- Legal/product/tax/audit expertise

Irish Administered Alternative Investment Funds

Total Estimated Irish Administered AIF Assets = Eur 689 bn



Source: HFM weekly Survey and IFIA, October 2009

Setting up a UCITS Fund in Ireland

The Irish Financial Regulator uses clear and reasonable criteria for promoter and fund approval. The Financial Regulator will assess the promoter's suitability to promote an Irish authorised fund based on the promoter's own regulation together with the level and depth of its experience in the investment fund area. The fund promoter/investment manager must be approved by the Financial Regulator in advance of fund authorisation. However, if an investment manager/promoter is authorised in an OECD jurisdiction and meets the principal criteria required by the Financial Regulator, the Financial Regulator will normally permit the fund approval process to proceed in parallel with the investment manager/promoter approval process.

Ireland provides certainty and efficiency with respect to the authorisation timeframes for investment funds. The Financial Regulator adheres to the timelines laid down in its 'Stakeholder Protocol'. Authorisation for a UCITS fund can be typically obtained within 4 to 6 weeks. Under a fast track promoter approval process, a promoter can be approved in as little as a week.

Documentation required

- Application Form to the Financial Regulator
- Business Plan*
- Prospectus* or new supplement
- Simplified Prospectus*
- Memorandum & Articles of Association/Trust Deed or CCF Deed
- Custody/Administration Agreement
- Investment Management /Advisory Agreement
- Distribution Agreement**
- Placing Agreement**
- Derivative Management Process
- Director's Questionnaire**
- Annual FDI report

** If in existence – amendments may be required*

*** Required in some cases*

why? Ireland™

Unrivalled expertise in establishing and servicing funds with the widest spectrum of investment strategies, our professional, can-do and pragmatic approach will meet all of your requirements.

A robust regulatory environment that has provided the template for openness and transparency while setting the standard for efficiency, certainty and accessibility.

The experience, scale and global reach of a leading international fund jurisdiction together with the innovation, thought leadership and vibrancy that got us here!

Ireland *knows* Investment Funds.

That's why!

why? Ireland™
excellence · innovation · reach



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