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Is the increasing number of hedge fund providers entering the Ucits III space a positive trend for fund selectors?

Top hedge fund managers are reported to be lining up to launch Ucits III compliant products. Are fund selectors excited by this trend? We asked a sample of Europe's leading selectors for their views on the advantages and disadvantages of these new funds and to highlight the strategies that were of most interest to them.

87.5%
POSITIVE

12.5%
NEUTRAL



Werner Wiedenbrig

Erste Bank

Managers who push the envelope of Ucits III are coming and going. Who cares, for instance, about

130/30 funds any more? It is the quality, not the quantity of fund providers and their management strategies that counts in the end. But tracing quality is the fund selector's job. Therefore I consider an increased number of hedge fund providers within the Ucits III-scope, as well as 'traditional' fund companies, playing an increasingly hedge fund-like strategy as positive, giving us broader fishing grounds.

Moreover, they are much easier to import to the local market in comparison to non-Ucits, once you have traced them.

Strongly required in this field nowadays are total return strategies. A very good performing strategy in this field is, for instance, the Aviva Investors Absolute TAA Fund family.

'It brings new players, new expertise, new investment styles to the table, meaning increasing opportunities to select from'



David Kalfon

EFG Group

In the aftermath of the 2008 debacle in the hedge fund industry, investors are looking mainly

for three things: performance-generation ability, transparency, and liquidity. Unfortunately, this has ruled out alternative investments because, until now, liquidity was clearly an issue for alternative investments as most hedge funds operated with a 30-day notice period for redemption, as well as having gates and other features.

The Ucits III format solves this issue as most, if not all, of the Ucits III funds offer daily or weekly liquidity. As for transparency, it is interesting to see that the majority of hedge fund managers have decided to offer single-strategy funds under the Ucits III regulation. This also makes the performance of these funds easier to understand.

Last but not least, as a mutual fund manager, investing in a Ucits III vehicle is also easier from an administrative point of view as the regulatory ratios are less strict than for a non-regulated investment vehicle.

Hedge fund providers' decision to enter the Ucits III space is a smart move, which shows they have drawn from the lessons of 2008. It is the best way for them to attract assets again, after they had been scared away by the crisis. For us investors it re-opens the door to alternative investments and their unique risk/return profiles.



Alexis Bienvenu

Primonial FundQuest

It is useful to have a wider choice of this kind of fund in the Ucits III space, as we restrict our

investments to this universe. But there is a danger that if more clients buy this kind of fund thanks to the Ucits III classification, without knowing the specific risk profile of those products, they could have some nasty surprises!

In this area, we mostly invest in arbitrage funds (forex arbitrage, index arbitrage, etc) and market-neutral funds. Some funds of futures are also used.



Stéphane Corsaletti

Asset Allocation Advisers

It brings new players, new expertise, new investment styles to the table, meaning

increasing opportunities for us to select from, enhancing our own value proposition.

For now, the offering is pretty much centred on absolute return products, still of limited use for our own products, which are essentially

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benchmark driven. However in those new products we favour the ones which naturally fit the Ucits format, without intensive use of derivatives, like long/short equity.



Hakan Deniz

fpb AG

It adds to the asset classes available to investors to enable them to diversify their investment

portfolios more widely. The Ucits III structure offers better transparency and liquidity and will lead to an increased choice of products.

We look in non-directional strategies, long/short strategies and enhanced products like 130/30.



Joerg Vennemann

Generali Investments

A growing investment universe with an increasing number of

investment styles is generally a positive trend for us as a fund selector, to diversify our portfolios. Nevertheless, not every hedge fund manager will be able to manage a Ucits III product as successfully as his established approach.

Having said that, transparency of the investment process is absolutely crucial for us to evaluate the approach. The hedge funds in the Ucits III space we are covering have a long track record, high levels of transparency and a daily liquidity.



Daniel Flück

HwV Research

This is an absolutely positive trend. Illiquidity and the absence of regulation are the

big disadvantages of the hedge fund industry. By offering their strategies in a Ucits III framework they give fund selectors the possibility to invest

in such strategies in a regulated territory. Many of these new funds offer daily liquidity and huge transparency. If I want to liquidate a position – whatever the reason is – I can do it immediately and don't have to wait a month or even longer.

As a manager of fund of funds, you try to diversify your portfolio. As the financial crisis has shown again, the correlation of classical asset classes increases in stress scenarios, which leads to the conclusion that you have to search for decorrelation in other areas. You can find it in alternative investments such as hedge fund strategies. For many fund selectors it is a legal precondition that a target fund is regulated. Ucits III opens a whole new alternative for these selectors.

In principle I am interested in all types of strategies. As a fund selector you have to be open minded. Right now we are invested in option-based strategies, managed futures, market neutral funds, long/short equity and long/short duration funds. We are screening the market permanently to identify new funds with different strategies.

I think we have just seen the beginning of a long-lasting trend. Many other hedge fund providers will follow their competitors into the Ucits III frame. This is a very comfortable situation for fund selectors.



Stanislas de Baillencourt

Natixis Multimanager

Ucits III allows the implementing of strategies that were not available in the

long-only investment space. During the last two years, more and more managers have decided to launch Ucits III funds, implementing alternative strategies.

The positive point, for fund selectors and fund of funds managers such as Natixis Multimanager, is that it gives a much broader access with daily or weekly liquidity to strategies or managers that used to be only available via offshore funds that had tougher liquidity terms and more complex operational structures.

We had the opportunity to select funds in liquid strategies like CTA, global macro or long/short equity that fit particularly well with the Ucits III structure, even if constraints in terms of risk limits apply, limiting potential returns in comparison with the original hedge fund.



James Levy

Banco Inversis

I see it as a very positive trend for fund selectors. The best of these new funds allow us to

build portfolios which more closely approach risk/return optimisation. These new funds enable us to escape the classic equity/fixed income dichotomy without sacrificing the regulatory and taxation advantages of Ucits III registered funds.

I am particularly interested in market-neutral strategies taking long and short positions in sector ETFs, as well as global macro strategies capable of exploiting rapidly changing market sentiment concerning inflationary or deflationary global economic scenarios.



Peter Fitzgerald

Insinger de Beaufort

Many hedge fund managers have realised that Ucits III enables many hedge strategies

to be offered in a regulated structure with good liquidity. This increases the choice available to both selectors and the investing public who will demand more information on these products. The traditional hedge fund model of illiquid funds with opaque regulation will continue to exist but will be smaller.

The main strategies of interest are ones that are easily understood by underlying investors and ones where people should be able to make money regardless of the direction of the equity market. Equity long/short and equity market neutral stand out as two examples.

'I see it as a very positive trend. The best of these new funds allow us to build portfolios which more closely approach risk/return optimisation'

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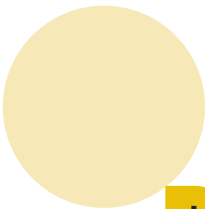
Santiago Montero

Banca March

Providing the new products meet some fundamental requirements for

investors having a broader offering of Ucits III funds, it is very good news indeed. These basic requirements are more transparency, enhanced liquidity and in most cases, a better access to the fund managers. As multimangers, liquidity risk has become our main concern when selecting products.

We are currently ruling out those strategies that penalise liquidity even though they could have a good risk/return trade-off. We focus instead on strategies that favour liquidity, have good mid-term perspectives and could benefit from the good market momentum in spite of the reduction in volatility. We are investing in long-short equities, macro global and multi strategies, and to some extent trade commodity futures (CTA).



Julia Fasching

Caixa Ingenieros

Ucits III funds offer a higher transparency and have to fulfil higher liquidity

standards and security for the investor. We are particularly interested in fixed income arbitrage, equity arbitrage and equity long/short.



Mattias Hagen

SEB

Wrapping investment strategies into Ucits III funds gives a broader range of

clients the possibility to invest in absolute return and alpha-oriented strategies. It also increases the amount of tools available for building tailor-made client solutions, with better risk-adjusted return potential.

We see an increasing demand from clients all over the spectrum to invest in other strategies than long-only equities and fixed income. Even larger

institutions are attracted by the Ucits III format, providing them with transparency and a feeling of safety.

It will increase the demands on fund selectors to be able to research a broader range of investment strategies, including some strategies that have only been covered by hedge fund selectors and researchers in the past.

We are interested in all strategies suitable for Ucits III wrapping. But not all strategies are suitable and we are not interested in strategies that have been compromised too much to fit the Ucits III regulations.

Today we are looking at fixed income, equity long/short and global macro as possible strategies to add to our platform. We are already offering currency and trade commodity futures CTAs in Ucits III compliant funds.



Andrea Villani

Penn Partners

To me, hedge fund managers entering the Ucits III space is great news.

It means the most talented managers will be accessible for selection and this will happen in a new environment that is more regulated and with increased transparency, making my job easier and less risky. Moreover, fund selectors are always looking for new ways to balance the risk reward ratio and market volatility, and new managers will give an important contribution to this.

The strategy that I'm more interested in is long/short for the reasons mentioned above: to run successfully a long/short strategy over the long run you need very talented and focused managers and the contribution of such a manager to the portfolio would be of huge value in each and every market situation.

'Hedge fund managers entering the Ucits III space is great news. It means the most talented managers will be accessible for selection'



Fabrice Kremer

Banque de Luxembourg

I would say both yes and no. Yes because the investment

universe will be larger and additional sources of returns and diversification will be available. But investors must acknowledge that you cannot implement hedge fund strategies within daily liquid Ucits III portfolios without making costly adjustments. This may impact the performance of these products. So risk/return profiles of the Ucits III version will be different from those of classic hedge funds. Especially because of less flexibility, due to the burden of daily liquidity and more regulation, and higher costs, because of the use of expensive financial tools.

We consider long/short equity strategies as the easiest and least expensive strategies to replicate within a Ucits III format.



Peter Brandstaeter

Fonds Laden

There are advantages and disadvantages. The advantages are the multiple possibilities offered

for their use in portfolios especially for funds of funds, because of higher transparency, easier settlement and so on. The disadvantages are the strong and restrictive public and administrative regulations limiting management strategies and yield possibilities, as well as higher costs.

In our fund of funds portfolios we like to use alternative strategies that can adjust to the markets in upside as well as in downside situations. Hedge fund strategies can increase the profitability and lower the volatility of a portfolio.

'We like to use alternative strategies that can adjust to the markets in upside as well as in downside situations'