



Press Release

London, Nice, Singapore, May 12, 2010

## **EDHEC-Risk Survey Reveals Fears that Structuring Hedge Fund Strategies as UCITS will Distort Strategies and Diminish Returns**

As part of the CACEIS research chair on non-financial risks in investment funds, EDHEC-Risk Institute has surveyed UCITS and alternative asset managers, their service providers, external observers, and investors for their views of structuring hedge fund strategies as UCITS. **The 437 respondents report assets under management (AUM) of more than €13 trillion.**

Some of the main results:

- Most respondents fear that structuring hedge fund strategies as UCITS will distort strategies and diminish returns. Many strategies, after all, would need to be altered to earn the UCITS label, and liquidity requirements would put the liquidity risk premium out of reach. **69% of participants think that the “liquidity premium of hedge fund strategies will disappear and that performance will fall” when hedge fund strategies are structured as UCITS.**
- The survey suggests that institutional investors bound by quantitative restrictions will ask fund managers and distributors to repackage hedge fund strategies as UCITS. For instance, **62.5% of insurance companies envisage asking promoters/managers to restructure hedge fund strategies as UCITS.**
- For their part, managers of alternative funds are concerned by the uncertainties surrounding the directive on alternative investment fund managers (AIFMs) and may consider packaging their strategies as UCITS. 60% of alternative investment funds (AIFs) very much agree that the AIFM directive leads to uncertainty about the distribution of funds; **65% of AIFs plan to restructure their funds as UCITS**, whereas 25% do not.
- **EDHEC-Risk suggests improved regulation of investment funds and properly designed incentives:** incentives to invest in illiquid assets could be designed in regulated closed funds with a fixed horizon; incentives to adopt the AIFM directive must be given by modifying the prudential regulation of European institutional investors, notably insurers, and authorising them to invest directly in funds that comply with the AIFM directive; incentives to manage rather than to insure non-financial risks must be given by defining more clearly the responsibilities of distributors, asset managers, depositaries, and valuers.

**This research was produced as part of the CACEIS research chair on “Risk and Regulation in the European Fund Management Industry.”**

The EDHEC-Risk Institute Publication “Are Hedge-Fund UCITS the Cure-All?,” can be accessed by pressing [Ctrl] and clicking on the following link:

[http://docs.edhec-risk.com/mrk/000000/Press/EDHEC\\_Risk\\_Publication\\_Hedge\\_Fund\\_UCITS.pdf](http://docs.edhec-risk.com/mrk/000000/Press/EDHEC_Risk_Publication_Hedge_Fund_UCITS.pdf)

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EDHEC–Risk Institute

393-400 promenade des Anglais  
BP 3116 - 06202 Nice Cedex 3  
France

EDHEC Risk Institute—Europe

New Broad Street House - 35 New Broad Street  
London EC2M 1NH  
United Kingdom

EDHEC Risk Institute—Asia

57#12 Republic Plaza  
9 Raffles Place  
Singapore 048619

**Contact:**

For further information, please contact **S  verine Anjubault**:

Tel.: +33 (0)4 93 18 78 63 – E-mail: [severine.anjubault@edhec-risk.com](mailto:severine.anjubault@edhec-risk.com)

## About EDHEC-Risk Institute

EDHEC-Risk Institute is part of EDHEC Business School, one of Europe’s leading business schools and a member of the select group of academic institutions worldwide to have earned the triple crown of international accreditations (AACSB, EQUIS, Association of MBAs). Established in 2001, EDHEC-Risk Institute has become the premier European centre for financial research and its applications to the industry. In partnership with large financial institutions, its team of 47 permanent professors, engineers and support staff implements six research programmes and ten research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. The results of the research programmes and chairs are disseminated through the three EDHEC Risk Institute locations in London, Nice and Singapore.

EDHEC-Risk Institute validates the academic quality of its output through publications in leading scholarly journals, implements a multifaceted communications policy to inform investors and asset managers on state-of-the-art concepts and techniques, and forms business partnerships to launch innovative products. Its executive education arm helps professionals to upgrade their skills with advanced risk and investment management seminars and degree courses, including the EDHEC Risk Institute PhD in Finance and the EDHEC Risk Institute Executive MSc in Risk and Investment Management.

## About CACEIS

CACEIS is a solid business partner with an innovative service offer. We have a long history of providing cutting edge services to demanding institutional and corporate customers worldwide. With  2.3 trillion under custody and  1.1 trillion under administration, we are a leading player in the global asset servicing industry, ranking among the world's top 10 custodians and top 5 fund administrators. Through a network of offices across Europe, North America and Asia, we deliver high quality services covering depositary/trustee - custody, fund administration and transfer agency.

Our considerable expertise in Alternative Investment servicing, together with substantial level of assets under administration, gives CACEIS a ranking among the top 10 global service providers for these sophisticated funds. Furthermore, we offer a wide range of specialist services such as cross-border fund distribution support, which are designed to assist clients in achieving their international business development goals.

### CACEIS

1, place Valhubert

75013 Paris - France

Tel.: + 33 (0) 1 57 78 00 00

[www.caceis.com](http://www.caceis.com)

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EDHEC–Risk Institute

393-400 promenade des Anglais  
BP 3116 - 06202 Nice Cedex 3  
France

EDHEC Risk Institute—Europe

New Broad Street House - 35 New Broad Street  
London EC2M 1NH  
United Kingdom

EDHEC Risk Institute—Asia

57#12 Republic Plaza  
9 Raffles Place  
Singapore 048619