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UNDERSTANDING UCITS COMPLIANT FUNDS

UCITS...WHAT DOES IT STAND FOR?

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- Undertakings for Collective Investment in Transferable Securities

- A mutual fund based in the EU

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What is a Collective Investment Scheme?

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- In a collective investment scheme, assets from different individuals and organisations are grouped together

- Developing a larger, more diversified portfolio

UCITS...statistics

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- Around 70 UCITS domiciled in Malta, and growing

€2.58 Bn in Malta

v.

€9,171 Bn in Total AUM

Source: EFAMA, Q2 2017

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Luxembourg & Ireland…

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Table 5. Net Assets of the European UCITS Industry

Members	End Q2 2017		End Q1 2017		End Q4 2016	
	EUR mn	Share	EUR mn	% chg [1]	EUR mn	% chg [2]
Austria	81,259	0.9%	81,200	0.1%	80,301	1.2%
Belgium	88,700	1.0%	87,430	1.5%	81,124	9.3%
Bulgaria	573	0.0%	551	3.9%	523	9.5%
Croatia	2,420	0.0%	2,445	-1.0%	2,439	-0.8%
Cyprus	122	0.0%	114	7.0%	108	13.0%
Czech Republic	9,657	0.1%	9,057	6.6%	8,554	12.9%
Denmark	121,986	1.3%	119,296	2.3%	117,455	3.9%
Finland	89,918	1.0%	88,809	1.2%	86,180	4.3%
France	852,247	9.3%	859,593	-0.9%	795,696	7.1%
Germany	351,827	3.8%	344,904	2.0%	328,484	7.1%
Greece	4,779	0.1%	4,429	7.9%	4,347	9.9%
Hungary	1,349	0.0%	1,234	9.3%	667	102.4% [3]
Ireland	1,693,328	18.5%	1,668,435	1.5%	1,578,920	7.2%
Italy	244,528	2.7%	239,320	2.2%	234,214	4.4%
Liechtenstein	27,592	0.3%	27,227	1.3%	26,445	4.3%
Luxembourg	3,288,338	35.9%	3,257,773	0.9%	3,116,104	5.5%
Malta	2,582	0.0%	2,370	9.0%	2,240	15.3%
Netherlands	35,893	0.4%	36,573	-1.9%	37,642	-4.6%
Norway	112,825	1.2%	113,385	-0.5%	108,026	4.4%
Poland	23,770	0.3%	22,911	3.7%	21,073	12.8%
Portugal	8,279	0.1%	8,034	3.0%	7,207	14.9%
Romania	4,960	0.1%	4,881	1.6%	4,819	2.9%
Slovakia	4,611	0.1%	4,448	3.7%	4,349	6.0%
Slovenia	2,548	0.0%	2,585	-1.4%	2,464	3.4%
Spain	210,576	2.3%	203,338	3.6%	193,454	8.9%
Sweden	302,246	3.3%	299,423	0.9%	283,468	6.6%
Switzerland	455,030	5.0%	458,470	-0.8%	437,886	3.9%
Turkey	11,349	0.1%	11,354	0.0%	11,647	-2.6%
United Kingdom	1,137,673	12.4%	1,152,554	-1.3%	1,084,231	4.9%
All Funds	9,170,965	100%	9,112,144	0.6%	8,660,068	5.9%

(1) End Q2 2017 compared to end Q1 2017 net assets; (2) End Q2 2017 net assets compared to end Q4 2016 net assets; (3) Large growth due in part due to a conversion of AIF funds into UCITS.

…are the main domiciles for UCITS distributed cross-border

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UCITS...by Category Breakdown

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Table 3. Breakdown of UCITS Assets by Category

UCITS types	End Q2 2017		Change from end Q1 2017		Change from end Q4 2016	
	EUR bn	Share	in % (1)	in EUR bn	in % (2)	in EUR bn
Equity	3,474	38%	0.2%	7	9.1%	291
Multi-Asset	1,605	18%	2.3%	36	10.0%	146
Bond	2,492	27%	2.1%	52	7.2%	168
Money Market	1,178	13%	-3.7%	-45	0.1%	2
Guaranteed / protected	13	0.1%	-5.7%	-0.8	-8.1%	-1
Other	409	4%	2.3%	9	-18.8%	-94
Total	9,171	100%	0.6%	59	5.9%	511
of which:						
Exchange-traded funds	558	6%	2.1%	12	12.0%	60
Funds of funds	368	4%	3.6%	13	11.1%	37

(1) End Q2 2017 compared to end Q1 2017 net assets; (2) End Q2 2017 net assets compared to end Q4 2016 net assets.

UCITS Funds – 31k+

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Table 4. Breakdown of UCITS Number of Funds by Category

UCITS types	End Q2 2017		Change from end Q1 2017		Change from end Q4 2016	
	No.	Share	in % (1)	No.	in % (2)	No.
Equity	10,032	37%	0.5%	52	1.9%	186
Multi-Asset	7,556	28%	1.6%	121	5.0%	359
Bond	6,301	23%	0.7%	45	2.9%	176
Money Market	689	3%	0.1%	1	-1.7%	-12
Guaranteed / protected	333	1%	-3.5%	-12	-3.8%	-13
Other	2,242	8%	2.7%	59	-6.8%	-163
Total (ex. Ireland)	27,153	100%	1.0%	266	2.0%	533
of which:						
Exchange-traded funds	835	3%	-1.9%	-16	-1.8%	-15
Funds of funds	2,246	8%	3.4%	73	4.9%	104
Total (inc. Ireland)	31,281		0.9%	294	2.0%	610

(1) End Q2 2017 compared to end Q1 2016 net assets; (2) End Q2 2017 net assets compared to end Q4 2016 net assets.

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Collective Investment Schemes – By type

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Active vs. Passive

- Money Market Funds
- Bond Funds
- Equity Funds
- Balanced (mixed) Funds
- Exchange Traded Funds (ETFs)
- Lifecycle Funds
- Maturity Funds
- Guaranteed Funds/Capital Protection Funds
- Funds of Funds
- Asset Allocation Funds

Collective Investment Schemes - advantages

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- Access to professional management
- Diversification
- Availability of different investment approaches/strategies/style
- Tax deferral/tax efficiency
- Convenience
- Cost
- Liquidity

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UCITS ... advantages

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- Enhanced diversification
- Investing within a set of limits and established parameters
- Independence/better security
  - Custodian independent of administrator and independent of fund manager
- Stringent risk management process

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UCITS…

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- The main european framework covering collective investment schemes

- 75% of all collective investments by small investors in Europe

Source: ec.europa.eu

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UCITS...History

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UCITS I
Directive 85/611 - Issued in 1985

UCITS II
Draft Directive late 90s/early 2000s, which was subsequently shelved

UCITS III
Directive 2001/107/EC (the 'Management Directive')
Directive 2001/108/EC (the 'Product Directive')

UCITS IV
Directive 2009/65/EC, adopted in July 2011

UCITS V
Directive 2014/91/EU, adopted in March 2016

UCITS...Legislative Uniformity

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- A European harmonised regulated fund product, which can be easily sold on a cross border basis within the EU

- Still recognised in many non-EU countries

- Eliminating fragmentation within the European funds industry

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UCITS…

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- Operate on principle of risk spreading

- Suitable for sale to retail investors, but still widely sold to institutional investors.

UCITS…

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- Units are easily redeemed/repurchased from the assets of the scheme at the request of unit holders

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UCITS...IV, WHY?

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- To overcome practical issues that existed under the previous regime, namely:
  - Administrative obstacles and delays in passporting UCITS
  - The lack of a simplified prospectus
  - Fragmented EU Fund Industry
  - Lack of economies of scale
  - Limited application of the Management passport

UCITS...IV, what has changed?

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- Management company passport allowing UCITS authorised in one member state to be managed remotely by a management company established in another member state
- Simplification of the procedures for cross-border distribution
- Framework for the domestic and cross-border mergers of UCITS allowing consolidation of UCITS
- Introduction of master-feeder structures to facilitate (mostly tax-driven) asset-pooling
- Replacement of the simplified prospectus with a key investor information document designed to present comprehensible information similar for the UCITS of each member state

UCITS...V, what does it address?

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- ***Depositaries***
  - eligibility to act as a depositary
  - delegation of custody
  - liability
- ***remuneration principles***
  - Mitigating the risk of excessive risk being taken
- ***national sanction regimes***
  - To further reinforce and standardise the approach

UCITS...Investor Protection

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- Stricter requirements on depositories and remuneration principles for UCITS fund managers brought about by the UCITS V Directive
- Meaning investors can now benefit from a higher level of protection. This is expected to increase the marketability of UCITS, within and beyond Europe.

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UCITS…Key Investor Information Document

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- KIIDs must be drawn for every UCITS as a stand-alone document which must include appropriate information about the essential characteristics of the UCITS
- Be fair, clear, and not misleading
- Concise and written in non-technical language
- Separate KIIDs for each different share class

Risk and Reward Profile

Lower risk ← → Higher risk

Typically lower rewards — Typically higher rewards

1	2	3	4	5	**6**	7

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THANK YOU