

Index strategies for EU harmonised investment funds (German)

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Alternative index strategies for EU harmonised investment funds

Structured funds based on UCITS III may track hedge funds exposure

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UCITS III compliance has developed into one of the most marketable product qualities in today's investment fund world. Until recently, however, some of the most popular investments like commodities, real estate or hedge funds had been off limits for direct investments by European harmonised investment funds (Undertakings for Collective Investment in Securities, "UCITS"). This changed when the Eligible Assets Directive (March 2007) was introduced into national law by each European member state (deadline March 2008).

Structured funds may now track indices based on assets that are otherwise not eligible to be held by a UCITS. Swaps may be used to track indices if they are sufficiently diversified, a representative benchmark to the market that they represent and adequately published. Under guidelines published by the Committee of European Securities Regulators even more individual indices may be used provided that the exposure of the fund complies with the 5%/10%/40% ratio.

For hedge fund indices, separate rules have been issued. According to this common understanding of European regulators, independent audits should also carry significant weight with regard to the actual approval of "financial indices". It has to be noted that most European jurisdictions do not have a formalised procedure, but make an overall assessment of the evidence. The fact that the so-called financial indices are now available as eligible derivatives opens up a pathway between the secure environment provided by traditional UCITS and the exciting prospects of commodity, real estate or hedge fund indices.

With greater liberalisation in eligible assets and strategies also come greater responsibilities in areas such as risk management, financial analysis and documentation. For instance, CESR believes that a key distinction between a hedge fund index and a fund of hedge funds is the objective selection of components using predetermined rules. It is

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