

Did you miss the Spotlight on UCITS?

[Read the findings here](#)



Our CEO Jack Inglis kicked off to a packed auditorium of over 320 guests with a great outline explaining how UCITS are fast becoming a dominant force in the hedge fund industry. At the current rate of growth, Jack opined that it's possible we may be just a short time away from alternative UCITS becoming the dominant hedge fund vehicle in the industry, ahead of offshore fund structures and EU Alternative Investment Funds (AIFs).

The most attractive reasons for investing in UCITS, he said, were the increased liquidity they offered when compared to offshore and EU AIF structures, and lower fees.

Fionán Breathnach, partner at Simmons and Simmons Ireland, ran through the characteristics of UCITS and how they've been designed to be sold to retail investors, albeit that institutional investors account for a large proportion of assets. He offered a useful overview of asset flows over the last twelve months and explained the legislative development of the regime from UCITS I through to the proposed UCITS VI. He noted that, whilst there currently has not been much appetite to push UCITS VI to change UCITS significantly, there have been questions raised about what assets should be eligible for inclusion.



He believed the issue of whether management companies would be able to delegate management back to the UK after Brexit was critical, but that the UCITS brand would likely remain strong, due mainly to it being a well-regulated fund product with heavy emphasis on investor protection offering unparalleled distribution opportunities. That UCITS provide liquidity and transparency, robust governance and risk frameworks were also cited as attractive to institutional investors.

Undoubtedly the stars of Spotlight were the expert panels which debated how to establish and manage a successful UCITS product, and what future UCITS regulation might look like.

Key points highlighted in the first panel included:

Are platforms the way ahead or should you stand alone when managing a UCITS product?

One panellist explained that you need to think about how you're going to do the heavy lifting internally, in terms of setting up, finding the capital and marketing the strategy. The bank they partnered with offered their marketing team, and that brand name helped considerably with traction. The panellists also stated that it can be restrictive to work with a platform, and that having a plan to work with that wider team was important.

When working with a platform, the panellists said, the partnership really helps distribution. As the strategy's success grows, more and more allocations come from traditional pension funds and Sovereign Wealth Funds. When the need is to diversify the investor base, introductions from platform partnerships are very



useful.

Common challenges in distributing alternative UCITS

One concern was the possible cannibalisation of AIF assets and influencing other strategies caused by setting up UCITS vehicles. Overall, the panel believed that the different requirements for UCITS, such as restrictions on levels of leverage and instruments, meant that UCITS and traditional hedge fund strategies remain sufficiently distinct, so that potential cannibalisation is not a problem. For one panellist, the fact that their strategy was well suited to UCITS to begin with was positive. Investors, they said, wanted to allocate across both their UCITS and other strategies.

Crucially, the panel advised that to distribute properly there needs to be a plan

which must be executed well, and that you must get out, wear out the shoe leather and talk to people.

Tips on how to make UCITS work for you

Panellists made the important point that the manager must push a good business case and identify the need for the UCITS vehicle. It was not a matter of merely “build it and they’ll come.” Finding a partner and growing your fund quickly to achieve critical mass was also said to be important. Growing organically was very hard, they said, and stated that seed funding could help with this process. Interestingly, this was a key finding of AIMA’s recent paper, ‘Making it Big’, which offers emerging managers a road map to growing \$1 billion of AUM.

Our second panel discussed in depth what managers need to be aware of for the future regulation of UCITS, and what the delegation and distribution risks for UCITS are post-Brexit. Highlights of this panel included the following:

Possible changes to Delegation

The panel agreed that delegation was one of the key successes of the UCITS regime, and that the ability to use the expertise of anyone in Europe and beyond was a major benefit.

There were both immediate and longer-term concerns around possible changes to delegation. In the short term, a lack of progress on cooperation agreements was cited as concerning, but it was felt there is now enough public comment from regulators to give firms confidence that those agreements will



be in place, ready for 29 March 2019.

Over the longer term, the general trend in the EU was felt to be one of pressure on the international delegation model, that much of this was being locked up in politics and was therefore difficult to predict.

It was also felt that delegation was an integral part of the global fund management industry, not just in Europe, and that the probability that an agreement would be reached was very high.

Distribution?

It was felt that, post-Brexit, there would almost certainly be a problem with distribution, and that the ability to sell a UCITS fund into the UK, or for a UK manager to sell UCITS into the EU27, would be constrained due to the loss of regulatory passports. One opinion was that in the post-Brexit environment, distribution will be very complex.

Cocktail Reception

The Gin Bar provided a great atmosphere in which to network after our panel discussions, and the variety of gins on offer mirrored the mixture of guests at Spotlight. The room was full of energy as people took the opportunity to discuss what they'd heard and make new connections with industry leaders.

Thank You

AIMA wishes to thank our event sponsors and all our panellists for sharing their insights and knowledge.



If you missed Spotlight, it is still possible to join our [AIMA Canada Investor Forum](#) in Toronto on **29-30 October**. Join us as new legislation permits Canadian retail investors to have access to hedge funds for the first time.

THANK YOU FOR READING