

UCITS Product Offering



UCITS Fund Services

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UCITS Fund Services

The impact of the credit crisis on hedge fund liquidity and the need to build more transparent and accountable investment structures is sparking further interest in the use of UCITS fund products by asset managers and promoters.

Ireland, having been pro-active in implementing the UCITS regime into domestic legislation in 1989, has become one of the leading EU domiciles for UCITS funds. The result has been that promoters from all across the world have and continue to use Ireland as a domicile of choice for UCITS products seeking to access the European market place and further afield.

Daiwa Securities, established in Ireland in 1990, has embraced this structure providing a suite of services to UCITS fund structures in an ever growing capacity. We have been providing full services to UCITS Funds since 1995.



What are UCITS Funds?

Undertakings for Collective Investments in Transferable Securities (UCITS) are Collective Investment Schemes established and authorised under European Union (EU) legislation. Any UCITS fund authorised in one EU country may be sold cross border into other EU member states without the requirement for additional authorisation (subject to local filing requirements). This is commonly known as **passporting**. Furthermore, UCITS funds enjoy a high level of brand recognition in many Non EU jurisdictions (e.g. 70-80 % of publicly sold funds in Asia are UCITS).

- UCITS Funds can only invest in Transferable Securities and Money Market Instruments in accordance with detailed investment and borrowing restrictions. However the UCITS Product Directive has increased the strategies and instruments that can be used in a UCITS Fund (summarised under - Permissible Strategies/ Instruments)
- UCITS Funds **may not invest directly in commodities or physical short positions** (although exposure can be attained by the use of derivatives)



What are UCITS Funds?

- A UCITS Fund can be established as an open ended Investment Company, Unit Trust or Common Contractual Fund
- All structures must go through the same authorisation process and are subject to the same investment and borrowing restrictions
- Shares / Units can be redeemed on demand and UCITS Funds must offer **at least fortnightly redemption cycles**. Daiwa currently provides daily dealing NAV's for some of its UCITS Funds.
- Each Structure must have an Irish Administrator and Trustee/Custodian. The Financial Regulator views the **Custodian as the pivotal entity** in the structure as it is responsible for the safe keeping of assets, has an ongoing fiduciary oversight role to ensure the fund has operated in accordance with its constitutional documents and within the regulations and reports on same to investors on an annual basis.
- Each scheme must have a **Promoter** who has been approved for the purpose by the Financial Regulator



Why launch a UCITS Fund?

For the Promoter and Investment Manager:

Distribution

The principal advantage of the UCITS framework is the ability of a Fund established in one country to be freely marketed in other EU Member States without further authorisation and subject to some further local compliance requirements, they can also be marketed to Non EU Countries.

Product Range Diversification

Existing Hedge Fund Managers are adding UCITS products to their offering to retain existing investors who are lately seeking more regulated, transparent products and also attracting new investors such as Institutional/Pension clients who may prefer the robust regulatory framework of UCITS products.

Investment Strategies

The UCITS Product Directive has expanded the strategies and instrument types allowed under UCITS which has led some Hedge Fund Managers to convert their structures to UCITS Funds to avail of the regulatory framework whilst in the most part being able to continue trading their existing strategies.

Fees

Investment Managers can charge Management and Performance fees and there is no limit to the number of share classes that can be launched.



Why launch a UCITS Fund?

For the Investor:

Liquidity

Shares/Units are available for redemption on demand on a minimum of a fortnightly dealing cycle

Safekeeping of Assets

An independent Custodian must be appointed to oversee and hold the assets of the Fund in segregation. Where a Sub Custodian is appointed, the Custodian must exercise care and diligence in selecting, appointing and monitoring the Sub Custodians in its network.

Governance Framework

Investors can take comfort from the robust governance framework that is the foundation of the UCITS Product. The Financial Regulator will look to see how the structure will fulfil the 8 Key Management Functions. The role of the independent Custodian is vital, as it is this entity which has a fiduciary oversight function on all service providers appointed to the Fund.

Risk Management

A separate Risk Management Process must be submitted by the Promoter to the Irish Financial Regulator if the UCITS Fund intends to use Financial Derivative Instruments



Why launch a UCITS Fund?

For the Investor (continued)

Regulation of Service Providers

All service providers to the UCITS product must be regulated

Simplified Prospectus

All UCITS Funds in conjunction with a full Prospectus must have a Simplified Prospectus in place and all funds must have semi annual and annual audited Financial Statements produced.



Permissible Strategies/Instruments

Subject to certain portfolio investment restrictions relating to diversification, counterparty exposure and borrowing requirements, the UCITS Product Directive has widened the range and type of strategies and instruments that a UCITS Fund can employ.

Samples of Investment Strategies under UCITS

- Long /Short Equity*
- Market Neutral
- Fund of UCITS Funds
- Index Tracking Funds
- Exchange Traded Funds
- Absolute Return Funds
- Structured products within a UCITS wrapper
- Commodity Trading Advisory/Managed Futures

* Short exposures are created by CFD, Swaps and other synthetic products



Permissible Strategies/Instruments

Sample of Eligible investments for UCITS funds

- Transferable Securities
- Money Markets Instruments
- Derivatives (swaps, options, futures and forwards – FDI's)
- OTC Derivatives
- Derivatives on commodity indices
- Derivatives on hedge fund indices
- Open ended funds/closed ended funds in specific circumstances

Daiwa can service all instrument types covered in the UCITS Product Directive.

Not permissible under UCITS regime:

- Direct investment in Commodities
- Physical short selling



Key Requirements

Promoter Approval

Each Irish scheme must have a Promoter in place and approved by the Financial Regulator (FR) for the purpose. The FR will require the Promoter to be regulated, to have a proven track record in the promotion of Funds and have a minimum capital of EUR 635,000. The Promoter and the investment Manager are permitted to be the same entity. This approval process is conducted independently of the fund documentation.

Business Plan

The Promoter must submit a detailed Business Plan to the FR which details the governance framework for the UCITS Fund. This is a key document to the structure and the FR will look to see that substance exists in the operation of the structure and it must explain how it will be ultimately managed and all activities monitored.



Key Requirements

8 Key Management Functions

The FR will look to the business plan for in-depth details on how the structure plans to carry out the 8 'substance requirements' namely –

- Decision making
- Monitoring Compliance
- Risk Management
- Monitoring of Investment Performance
- Financial Control
- Monitoring of Capital
- Internal Audit
- Supervision of Delegates

Board of Directors

For an Investment Company structure, 2 of the Directors must be Irish Residents. Daiwa can provide UCITS authorised Non Executive Directors to sit on the Board and can also provide a panel of Directors we recommend for this role.

Regulated Service Providers

Each UCITS structure must have a regulated Administrator and Trustee/Custodian appointed in the domicile of the Fund. Daiwa offers full Administration and Trustee/Custodian services.



Available Legal Structures

Part of the Governance Framework implemented by the Financial Regulator requires a Business Plan to be submitted and approved which covers 8 substance requirements or key management functions.

The most common legal structures are:

Investment Company

Established by Memorandum and Articles of Association. The Board of Directors, of which at least 2 must be Irish residents, assume ultimate responsibility for the Company. Shares are issued, assets are legally held by the Custodian and there is a requirement to hold an annual general meeting for shareholders.



Available Legal Structures

There are 2 structure options for an Investment Company.

1) Self Managed Investment Company (SMIC)

Here the company enters into all legal contract directly with all other parties to the Fund. The Board of Director's must meet all the key Management functions or '8 substance requirements'. In principle the Directors can delegate these but must take ultimate responsibility for same.

2) Investment Company with Irish Management Company

Where a company appoints a Management Company, it is this entity that must meet the substance requirements and not the Board of Directors. The Management Company will enter into all legal agreements for the Company.



Available Legal Structures

Unit Trust

A Unit Trust must have a management company in place. It is established by a trust deed executed by the Management Company and the Trustee/Custodian. Unit Trusts do not have their own legal identity and it is the Management Company that has ultimate management responsibility for the product. However, the assets are legally held by the Trustee who has a fiduciary oversight function and acts at all times in the unitholders best interests. Daiwa Europe Trustees Ireland Limited acts as Trustee/Custodian for UCITS and Non UCITS Funds.



Daiwa UCITS Product Offering

Daiwa's product offering encapsulates:

Fund Administration/Fund Accounting, Transfer Agency, Trustee/Custodial Services, Independent Non Executive Directors, Money Laundering Reporting Officer and Company Secretary Services for all types of UCITS fund structures, be they Investment Companies or Unit Trusts. We can perform the Management Accounting for Irish Management Companies and can co-ordinate the reporting for all or part of the required 8 'Key Management Functions'. Daiwa can also provide full Custody Services via our Global Sub Custodian Network or where there is a requirement to appoint Prime Brokers as Sub Custodians, we have total turn-key technology integrated solutions together with existing legal frameworks in the live environment.



Daiwa UCITS Product Offering

Furthermore, we have existing relationships with a network of Legal firms, Auditors and Intermediaries that we can bring to the table to assist with early stage discussions on product suitability. This combined with our experienced **Fund Establishment Team** means we can assist and advise Investment Managers on all appropriate aspects including available Legal Fund Structures, the most common of which are :

- Irish Self Managed Investment Company (Board of Director's meet all substance requirements)
- Irish Investment Company with Irish Management Company
- Irish Unit Trusts with Irish Management Company

Daiwa offers a one stop servicing capability for UCITS Funds.

For further information, please call a member of our New Business team;

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