

Comments re: Hedge Funds Expert Group Report

1) **Hedge funds and funds of hedge funds**: A very clear distinction must be made between single manager hedge funds and funds of hedge funds when assessing their suitability to different categories of investors and when discussing appropriate regulations. In several sections of the report **this distinction is missing** and the text is unclear.

2) **Product regulations**: We disagree with the group's recommendation to avoid product regulations concerning funds of hedge funds. **Various regulations regarding such investment vehicles are already in place in several EU countries**. It would be appropriate to develop EU-wide regulations based on common denominators/features of such existing country regulations, with a view to facilitate their cross border distribution to institutional investors as a starting point.

3) **Funds of hedge funds and the UCITS directive**: A part of the group was opposed to the extension of the UCITS directive to funds of hedge funds. It would be **entirely inconsistent (a) for derivatives on hedge funds indices to be eligible to UCITS and (b) for funds of hedge funds to be left out of the UCITS directive**, as the nature of these two products are fairly close. Moreover, track records show that properly managed funds of hedge funds provide risk/return performances that are much better than traditional UCITS

Alternatively, specific regulations should be developed at the EU level for funds of hedge funds.

4) **Minimum level of subscription**: The group suggests to set it at **€50 000**. This may be appropriate for single manager hedge funds but **is not appropriate for funds of hedge funds** :

- a) Existing regulations for funds of hedge funds in several EU countries already set the minimum subscription at levels much below €50 000.
- b) Track records show that properly managed funds of hedge funds provide risk/return performances that are much better than traditional UCITS and thus can safely be made available to a larger group of investors than those with the capacity to invest €50 000.

5) **Scope of the MiFID level 2 vs the UCITS directive**: To the extent that it is not yet clear whether the future MiFID level 2 will apply to funds or not, **the group's recommendation to subject the distribution of hedge funds or funds of hedge funds to MiFID conditions is entirely premature**. Obviously, if these funds do not come under the purview of MiFID, the group's recommendation is a moot point and the question of their distribution remains to be settled entirely.

6) **Master-feeder**: The **absence of EU wide regulations regarding master/feeder structures is highly detrimental** to the development and distribution of funds of hedge funds in Europe as it leads to the duplication of funds country by country or makes such structures subject to cumbersome case by case negotiations with regulators or, at best, mutual recognition agreements. In all cases, this adds significantly to operating costs.