**Annex – Question 20. Table on eligible assets UCITS EAD.**

For the purposes of Question 20, please complete the table below with the requested information, taking into account the instructions provided in the footnotes. After having completed the form, please save the document (according to the following convention: “ESMA\_Q20\_nameofrespondent”) and upload it online at <https://www.esma.europa.eu/press-news/consultations/call-evidence-review-ucits-eligible-assets-directive>under the heading *‘Your input - Consultations’*, as an Annex to the Reply Form. In case you upload a pdf file, please choose an editable form.

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| **Asset class[[1]](#footnote-2)** | **Merits of allowing direct UCITS exposures** | **Merits of allowing *indirect* UCITS exposures[[2]](#footnote-3)** | **Extent/amount of existing UCITS exposures[[3]](#footnote-4)**  | **Additional comments[[4]](#footnote-5)** |
| 1. Loans[[5]](#footnote-6) | Please see EFAMA’s response | Please see EFAMA’s response | No direct exposure is permitted by the UCITS Directive.Exposure to loans through securitisation structures (such as through CLO investments) within allowable parameters dependent on fund objectives and policies. | We would support the inclusion of loans as eligible assets under the UCITS regime, while allowing the European Commission the flexibility to determine the best approach to achieve this. This stance also aligns with the Loan Market Association's (LMA) long-standing position on the matter. One potential option we may suggest is that the Commission consider creating a new category specifically for loans, rather than attempting to fit them into the existing categories of eligible assets. |
| 2. Catastrophe bonds (‘Cat bonds’) |  (1) Very low correlation of cat bonds to all major financial assets(2) Low volatility of cat bond returns vs financial assets - Overall risk reduction in diversified investment portfolio(3) Positive absolute expected return, even in low or negative interest rate environments(4) Fixed (risk premium) and floating (compensation for collateralization) rate cat bond structure; includes prevailing money market rates in overall returns and reduces exposure to MtM adjustments when interest rates rise(5) Low duration(6) The important role of cat bonds in addressing exposure growth, demographic trends and environmental and climate changes (e.g. flood risks)(7) A source of fully funded risk transfer capacity for the (re)insurance industry and governments to support resilience against catastrophes(8) Cat bonds comprise robust structures that have been refined over almost 30 years and operate within a clearly understood clearing and custodial operating environment(9) Sponsors themselves are typically highly regulated and supervised(10) Due to their strong ESG characteristics, cat bonds can be held in funds that achieve high (8 or 9) SFDR accreditations(11) Diversification is available within the Insurance Linked Securities market itself to suit UCITS requirements(12) The availability of third-party models | Cat bond funds could provide additional risk reduction in other fund of fund structures.Currently exposure to cat bonds via index derivatives is not possible.  | Schroders direct exposure is provided via a dedicated cat bond fund. The AUM of the fund was US$3.3 billion as at 30 June 2024.Of this figure US$427 million are invested in the fund by other UCITS funds. | Trading volume of cat bonds amounts just under 15% of outstanding cat bonds in 2024. When taking into account the maturities of bonds, which amounts to about a third of the total outstanding, that means that almost half of the market turns over each year.Insurance -linked securities (ILS) in general and cat bonds more specifically have become an indispensable risk management tool for primary insurers, reinsurers, and insurers of last resort. As per the end of the first quarter of 2024, Aon, one of the leading brokers, estimates the total global reinsurance capital has reached US$695 billion. Thereof, US$110 billion or 16% are offered in the form of ILS, including cat bonds. Of the US$110 billion, the volume of total outstanding cat bonds amounted to $45 billion or 40%. UCITS funded investing into cat bonds contributed over $11 billion or almost 25% of total cat bonds outstanding as per end of the first quarter. It therefore needs to be noted if UCITS-eligibility would be denied, the systemic risk of market failure increases significantly.In addition, the treatment of cat bonds, i.e., the insurance securitization via SPVs, in the Solvency II calculation of the sponsor is accepted, as per the Commission Delegated Regulation (EU) 2015/35 (the "Regulation"). In particular see Articles 41, paragraphs 1. And 2. and Article 42, paragraph 5. of the Regulation,See our answer to Q.11 with regard market liquidity, valuation and other matters. |
| 3. Contingent Convertible bonds (‘CoCo bonds’) | **Higher Yields**: CoCos often provide higher yields compared to traditional bonds. This is partly due to their higher risk profile.**Diverse Investment**: They offer diversification within fixed income portfolios. CoCos behave differently from other fixed income assets due to their unique conversion features tied to the issuer's financial health.**Potential for Capital Appreciation**: If a financial institution’s health improves and the conversion of these bonds to equity becomes unlikely, the value of CoCos might appreciate. |  | Our default limit is 5% unless specifically referred to in the fund’s investment policy. For some FI funds we have more than 10% limit allowance.  |  |
| 4. Unrated bonds | Please see the EFAMA response | Please see the EFAMA response | Direct exposure is permitted up to the UCITS Directive limit. | Fundamentally driven active credit fund management involves managers making their own assessment of an issuer’s creditworthiness making public ratings less relevant and sometimes unhelpful. |
| 5. Distressed securities | Please see the EFAMA response | Please see the EFAMA response | Our default limit is 5% of fund value unless included in Investment policy. For some fixed income funds we have more than 10%.  |  |
| 6. Unlisted equities[[6]](#footnote-7) | Allows additional investment in companies at an early stage in their development offering the benefits of early investment returns.Avoids forced selling in the event of a delisting.It is sometimes necessary to be able to accept unlisted equity as part of a financial restructuring. The inability to accept such equity has the potential to leave UCITS funds at a disadvantaged vs other market participants. | Indirect exposure could be made via investment in funds that themselves have exposure to unlisted equities | Current exposures are limited but maybe up to 10% as per the UCITS Directive (direct). |  |
| 7. Crypto assets[[7]](#footnote-8) | We currently do not favour direct holding in cryptoassets at the present time. | We currently do not favour indirect holdings in cryptoassets at the present time. However, investment may be made in companies that may be involved in the cryptoasset business.  | N/a |  |
| 8. Commodities and precious metals[[8]](#footnote-9) |  | Please see the EFAMA response | We have no direct holdings in our UCITS fundsIndirect holdings are held via the use of commodities indices and delta-one notes. Fund limits per issuer is determined by the nature of the indirect exposure as per UCITS EAD rules relating to investment in derivatives on indices and transferable securities.In our multi asset UCITS funds the exposure is usually up to 10% thought this can vary dependent on investment views. |  |
| 9. Exchange-traded commodities (‘ETCs’) | Please see EFAMA’s response | N/A | We permit holdings of up to 10% per issuer allowance. In aggregate this may be above 10% for commodity focussed funds. |  |
| 10. Real Estate | **Potential for Income Generation**: Direct ownership of real estate can generate rental income, providing a steady cash flow.**Capital appreciation**: Real estate assets have historically been shown to appreciate in value over time, potentially leading to significant capital gains upon sale especially when appropriately leveraged.**Inflation Hedge**: Asset values and rents have historically tended to rise with inflation, providing a hedge against a loss of purchasing power.**Diversification:** Including real estate in an investment portfolio can diversify asset exposure, potentially reducing overall portfolio risk.**Leverage:** Investors can use financing to purchase real estate, which can amplify returns.Control: Investors have direct control over the management, leasing and sale of the property, allowing them to make decisions that can enhance the investment’s value.**Tangible Asset:** Real estate is a physical asset that provides security against investment loss compared to more volatile assets like stocks.**Transferability**: Whilst assets may be relatively illiquid, real estate markets are considered to be mature and functioning markets with many participants. | Indirect exposure may be through property securities (i.e. property companies listed on a regulated market) as well as through collective investment vehicles and REITs.Indirect exposure would provide exposure to a variety of assets and therefore could reduce the risk associated with the liquidity of the asset. It would also reduce the complexities and costs of direct ownership.. | Not permitted |  |
| 11. Real Estate Investment Trusts (‘REITs’) | Please see EFAMA’s comments | Unlikely to get indirect exposure to REITs as they are considered transferable securities. | Generally less than 10% of fund value. |  |
| 12. Special Purpose Acquisition Companies (‘SPACs’) | Access to Private Equity-Like Opportunities: SPACs provide investors with the opportunity to invest in private companies that are typically the domain of private equity investors. By investing in a SPAC, investors can gain exposure to potentially high-growth private companies once the SPAC identifies and merges with a target. Investors in SPACs can potentially benefit from the upside of a company's transition from private to public, often at an earlier stage than traditional IPO investors.Capital Preservation: The capital raised in a SPAC's IPO is held in a trust account and is invested in short-term, interest-bearing securities or held as cash. This provides a degree of capital preservation, as investors have a relatively secure claim on their investment until a suitable acquisition is identified. Prior to the completion of the acquisition, SPAC shareholders typically have the right to redeem their shares and get back their investment along with accrued interest, offering downside protection if they do not agree with the proposed merger.Potential for Attractive Returns: Many SPAC IPOs come with warrants or rights that entitle investors to purchase additional shares at a fixed price in the future. These can provide significant upside potential if the merged entity performs well. If the management team of the SPAC is experienced and able to identify high-quality acquisition targets, the merged entity can potentially deliver strong returns to investors. | Indirect exposure may be made available from specialised ETFs. Exposure will bring the benefits of diversification but may dilute the benefits of direct SPAC ownership. | We operate a default limit of 5% within funds given the nature of the asset. |  |
| 13. EU AIFs[[9]](#footnote-10) | Diversification: By enabling UCITS funds to invest in AIFs, fund managers can access a wider range of asset classes and investment strategies, such as private equity, real estate, hedge funds, and other alternative investments. This can enhance portfolio diversification and potentially reduce risk through exposure to assets that may have low correlation with traditional equities and bonds. Diversification across different asset classes can help mitigate specific risks associated with market volatility, economic cycles, and other factors that affect traditional investment categories.Potential for Higher Returns: AIFs often employ unique and sophisticated investment strategies that can offer higher return potentials. By investing in AIFs, UCITS funds can tap into these strategies and potentially enhance overall portfolio performance. Alternative investments managed by experienced professionals can provide opportunities for alpha generation (returns above the market benchmark) that are not typically available through standard UCITS investments.Increased Flexibility and Innovation: Allowing investments in AIFs can provide fund managers with greater flexibility to pursue diverse opportunities and innovatively structure portfolios to meet specific investment objectives and risk appetites. This integration could lead to new hybrid fund structures and product offerings that combine the regulatory advantages and investor protections of UCITS with the performance potential of alternative investments, appealing to a broader range of investor preferences and needs. |  | Our default limit is 10% for open-ended AIFs.  | Please see our answers to Q9 and Q.14. AIFs covers both open-ended funds and closed-ended funds and the treatment is therefore dependent on the type of AIF. |
| 14. Non-EU AIFs | See 13. above |  | Default limit is 10%  | See 13. above |
| 15. Emission allowances | Please see the EFAMA response | Indirect exposures can be provided through futures and ETCs. | We currently have no exposure either direct or indirect in our UCITS funds.We may consider indirect exposure in the future through UCITS-eligible ETCs. |  |
| 16. Delta-one instruments | Enhanced Investment Opportunities: Delta-one notes can provide exposure to asset classes that may not be directly accessible to UCITS funds, such as certain commodities, proprietary indices, or foreign equities. This broadens the spectrum of investment opportunities available to fund managers. These instruments enable fund managers to gain streamlined and efficient market exposure, often through derivatives that are cost-effective compared to directly holding the underlying assets.Improved Portfolio Management: Delta-one notes can be used for hedging purposes, allowing fund managers to mitigate specific risks in the portfolio, such as currency risk, interest rate risk, or market risk.  By using delta-one notes, UCITS funds can better manage liquidity, as these instruments can be more liquid than certain underlying assets, enabling easier adjustments to portfolio positions.Transparency and Cost Efficiency: Delta-one products often come with lower transaction costs and management fees compared to physical replication of the underlying asset. This can lead to cost savings for the fund and ultimately benefit investors. Since delta-one notes track the performance of the underlying asset closely, they offer a transparent and predictable way of replicating asset performance. Investors can benefit from the transparency of knowing exactly how the instrument will behave relative to the underlying asset. | N/A | Up to 10% in funds that include Delta-one securities in their investment policies. |  |
| 17. Exchange-traded notes (‘ETNs’) | Diversification and Access to Niche Markets:  ETNs can provide exposure to asset classes and markets that may be difficult to access directly through traditional investment methods. This includes commodities, emerging markets, and specific sectors or investment strategies. By adding ETNs to the portfolio, a UCITS fund can achieve greater diversification, which helps in spreading risk across different asset classes and geographies, potentially reducing the overall risk of the portfolio.Efficiency and Flexibility: ETNs tend to have lower transaction costs compared to other investment vehicles like mutual funds, making them a cost-effective way to gain exposure to various asset classes. They can be traded on exchanges just like stocks, offering intraday liquidity and flexibility in managing the portfolio. This allows fund managers to quickly and efficiently adjust their positions in response to market conditions.Transparency and Performance Tracking:  ETNs are traded on exchanges, providing transparent pricing and ease of valuation. Investors can see real-time prices, which enhances the ability to make informed investment decisions. They typically track an underlying index or benchmark closely, providing direct exposure to the desired performance of that index. This can offer investors a clear understanding of what their investment is tracking and how it should perform relative to the underlying benchmark. |  |  |  |
| 18. Asset-backed securities (‘ABS’) including mortgage-backed securities (‘MBS’) | Current market conditions offer opportunities for safe, measured participation through ABS and MBS that are unavailable elsewhere: Strong opportunity to improve returns by stepping into the void left by banks facing capital constraints. In particular, Agency MBS, AAA CLO and other shorter tenor ABS and MBS debt is where banks have played a role.ABS/MBS offer an amortizing debt structure, which affords liquidity, de-leverages exposure, thereby reducing maturity risk.Pools of loans offer diversification, insulating from idiosyncratic risk: access to a wide range of underlying asset types means that it is possible to select investment based on analysis of credit fundamentals, including borrower and collateral types (geography, sector). This enables the investment manager to customize investment exposure based on volatility, liquidity and credit.A wide range of notes issued across ratings allows for customization of risk exposure: this enables a choice of structural protection. By selecting higher-rated tranches, UCITS funds can balance the pursuit of yield with acceptable levels of risk.Secondary markets trading at a discount allow for an investor to customize return profile, mitigate call risk: liquidity in highly rated ABS/MBS enables investment managers to actively choose valuation protection.Attractive and diversifying alternative, at all points in the cycle, to intermediate corporate securities; offer the ability to choose investments that match UCITS risk tolerance and return objectives.  | n/a | Exposure through securitisation strategies in accordance with disclosed parameters. Otherwise, our default limit is 5% unless called out in Investment policy. For some FI funds we have more than 10% limit allowance. | Please see our response to Q.23 |
| 19. Other relevant asset classes (please specify) |  |  |  |  |

1. ESMA acknowledges that most of the asset classes listed below have not been clearly defined in EU legislation and this might be a source of divergent interpretations and misunderstandings. Where possible, ESMA invites stakeholders to specify their understanding or definition of the relevant asset classes under the “additional comments” box. [↑](#footnote-ref-2)
2. Where relevant, please distinguish between indirect exposures via instruments such as delta-one instruments, exchange-traded products, derivatives, or AIFs (EU or non-EU). [↑](#footnote-ref-3)
3. Please share any available data or estimates that help to assess the amount or extent to which there are existing UCITS exposures (distinguishing between direct and indirect, where possible) to these asset classes. Where no reliable data is available, ESMA would appreciate receiving estimates in terms of numbers and/or percentages of UCITS exposed to these asset classes and what is the average proportion in the relevant portfolios. Any additional data and insights on strategies, techniques and instruments used to gain exposure to these asset classes would be also highly appreciated. [↑](#footnote-ref-4)
4. Please include under this column any other evidence or views that you would like to share. [↑](#footnote-ref-5)
5. Where relevant, please distinguish between leveraged/structured loans, collateralised loan obligations (CLOs) and other types of loans or loan participations (please specify). [↑](#footnote-ref-6)
6. Where relevant, please distinguish between equity instruments issued by (1) private companies and (2) shares in public companies that that are not listed. [↑](#footnote-ref-7)
7. Where relevant, please specify what type of crypto assets and whether the implementation of MICA will change anything in terms of your assessment. With respect to indirect exposures, ESMA is particularly interested in stakeholder input on exchange-traded products including ETFs with crypto assets as an underlying. [↑](#footnote-ref-8)
8. With respect to indirect exposures, ESMA is particularly interested in stakeholder input on ETFs with commodities/precious metals as underlying. Please note that under the current UCITS rules, precious metals and certificates representing them are not eligible (Article 50(2)(b) of the UCITS Directive). [↑](#footnote-ref-9)
9. Where relevant, please distinguish between different types of AIFs (e.g. open-ended, closed-ended) and investment strategies (e.g. real estate, private equity, hedge funds). [↑](#footnote-ref-10)