

NEW KINDS OF MUTUAL FUNDS



- Redemption limit: they may also set an upper limit on redemptions on a given date, with pro rata allocation in the event that redemption orders exceed this amount.
- Notice periods: some funds may oblige investors wishing to redeem to advise notice of their intention up to 15 days before the NAV calculation date.
- Payment of redemptions: payment may take up to double the interval between valuation dates, though without exceeding six months as of the corresponding request date (in conventional funds, payment is three business days after the date of the applicable NAV).

▶ **Fees:** funds of hedge funds are free to set their own fees, i.e., they are not bound by the fee ceilings applicable to conventional mutual funds.

▶ **Consent form:** before buying into a fund of hedge funds, investors must sign a form stating that they have been informed of the risks the product involves. Your intermediary will give you a copy of this document, which you should keep on file along with the prospectus and subscription form for the duration of your investment.

of hedge funds a more suitable vehicle for the small investors than *hedge funds* proper, since the resulting diversification affords some protection against risk.

[2] *Funds of hedge funds* are just one of the many investment alternatives on today's market. In general, you are not advised to put all your savings into this one product.

[3] Remember these products have **limited liquidity**, so you should never invest more of your capital than you are prepared to have tied up for a considerable time.

[4] As with any mutual fund, it is vital to **read through the prospectus before you invest**. This is the only document that will give you all the essential details about a fund: its risk profile, portfolio selection criteria (the funds in which it invests), investment strategies and their attendant risks, redemption requirements, minimum investment, etc.

[5] Before signing the **consent form**, make sure you have fully read and understood its contents, with particular attention to the characteristics and risks specific to this kind of investment.

The aim of this factsheet is to inform the general public about different aspects of the securities markets. Its text is for information purposes only and, as such, cannot constitute a support for subsequent legal interpretations, which must rely exclusively on the prevailing regulations.

Investor recommendations

[1] The fact that they invest in funds rather than investing directly in securities or other financial instruments in theory makes *funds*

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Introduction

Recent changes in the law have enlarged the choice of mutual funds available to investors in Spain. Among the new variants reaching the market we can single out **hedge funds** and **funds of hedge funds**. The way these products are managed involves strategies and techniques that may be unfamiliar to many investors, and they exhibit characteristics and risks that Spanish savers have not met with before.

Funds of hedge funds are in principle a suitable vehicle for the individual or small investor, while *hedge funds* proper are primarily aimed at qualified investors.



Hedge funds

Hedge funds may also go by the name of alternative investment funds.

They are not subject to the investment constraints applying to the majority of mutual funds: they can invest in any kind of asset, pursue the investment strategy they judge most fit and borrow more freely than remaining funds (up to several times the value of their assets). They are generally weak on liquidity and, in some cases, may even impose a lock-up period on investors (as of the subscription date) during which they cannot cash in their units.

Therefore investing in a hedge fund may expose you to a large degree of risk. Their special characteristics mean they are mainly aimed at qualified investors (banks, insurance companies, pension funds...). Hence the minimum investment is set at 50,000 euros.

Funds of hedge funds

Collective schemes designed to give individual investors a route into alternative investment vehicles:

- ▶ They are **funds of funds**: that is, they do not invest directly in assets but in other mutual funds.
- ▶ Their investment portfolio must be made up mainly of **hedge funds**.
- ▶ **Level of risk**: the fact that funds of hedge funds are free to choose their strategies opens the door to new investment opportunities but also to greater risk. The value of your investment may fluctuate significantly with time, and the return you earn is not necessarily linked to the performance of securities markets.
- ▶ **Liquidity**. As a rule, funds of hedge funds are less liquid than conventional mutual funds. This has practical consequences for the calculation and publication of their net asset value (NAV), and also for the rules governing their redemption:
 - ▶ **Net asset value**: the price of units may only be posted at three or six month intervals (though in practice many funds opt for monthly publication).
 - ▶ **Redemptions**: as with valuations, funds of hedge funds can opt to limit redemption opportunities to four times or even twice a year, with the following conditions (if specified in the prospectus):
 - Suspension of redemption rights: some funds impose lock-up periods on investors (as of subscription date) during which they will be unable to cash in their units.

