

## 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.

Asset class <sup>1</sup>	Merits of allowing direct UCITS exposures	Merits of allowing indirect UCITS exposures <sup>2</sup>	Extent/amount of existing UCITS exposures <sup>3</sup>	Additional comments <sup>4</sup>
1. Loans <sup>5</sup>	Loans that can be considered transferable securities, eg types of securitised loans or tranches of loans, or types of syndicated loan, can offer enhanced yields and diversify credit exposure tailored to the objectives and risk of the UCITS.	Same as direct exposure	Around 4.3% of UCITS in IA sectors have exposure to loans.	
2. Catastrophe bonds (‘Cat bonds’)	IA members consider these eligible fixed income securities. These are specialist, but are relatively liquid,	Same as direct exposure	IA cannot identify cat bond exposures in its sector data, but a number of asset	These are fixed income floating rate instruments sponsored by insurers/reinsurers,

<sup>1</sup> 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.

<sup>2</sup> Where relevant, please distinguish between indirect exposures via instruments such as delta-one instruments, exchange-traded products, derivatives, or AIFs (EU or non-EU).

<sup>3</sup> 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.

<sup>4</sup> Please include under this column any other evidence or views that you would like to share.

<sup>5</sup> Where relevant, please distinguish between leveraged/structured loans, collateralised loan obligations (CLOs) and other types of loans or loan participations (please specify).

	<p>offer attractive yields and the performance relates more to the cycle of natural disasters, so are relatively uncorrelated with other asset classes.</p> <p>Provided risks are appropriately disclosed the IA views these as an eligible asset class.</p>		managers have indicated they invest in this asset class.	transferring risk exposures from potentially large insured losses. These are typically short duration (3-5 years) and fully collateralised with high quality assets. Insurances losses are borne in part or full by the Cat bond, but investors cannot lose more than their initial capital.
3. Contingent Convertible bonds ('CoCo bonds')	<p>These offer higher yields than conventional bonds, usually issued by well capitalised financial institutions.</p> <p>Most UCITS only hold these as a component of a larger fixed income portfolio, but some invest exclusively in Cocos. The latter are normally restricted to professional investors only.</p> <p>Provided risks are appropriately disclosed, and investor base/diversification considered, the IA views these as an eligible asset class.</p>	Indirect exposure, eg via a Cocos fund, may offer a more diversified risk exposure to this asset class.	Around 19.3% of UCITS in IA sectors have some exposure to Cocos.	Issuer has the option to convert these to equity. Typically issued by banks as AT1 securities, a key component of bank capitalisation,
4. Unrated bonds	<p>Offer diversification and higher yields.</p> <p>Provided risks are appropriately disclosed, and investor</p>	Similar to direct exposure	IA has not been able to identify unrated bond exposures in its readily available sector data, but a	Unrated is not necessarily a measure of credit quality.

	base/diversification considered, the IA views these as an eligible asset class.		number of IA members have indicated they make small allocations to this asset class.	
5. Distressed securities	<p>Offer high growth/yield potential in the event of a recovery.</p> <p>Provided risks are appropriately disclosed, and investor base/diversification considered, the IA views these as an eligible asset class.</p>	Indirect exposure may offer a more diversified risk exposure to this asset class.	IA has not been able to identify distressed securities exposures specifically in the sector data it has available, but some IA members have indicated they invest in this asset class.	
6. Unlisted equities <sup>6</sup>	Can offer above market growth potential.	A closed ended listed constituting a transferable security can give exposure to the growth potential of this asset class without compromising portfolio liquidity.	IA does not have data available on unlisted equities, but some IA members have indicated they invest in this asset class.	Only eligible for 10% unapproved securities bucket. Portfolio liquidity must be considered.
7. Crypto assets <sup>7</sup>	The IA does not consider this to be an eligible asset class for investment by UCITS.	A majority of IA members do not support permitting indirect investment into this asset class	0% of UCITS in IA sectors have exposure to crypto assets.	

<sup>6</sup> Where relevant, please distinguish between equity instruments issued by (1) private companies and (2) shares in public companies that are not listed.

<sup>7</sup> 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.

		at the present time.		
8. Commodities and precious metals <sup>8</sup>	Not eligible	Can provide diversified exposure within a transferable security that does not come with the associated challenges or risks in holding these assets directly, eg storage facilities, etc.	Around 19.2% of UCITS in IA sectors have some indirect exposure to commodities and precious metals.	
9. Exchange-traded commodities ('ETCs')	Can provide diversified exposure, within a transferable security that does not come with the associated challenges or risks in holding the underlying assets directly, eg storage facilities, etc.	N/A	The proportion of investment in ETCs was not available in the sector data the IA was able to access, but around 19.2% of UCITS in IA sectors have some indirect exposure to commodities and precious metals.	
10. Real estate	Not eligible	Indirect exposure to real estate (eg via REITs or derivatives related to diversified property indices can provide diversification	See 11 REITs	The IA does not consider real estate, due to its immovable nature, to be a suitable asset class for direct investment by UCITS.

<sup>8</sup> 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).

		for multi asset UCITS in a broadly recognised investible asset class.		
11. Real Estate Investment Trusts ('REITs')	<p>REITs offer exposure to companies active in real estate management, but are essentially listed company shares, and can be considered as eligible transferable securities. As listed equities, they have the same liquidity profile as other listed equities.</p> <p>These provide exposure to income from an relatively secure asset class, without the liquidity risks and obligations of direct property.</p>	N/A	Around 33.9% of UCITS in IA sectors have some exposure to REITs.	<p>REITs are a tax designation for listed companies that derive the majority of their income from property rents. They are not subject to corporation tax on rental income provided 90% of this is distributed to shareholders.</p> <p>REITs include commercial land and property owning companies as well as listed closed ended investment companies.</p>
12. Special Purpose Acquisition Companies ('SPACs')	<p>A SPAC may offer access to companies newly brought to listed markets at an attractive price point.</p> <p>An investment in a SPAC would need to be weighed up against the risks of not knowing the eventual company the SPAC will acquire and what the fund will invest in. These risks would need to be properly disclosed to investors.</p>	N/A	The IA has not been able to identify UCITS exposure to SPACs from the IA sector data, but only a small number of IA members advised their funds had invested in these.	Assessment of eligibility is needed on a case by case basis, but SPACs can potentially be considered transferable securities.

13. EU AIFs <sup>9</sup>	EU AIFs can provide diversified exposure to other assets, allowing a UCITS to benefit from expertise of specialist managers.	N/A	The IA has not been able to identify UCITS exposure to EU AIFs from the IA sector data it had available.	<p>UCITS may only invest in EU AIFs, up to 30%, that invest in UCITS eligible assets and follow UCITS investment power rules, which limits the available investment universe.</p> <p>The IA does not consider that the UCITS directive should be amended to permit wider investment in EU AIFs.</p>
14. Non-EU AIFs	These can provide diversified exposure to other assets, allowing a UCITS to benefit from expertise of specialist managers, particularly funds located in other parts of the world.	N/A	The IA has not been able to identify UCITS exposure to non-EU AIFs from the IA sector data it had available.	<p>UCITS may only invest in non-EU AIFs, up to 30%, that invest in UCITS eligible assets and follow UCITS investment power rules, which limits the available investment universe.</p> <p>In practice, investing in non-EU AIFs, even those that invest in UCITS eligible assets, is difficult, as the majority do not meet UCITS conditions such as a 10% restriction in other collectives, differences in</p>

<sup>9</sup> 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).

				borrowing rules, etc.  The IA does not consider that the UCITS directive should be amended to permit wider investment in EU AIFs.
15. Emission allowances	The IA does not consider this to be an eligible asset class.	IA members have not expressed any appetite to invest indirectly in this asset class.	The IA is not aware of any UCITS in its sectors that have indirect exposure to this asset class.	
16. Delta-one instruments	These can offer cost efficient exposure to eligible asset classes, in particular can allow managers to quickly deploy inflows if the manager is unable to allocate to individual securities immediately. Delta one securities can also allow UCITS to gain some exposure to non-eligible assets, but via products with characteristics in line with transferable securities.	N/A	Around 40.3% of UCITS in IA sectors have some exposure to certain delta one instruments (futures, swaps, forwards net commitment).	
17. Exchange-traded notes ('ETNs')	Can provide diversified portfolio returns.  Liquidity of ETN needs to be considered.	N/A	The IA understands some members use structured notes as components of wider portfolios.	
18. Asset-backed securities ('ABS')	Can provide diversification/additional	Same as direct.	Around 2.0% of UCITS in IA sectors have	Regulatory changes since the Global Financial Crisis have

including mortgage-backed securities ('MBS')	yield for fixed income portfolios.		some exposure to ABS.	strengthened the robustness of ABS, including risk retention requirements, stricter rules on credit ratings, etc.
19. Other relevant asset classes (please specify)	N/A	N/A	N/A	N/A