An undertaking in collective investment, or "fund" in common parlance, is an organisation for receiving capital from a number of investors so as to invest it collectively in various types of assets (equities, bonds, etc.).
It is managed in accordance with the investment policy laid down when it was formed and within the legal framework laid down in its country of domiciliation.

TWO LEGAL FORMS IN LUXEMBOURG

The "contractual" – constitution Based – form

A Luxembourg fund – a Fonds Commun de Placement (FCP) – is made up of capital invested and owned in common by the unitholders.

It is not a separate legal entity and must be managed by an investment management company following a set of investment management rules.

Investors have no influence over the way the FCP's assets are invested.

The "statutory" – legal entity – form

A "Société d'Investissement à Capital Variable/Fixe (SICAV/SICAF)" – an open- or closed-ended investment company – is a separate legal entity and is managed by a Board of Directors, which lays down the company's investment management policy.

The investors are the company's shareholders and as such they have the right to vote and can take part in General Meetings.

ADVANTAGES OF UCI

The main advantage of investing your assets in a UCI is that **the assets raised from a large number of investors can be pooled.** Because of the size of the funds raised, the fund manager can access a wide range of different securities and stock markets that individual investors could not access on their own.

This diversification of assets **reduces overall portfolio risk** compared with direct investment in a financial instrument, because the underliers generally do not move in the same way (it is very unusual for all securities to fall dramatically at the same time).

Funds are so diverse that they can **meet the specific needs of every investor.** However, given the plethora of funds on offer, it is essential **to have experienced advisors to help you make the right choice.**

Investor is advised to consult his private banker to define his investor profile, investment horizons and targets so that a suitable fund or funds can be selected.

MAIN CHARACTERISTICS

Different types of uci units

- **Capitalisation units**
  The income/dividends received by the fund are reinvested in the fund. Investors receive the return on their investment when they sell their units.
- **Distribution units**
  The income/dividends received by the fund are paid out to investors at regular intervals (not necessarily in full).

Net asset value

The Net Asset Value (or NAV) is the UCI's subscription or redemption price. It is calculated by dividing the fund's net asset value by the number of units in issue. This may be done daily, weekly or monthly, etc.

European passport

A UCI may, or may not, have a European passport allowing it to be marketed freely throughout the European Union, depending on whether it complies with European Directives or not:

- **Section I of the Luxembourg law on UCI (coordinated UCITS)**
  These funds can only be invested in transferable securities and other instruments permitted by European Directives → European passport
- **Section II of the Luxembourg law on UCI**
  These funds do not apply the restrictions of European Directives → No European passport

There is a wide variety of uci, including:

- **Money-markets funds** invested in cash and in securities with a short residual life
  → term deposits, treasury bills, certificates of deposit (issued by banks), commercial paper (issued by companies) and bonds nearing maturity.
- **Bond funds** investing in fixed or variable income bonds. They can be invested in securities with very diverse characteristics
  → government bonds, corporate bonds, convertible bonds, high yield bonds, etc.
- **Equity funds** investing in equities according to pre-set criteria
  → country or geographical area, economic sector, stock market capitalisation, investment style, specific themes, etc.
- **Real-estate funds** invested in real-estate equities. These are characterised by the fact that the right of the share is on a property: for example, real-estate rental management on behalf of the shareholder
- **Flexible or balanced funds** actively and dynamically combining various investment strategies. They are mainly invested in equities, bonds and money-market instruments.
- **Funds of funds** invested in the units of other funds, which themselves invest in various asset classes.

This classification covers the type of funds for which Quintet Private Bank (Europe) SA is a promoter. This list is not exhaustive.

"TRACKERS" OR ETF (EXCHANGE TRADED FUNDS)

ETFs are funds listed on the stock exchange, covering a wide range of investment policies.

They combine the advantages of an index-based fund with the performance of a stock. They have one objective only, that of replicating the upward or downward movement of an underlying index.

They therefore follow the composition of specific market indices, representative of asset classes (equities, bonds, commodities, etc.), from a geographical angle (Europe, USA, emerging markets, etc.) or perhaps an economic sector (automobile, insurance, etc.).

ETFs can be divided into three main categories, depending on the replication techniques used:

- **Entirely physical:** the ETF invests entirely in the assets making up the index to be replicated
- **"Optimised" physical:** the ETF invests in an optimised basket of securities making up the underlying index
- **"Synthetic":** derivative products are used to reproduce the performance of the underlying index, with or without leveraging, either upwards or downwards.

In a single transaction, ETFs make it possible:

- to track the movement of the target index
- to diversify your assets, with no minimum investment (they are traded by the unit)
- to benefit from low management fees compared with traditional funds
- to benefit from the lack of entry/exit fees, where the purchase/sale is made on the stock market
- to obtain a performance very close to that of direct investment in all the securities making up the index being replicated
- to monitor prices easily (ETFs are usually continuously listed on the stock market)
- to invest in liquid instruments, to place stop-loss orders – so benefiting from movements of the index in real time.

Like all forms of investment, etfs also present risks (set out in detail in the "risk factors" section of their prospectuses).

Here is a brief outline :

- **Risk linked to the target index:** investors must be aware of the risks linked to the target index and its components. ETFs following leveraged strategies (aiming to magnify movements in the index) expose investors to higher risk. A minor change in the index could result in large profits, but also in large losses.

- **Liquidity risk:** linked to the characteristic of the index being replicated (if its components have low liquidity, investors may find there are wide divergences between the value of the ETF's assets and the price of the ETF itself). This risk is also affected by the efficiency of the market on which the ETF is traded, or extraordinary events (for example, a "Market Disruption Event", such as the index or the ETF itself being suspended from trading).

- **Risk of counterparty failure:** ETFs using derivative products ("synthetic" and/or leveraged) expose investors to this risk. Failure of the counterparties with which the derivatives are contracted can of course affect the ETF's value, or even close it down. The amount repaid to the investor could therefore be lower than that obtained under normal circumstances.

- **Investment management risk:** this involves, amongst other things, the risk of a divergence between the performance of the index being replicated and the ETF (tracking error). This risk is more likely to occur in practice in ETFs using the "optimised" physical replication technique.

OVERVIEW OF ADVANTAGES, DISADVANTAGES AND RISKS OF INVESTING IN UCI

ADVANTAGES		DISADVANTAGES	
EASE OF ACCESS	Investors can invest their assets in a broadly diversified portfolio, starting with a modest initial investment.	FEES	Fees can vary widely depending on the characteristics of the UCI and on the financial institutions that market it.
WIDE SELECTION	The range of funds available to investors is huge. This gives them the opportunity to access many markets or particular investment themes.	RISK RELATING TO MARKETS OR SPECIFIC THEMES	Making the right choice from the profusion on offer can prove difficult. In particular, investors should be aware that investing in specialist markets or themes usually turns out to be more risky than investing on more “traditional” markets.
PROFESSIONAL INVESTMENT MANAGEMENT	In addition to spreading portfolio risk, professional investment management gives you the benefit of the expertise and the resources available to a fund manager (software, information, etc).	LACK OF TRANSPARENCY	Investors do not always have a clear idea of the whole portfolio (all the individual securities that make it up) since they are not the ones making the investment decisions.
FLEXIBILITY	Most UCI are open to new business, with no maturity date and with a daily NAV, providing investors with great flexibility and liquidity.	TRADABILITY	With some UCI, for which the NAV is prepared less frequently (weekly, monthly, etc.), it is difficult to react quickly to sudden market movements. UCI that are closed to new transactions through to final maturity also exist.

RISKS SPECIFIC TO UCI	
INVESTMENTS	UCI invest in a variety of financial assets and are consequently subject to fluctuations in the prices of their underliers. They are therefore exposed to all the risks facing equities, bonds, money-market instruments and any other transferable securities used (e.g. interest rate risk, risk of stock market movements, credit risk, etc.).
EXCHANGE	Exchange risk depends mainly on the makeup of fund assets. It is nil for UCI invested in underliers denominated in the investor's benchmark currency. It can be significant if a large proportion of the fund's assets is invested in foreign currencies.
INVESTMENT MANAGEMENT	The movement in a fund's NAV depends on investment decisions. So the return received by the investors depends on the ability or otherwise of the investment manager to select the best performing assets.
LIQUIDITY	In the event of high redemption demand by investors (in excess of a certain threshold), the law can permit funds to restrict redemptions.
COUNTRY OF RESIDENCE	Prudential supervision, money laundering regulations and investor protection are stricter in some countries (such as Luxembourg) than in others.