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[1]	**Merits of allowing direct UCITS exposures**	**Merits of allowing *indirect* UCITS exposures**[2]	**Extent/amount of existing UCITS exposures**[3]	**Additional comments**[4]
1. Loans[5]	no	Yes		Under CLO format. See comment below.
2. Catastrophe bonds (‘Cat bonds’)	Yes			See comment below
3. Contingent Convertible bonds (‘CoCo bonds’)	Yes		29 funds, with an average exposure of 4.30%.	See comment below
4. Unrated bonds	Yes		37 funds, with an average exposure of 8.30%. Most of these bonds are rated internally	See comment below

[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.
[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).
[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.
[4] Please include under this column any other evidence or views that you would like to share.
[5] Where relevant, please distinguish between leveraged/structured loans, collateralised loan obligations (CLOs) and other types of loans or loan participations (please specify).

5. Distressed securities	Yes		9 funds, with an average exposure of 1.76%	
6. Unlisted equities[6]	Yes			Trash ratio
7. Crypto assets[7]	NO for crypto currencies like BTC; ETH Potentially OK for stable coins: ART or EMT because an issuer is identified and it baked by real asset	NO		See comment below
8. Commodities and precious metals[8]	No	Yes for diversification reasons		See comments below
9. Exchange-traded commodities ('ETCs')	Yes			See comments below
10. Real estate		Yes		
11. Real Estate Investment Trusts ('REITs')	Yes		59 funds with an average exposure of 2.18%	
12. Special Purpose Acquisition Companies ('SPACs')	Yes			
13. EU AIFs[9]	Yes			See comment below

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

14. Non-EU AIFs	Yes			Provided these AIFs comply with the Article 50(1)(e) of the Directive
15. Emission allowances				a detailed impact assessment should be made before any decision
16. Delta-one instruments	Yes		2 funds, with an average exposure of 100% (TRS). Futures haven't been considered	To be linked with the look through approach
17. Exchange-traded notes ('ETNs')	Yes			
18. Asset-backed securities ('ABS') including mortgage-backed securities ('MBS')	Yes		10 funds with an average exposure of 30.97%	See comment below
19. Other relevant asset classes (please specify)				

Figures related to the amount of existing exposure have been provided by one of the AFG members.

AFG shares the view that regulatory stability is one of the key factors of the European financial market development and of the UCITS.

With respect to the current list of eligible assets and their eligibility criteria for UCITS, our view is that we need stability. This means that the assets classes which have been authorised for an UCIT must be kept, in particular:

CoCo bonds

A specific agreement is required in France.

AT1 are large issues unlike similar yield securities rated B, which carry a lower risk than equities. They are particularly interesting in the context of HY management or HY diversification of an IG fund. They are standardized and regulated and we are now back with 10 years of history including crises. These securities do not pose an operational subject in the treatment of transactions, they are public issues, included for some in recognized market indices. The liquidity and credit risk of these issuers are monitored by portfolio manager and analysts as for all other issuers and the current regulation seem satisfactory on these instruments.

Unrated bonds

There is an internal rating policy, in accordance with the CRA directive, which includes liquidity analysis in the rating setting by credit analysts. These securities do not pose an operational subject in the treatment of transactions, they are public issues, included for some in recognized market indices. The liquidity and credit risk of these securities are monitored by portfolio manager and analysts as for all other issuers and the current regulatory elements seem satisfactory on these instruments.

REITS

REITs issue standard market bonds. The specificity comes from the real estate risk linked to the issuer but which is analyzed in the same way as other activities. These securities do not pose an operational subject in the processing of transactions. They are public issues, some of which are included in recognized market indices. The liquidity and credit risk of these securities are monitored by management and analysts as for all other issuers and the current regulatory elements seem satisfactory on these instruments.

Commodities and precious metals

There should be diversification constraints at fund level (and not at index level) equivalent to that required for UCITS fund indices. Advantages: allows the management to have its own basket of commodities and to make an active allocation. Drawbacks : It is complicated to be able to verify in industrial mode the correlation between the different commodities forces to group it in the same group of commodities to check the diversification ratios.

Exchange-traded commodities (‘ETCs’)

This type of instrument is authorised in Luxembourg UCITS and prohibited in French UCITS (exposure to commodities is only permitted through derivatives). The look-through implementation is a case of divergence in these two member states which should be looked at by ESMA.

EU AIF

The translation issue mentioned in AFG comments on Questions 13 and 14 is significant and prevents potential investment opportunities. Only AIF with diversification rules equivalent to UCITS are currently eligible in France

Please find below the corresponding article in the French Code Monetaire et Financier (COMOFI) la condition (2) de l'article R214-13 du COMOFI ci-dessous :

2° Le niveau de la protection garantie aux porteurs de parts de ces autres FIA ou fonds d'investissement d
de parts d'un d'OPCVM et, en particulier, que les règles relatives à la division des actifs, aux emprunts, au
d'instruments du marché monétaire soient équivalentes aux exigences de ladite directive ;

This prevailing rule is detrimental for the funds of funds management, typically.

Crypto assets

AFG does not see merits in allowing Crypto currencies such as BTC or Eth, directly or indirectly, for 3 reasons:

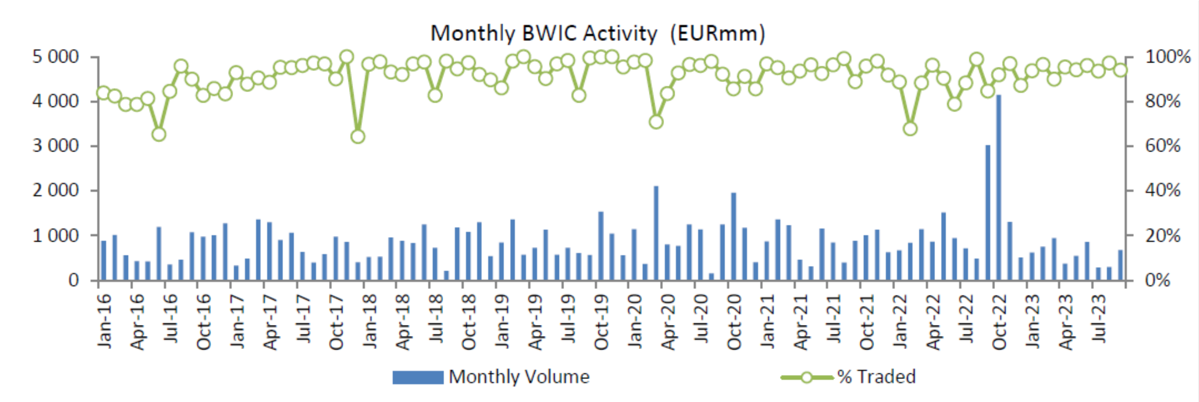
- The risk profile cannot be easily considered as compatible with UCITS funds notably because the track records exhibits frequent jumps.
- The money is not channeled to the real economy.
- The reputation risks are at stake because of the mining activities carbon footprint.

ABS

Supply volumes for ABS represent between 60 and 100bn€ / year, with an average 80bn€ / year since GFC.

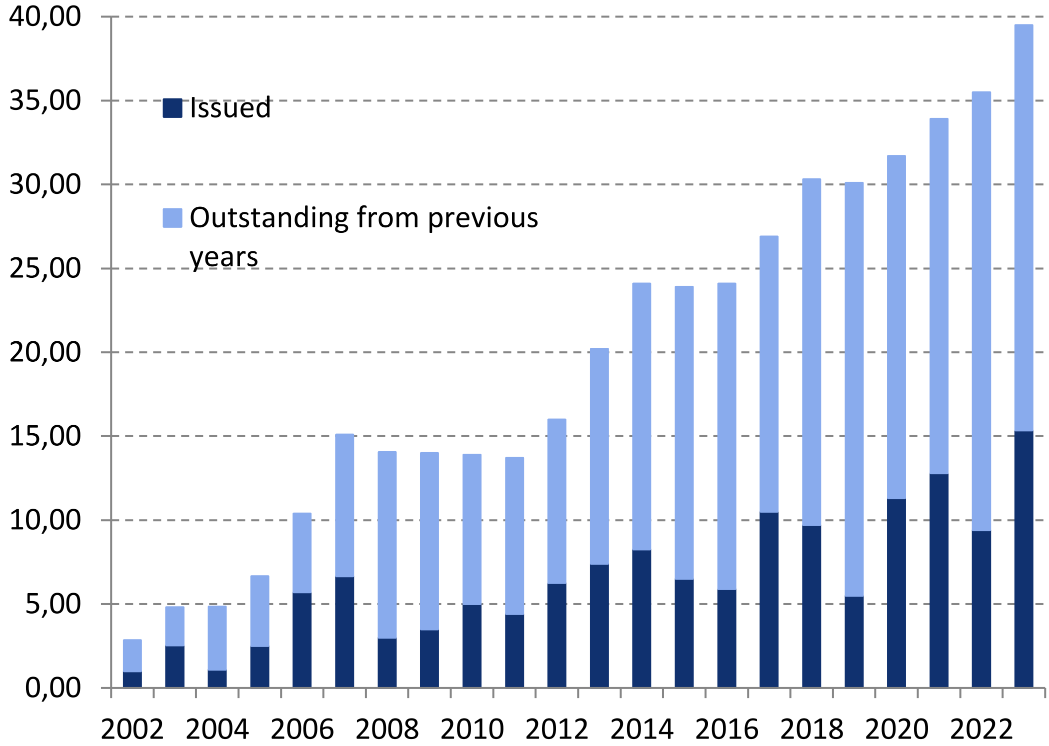
Liquidity has been stable and resilient in the recent years, with a high trading ratio (ie the ratio of ABS offered for sale which are actually traded). Average BWIC (Bids Wanted in Competition – the most common way to sell ABS) volumes stand at c. 900m€/month with a trading ratio around 90%. Even during the recent LDI Crisis in the UK and despite an exceptional level of supply coming from large UK assets managers, trading ratio remained above 80%.

Liquidity of AAA ABS is considered equivalent to that of Investment Grade credit



ILS

The Cat Bond Market market has shown a significant growth in size over the last 10 years, with total outstanding assets almost doubling from USD 20bn in 2013 to USD 39.5bn in 2023



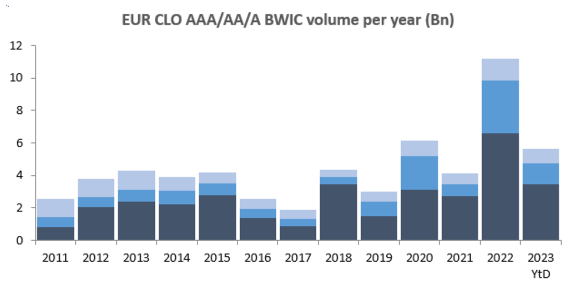
Trading volumes of Cat Bonds have increased consistently over the last years, now reaching c. 43.5bn$ in 2024

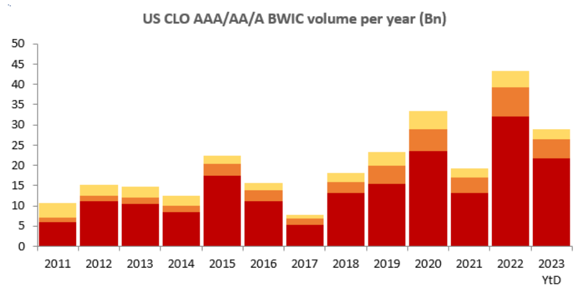
CLO

The CLO market has considerably evolved over the last 10 years and now represents nearly 1.2 trillion USD. The asset class became a "strategic" asset class for a diverse base of investors (banks, pension funds, family offices, insurance companies etc) and hundreds of large institutional investors worldwide are now considering CLOs for strategic investment. This has definitely changed both the liquidity and price behaviour of the asset class.

Below is a graph showing the BWIC ("Bids Wanted in Competition", a trading practice that gives an approximation of the secondary volumes in CLOs) volumes for European and US AAA CLOs since 2011. Volume have been consistently growing through years, 2022 being a record year due to the volatility on the markets

During two recent stress events - namely (a) the Covid crisis (March-April 2020) and (b) the UK LDI crisis (September-October 2022), the liquidity of the CLO market has not dried up with both BWIC volumes and trading ratio (ie the percentage of CLOs offered for sale on BWIC which were actually traded) remaining at high level.





Source: AXA IM, November 2023

ABS, CLOs and ILS are asset class which benefit the investors of UCITS

AFG view is that these asset classes offer strong benefit to the investors by providing:

- Risk diversification against other type of or fixed income products. ILS products in particular have very low correlation against other financial instruments
- Low interest rate sensitivity as ABS & CLO and ILs are in general floating rate instruments
- an attractive risk/return profile
- a strong and tested liquidity