



OPTIMISING LEVERAGE CALCULATION AND RISK REPORTING FOR AIFS

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What is Leverage?

i lev·er·age

Leverage is a general term for any technique to multiply gains and losses.

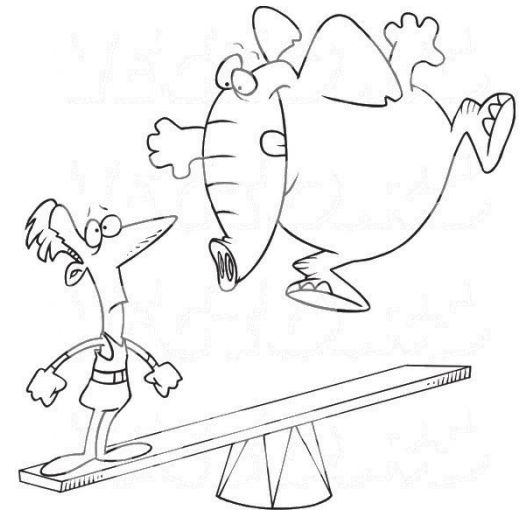
EXAMPLE

Facts

- ▶ NAV = £100m
- ▶ Notional Market Exposure = £150m

Calculation

- ▶ Under AIFMD: $\text{Leverage} = 150/100 = 150\%$
- ▶ Under UCITS: $\text{Leverage} = (150-100)/100 = 50\%$



Hedge Funds

“Similar risk reporting techniques to UCITS. However, some traditional methods may be inadequate for certain strategies.”

PARAMETER	GROSS METHOD	COMMITMENT (AIFMD)	COMMITMENT (UCITS)	SUM OF NOTIONALS (UCITS)
Netting/Hedging	No	Yes	Yes	No
Delta	Yes	Yes	Yes	Delta = 1
Borrowings	Max(Investment, Loan)	Sum of absolute values	NA	NA
Exposure	(SofEXP_ND + SofEXP_D) – Cash & Equiv.	(SofEXP_ND + SofEXP_D) - H - N	SofEXP_D - H - N	Sum of Notionals_D

SofEXP_D = Sum of the absolute values of the exposure from derivatives

SofEXP_ND = Sum of the absolute values of the exposure from Non-derivatives

H = Exposure from derivatives used for Hedging purposes

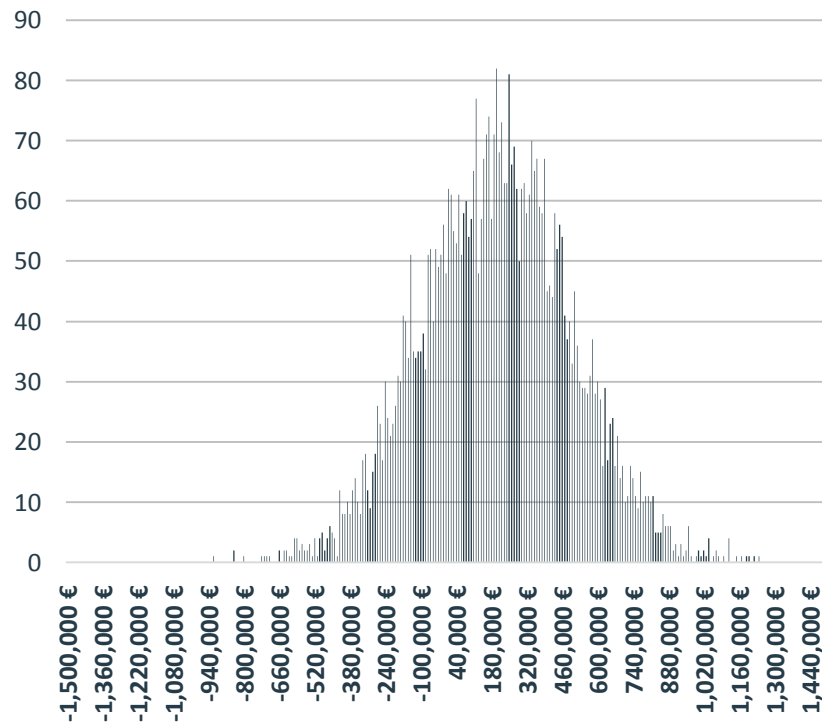
N = Exposure from derivatives that nets with either other derivatives or direct investments



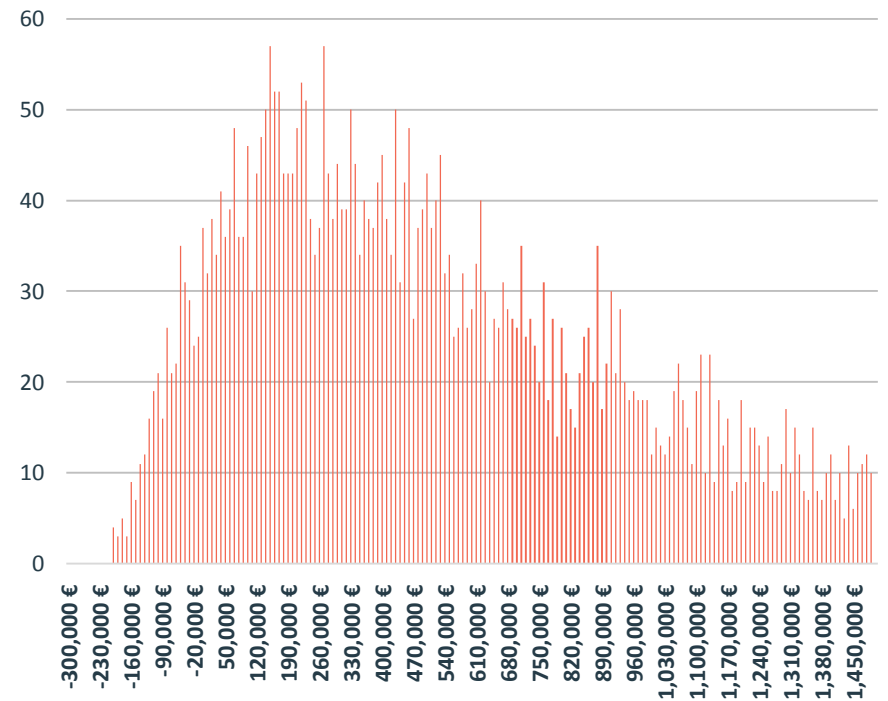
Private Equity

“Leverage taken on by target companies does not need to be reported at the fund level.”

Distribution of cash flows assuming Normality



Distribution of cash flows derived from analyst assumptions



Real Estate

- ▶ Mortgages must be included in the leverage calculation.
- ▶ The leverage of a bankruptcy remote SPV which is controlled by the fund, does not need to be reported.



Final Remarks

- ▶ Don't think in terms of 'one size fits all' solutions.
- ▶ Risk reporting can add value and should not be looked at purely as a regulatory tick box.



Should you have any questions...

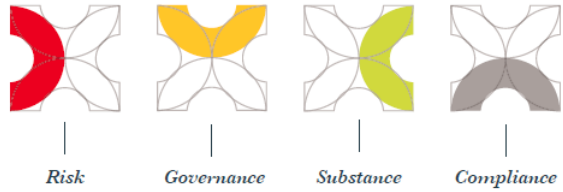


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