In case of discrepancies between the French and the English text, the French text shall prevail

Luxembourg, 3 August 2007

To all specialised investment funds

Circular CSSF 07/309

<u>Re:</u> risk-spreading in the context of specialised investment funds ("SIF")

Dear Sir, Madam,

Article 1 of the law of 13 February 2007 on SIFs provides that for the purpose of that law, specialised investment funds shall be any undertakings for collective investment situated in Luxembourg:

- the exclusive object of which is the collective investment of their funds in assets in order to spread the investment risks and to ensure for the investors the benefit of the results of the management of their assets, and
- the securities of which are reserved to one or several well-informed investors, and
- the constitutive or offering documents of which provide that they are subject to the provisions of that law.

The law of 13 February 2007 thus provides that the collective investment of funds must be made in assets "in order to spread the investment risks". The law and the comments to the articles (contained in the Parliamentary documents) do not include any additional provisions to define or interpret the notion of risk-spreading.

Compared with the law of 1991 concerning undertakings for collective investment the securities of which are not intended to be placed with the public, the law of 13 February 2007 extends the concept of eligible investors to include institutional investors, professional investors and other "well-informed investors", in accordance with the criteria further specified in article 2 of that law. This means that SIFs are open to "sophisticated" natural persons. The legislator thereby created a simplified regulatory framework for SIFs.

Similarly, the CSSF considers that the concept of risk-spreading can be interpreted in a flexible way.

All investors in specialised investment funds being institutional, professional or other well-informed investors, they are supposed to have sufficient experience to judge themselves the concept of risk-spreading and the information they need to form their opinion. Those investors do not require the same level of protection than investors in UCIs governed by the law of 20 December 2002.

Pursuant to article 53 of the law of 13 February 2007, the offering document must include the information necessary for investors to be in a position to make a well-informed judgment on the investment proposed to them. The CSSF considers that the offering document must include quantifiable restrictions evidencing the fulfilment of the principle of risk-spreading.

In general, the CSSF considers that the risk-spreading principle is complied with where the investment restrictions of a SIF adhere to the following guidelines:

1. In principle, a SIF may not invest more than 30% of its assets or commitments to subscribe securities of the same type issued by the same issuer. This restriction does not apply to:
   - investments in securities issued or guaranteed by an OECD Member State or its regional or local authorities or by EU, regional or global supranational institutions and bodies;
   - investments in target UCIs that are subject to risk-spreading requirements at least comparable to those applicable to SIFs.

   For the purpose of the application of this restriction, every sub-fund of a target umbrella UCI is to be considered as a separate issuer provided that the principle of segregation of liabilities among the various sub-funds *vis-à-vis* third parties is ensured.

2. Short sales may not in principle result in the SIF holding a short position in securities of the same type issued by the same issuer representing more than 30% of its assets.

3. When using financial derivative instruments, the SIF must ensure, *via* appropriate diversification of the underlying assets, a similar level of risk-spreading. Similarly, the counterparty risk in an OTC transaction must, where applicable, be limited having regard to the quality and qualification of the counterparty.

In principle, these guidelines apply to all SIFs. The CSSF may grant exemptions upon appropriate justification. Moreover, in case of specific investment policies, the CSSF may require the SIF to comply with additional investment restrictions.

The SIF initiator shall submit to the CSSF the necessary information and documents to enable the CSSF to verify whether the guidelines above are observed.

Yours faithfully,

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

Simone DELCOURT	Arthur PHILIPPE
Director	Director