Hedge funds and AIFs (Alternative Investment Funds)

Below you will find information about the characteristics of hedge funds and AIFs, including information about return, risk and investments via investment funds.

General characteristics

HEDGE FUNDS AND ALTERNATIVES

The products within this category vary in terms of their composition and structure. Often the products consist of different equities or equity-like investments. However, the products also consist of bonds or fixed income strategies as well as commodities and real estate/infrastructure. Compared to investments in more traditional investment products, these products differ, for example, with regard to the following:

- The funds do not meet the European rules regulating, for example, the diversification of risk
- The hedge funds have wide investment universes and possible leveraged investment strategies
- The products have poorer liquidity than the more traditional investment products, i.e. investments in unlisted equities (private equity)

The typical products within this category are hedge funds with a wide variety of strategies and funds with exposure towards more alternative asset classes, e.g. commodities, real estate, infrastructure or alternative energy. The funds are investing in listed and unlisted securities as well as in different types of derivatives.

RETURN

One of the objectives of investing is to obtain the highest possible return relative to the risk. You can obtain this by investing in a portfolio with a wider range of assets, and with these products, you can obtain a higher return while taking on the same risk by combining different types of securities, including alternative investment products.

RISK

The risk associated with these investment products varies highly and reflects the risk of the individual asset types contained in the products.

Bond investments entail three overall types of risk:

- The market rate of interest increases – this leads to a decrease in the bond price (interest rate risk)
- The issuer is unable to pay interest/the principal (credit/default risk)
- The currency in which the bond is denominated decreases relative to the reference currency of the portfolio – this leads to a decrease in the bond value (currency risk)

When you invest in equities, there are risks involved that could affect the value of your investment:

- Company-specific risks – conditions and factors relevant to the specific company in question
- Sector-specific risks – developments related to the sector in which the company is operating
- Market risks – developments in the financial markets, which may be triggered by macroeconomic or political factors as well as investors' current appetite for equity investments

In a worst-case scenario, the above risks may, individually or in combination, cause the invested amount to be lost.

The risk associated with alternative investments are often made up of the risk elements mentioned and associated with either equities, bonds or a mix of these asset classes. However, hedge funds and funds with alternative investments can also be sensitive to political changes or other types of changes that affect the local and/or global economy. When you invest in, for example, commodities, the investment is not only affected by the development in financial markets, but to a larger extent also by factors such as natural disasters, conflicts, wars or the like.

In addition to the exposure to price changes, investments in global assets are also associated with a currency risk, which may affect the overall return significantly.

The products within this category will typically experience a higher volatility in terms of the price than more traditional investments, since leveraging and illiquidity may increase the volatility.

LIQUIDITY RISK

Most of the products within this category have a poorer liquidity in the market than traditional investment products. You should not expect a continuous pricing of the products. Therefore, in certain periods, you will not have access to sell the products.

PRODUCT DOCUMENTATION

It is important that you, as an investor, seek thorough information about the characteristics of the products.

For products within this category, there will usually be additional product documentation available, e.g. a Key Investor Documents, brochures, fact sheets, prospectuses etc. Please request these documents and discuss the content with your adviser.

YOUR RESPONSIBILITY AS AN INVESTOR

To which extent complex investment products are suitable for your portfolio will depend on your attitude to risk and the investment horizon indicated by your investment profile. If there are any doubts as to whether a product is appropriate for your portfolio, you should seek additional information and advice or avoid investing in the product.

Investments via investment funds (hedge funds and AIFs)

FUNDS

If you invest in complex investment products via investment funds, you obtain the same characteristics as those associated with investing in similar individual complex investment products. However, you obtain a more efficient diversification and ongoing management of your investments.

WHAT IS AN INVESTMENT FUND?

A mutual fund, or fund, is an investment instrument where the assets are invested in various financial instruments, e.g. equities and/or bonds. The investors that invest in the fund own a share of the fund proportionate to the amount of their investment. A fund management company takes care of the administration of the fund and its assets in accordance with the fund's regulations.

A portfolio manager appointed by the fund management company makes the investment decisions in the fund; therefore, investors will benefit from professional investment expertise, even with only a small investment in the fund.

RETURN

Return expectations will depend on the investments of the fund. When selecting a fund it is worth remembering that expected return and risk go hand in hand. Greater possible returns means greater risk. Past fund performance is no guarantee of future returns.

RISKS

Fund investment is always subject to risk, regarding both the return on the capital and the value of the capital. Funds are subject to the same market risks and value fluctuations as direct investments in individual securities.

The level of risk depends on what type of assets the fund holds. Generally, risk is lowest in money market funds and highest in equity funds with narrow investment universes, e.g. emerging market areas.

The main risks associated with an investment fund are described in the fund's key investor information document.

A fund must diversify its risks by investing in accordance with its regulations – meaning that other investments can compensate for losses caused by more poorly performing investments.

A fund is subject to currency risk when it invests in investment instruments not denominated in the fund's currency (for example, a fund denominated in euros invests in a security denominated in a currency other than euros). A decrease in the value of a currency in which an investment instrument is denominated will have a negative impact on the value of the fund, and, conversely, an increase in the currency value will have a positive impact on the fund value.

Danske Bank

LIQUIDITY RISK

Liquidity risk regards the possibility to have your investment in the fund redeemed and transformed into cash. Generally, fund redemptions will be carried out on the banking day following the submission of a redemption order.

A fund must have sufficient cash assets. If a fund's cash assets are insufficient to pay for the redemptions of fund unit holders, the fund management company must sell off assets invested into cash. A mutual fund's liquidity risk refers to the risk of a situation arising where the assets in which a fund invests cannot be liquidated according to a desired timetable and/or at a reasonable price. Furthermore, it will have an effect on the fund unit value if the fund's investments have to be liquidated at an inopportune time.

FEES

Fees are charged for the services you receive through funds and the professional management of your assets. There are usually one-off fees when buying (subscription fee) and selling (redemption fee) fund units as well as an ongoing annual management fee as a percentage of the entire fund's value.

The fees vary from fund to fund, and additional information is available in the fund's key investor information document and the price list for mutual funds.

More information about the funds and the funds' official documentation is available at their homepage.