

Funds' Comparison table

Characteristic	Mutual Fund	Hedge Fund	UCITs III Hedge Fund	ETF
Strategy / Indexation	Mutual funds are measured on relative performance compared to index. Tracking is tried to be optimized by the asset managers. Their objective is to beat the index of the underlying universe by optimizing their single positions' choice.	Hedge funds seek superior risk-adjusted returns, on an absolute basis (i.e. not measured against a benchmark). The main idea is to follow partially the upside by protecting the downside. For marketing reasons, at the beginning, a lot of managers were comparing themselves against long only indices. Nowadays, they tend to compare themselves against HF indices and peers.		ETFs are measured on relative performance compared to an index. Very low tracking error is the objective. They are purely systematic and can follow different strategies using futures, swaps and options.
Investment universe / Instruments	They invest only in the instruments that are in the universe of their topic with very few exceptions. Restrictions are explained in their prospectus.	They have normally an investment universe but they are free to invest in any other positions. Naked short positions are possible. Restrictions are explained in their prospectus.	They have normally an investment universe and have to cope with it. They can't have naked short positions and can't invest in commodities, real estate or private equity.	In order to accurately replicate the performance of their underlying index, they have to invest only in instruments that are included in the relevant index.
Passive / Active management	Mainly active but could be passive too	Active	Active	Passive
Liquidity	Daily	Monthly or quarterly	Daily / weekly / max bi-weekly	Daily
Lockup	None	Often present	None	None
Fees	From cheap to expensive	Expensive	Very expensive	From cheap to expensive
Domicile	Onshore / Offshore	Onshore / Offshore	Onshore (mainly Ireland or Luxemburg)	Onshore
Asset Management / Incentives	Mutual funds remunerate managers based on a percentage of assets under management. No particular incentives but performance fees could apply in the latest funds.	Hedge fund managers typically receive a management fee and a performance-related fee. Hedge fund investing is more demanding and requires greater knowledge, skill and talent. It is because of this differing fee structure that hedge funds are able to attract the best talents in the market. Additionally, hedge fund managers often have significant amount of their personal wealth invested in the funds that they manage.		Mutual funds remunerate managers based on a percentage of assets under management.
Hedge / Bias	Long only. Mutual funds cannot effectively protect portfolios in declining markets except going into cash.	Hedge funds can use various hedging strategies and can also make money on the downside. It should be noted, however, that some funds that are termed Hedge funds do not actually hedge against risk. Long or short depending on the market trends. In period of crisis, the correlation with the market of the underlying goes up. In period of crisis, the correlation with the market of the underlying goes up.		Long or short but not flexible. ETFs cannot protect portfolios in markets going against their index. Leverage is possible but not efficient.
Risk Management	Present. Quite often under the form of a long list of limits.	Quite often under the form of a long list of limits. Risk management could be active.	Present. Quite often under the form of a long list of limits. A professional risk management system is mandatory.	Risk management is present to ensure that the ETF follows the index. Information ratio type of controls.
Transparency	Transparent but not translucent	Limited transparency. Due diligence is always difficult and almost always constrained.	Limited transparency. In theory, everything could be checked and is readily available. In practice, most of the obstacles, applying to offshore HFs, are often present too.	Transparent but not translucent
Correlation to markets	Performance of mutual funds is dependent on the direction of the underlying investments.	Many hedge fund strategies are not dependent on market direction. Accordingly, they have a very low correlation to traditional equity markets as well as each other. In period of markets' stress, correlation to the markets tend to 1.		Performance of ETFs is dependent on the direction of the underlying investments that follow the index.
Regulation	Mutual funds are highly regulated, restricting the use of short selling hedging.	Hedge funds are generally less regulated; their high entry levels and more specialist nature mean that they are not a 'mass market' product.	UCITS hedge funds are following the UCITs regulations and are controlled. Periodic reports have to be sent to the regulation authorities.	ETFs are highly regulated.