

## What drives the use of CDS by EU investment funds?

A high reliance on CDS is seen, in particular, among fixed income funds that invest in less liquid markets, and alternative funds that implement hedge-fund-like strategies. The main driver of net CDS exposures is fund size.

This article also investigates the bond-level drivers of funds' net single-name CDS positions and finds that CDS positions on investment-grade bonds issued by sovereign issuers – most of which are emerging markets – tend to be larger. The analysis also sheds light on tail-risk for funds from the use of CDS: Directional funds that belong to a large group are the most likely to have sell-only CDS exposures, exposing them to significant contingent risk.