Review of the UK funds regime: A call for input

Insight Investment response

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Insight INVESTMENT

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Insight Investment manages c.£750bn of assets under management for institutional clients such as pension schemes and insurance companies. Our client base is predominantly defined benefit UK pension schemes and we specialise in providing asset and liability management solutions for these clients, including many of the largest pension schemes in the UK.

We believe it is important to ensure there is a robust and competitive fund regime in the UK to better support institutional investors such as defined benefit pension schemes. We welcome the government's interest in this topic and suggest several changes that would help our clients.

Introduction

1. This call for input on the UK funds regime is necessarily wide-ranging. As the government would not be able to take forward all proposals immediately, what do you think the top 3 priority proposals should be for government implementation and why?

We are grateful for the government's interest in this topic. We believe it is important that there is a robust and competitive fund regime in the UK.

In order to create a truly competitive and successful UK fund regime we believe a series of coordinated changes is required, rather than any one single change. Other regimes, such as in Ireland, Luxembourg and the Cayman Islands, have already had a significant head start. A successful regime in the UK must be able to compete with these regimes and be commercially viable for investors.

We provide a response to this consultation primarily from the perspective of **servicing UK defined benefit pension schemes and other institutional clients through a regulated but flexible professional fund regime**. Any future UK fund regime must be able to service the needs of UK defined benefit pension schemes, estimated to be £1.7 trillion[1] in assets. These investors can prefer a fund structure over segregated mandates because of the protection provided by fund structures, and the access they provide to a suite of professional service providers (including but not limited to portfolio managers) which they may not otherwise have access to.

An important part of Insight's asset management capability includes providing asset/liability management for defined benefit pension schemes and insurance companies, for which it is necessary to have a flexible regulated fund platform that can support all asset classes of investments. Currently, a large proportion of our investments for clients, who include UK investors, are held in an Irish umbrella ICAV (Irish Collective Asset-management Vehicle) regulated as a QIAIF (Qualifying Investor Alternative Investment Fund). We would encourage the UK to establish a similar fund regime that provides similar, or improved, characteristics. The Luxembourg RAIF (Reserved Alternative Investment Fund) structure could also potentially be suitable, and we recommend the government also considers this regime; the Luxembourg regime can be less prescriptive than the Irish regime in some instances, which can provide advantages.

We believe the three most important areas of change required are as follows:

1. VAT and asset-level taxation within funds must be addressed
2. Platform design and infrastructure need to be overhauled
3. Regulatory process and speed to market must compete with offshore regimes

We provide a brief summary of each of the three areas below and expand upon them in answers to later questions.

VAT and asset-level taxation

- UK asset managers should not be penalised through increased VAT for funds onshore in the UK, versus having comparable funds offshore. This is well described in The Investment Association's 2019 report, *IA UK Fund Regime Working Group: Final report to HM Treasury Asset Management Taskforce*.[2]

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[1] Pension Protection Fund, The Purple Book 2020, page 7, figure 2.2: https://www.ppf.co.uk/sites/default/files/2020-12/PPF_Purple_Book_20.pdf
[2] https://www.theia.org/sites/default/files/2020-04/20200330-ukfrwgfinalreport.pdf.

- The UK investment management/fund tax regime is complex, unstable and problematic for some strategies and investors. This may in part be served by a simpler tax-exempt regime.
- Certain multi-asset funds known as 'balanced funds' can incur greater tax leakage in a UK vehicle versus a comparable offshore fund leading to reduced investor returns.
- Single investor fund (or 'fund of one') should not be penalised in their tax treatment.

Platform design

- A single-platform solution is required that can support all asset classes and investment strategies (from equity, bonds, derivatives, structured finance, loans, real estate, infrastructure etc) under a single fund umbrella, and on a flexible but regulated platform. The ability to access many asset classes on one platform and under a single fund umbrella provides investment flexibility, portfolio management efficiency, operational ease and cost efficiency, which many UK institutional investors, such as pension schemes, find attractive. Institutional investors such as pension schemes require access to a broad range of assets and strategies for both hedging and asset/liability management purposes.
- The existing Irish QIAIF structure, particularly when established as an ICAV, is a reputable regulated brand, while also being flexible and not overly burdensome. Except for loan origination funds, there are generally no prescribed limits (e.g. no asset-class limits, and no limits on the use of derivatives and borrowing). Any risk is managed by ensuring the asset manager is responsible for putting in place a robust risk framework. This framework is in turn monitored and supervised by the regulator.
- One area where the UK could build a competitive advantage would be in developing a flexible regime for closed-ended loan-originating funds, preferably as part of a single fund umbrella platform.
- Another necessary feature of any platform design would be the ability to offer individual institutional investors access to standalone fund solutions created purely for themselves as the single investor in that fund (called 'fund of one' solutions), without incurring a negative tax impact. This approach is popular with many tax-free investors, such as UK pension schemes, as it allows them the flexibility to create a bespoke solution to meet their asset and liability needs while still benefitting from the legal and segregation protections of a fund structure.
- Another important feature is the ability to permit structures which align the liquidity of the fund to the underlying assets (e.g. open-ended, closed-ended, and open-ended with limited liquidity funds); provision for different share classes within the same fund; and distribution of capital as income.
- The platform should be supported by an array of fund service providers that are able to provide high quality, cost effective and scalable service.

Regulatory process

- There seems to be a perception that regulated funds should be focused only on retail investors. To the contrary, our experience suggests that there is a need for regulated, but still flexible, fund structures for institutional investors. The security of a fund structure (through legal, segregation and regulatory features) provides comfort to trustees of pension schemes and other institutional investors. For many institutional investors, an unregulated fund can impose an undesired burden to put governance in place to ensure that minimum standards are met.
- We recommend that the UK creates a regulated but flexible regime for those UK institutional investors that are either professional investors under MIFID or certified 'well-informed' investors.
- We value the openness of certain offshore regulators to engage directly with asset managers which provides more opportunities to find solutions to issues when needed. We would encourage the FCA to adopt a similar approach.
- The UK is currently not competitive on speed-to-market, when comparing the QIS approval timeframe versus comparable regimes offshore which can be 24-hours. These disadvantages must be addressed if the government desires the UK to compete with other established fund regimes.

To summarise, the majority of Insight' funds are set up using the Irish QIAIF structure for UK institutional investors. We would be keen for the UK to create a regime that would be workable in the UK. This can be achieved either by modifying the existing QIS (qualified investor scheme) regime, or by creating a new regime entirely with the benefits described above and later in our consultation response.

The UK's approach to funds taxation

2. How effective were recent reforms to UK funds taxation in achieving their aims? Please explain your answer. Could anything have made these reforms more effective, particularly in terms of increasing the attractiveness of the UK as a location to set up funds?

These tax changes did not impact Insight's product development pipeline. To date, most of Insight's funds have launched in Ireland. For the UK fund tax regime to be comparable to that of Ireland several changes would be required; most importantly, the discrepancy between the unfavourable VAT treatment of the management of offshore vs UK funds. We believe the VAT issue is the most significant tax issue that would need to be addressed **to ensure favourable comparability between UK and offshore regimes we use.** We believe it is unlikely that asset managers managing assets for institutional clients would seriously consider the UK fund regime until this issue is addressed because of the significant negative impact this would have on their profits and losses.

Additionally, the increased tax costs arising within UK balanced funds means UK onshore funds are unfavourable relative to a comparable strategy in an offshore structure.

These tax issues have been set out in The Investment Association's 2019 report, *IA UK Fund Regime Working Group: Final report to HM Treasury Asset Management Taskforce*.[3]

3. Why has uptake of TEFs been limited? Please explain any operational or commercial factors that have influenced their uptake. How could these be addressed?

No comment.

4. How would the proposals in paragraph 2.9 improve tax efficiency of multi-asset authorised funds? Please explain how the proposals would work in practice and how a proportionate impact on HMRC could be ensured.

There is a tension in the industry between the desire for simplicity and tax-exempt vehicles comparable to those offered by regimes in Ireland and Luxembourg, and the treaty access and reporting framework of the existing regime in the UK. Treaty access is of greater importance for equity managers.

For Insight, a simple tax-exempt UK fund vehicle would provide clarity and comparability to the existing ranges that we manage offshore.

Tweaking the existing regime via deemed deductions or lower tax rates to reduce tax leakage at the fund level would be beneficial in reducing tax leakage for our balanced fund strategies.

There seems to be a perception among investors that the UK fund regime tax treatment is complex, particularly when compared to tax-exempt fund regimes. We would encourage the UK government to address this.

We are aware of offshore regimes that offer investors the option of either a simple tax-exempt fund or a taxable fund that also benefits from treaty access. We encourage the UK government to explore this further as a potential route forward for the UK to address the tension described above.

We encourage single-investor funds (or 'fund of one' structures) to not be penalised from a tax perspective. In the UK, we understand that these funds are unlikely to meet the 'genuine diversity of ownership' (GDO) condition, leading to negative tax outcomes.

We understand the challenges and concerns for the UK government in creating a tax-exempt regime for fear of losing potential tax revenue. However, this must be offset versus the potential loss in tax revenues for the UK as more jobs, including portfolio management jobs, potentially move to Europe post-Brexit to service funds that are set up in Europe.

[3] Ibid.

5. Are there are any additional changes the government could consider to reduce tax leakage in multi-asset/balanced authorised funds?

The options set out in The Investment Association's 2019 report, *IA UK Fund Regime Working Group: Final report to HM Treasury Asset Management Taskforce*[4] are comprehensive.

We also encourage single-investor funds (or 'fund of one' structures) to not be penalised from a tax perspective. In the UK, we understand that these funds are unlikely to meet the 'genuine diversity of ownership' (GDO) condition, leading to negative tax outcomes.

6. Where funds are already tax neutral, how would a tax-exempt status for funds influence decisions about how and where to set up funds?

We would be highly supportive of the government creating a tax-exempt fund, and also addressing the issues related to VAT expressed above. We believe this is an important first step to remove the differences between the UK fund regime and comparable offshore regimes.

However, as explained in our answer to Question 1, we do not believe this alone will be sufficient. The funds must also be able to compete on fund platform design and regulatory features when compared to that of offshore fund regimes such as Ireland. The ultimate decision to set up funds in a certain regime will also be driven by commercial drivers.

That said, we believe aligning these tax issues would be a significant step in the right direction and a signal to the industry that the UK government is fully committed to creating a successful and competitive fund regime.

7. How would tax-exempt funds affect the competitiveness and attractiveness of the UK funds regime? Please explain your answer providing evidence and international comparisons where possible.

The introduction of such funds would significantly increase the competitiveness and attractiveness of the UK regime, and is something we would encourage. Most of Insight's funds are tax-exempt Irish vehicles. This change would bring the UK in line with comparable offshore regimes.

If a tax-exempt fund is to be created, it will be important to ensure that the treaty access available to those funds is comparable or better than the offshore tax-exempt funds in order to be able to compete with those funds.

8. What would be the likely impact if changes were made to the REIT regime in the areas discussed in paragraph 2.16? To what extent could investment in the UK be expected to increase, and what would be the drivers for this? Could such changes be expected to impact the extent to which funds with UK and foreign property assets are managed in the UK?

No comment.

9. Are there any other reforms to the REIT regime that the government ought to consider, and why?

No comment.

10. Regarding the proposals covered in this call for input, are there any specific considerations that the government ought to take account of in the context of the UK's double taxation treaty network? Please provide as much detail as possible.

For Insight, predominantly managing fixed income assets and asset/liability solutions with extensive use of derivatives, tax treaty access is not a priority. Treaty access is of greater importance for equity managers.

[4] Ibid.

The UK's approach to funds regulation

11. What are the barriers to the use of UK-domiciled LP Funds and PFLPs, and how might tax changes help to address them? Please provide detailed proposals and explain your answers.

No comment.

12. What benefit does fund authorisation bring to product providers beyond access to retail investors? Does this benefit vary depending on the specific investor base or investment strategy? What relevance does authorisation of a product have to its appeal to the UK market and to the international market?

Fund authorisation is important for institutional investment mandates for several reasons. The majority of Insight's funds for institutional investors are regulated, whether as UCITS or QIAIFs. The governance of a regulated structure provides comfort to trustees of pension schemes and institutional investors more generally as part of their initial and ongoing due diligence. The appropriateness of the regulatory burden is important for institutional investors investing in qualified investor funds, with such investors seeking a balance between regulatory comfort and the cost of compliance with such regimes. Institutional investors may have their own restrictions on investing in unregulated structures and indeed, an unregulated fund can create a costly burden on them to put additional governance in place to ensure that minimum standards are met.

13. Do you have views on the current authorisation processes set out in legislation and how they could be improved?

We are keen for the authorisation process for qualified investor funds in the UK to be as efficient as other comparable offshore regimes, In Ireland the facilitation by the regulator of a practice of disclosure requirement certification by Irish law firms means that the approval process can be as quick as 24 hours for the addition of new sub-funds or the making of changes to sub-funds within an existing QIAIF umbrella. In the UK, by contrast, we understand that the FCA takes one month to authorise a new sub-funds under the QIS regime.

We would also encourage the FCA to be willing to engage in an open dialogue with asset managers directly as we have found this approach in other regimes to be highly productive.

14. How do the FCA's timescales for fund authorisation compare internationally? Is there value in providing greater certainty about these timescales? Other than by reducing the statutory time limit, how could this be achieved and what benefits would it bring?

We repeat our answer to question 13 above:

We are keen for the authorisation process for qualified investor funds in the UK to be as efficient as other comparable offshore regime. In Ireland the facilitation by the regulator of a practice of disclosure requirement certification by Irish law firms means that the approval process can be as quick as 24 hours for the addition of new sub-funds or the making of changes to sub-funds within an existing QIAIF umbrella. In the UK by contrast, we understand that the FCA takes one month to authorise a new sub-fund under the QIS regime.

We would also encourage the FCA to be willing to engage in an open dialogue with asset managers directly as we have found this approach in other regimes to be highly productive.

15. What would you like the QIS structure to enable you to do that is not currently possible? What are the existing impediments to your suggested strategies, and why would the QIS be the preferred UK structure for those strategies?

Most Insight institutional funds are set up using the Irish QIAIF structure. Investors in QIAIFs need to be professional investors, as prescribed by MiFID, or well-informed investors who are either self-certified or certified as 'well-informed' by an EU credit institution, a MiFID firm or a UCITS management company. As a result, the QIAIF has very few outright investment restrictions but requires the manager to set and adhere to a robust risk framework, which is complemented with a clear regulatory framework. QIAIFs can be efficiently launched and used for a range of strategies across both major and alternative asset classes (including loan origination, fund of funds, private credit, real estate, infrastructure debt, etc). This structure works well for many UK institutional investors such as defined benefit pension schemes.

Although we have not established any Luxembourg RAIFs to-date, our research has suggested that the Luxembourg RAIF structure could also potentially work for our clients and we recommend the government to explore this regime further.

We would be keen for a similar regime to exist in the UK. This can be achieved by either aligning the QIS to the attributes of comparable offshore regimes, or to create a new regime altogether.

We set out below some of the key benefits that we see in the QIAIF structure and where appropriate, some of the limitations with the equivalent QIS regime:

- Our institutional investors require access to **all major asset classes, including alternative investment strategies, in a single structure**, whether equity, bonds, derivatives, structured finance, loans, real estate, or infrastructure. This provides a number of benefits.
  - The use of a legally segregated umbrella structure allows us to keep running costs to a minimum with greater economies of scale from administrators and other service providers, and only a single layer of overheads such as capital, directors' fees and insurance costs. It also allows for greater consistency of risk and operational policies.
  - Importantly, it also provides a cost efficient and operationally simpler mechanism for investors to move investments across sub-funds within the same umbrella, something which helps towards managing and adjusting asset allocation in changing economic and investor circumstances.
  - One of the areas where we would like clarification from the FCA is in respect of investment by a QIS in loans. We understand there are currently no clear powers for a QIS to lend to borrowers to originate loans, or to acquire or dispose of participations in loans.
- One of the reasons why the QIAIF is well-regarded by both institutional investors and asset managers is the **ability to invest in a wide range of asset classes without prescribed limits**.
  - Except for loan origination funds (called LQIAIFs), there are no prescribed limits such as asset class limits or absolute limits to the use of derivatives or borrowing. The manager must set, adhere to and disclose their own leverage limits and generally put in place a robust risk framework that is monitored and supervised by the regulator.
  - This flexible but rigorous structure is popular with many UK institutional investors, particularly defined benefit pension schemes and insurers, looking to manage their allocations by diversifying across many asset classes.
  - We understand the QIS structure does have some restrictions (including borrowing limits, limits on investment in unregulated schemes, and limits on investment in second schemes) making them less competitive versus some offshore regimes.
- While benefiting from the cost efficiencies of a single umbrella structure, we need to be able to **align the liquidity profile of the particular sub-fund with that of its underlying assets**.
  - The QIAIF regime allows us to establish open-ended funds, open-ended with limited liquidity, and closed-ended funds, within the same umbrella, in each case as is appropriate for the investment strategy.
  - We understand that establishing the ICVC QIS as a closed-ended vehicle is challenging, and it is not clear from the FCA rules whether having limited or no redemptions is permissible. We believe that the FCA rules are silent on the ability of a fund to have different subscription periods and redemption periods. Clarity on whether a closed-ended QIS or one with redemption facilities at the discretion of the asset manager to be driven by availability of liquidity in the underlying assets would be welcome.
- As noted above, institutional investors are interested in a wide range of asset classes including **loan origination**.
  - In Ireland, funds authorised by the CBI as loan-originating QIAIFs (LQIAIFs) are permitted to originate loans by directly lending to certain borrowers. Such funds do have challenging limitations, including additional limits on derivatives, borrowing and issuer concentration.
  - We understand that the Luxembourg regime has more flexibility in this area and there is certainly an opportunity for a future UK fund regime to take competitive advantage by providing a more integrated, flexible regime for loan origination funds.

- Our understanding is that the QIS rules are silent on investment into loans. We understand there are no clear powers for a QIS to lend to borrowers, to originate loans, or to acquire or dispose of participations in loans.

- In order to be able to provide a cost-efficient, operationally efficient and commercially desirable fund structure, we need to be able to offer investors different features and therefore to **offer different share classes within the same sub-fund**.
  - For example, multiple share classes can provide shareholders with the ability to subscribe and redeem in different currencies, can provide some investors with currency-hedged share classes while allowing other shareholders to manage their own broader hedging arrangements, or can provide different subscription or redemption frequencies.
  - We understand this is possible within a QIS structure subject to the service provider capability and cost, and we consider it important for any future UK fund regime.
- Our pension scheme clients often require the ability to invest in **share classes that distribute capital** in order to assist them in meeting their retirement solutions.
  - We understand that the QIS structure cannot currently facilitate this for a number of reasons, including the limitations of the QIS rules as well as the corresponding tax treatment.
- One of the key benefits of the Irish QIAIF regime is the **ability to launch a fund-of-one** which allows UK defined benefit pension schemes to implement bespoke pension plan strategies within the framework of a regulated fund structure. Many UK defined benefit pension schemes prefer a regulated fund structure over a segregated mandate because of the protection provided by fund structures, and the access they provide to a suite of professional service providers (including but not limited to portfolio managers) which they may not otherwise have access to.
  - We understand that while this is permitted in the QIS structure, this leads to unfavourable tax treatment. This is because a ‘fund of one’ is unlikely to meet the ‘genuine diversity of ownership’ (GDO) condition, leading to negative tax outcomes.

We have consulted a law firm for some initial advice on the extent to which we could implement our strategies within a UK QIS regime but it should be noted that the above is not a comprehensive review. We encourage the government to conduct a comprehensive review comparing the UK QIS to comparable offshore regimes.

16. Do you think that the range of QIS permitted investments should be expanded? If so, in what way should it be expanded, what impact would this have, and would it still be appropriate for sophisticated retail investors?

Insight would recommend the range of QIS-permitted assets being aligned with the Irish QIAIF-permitted assets as explained in question 15 above. Given the investor base and AIFMD regulatory framework, we don’t believe absolute limits are necessary.

We repeat some of our answers from question 15 below:

Investors in QIAIFs need to be professional investors, as prescribed by MiFID, or well-informed investors who are either self-certified or certified as ‘well-informed’ by an EU credit institution, a MiFID firm or a UCITS management company. As a result, the QIAIF has very few investment restrictions and along with a clear Irish regulatory framework, they can be efficiently launched and used for range of strategies across both major and alternative asset classes (including loan origination, fund of funds, private credit, real estate, infrastructure debt, etc).

We would recommend the QIS permits the broad range of asset classes permitted within QIAIFs, without prescribed limits, and in the same umbrella.

- Except for loan origination funds (LQIAIFs), there are no prescribed limits such as asset class limits or absolute limits to the use of derivatives or borrowing. The manager must set, adhere to and disclose their own leverage limits and generally put in place a robust risk framework that is monitored and supervised by the regulator.
- This flexible but rigorous structure is popular with many UK institutional investors including defined benefit pension schemes and insurers looking to manage their allocations by diversifying across many asset classes.

- We understand the QIS structure does have some restrictions (including, borrowing limits, limits on investment in unregulated schemes, and limits on investment in second schemes) making them less competitive versus some offshore regimes.

17. Do you think that the QIS borrowing cap should be raised or QIS constraints on derivatives exposure should be relaxed? If so, to what magnitude and why? Would this be appropriate for sophisticated retail investors?

Insight would recommend the QIS borrowing cap be removed for professional investors. This can be replaced by a requirement for managers to set a maximum level of leverage which can be monitored by the supervising authority.

18. Do you agree that the QIS sub-fund structure could be improved? If so, how? Would greater clarity for the segregation of assets between sub-funds via legislation or rules be helpful? Please provide details.

The statutory segregation of assets and liabilities between sub-funds in an umbrella fund structure is a key requirement for our investors and one of the benefits of the ICAV structure. The ICAV Act provides for segregated liability between sub-funds of an ICAV and that a liability attributable or incurred by one sub-fund shall be discharged solely out of the assets of that sub-fund (although for completeness we note that even such statutory segregation is not absolute and we highlight the risk to investors that courts in jurisdictions outside Ireland may not recognise the statutory segregation of an ICAV). While the ICVC, unlike the AUT and ACS, does have statutory segregation, greater clarity on segregation of assets between sub-funds would always be welcomed.

Opportunities for wider reform

19. Do you agree that reforms to enhance the attractiveness of the UK funds regime should focus on appealing to the creation of entirely new funds that have not yet been set up?

We do not think it should be limited to that. We believe the focus should be on generally creating an attractive regime for UK investors, both institutional and retail.

While it’s true that the arguments are more straightforward for new funds to be created in the UK because transitioning existing funds across regions and platforms can be expensive, there are certain situations when transitioning of existing funds to the UK could make sense if the appropriate regime existed in the UK. For example, we have many Irish QIAIFs in which a single client invests – typically a UK defined benefit pension scheme. Post Brexit, the European regime is already working less well for these UK clients as Europe no longer provides certain recognition that they previously received (for example, the European Market Infrastructure Regulation pension scheme clearing exemption no longer applies to UK pension schemes). The arguments for these clients to move to a UK fund regime could therefore be more palatable now if a comparable regime existed in the UK, and if it was cost, tax and operationally efficient to transfer them across.

It must be noted that re-domiciling funds is complex. Having said that, these obstacles are less likely to cause a practical issue for tax-exempt investors such as UK pension schemes.

20. Why do firms choose to locate their funds in other jurisdictions in cases where the UK’s funds regime has a comparable offering, for example ETFs? Are there steps which could help to address this following the potential reforms to the UK funds regime discussed in this call for input, and would the scope to address this vary depending on the type of fund or target investor market?

No comment.

21. Do you agree that reforms to enhance the attractiveness of the UK funds regime should focus on appealing to AIFs targeting international markets? Which markets would be most valuable and what would be the key obstacles to overcome in each?

Given the number of UK institutional investors that invest offshore due to the lack of product suitability and tax considerations, we think it should be possible to design a fund regime that would both accommodate UK institutional investors and international investors that is equally tax efficient as certain offshore and near shore solutions. The

Luxembourg fund model, for instance, allows for ease of structuring to accommodate US, European and other international investors as well as UK investors and has various tax and regulatory fund structures to allow for this.

22. Do you agree that new UK fund administration jobs associated with new UK funds would be likely to locate outside London? How could the government encourage fund administration providers to locate jobs in specific UK regions?

No comment.

23. How can the government ensure the UK offers the right expertise for fund administration activity?

No comment.

24. Are there specific barriers to the use of ITCs, either from the perspective of firms creating fund products or from the perspective of investors seeking to access them? Are there specific steps which could address these?

No comment.

25. Should asset managers be required to justify their use of either closed-ended or open-ended structures? How effective might this requirement be, and what are the advantages or disadvantages of this approach?

No comment.

26. Should the distribution out of capital be permitted? What types of products would this facilitate and what investment or financial planning objectives would they meet for investors? What are the possible advantages, disadvantages and risks for investors?

Yes. Strategies which distribute capital allow managers to offer funds which provide income objectives. Such strategies are popular for individual and pension scheme trustees who can use them for wealth management and retirement solutions, for example:

- Income objective funds – wealth management

  Funds with flexibly to invest across single or multiple asset classes (including derivatives) in a risk-managed framework to provide a target level of distribution. In these funds, distribution of capital can be used to smooth income payments over time in line with the target pay-out. Moreover, where income is above the target level, it can be held back and paid out as capital in subsequent years.

- Income objective funds – retirement planning

  In order for pension schemes to meet future liability payments, they invest in funds structured as term funds with specific defined maturity date periods (maturity buckets) during which, both capital and income is paid out, (e.g. 2021-2025, 2026-2030). We provide a range of funds with a series of maturity buckets, which are popular with UK defined benefit pension schemes as it can help them more accurately match their liability profile. They can also be used by defined contribution clients seeking to manage their future retirement income planning.

The risks of capital distribution are always clearly stated in the offering documents.

27. How do you consider that such a change might be delivered? Please explain your answer, providing specific examples of rules, how they could be changed, and the effect of the changes.

We would recommend the capital distribution rules be aligned to the Irish QIAIF rules. QIAIFs are not required to distribute income and as a result can be structured as either distributing funds or accumulating funds and may also have separate distributing and accumulating classes or a combination of both. The distribution policy must be detailed in a fund’s prospectus and any distributions from a fund’s capital may be made subject to the appropriate disclosure requirement being met.

28. Do you foresee any issues with the LTAF adopting the current tax rules for authorised investment funds? Would the nature of an LTAF's investments, and the tax treatment of the income it receives in respect of those investments, mean that the current rules for authorised funds lead to tax inefficient outcomes?

No comment.

29. Are there any other tax considerations, outside of those that follow from the adoption of the current tax rules for authorised funds, that will be important to the success of the LTAF? Please explain your answer.

No comment.

30. How would each of the proposed unauthorised fund structures add value alongside existing authorised and unauthorised UK fund structures, including the QIS? Would they bring value alongside each other? Would they bring unnecessary complexity? What would each structure allow fund managers and investors to do that they are unable to do currently in the UK regime? Please address each proposed unauthorised structure separately, and indicate which of the proposed unauthorised structures you consider most important. and unauthorised UK fund structures, including the QIS? Would they bring value alongside each other? Would they bring unnecessary complexity? What would each structure allow fund managers and investors to do that they are unable to do currently in the UK regime? Please address each proposed unauthorised structure separately, and indicate which of the proposed unauthorised structures you consider most important.

No comment.

31. Would these unauthorised structures support the government's work on facilitating investment in long-term and productive assets, as outlined in Chapter 1?

No comment.

32. How do you think the government could best achieve consistent branding for UK fund structures which target only professional investors?

No comment at this point as this would depend on the ultimate structure that is created in the UK.

33. Do you think that these unauthorised structures should be unregulated collective investment schemes? If you consider any 'light-touch' authorisation necessary or desirable, what do you understand this term to mean and what form could it take? Why would it be beneficial for investors, and how could it be explained to them in a way that avoids confusion with the regulatory assurances of fully-authorised structures?

No comment.

34. Do you think these structures should have flexibility on whether they are open-ended or closed-ended? Should they have flexibility on whether they are listed or non-listed? How important is this?

No comment.

35. Do you think these vehicles should or could be implemented as part of existing structures set out in legislation? Please provide details. If not, please explain why not.

No comment.

36. Are there any specific tax treatments that would be either necessary or desirable to support the successful introduction of new unauthorised fund vehicles in the UK? Please provide detail of how and where this is the case.

No comment.

37. Are there any interactions with wider tax policy that the introduction of new unauthorised vehicles would need to navigate, in order to avoid unintended consequences?

No comment.

38. Are there other things government should consider as part of this review of the UK funds regime, or proposals for enhancements to the UK funds regime which the government has not included in this call for input? If so, how important are they and how would you like to see them prioritised in relation to the proposals explored in this call for input?

The introduction of a corporate vehicle with characteristics which are equivalent to the Irish ICAV would be beneficial to the UK fund regime. Both of our Irish QIAIF umbrella platforms in Ireland are established as ICAVs, a vehicle with separate legal personality which is established by way of registration and authorisation by the CBI. Although based on Irish company law, it was created specifically for the funds industry and as such, the ICAV Act is not impacted by amendments to company law which are designed for ordinary companies and is therefore more flexible, straightforward and cost-effective. In particular, the ICAV Act permits the preparation of separate accounts in respect of each sub-fund (with varied year-end dates) and provides the ability to dispense with the requirement that shareholders need to approve alterations to the ICAV's constitutional documents where the depositary certifies that such changes do not prejudice investor interest.