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# ‘The new fund is designed to facilitate investment in illiquid assets by defined contribution pension schemes’

The FCA yesterday published its policy statement, *A New Authorised Fund Regime for Investing in Long-Term Assets*, setting out the final detailed proposals for the long-term asset fund. This is now moving forward rapidly with the new FCA Handbook rules and guidance coming into force on 15 November.

The new fund is causing considerable excitement in the real estate investment management industry, as it is designed to facilitate investment in illiquid assets by defined contribution pension schemes. The proposals have been under discussion since last year and there was a detailed consultation which closed in June, so there are no real surprises in the policy paper. The Productive Finance Working Group, which has been working on the implantation, published its recommendations last month.

For the real estate industry, apart from creating a new type of fund that can invest in direct property, it should facilitate access to the asset class through a greater range of indirect routes, for real estate equity and debt investments. It should also widen investment to a much broader range of real assets. For investments in direct property, it will be possible to have a fund that is simultaneously an LTAF and a property authorised investment fund.

## Further changes

For the full benefits to be felt for DC pension schemes, we need further changes from the Department of Work and Pensions, some of which have been trailed and appear to be imminent, and changes to the architecture of the platforms through which many of the DC schemes invest. There are also points of detail on the operation of the funds in the policy paper over which the FCA



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intends to open a dialogue, and there will be further changes to extend the regime next year.

## Welcome guidance

A key area of concern for the FCA, following the very public redemption challenges that the open-ended property funds for retail investors have faced, has been the level of liquidity to be allowed. For the LTAF, redemptions can be no more frequent than monthly and require a minimum 90-day notice period. Notice periods can be longer and redemptions less frequent.

The policy paper states: “We do not consider it appropriate to set a standard notice period. Managers of LTAFs must make their own decisions on the appropriate terms for their fund, based on the investment objectives, investment policy and investment strategy of the LTAF, and the reasonable expectations of the target investor group”.

The Productive Finance Working Group recommended that further guidance on the appropriate length for notice periods for different types of asset should come from the industry rather than the regulator. The FCA has said it welcomes this.

## Flexible offerings

There is also flexibility in terms of subscriptions and a couple of points leap out. Firstly, although redemptions can be no more frequent than monthly, subscriptions can be no less frequent than monthly. This would appear to allow, if desired, daily pricing and daily subscriptions, which might address a key concern of DC pension schemes. Secondly, the policy paper suggests that funds may operate a commitment approach to subscriptions, although there would appear to be practical challenges in reconciling this to the regulation.

Although the FCA has made it clear that the immediate objective is encouraging investment by DC pension schemes, the LTAF is also open to certified sophisticated and high-net-worth individual investors. Many in the industry, including me, had hoped the eligibility would be wider. In my own response to the previous consultation, I had suggested that the LTAF should also be open to professionally advised retail clients. The door is not closed on this. The FCA comments in the policy paper that it plans to consult in the first half of 2022 on potentially changing the restrictions on promoting LTAFs to retail investors.

While the policy paper does not deliver everything we might want as an industry from the LTAF, it is a step forward towards opening up the opportunity to invest in illiquid assets to DC pension schemes and beyond that hopefully in due course to a wide range of retail clients.