

Future of the UK Funds Regime

A Call for Input

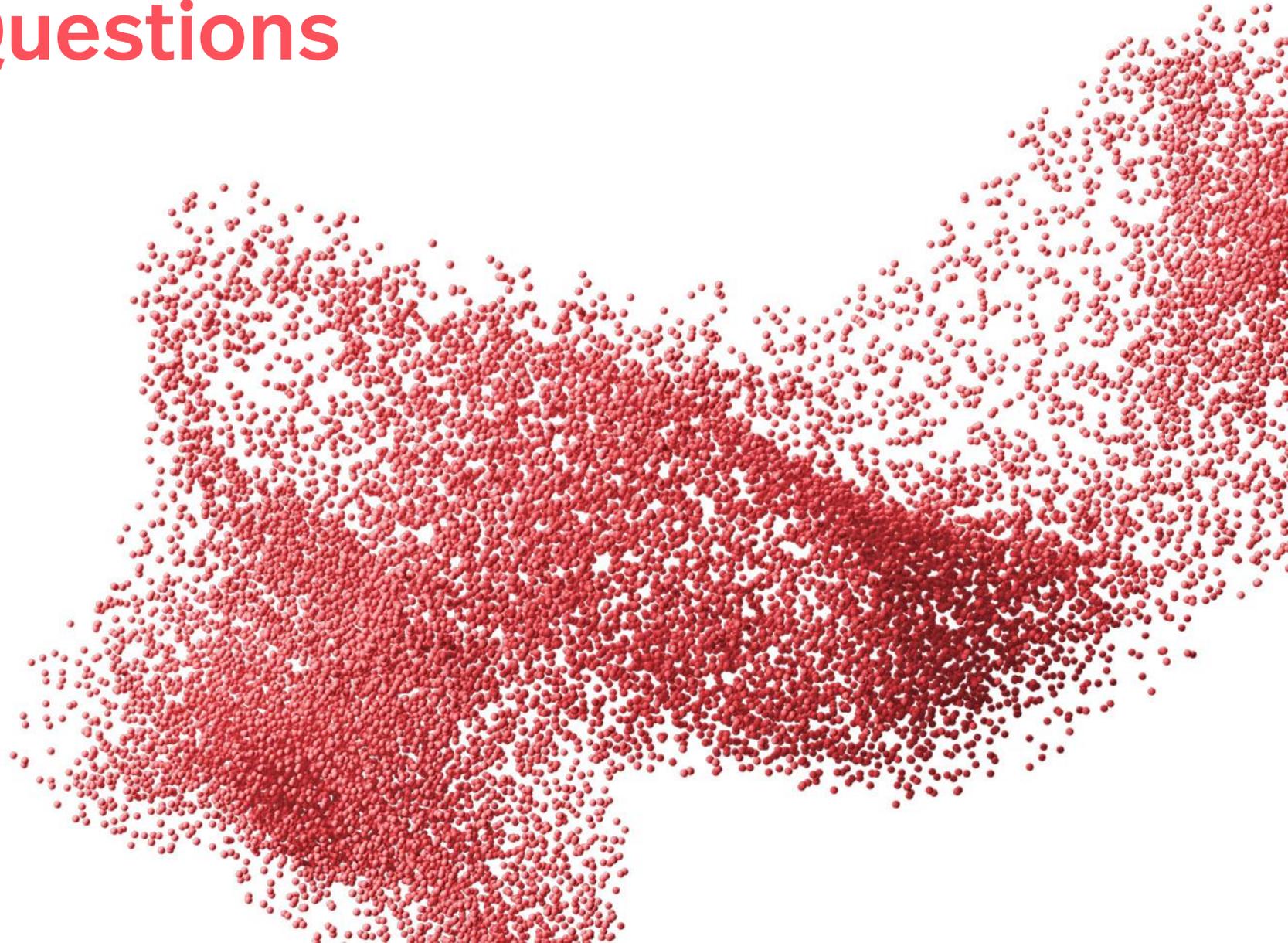
April 2021



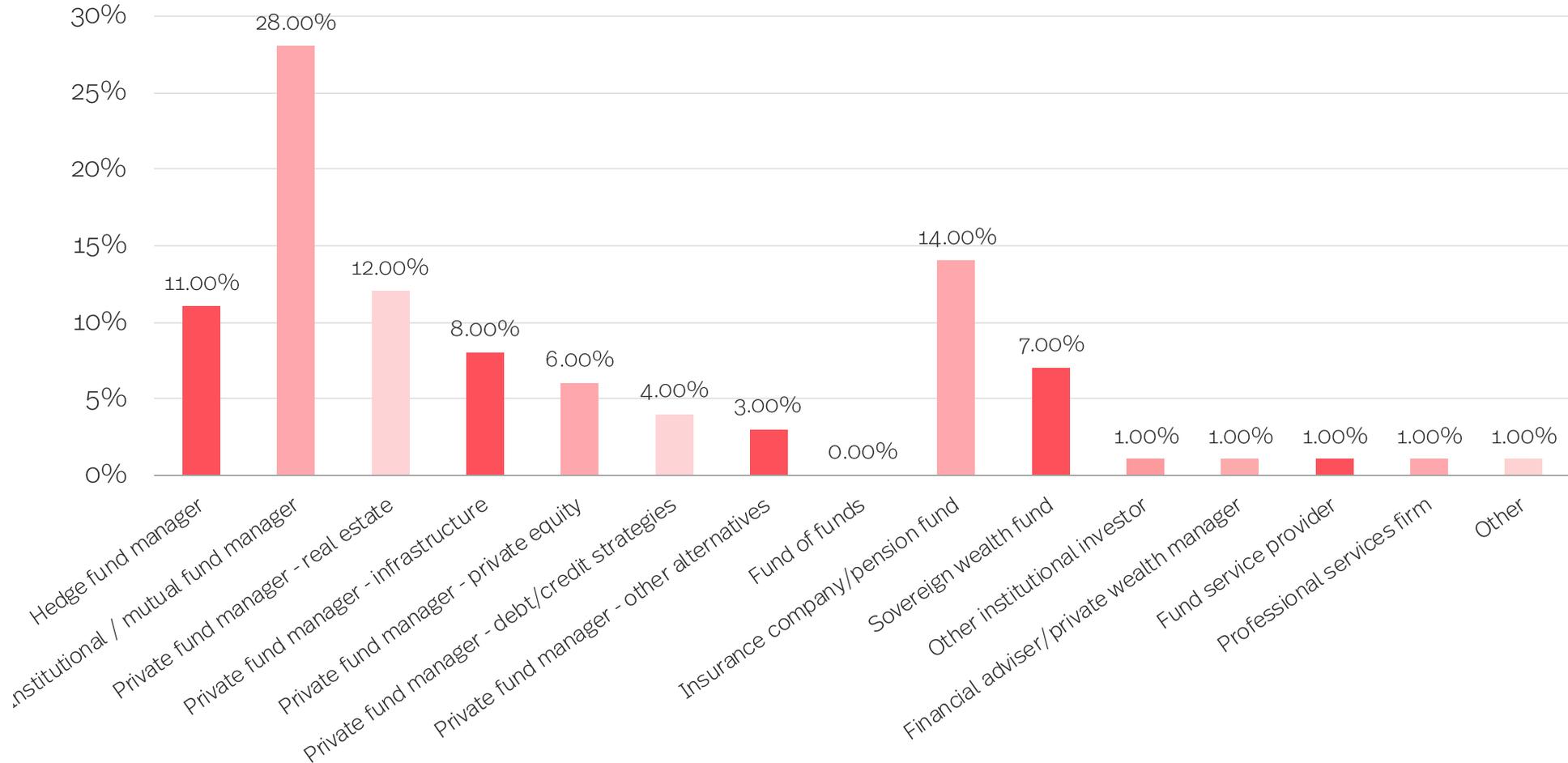
1. 6 minute online survey, conducted 13 – 29 March 2021
 - 86 respondents from 81 different institutions
 - 50% of respondents from legal & compliance functions
 - 49% of respondents from the UK
 - Institution Type (top 4)
 - Institutional Mutual fund
 - Insurance Company – Pension Fund
 - Hedge Fund
 - Private Fund – Real Estate

2. Two 90 min roundtables, conducted 23 and 25 March 2021
 - 20 representatives from 19 different institutions
 - open -ended, closed ended, authorised, unauthorised funds with retail
 - sophisticated and professional investors
 - AIMA and the Investment Association

Classification Questions



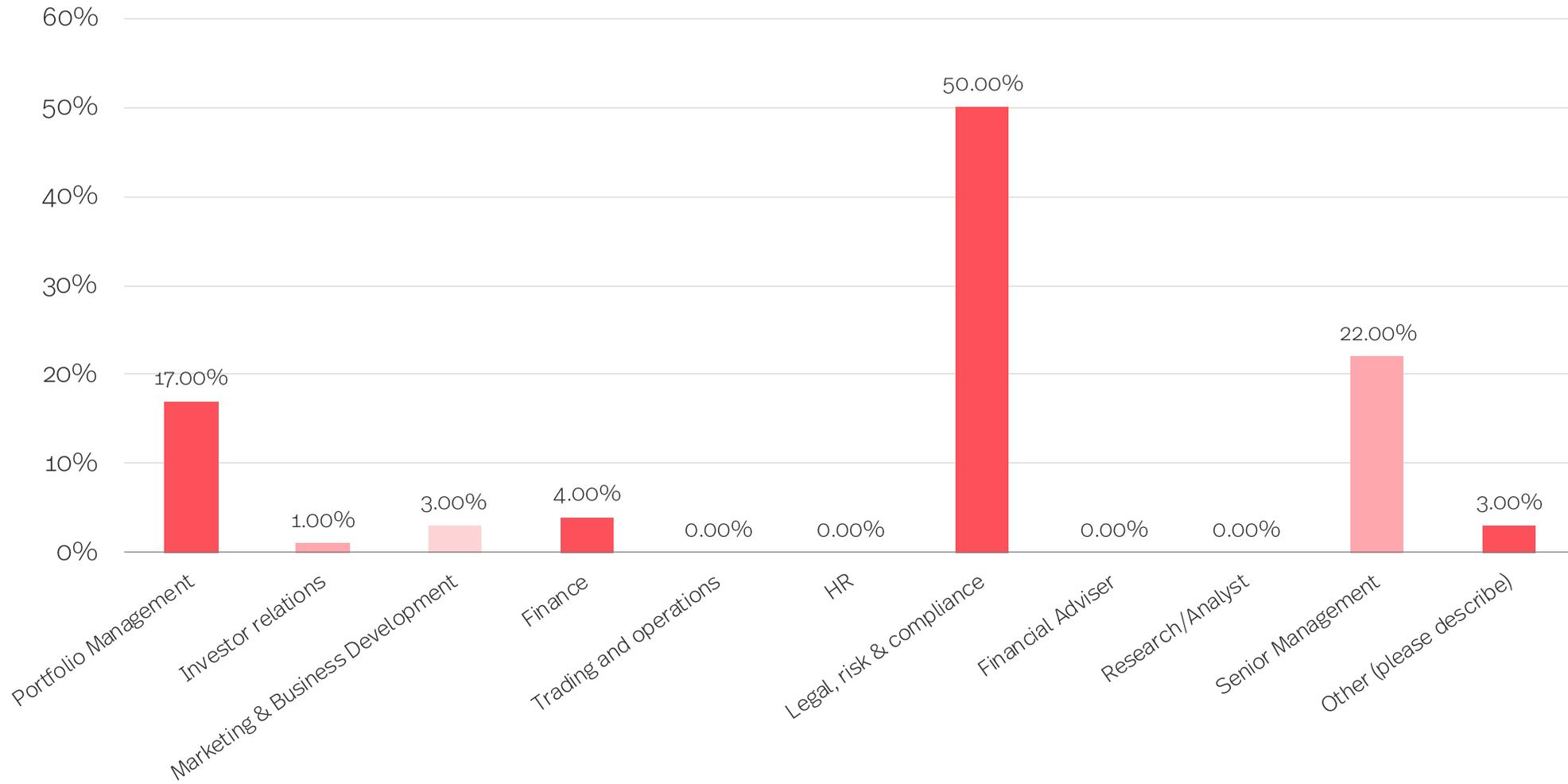
Which of the following best describes your firm's business?



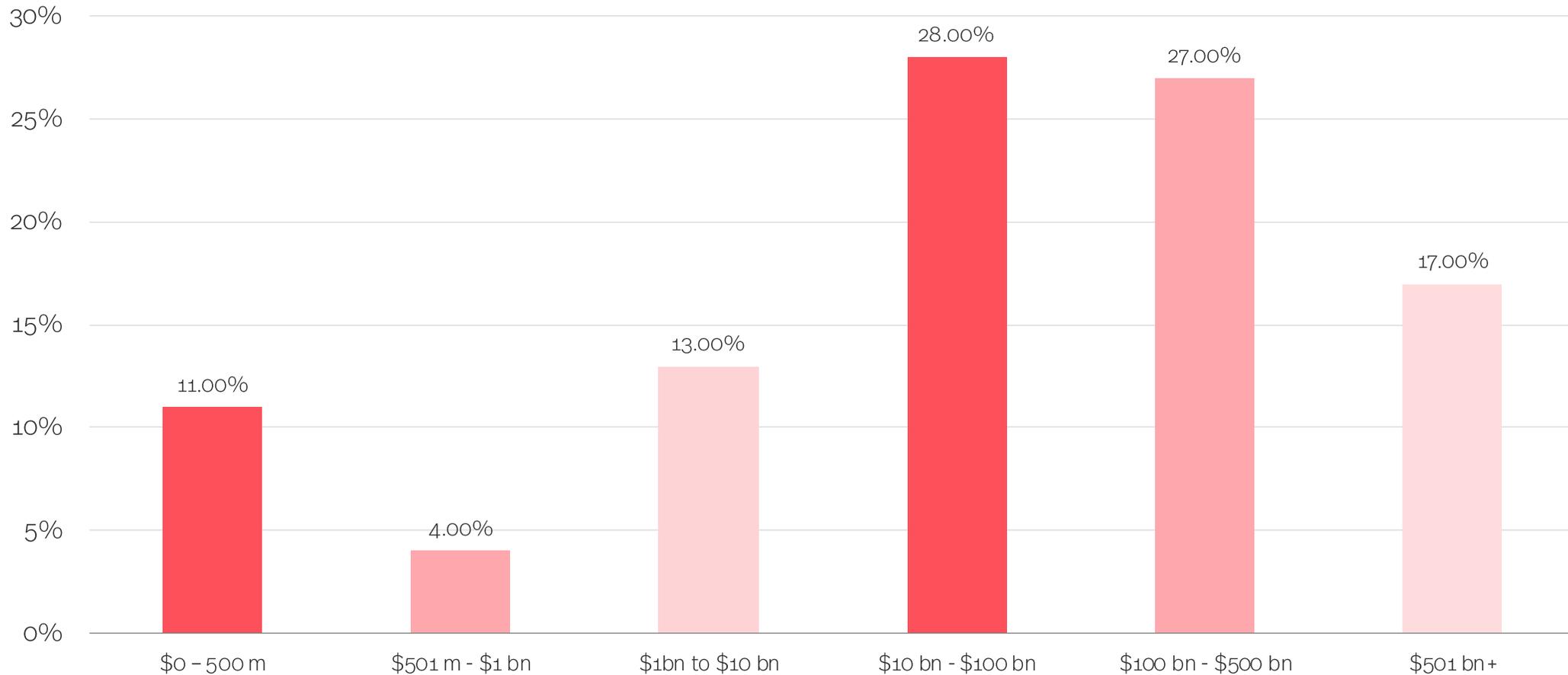
Where are your global headquarters?



What best describes your role?



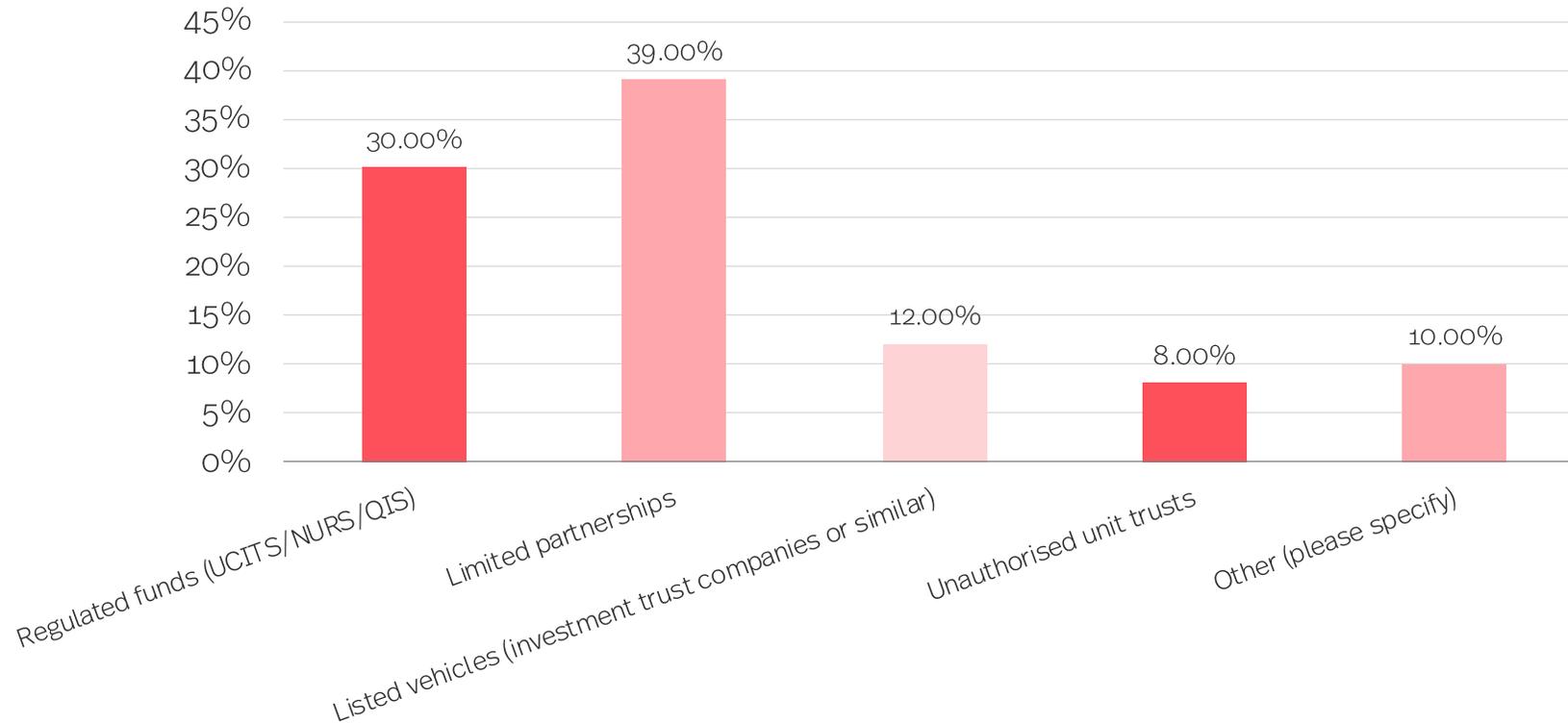
What is your firm's aggregate AUM/invested capital globally?



What is your firm's aggregate AUM/invested capital in UK fund vehicles?



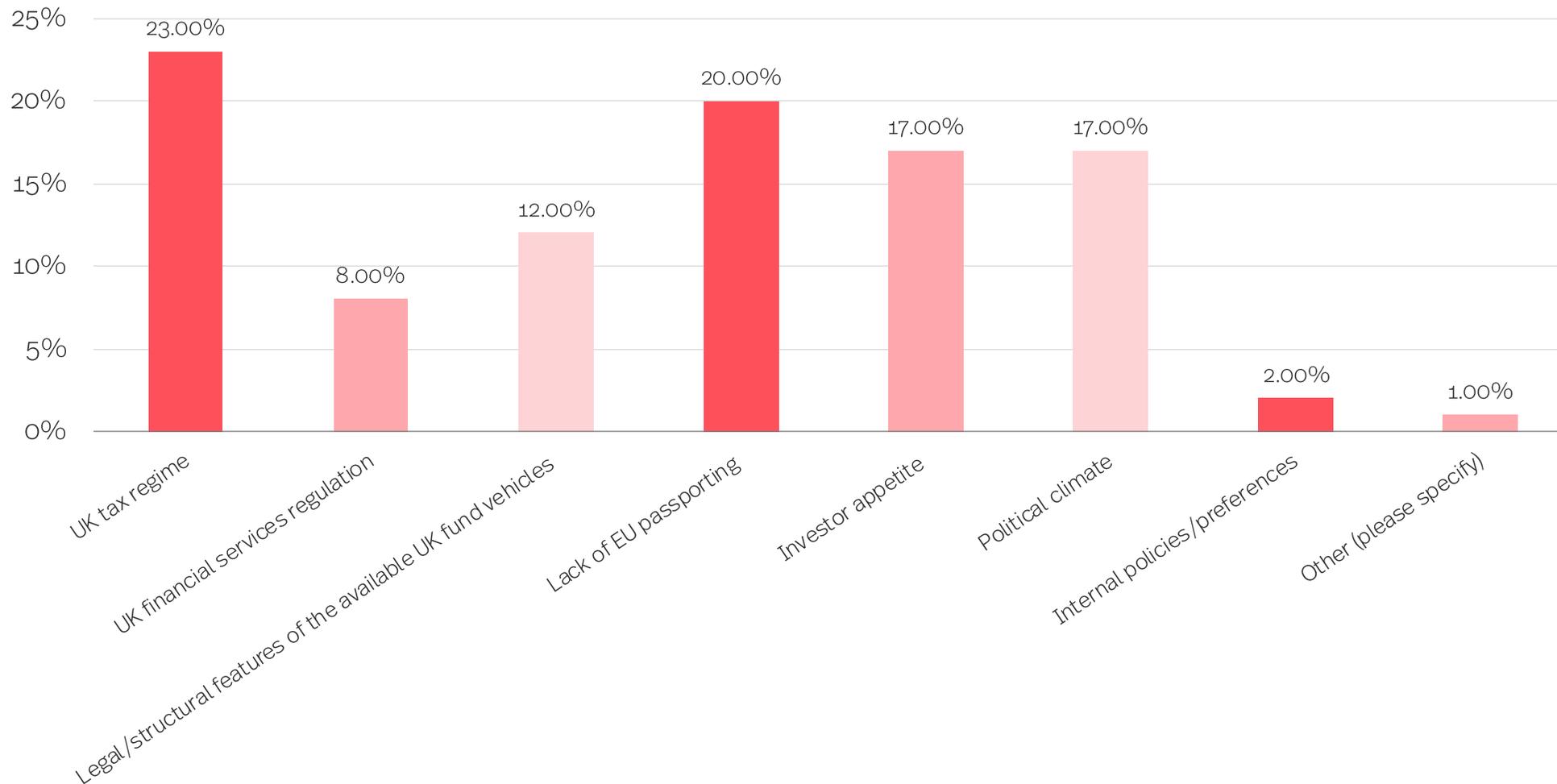
Which of the following UK investment vehicles/fund structures does your firm use/invest in/service at present?



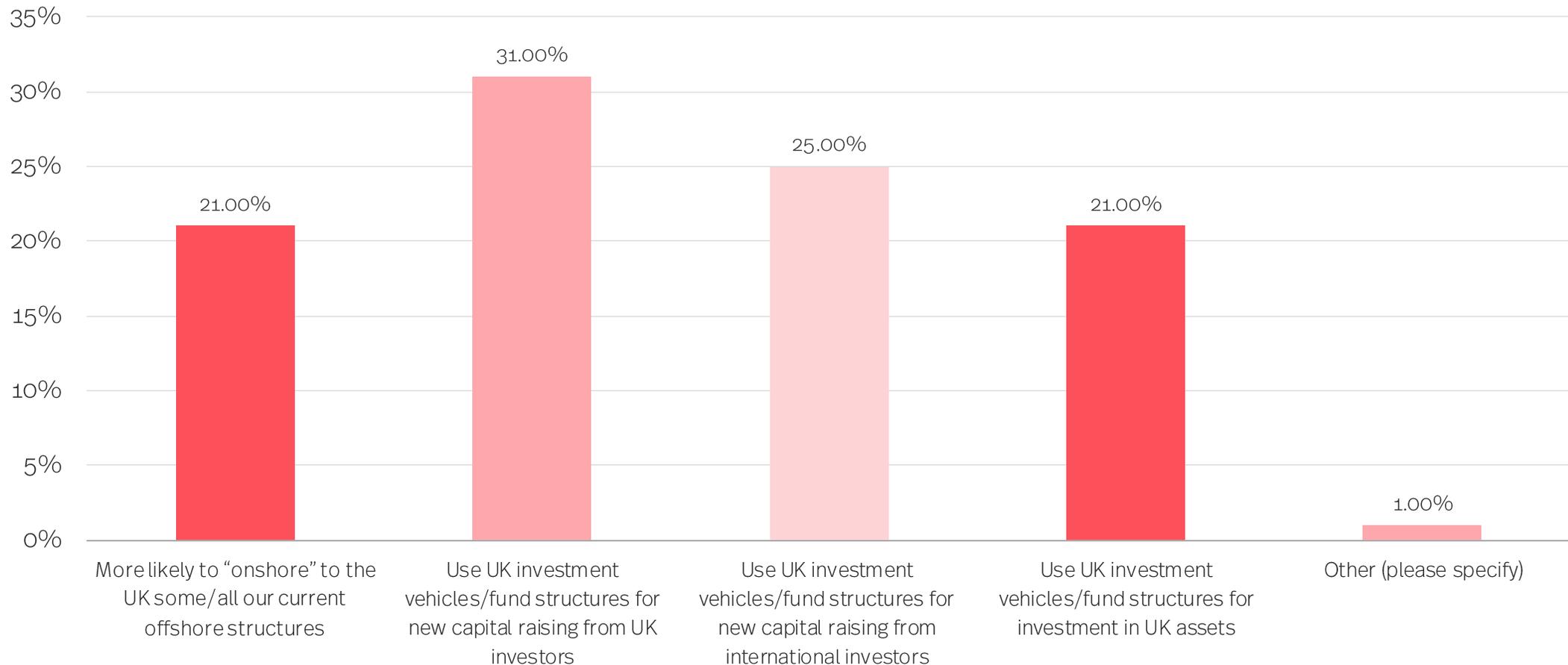
Market Questions



What are the main hurdles currently preventing/inhibiting your use of UK investment vehicles/fund structures?



If the current hurdles can be addressed, what steps would your firm consider taking?



Roundtable comments



"...the biggest one (it's been a pain to deal with) is the Brexit side, and the lack of EU passporting..."

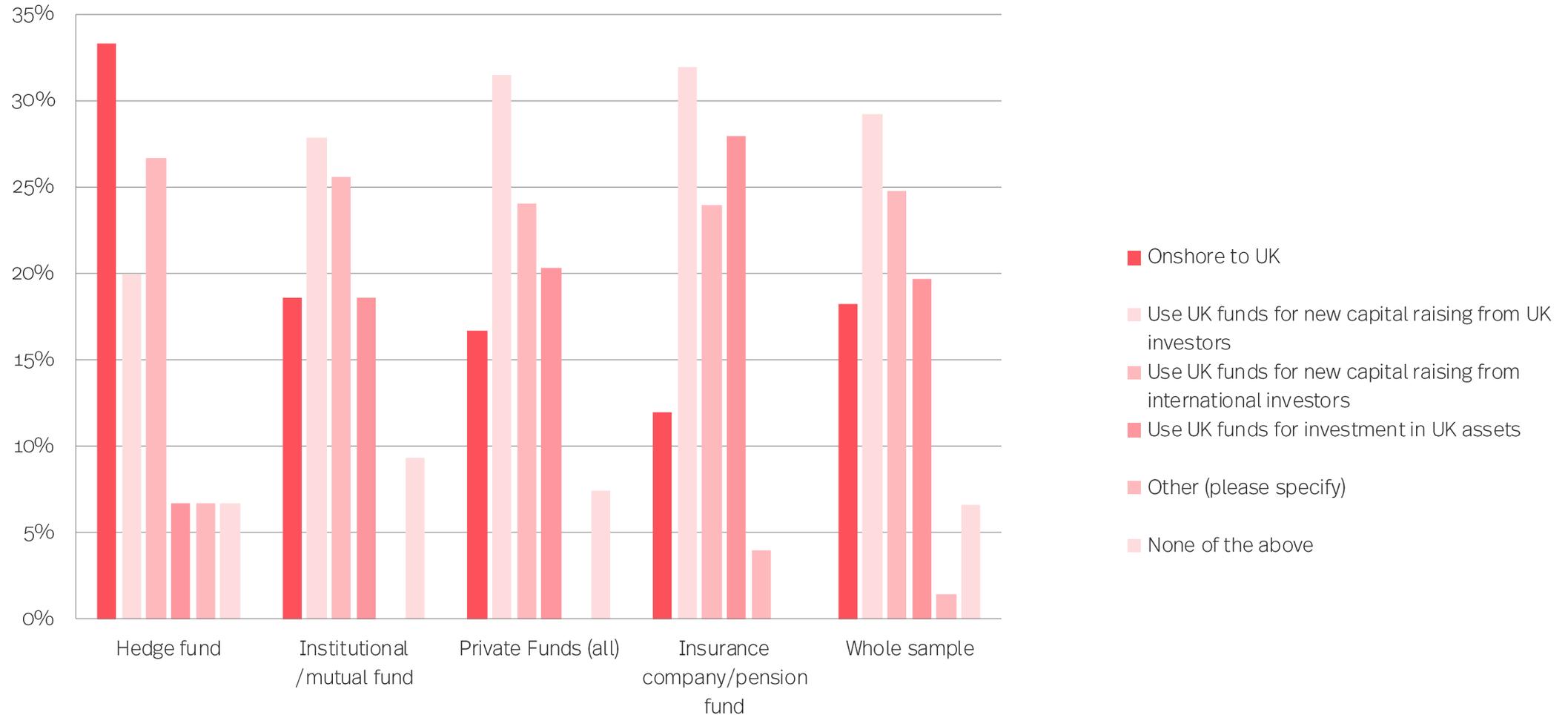
"...on the illiquid side, there's scope to be a differentiator there. The first three [UK tax regime; UK financial services regulation; legal/structural features of the UK funds] in relation to liquid or longer term investments seem to go together. The second three [lack of EU passporting; investor appetite; political climate], given where we are with Brexit, there's a lot more moving pieces in different countries to resolving international investor appetite for UK funds..."

"...Tax is number one, followed by the legal structures of the fund regime. There is not a UK structure which is suitable for alternative investment and we all know the QIS structure is like a chocolate teapot..."

"...EU compliant funds; access to double taxation treaties; management fees are not subject to VAT; very small subscription taxes; exemptions for withholding taxes..."

"...we need HMRC to say that they buy into the idea that a tax neutral fund industry is not a drag on their resources or the tax take..."

If the current hurdles can be addressed, what steps would your firm consider taking?



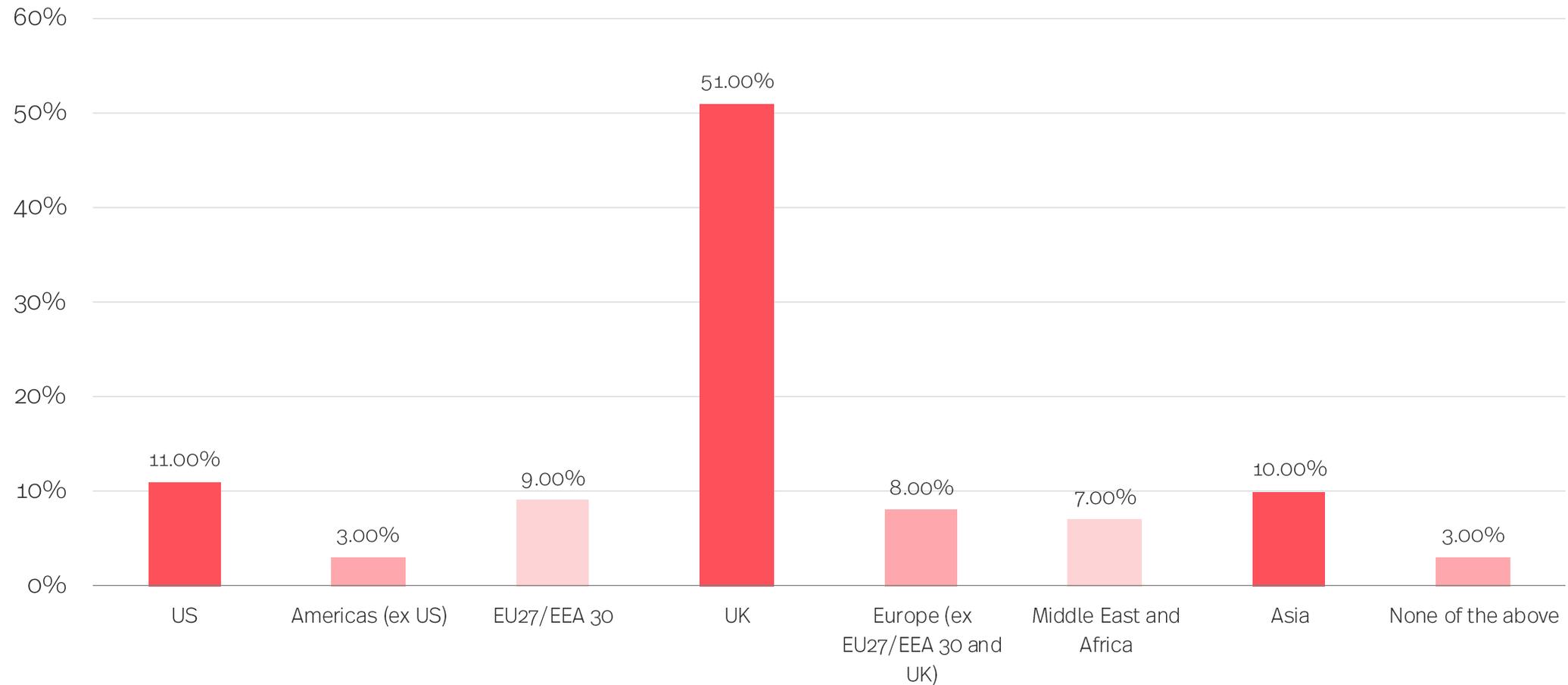
Analysis



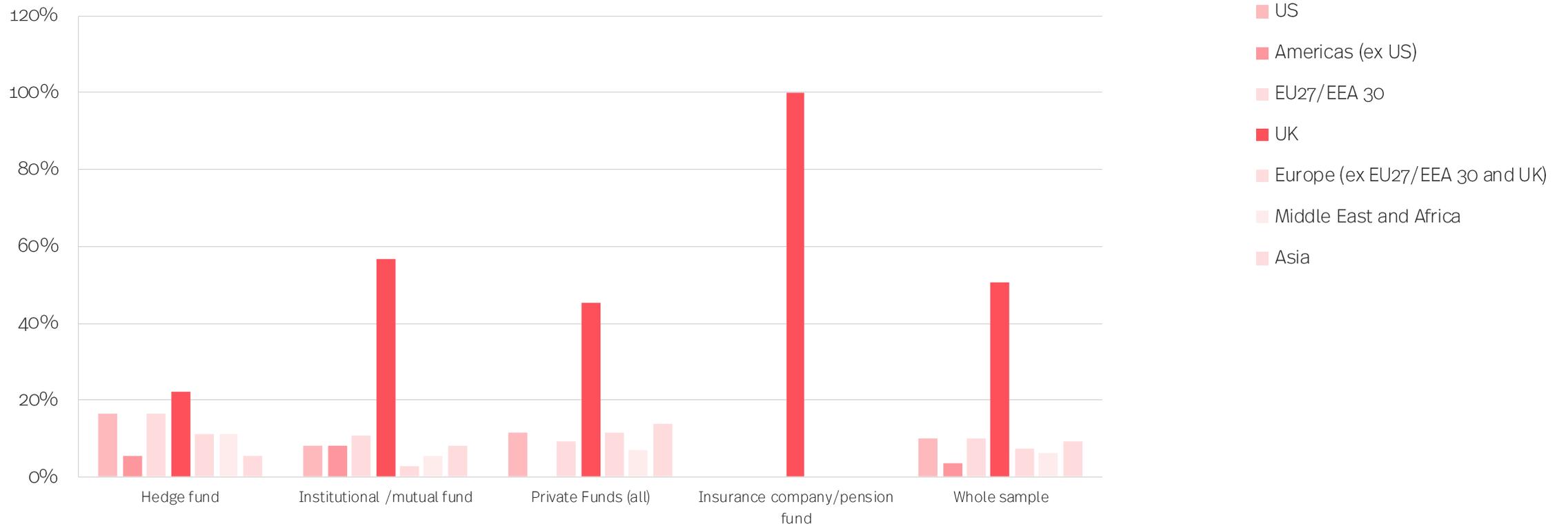
Whole sample: the most common response if those hurdles were to be successfully addressed would be to see fund management organisations in general using their UK fund vehicles to raise new capital from UK investors. Followed by using them to raise funds from international investors and, in third place, to use UK funds for investments in UK assets. But they diverge in their 2nd and 3rd choices. Institutional and Private funds agree with the overall sample that raising new capital from international investors would be their second priority but Hedge Funds and Insurance/ Pension funds rank 'investing in UK assets' more highly.

Significant variations: all fund-types agree the 1,2,3 order of the whole sample (average) and that most likely action would be to raise new capital from UK investors.

Where do you see the biggest market (by geography for investor appetite) for UK domestic fund vehicles?



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Analysis



Whole sample: Clear dominance of the UK as the biggest market for UK domestic vehicles

Significant variations: Hedge funds agree that the UK is their dominant market but are much more widely spread geographically than the other fund types

Roundtable comments



“...If the UK is going to compete with Cayman, then it has to do something similar to Lux and Ireland. Ideally Ireland. Otherwise there's not point - there's no Art 32 passport because of Brexit. So what the UK can offer needs to be something equivalent to the Irish structure. Which is future-proofed against AIFMD 2...”

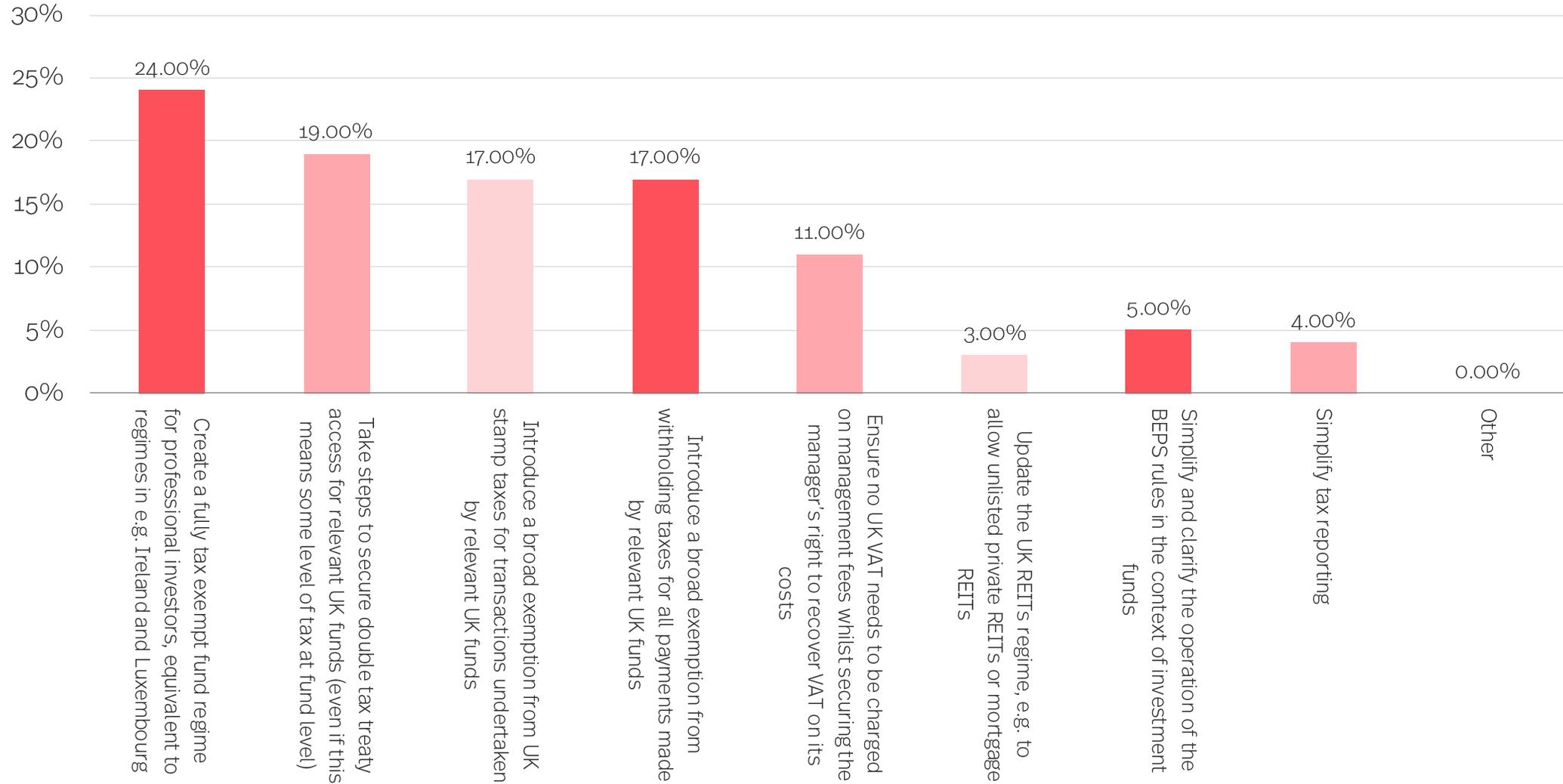
“...I think there's an opportunity as well – people like AIFMD and the regulation and the investment protection. But a lot of it just doesn't work. There's no passporting rights available for the UK now...”

“...With Brexit there is an opportunity and a need to protect UK managers from issues they're facing around delegation rules from the EU following their AIFMD and UCITS reviews...”

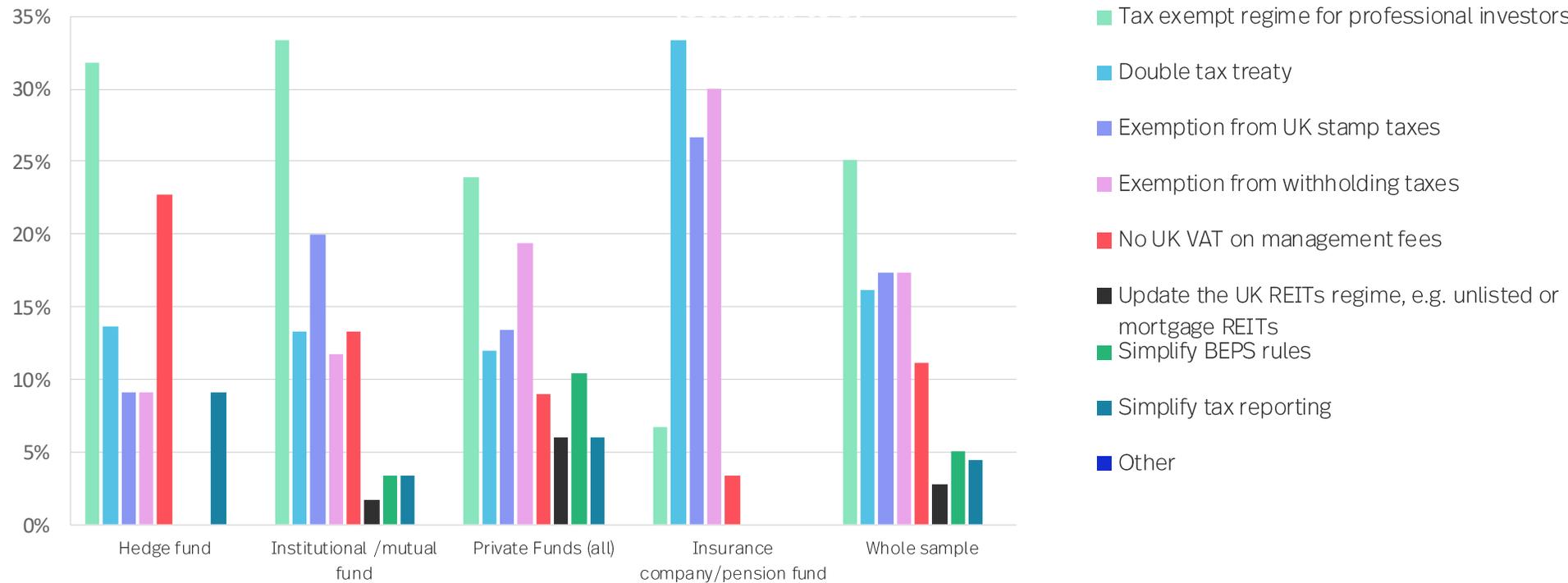
“...it's probably a few tweaks to 3 or 4 of these tax points to really onboard asset management here – there needs to be a strong desire to be ripping up the rule book...”

“...Clearly most people (1/4 respondents almost) said it's too complicated and they want to strip this away and have a tax exempt regime...”

Which of the following changes to the current UK tax regime would have the most positive impact on growing your firm's UK funds business?



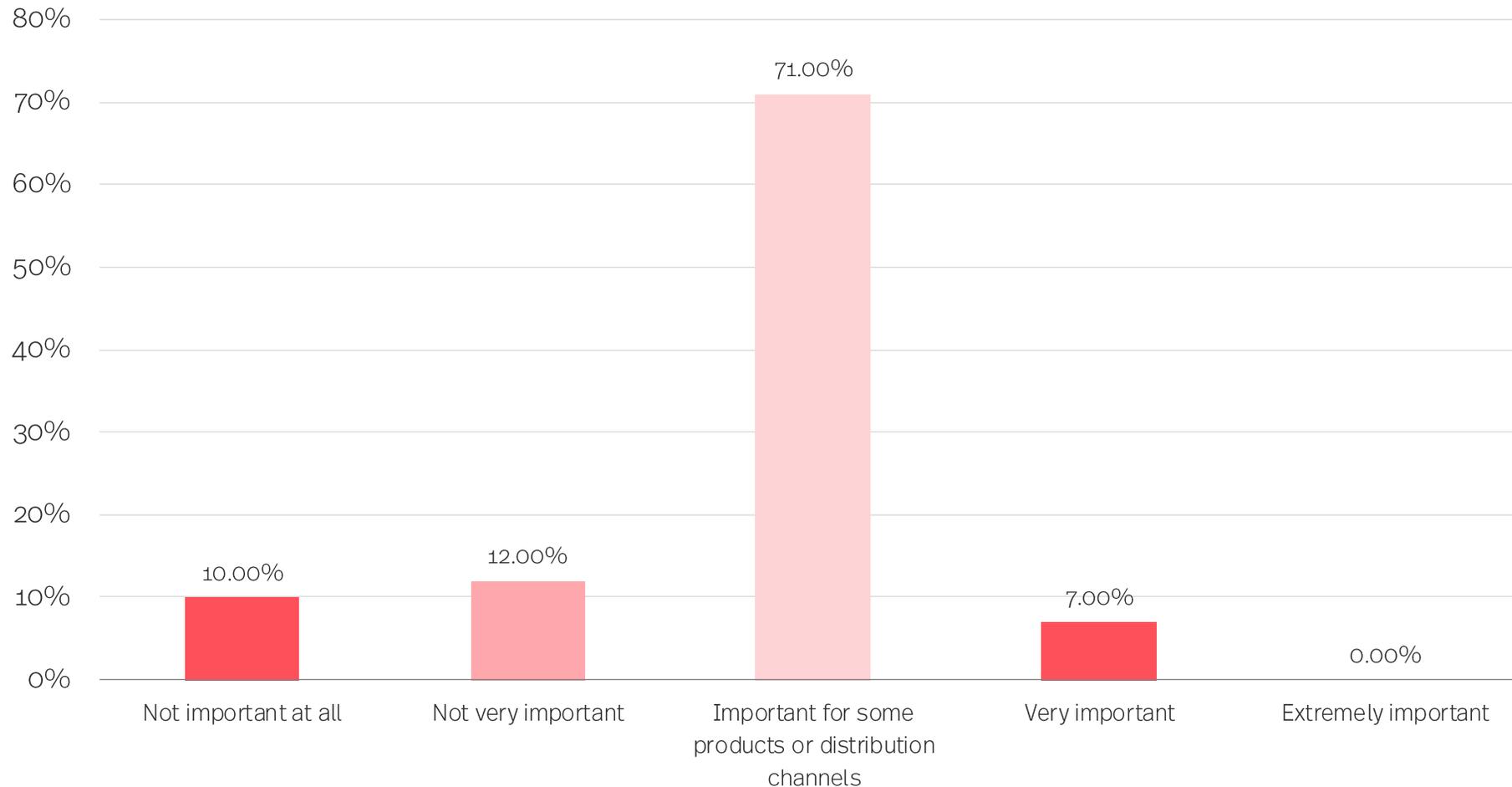
Which of the following changes to the current UK tax regime would have the most positive impact on growing your firm's UK funds business?



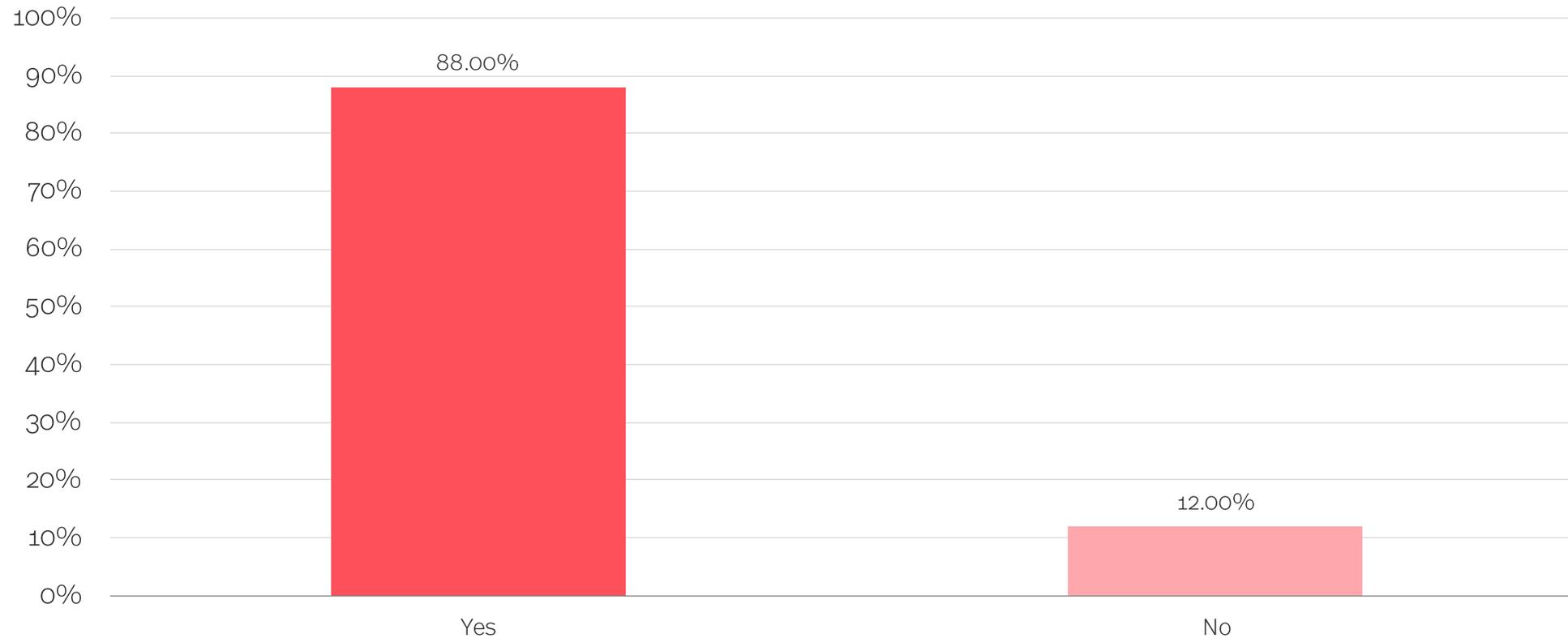
Whole sample: By far the change that would have the most positive impact across the industry would be, unsurprisingly, to create a tax-exempt regime for professional investors. Thereafter it's a close race for second place between three measures: gaining access to a double tax treaty, exemption from UK stamp taxes and exemption from withholding taxes. Although No UK VAT on management fees came lower down the list, in conversations with UK managers, this is an essential factor and the strong sense is that managers will require the zero rating of relevant fees for VAT purposes for the regime to be attractive.

Significant variations: most fund types agree the most positive change would come from tax exemption for professional investors. But Insurance companies/ pension funds rank it a long way below gaining exemption from withholding taxes; Private Funds also rank that as the second most attractive change for them while Hedge Funds put No VAT on management fees in second place.

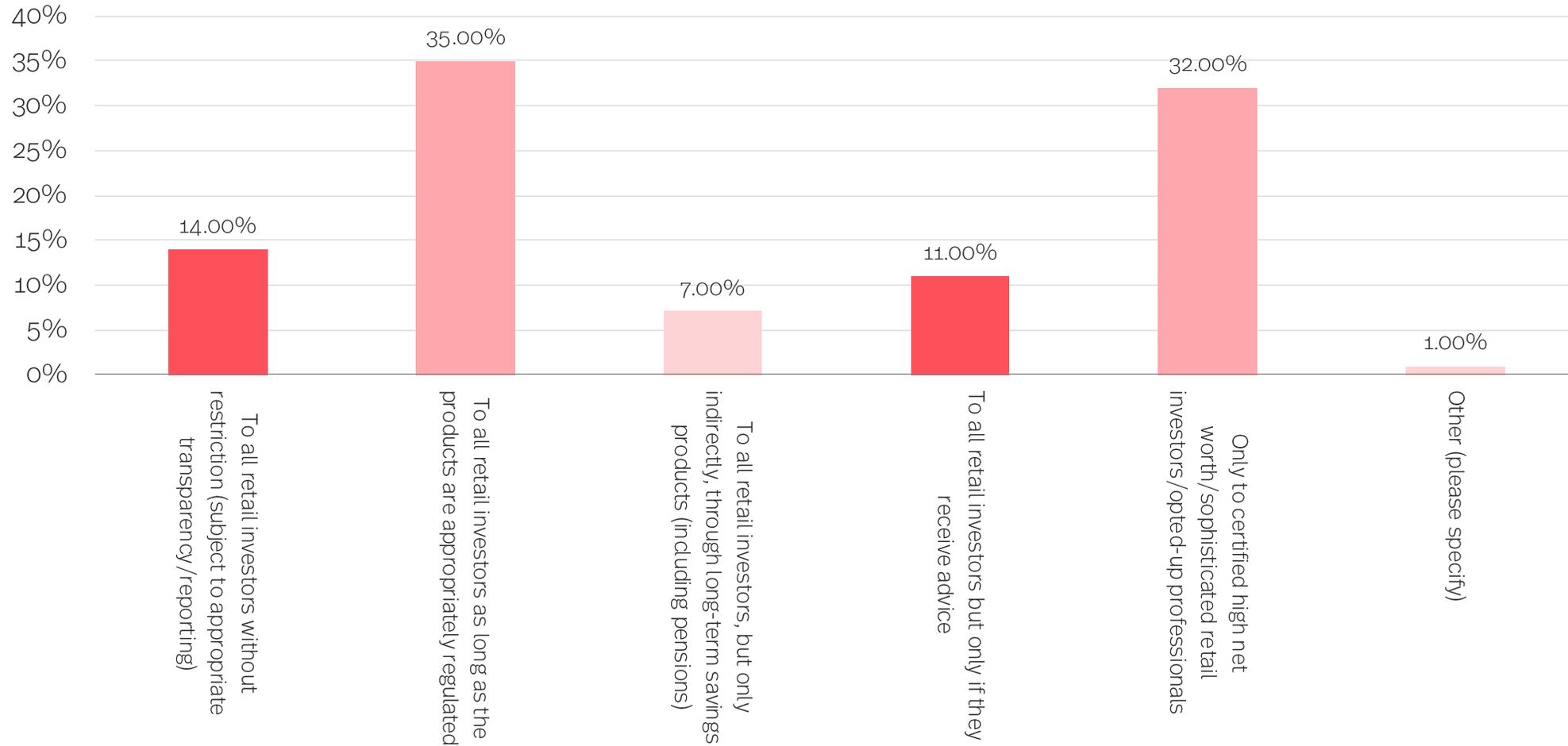
Looking at the institutional investor market, to what extent is product regulation (e.g. QIS status) an important factor for you?



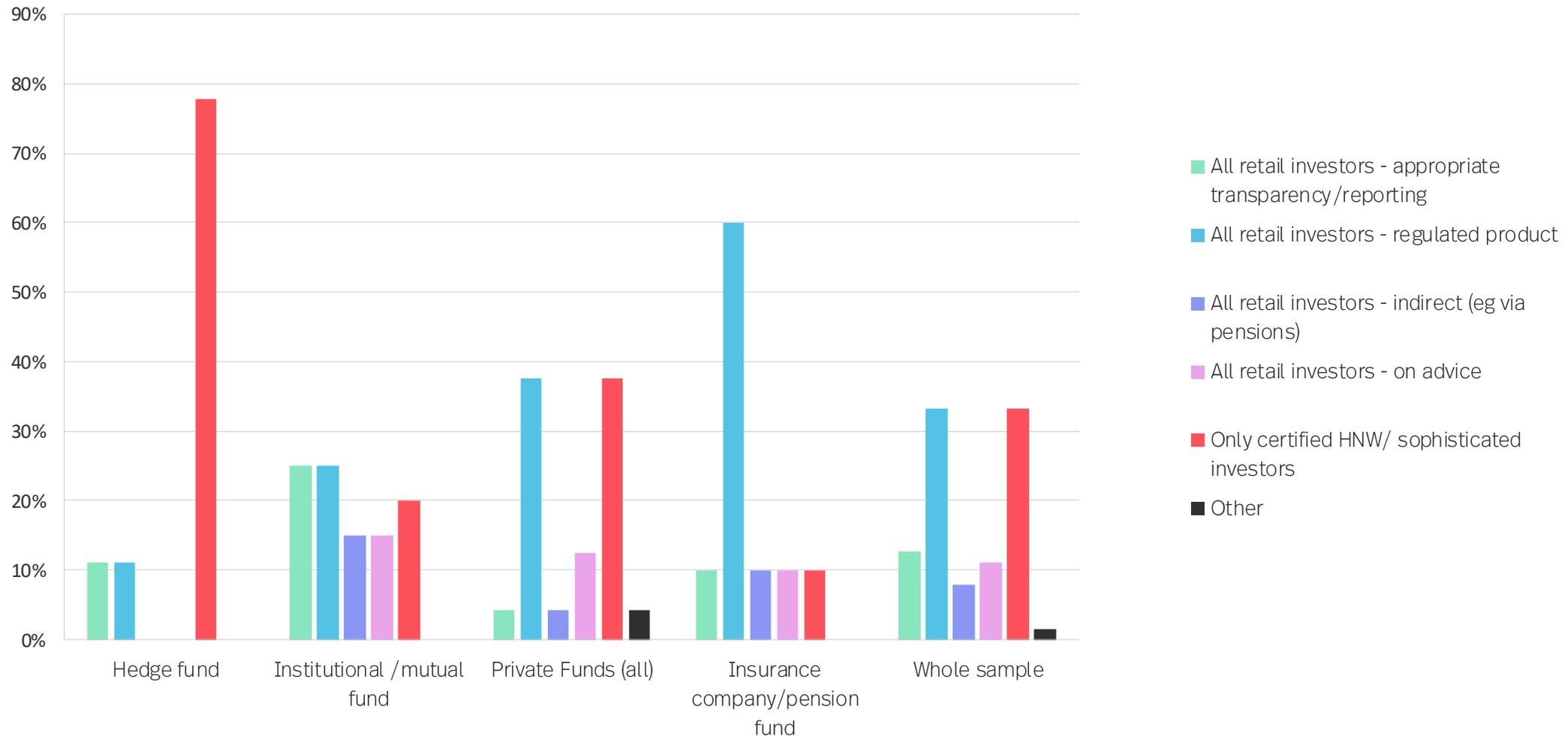
Would you favour the creation of an unauthorised, open-ended UK corporate vehicle?



To what extent should funds investing in illiquid or less-liquid assets (such as private equity, infrastructure, private credit) be available to retail investors?



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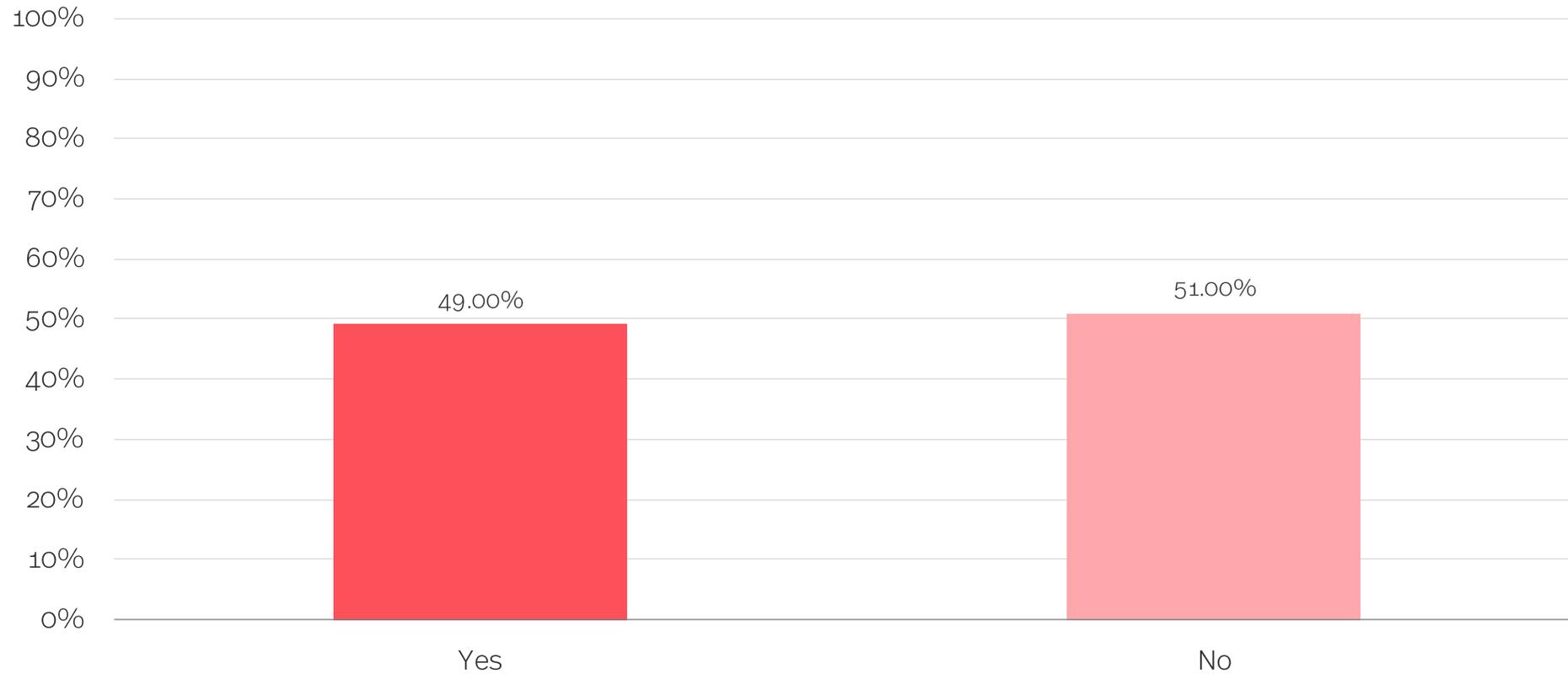
Whole sample: Strong agreement that they should only be available as a regulated product or to HNW/ sophisticated investors.

Significant variations: The biggest differences are mainly those of emphasis: Hedge Funds put much more (almost total) weight on making illiquid asset funds available only to HNW/ Sophisticated investors and Insurance companies on making sure the products are appropriately regulated. Elsewhere Institutional/ mutual funds put equal weight (first place) on letting all retail investors have access provided only that there is appropriate transparency/ reporting.

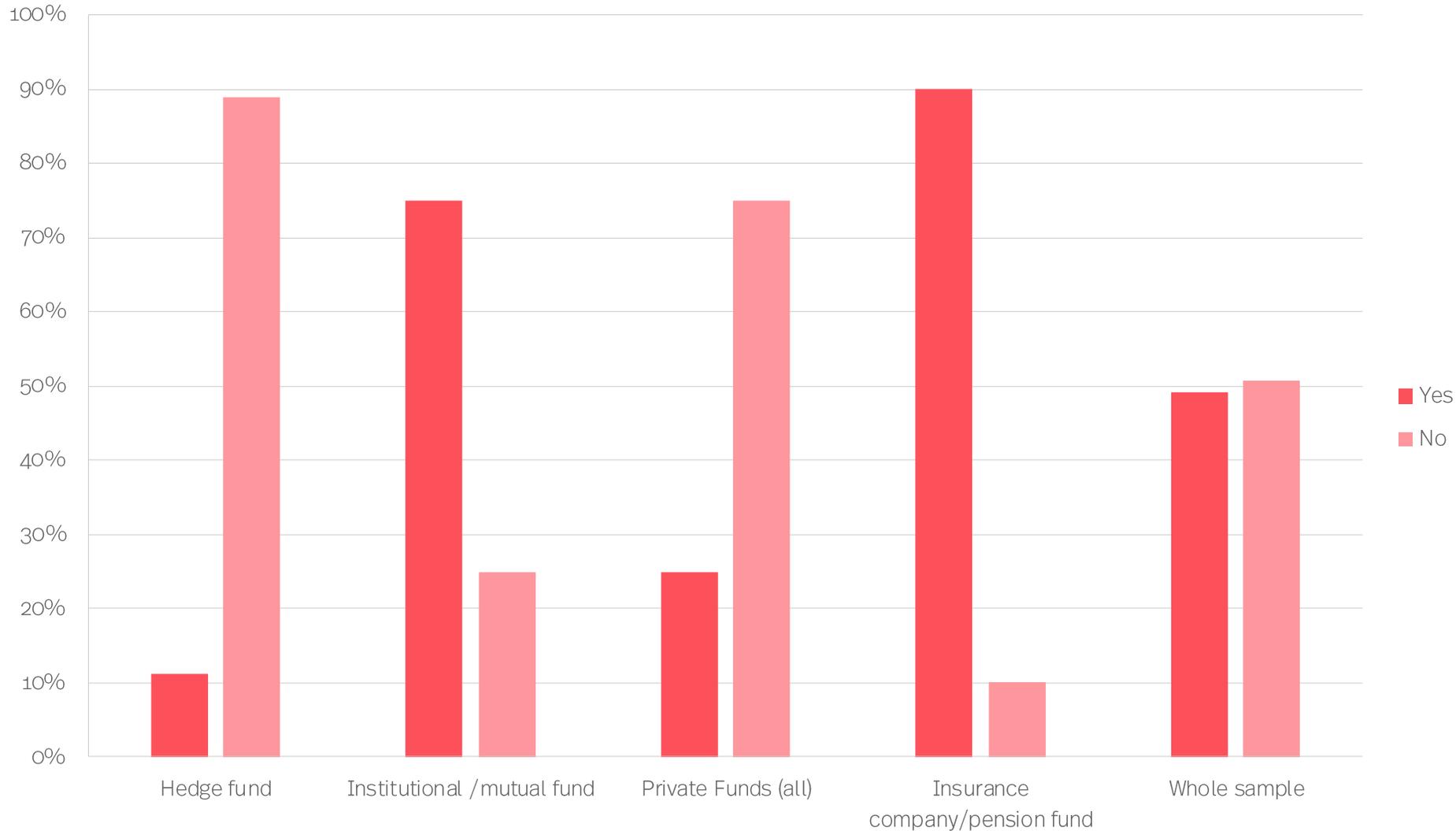
LTAf Questions



Are you aware of the current proposals for a new “Long-Term Asset Fund” (LTAF)?



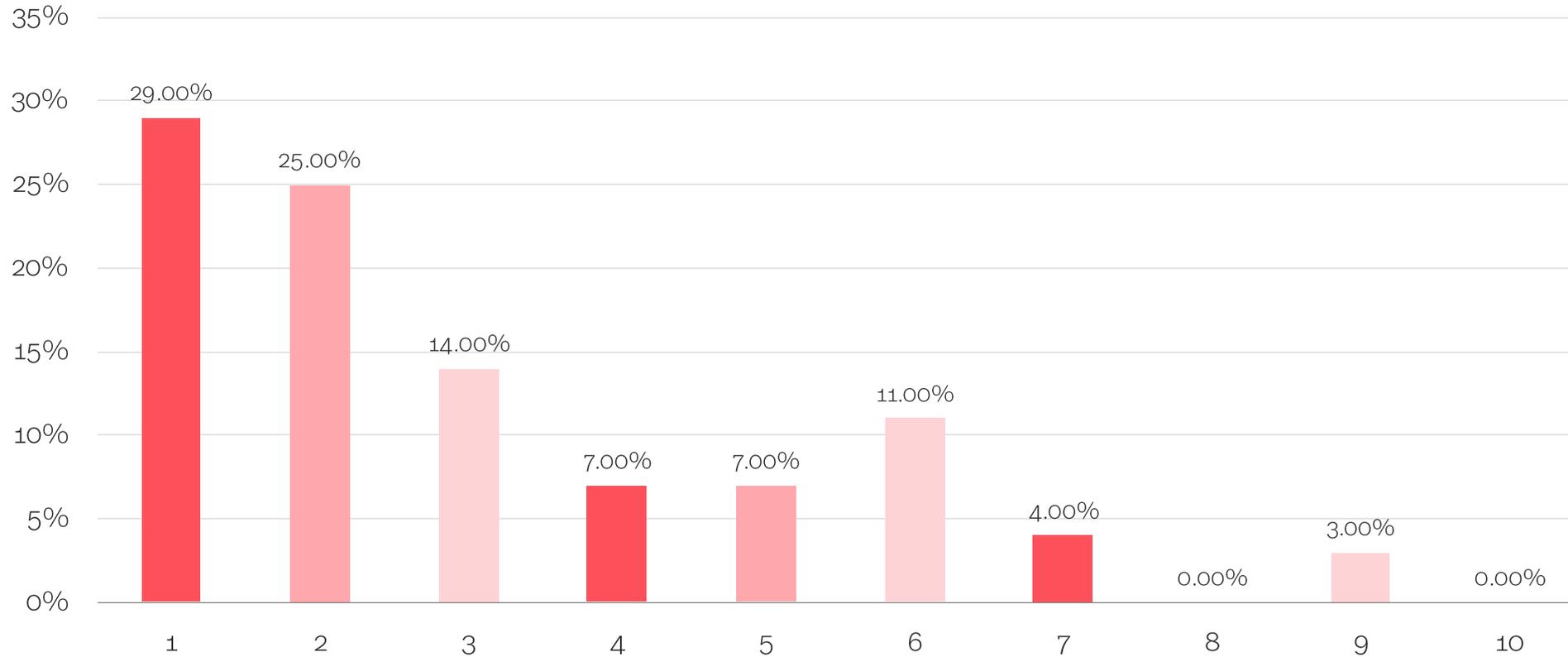
Are you aware of the current proposals for a new “Long-Term Asset Fund” (LTAF)?



How likely are you to consider launching an LTAF?



Scale of 1-10

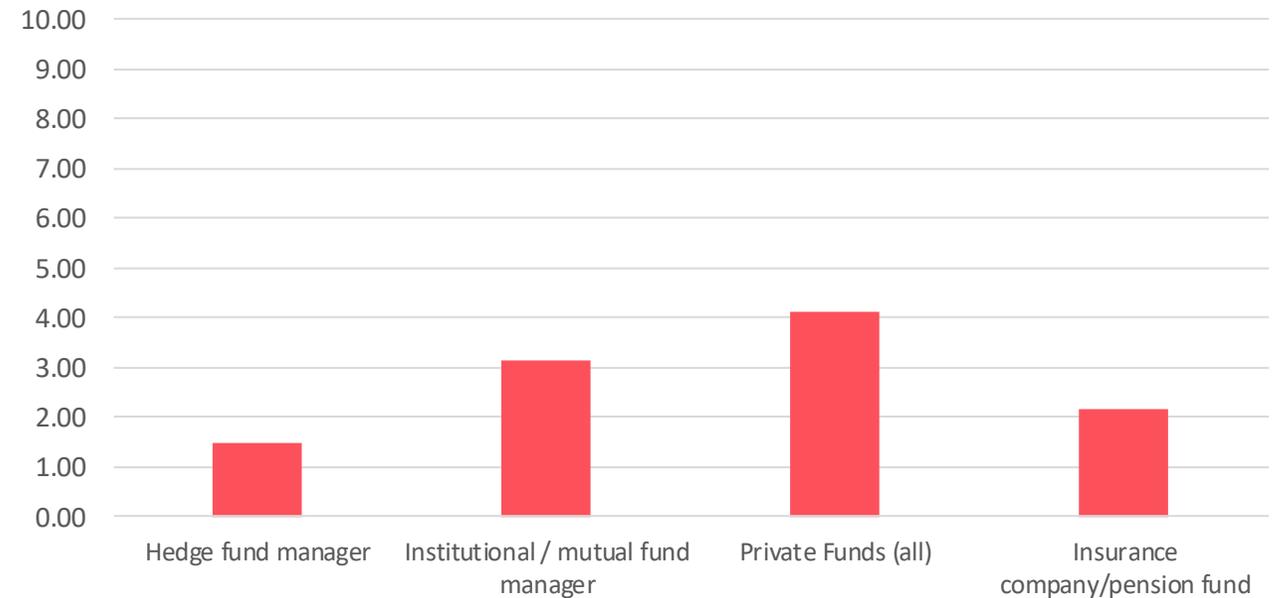


How likely are you to consider launching an LTAF?



Descriptive Statistics			
Business	Mean	Std. Deviation	N
Hedge fund manager	1.50	1.581	10
Institutional / mutual fund manager	3.14	1.807	22
Private Funds (all)	4.14	2.761	29
Insurance company/pension fund	2.18	0.751	11
Total	3.17	2.301	72

1 highly unlikely - 10 actively pursuing

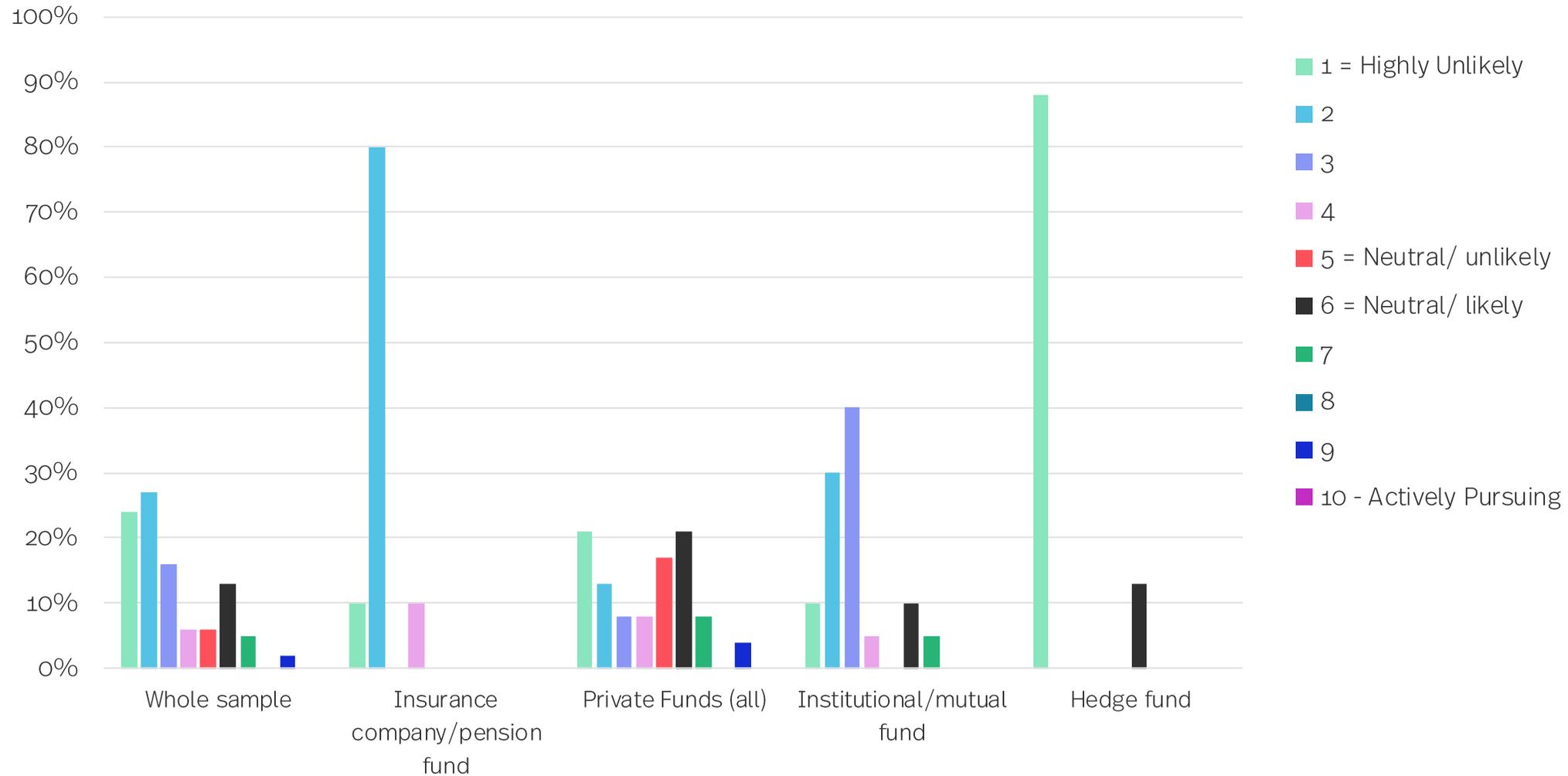


Summary: As might be expected, there is a statistically significant difference between 'Hedge fund manager' and all the other business types ($p = .007$). Participants categorised as hedge fund managers considered significantly less likely launching an LTAF. Note, however, that the samples are uneven.

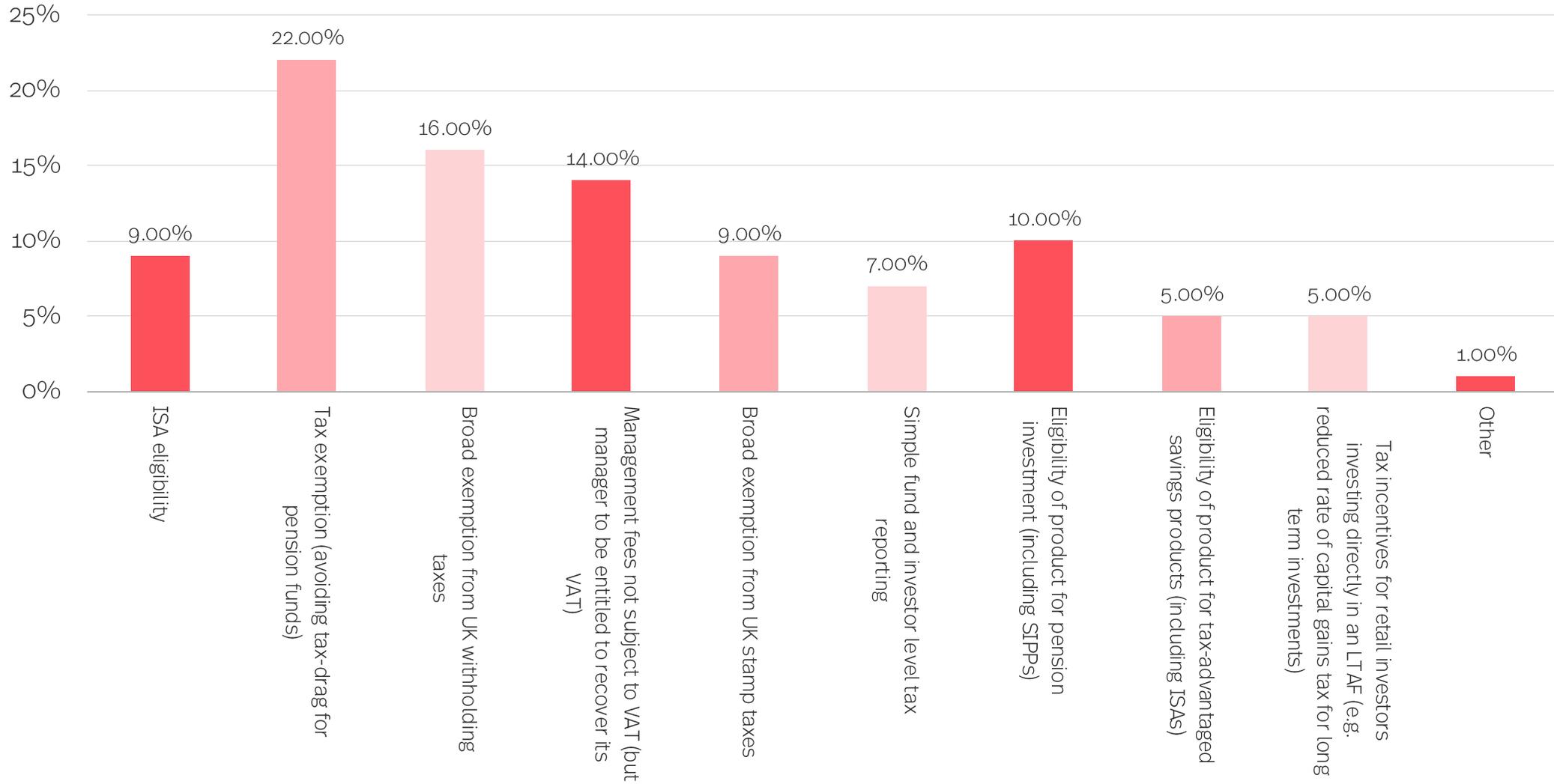
How likely are you to consider launching an LTAF?



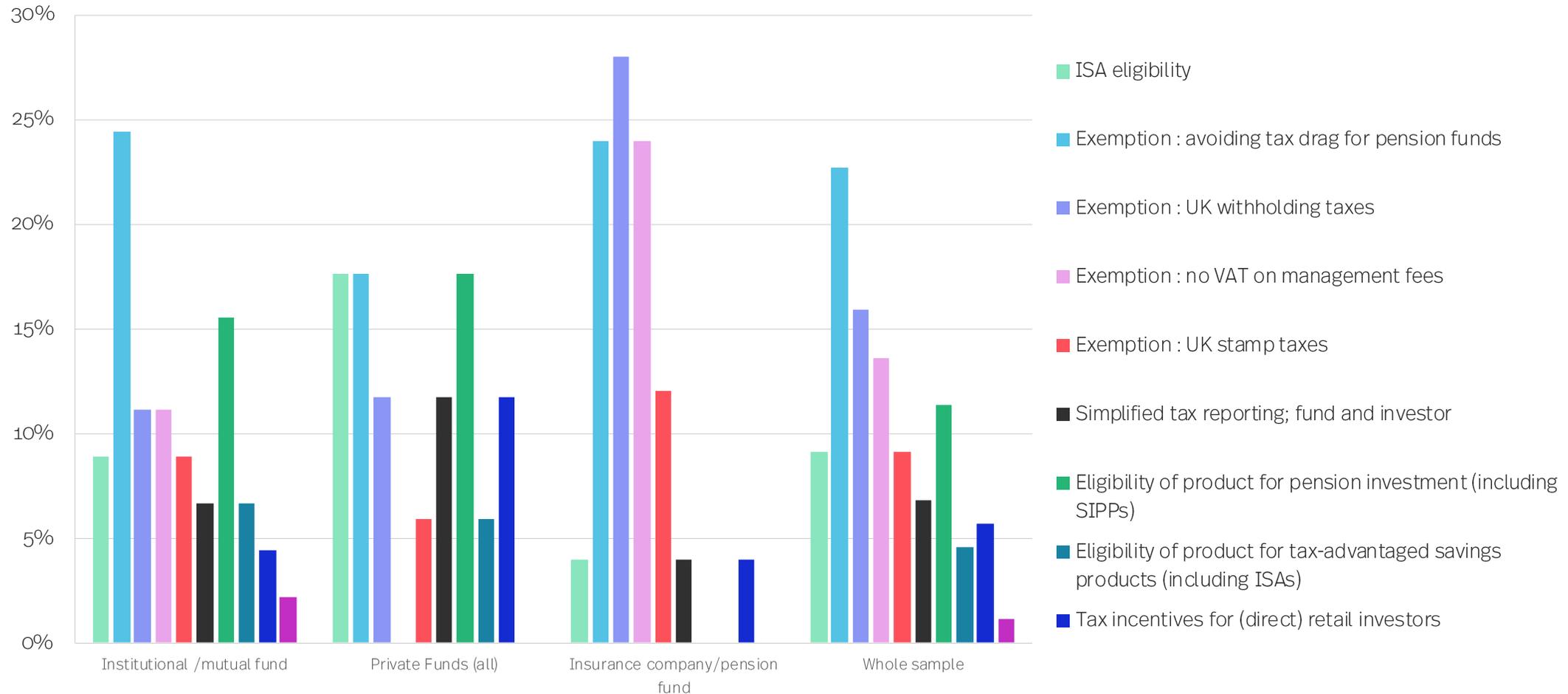
1 highly unlikely - 10 actively pursuing



What tax features will be important if the LTAF is to be a success?



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Whole sample: Clear identification of Top 3 features:

1. general exemption to avoid tax drag
2. exemption from UK withholding taxes
3. exemption from VAT on management fees

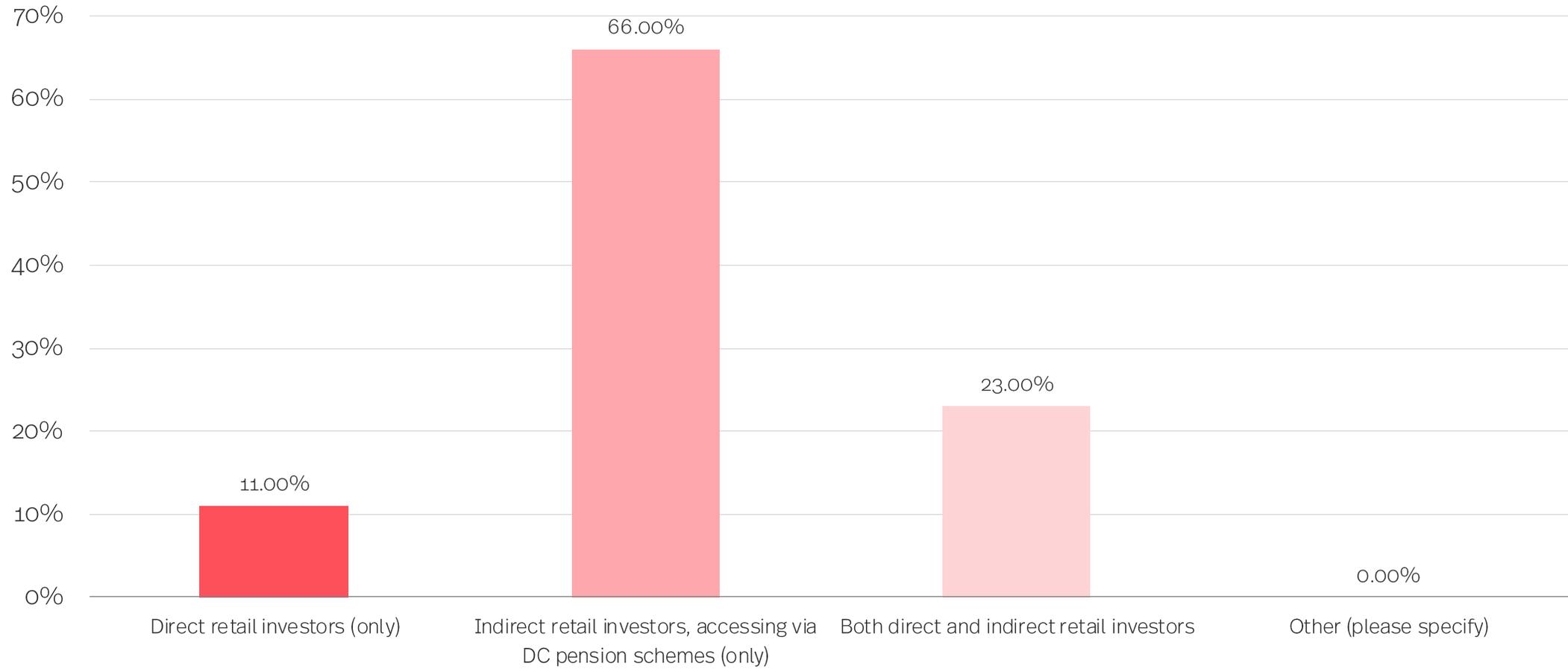
Making the product eligible for pension funds came a close 4

Significant variations: significant variations between fund types so the overall 'Whole Sample' picture needs to be treated with care.

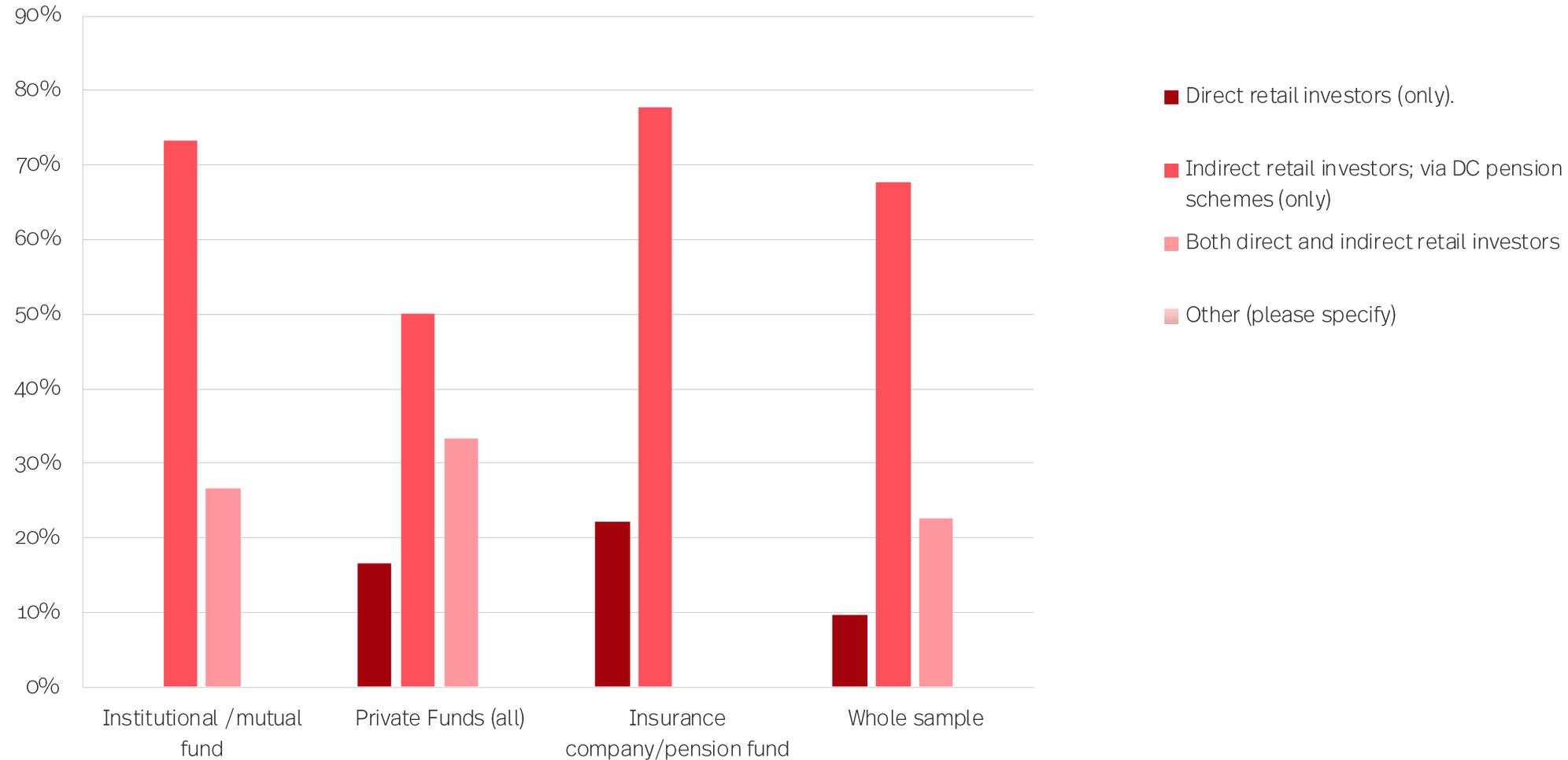
- Insurance/ pension funds have a similar 1,2,3 but with much more emphasis on gaining exemption from UK withholding taxes
- Private Funds rank ISA eligibility and eligibility for Pension Funds alongside a general exemption to avoid tax drag as their most important features
- Institutional/ Mutual funds too have a strong preference to see a general exemption to avoid tax drag but rank eligibility for inclusion in a pension fund as their second preference
- Hedge funds expressed no meaningful preferences

Comment: *putting this data alongside data from the previous question (how likely to launch) suggests some interesting pointers to the future direction of travel. While the likelihood to launch an LTAF product was generally low it was more nuanced for Private Funds who suggest here that eligibility for ISA and pension funds could be key to unlocking their interest.*

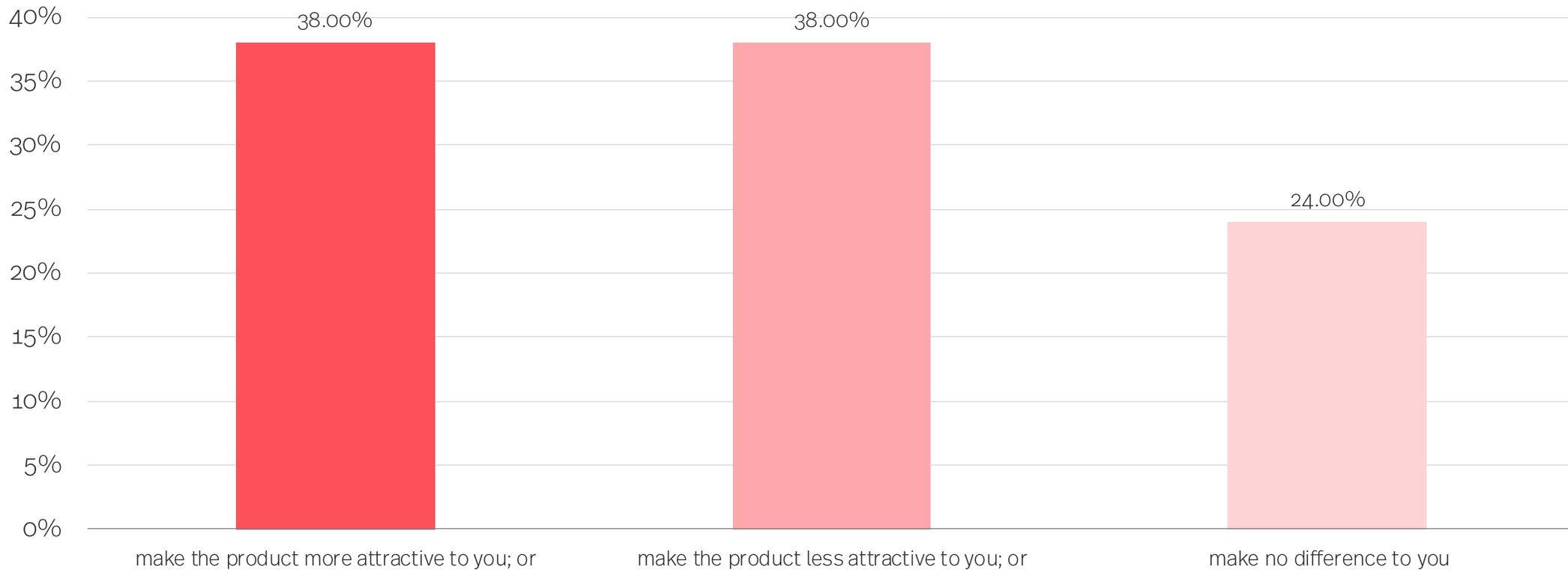
Do you believe the LTAF is more suited to:



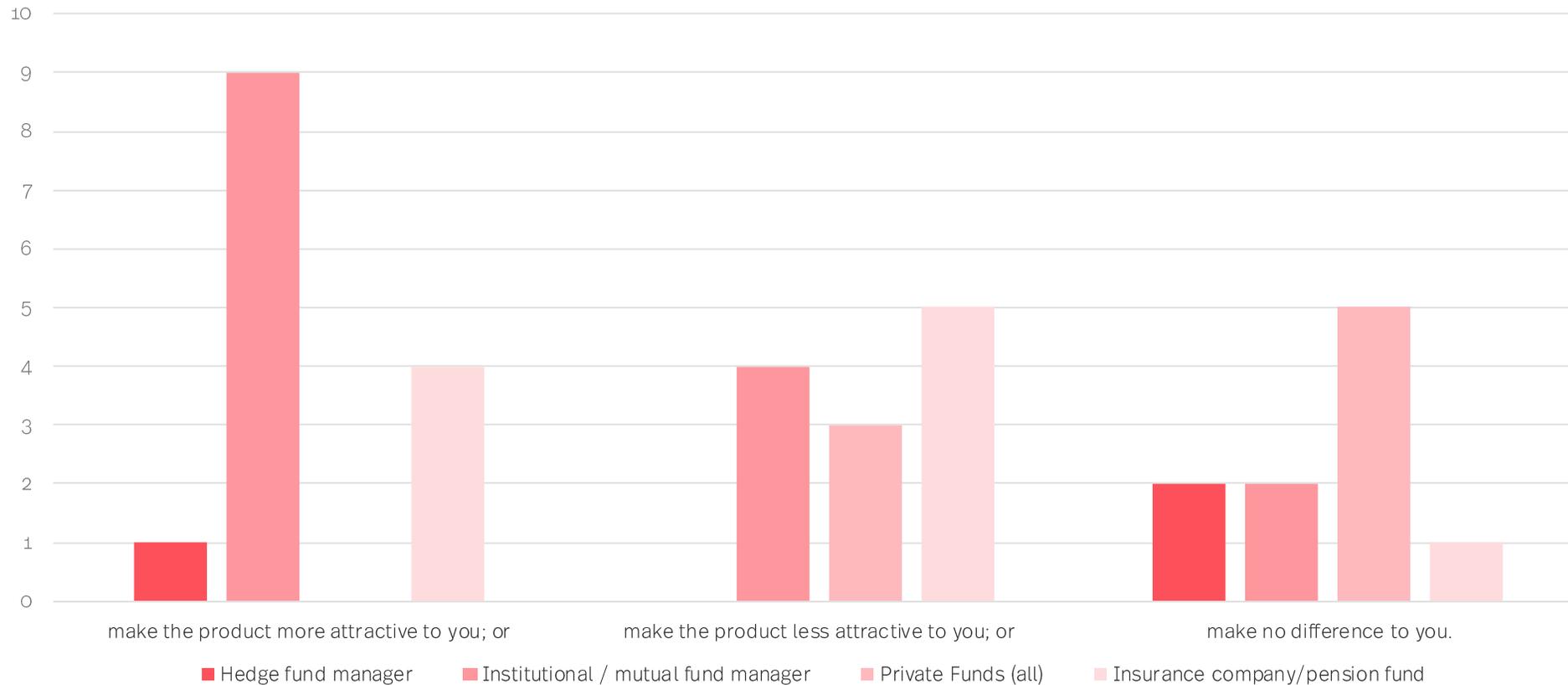
Do you believe the LTAF is more suited to:



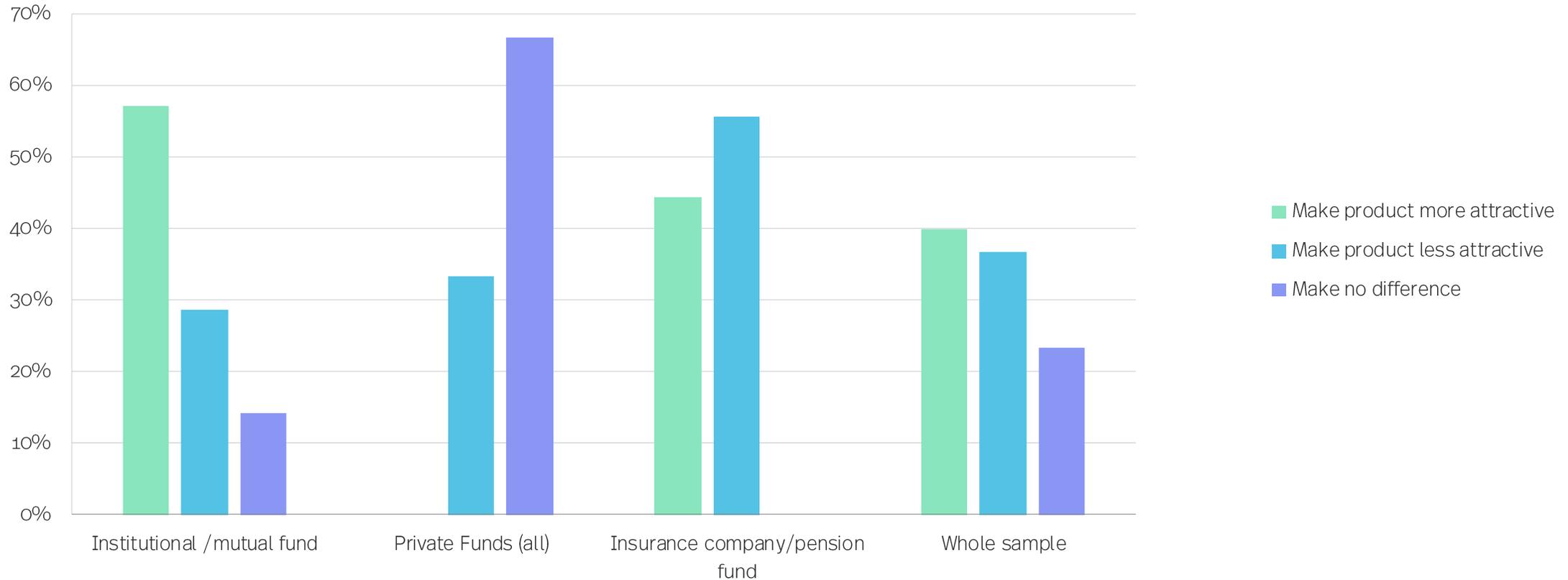
If the LTAF were to be available to retail investors, but only as a “non-mainstream pooled investment”, would that:



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Roundtable comments



"...I think it's right that with the IFA channel and suitability assessment retail should be able to access any products, but with a gatekeeper. Query whether asking for opening up to retail weakens our other 'asks'..."

"...We think the advised IFA rather than the direct model is the right one for us and for the market generally..."

"...I really think we have an opportunity to show that the industry wants particular sorts of fund..."

"...it would be unlikely that we would re-domicile existing funds from Ireland/Lux into London..."

"...Something that was available to retail with significantly delayed redemption would seem sensible..."

"...At the moment the industry is offshore - the tax take to the Treasury is zero and this is potentially sucking jobs out of the City. There are a couple of angles to this: back office jobs for administrative work in the regions. Somehow, we as an industry have been very poor at explaining just what infrastructure for the funds sector could be..."

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