AREF

The Association of Real Estate Funds
Camomile Court, 23 Camomile Street,
London, EC3A 7LL
+44 (0)20 7269 4677
info@aref.org.uk

Ray Bartholomew
Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

By email: cp18-40@fca.org.uk

28 February 2019

Dear Ray

Response to CP18/40: Consultation on proposed amendment of COBS 21.3 permitted links rules

We, the Association of Real Estate Funds[1] (AREF), would like to show our support for the aim of this consultation; to enable retail investors to invest in a broader range of long-term assets in unit-linked funds. We have not provided a response to the specific questions within the consultation as unit-linked investments and the permitted links rules are not within our area of expertise.

When investing for their pension and other long-term investment goals, the ability to choose funds that invest in illiquid patient capital assets provides retail investors with a product which may have the ability to closely match their investment strategy. As there is less of a requirement for on-demand liquidity when investing for the long-term, it would be appropriate for unit-linked funds to invest in patient capital, either direct or indirectly. Also, providing investors with a wider choice of long-term assets enables further diversification of products within their portfolios.

We agree that the FCA should ensure there is the appropriate degree of protection for investors seeking to invest in illiquid or higher risk patient capital assets within unit-linked funds. Enhanced disclosures providing investors with adequate risk warnings about liquidity and investment risk would contribute to the investors' understanding of the product. However, we would question the practicality of ensuring retail investors' rights to switch funds, take benefits or to withdraw or transfer funds are not affected in "any way" by the funds investing in illiquid assets. This proposal may deter unit-link fund providers investing in patient capital and other illiquid assets. It is not always

[1] The Association of Real Estate Funds represents the UK real estate funds industry and has around 60 member funds with a collective net asset value of more than £72 billion under management on behalf of their investors, including £18 billion on behalf of retail investors in the UK. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the AREF/IPD UK Quarterly Property Funds Index and the AREF/IPD Property Fund Vision Handbook.

Registered Address
The Association of Real Estate Funds
Camomile Court, 23 Camomile Street,
London, EC3A 7LL
Registered in England & Wales No: 04601584

possible to sell illiquid assets quickly and therefore investors should instead be warned that there may be a delay in them being able to exercise their rights.

We are delighted to see the clarification from the FCA in the paper that the requirement for regular publication of pricing by underlying funds does not limit unit-linked funds to invest in 'permitted scheme interests' which are priced daily. There appears to be a general practice for DC schemes to require daily dealing; we would expect these type of schemes to consider investing in funds that do not price daily too. We would like to reiterate the request in our responses to FCA CP18/27, Consultation on illiquid assets and open-ended funds, and FCA DP18/10, Patient capital and authorised funds, that the FCA enter into dialogue with DC schemes and distributors that only offer daily dealing funds on their platforms. The FCA should explain to them the importance of giving investors the choice to invest in funds that do not deal daily so they can invest in a wider range of assets. By insisting that funds deal daily they are preventing retail investors the ability to further diversify their portfolios and in some cases match their investments more closely to their investment strategy.

Another proposal we made in our response to FCA CP18/27 and reiterated in our response to FCA DP18/10 was that authorised funds that invest in real estate and patient capital should have the ability to defer redemptions for longer than the next valuation point, which is usually only one day later. The maximum deferral period should match the expected time period for realising the assets held by the fund. This would enable these authorised funds to accept subscriptions from unit-linked funds on a daily basis, if they wished, and in most circumstances accept redemptions on the same basis too. However, when the authorised funds did not have sufficient liquidity to meet redemptions they could defer redemptions for an appropriate period of time to enable them to raise adequate levels of cash. As long as this possibility was disclosed to investors in the unit-linked funds, as suggested in the consultation paper, this should not be a barrier to unit-linked funds investing in patient capital via authorised funds.

We were surprised that the FCA DP18/10 was not put out for discussion first and the outcome from it considered before this consultation was published. We would ask that the FCA bear in mind the responses they receive to FCA DP18/10 when considering the conclusion of this consultation.

Please contact Jacqui Bungay (jbungay@aref.org.uk), Policy Secretariat at AREF, to discuss any aspect of our response. Also, as our members invest in real estate and other real assets for various types of open-ended and closed-ended funds we are always willing to assist the FCA by sharing this wealth of knowledge and experience.

Yours sincerely

John Cartwright
Chief Executive, The Association of Real Estate Funds