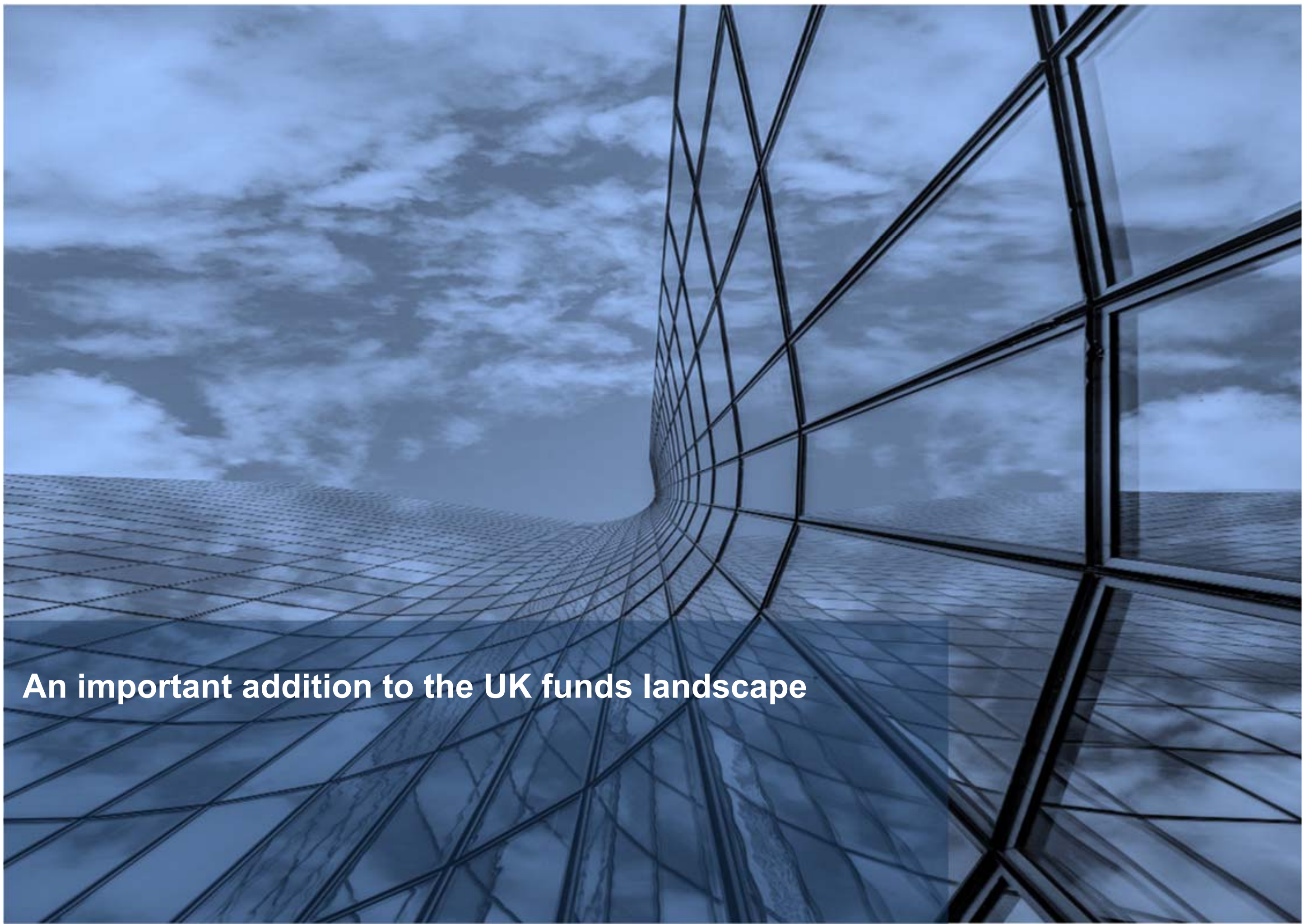
AREF

The Association of Real Estate Funds



An important addition to the UK funds landscape

PROFESSIONAL INVESTOR FUND

March 2020

EXECUTIVE SUMMARY

The fund management industry has a significant role in the UK economy, supporting investment – for instance infrastructure and real estate – as well as generating returns for savers including pension schemes and other institutional investors.

A clear gap exists in the UK's fund offering for professional investors relative to international competitors. UK fund managers are currently forced to consider other jurisdictions if they want to serve pension and other institutional investors with an unlisted, tax transparent fund structure with tradeable units[i] which is not required to operate as an Authorised Fund for UK regulatory purposes. Other jurisdictions offer closed-ended[ii], unlisted, tax transparent funds with tradeable units. The UK does not offer an equivalent fund vehicle.

The pension and other institutional investors whom our industry serves would very much benefit from an unlisted, tax transparent fund structure with tradeable units which is not required (nor permitted to) operate as an Authorised Fund (i.e. open-ended) for UK regulatory purposes (**Professional Investor Fund** or **PIF**). This paper sets out a blueprint for delivery of the PIF.

The proposal is supported by The Investment Association, which has incorporated it within the framework set out by the UK Fund Regime Working Group in June 2019. The proposed changes would create a new Onshore Professional Regime, in which the PIF would play an important role.

We welcome the announcement in the Government's 11 March 2020 Budget that the Government will undertake a review **(review)** of the UK's funds regime during 2020. We hope that the review will consider the delivery of the PIF.

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[i] "tradeable units" means not inhibited by transaction tax, and this is a particular concern with UK property investment partnerships..

[ii] "closed-ended" means not required to be open-ended".

INTRODUCTION

The Association of Real Estate Funds (**AREF**) is the body that represents the interests of its fund managers, those firms that advise and support them and the end customers that invest in our member funds.

Our membership includes over sixty-five funds spanning the leading real estate fund management houses in the industry, through to smaller, specialist boutiques, with a collective net asset value of over £72bn. We have more than fifty Affiliate members, a number of Associate members and hundreds of Investor members.

Our UK funds industry – including the real estate funds sector - welcomes the opportunity to enhance its position as a world leader in fund and asset management. We envisage that the PIF will be attractive to a range of domestic and international institutional investors who, from a UK tax perspective, are exempt as well as those that are taxable.

We have consulted with our members (primarily fund management houses with operations at the fund level in the UK). We have received general support in principle for this initiative.

Our proposal for a PIF would address the particular concern for the UK real estate funds sector. In conferring with our members and other industry organisations representing the UK funds sector, we have received positive feedback that the PIF would:

- benefit the UK funds sector generally, and should not be limited to holding real estate investments; and

- offer greater simplicity and coherence as a fund structure which can be utilised for any asset class.

In the case of the real estate funds sector, it is unfortunate when the underlying real estate, managers and investors are all UK-located – but the funds have to be operated outside the UK. The funds are thereby subject to associated operational costs. In addition, the funds have to address the challenges of multiple legal, tax and regulatory regimes including maintaining sufficient substance offshore.

The UK prides itself on a robust and resilient legal and regulatory regime. We know that trustees and other fiduciaries of UK pension and other institutional funds would much prefer the corporate governance and other investor protections which apply to commitments via funds and managers regulated by the FCA, rather than another jurisdiction. In addition, non-UK pension and other institutional funds would value the benefit of such protections.

We also note that the Financial Conduct Authority (FCA) indicated in its 30 September 2019 Policy Statement 19/24 (7.14) an intention to explore, amongst other issues: *"the importance of alternative product structures in managing the risks associated with illiquid underlying investments, including existing products, such as closed ended funds…"*

We address in the following pages key issues relating to this initiative:

- Market demand;
- Structuring details of the PIF; and
- Tax aspects relating to the PIF.

We are very grateful for the opportunity to explore enhancing the UK's share of fund domiciles and its brand for fund and asset management – as well as enabling UK fund management houses to respond effectively to Brexit.

MARKET DEMAND

We primarily represent fund managers who operate real estate funds, institutional investors and professional service providers operating within the real estate funds industry. For the purposes of this submission document, we summarise our view of the market demand for the PIF solution in the context of the real estate funds sector.

However in progressing this initiative, we have received feedback that the PIF can also be usefully deployed by fund management houses operating within other fund sectors. Hence the PIF is entitled to invest in any asset class.

Real Estate Funds: accessing an asset class with diversification benefits

In general, academic studies conclude that adding real estate to a mixed portfolio brings diversification benefits by improving the risk-return profile – see Table 1 below. The low correlation of real estate returns with those from equities and bonds is a key explanatory factor – see Table 2 below. A relatively high level of income return, underpinned by the contractual nature of leases and the potential for growth in line with inflation, is another important reason why investors seek exposure to real estate, and this is particularly the case in the current low yield environment.

Investors can purchase real estate investments directly, but many do not for a variety of reasons: each individual asset bears specific risks in terms of location, tenant and obsolescence; assembling a diversified portfolio of assets requires deployment of significant capital incurring substantial transaction costs; real estate requires management and the requisite expertise and staff resources may not be available in-house; and direct ownership may bring concerns about reputational risk, especially in high profile segments such as healthcare.

Instead, investors can look to invest indirectly via a vehicle: for instance, a collective fund or a company. By pooling capital into these private or public vehicles an investor can eliminate some of the risks associated with direct investment, albeit they do need to be aware of the factors which impact the nature of returns at a unit/share vehicle level. These various factors include vehicle management, fees and expenses, tax leakage, unit/share pricing movement, any leverage within the vehicle and liquidity/exit expectations.

Table 1 - UK Asset Returns and Volatility, 31 Dec 1986 to 31 Dec 2018[iii]

	Annualised Returns	Volatility (Monthly)	Risk-adjusted Returns
Bonds	7.60	5.82	1.31
Equities	8.82	14.89	0.59
Property Shares	6.90	20.70	0.33
Direct Property	**9.04**	**3.62**	**2.50**

Table 2 – Monthly UK Asset Correlations, 31 Dec 1986 to 31 Dec 2018[iii]

	Bonds	Equities	Property Shares	Direct Property
Bonds	1.00			
Equities	0.09	1.00		
Property Shares	0.15	0.66	1.00	
Direct Property	**-0.16**	**0.09**	**0.19**	**1.00**

[iii] Morningstar/M&G Real Estate, using monthly total returns – Bonds=FTSE Gilts All Stocks Index; Equities=FTSE All-Share Index; Property Shares=FTSE 350 Real Estate Index; Direct Property=IPD UK All Property Index

Increasing Attraction: unlisted real estate funds, not required to be open-ended

Real estate indirect investors are inevitably focused on liquidity/exit expectations as a key factor in an investment decision making process.

Investors requiring high liquidity may choose to allocate to listed real estate companies (e.g. REITs) but these investors trade-off diversification for liquidity by introducing potentially unwanted correlation to the wider public equities market. Recognising this issue, other investors requiring liquidity allocate to unlisted open-ended real estate funds, but these vehicles usually hold cash balances in order to meet redemption requests which dilute the real estate return from such vehicles.

As an alternative conduit for real estate indirect investment, institutional investors are increasingly attracted to unlisted closed-ended funds or funds which are not regulated as open-ended funds (and having to offer frequent redemption windows). For a relatively illiquid asset class such as real estate, holding a longer-term view and investing in a fund with limited liquidity can result in higher returns and track the performance of underlying real estate assets. These types of funds hold little to no cash in order to meet potential redemptions.

To meet this demand, fund management houses look to operate funds that offer flexibility by being closed-ended, semi-closed/open "hybrids" or even "evergreen" funds[iv]. These funds particularly appeal to investment strategies focused on:

- real estate sector-specific, alternative and emerging investment sectors such as residential property in various forms including elderly care, social housing, co-living and student accommodation that require specialist asset management skills.
- fund management houses offering core plus/opportunistic returns and/or realising post J-curve returns[v].

However, it is estimated that only a quarter of closed-ended vehicles (launched by UK-based fund management houses to target UK and/or European real estate assets) are domiciled in the UK[vi].

Fund Exits

Closed-ended funds for institutional investors typically operate with termination dates and can include manager and investor options to extend the termination dates. The life of a fund is typically 7-10 years after fund launch.

In recent years the greater flexibility with fund liquidity windows in the UK has combined with a growing secondary market servicing closed-ended, open-ended and hybrid funds. Institutional investors and fund management houses have benefited from exits via the secondary market, which they have utilised for real estate strategic purposes such as asset allocation changes, rebalancing portfolio risks and satisfying redemption requests.

[iv] "evergreen" funds means funds with an infinite fund term combined with infrequent and qualified liquidity windows.

[v] "post J-curve returns" refers to the reduction in fund returns after launch resulting from capital deployment and associated costs i.e. the returns initially fall, then stabilise and increase as the fund matures.

[vi] Property Funds Research estimate that UK domiciled closed ended funds account for 25% of the total €257bn (or circa £230bn) under management in vehicles launched in the last ten years by UK-based fund management houses to target UK and/or European real estate assets.

An alternative exit may be an option for investors in a PIF to elect for conversion of the fund to a Co-ownership Authorised Contractual Scheme i.e. as an open-ended structure (and comply with legislative and regulatory provisions applicable to Co-ownership Authorised Contractual Schemes).

The UK is currently the global leader in secondary market trading of real estate fund units held by institutional investors. The market operates on a match-bargain basis (not via a listed exchange), with brokerage firms providing pricing transparency in the UK and certain other jurisdictions. The secondary market can be attractive to meet the MiFID II best execution requirements which apply to many institutional investors. However, overall transaction volumes are modest in comparative terms[vii] and the secondary market (in the UK or elsewhere) may have liquidity limitations in certain market conditions.

Supporting the UK as a global hub for fund management houses

The UK (London) is a global hub for fund management houses. Other global hubs include France (Paris), Germany (primarily Frankfurt), Channel Islands, Hong Kong, Luxembourg, Ireland (Dublin), the Netherlands (Amsterdam), Singapore and the US (New York).

These hubs (often centred on individual cities) operate within competitive dynamics, and are generally sustained by available domestic real estate fund structures: structures which can commit into both domestic and non-domestic underlying real estate investments.

The hubs are more competitive if they can offer a greater choice of fund structures, as well as operating as clusters for associated infrastructure: for instance, robust regulatory regime, rule of law, treaty networks, fund administration services, real estate asset management services, tax, accounting and legal services. London – as an established financial centre for wealth management and banking activities - has become attractive with this associated infrastructure often being located elsewhere in the UK.

The UK's competitiveness as a fund management house hub would be enhanced with this proposed fund structure. The fund structure is also aligned with OECD tax policy of expecting fund management houses to operate with domestic fund structures: in particular, by discouraging cross-border structuring motivated by tax and regulatory arbitrages.

[vii] See chart in respect of trades undertaken on the PropertyMatch platform: Appendix 2

STRUCTURING DETAILS OF THE PIF

We suggest that the PIF:

1 is modelled (in terms of legislation and regulation) on the ACS legislation, and duly revised to reflect that the PIF will not operate – nor is permitted to operate - as an Authorised Fund i.e. an open-ended fund.

A PIF will be formed by a contract initially made between the PIF Operator (also responsible as the PIF AIFM) and (as applicable) the PIF depositary to which the participants (**PIF Investors**) become parties. The assets of the PIF will be held as legal owner by the PIF Operator or PIF Depositary (as applicable) on behalf of the participants who are jointly the beneficial owners of the scheme assets which they hold as tenants in common (or in Scotland as common property). The PIF Operator must make decisions on behalf of the participants about the acquisition, management and disposal of assets subject to the scheme as permitted by the scheme deed and those decisions will be binding on participants.

We set out in Appendix 1 our analysis of key legislative and regulatory provisions to facilitate the establishment and operation of the PIF.

2 is limited to the same category of investors who are permitted to invest in an ACS. Direct investment in a PIF is limited to investors who either invest a minimum of £1 million or are professional institutional investors. Other investors can only access a PIF through feeder funds which satisfy the professional institutional investor status.

3 is an Alternative Investment Fund/AIF for the purposes of the AIFMD legislation, managed by an Alternative Investment Fund Manager/AIFM, and has a depositary in accordance with the relevant threshold in the AIFMD legislation. We envisage the PIF Operator being required to act as the PIF AIFM.

4 constitutes an unregulated collective investment scheme (**UCIS**) for UK regulatory purposes, and accordingly would be marketed under the UCIS regime.

5 is established and operated via a registration of the PIF and its investors at a registry (**PIF Registry**). We assume that the PIF Registry will operate electronically. The PIF AIFM will be required to register with the PIF Registry details about the PIF including its registered office, the PIF Investors and any changes in the PIF Investors. The PIF Registry will issue upon completion of the registration process a PIF certificate of registration. The PIF certificate of registration will be conclusive evidence that a PIF came into existence on the date of its registration (equivalent to s8C of the Limited Partnerships Act 1907 (as amended)).

We suggest certain information in the PIF Registry (such as its registered office) is publicly available. However, other information (such as details of the PIF Investors) is only available to HMRC and the FCA, respectively for tax collection issues and addressing concerns about harms/risks.

TAX ASPECTS RELATING TO THE PIF

We set out our high level proposals on the implication for the taxation of the PIF. These proposals are not intended to be exhaustive. We assume that the same regime will apply as would be the case of the Co-ownership Authorised Contractual Scheme (**CoACS**) modified on account of the fund not being an Authorised Fund.

A PIF will not have its own legal personality and will not be within the charge to direct tax. Instead, the income received by the PIF will be liable to tax in the hands of each PIF Investor as it arises, while their investors will be liable to tax on gains realised on the disposal of PIF units but not on gains realised at the portfolio level. We propose that the PIF will be specifically excluded from the definition of a company for purposes of the Corporation Tax Acts by CTA2010/S1121(1) in a similar way to CoACS.

<u>Taxation of UK Investors</u>

Income

PIF investors will be taxable on their share of the PIF's income. This will apply to both corporate and individual investors. Therefore, we envisage investors will require detailed information relating to their share of PIF income in order to fulfil their tax obligations. Any income received will be subject to the normal tax treatment applied to that type of income in the hands of that category of investor. For example, dividend income is likely to be non-taxable in the hands of a corporate investor. Income from real estate and interest received will need to be treated according to the general rules that apply to each stream of income. For some types of income the computation and the treatment is different for taxpayers within the charge to Corporation Tax and those within the charge to Income Tax.

The PIF will be tax-transparent so it cannot be liable to any tax on income. PIF Investors will be taxable on their share of the PIF's income based on their own tax status.

Capital Gains

Capital gains will not be treated as arising on the PIF's share of assets held subject to the PIF but, instead, a unit in the PIF will be treated as if it were an asset purely for the purposes of tax on capital gains. PIF investors will be liable to tax on capital gains made on their interest in the PIF, and not on transactions in the underlying assets held in the PIF. This means that a gain or loss will not arise when the PIF disposes of assets within the PIF. Instead, PIF investors will need to consider the chargeable gains consequences when they dispose of (or there is a deemed disposal of) their interest in the PIF. The gains of UK resident individuals arising from the disposal of an interest will be liable to capital gains tax (subject to the annual exempt amount and any capital losses), whilst similar gains arising to corporate investors will be liable to corporation tax. The amount of any gain will be calculated using the normal rules.

<u>Insurance Companies</u>

Insurance companies investing in PIFs will be subject to different rules. An investment held in the long-term fund of an insurance company will be subject to TCGA1992/S212:

- in the same way as it currently applies to all other holdings in collective investment schemes held by insurance companies (except in partnerships); and

- meaning that if the interests are held in the long-term fund of an insurance company, the company is deemed, for the purposes of corporation tax on capital gains, to have disposed of and immediately reacquired the interests concerned at their market value at the end of an accounting period.

Taxation of Non-UK Investors

The fiscal transparency of the PIF means it will not be treated as resident for the purposes of double taxation conventions between the UK and other jurisdictions.

Instead, the availability of double taxation convention reliefs will depend on the convention between the PIF investor's jurisdiction of residence and the jurisdiction where the income or gain arises. Assuming the overseas jurisdiction recognises a PIF as a transparent entity, investors should be entitled to the same treaty benefits as though they had made the investments directly. Whilst it is beyond the scope of UK legislation to prescribe how a PIF is treated by a foreign jurisdiction, it is hoped that the majority, if not all, foreign states will view a PIF as transparent for tax purposes.

PIF investors will need to consult the relevant tax convention in order to establish whether treaty benefits are applicable and, if so, in what circumstances. The treatment of a PIF will need to be discussed with the overseas jurisdiction concerned. Any claim for treaty relief will need to be made using the procedures existing in that state. In practice PIF Operators/administrators may offer a service whereby they will submit claims for benefits on investors' behalf. In such cases the PIF Operator or administrator will inform investors of the information that they will need from investors in order to establish any claims for treaty benefits.

We expect that non-residents will only be taxable in the UK on investment income arising in the PIF if the income arises in the UK and they would be taxable on it in the UK if they had invested directly into the underlying asset. The main example of this is income from the rental of UK real estate where we would anticipate that they would be chargeable to income tax or corporation tax (as applicable), under the non-resident landlord scheme rules.

Where the PIF meets the non-resident CGT property richness condition, non-residents will be subject to the non-resident CGT legislation. Additionally it is noted:

- individuals where they are considered to be temporarily non-resident; and
- corporates where they carry on a trade in the UK through a permanent establishment, would both fall within the UK CGT net.

Capital Allowances

As the PIF will be transparent for the purposes of capital allowances, the PIF Investor – not the PIF – may be entitled to claim capital allowances subject to the normal rules.

However, we anticipate the PIF Operator will hold the information which investors require to calculate their entitlement to capital allowances. To avoid the need for exchanges of information between the PIF Operator and investors, we suggest the Government introduces a simplified scheme of calculating capital allowances whereby the operator of a PIF may calculate the allowances and allocate them to investors i.e. replicating the treatment of ACSs. The PIFs' capital allowances regime should be elective for the same reason as the CoACS regime is, that is because some PIFs will have only or mainly investors who are exempt investors, and who therefore are not entitled to claim capital allowances.

Stamp Taxes

We set out our proposals for PIFs, which are based on the assumption that they may hold UK real estate. This assumes:

- vanilla transactions and that all consideration is for cash.
- the application of various anti-avoidance provisions and rules for redemptions in specie.

Stamp Duty Land Tax (SDLT)

SDLT will not apply on transfers of units in a PIF – utilising the framework in s102A FA 2003 applying to ACSs.

We consider that if a PIF (holding UK real estate) were deemed to be a property investment partnership it is unlikely that the PIF would provide an attractive onshore option. The imposition of SDLT on any transfers of units in property investment partnerships (which include limited partnerships) was a significant catalyst which resulted in many UK real estate funds moving offshore.

SDLT Seeding Relief

The PIF regime would be more attractive if the CoACS SDLT seeding relief were to apply to the PIF. This would assist launching new products. However, in assessing the merits of the new PIF regime, the Government should consider it primarily a vehicle for new funds and should not assume a significant amount of conversion of existing fund structures (given that conversion is a complex legal exercise). Where SDLT seeding relief has been claimed, we would expect a similar clawback mechanism to apply as for CoACS to limit the scope for tax avoidance.

Stamp Duty (SD)

We suggest no SD will apply on a transfer of unit in a PIF (based on FA 99 Sch 13 Para 25A(1)(c) applying to ACSs) and no SD on the issue or surrender of PIF units.

Stamp Duty Reserve Tax (SDRT)

We suggest no SDRT will apply on an agreement to transfer units in an ACS (based on FA 1986 s 90(7B)(b) applying to ACSs). In addition, there would be no SDRT on the issue or surrender of units.

VAT

We welcome that the review will consider the VAT treatment of fund management fees and other aspects of the UK's funds regime, and we hope this treatment and other aspects of the UK's funds regime will take into account the PIF.

Tax Returns

The PIF will be required to submit a return of income and capital gains, the PIF's allocation to its investors, details of expenses and capital allowances. This requirement ensures that HMRC receives this information for tax collection purposes, even though the PIF will not be liable to any tax on income and on capital gains.

Tax Avoidance

It is recognised that appropriate anti-avoidance rules should be included to prevent the use of structures such as this from being used in a way that is not intended. Such rules should recognise the need for certainty of treatment of the PIF and include appropriate clearance mechanisms.

In the context of the PIF, the nature of closed-ended investment offerings means that a simple "Genuine Diversity of Ownership" (**GDO**) test would generally be too narrow. HMRC recognised this in the design of the Schedule 5AAA TCGA 1992 requirements for offshore CIVs to benefit from exempt and/or transparent treatment. A similar approach – the combination of a GDO and a non-close test, with exceptions for qualifying institutions, and supplemented with the fallback option of an HMRC direction where necessary to protect the public revenue – may be appropriate here as a way of addressing potential avoidance concerns, and furthermore will ensure a fully level playing field between onshore and offshore equivalent investment vehicles.

Further Technical Points

There will be further technical points that we suggest should be covered through technical working groups. These will include the treatment of holdings of PIF units for inheritance tax purposes.

We welcome that the review has begun with a consultation, published on 11 March 2020, on whether there are targeted and merited tax changes that could help to make the UK a more attractive location for companies used by funds to hold assets. We hope that this consultation will take into account the PIF.

APPENDIX 1

ANALYSIS OF KEY LEGISLATIVE AND REGULATORY PROVISIONS TO FACILITATE THE ESTABLISHMENT AND OPERATION OF THE PIF

Authorised Contractual Schemes (**ACS**) were introduced in 2013 by the Transferable Securities (Contractual Scheme) Regulations 2013, structured either as authorised co-ownership schemes or as authorised limited partnership funds (in each case being available as UCITS, NURS or QIS). We request that the Government considers the introduction of the PIF as an unauthorised Contractual Scheme. The purpose of this Appendix is to identify certain key primary and secondary areas of legislation which would potentially require amendment or (at least) consideration if PIFs were to be fitted into the current regulatory landscape. The areas identified are not exhaustive.

<u>**Regulatory issues**</u>

1 The PIF would fall within the existing definition of a co-ownership scheme as specified in the Financial Services and Markets Act 2000 (**FSMA**) s235A (2) – (5). We would suggest the insertion of a definition of a PIF in FSMA s237 (3):

"*professional investor fund*" means a contractual scheme which satisfies the requirements of section 235A (2) – (5) and is not the subject of an authorisation order in force under section 261D".

2 s237 of FSMA should be amended to take a PIF clearly outside the definition of a unit trust scheme.

3 The provisions in ss261M – 261P of FSMA (grouped under the heading "Co-ownership schemes: rights and liabilities of participants" and comprising: s261M/Contracts, s261N/Effect of becoming or ceasing to be a participant, s261O/Limited liability and s261P/Segregated liability in relation to umbrella co-ownership schemes) should be extended to PIFs.

4 Consider whether the PIF should be prohibited from operating as a small registered UK AIFM by requiring a minimum level of assets under management so that it will necessarily be an above threshold AIFM.

5 If 4 above is adopted then, "*managing a PIF*" will fall within Article 51ZC of the Regulated Activities Order and Article 51ZF and the Schedule 8, paragraph 2 exclusion for small registered UK AIFMs will not be engaged.

<u>**Operational issues**</u>

6 The disqualification of auditor regime in s249 and discipline of auditors in s261K of FSMA might be applied to auditors of a PIF.

7 Consider whether a PIF should be required to be subject to corporate governance mechanisms equivalent to those applied to companies, as envisaged by the COLL Rules, in particular 5.2.7CR(2): "(a) it is subject to corporate governance mechanisms equivalent to those applied to companies; and (b) it is managed by a person who is subject to national regulation for the purpose of investor protection". This will require amendment to the COLL Rules.

8 FUND 3.2.5R to the effect that "*an AIFM must, for each UK AIF and EEA AIF it manages, and each AIF it markets in the EEA, disclose to investors periodically: (1) the percentage of the AIF's assets that are subject to special arrangements arising from their illiquid nature; (2) any new arrangements for managing the liquidity of the AIF; and (3) the current risk profile of the AIF and the risk management systems employed by the AIFM to manage those risks*" will apply to a PIF except where a PIF is managed by a small authorised AIFM.

9 FUND 3.3.2 R requiring that an AIFM of any UKAIF and EEA AIF it manages and for each AIF it markets in the UK (1) make an annual report available to investors for each financial year; (2) provide the annual report to investors on request; and (3) make the annual report available to the FCA and, in the case of an EEA AIF, to the competent authority of that AIF, will apply to a PIF except where a PIF is managed by a small authorised AIFM.

Promotion of PIFs

Consider whether:

10 The limitation on liability for key investor information in s90ZA of FSMA might be applied to like promotions of PIFs.

11 The exception from the restriction on promotion in s238(4) of FSMA should be amended to include PIFs.

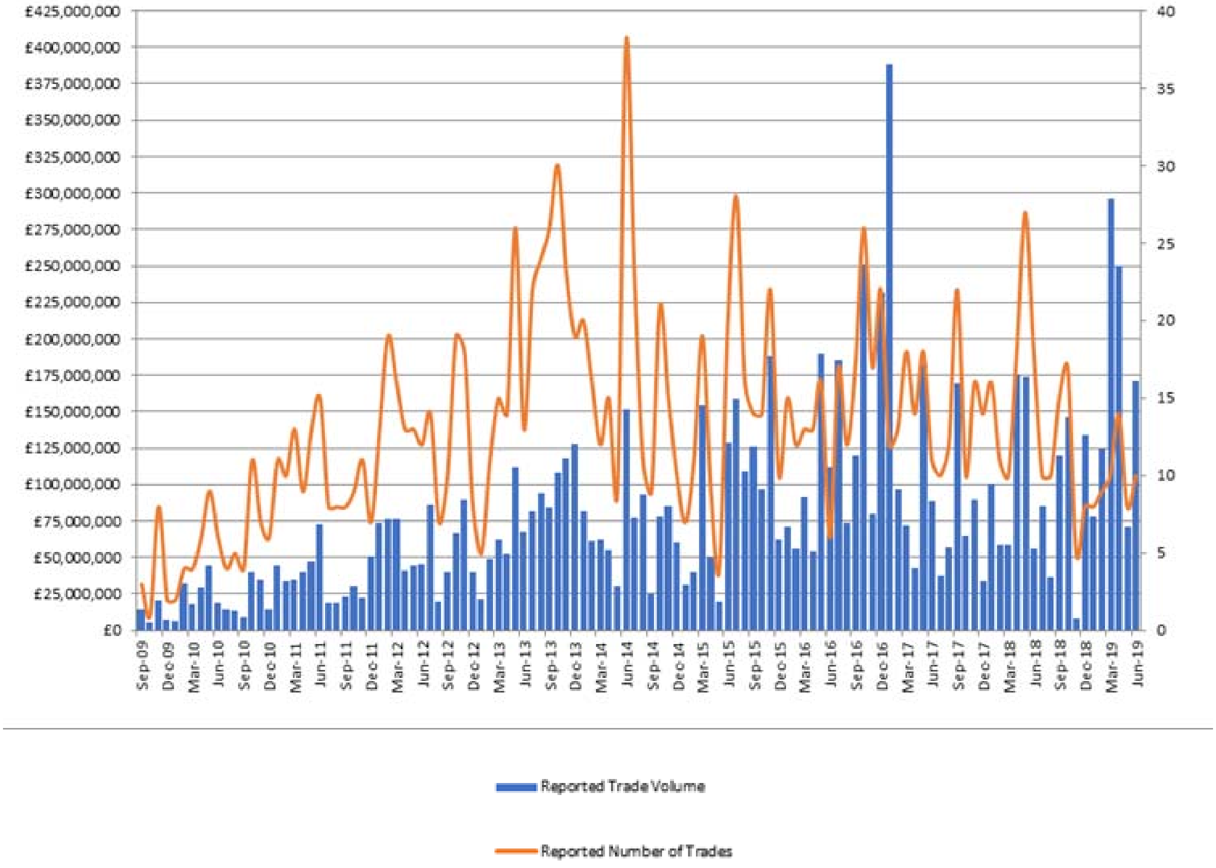
12 The operators of PIFs should be prohibited from contracting out of liability for negligence as with ACS pursuant to s261T of FSMA.

13 Specifying that Conduct of Business Source Book Rule 4, 12.3R (prohibiting promotion of non-mainstream pooled investments to retail clients) applied to PIFs.

14 The Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 should be amended to specify that PIFs can only be promoted to high net worth and sophisticated investors/professional clients.

APPENDIX 2

CHART - TRADES UNDERTAKEN ON THE PROPERTYMATCH PLATFORM



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