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Professional Investor Fund Explained

Tuesday 2nd July 2020



Investment
Property Forum



Welcome
Anthony Shayle
Consultant
Chair of the AREF Public Affairs Committee



Chair & Speakers



**Moderator
Anthony Shayle
Consultant**



**Melville Rodrigues
Ocorian**



**Emma Cullen
Fiera Real Estate**



**Christopher Austin
Schroders Real
Estate**



**Stephen Palmer
DTZ Investors**

Agenda for today

- 09.15** **Welcome from Moderator, Anthony Shayle**
- 09.20** **Presentations on the PIF Proposal, from speakers:**
Stephen Palmer, DTZ Investors
Melville Rodrigues, Ocorian
Christopher Austin, Schroders
Emma Cullen, Fiera Real Estate
- 09.40** **Q&A session, moderated by Anthony Shayle**
- 10.00** **Finish**



Please use the chat function (look for the speech bubble icon) to ask a question throughout the webinar.



Investor Perspective
Stephen Palmer
Director
DTZ Investors



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INVESTOR CONSIDERATIONS

Variety of **structures** = flexibility on how we invest for our clients

- Listed real estate companies
- Open ended with quarterly redemptions,
- Semi-open ended,
- Evergreen, with infrequent and qualified redemptions
- Closed ended

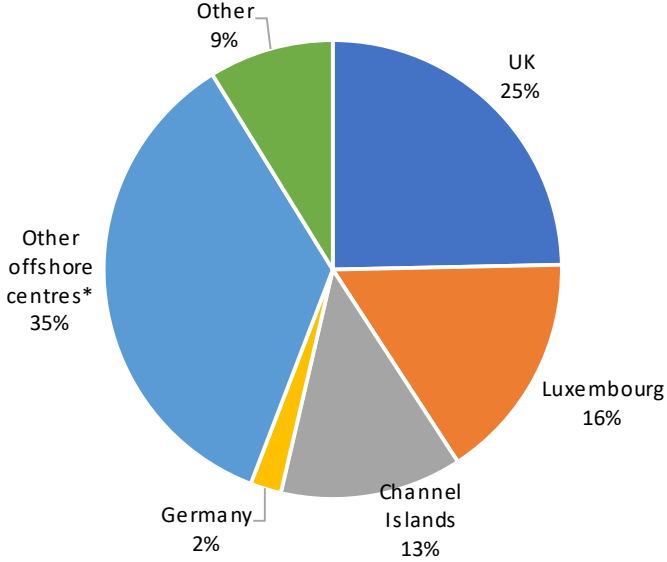
Liquidity options (i.e. asset allocation changes, portfolio rebalancing, redemption requests)

Closed ended

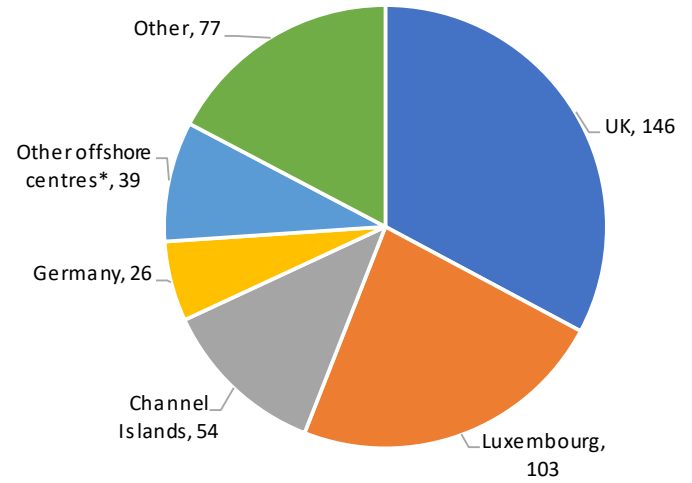
- Fund termination, typically 7-10 years
- Periodic or infrequent redemption “windows”
- Secondary market transaction
 - Transaction volumes grown but liquidity limitations in certain market conditions
 - Tax treatment depends on where the fund is domiciled.
 - A transfer of units in offshore vehicles is generally not subject to SDLT
 - The imposition of SDLT on any transfers of units in property investment partnerships (which include limited partnerships) resulted in many UK real estate funds moving offshore

DOMICILE OF CLOSED ENDED FUNDS LAUNCHED IN LAST 10 YEARS TARGETING UK AND EUROPEAN REAL ESTATE

Closed Ended Funds By AUM (€257bn)



Closed Ended Funds By Number (#445)



*Other Offshore Centres include: Bermuda, British Virgin Islands, Cayman Islands and Delaware

Source: Property Funds Research

UK domiciled closed ended funds account for just 25% of €257bn under management in 146 closed ended vehicles launched by UK based fund management houses to target UK and European real estate assets



INVESTOR FEEDBACK AND COMMENT TO CAPITAL RAISERS ON OFFSHORE DOMICILED CLOSED ENDED FUNDS

Reputational risk

“It’s both a perception issue and a concern about future tax risk”

“Pension fund investors don’t want to be seen to be avoiding tax”

“European institutional investors don’t want to face criticism for avoiding tax on real estate investments by investing via Jersey”

Oversight & Management

“The requirement for offshore meetings is challenging during normal times and COVID-19 has made the situation worse”

Establishment costs

“Offshore structures are expensive to set up and operate so investor returns are impaired.”

“Small, entrepreneurial managers find it difficult to get good ideas to market which is a shame”

REASONS WHY DTZ INVESTORS IS SUPPORTIVE OF THE PIF

As **Investors** in indirect funds

- Access real estate returns through wider variety of unlisted onshore closed ended vehicles promoted by managers - both large and small - broadens the opportunity set
- UK meetings and oversight
- Scope to trade out without tax impediment should the need arise

As **Fund Manufacturer and Promoter** (e.g. COLIV)

- Relative simplicity – establishment and operation
- Lower costs?
- Broaden the basis of appeal to European institutional investors (UK regulatory oversight and tax)

As UK based **Fund Management** business

- Bring more AUM onshore, which has to be good for UK plc in the current context

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July 2020





Introduction to the PIF

Melville Rodrigues
UK Fund Services
Ocorian



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PIF addresses a gap in UK fund offering

- Non resident investors/funds: UK CGT changes April 2019 → Re-assessment
- Underlying RE, managers and investors: all UK located, but constraint tax transparent unlisted closed-ended/hybrid funds with tradeable units - operated offshore
- Trade-offs:
 - risk management/investor protection
 - substance offshore
 - multiple legal, tax and regulatory regimes
 - establishment & operation costs



Government: Review the UK's funds regime in 2020

Spring Budget announcement:

- cover tax & regulation
- case for policy changes

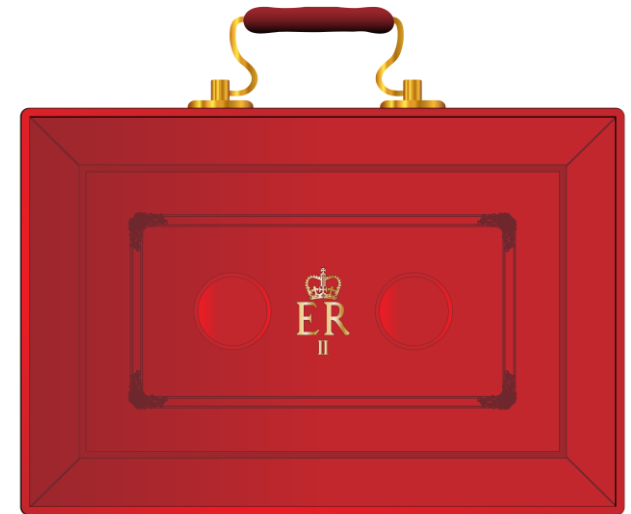
HMT consultations include:

- asset holding companies in alternative funds; &
- VAT on fund management fees

Help make UK a more attractive location for funds

Fund jurisdictions need to re-invent: competitive dynamic

Industry: welcomed opportunity for engagement



Contractual Scheme Solution

- Flexible: (i) underlying assets (ii) liquidity matching exits: closed-ended, 'evergreen' & hybrids with redemption windows
- Partially modelled on the Co-ownership authorised contractual scheme/ACS: unauthorised CS with appropriate changes
- Professional investors with £1m minimum commitment i.e. similar to a QIS ACS: like "*professional clients*"
- Tax transparent
- Unit transfers: free from transaction tax
- Unlisted
- Alternative IF (with UK AIFM & depository) + Unregulated Collective Investment Scheme
- PIF deed & notifications to PIF Registry

Attractions: more risk averse than ACS & minimal legislative amendments



Apples and Oranges!

- Open-ended funds holding real estate & less liquid assets
- Authorised funds: *realisable units within a reasonable period at NAV*
- Separate timelines: PIF & open-ended fund industry proposals
- Potential conversion attractions e.g. some QIS ACS → PIF



Alignment: UK Government policy

Boost UK competitiveness as a fund jurisdiction

Brexit : Global Britain goal

‘Build, build, build’ infrastructure and housing strategy

Aim for industry/government win-win scenario

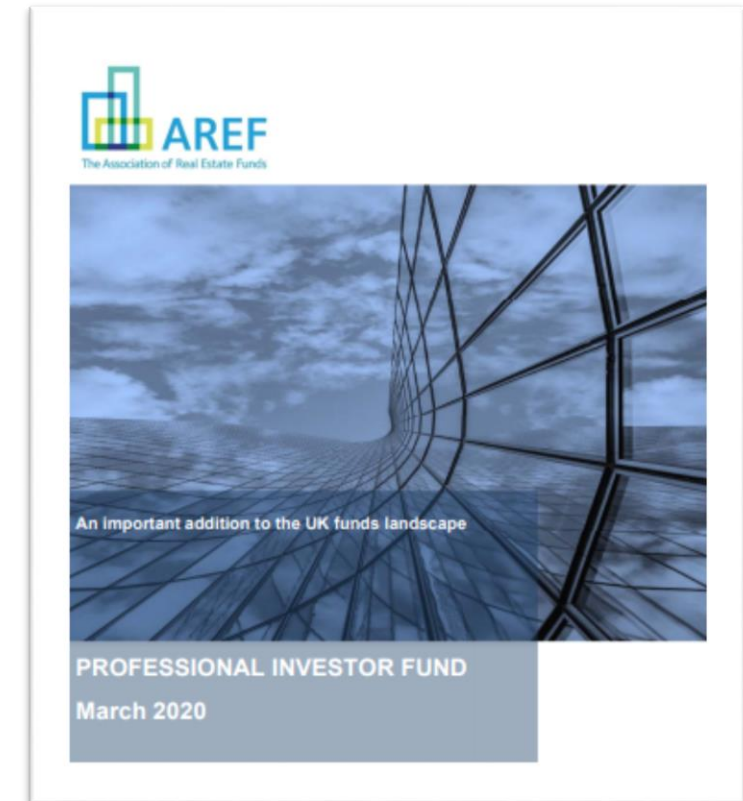
e.g. appropriate anti-tax avoidance provisions
- learn from SDLT PIP experience



AREF Submission

- Grassroots support & consensus: UK pensions, fund/asset managers etc.
- Thanks: wide industry endorsements including AREF & IA's OPF proposals
- Solutions to key demand-led drivers:
 - FCA regulated fund & manager
 - establishment: reduce entry barriers
 - operation: minimise complexities → greater efficiencies

Greater choice alongside other international options



Next steps?

- Constructive dialogue with HMT & FCA
- My hope: comprehensive funds regime review & ministerial approval for a HMT Consultation 2020
- Consultation should include questions like:
 - *is there a gap in the UK's funds offering for professional investors?*
 - *if there is a gap, what is the proposed solution?*

Campaign continues: further endorsements welcomed!



Endorsement: Proposed Text



We welcome the initiative of the funds industry lobbying for a UK Fund for institutional investors (whether the investors based in the UK or elsewhere) in which the Fund has the following key attributes:

- 1. tax transparent;*
- 2. trades in Fund units will not inhibited by transaction tax;*
- 3. entitled to hold any investments (including real estate and infrastructure investments) in the UK or elsewhere;*
- 4. the Fund and its manager are regulated by the FCA, but the Fund is not required to be an Authorised Fund (i.e. open-ended) for UK regulatory purposes; and*
- 5. not listed.*

We support the choice to establish and operate the Fund, and request that the UK H M Treasury issues a consultation document to evaluate the merits of the UK Government progressing with legislation which would facilitate the establishment and operation of such a Fund.

We consent to our support and involvement with this initiative being disclosed to the UK H M Treasury and any other third party.



Melville Rodrigues
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Tax Treatment
Christopher Austin
Head of Tax, Private Assets, Schroders
Chair of the AREF Tax Committee



PIF Proposal Explained

Tax objectives

- Tax neutral structure, comparable with overseas equivalents
- Suitable for investors with differing tax attributes
- Liquidity in unit dealings
- Tax efficient seeding
- Facilitate investment through SPVs
- Minimal need to enact new tax law
- Limit opportunities for tax avoidance

Source: AREF PIF Proposal to HM Government, March 2020. The final design of the scheme depends on the outcome of Government consultation. This is not tax advice

PIF Proposal Explained

Tax Attributes



Direct Taxes

- Tax transparent for income
- No CGT within the fund
- Simplified capital allowances



Transfer Taxes

- No SDLT or other Stamp Duty on unit dealings
- Seeding relief for in specie contributions



VAT

- Able to register for VAT
- VAT treatment of management fees: to be determined via consultation

These tax attributes are based largely on the existing Authorised Contractual Scheme (ACS) tax regime, extended to unauthorised funds.

Source: AREF PIF Proposal to HM Government, March 2020. The final design of the scheme depends on the outcome of Government consultation. This is not tax advice



Merits of the PIF from a Fund Management Perspective

Emma Cullen

Chief Operational Officer

Fiera Real Estate UK



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Q&A Session

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Concluding remarks

Anthony Shayle



Thank you



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