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Response by email to [vfmconsultationpaper@fca.org.uk](mailto:vfmconsultationpaper@fca.org.uk)

17 October 2024

## Response to FCA CP24/16 The Value for Money Framework

We, the Association of Real Estate Funds<sup>1</sup> (AREF), welcome the opportunity to respond to the FCA's consultation on the Value for Money Framework ('Framework'). We support a Framework that enables industry stakeholders to assess and compare, not only investment performance and costs, but the value for money pension schemes are providing. The aims of the Framework are strengthened by it applying to pension schemes regulated by both the FCA and TPR. Also, we welcome the linkage between the Framework and firms' obligations under the Consumer Duty. Although, we note that all of this needs to be balanced against the Framework not being too much of a burden on pension providers and leading to additional costs for scheme members. Therefore, we do encourage the regulators to ensure the requirements under the Framework and the definitions it uses are aligned, where possible with other disclosure requirements relating to pension schemes.

We have not responded to individual questions in the consultation paper, but instead, under the chapter headings, we have provided below our thoughts and comments relating to investment by pension schemes in real estate as an asset class.

### **Chapter 4 Investment performance**

#### Reporting periods

We are in agreement with the investment performance metrics being reported over periods up to 10 and 15 years.

#### Risk metrics

We agree with disclosure of risk adjusted returns for the reasons set out in the consultation. In addition, we believe that there are merits in an explanation by the pension scheme of its approach to:

- investment in assets which provide an element of hedging against inflation;
- investment in assets which provide diversification and non-correlation with other assets in the portfolio.

### **Chapter 5 Asset allocation disclosures**

AREF is an advocate for greater transparency for investors and therefore we support the disclosure of asset allocations by pension schemes.

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<sup>1</sup> The Association of Real Estate Funds represents the UK real estate funds industry and has over 50 member funds with a collective net asset value of more than £50 billion under management on behalf of their investors. The Association is committed to promoting transparency in performance measurement and fund reporting through the AREF Code of Practice, the MSCI/AREF UK Quarterly Property Funds Index and the AREF Property Fund Vision Handbook.

We agree with the separate asset allocation reporting for infrastructure and property/real estate. The proposals in section 5.16 of the consultation, to avoid double accounting, appear to be sensible to us.

We are pleased to see that it is proposed to align asset allocations disclosures with the Disclose and Explain regulations and the definitions in DWP's Disclose and Explain statutory guidance.

### **Chapter 6 Costs and charges**

In the consultation, it is proposed "*to define investment charges as fees and charges in relation to the investments of an in-scope arrangement, including any performance-based fees but excluding transaction costs....*".

We believe performance fees should not be classified as investment charges and should be disclosed separately. This would be consistent with the recent changes to the charge cap, where well-designed performance-based fees can be excluded from investment charges, and the PSLA CTI templates.

For investment in real estate as an asset class, property level costs should not be regarded as an investment charge. There are two existing and very similar definitions that can be used in the charge cap and PSLA CTI templates in relation to this.

If you would like to discuss any aspect of our response please contact either myself ([prichards@aref.org.uk](mailto:prichards@aref.org.uk)) or Jacqui Bungay ([jbungay@aref.org.uk](mailto:jbungay@aref.org.uk)), Head of Policy at AREF. AREF is willing to engage further with the FCA, at roundtables or other stakeholder events, to bring practical insight from real estate while developing the Framework.

Yours sincerely



**Paul Richards**

CEO, The Association of Real Estate Funds