



Member Webinar

**UK Treasury's Funds Review: Call for Input consultation
Implications for the Real Estate Funds Sector**

Tuesday 23rd March 2021





Moderator Welcome

John Forbes, Consultant
John Forbes Consulting



Agenda for today

- 10.00 Webinar start
- 10.00 Welcome and housekeeping - John Forbes, John Forbes Consulting
- 10.05 An overview of the Call for Input & the LTAF proposal - Peter Capper, The IA
- 10.10 Tax Implications for the LTAF - Anshita Joshi, AREF
- 10.15 PIF contractual scheme proposal - Melville Rodrigues, Apex Group
- 10.20 Tax Implications for the PIF - Christopher Austin, Schroders
- 10.25 Member discussion
- 11.00 Close

Speakers



Christopher Austin
Head of Tax, Private Assets
Schroders



Peter Capper
Policy Advisor
The IA



Anshita Joshi
Tax Specialist
AREF



Melville Rodrigues
Head of Real Estate
Advisory
Apex Group





An overview of the Call for Input & the LTAF proposal

Peter Capper, Policy Advisor
the Investment Association





Tax Implications for the LTAF

Anshita Joshi, Tax Specialist
AREF



Long Term Asset Fund (LTAF) – AREF Update

23 March 2021



AGENDA

1. Long Term Asset Fund Proposal
2. Tax Implications for LTAF
3. Latest Developments and Broader Context

1. LONG TERM ASSET FUND PROPOSAL

LONG TERM ASSET FUND - PURPOSE

- Proposal made by the UK Fund Regime Working Group (UKFRWG) to the HMT Asset Management Taskforce in 2019
- Facilitate access to private markets effectively – responding to investor interest in accessing investments such as infrastructure, property, private equity and private credit
- Policy focus on channelling investment into “patient capital”
- Initially targeted at DC default pension schemes and private wealth managers wanting to make allocations to private markets as building block in wider strategy
- Overcomes limitations with existing vehicles
- Longer term ambition to broaden access further, subject to appropriate protection

RECOMMENDATIONS

- Should be authorised fund marketable to retail
- Adapt existing authorised NURS structure
- Investment and borrowing powers designed for illiquid investments
- Dealing frequency aligned to the liquidity of the underlying assets
- Strong investor protection measures
- Model based valuations
- Registration of assets in fund name
- Tax efficiency – ensure no additional tax leakage at fund level
- Tax incentives

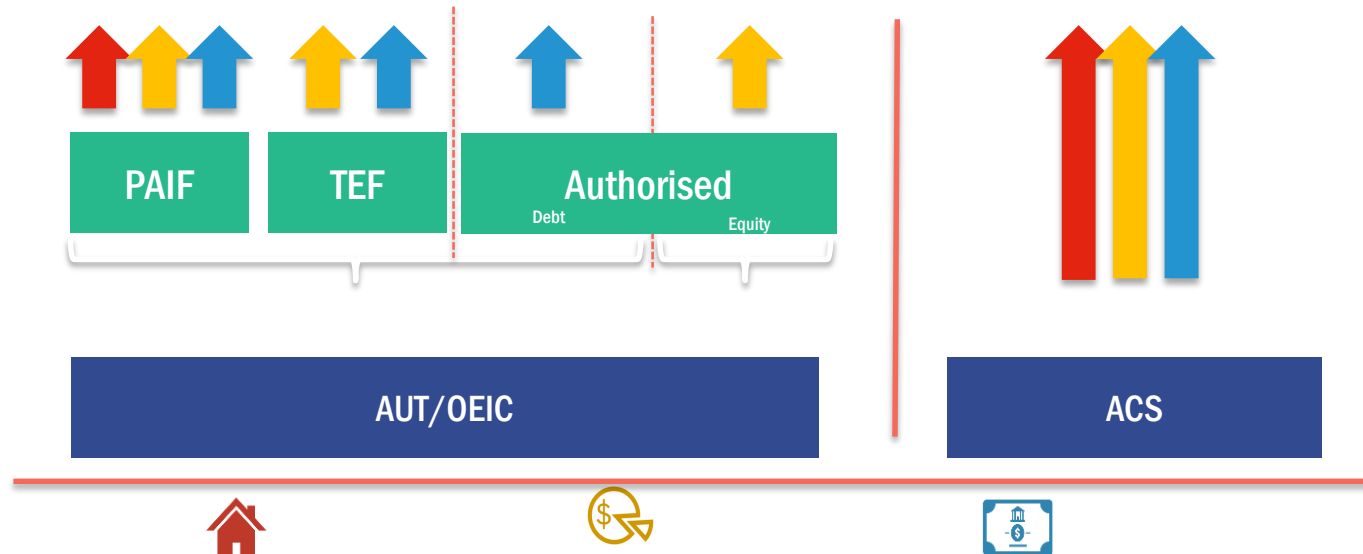
2020 POSITION PAPER – ROLE OF THE LONG TERM ASSET FUND

- Further develops themes in original paper
- Explores limitations of existing structures
- Expands on the target asset classes, investment rules, redemption terms, valuation requirements
- Recommends restrictions that would apply to marketing to retail investors
- Draws on models used in other countries
- Sets out hypothetical examples of what LTAFs might look like in practice
- Emphasises importance of adapting permitted links rules

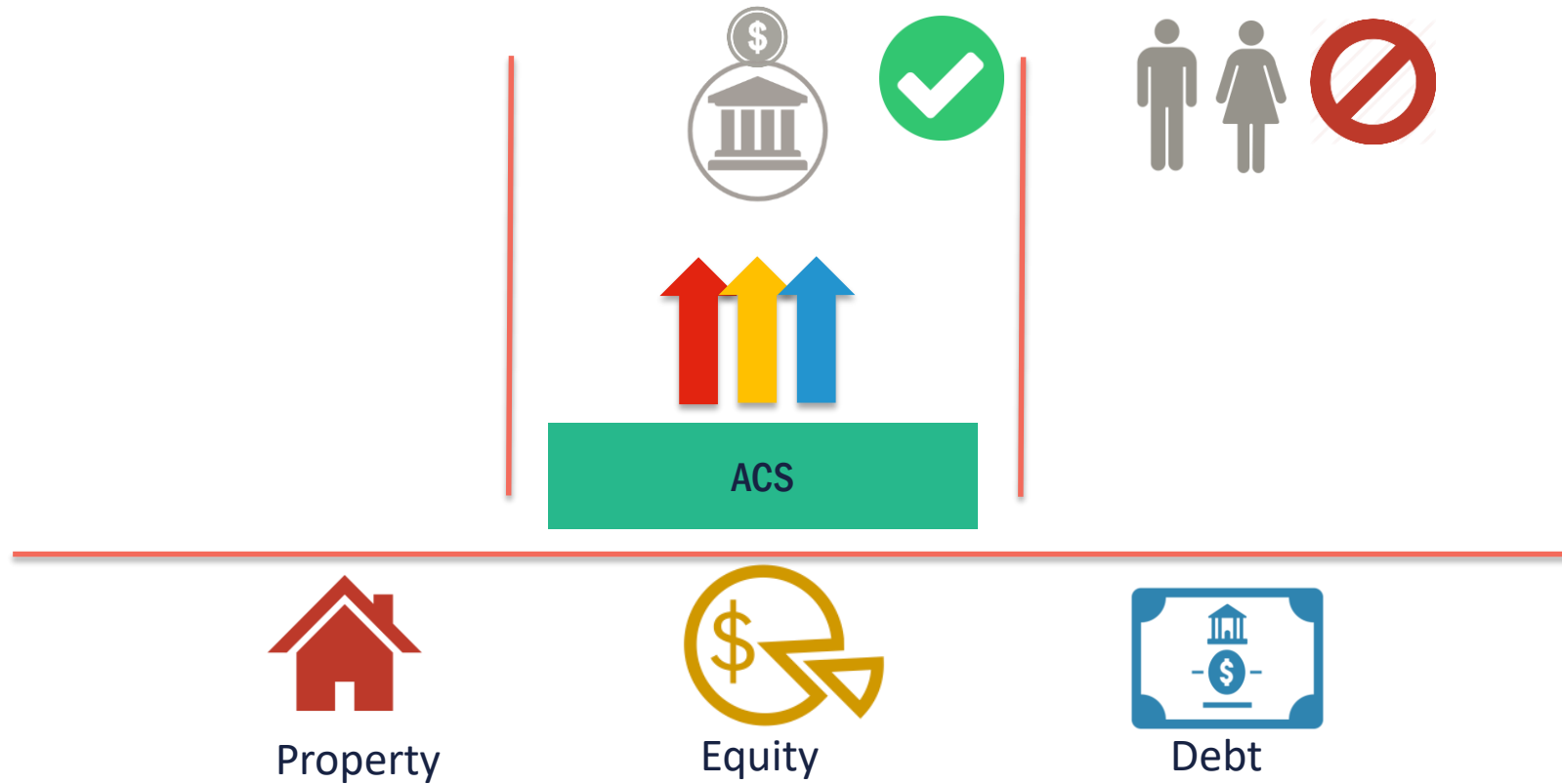
2. TAX IMPLICATIONS FOR LTAF

LONG-TERM ASSETS FUND: TAX

- Should the LTAF be able to adopt the current authorised fund tax rules, or would the nature of investment and tax treatment of the income it receives lead to tax-inefficient outcomes?



LONG-TERM ASSET FUND: ACS



LONG-TERM ASSET FUND: OTHER TAX CONSIDERATIONS

- Are there any other tax considerations that will be important to the success of the LTAF?
 - VAT
 - Seeding Relief
 - UK AHC Review
 - Tax Incentives (?)

4. LATEST DEVELOPMENTS AND BROADER CONTEXT

LTAf TIMELINE

- Continued engagement with HMT, FCA and Bank of England through 2020
- FPC Financial Stability Report August 2020 references LTAf in context of wider debate on managing potential liquidity mismatch in funds
- Announcement by Chancellor of the Exchequer in Parliament – 9 November 2020
- Productive Finance workstream jointly established by HMT, FCA and Bank of England to remove barriers to long term investment – recommendations by Summer 2021
- FCA consultation on LTAf expected H1 2021

SIGNIFICANCE OF CP20/15 – WIDER ECOSYSTEM IS IMPORTANT COMPONENT OF SUCCESS

- Proposal to introduce mandatory notice periods to property funds highlighted need for new approaches to accommodate illiquid assets in UK fund regime
- Also exposed limitations in existing distribution and fund selection framework in both retail and DC markets
- LTAF offers a more gradualist approach, allowing time for ecosystem to adapt rather than mandating change
- HMRC consultation on property funds being held in ISAs raises significant concern over signalling on retail investment in illiquid assets

CONTACTS:

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Peter Capper - Fund & Investment Risk Specialist

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Thank you

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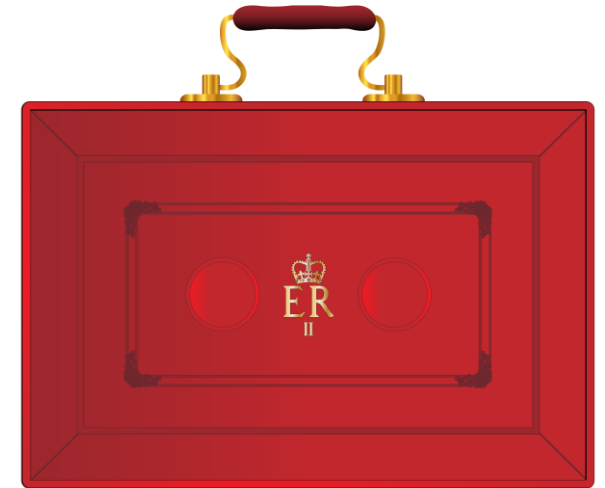
Opportunities presented by PLF proposal

Melville Rodrigues, Head of Real Estate Advisory
Apex Group



Government: 26 January 2021 HMT Call for Input

- Unique opportunity to respond to HMT's CFI
- **Need CFI responses: industry support for the PIF proposal**
- Critical response date/time: 20 April 2021, 11.59pm



Gap in UK fund offering

- Scenario UK: underlying RE, manager and investors
- Gap: unlisted closed-ended/hybrid tax transparent fund with tradable units

Alternatives:

- onshore, but must be open-ended; or
- offshore

- Consequences:

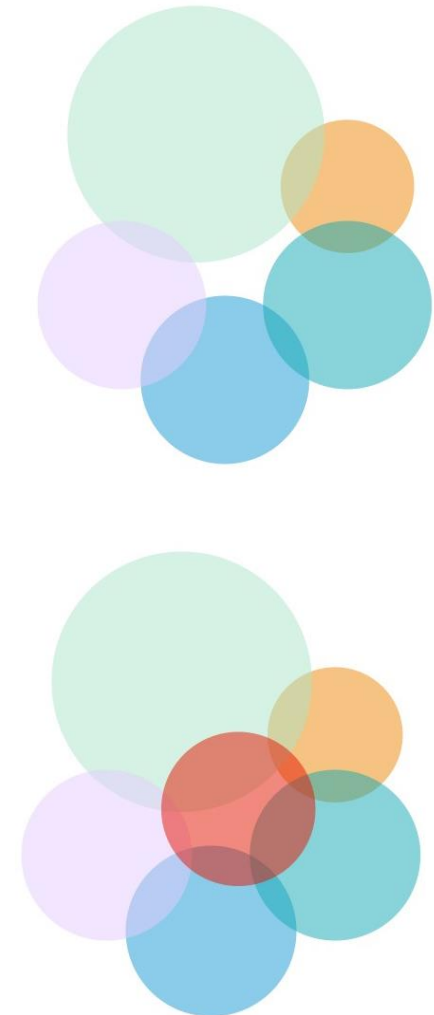
- Onshore: "liquidity mis-match" & regulatory operational costs
- Offshore: investor protection, multiple legal, tax and regulatory regimes & operational costs



- May be: closed-ended, hybrid, 'evergreen' & offer redemption windows
- Modelled on the authorised contractual scheme/ACS: unauthorised CS
- Effectively tax transparent
- Limited to pension funds/other institutional investors: £1m minimum commitment
- UK AIFM & depositary
- PIF underlying assets: flexible, & can facilitate "liquidity matching"
- PIF deed & notifications to PIF Registry

Quick win solution: secondary legislation

Solve the gap: PIF



AREF PIF Proposal

- Support: fund managers, UK pension funds, advisers etc.

- Wide industry endorsements:

AIMA, AREF, INREV, IPF & one of IA's OPF proposals

- Complements LTAF proposal

- CFI focus on productive finance/PF: less liquid growth capital. PIF can be a useful conduit for PF.

<https://www.bankofengland.co.uk/financial-stability/working-group-on-productive-finance>

- Enhances UK choice alongside other international options



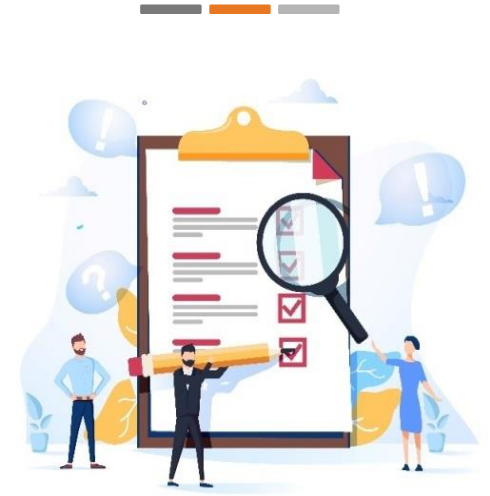
Alignment: UK Government policy

- Boost UK competitiveness as a fund jurisdiction
- Post-Covid reconstruction
- Encourage investment in domestic infrastructure
- Levelling-up the nation: employment multiplier effect
- Appropriate tax anti-avoidance rules, e.g. learn from SDLT PIP experience
- Industry & Government win-win collaboration



What are the next steps?

- Please respond to HMT's CFI endorsing the PIF proposal
- Industry goal: PIF wins a priority podium position for government implementation!
- <https://melvillerodrigues.com/pif>





Melville Rodrigues
Head of Real Estate Advisory
Apex Group



PIF Endorsement: Proposed CFI Response

ukfundsreview@hmtreasury.gov.uk

[Introductory information about the respondent].....

We very much welcome the UK HM Treasury issuing its 26 January 2021 call for input considering the Association of Real Estate Funds' proposal for unauthorised contractual scheme for professional investors.

We strongly urge the government to make adoption of this proposal a top priority for legislative implementation.

We have considered, and endorse, the call for input responses relating to this proposal to be submitted or submitted by the Association of Real Estate Funds, the European Association for Investors in Non-Listed Real Estate (INREV) and Investment Property Forum, in particular the responses to call for input questions 1 and 30-37 (inclusive).





Tax Implications for the PIF

Christopher Austin, Head of Tax, Private Assets
Schroders



Unregulated Contractual Scheme Proposal

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 separate consultation

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

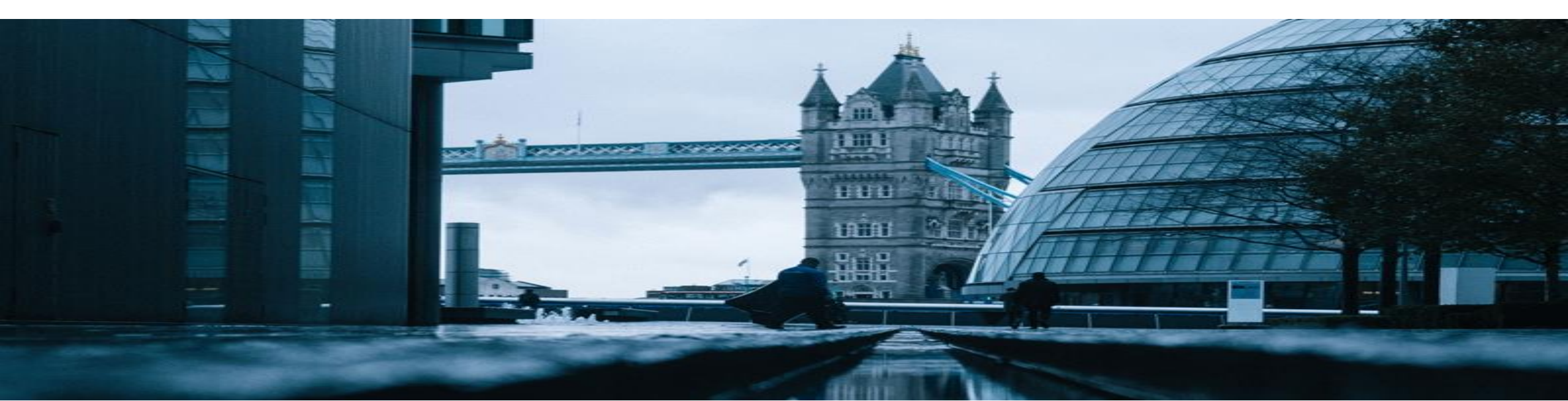
Source: AREF PIF Proposal to HM Government, March 2020. The final design of the scheme depends on the outcome of Government consultation. This is not tax advice

Review of the UK funds regime

Tax objectives in the Call for Evidence

- 
- Make the UK a more attractive location to set up, manage and administer funds
 - Support a wider range of more efficient investments
 - Better suited to investors' needs
 - Compatible with robust approach on tax avoidance and evasion
 - Effectively exercise taxing rights over UK source income

Source: Review of the UK Funds Regime: A Call for Input, January 2021. The final design of the scheme depends on the outcome of Government consultation. This is not tax advice



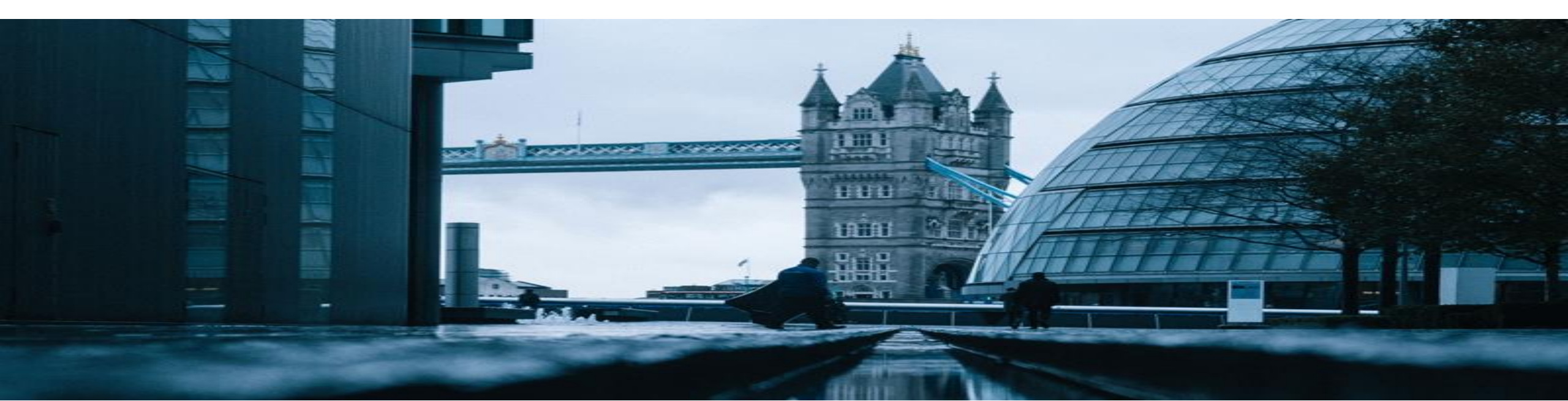
Q&A Discussion

To ask a question to the panel:

Click the Q&A button at the bottom of your screen to bring up the Q&A board

To unmute and join the discussion, please raise your electronic hand  and you will be unmuted





Thank you

