

# Transcript: On The Regs - Retailization of Alternative Funds

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**Adrian Whelan (00:01):**

Hi, my name's Adrian Whelan, Global Head of Regulatory Intelligence for Brown Brothers Harriman, delighted this morning to be joined by Lora Froud, a Partner at Macfarlanes. Lora, how are you?

**Lora Froud (00:11):**

I'm very well, thank you. Thanks for having me.

**Adrian Whelan (00:14):**

Not at all. I'm very excited to talk about retail investors and their access to illiquid assets and alternative funds, really hot topic at the moment. Why is it such a hot topic?

**Lora Froud (00:27):**

Yeah, I think it's two reasons. I think we're seeing a real push from investors who are interested in this space. I think they want to make sure that their money is working for them and they want to make sure they have a diversified portfolio, particularly in their pension pots, of course. And I think if their money is going to be locked up in their pension for 20-30 years and it doesn't need to be purely in very liquid equities and bonds, it can be in longer term investments. And I think they're realizing that, and they're realizing that there's potentially larger gains to be made in, in those kinds of asset classes. And so they're interested in them as part of a balanced portfolio. So we're seeing a lot of demand from DC schemes and also from wealth managers who are looking to offer these types of asset classes for their, their high net, higher net worth, mass affluent clients. To date, it's been very difficult for these types of clients to access these types of investments because they're not held through vehicles that retail investors can access. But I think on the other side, what's interesting is there's a real pull from, from the government. I think the government recognizes that there needs to be ways for retail investors to access these long-term investments to help with the economy, particularly post COVID-19 and, and obviously the desire for different types of businesses to gain financing from other routes. And I think allowing retail investors access to these asset classes has a real part to play there. And there are ways of achieving this now. But none of the types of vehicles that are available for these asset classes are particularly fit for purpose for retail investors. There are pros and cons to them, and there's not sufficient types of vehicles that work well for all types of investors. But obviously we need to be very careful post Woodford that we get this right. Obviously it's vital that the liquidity of the underlying portfolio matches redemption opportunities because we absolutely do not want that to happen again in the context of these types of funds.

**Adrian Whelan (2.49):**

And you said, you talked about existing structures, maybe not being fit for purpose. In the UK there's been a lot of industry advocacy for a new type of fund to allow this activity, the long-term asset fund, the LTAF. And I know you've been very involved in that. What is the LTAF and why is it significant?

**Lora Froud (03:08):**

Yeah, the idea is that it's a regulated open-ended fund, which allows retail investors to access these types of asset classes. And I've been working with the Investment Association, as you say, on this. And after a lot of deliberation, we decided that actually we could probably work with the current NURS regime, the Non UCITS Retail Scheme regime here in the UK. And if we were to open it up and relax some of the rules, actually a NURS could work quite well to allow retail investors access to private equity, private debt, infrastructure, real estate, et cetera. So our proposal, the blueprint that the Investment Association has come up with revolves around the NURS regime, but with much more relaxed investment and borrowing powers so that the LTAF could invest in limited partnerships, which is the way a lot of these types of asset classes to help at the moment and more investment in unlisted securities and free of borrowing powers, but hand in hand with that, of course we need freer redemption opportunities. So, we need to ensure that this vehicle provides the flexibility that managers needs to offer redemption opportunities, maybe monthly or quarterly, but maybe annually, or maybe every two years. And we think the combination of those two things will make a vehicle that is much more fit for purpose for this space provided that are appropriate investor protections. So criteria around eligibility for investors, and also potentially the need for investors to obtain advice before investing in these kinds of products. So we got quite far down the track with the FCA. They've asked some more questions around some of the key features of the fund, and we're going through the process now of responding to these questions, uh, hopeful that we'll respond to them in the next month or so. And hopefully we'll hear some more from the FCA later on in the year.

**Adrian Whelan (05:09):**

That's great. So that's in flight, but if you take your crystal ball out and look more broadly, what does the future hold for the retailization of illiquid funds?

**Lora Froud (05:19):**

I don't think this trend is going anywhere. I think what's become crystal clear to me is that there is this desire globally, from governments to allow retail investors, to have access to these types of investments, to aid the, the global economic issues, particularly highlighted by COVID-19. And hopefully the LTAF will progress here in the UK in order to address that. We've obviously got the review of the LTIF regulation going on in Europe. The LTIF being another way in which investors can access this asset class, but also perhaps more interestingly, there are developments in the US, which is a jurisdiction that has been slightly behind the curve on this issue to date, but only last week, the Department of Labor in the US announced that it was relaxing some restrictions to allow US DC schemes to indirectly access alternative asset classes, which is a really interesting move. And apparently was as a direct result of Trump's mandate to ensure that investors where retail investors are helped to develop the economy post COVID-19. So I just don't think this trend is going anywhere, and I think we should all watch this space.

**Adrian Whelan (06:46):**

So, there you have it folks, a growing trend, a global trend, Lora, thanks for your insights.

**Lora Froud (06:52):**

Thank you very much.

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