

# The UK Investment Management Strategy II – too little too late?

December 2017

*Support from the Government for the UK investment management industry is always welcome but will the "Strategy II" launched by HM Treasury in December 2017 make a difference?*

*The aim behind the original UK Investment Management Strategy discussed back in 2013 were laudable, and a few specific results did follow from it. However there remain serious concerns that the UK investment management industry is not well positioned to succeed in the global market place. There has been a gradual creep of business, certainly fund domicile business, out from the UK over the last 20 years. There are new and particular concerns in looking towards the post Brexit era.*

*So whilst it is true to say that the UK remains a very strong and well respected base for portfolio managers, may be HM Treasury is right to assert that now is the right time to renew the 2013 Investment Management Strategy, and broaden its scope beyond fund domicile.*

## The Principles

Updated principles are set out in HM Treasury's December 2017 publication, promising:

- a long term approach, the Government being committed to providing a stable environment to reinforce both the strength of the sector and the UK status as a global centre for asset management;
- to support innovation: the Government is looking to support innovation within the asset management industry with every opportunity to create an environment that drives economic growth and continues to deliver the best possible outcomes for consumers and businesses;
- to take the tough decisions: the Government being prepared to take the decisions necessary to ensure that the asset management industry thrives;
- to resource: the Government allocating sufficient resources to support the competitiveness of the UK asset management industry, including "strategic ministerial engagement";
- close collaboration across Government – HM Treasury is committed to working collaboratively with HMRC, the Department for International Trade and other governmental departments;
- working closely in partnership with the industry – the Government recognising that collaboration with industry is crucial and looking to the industry indeed to deliver many of the core components of the strategic approach, with the support of government where necessary.

## The Objectives

Various objectives are identified:

- **Collaboration**  
Picking up on the last of the principles, regular meetings are promised. In order to enhance the dialogue, there will be quarterly meetings of the Asset Management Taskforce and government using this Taskforce to identify opportunities to enhance the UK's competitiveness as a global centre for asset management, and to oversee delivery of the strategy
- **Tax**  
A stable and attractive tax regime? At least it is appreciated that this is important.  
**Part of the problem though is that it is the *perception* of a stable and attractive tax regime which is important, and by comparison with the regimes available in other jurisdictions.**
- **Regulatory environment**  
Alongside tax, an effective, fair and principled regulatory environment is another objective, with reference being made, not surprisingly, to the following:
  - the introduction of the Private Fund Limited Partnership from April 2017;
  - the outcome of the FCA's Asset Management Market Study (on which see our separate Briefing Paper)<sup>1</sup>;
  - a general comment regarding the FCA being committed to upholding the highest standards of investor protection and,

<sup>1</sup> [Assessing the outcome of the FCA's Asset Management Market Study](#)

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in addition, focussing on providing speed and certainty in the funds and investment management area. The paper refers to the FCA halving the length of time it takes to authorise a fund: In 2016, the time for authorisation of investment funds, including UCITS, was six weeks on average, with a minimum service standard of two months.

- the recent introduction of the Asset Management Authorisation Hub for streamlined authorisations and clarity to prospective new entrants;
- this follows on from the establishment of FCA Project Innovate in 2014 which should be able to help the asset management sector where there is innovative application of technologies to the financial services market;
- what is referred to as a "UK regime for UCITS" so that UK asset managers can establish a fund structure based on UCITS in the UK.

**We would question why a UCITS structure is recommended at this point. Surely there should be a more open discussion on what should happen with the UK authorised investment fund range in its entirety.**

For example, even if there does have to continue to be a UCITS type fund offered, perhaps there alongside this be a creative discussion as to what sort of UK retail funds to offer going forwards; and how best to categorise and develop the range of UK non UCITS retail funds – hopefully without the "NURS" label?

## ● Personnel and skills

Skills, knowledge and experience of those working in the asset management industry is obviously key. Quite how this is followed up though clearly links with the immigration system, however that might develop.

One domestic focus is to try and develop a strong domestic skills pipeline, with establishing Centres of Excellence at UK universities and supporting the development of a talent pipeline for the UK asset management industry.

Also the paper refers to maximising the opportunities offered by apprenticeships and refers to the need for diversity in the asset management sector. The establishment of Investment2020, with the aim of recruiting 2,000 trainees by 2020, is noted.

The fact that over twenty asset management firms have already committed the Women in Finance Charter launched by the Chancellor of the Exchequer in 2016 is noted and the Government make a pledge for gender balance across financial services.

## ● FinTech

FinTech, not surprisingly, has an objective all to itself.

The Government states that it is keen to see FinTech and asset management firms utilising the FCA's Project Innovate, engaging early with the regulator to gain tailored regulatory support and to test innovative products in a safe place.

It is acknowledged that FinTech can offer solutions across all parts of the asset management value chain, from reducing inefficiencies, to better allocation of capital.

From the FCA's perspective, they identify software using algorithms to help make portfolio allocation decision and to offer ongoing portfolio tracking within the heading of "core asset management"; robo-advisors and investment platforms being active in the distribution and marketing area; and distributed ledger technology delivering efficiency (as blockchain) and cybersecurity with financial crime information sharing platforms within the middle and back office areas.

It is confirmed that the Investment Association's Asset Management Cyber Security Strategy has Government support.

Given the inevitable international aspects of business, it is useful that reference is made to the building of bridges with global partners, although so far only four – with Singapore, the Republic of Korea, China and Hong Kong. However others are in the pipeline so hopefully this initiative will be rolled out more widely over time.

## ● Innovative Investment Strategies

Thankfully there is reference also to innovative investment strategies. One can get lost in overregulating on specifics and, in doing so, preclude access to relevant product.

Quite often the key requirement is to focus on the relevant investment strategy, and it might well be necessary to develop new ones as markets and investor demands themselves develop. One point for further consideration is that, with the developing requirements of investors, they may well demand access to innovative investment strategies which might well require regulation both of product and promotion of product to facilitate access to them. The Government acknowledge that one area is patient capital – a form of long term finance. Another is social and impact investment.

The Government has commissioned the British Standards Institute to develop the World's first green finance management standards. A continuing commitment to ensure a level playing field for Shariah compliant financial products is also given.

**We would though more generally highlight that retail investors might well benefit from greater access to good long term investments - perhaps not just open ended funds, as is currently the assumption with the limited range of funds which can be promoted to retail investors.**

- **International engagement**

A co-ordinated international engagement and trade promotion programme is promised.

The basic point which is emphasised is that the UK is a global centre for asset management. Investment Association figures set out in its Asset Management 2016/2017 Survey are quoted: Management of £2.6 trillion on behalf of overseas investors, accounting for around a third of the £8.1 trillion managed by the wider UK asset management industry. It is on this basis that various international initiatives are agreed to be necessary and important.

- Various groups and taskforces and committees can hopefully continue to be active in pursuing opportunities. HM Treasury indicate their centrepiece will be the formal engagement with overseas jurisdictions and priority markets, for example through ministerial led economic and financial dialogues and senior official led bilateral engagement. The Government currently leads ministerial led economic and financial dialogues with Brazil, China and India. Senior officials are also leading bilateral engagement with Hong Kong, Korea and Singapore. HM Treasury is considering broadening this out to include other jurisdictions.
- Enhancing the global reach of UK funds might be more difficult. UCITS now has a global brand with automatic passporting into something like 70 countries. In practice, UK fund managers typically promote UK funds to UK investors and use Luxembourg or Dublin based UCITS to promote elsewhere. Will this change?

The Government is considering the potential benefits from mutual recognition of funds – MRF agreements with overseas jurisdictions. This might be a central feature of work relating to future economic and financial dialogues and other international engagement opportunities. **If some mutual recognition of funds system were to be made available, UK asset managers will need to decide whether they would use it. Would they prefer simply to continue to use their Luxembourg and Dublin UCITS hubs?**

In theory, a range of MRF agreements could be good, particularly if the range of UK authorised investment funds could be widened and a large number of MRF agreements could be put in place. But it would need commitment from both Government, the FCA and the industry as to the breadth of the agreements and the scope of the funds on offer. Potentially both retail and institutional funds to be included? In order to work, and picking up on a comment we make on the regulatory environment above, might it necessitate considerable work on the range of UK authorised investment funds which could be the subject of the MRF regime?

- The FCA indicate that they will maintain and develop cooperative relationships with regulators globally and ensure that the delegation model remains the global norm. Whilst I am sure Dublin and Luxembourg would agree with this, this being the most immediate issue for UK investment managers to ensure that delegation from funds in EU domiciles continues, it will be important that the EU Commission and ESMA to enable delegation to continue on a seamless basis. This of course leads into wider debates as to delegation arrangements from EU based funds going forwards not only to the UK, once it becomes a third country, but also to other jurisdictions such as the US or Japan which are currently third countries. **It is essential that the investment management delegation model, which is so well established, can continue.**

Whilst obviously this paper published in December is a relatively high level one, nonetheless it is an important Policy Statement concerning a number of ongoing initiatives. It will need considerable commitment on follow through both from HM Treasury and those in the asset management industry.

For the present there may be too much focus on Brexit specifics but getting this wider, forward looking strategy to work is key to effectively protecting and promoting the long term strengths, and future development, of the UK asset management industry.

## Contacts



**Kirstene Baillie**

Partner - London

**E:** [kirstene.baillie@fieldfisher.com](mailto:kirstene.baillie@fieldfisher.com)

**T:** +44 (0)20 7861 4289

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