



THE LONG-TERM ASSET FUND



The Long-Term Asset Fund (LTAF) is a new fund structure allowing wider access to assets such as infrastructure and private companies which are not regularly traded. It will provide the benefits of greater diversification for pension savers and investors, while helping to provide much needed additional investment for the UK economy.

The LTAF has been designed to be particularly helpful for defined contribution (DC) pension schemes. With the right customer protections, individual investors should also be able to use the LTAF as a building block in their overall portfolio.

The LTAF has been developed by the Investment Association (IA), based on discussions with a wide range of stakeholders representing both investment industry and customer views. It is part of a package of measures we proposed in the UK funds regime to the HMT Asset Management Taskforce in June 2019. The concept has now been backed by the Chancellor of the Exchequer Rishi Sunak, who pledged in November 2020 to have the first LTAF up and running within a year.

WHY IS THE LTAF NEEDED?

The LTAF will have two main economic benefits:

- 1 Pension savers and investors will have wider access to long-term investment opportunities, both companies and infrastructure such as buildings and roads.**
- 2 Businesses and infrastructure projects will have greater access to long-term capital to support investment and growth.**

While the ability to invest in this way already exists through investment trusts or venture capital trusts, there are good reasons to broaden the choices for investors to include a new generation of investment funds. A number of pension schemes are keen to invest pension contributions using funds that offer a return based directly on the underlying value of the assets.

When it comes to different approaches – such as considering an LTAF relative to an investment trust – this should never be seen as a competition between different kinds of investment product. Rather, the LTAF will ensure that consumers continue to have new options which match their changing needs.

The LTAF is also designed to bring other advantages. There is growing international demand for access to long-term assets such as infrastructure and building projects, so structures such as the LTAF will help the UK to keep its place as a leading global centre for asset management, linking to wider important opportunities such as the development of green finance as part of the wider focus on sustainable long-term growth.

The Investment Association (IA) supports UK investment management, serving savers, investors and businesses in the UK and around the world. Our 250 members manage £8.5 trillion in the UK, providing the UK with an important economic contribution in the form of export earnings, tax paid, and jobs created.

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WHAT WILL THE LTAF BE ABLE TO INVEST IN?

Once established, the LTAF will allow investors to access:

- Private equity
- Private credit
- Venture capital
- Infrastructure, including transport
- Real estate
- Forestry
- Collective Investment Vehicles that invest in private asset classes, including limited partnerships

The LTAF will also be able to hold cash, listed shares and bonds, including money market instruments to provide options for managing portfolio liquidity while awaiting opportunities to invest in less liquid asset classes.

WHAT IS THE PROPOSED STRUCTURE FOR THE LTAF?

While different approaches are possible, it is important that the LTAF is an authorised fund that has the necessary investor protections to allow it to be marketable to its key target customer groups. The existing Non-UCITS Retail Scheme (NURS) framework could provide this foundation. Additional rules around investment powers, valuation requirements, subscription and redemption terms will be included to make the fund structure suitable for long-term assets.

This will be an open-ended fund: that is, a fund which can issue an unlimited number of shares. New shares are created when investments are made into the fund, and cancelled when investments are withdrawn. As such, the price of each unit in the fund moves in line with the value of the underlying assets rather than due to demand for the units in the fund.

Importantly, rules will be set for buying and selling units in the LTAF meaning that they are aligned to the liquidity of the underlying asset classes which the units are invested in. In particular, LTAFs will be able to be sold at set intervals, e.g. once every 3, 6 or 12 months, depending on the particular investment strategy being pursued, alongside the appropriate notice periods. This is to ensure the fund manager



has time to make enough cash available to meet the redemption requests, and if needed, has enough time to sell some of the assets for a reasonable price.

WHO WILL BE ABLE TO INVEST IN THE LTAF?

In particular, the long-term nature of pensions means that these savers may benefit from making a small allocation to long-term assets as these can be associated with higher returns. The LTAF could also be made available to private wealth and retail customers with larger portfolios who have taken financial advice or are otherwise appropriately qualified. This is most likely to be offered as part of a wider investment strategy, at least initially.

It is important that any investors in the LTAF understand that they are making a long-term commitment to invest, and they may not be able to get their money back quickly. The rules on investing in the LTAF will therefore be designed around making sure those investing in the LTAF are doing so through a professional decision-making process, that they can afford to tie up the money being invested for a long-period of time, and do not invest too much of their overall portfolio in a LTAF.

WHAT IS NEXT FOR THE LTAF?

In his statement to Parliament on the Financial Services bill on 9 November 2020, the Chancellor committed to the first Long-Term Assets Fund being launched within a year. This would require a regulatory consultation from the FCA. Investment managers, customer groups and other stakeholders will feed into the proposals as they develop. The Bank of England, HM Treasury and FCA have also convened the Productive Finance Group, which will focus on ensuring that LTAFs are in the market by the end of 2021.

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