



BNY MELLON

Structuring and Managing a Collective Investment Vehicle (CIV)

Dean Handley

Asset Servicing, EMEA

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Agenda

1 Authorised Contractual Schemes

2 CIV Governance and Structure

Authorised Contractual Schemes (1)

BACKGROUND

- ACS designed as a new regulated tax transparent fund vehicle primarily to facilitate the setting up of pooled “master funds” under UCITS IV as in order for “master-feeder” structures to be attractive to investors on a cross border basis the master fund needs to be a tax transparent fund (other jurisdictions already had TTFs). It was expected that investors such as pension funds and life companies will also find contractual schemes attractive. The vehicle itself is not a taxable entity and suffers no tax directly
- The two types of TTF are the co-ownership scheme, where participants in the scheme own the assets beneficially as tenants in common. The scheme is not legally separate from the participants, so that assets are acquired, managed and disposed of directly on their behalf by the manager, while the depositary holds legal title as custodian. The other form is a partnership scheme which is a limited partnership under the Limited Partnership Act 1907
- Regulations aim to ensure that an ACS will be regulated in much the same way as an Authorised Unit Trust or Open Ended Investment Company.

UMBRELLA STRUCTURES

- The treasury has confirmed that the FCA will not be able to authorise limited partnership schemes using an ‘umbrella’ structure so the proposed rules in the consultation paper will reflect this provision. Only co-ownership schemes will be able to be part of an umbrella structure

INVESTOR ELIGIBILITY CRITERIA

- Treasury’s legislation requires units in an ACS to only be issued to either a professional or a large investor or an existing ACS investor due to the small risk that foreign courts might not recognise UK legislation that limits liability of participants in a TTF. The FCA propose that the criteria for an eligible investor is (i) a large investor being a person who invests a minimum of £1m, (ii) a professional ACS investor being a person that falls within one of the categories for professional investors under MiFID

Authorised Contractual Schemes (2)

TRANSFERABILITY OF UNITS

- The potential blanket restriction on transfer of units in the Treasury's first consultation paper has been dropped and the contractual scheme deed must either prohibit the transfer of units, or allow a transfer only if specified conditions are met. The transfer of units of an ACS from one person to another will be subject to the same investor eligibility criteria. Where a transfer of units has taken place to an ineligible investor, the AFM will be required to redeem the units as soon as practicable after becoming aware of the situation

BOX MANAGEMENT

- The FCA decided not to proceed with the restrictions that would have stopped the AFM of an ACS from operating a box and their proposal will now enable an AFM of an ACS to hold unregistered units for its own account and trade them, buying from one investor and selling to another

AUTHORISATION

- The FCA will require an application for authorisation of an ACS to be made jointly by the AFM and depository. Under FSMA the FCA will have 2 months to approve or refuse an application in the case of a proposed UCITS and up to 6 months in the case of any other proposed scheme. In practice the FCA aims to process 75% of completed applications relating to a UCITS scheme within 6 weeks

Pooled Fund Solution for Local Government Pension Schemes (LGPS) – Governance and Structure

Current Model

- 89 individual schemes
- Approximately £178 billion of assets (2012-13)
- Approximately 800 individual managers
- Schemes collectively pay in excess of £790 million in investment related costs

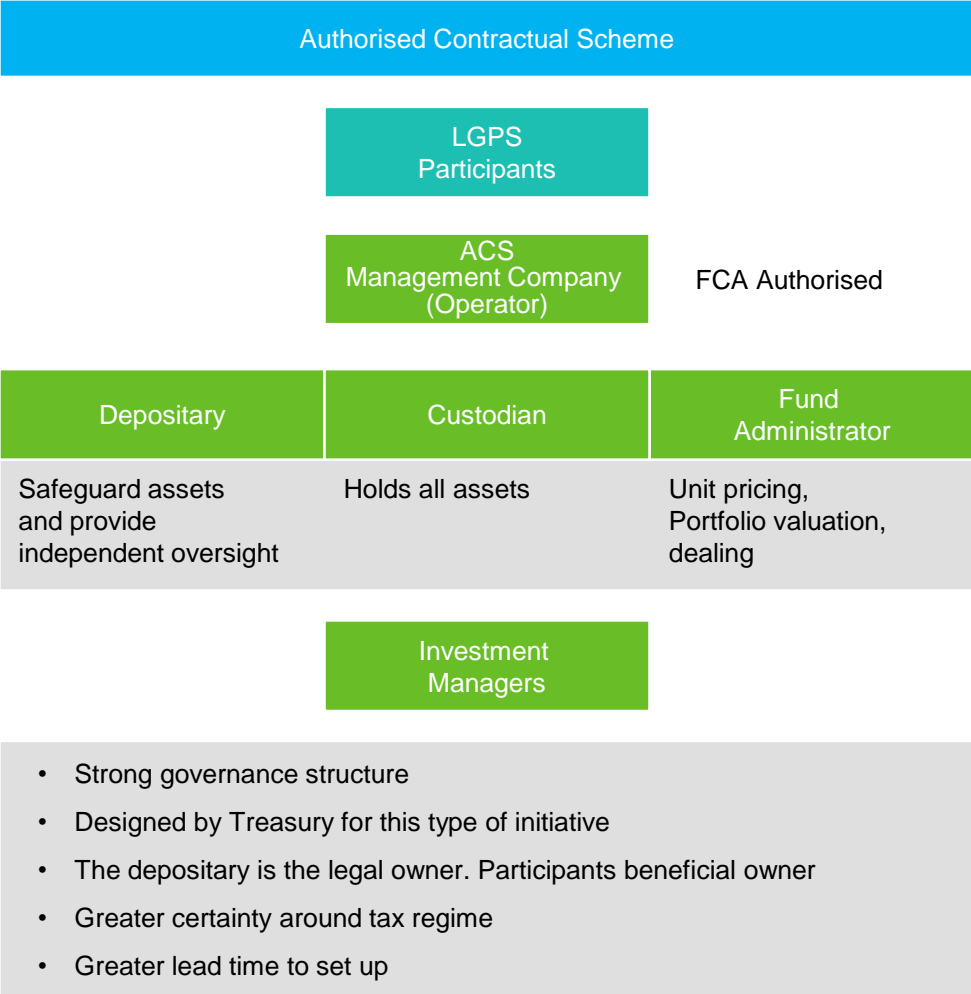


Proposed Model – Stage 1

- Underlying LGPS funds remain intact
- Assets of all LGPS schemes pooled in centrally managed pooled funds. Investment manager mandates determined at sub-fund level
- Individual LGPS' invest in relevant sub fund(s)
- Individual LGPS continue to make independent asset allocation
- Investment exposure gained via purchase of sub fund units, rather than through direct appointment of investment managers

Projected Savings In Investment Related Costs of £420 million (excluding Alternatives)

Structure of Pooled Fund



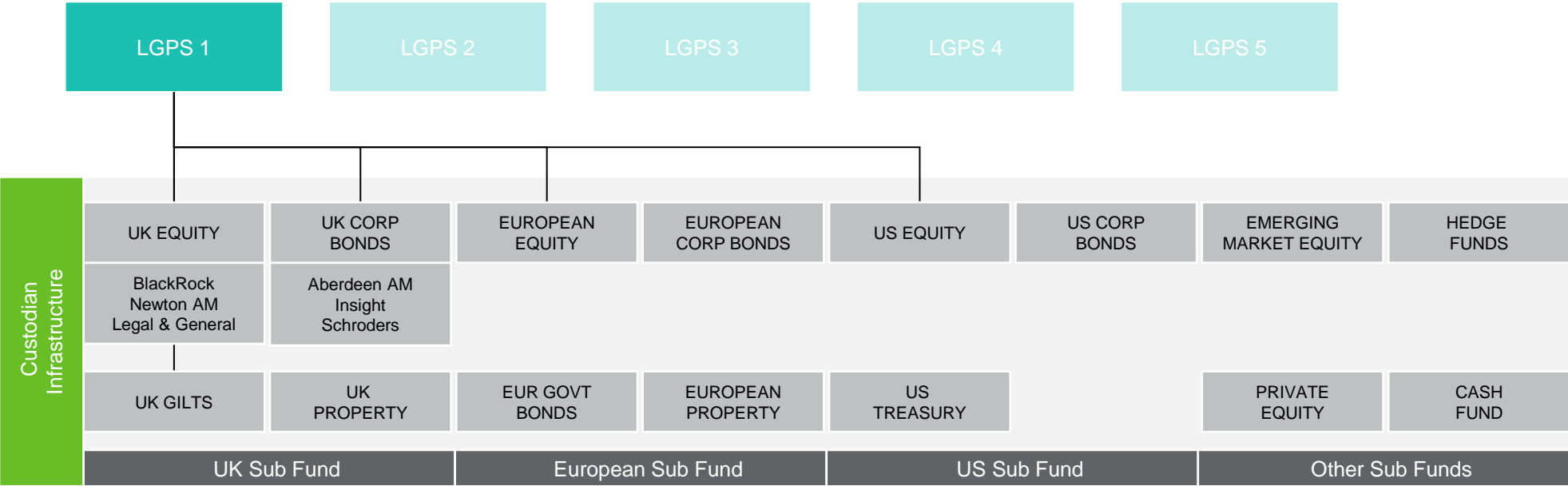
Example of Proposed LGPS Pooled Investment Allocation

Key

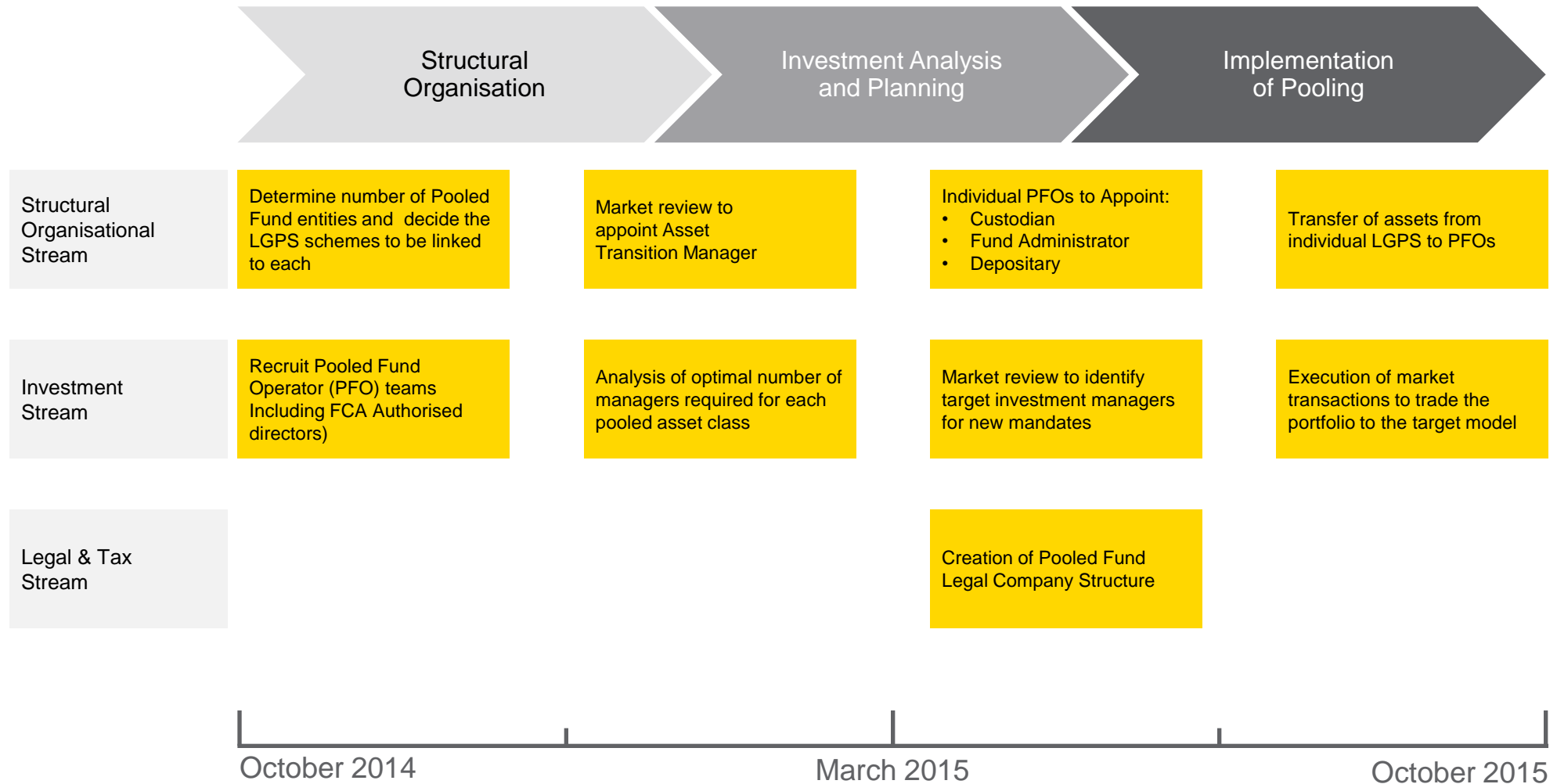
- LGPS Participant
- Example Unitised Asset Class Sub Fund
- Individual Scheme Unit Asset Allocation

Example allocation

US Equity – 10%
European Equity – 24%
UK Property – 3%
UK Corporate Bonds – 28%
UK Gilts – 1%
UK Equity – 34%



Overview of Steps to Target Pooling Structure – Indicative Timeline



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